The world's new vehicle market: Outlook for 2018

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EXECUTIVE SUMMARY

Vehicle demand - 2017

- The global light vehicle (LV) market is heading for its eighth consecutive year of record sales in 2017, with forecast growth of 2.2% to 93.3 million units.

- Asia remains the world's largest sales region by a substantial margin, with sales expected to reach over 43 million units in full year 2017. China accounts for about 60% of the regional total, which is forecast to rise by a net 1.2 million units in 2017.

- The Top-25 LV markets, ranging from China to Poland, are expected to account for 89% of forecast global demand in 2017 and the Top-6 markets to account for 63%.

- Global demand for >6t trucks is expected to rise by an exceptionally strong 15-16% in 2017, taking demand to an all-time peak of 3.21 million units.

- Again, China is the world's largest market, and the largest contributor to the increase as 2017 sales rise by a forecast 40% to nearly 1.4 million units.

Economic outlook

- The IMF expects the global economy to grow by 3.6% in 2017 and 3.7% in 2018.

Vehicle demand - 2018

- Slower growth is expected in 2018, in the range of 1-2%, taking the market to 95 million units. In broad terms, the lower rate of growth can be attributed to a slowing of growth in some of the markets which have entered upturns in recent years, plus a continuing mild downturn in the USA.

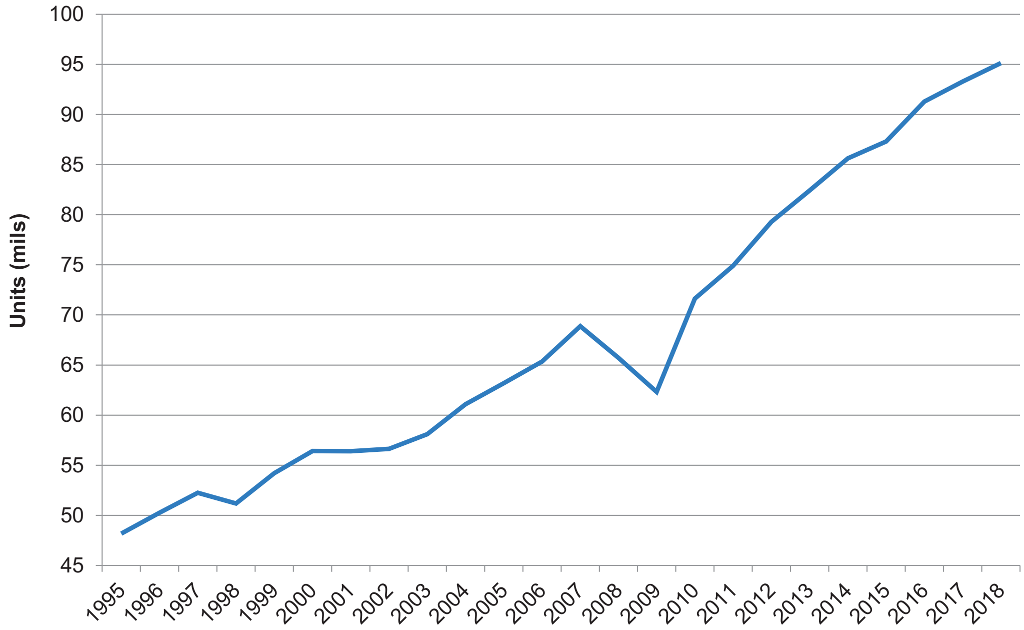
- The truck forecast for 2018 is again dominated by developments in China, as an expected settling back of demand in that market more than offsets the expected increases in other regions, leaving global demand 6-7% below the exceptionally strong result for 2017 (forecast).

CHAPTER 1: LIGHT VEHICLE DEMAND

The global light vehicle (LV) market grew by a strong 4.5% in 2016, following a 2.0% rise the previous year. The market reached a new peak of 91.3 million units, the seventh consecutive year of peak demand.

During the first ten months of 2017, the growth rate is estimated to have slowed to within the range of 2-3%, as forecast in last year's edition of this report, putting the market on track for a 2.2% rise over the full year, taking it to 93.3 million units.

Global LV demand 1995-2018



Slower growth is expected in 2018, in the range of 1-2%, taking the market to 95 million units. In broad terms, the lower rate of growth can be attributed to a slowing of growth in some of the markets which have entered upturns in recent years, plus a continuing mild downturn in the USA.

Asia – The world's largest sales region

Asia remains the world's largest sales region by a substantial margin, with sales expected to reach over 43 million units in full year 2017. China accounts for about 60% of the regional total which is forecast to rise by a net 1.2 million units in 2017 due to increases in most of the region's major markets.

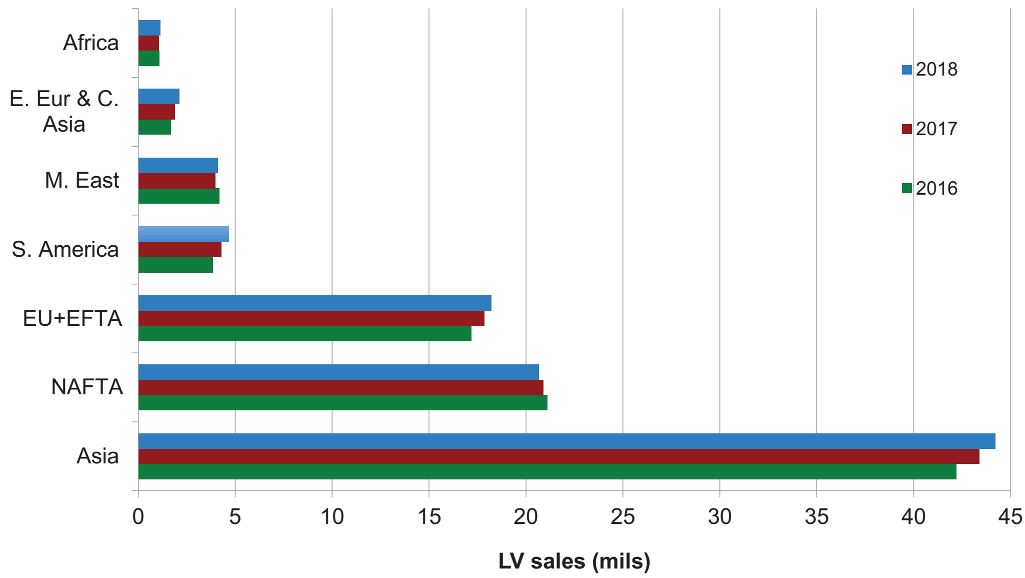
China

In 2016, China's LV market rose by 14.7% or 3.26 million vehicles to a record 25.4 million units. The increase reflected a generally strong economy and purchases brought forward to avoid the expected ending of a cut in purchase tax. The tax rate for some LVs was cut from 10% to 5% in October 2015 and was due to return to 10% from January 2017, but in late 2016 the government announced a change of plan, introducing an interim rate of 7.5% for 2017 before resuming the 10% rate in 2018.

In 2016, there was an inverse correlation between the size of the demand increase and the size of the city, with Tier-1 cities (where purchase restrictions apply due to congestion and pollution) seeing a 9.1% decline in sales while Tier-5 cities saw growth of nearly 18%.

In 2017, demand growth has slowed to an estimated 2.8% over the first ten months of the year. Over the final two months, we are expecting demand to drop below year-ago levels which were boosted by the expected ending of the tax cut.

LV demand by region, 2016-18



China's economy is forecast to grow by 6.5% in 2018 compared with an expected 6.8% in 2017. Recent forward-looking indicators have been on the weak side - October's official manufacturing PMI was 51.6 compared with an expected 52.0 and the IHS Markit Business Outlook survey was close to a record low in October.

Based on this macro picture, we expect China's LV market to show subdued growth in 2018, rising by under 1% as the market finds its natural level, having been boosted beyond its natural level over the past two years by the changes in purchase tax rates. The return of purchase taxes to their pre-October 2015 level with effect from January 2018 will constrain demand to some extent, but manufacturer pricing actions should be able to offset at least some of the negative impact.

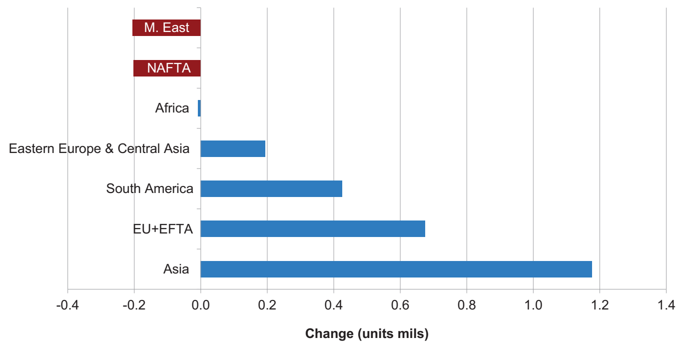
Japan

Asia's second largest LV market, Japan, is set to grow in 2017 following declines in the two years to 2016. The market grew by 6-7% over the first ten months of 2017, despite a 1.7% drop in October due to Nissan suspending production and halting some shipments due to irregularities in its inspection procedures.

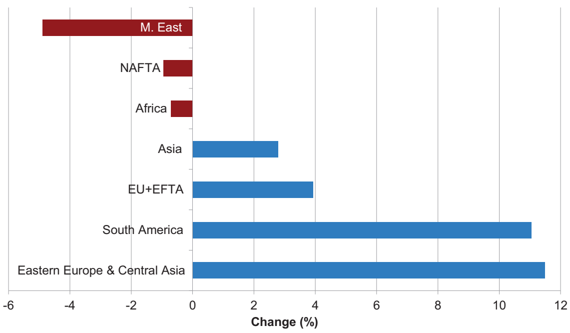
The market had been expected to be adversely affected by a 2.0pts increase in Japan's consumption tax from 8% to 10% planned for April 2017. However, in June 2016, Japan's government announced the tax increase would be delayed (for a second time) to 2019, thereby removing a (relatively minor) demand-distorting factor.

One of the quirks of the Japanese economy is that although its GDP growth rate is limping along at a forecast 1.5% growth in 2017 (albeit a significant rise from 1.0% in 2016), the country's ageing and declining population means that those in work are enjoying a faster rise in living standards than the headline aggregate figures would suggest. For example, data for October 2017 shows that real income for workers' households was 2.1% higher than a year earlier and real disposable income was 2.3% higher, as consumption expenditure fell.

Change in demand (units), 2017(f) -v- 2016



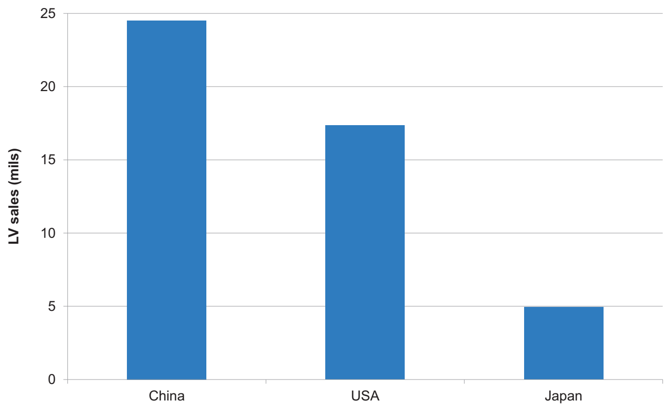
Change in LV demand (%), 2017(f) -v- 2016



Unfortunately, those same demographic trends mean that the medium- to long-term outlook for Japanese demand is weak. Over the ten years to 2017, the population has dropped by just over 1 million people from 127.7 million to 126.7 million and this trend is expected to continue, reducing the theoretical maximum size of the LV market. This trend is accentuated by the ageing of the population, with a falling proportion of people in the 16-64-years age group, usually considered the main car-buying segment – although the importance of the 64-plus age group should not be discounted.

Japan is also one of the world's mature markets which is in the vanguard of the trend for young people to exhibit less interest in owning a car. Whether for reasons of ownership costs (Japan is a particularly expensive country for car ownership), lack of parking, or the fact that good public transport links in major cities mean car ownership is not necessary, younger people are not buying as many cars as before. In many cases, people are not even learning to drive - between 2003 and 2013, more than 100 driving schools in the Tokyo metropolitan area went out of business, and the number of people who graduated from such schools dropped by more than 300,000 from the previous ten years.

LV sales, 2018(f) Top-3 markets



Although the long-term prospect for the Japanese market is one of gentle decline, we expect some improvement in 2018, a view supported by forward-looking indicators such as:

- consumer confidence - which has been trending upwards as the year has progressed and in October reached its highest level since September 2013;
- manufacturing PMI - which in November reached its highest level since March 2014;
- services PMI - which in October reached its highest level since August 2015.

We also expect a small boost towards the end of 2018 from sales brought forward to avoid the 2019 increase in consumption tax.

India

Following a 6.7% drop in LV demand during calendar 2013, Indian LV demand rose by just under 1% in 2014. The recovery gathered momentum during 2015 and again in 2016, when demand rose by 7.2% to 3.38 million units, a fresh peak for the second successive year.

Over the full year 2017, LV demand is expected to be 9-10% higher at 3.71 million units, a fresh peak for the market reflecting a buoyant economy helping to boost disposable incomes, interest rate cuts, a competitive market place and good availability of auto finance.

The Indian economy is expected to accelerate further in 2018, growing by 7.4% compared with an expected 6.7% in 2017. This should support further growth in LV demand of 7-8%, taking the market to just under 4 million units. However, while the GDP forecast is strongly positive, we note that recent forward-looking indicators for both consumers and businesses have been weak. Local commentators suggest that this may reflect some uncertainty following the introduction of a new goods and services tax regime (GST) which began to be implemented in July 2017. Given the macro-economy's strong performance, we are accepting that the weak forward indicators may be just a temporary blip, but will be monitoring the market closely to see if the risks to the forecast increase.

Other Asia

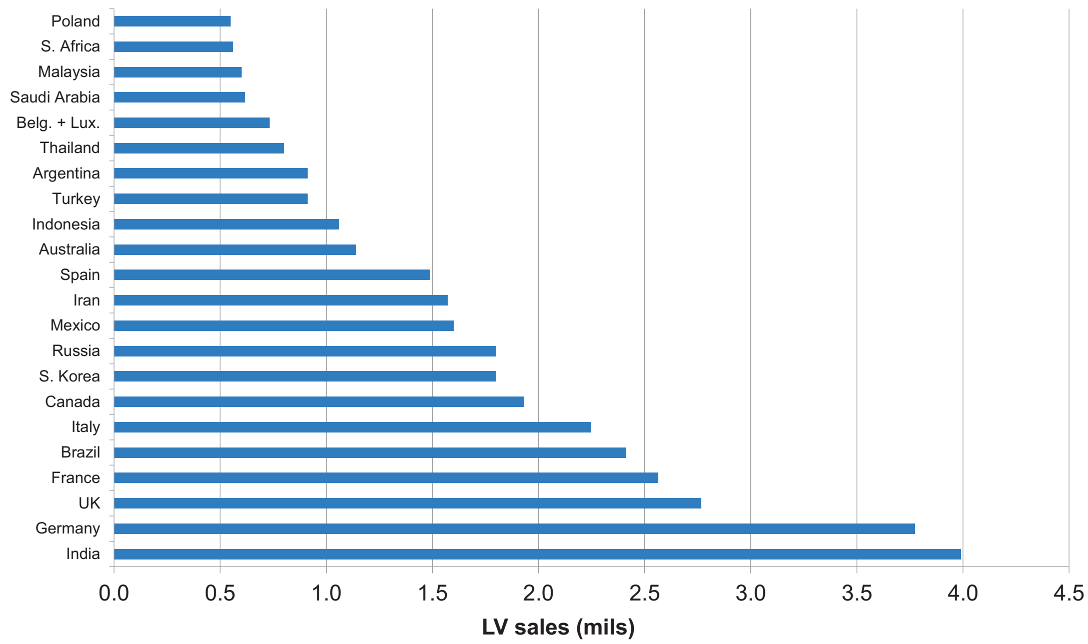
Across the next five largest Asian markets, an increase of 2-3% is forecast for 2018, following a smaller rise in 2017. Australia is the exception to this generally improving picture, as a very strong market looks due for a small correction after peaking for its third successive year in 2017 (forecast).

NAFTA – growing, but slowing

NAFTA contributed just 0.4 million units to the global increase in 2016 as its cyclical upswing completed its seventh year. In 2017, demand in the US has entered the anticipated cyclical downturn but the decline is only expected to be small, in what remains a fairly supportive economic environment, and demand in Canada and Mexico is continuing to grow. However, part of the reason that the drop in US demand has been fairly small is that incentive spending has increased. This is evident in the interim results for many OEMs, with operating profits being hit by increased selling expense.

NAFTA is expected to remain a small drag on the global LV sales result in 2018, as the USA enters its second year of a mild downturn and Canada also sees a small decline after exceeding 2 million units for the first time in 2017, which is forecast to represent the market's eighth successive year of growth.

LV sales, 2018(f) Next-22 markets



In last year's edition of this report, we highlighted the uncertainty over the threat by President Trump (president-elect at the time) to withdraw from the existing North American Free Trade Agreement (NAFTA) and renegotiate terms of trade with Canada and Mexico.

A year on, and this remains a live issue but there is little change in the level of uncertainty. On 21 November 2017, the latest round of talks between the three NAFTA partners ended, with all key issues still deadlocked. The major OEMs have all been expressing concern at the possible disruption to their businesses if the USA quits NAFTA, but in the context of this report, it seems unlikely that any developments in this regard will significantly affect the level of demand in 2018.

EU+EFTA – further growth in 2018

The EU+EFTA markets rose by 7.1% in 2016, the third year of increase after six consecutive years of decline following the credit crunch. In 2017, the recovery is continuing but the pace of growth is slowing and expected to be around 4% over the full year - in line with our year-ago forecast.

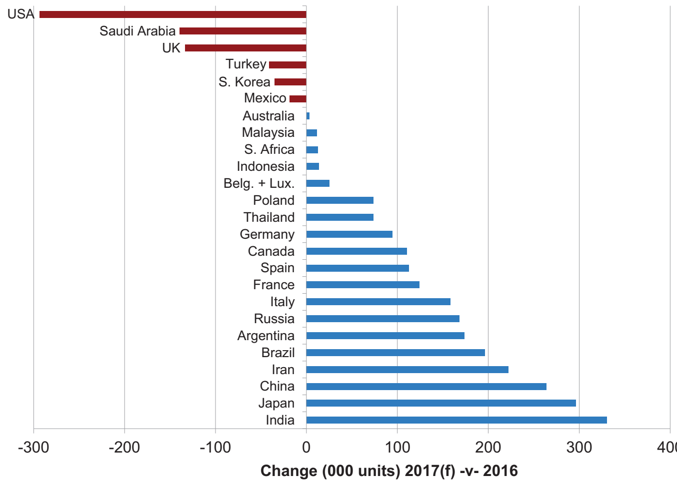
Among the Top-5 markets, Spain is expected to see the largest percentage increase in 2017, closely followed by Italy. The UK is the only major market in the region to see a decline in sales during 2017, having entered its post-credit-crunch recovery phase much earlier than most of its peers. It seems that in its car market, as with its wider relations with its EU+EFTA neighbours, the UK is ploughing its own furrow.

The central and eastern European members of the European Union are all expected to report increased LV sales for 2017; indeed, most of these markets should see double-digit increases.

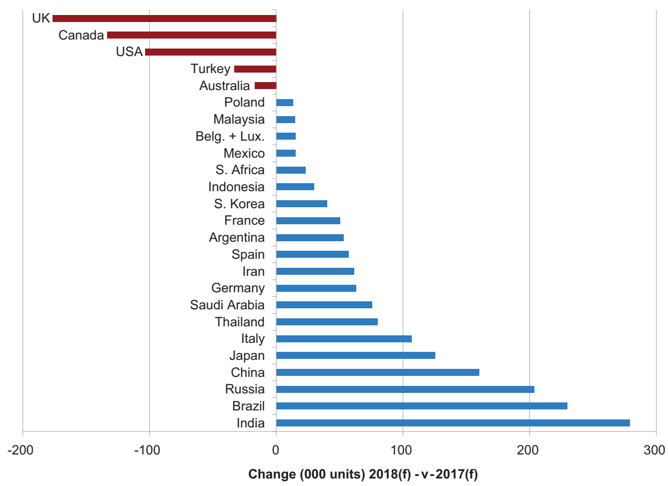
The region is expected to see further growth in 2018, though at 2-3% the rate of growth will again be slower than the previous year as:

- The impetus from 'catch-up' demand (i.e. purchases which were deferred during the prolonged downturn) has now expired.
- Demand in the UK falls by a further 6-7% as it undergoes a cyclical downturn, plus the continuing uncertainty over Brexit, plus some possible restriction of credit which has been highlighted as an area of concern by the Bank of England.

LV demand change (%), Top-25 markets 2017(f) -v- 2016



LV demand change (%), Top-25 markets 2018(f) -v- 2017(f)



Middle East – politics and oil

LV demand in the Middle East is expected to be 6-7% lower in 2017 at around 3.9 million units, with most markets in the region experiencing a decline as the oil-producing economies are affected by the relatively low oil price (for much of the year) and/or OPEC-guided restrictions on production to boost that price. Political instability in the region has also increased. The main exception to this trend is Iran, the region's largest market, which is expected to see its second-successive year of double-digit increase in 2017 as a result of the lifting of sanctions at the start of 2016. Lower, but still positive, growth is expected for 2018.

Elsewhere in the region, demand in the second-largest market, Turkey, is expected to fall by 4-5% in 2017 to around 942,000 units. The Turkish lira has recently hit all-time lows and, if sustained, this will feed through into new car prices. Another headwind in 2018 will be the introduction of higher tax rates on cars, and we expect this to cause a further 4-5% drop in the market. Recent business and consumer confidence indices support this negative view.

In the region's third-largest market, Saudi Arabia, LV demand is expected to fall by around 20% in 2017 as the economy continues its adjustment to lower oil prices or lower production volume and the government slashes public spending in an attempt to reduce its fiscal deficit. As part of that fiscal adjustment, it is planned to introduce a new 5% consumption tax in 2018 and we expect that new tax to cause a further drop in sales over the early part of 2018. However, the recent announcement lifting the ban on women drivers from June 2018 is expected to help lift demand in the latter part of the year, and this will boost the market further in subsequent years as growing numbers of women obtain driving licences.

Across the Middle East, LV demand is expected to rise by 4-5% in 2018.

South America – recovery position

South America appears to have entered its recovery phase in 2017, with regional GDP expected to reach 1.2% following minus 0.9% growth in 2016. This improvement is reflected in LV demand, which is expected to rise by 11% over the full year to 4.3 million units.

Brazil is the mainstay of the regional market, typically accounting for 50-60% of demand. Following four years of decline, the Brazilian market is expected to rise by about 10% in 2017 taking the market back above 2.0 million units. The four-year decline is unprecedented in Brazil, with most previous downturns lasting no more than two years. The recovery from this long period of under-performance is not expected to be rapid, but a further double-digit increase is expected in 2018.

In the region's second largest market, Argentina, the recovery began in 2016 and, as expected, has gathered momentum in 2017 with further growth expected in 2018.

Eastern Europe & Central Asia – driver assistance

Demand growth in Russia, which typically accounts for around 85% of demand in the region, began turning positive at the end of 2016. The recovery has become more firmly established over the first ten months of 2017 with an 11% rise, and this is expected to be sustained over the full year.

Some of this recovery is undoubtedly due to the recovery in the wider economy, which is expected to grow by 1.8% in 2017 following declines of 0.2% in 2016 and 2.8% in 2015. However, a major part of the LV market improvement is also attributable to a package of government support, including subsidised car loans and subsidised car leasing. These measures have supported 58% of Russia's car sales over the first nine months of the year, though how many sales would have still occurred in the absence of such measures is difficult to say.

In 2018, the economy is expected to continue at a similar rate of growth to 2017 helped by higher oil prices. The LV market is also expected continue growing, again supported by a combination of economic recovery and government incentives or subsidies. Growth of 12-13% is forecast to take the market to around 1.8 million units – still a long way short of its peak level of nearly 3 million units.

Africa – limited growth

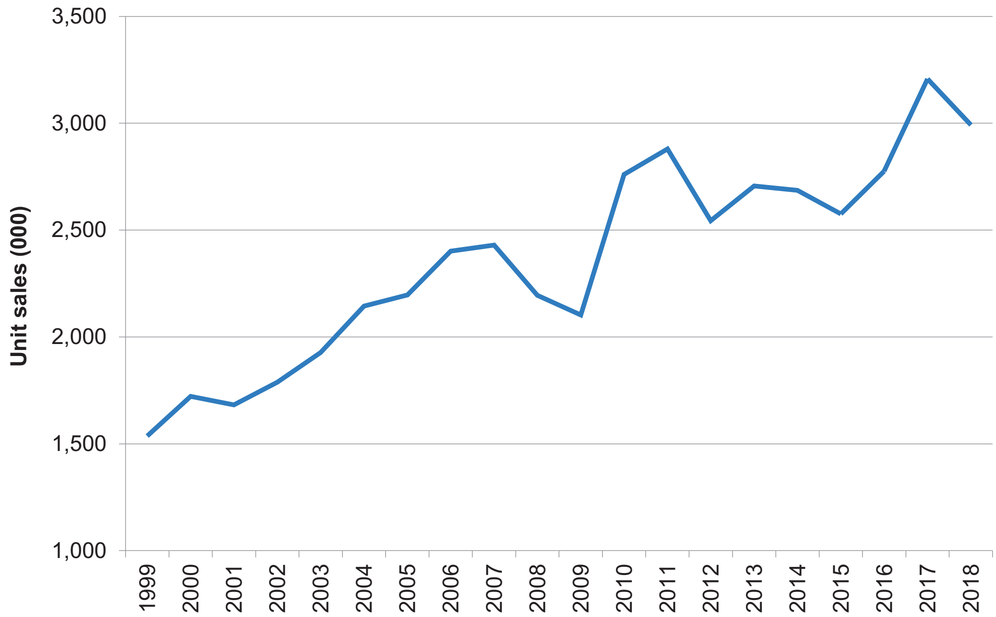
African demand is expected to decline marginally in 2017, as small improvements in the region's largest market, South Africa, and second-largest, Morocco, are offset by significant declines in markets such as Algeria, Libya and Nigeria.

The region is expected to grow by 5-10% in 2018.

CHAPTER 2: TRUCK DEMAND

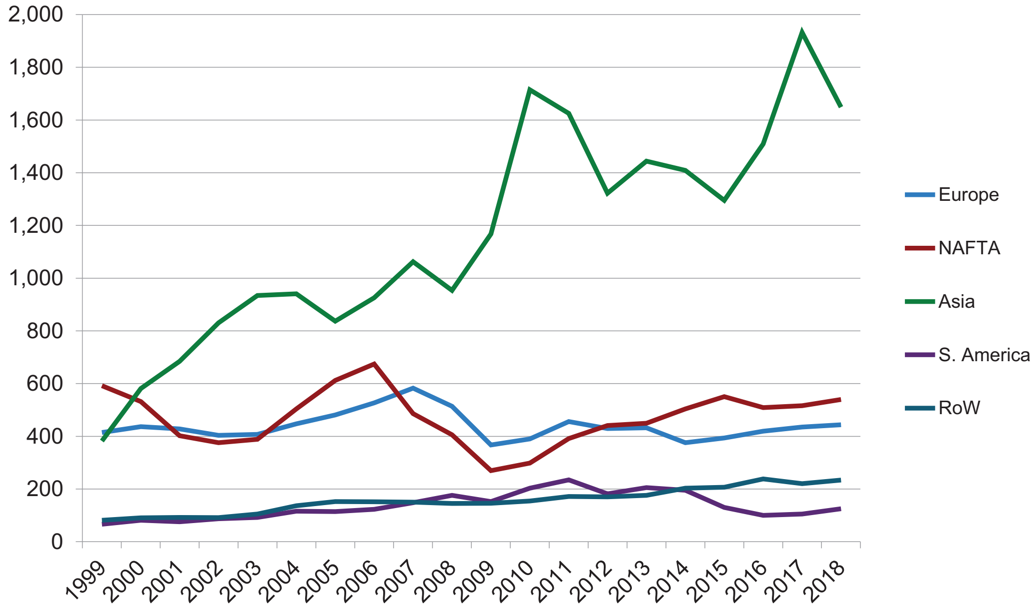
Global demand for >6t trucks is expected to rise by an exceptionally strong 15-16% in 2017, taking demand to an all-time peak of 3.21 million units. This represents a substantial overshoot of the forecast offered in last year's edition of this report, due to the exceptionally strong growth in the Chinese market which is set to account for 42% of global demand over the year.

World demand for >6t trucks



The forecast for 2018 is again dominated by developments in China, as an expected settling back of demand in that market more than offsets the expected increases in other regions, leaving global demand 6-7% below the exceptionally strong result for 2017 (forecast).

>6t truck demand by region



Asia – driven by China and India

China

As noted, the Chinese market remains the world's largest by a substantial margin, with forecast sales of around 1.36 million units in 2017, up by an unexpectedly strong 41% from 2016. The strength of demand during 2017 has caught all observers by surprise - for example Volvo has revised its full-year forecast upward in each of the first three quarters of 2017, resulting in its forecast at Q3-2017 status being 51% ahead of the corresponding forecast at Q4-2016.

Please note that due to limited data availability the Chinese sales figures reflect factory gate sales, including vehicles destined for export markets. Truck exports typically run in the range of 140-160,000upa. Imported trucks are not included in the data.

While there is some comfort in being part of the crowd which failed to forecast the strength of Chinese demand in 2017, it is nonetheless disappointing that the market can deliver this level of surprise as, following very rapid growth over the first decade-plus of this century, the market appeared to have entered a more mature phase with less volatile and more predictable demand levels. For several years, we have been of the opinion that the era of runaway growth in China's truck market is at an end. Unlike the LV market, where rising wealth continues to bring new buyers into the market, the rising demand for haulage in China can, to some extent, be met by a combination of larger trucks and more efficiency in the transport industry.

The growth in demand during 2017 partly reflects a healthy level of freight demand and higher construction activity. However, a more significant factor has been new weight and dimension regulations (Regulation GB1589) which became effective in September 2016 and limits the size, weight and loads for trucks. The new regulation is being tightly enforced and has led to some road transport capacity bottlenecks and higher fees. This in turn has encouraged operators to expand their fleets.

One of the main assumptions underpinning our forecasts for a number of years is that, as the market matures, it will increasingly switch to road tractors for long haul operations. This trend is evident from the rising proportion of tractors in the sales total. In 2011, tractors accounted for 22% of truck sales; by 2015, this had risen to 41%, and in the first ten months of 2017, the figure was nearly 45%.

China's economic growth is expected to be slightly lower at 6.5% in 2018, following a forecast 6.8% in 2017. We expect the truck market to drop significantly from the 2017 peak as we believe that the strong growth in 2017 will have expanded road transport capacity at a faster rate than demand - even allowing for the new loading regulations.

India

India's truck market has long displayed greater volatility than the LV market with an average annual change (plus or minus) of 24% over the past 23 years. It is notable that all the periods of falling sales during that time - 1997-1998, 2000-2001, 2008-2009 and 2012-2013 - lasted just two years.

Truck demand was relatively stable in 2016, growing by 5% to 293,000 units, having grown by 28% the previous year. In the early months of 2017, the expected pre-buy in advance of the new BS-IV emissions standard in April 2017 did not materialise, largely due to uncertainty over the introduction of the Goods and Services Tax (GST) and to the surprise demonetisation of late 2016.

The weaker-than-expected pre-buy activity caught out the large truck OEMs. Both Ashok Leyland and Tata were consequently left with inventory of BS-III vehicles after the April 1st implementation date. The companies had expected to be allowed to sell their BS-III vehicles after that date - a usual practice in most markets given the unpredictability of demand. However, in March 2017, India's supreme court banned the sale of BS-III vehicles from April 1st. The OEMs were faced with three options: upgrading the unsold stock to BS-IV specification, exporting them to markets with lower emission standards or dismantling the unsold vehicles, using the parts either for new production or for spare parts.

Despite the weak start to the year, and some subsequent disruption at the time of GST implementation, truck demand is expected to rise by around 4% in 2017. Positive factors for 2017 and beyond include:

- the net effect of the GST changes is a small reduction in the effective tax rate from 30.4% to 28%;
- the strong economy;
- higher freight rates;
- increasingly tight enforcement of overloading regulations;
- a recovery in India’s mining sector, which is a key market for tipper trucks.

The Indian economy is forecast to grow by 7.4% in 2018, up from a forecast 6.7% in 2017. Truck demand growth is also expected to accelerate, rising by 5% to a new peak of 320,000 units. The forecast includes some expected support from a planned scrappage programme.

NAFTA – positive momentum going into 2018

The NAFTA truck market is strongly cyclical, typically taking ten years to move from peak to peak or trough to trough, although this can vary by two or three years. The cycle is there as a trend, but will always be influenced by prevailing circumstances. For example, pre-buying in advance of emissions changes or, in the most recent trough, extreme events such as the credit crunch.

Dominated by the US, NAFTA's truck market is more homogenous than the European market. This is partly because it is dominated by big fleets, particularly in the heavy sector. When the fleets detect a downturn approaching, they stop new orders and cancel existing orders very quickly. Hence the typical period from market peak to trough is shorter than the typical trough to peak period (i.e. there is a relatively slow annual increase in volumes during the up-cycle, then sales ‘fall off a cliff’).

The recovery in NAFTA demand which began with a 12% increase in 2010 gained substantial momentum in 2011 with a 28% rise in overall demand to 395,700 Class 4-8 vehicles. The growth rate dropped to 15% in 2012 and virtually halted in 2013 when demand rose by just 1.3% as a 5.3% dip in Class 8 demand was offset by gains in the light/medium (Class 4-7) sector. The rate of growth accelerated strongly in 2014, with a 12% rise to 512,000 units led by a rise in Class 8 sales. In 2015, the market rose again, by 9.2% although it weakened significantly in the second half of the year.

Following that period of six consecutive years of growth, Class 8 demand fell sharply during 2016, substantially offset by a continuing rise in Classes 4-7, leaving the overall market down by 7.5% at 509,000 units.

During 2017, the truck market remained in its mild cyclical downturn in the early part of the year, but good economic conditions, increased freight rates and stable used truck prices have helped demand to rise in the latter part of the year, and we now expect the market to rise by 1-2% over the full year.
The positive momentum will carry forward into 2018, when we expect a more substantial improvement of 4-5% to take the NAFTA market to around 540,000 units.

Europe – mild growth

In Europe, truck demand grew by 6.6% in 2016 to 420,000 units as the EU+EFTA region saw an 11.5% rise to 359,000 units, with increases in all but three minor markets, but the Russian market declined for the fourth successive year.

Regional demand is expected to increase by 3-4% in 2017 as lower sales in several major markets such as the UK, Netherlands and Czech Republic are more than offset by gains in other markets, particularly Russia which is expected to grow by around 11,000 units.

The outlook for 2018 is broadly similar, with further growth in Russia again helping regional demand to increase slightly, by 2-3% to around 445,000 units.

While each of the individual European truck markets has its unique characteristics, one common trend over the past 15 years or so has been the growth in international road transport by the EU's newest member states from central and eastern Europe.

Governments in western Europe have sought to limit the opportunity for low-paid drivers from eastern Europe undercutting their domestic transport operators and, in late 2016, the transport ministers of Austria and eight other countries (Belgium, Denmark, France, Germany, Italy, Luxembourg, Norway and Sweden) wrote to European Commissioner for Transport, Violeta Bulc, asking her to ensure fair competition in the area of road transport.

Some of these countries have already taken action (e.g. Austria) by introducing legislation to limit what they see as unfair competition. Such legislation has been challenged by the European Commission which is seeking to preserve the principles of single market.

At the end of May 2017, the EU announced a new labour proposal designed to address the concerns raised by the nine member states. The EU proposes to prevent drivers from lower-wage countries undercutting better paid workers when they travel to other member states.

Under the new proposal, truck drivers can travel outside the EU member state where they live and still be paid according to their home country's rules for up to three days. After that, drivers will fall under local rules of the country where they deliver goods. Earlier suggestions had hinted at a longer time-frame, with a seven-day period being the preferred solution. However, the final version setting out a three-day limit marks a big change from this, and should please those member states which have pushed for stricter rules.

Those states will be less pleased by another of the EU's proposals: the lifting of any limit on cabotage, or the number different delivery trips drivers can make, within their first five days abroad. Current EU cabotage law restricts drivers to making only three runs during a seven-day trip.

The labour proposal has not been welcomed by those eastern European member states with significant exposure to the international road haulage market; nor have they welcomed the additional proposal to require employers to pay for accommodation for drivers to sleep during long trips abroad. Drivers would no longer be allowed to sleep inside their trucks. The Commission hopes the improved conditions can even cut down on traffic accidents if drivers face "less stress and fatigue". If this proposal becomes law, it will presumably have a significant impact on sales of sleeper cabs.

South America – all eyes on Brazil

Truck demand fell by 23% to 100,000 units in 2016. This was the third successive year of decline, taking the market to its lowest level since 2003 and 57% below its 2011 peak. Although the decline can be attributed to a range of factors, weak or negative GDP was at the root of most of them.

Over the full year 2017, demand is expected to swing positive, though growing by only about 5% as the Brazilian market remains very close to the trough of its downturn.

A more substantial increase of around 20% is forecast for 2018, as the Brazilian recovery gains momentum. Brazilian truck producers differ in their precise forecasts for 2018, but all agree on the direction of travel for the market. For example, MAN has not only re-hired personnel laid off during the downturn, but is in the process of hiring 300 extra staff to support its forecast of double-digit growth in 2018.

CHAPTER 3: ECONOMIC OUTLOOK

The IMF now expects the global economy to grow by 3.6% in 2017, a 0.4pts increase from 2016 and a 0.2pts increase from the IMF's year-ago forecast. For 2018, the IMF expects a slight increase to 3.7%.

The IMF comments:

> *"The pickup in global activity that started in 2016 gathered steam in the first half of 2017, reflecting firmer domestic demand growth in advanced economies and China and improved performance in other large emerging market economies. The continued recovery in global investment spurred stronger manufacturing activity. World trade growth moderated in the second quarter after expanding very briskly in the first. Global purchasing manager indices and other high-frequency indicators for July and August suggest that global growth momentum continued into the third quarter of 2017.*
>
> *Among advanced economies, domestic demand and output grew faster in the first half of 2017 than in the second half of 2016. In the US, weakness in consumption in the first quarter turned out to be temporary, while business investment continued to strengthen, partly reflecting a recovery in the energy sector. In the euro area and Japan, stronger private consumption, investment, and external demand bolstered overall growth momentum in the first half of the year. Growth in most of the other advanced economies, with the notable exception of the United Kingdom, picked up in the first half of 2017 from its pace in the second half of 2016, with both domestic and external demand contributing.*
>
> *Among emerging market and developing economies, higher domestic demand in China and continued recovery in key emerging market economies supported growth in the first half of 2017. In India, growth momentum slowed, reflecting the lingering impact of the authorities' currency exchange initiative as well as uncertainty related to the midyear introduction of the country-wide Goods and Services Tax. Higher external demand boosted growth in other emerging market economies in East Asia. In Brazil, strong export performance and a diminished pace of contraction in domestic demand allowed the economy to return to positive growth in the first quarter of 2017, after eight quarters of decline. Mexico maintained growth momentum, despite uncertainty related to the renegotiation of the North American Free Trade Agreement and significant tightening of monetary policy over the past two years. Recovering domestic and external demand supported rebounding growth in Russia and Turkey. Internal and cross-border conflict in parts of the Middle East still weighed on economic activity, while Venezuela faced a political and humanitarian crisis amid a deepening recession."*

GDP forecasts

IMF GDP forecasts (%)	2010	2011	2012	2013	2014	2015	2016	2017	2018
World	5.1	3.9	3.4	3.3	3.4	3.2	3.2	3.6	3.7
Advanced economies	3.0	1.7	1.2	1.4	1.9	2.1	1.7	2.2	2.0
USA	2.4	1.8	2.3	2.2	2.4	2.6	1.5	2.2	2.3
EU	2.0	1.7	(0.3)	0.2	0.9	1.5	2.0	2.3	2.1
Japan	4.5	(0.6)	1.5	1.5	0.0	0.5	1.0	1.5	0.7
Emerging economies	7.4	6.2	5.1	4.7	4.6	4.0	4.3	4.6	4.9
CIS	4.8	4.8	3.4	2.2	1.1	(2.8)	0.4	2.1	2.1
Developing Asia inc. China	9.5	7.8	6.7	6.6	6.8	6.6	6.4	6.5	6.5
China	10.4	9.3	7.7	7.7	7.3	6.9	6.7	6.8	6.5
Latin America	6.2	4.6	2.9	2.7	1.0	0.0	(0.9)	1.2	1.9
Middle East & North Africa	5.0	3.9	4.8	2.5	2.7	2.3	5.1	2.2	3.2

IMF: World Economic Outlook, October 2017

CHAPTER 4: OUTLOOK FOR 2018

Looking at world demand a year ahead, there is always a considerable list of risks and uncertainties, and 2018 is no different. A short list of the ‘known unknowns’ for the next 12 months would, in no particular order, include:

- two of the world’s biggest trading blocs, NAFTA and the EU, could soon face major, but as yet unquantifiable disruption; admittedly, most actual disruption is likely to occur beyond 2018, but near-term investment decisions could be influenced;
- the US faces mid-term elections, Brazil has a general election, Russia a presidential election, Germany could face another election if a coalition government is not formed and the UK government looks perilously weak;
- the US federal reserve is expected to raise interest rates three or four times - usually bearish for emerging markets;
- the risk of conflict involving North Korea has grown significantly;
- conflict in the Middle East is ongoing and could take new forms.

Notwithstanding these and many other risks, the central forecast of the IMF (the OECD concurs) is for global growth to accelerate slightly in 2018, reaching its highest level since 2011.

Outlook for LV demand

Region	LV demand		Comments
	2017	2018	
Asia	3.9%	2.1%	China – 2017: growth slowing. 2018: weak growth as tax cut distortion fades
			Japan – 2017: growth as confidence returns. 2018: small boost from 2019 tax rise
			India – fresh peaks in 2017 and 2018
NAFTA	(1.0)%	(1.1)%	US in mild cyclical downturn, expected to last into 2018
			Trump threat to NAFTA risks major long term disruption
EU+EFTA	3.9%	2.1%	2017 – 4% rise for 4th year of recovery from 6-year decline
			2018 – Slowing growth as market moves out of recovery phase
Middle East	(6.1)%	4.6%	2017 – Decline as markets affected by oil price drop and political instability
			2018 – Boost from improved oil price
E. Europe & Central Asia	11.5%	11.8%	2017 – Government incentives prime factor, economic recovery secondary
			2018 – Economic recovery prime factor, government incentives secondary
S. America	11.0%	8.8%	2017 – Entered recovery phase
			2018 – Further growth
Africa	(0.7)%	5.9%	2017 – Small improvements in 2 biggest markets, offset by declines elsewhere
			2018 – Limited growth
World	2.2%	2.0%	Total market 2017: 93-94 million
			Total market 2018: 95-96 million

Outlook for truck demand

Region	Truck demand 2017	Truck demand 2018	Comments
Asia	28.0%	(14.6)%	China – Exceptionally strong growth in 2017, dip expected in 2018
			India – Mild growth in 2017, expected to be stronger in 2018
NAFTA	1.5%	4.7%	2017 – Class 8 beginning to emerge from downturn, Class 4-7 growth
			2018 – More substantial improvement
Europe	3.7%	2.1%	2017 – Mild growth helped by recovery beginning in Russia
			2018 – Broadly similar pattern to 2017
S. America	5.0%	19.0%	2017 – Brazilian market recovery not yet established
			2018 – Brazilian market recovery gets underway
Africa, M. East, Oceania, Other	(7.6)%	6.4%	2017 – Decline as M. East affected by oil price drop and political instability
			2018 – Boost as M. East benefits from improved oil price
World	15.6%	(6.7)%	Total market 2017: 3.2 million
			Total market 2018: 2.9-3.0 million

While each LV and heavy CV market of course has its unique dynamics, in general terms this robust level of economic growth should help underpin a further increase in global LV demand, with all major regions except NAFTA expected to see higher sales. Global truck demand would see a similar benefit were it not for the major distortion of China, where – after the exceptionally strong rise in 2017 – we expect to see a sales decline in 2018.