Motor Sector
Insights & Outlook 2020

A look back at 2019…

Passenger Car Sales	Light Commercial Vehicles	Used Imported Cars
FYE 2019 -6.8%	FYE 2019 -0.4%	FYE 2019 +13.1%

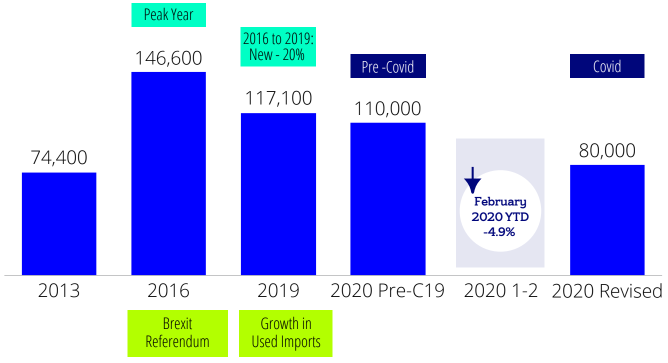
Passenger Cars: Volkswagen closed the year with the coveted #1 position and 11.5% market share, followed by Toyota with 10.4% in #2, Hyundai with 9.4% in #3, Ford with 8.2% in #4 and Skoda with 7.9% in #5.

Light Commercial Vehicles: Ford finished the year holding the #1 position for vans with 21.0% market share, followed by Volkswagen with 18.7% in #2, Renault with 14.3% in #3, Peugeot with 8.3% in #4 and Opel with 6.8% in #5.

Diesel remained the number one choice for Irish consumers accounting for 46.6% of total new car sales. 2019 was the first year diesel share fell below 50% since 2009. Petrol vehicles accounted for 40.6% of the new cars sold with Hybrid sales accounting for 9.9% in 2019. Electric vehicles (EV's) accounted for 2.9% of total new car registrations in 2019. As a comparison, EV's accounted for 1.9% of total EU registrations in 2019.

2020: Pre-COVID Environment

The new car market peaked in 2016 at 146,600 units following strong growth from a low base. Demand for new cars in Ireland has been in decline since 2017 as the industry felt the impact of Brexit. By the end of 2019, new car sales declined ca. 20% to 117,100 units from peak sales in 2016. Due to a weakened sterling, used passenger car imports from the UK market surged in the same period. Prior to the Brexit referendum in 2016, used car imports averaged ca. 50,000 units per annum and have increased every year since, reaching record levels in 2019 at ca. 114,000 units. This dampened new car demand in Ireland as used car values were impacted by cheaper imports from the UK. The effect of this increased Irish consumers cost to change when purchasing a new car. During the same period, consumer confusion began to rise concerning which engine type to choose in their next new car. This follows considerable EU-wide media reporting on electric and hybrid vehicles and the future of petrol and diesel engines. In Q4 2019, the Society of the Irish Motor Industry (SIMI) predicted sales of new cars would fall 6% in 2020 to ca. 110,000 units. Irish vehicle distributors were more optimistic, forecasting a range of -5% to +5% in 2020. In the first 2 months of 2020 (pre-COVID), sales of new passenger cars had declined c. 5%, largely in line with expectations.



Source: SIMI

Graph "New Car Sales: Ireland"

Sales Since Restart

The motor sector reopened on May 18th 2020 during phase one of reopening the Irish economy. Following almost two months of lockdown, motor dealers restarted vehicle sales and servicing divisions and have been trading well since. Receiving the "green light" to reopen both service and sales operations in phase one was critical to motor dealers in Ireland due to the seasonality of vehicle sales in the Irish market. The focus of activity has been concentrated on rebuilding service/aftersales pipelines along with reducing exposure to used car stock in advance of the second new vehicle sales peak which commences each year in July. Dealers are engaging with consumers both physically at their premises and also through the using technology including remote video presentations of new and used cars.

In the first six weeks since restart (CW 21-26) in Ireland;

- passenger car sales excluding hire drive registrations[1] have declined c. 32%
- light commercial vehicle sales declined c. 43%
- combined sales of both have declined c. 35% (3,304 v. 5,100 units)
- used passenger car imports have declined c. 59%

It is worth noting that volumes of vehicle registrations are low in May/June and this is indicative of seasonality ahead of the second peak. June represents just 1% of annualised new car sales whereas July represents c. 21% (in normal trading conditions). The market performance since restart is therefore encouraging, proving some consumers have an appetite to continue with collection of new vehicles ordered pre-COVID (for those that collected in May/June and for those that have postponed until July). Motor dealers are reporting brisk trade of both new and used vehicles since restart and it is positive to see consumer sentiment and vehicle sales begin to recover.

[1] The hire drive (HD) market crashed by c. 80% in 2020 as car rental companies cancelled orders due the impact of COVID on tourism; thus HD sales are excluded to understand the underlying consumer and business demand.

Rate of Recovery

In the first 6 months of 2020, combined sales of new passenger cars and light commercial vehicles declined by c. 34%. The overall market is likely to remain down c. 30% in 2020 due to the seasonalisation of new vehicle sales, where c. 70% of sales occur in H1, along with motor manufacturing plants closing globally due to COVID and its impact on vehicle supply. If this is the outcome, sales of passenger cars and used imports in 2020 could mirror those last seen in 2013.

Irish motor dealers are reporting to be busy however, and there are global reports of pent-up vehicle demand that may be replicated across Europe in 2020 and Ireland from 2021 onward (due to seasonality of sales). The Chinese automotive sector is experiencing a "V-Shaped" recovery with vehicle sales +4.4% y-o-y in April and +14.5% y-o-y in May. The market there, however, is different to that in Europe due to lower levels of car ownership. This compares to a more mature market in Europe. The sector does not currently expect a "V-Shaped" recovery in Europe, but rather a "U-Shaped" gradual recovery over the next 18 months.

The recovery in Europe will be supported by fiscal measures such as those seen most recently in France and Germany. The German government announced revised incentives for electric vehicles (EV's) to support the motor sector there. Germany is now offering a €9,000 subsidy (split €6,000 government, €3,000 manufacturer) to incentivise consumers to purchase new EV's. This incentive applies to new cars only. The German announcement follows the lead taken by the French government who now offer subsidies of up to €12,000 for new electric vehicles, but also offer incentives of €3,000 for consumers to trade up to used cars (petrol/diesel/hybrid) that conform to the latest stringent emissions rules.

In Q1 2020, electric vehicles share of new car registrations increased to 3.7% in the EU (compared to 3.3% in ROI). The incentives offered by France and Germany are likely to accelerate the demand for electric vehicles in those countries and it will be interesting to note how neighbouring countries (and in particular, Ireland) follow their example. Car manufacturers are likely to focus the production restart on low/zero emission vehicles to meet this demand in H2 2020 and beyond.

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The Society of the Irish Motor Industry (SIMI) will represent the sector in Ireland, seeking a variety of fiscal supports to stabilise and reboot the sector here.

2021 may see the return of (or an element of) the hire drive / rental car market although this will be dependent on recovery of overseas tourism to Ireland. This sales channel represents c.15% of annual car sales and has averaged 18,000 new cars annually over the last three years in Ireland.

In 2021/2022, the motor sector in Ireland may experience a COVID related bounce due to;

- commuters choosing to avoid public transport and purchasing cars
- reversal of non-ownership trend among younger consumers
- potential fiscal measures supporting sales of ultralow/zero emissions vehicles

New Vehicle Emissions

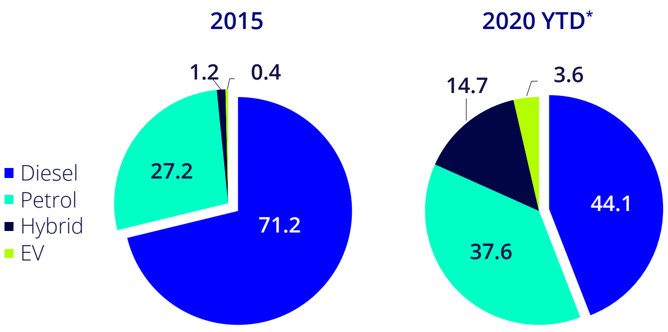
Automotive manufacturers require time to develop and scale EV's and bring them to market. Pre-COVID, the sector was investing €57billion annually into R&D in the EU and is committed to move toward Carbon Neutrality by 2050.

Road transport accounts for 21.1% of Greenhouse Gas Emissions in the EU with passenger cars representing 12.8%. The sector has delivered a reduction of c. 31% in CO_2 emissions since 2000, as CO_2 emissions from new car sales fell to c. 118g/km in 2017. By 2021, automotive manufacturers in the EU must achieve a CO_2 target of 95g/km from sales of new cars or face significant penalties.

Electric Vehicles will therefore become part of the motoring landscape in the coming years. Manufacturers will continue to develop more EV options to meet these strict EU emissions targets along with consumer demand.

This technology is expensive to produce however, and will remain high for EV and carbon neutral fuels according to the European Automotive Manufacturers Association (ACEA). The implication is that electric vehicle prices are likely to remain high in the mid-term.

Ireland should take note from the French example of restarting their motor sector. Incentivising new electric vehicles could be considered to be elitist favouring the wealthier cohort in our society. The French also incentivised the sale of newer, cleaner used vehicles with internal combustion engines, enabling those who can't afford a new car to trade up to a car that is "cleaner and greener".



AFV	IC
1.6%	98.4%

AFV	IC
18.3%	81.7%

Source: SIMI, *Jun YTD

Graph: "Engine Share of New Car Sales: Ireland"

Programme for Government

The leaders of Fine Gael, Fianna Fáil and the Green Party have signed off on a programme for government and a draft document of "The Programme for Government; Our Shared Future" was released recently. The Green Party is likely to heavily influence government strategy concerning carbon reduction and the move to be carbon neutral by 2050. Policy developments will be important to follow as new emissions strategies will impact the motor sector in Ireland. Page 33 of the document states policy changes will be far reaching and will include "...accelerating the electrification of the transport system, including electric bikes, electric vehicles, and electric public transport, alongside a ban on new registrations of petrol and diesel cars from 2030"

It is widely believed in the sector that the 2030 date proposed to ban the internal combustion engine in Ireland is unrealistic and diverges widely from the UK target of 2035 and the EU target of 2040. The repetition of this messaging is confusing for consumers who are considering changing their vehicles and are uncertain whether to change now or wait to see how government policy evolves.

Brexit

The UK formally left the EU on 31 January 2020. We are currently in the transition period which is due to end on 31 December 2020. The impact of Brexit to the sector and, in particular, currency fluctuations will continue to be monitored closely in H2 2020.

Finance Opportunities

We expect that trends pre-COVID will carry into H2 2020/2021. Consolidation of single operators into larger dealer groups is likely to continue. In the short-term, motor dealers may require increased short term working capital needs. Refinance opportunities will present themselves from time to time and we welcome the opportunity to discuss these needs with new customers.

Supporting our Customers

Bank of Ireland Finance (BIF) supports 12 motor franchises representing c. 40% of annual new car sales and we remain committed to our customers.

To enable our customers to restart their businesses, we have rolled out a "Deferred Payment Start" initiative which covers Hire Purchase, PCP and Lease Products. The first payment date with Hire Purchase, PCP & Lease is normally 30 days after the commencement date of the finance agreement. BIF will now allow a customer to avail of up to 90 days before the first payment commences.

The deferred payment start option will be made available alongside BIF's existing product offering for Consumers and Non-Consumers purchasing a new or used motor vehicle through any of our 12 motor franchise partnerships. We wish all our partners and customers the very best in H2 2020 and beyond.

Bank of Ireland and the Irish motor sector is open for business...

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Stephen joined Bank of Ireland in 2018 and brings over 20 years Motor Sector Industry experience having held senior positions in both wholesale distribution and in retail as a motor dealer where he operated as Dealer Principal for 7 years – read more about him at boi.com/motorsector.

Sources: SIMI, ACEA, Jim Power Economics.

Payment deferral available on request. By deferring repayments at the start of your finance agreement borrowers will pay more interest over the term of the finance agreement than if they started to make repayments from the outset. Finance provided by Bank of Ireland trading as Bank of Ireland Finance.

Bank of Ireland