

## Press Release

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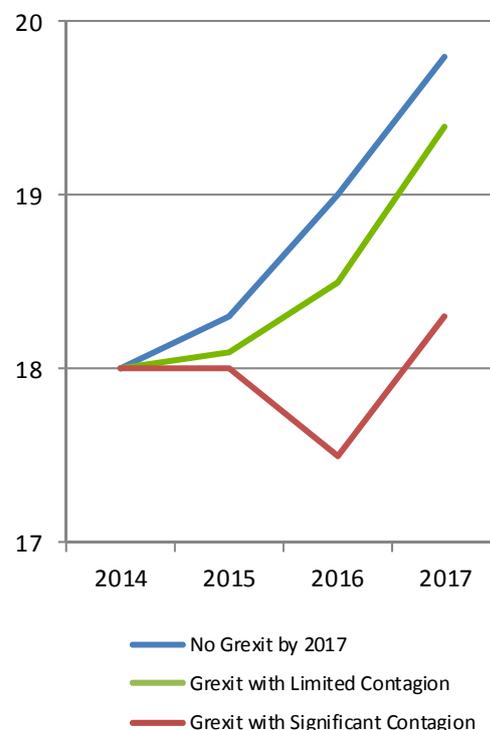
### Assessing the impact of Grexit for the European Light Vehicle Industry

Greek membership of the Eurozone hangs in the balance. There is clearly a wide range of possibilities which could be considered. Together with Oxford Economics, we have considered some of the more likely outcomes.

“An exit with limited contagion might not inflict major damage on the broader European economy or vehicle markets. However, the effects of an exit would still be felt: in this scenario our partners at Oxford Economics would reduce the GDP growth forecast for 2016 to 1.2%, from 1.8%. If the economic gains are to be curtailed in this way, then vehicle demand recovery will also be impacted,” said Jonathon Poskitt, LMC Automotive’s Head of European Sales Forecasting.

#### Scenario: Greece exits Eurozone with limited contagion

In this scenario it is assumed that Greece exits the Eurozone after being forced into adoption of a new currency in order to restore solvency of its banking system. The Greek economy itself suffers a profound recession, but contagion beyond Greece is limited as support mechanisms within the Eurozone are sufficient to allay market concerns over other countries’ membership of the currency bloc. “Some minor loss of growth momentum takes place, but the region eventually moves on. The Greek economy would begin to recover within a couple of years, spurred by the devaluation of the new currency, but comes from an impoverished base,” Poskitt added.



#### Scenario: Greek Eurozone Exit, with significant contagion

“It’s a rapidly changing situation, so we have also outlined other possible outcomes in the quarterly Scenarios Service that we produce alongside Oxford Economics,” said Pete Kelly, Managing Director of LMC Automotive. “In one downside scenario, the exit becomes chaotic and leads to extreme damage to the Greek economy as normal financial channels fail to operate for months. The effects in Greece are extreme but not disastrous elsewhere. Nonetheless, there is some contagion and heightened market anxiety in relation to other Southern European Eurozone economies as borrowing costs rise to levels that create questions over sustainability of debt in some countries. Action by European policymakers, not least at the ECB, ultimately stave off the risk of further countries considering exit from the currency, but confidence is hit hard, causing the Eurozone economy to fall back into recession in the second half of 2015 and 2016. A Eurozone recovery begins to emerge but only gets back to recent growth rates by 2017.”

#### Scenario: No Grexit

“In this scenario, Greece does not exit the Eurozone as new measures agreed begin to be implemented. The Eurozone economy – and that of Western Europe – continues to recover slowly in 2015, without major disruption beyond very minor ripples in confidence relating to recent news from Greece and ongoing concerns over the return of more stable conditions. This scenario would result in ongoing solid Light Vehicle market recovery over the next few years,” said Kelly.

European Light Vehicle Sales (Millions)	2014	2015	2016	2017
No Grexit by 2017	18.0	18.3	19.0	19.8
Grexit with Limited Contagion	18.0	18.1	18.5	19.4
<i>Variance to No Grexit</i>		-0.2	-0.5	-0.4
Grexit with Significant Contagion Forecast	18.0	18.0	17.5	18.3
<i>Variance to No Grexit</i>		-0.3	-1.5	-1.5

## Impact on Vehicle Production

The large majority of the impact on vehicle production would be felt within Europe itself as over 80% of European Light Vehicle output is destined for European markets. However, while the impact on individual markets outside Europe would be mostly very small, there is potential for further shaving of export demand from Europe's vehicle plants, adding to lost volumes. Furthermore, a risk-averse response from vehicle manufacturers towards extra-lean vehicle inventory management might exacerbate the situation, leading to production being cut back more than sales for a few months.

"Our monthly assessment of European vehicle inventories shows that current European levels are in the normal range, implying that a switch to 'emergency mode' could see an over-correction. Vehicle production could be cut faster than sales for a period of time. This would of course unwind once markets begin to recover," said Arthur Maher, LMC Automotive's Director of Research.

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## About LMC Automotive

LMC Automotive is a market leader in the provision of automotive intelligence and forecasts to an extensive client base of car and truck makers, component manufacturers and suppliers, financial, logistics and government institutions around the world and is widely respected for its extremely responsive customer support.

It offers forecasting services covering global sales and production for light vehicles and heavy trucks, as well as forecasts of engine and transmission supply and demand. In addition, LMC Automotive publishes special studies on subjects of topical interest to the automotive industry.

LMC Automotive is part of the LMC group. LMC is the global leader in economic and business consultancy for the agribusiness sector.

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