



Automotive Industry in Argentina

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- Driver of economic recovery from the pandemic
- The major industrial players
- Future outlook for Argentina





Automotive Industry in Argentina

Argentina's automotive industry has witnessed fluctuating performance in the recent years, with notable shifts in production, trade, and consumer preferences.

According to CEIC data, motor vehicle production experienced a steady decline from 2013 until reversing this trend in 2020 due to the following factors:

- *Global Economic Challenges*
- *Argentina's Economic Landscape*
- *Shifts in Technological Advancements*

Executive Summary

In analyzing the nuanced performance of Argentina's Automotive Industry, motor vehicle sales have shown resilience despite the challenges faced.

Global Economic Challenges:

Events such as the Russian-Ukraine war and the resulting inflationary pressures have led to fluctuations in raw material prices, impacting the cost of production and profitability within the automotive sector. The global chip shortage has disrupted supply chains, particularly affecting industries reliant on semiconductor imports like automotive manufacturing.

Despite these challenges, motor vehicle sales have shown resilience, with a 6% growth between 2021 and 2022. Notably, there has been a significant rise in electric and hybrid vehicle sales, reflecting global trends towards sustainability and efficiency.

Argentina's Economic Landscape: Characterized by currency depreciation and natural wage erosion, Argentina's Economic Landscape has created challenges for domestic consumption and investment. Depreciation of the peso in foreign exchange markets and reduced purchasing power have dampened domestic demand for vehicles, contributing to the industry's fluctuating performance.

Shifts in Technological Advancements: Future outlook for Argentina's automotive industry suggests a shift towards smaller, more fuel-efficient vehicles such as SUVs and crossovers, mirroring trends in South America. Forecasts indicate moderate growth in commercial vehicle registrations and a burgeoning electric vehicle market, driven by government incentives and infrastructure development.



Introduction

Current Performance of Automobile Industry

According to CEIC data, Argentina's Motor vehicle production was at approximately 610k units in December 2023, an increase of 13.6% from last year and an average of 467k units from 1997 to 2023. However, their production has been on a steady decline since 2013, only reversing in trend since 2020 (see figure 1)



Figure 1: Argentina's Motor Vehicle Production from 1997 to 2023

The added value of the automobile industry to Argentina's total GDP was 5.6 billion Argentine pesos (£5.15 million in 2022), 0.799% of their GDP. The economic reliance of Argentina on the automotive industry was critical in 2023 due to severe draughts that weakened their agriculture sector, having an average of 6.48% from 2012 to 2022. The total industry value added in Argentina was 24.16% in 2022.

Regarding trade, Argentina exports automobiles predominantly to Brazil, Colombia, and Chile. Brazil takes 63% of its exports, with Chile taking two-thirds. In 2022, Argentina was the 32nd most significant exporter of passenger cars globally with passenger cars being their 9th most exported product. While light vehicle exports rose by 24.3% in 2022 since 2009, the trade in Argentina's automotive sector has been negative.

Inflationary pressures from the Russo-Ukraine war led to an increase in raw material prices leading to A YoY decrease in passenger revenue. Argentina is also heavily dependent on imports of semiconductors which leads to further inflationary pressure throughout 2020-2023 due to the global chip shortage. There was high demand for remote work technology that was not matched by supply, a consequence of COVID-19 supply constraints. Furthermore, constraints caused by industry shifts toward automation and electric vehicles.

Despite these challenges, Motor vehicle sales grew by approximately 6% between 2021 and 2022. In line with global trends, electric and hybrid sales rose significantly to 33.7% YoY. In addition, the Motor Vehicle Fleet size grew by approximately 2% YoY in 2022 to 17.4 million.

According to the World Bank, MOM inflation peaked at 25.5% in December 2023 and the economy contracted by 1.6%.



More recent data suggests that there has been little Growth in Argentina's Motor vehicle sales in the last ten years (see Figure 2). The impact of car production on economic recovery during the pandemic is also further demonstrated by the significant spike in 2021. Argentina's Vehicle Sales dropped 20.8% in March 2024 compared with a growth of 10.3% in the previous month.

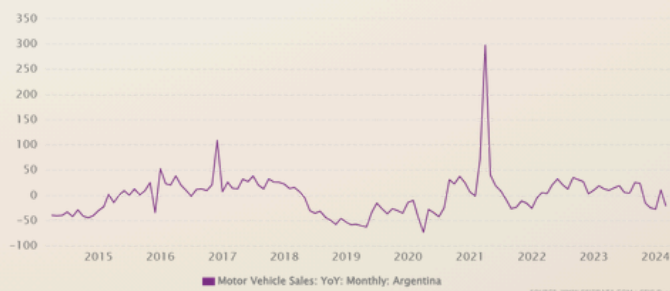


Figure 2: Argentina's Motor Vehicles Sales Growth 2014 to 2024

To put this in perspective, Statista has reported a 30.9% decrease in vehicles sold in Latin America in 2022 (5.09 million) from the peak of the decade in 2012 (7.4 million). In general, sales have yet to reach pre-pandemic levels with slow MoM growth. Still, Argentina experienced the second-highest number of new vehicles registered in Central and South America in 2022.

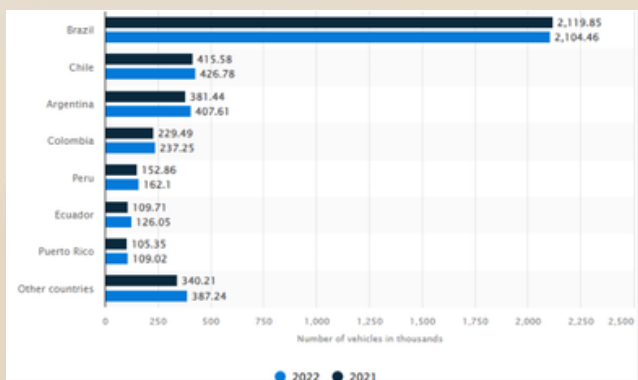


Figure 3: Number of new vehicles registered in selected countries in Central and South America between 2021 and 2022

Major Players

According to the market intelligence firm Focus2Move, the Italian Fiat Cronos (see Figure 4) has been the highest-selling car in Argentina since March 2024 (12.1% of all sales) followed by the Peugeot 208 and the Toyota Hilux.

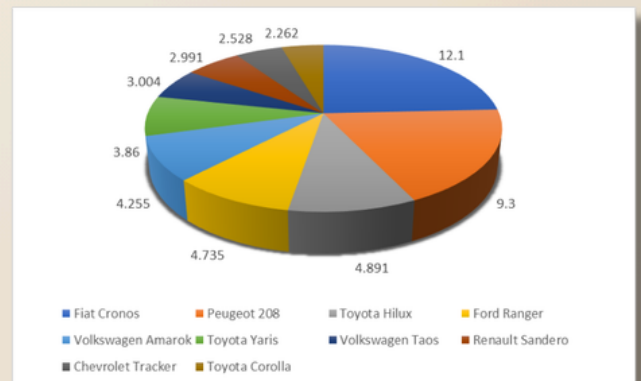


Figure 4: YTD (March 2024) Sales Of Top Car Models in Argentina (Millions)

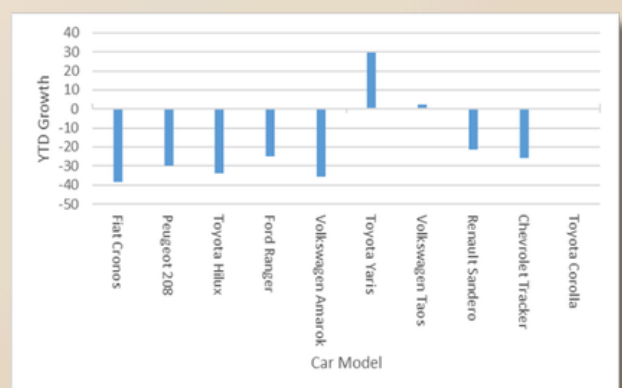


Figure 5: YTD (March 2024) Sales Growth Of Top Car Models in Argentina, 2024 in percentage

Data from 2023 demonstrates that Toyota dominated the car market regarding units sold, with Volkswagen and Fiat following. However, Ford had the most remarkable auto sales growth (followed by Nissan and Volkswagen), drastically exceeding Toyota.

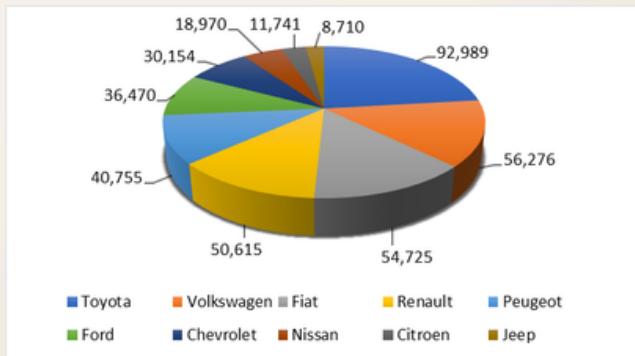


Figure 6: Sales of Car brands in Argentina 2023 (Units)

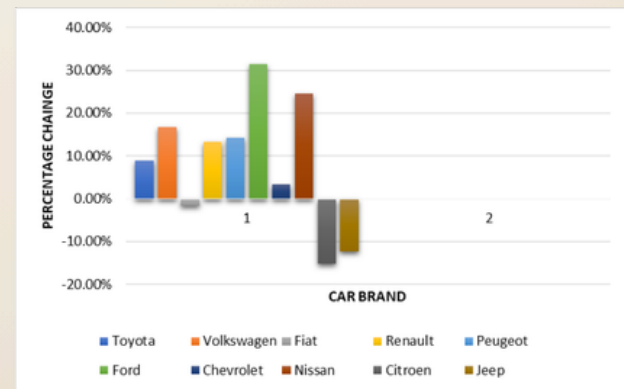


Figure 7: Argentina Auto Sales Growth in 2023

The Argentine automobile market is notably concentrated, with a select cadre of significant manufacturers with pronounced influence. Companies such as Toyota, Volkswagen, Ford, Fiat, Renault, and Peugeot dominate this landscape. This suggests that the Argentine automobile industry operates oligopolistic, wherein these firms are market leaders and price setters. While this market structure typically yields higher profit margins than a perfectly competitive market, it also implies that no single entity can unilaterally dictate pricing without a substantial market share relative to the others. This limitation poses a difficult challenge for brands, as pricing is crucial for driving sales and revenue growth.

The concept of a kinked demand curve accurately illustrates the price dilemma inherent to oligopoly markets. If a company is to raise its price and its competitors do not follow suit, the former risks losing customers due to diminished price competitiveness. Conversely, lowering prices may attract a marginal increase in customers, but competitors are likely to swiftly match the newly reduced prices, eroding profit margins. Oligopoly firms are highly unlikely to engage in a price war as price reductions lead to diminished profitability, therefore an equilibrium emerges at the prevailing price level. This equilibrium, characterised by price rigidity, leads to a stable but precarious market environment wherein price adjustments are infrequent and incremental. Thereby rendering price mechanisms as ineffective tools for revenue growth.

Interestingly, the leading automotive companies based on the corporate reputation index were Seat, BMW, and Mercedes (see Figure 8). Although these brands were far from Argentina's top three-selling cars, they have fostered the most positive consumer satisfaction and sentiment.

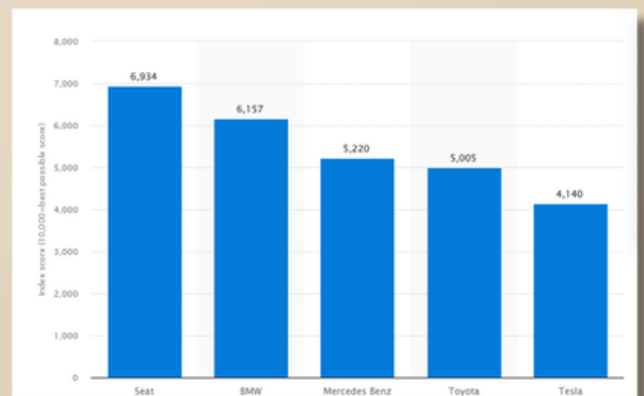


Figure 8: Leading automotive companies in Argentina in 2023, based on corporate reputation index



Future Outlook for Argentina

In South America, customer preferences have shifted towards smaller, more fuel-efficient vehicles, including SUVs and crossovers. As South America slowly climbs again to pre-pandemic growth levels, unsurprisingly, consumers have opted more for fuel-efficient cars. These same trends can be seen in Argentina's consumer behaviour. While household income per capita has steadily increased since 2020 (see Figure 9), OICA forecasts for increases in commercial vehicle registrations remain relatively modest (see Figure 10).



Figure 9: Annual Household Income per Capita in Argentina: USD

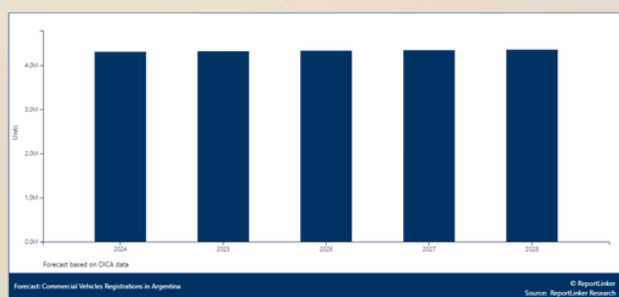


Figure 10: Forecast: Commercial Vehicles Registrations in Argentina 2024-2028

Looking at Passenger Cars, Statista forecasts a high of 758,000 in 2028, with significant growth in medium and small cars (see Figure 11). However, in terms of 2024 revenue, the largest segment is SUVs, with a projection of £5.6 billion.

Total revenue is forecast to grow at a CAGR of 1.42% between 2024 and 2028, peaking at £23.18 billion.

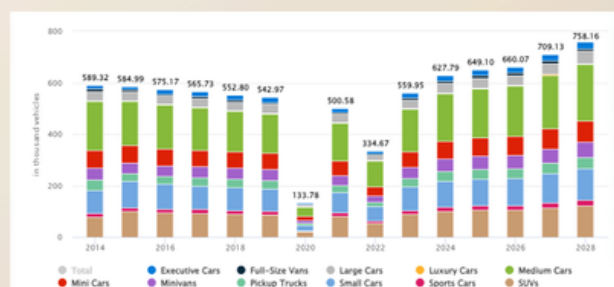


Figure 11: Vehicle sales by segment between 2014 and 2028

In a more niche but promising electric vehicle market, the annual growth projection is 16.67% from 2024 to 2028 (at a market volume of £12.58 BY 2028). Statista projects revenue to reach £6.81 million by 2024 with 311k units. Toyota is expected to continue to dominate the electric vehicle model, with the Corroloa Cross and Corolla being the leading models in Argentina and South America.

Argentina is currently experiencing high demand for electric vehicles as the government offers more green incentives and develops a charging infrastructure. EVs are especially important to pay attention to, given the expected ban on selling new ICE vehicles from 2041 in Argentina. However, according to scopes-data, Argentina has the lowest "Electirification Recommendation Rank" being a "Difficult environment for EVs". So, whilst the necessary infrastructure is being developed, there are still economic and time constraints for expanding the Argentinean EV market.



Expanding the EV market presents significant hurdles. Scopesdata anticipates that imports from Brazil will carve a critical path to a sustainable EV market share.

Looking at specific car models, despite having little substantial sales in 2023 and 2024, Cherloet is forecast to have the largest market share, followed by Volkswagen and Toyota. Despite having strong performance historically, fiat is set to make up a relatively small market share.

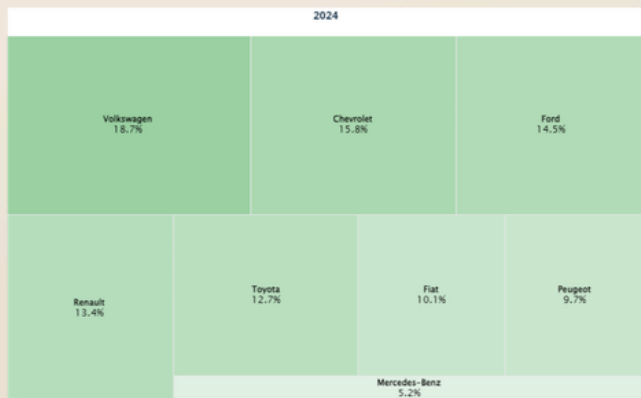


Figure 12: Vehicle sales by make in percent

Incorporating economic factors, BBVA research forecasts that domestic car sales will remain depressed until stability is achieved in the year's second half. Currently, domestic sales are weak due to the peso depreciation in the FX exchange and the erosion of real wages.

As Argentina relies heavily on imports in its automotive industry, it is susceptible to global supply chain fluctuations (whilst already being vulnerable to the current de-dollarization of the worldwide market), so forecasts remain somewhat

pessimistic. Another global disruption, such as a worldwide pandemic or an economic shock that degrades the dollar exchange rate, will almost certainly lead to another depressive period in Argentina's automobile Industry.

Major players will undoubtedly take advantage of the growing EV market, with a higher concentration on creating medium and small vehicles that are forecast to grow the most.



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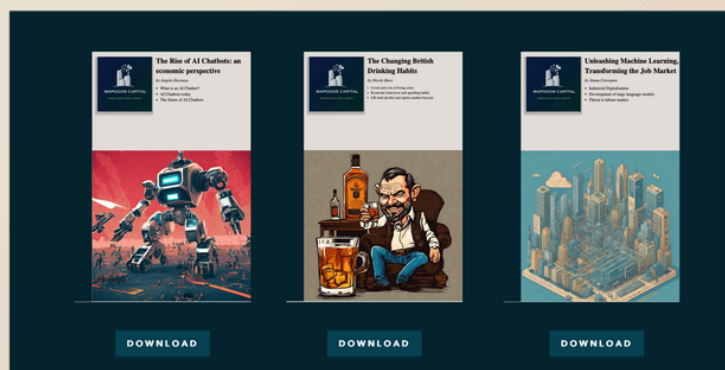
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