Bigger is better says motor industry

Growing affluence in emerging markets is good news for manufacturers of gas-guzzling vehicles.

Though the trend in mature markets is towards compact, fuel-efficient vehicles, the motor industry is betting that consumers in developing economies will continue to demand big and brash cars.

That is one of the findings of the 2013 annual automotive executive survey by global consultancy group KPMG The survey, based on interviews with 200 of the world's leading motor industry decision makers, was published last week.

Ashleigh Raine-Botha, industry research manager at KPMG SA, says recession and climbing fuel prices are forcing consumers around the world to reassess their reasons for buying vehicles. Fuel efficiency will play an overwhelming part in those decisions in coming years. Safety, comfort, styling and environmental friendliness are also important but executives say there is now also a powerful demand swing for vehicles that last longer.

According to the report: "Consumers are looking for more efficient, longer-lasting cars, primarily to save costs."

The need for fuel efficiency and cost containment is most apparent in mature markets like Japan, the US and Western Europe. Nearly 60% of executives say consumers there will want more entry-level and compact cars.

New markets

The bigger the vehicles, the more demand they expect from new markets like China, Russia, India and Africa. Two-thirds expect increased sales in these areas for sports utility vehicles like the BMW X5 and Nissan Pathfinder, but there is also strong support for vans, bakkies, sports cars and large sedans.

This doesn't mean sales of these vehicles will outstrip those of small cars - merely that the new wealth in emerging economies is creating a class of buyer more interested in status and performance than in cost and sustainability.

The last two, however, will drive most power-train investment in the global motor industry over the next five years. Hybrid (a combination of petrol and electric) may be seen as a leading technology for the long-term future but companies won't be giving up on the traditional internal combustion engine quite yet.

The biggest slice of investment up to 2018 is expected to go into making combustion engines smaller and more efficient, often through turbo-boosting.

These engines have the added advantage that they are often cleaner-burning than hybrids and produce fewer harmful exhaust emissions. Executives interviewed for the KPMG report believe they will retain their advantage for the next decade.

Hybrids and electric cars will also be the beneficiaries of multi-billion-dollar research budgets. In many cases, rival manufacturers are sharing development to minimise costs. However, by some estimates, hybrid and electric cars will account for no more than 15% of global car sales by 2020. Some analysts put the figure as low as 5%.

As urbanisation gathers pace - over half the world's population already lives in cities - and travel distances diminish, demand for alternative power sources is expected to increase.

The growing importance of developing economies to the motor industry is underlined in the report by the fact that SA has, for the first time, become a significant market for global executives. Most expect it to steadily increase both sales and production, at a time when many established production centres are expected to decline.

Gavin Maile, head of KPMG's African automotive practice, says that if SA sales and production in 2013 achieve forecast growth, it will represent one of the industry's best years ever.

Figures released this week by the National Association of Automobile Manufacturers of SA show that domestic sales of new vehicles in the first two months of 2013 were up 7,5%, while exports grew 32%.

Source: *Financial Mail* via I-Net Bridge