

June 2020

GCC Automobile Sector

Updated for COVID-19 Impact



Research Highlights:

Examining the COVID-19 impact, the recent declining trend in imports, impact of demographic changes taking place, quantifying threats from fuel price hikes, shared mobility, and upside from lifting of ban on driving by females in Saudi. The report also presents growth drivers, the demand outlook for the sector as well as expected demand for electric vehicles.



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enquiry@e-marmore.com

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Executive Summary

Automobiles have a prominent place in the life of GCC residents and the sector's prominence was supported with subsidized fuel prices given the abundant availability of fossil fuels in the region. The automobile market in the GCC countries boasts of the presence of all top international brands, with the top international auto majors operating in the region for decades. GCC does not have automobile manufacturing facilities, but it is presently taking small steps in this direction, with UAE being the first to be setting up manufacturing facilities though on a small scale. Saudi Arabia the largest automobile market among the GCC countries, has set up special industrial zones for automobiles with the initial thrust being on auto parts manufacturing firms.

As part of the larger drive to move away from subsidized goods and services towards market prices, Saudi Arabia and other GCC countries have hiked motor fuel prices in recent years and the markets are expected to see full implementation of market prices for motor fuels in the next few years. The current drop in international gasoline prices and the bearish outlook for oil prices in the near term, may mean that oil subsidies previously considered high may not be relevant in the near term, and the governments may not have a case for increasing domestic gasoline prices which will be a positive for greater use of automobiles leading to some demand push for new purchases. VAT was introduced in recent years for the first time by some of the GCC countries. Further, Saudi Arabia is reported to have increased VAT rates recently in May 2020 due to budgetary deficits caused by low oil prices resulting from Covid-19 impact. Other GCC countries may follow though it is difficult to predict at this juncture. Any VAT increases on gasoline and automobiles can be expected to have a dampening effect on the purchase of new automobiles. In addition, in the current economic scenario of job losses and wage cuts consequent to business losses from negative GDP growth rates in 2020 as was seen previously when oil prices fell, the automobile purchases are also expected to be lower at least in the near term of next 12 months. The net impact on the gasoline prices consequent from lower international prices for gasoline and higher VAT on gasoline if any needs to be seen as higher fuel costs is a dampener for greater automobile usage. These two factors have an impact on the automobile demand if motor riding costs go up. The lack of public transport however maybe holding up the market, but this may change in the next few years as most cities in the GCC are setting up metro rail projects. Again, Covid-19 may make use of public transport less preferred by the new social distancing practices that may prevail until a vaccine is available to prevent the virus. New York Metro is talking to employers in their city to examine staggered office timings to reduce the density of traffic in underground trains. Such steps may mitigate the adverse impact of Covid-19 on public transport usage. In addition, the success of Ride hailing Apps like Careem and Uber are making available an alternative means of transport to GCC residents wanting to economize on commuting costs in the cities. However, it is not still not clear whether Ride Sharing will sustain its demand post Covid-19. Moreover, the slowing growth of adult population during the next few years will result in lower annual demand for automobiles as fewer numbers of individuals seek car ownership. These developments pose challenges to the auto suppliers in the region and require them to adopt innovative marketing tools to stem the impact of negative developments on automobile demand.

On the positive side is the recent initiative of Saudi Arabia to lift the ban on driving of automobiles by the female population which is expected to give a boost to the automobile demand in the coming few years. This development can also increase demand from the female population to seek car ownership in rest of the GCC as well, where only cultural restrictions make females not to drive automobiles. Covid-19, may definitely induce female drivers who may be continuing their dependence on Ride Sharing and Taxis to shift more towards own vehicles and self-driving in these countries. Added to this, is the global initiative to switch to use of electric Vehicles (EV) in place of conventional IC engine-based automobiles with a view to reduce carbon emissions as part of the goal of Climate control and clean environment. The EVs are also found to have advantage of lower fuel and maintenance costs, while the manufacturing cost of EV is coming down and miles per recharge are going up with improvements in battery technology. The preference for EVs can be expected to result in quicker replacement of aged vehicles thereby generating higher demand for new vehicles. However, gasoline prices are lower currently and outlook is bearish in the future, EVs will benefit from lower electricity charges due to power companies paying less for their fuels like natural gas and crude oil. Therefore, lower gasoline prices may not deter the usage of Electric Vehicles. Connected cars, that is vehicles equipped with many smart features are becoming increasingly popular and the technologies for such cars is opening new capabilities, all of which can boost the new vehicle demand in the region. Autonomous Vehicles (AV) have yet to hit the market but are fast coming closer to reality and some GCC countries like UAE are recognizing their presence in their plans for automobiles.

This report examines the automobile market in the GCC as well as in the individual GCC countries. The historical growth of the automobile market is examined, relevant growth drivers are discussed and analyzed, and the forecasted market demand and vehicle population is given. For estimating demand from incremental car ownership due to additions to adult population, analysis of demographic trends is provided. An attempt is made to quantify the impact on demand from fuel price hikes, ride hailing apps, and ownership of automobiles by the female population. The expected demand for Electric Vehicles including Hybrid Electric Vehicles and Battery Electric Vehicles over the next five years is also provided. The demand estimates are provided for Reference Case, High Case and Low Case scenarios. The demand estimates for automobiles for 2020 particularly and for 2021 can be expected to be lower due to Covid-19 and low oil prices currently prevailing. However, 2019 imports data for automobiles is not yet available for the GCC countries and a clear picture of the length of this downturn and its implications are not crystallized yet. Therefore, while the relevant qualitative implications of Covid-19 are identified and discussed, the demand estimates for near term in the report are however not revised for these developments. The estimates for long term provided in the report are however expected to hold good.

All, in all, the emerging market for automobiles in GCC is one of new opportunities and new threats.

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OR email us at enquiry@e-marmore.com

Would prefer talking to us? Call us at **+965 2224 8280**

Authors

M.R. Raghu CFA, FRM, FCMA

Head of Research

+965 2224 8280

rmandagolathur@markaz.com

Shishir Goenka

Senior Manager - Research

+965 2224 8000 Ext: 4633

SGoenka@e-marmore.com

Venkatram Kolluri

Senior Consultant

+965 2224 8000

VKolluri@e-Marmore.com

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For further information, please contact 'Markaz' at P.O. Box 23444, Safat 13095, Kuwait; **Email: enquiry@e-marmore.com**; Tel: 00965 22248280; Fax: 00965 22495741.