

February 2020

GCC Automobile Sector



Research Highlights:

Examining the recent declining trend in imports, impact of demographic changes taking place, quantifying threats from fuel price hikes and 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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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. Also, VAT has been introduced for the first time by the GCC countries. These two factors have an impact on the automobile demand as 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. Also, 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. Moreover, the slowing growth of adult population during the next few years will result in lower annual demand for automobiles as fewer number 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. 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. 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.

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

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