

2021 Philippine Auto Outlook - An Update

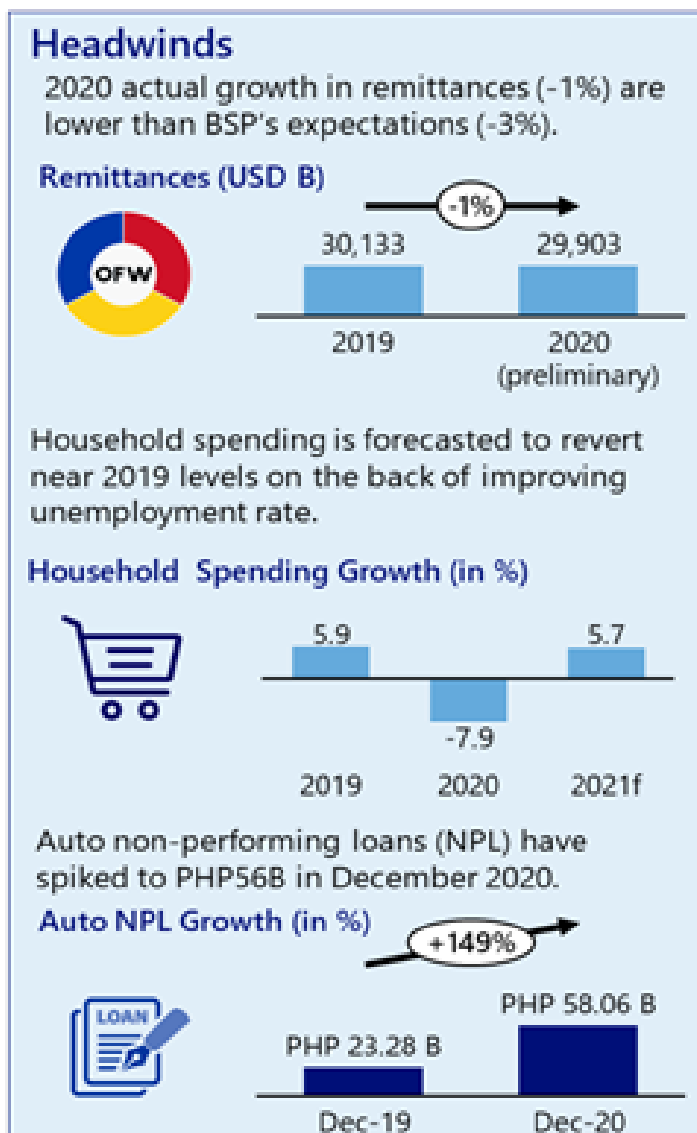
by Vic Mabutas

The redeclaration of GCQ in major commerce centers in the Philippines is a confirmation that the economic floodgates are going to be wide open soon. Given this, NRI will be updating the 2021 Auto Outlook released last February.

Headwinds

Of particular interest in this update would be the headwinds affecting buyer sentiment of Philippine car buyers (shown in figure 1).

Fig. 1. PH Auto Headwinds



Actual 2020 remittance figures, even though negative, are much better than forecasted. This implies that income stability among OFW households is improving.

Household spending forecasts are also improving as 2021 levels are expected to be almost similar to 2019. Coupled with the positive trend on remittances, this so-called "revenge spending" means good news for PH auto players.

However, with the negative status of Auto non-performing loans (NPL), NRI is expecting a somewhat flatter positive trend. Why? Because Auto financing is a double edged sword that can make or break the industry.

On one side, higher Auto NPLs mean that car owners are more likely to have their vehicles repossessed. On the other side, banks and non-bank financial institutions (NBFI) have to be more cautious in approving Auto loans to keep NPL figures from shooting up. Without a confident banking and financial sector approving Auto loans, then it would be quite difficult to provide a more bullish forecast on Philippine Auto sales.

Revised Forecasts

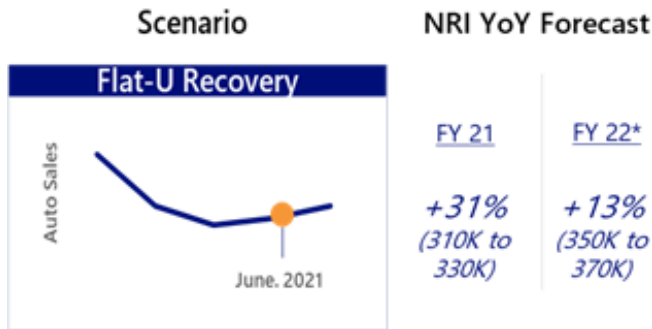
Given the updated data on headwinds, NRI is revising downward its 2021 Auto sales forecast from 360,000 units to 330,000 units (shown in figure 2). Other additional events contributing to this downward revision are the DTI safeguards and temporary tightening of quarantine restrictions from March to May.

While the DTI safeguard may have caught the market off-guard, buyers still want to buy cars as demand for personal mobility has increased due to limited modes of transportation during the pandemic.

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Fig. 2. Revised PH Auto Forecasts



For 2022, NRI is forecasting that the market will return to its 5-year growth trend, reaching 350,000 to 370,000 units. It is important to note that this forecast still does not take into account the effects of 2022 being an election year where sales tend to increase across the board. NRI will likely take this into account in its Q3-Q4 revised forecast as more updated economic data become available.

Buyer Sentiment

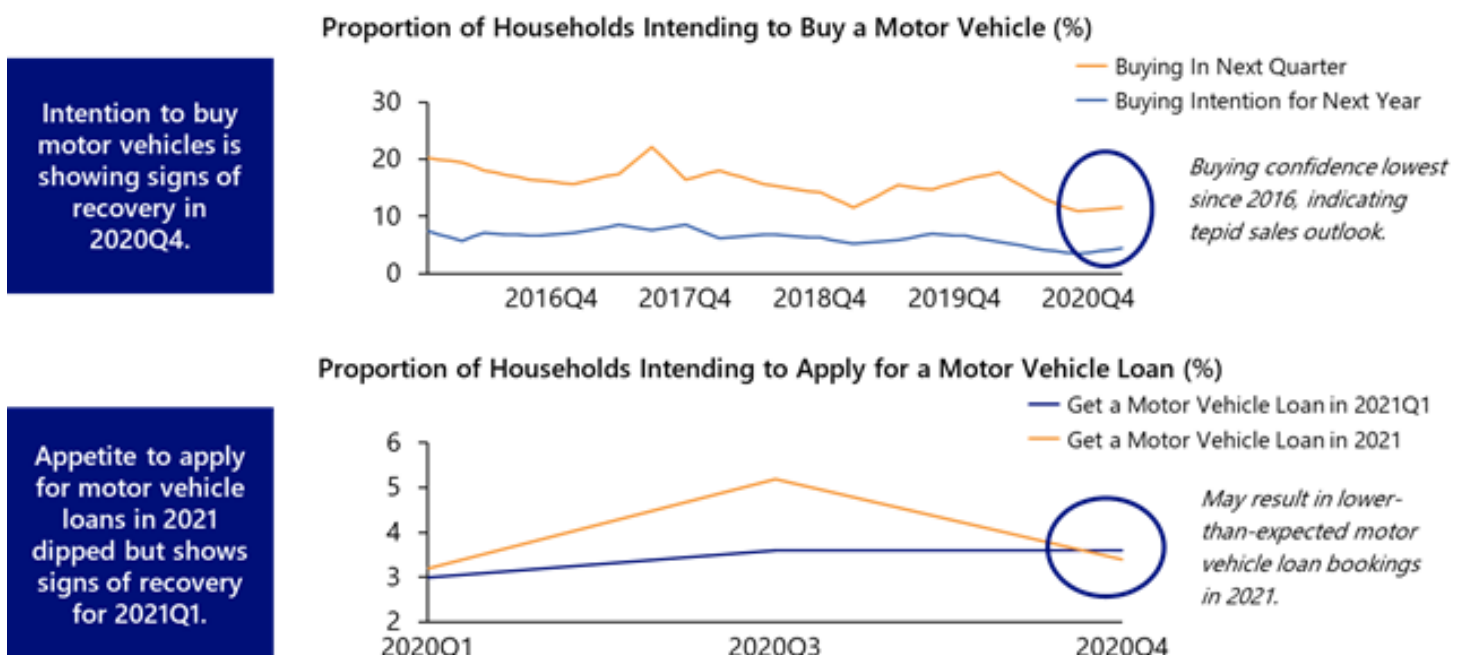
Going beyond the sales estimates, what figures should be considered as indicators of expected buyer sentiment?

For this one, NRI turns to the quarterly consumer survey of the Bangko Sentral ng Pilipinas (BSP). Of this comprehensive survey, the results pertaining to “Households Intending to Buy a Motor Vehicle” and “Households Intending to Apply for a Motor Vehicle Loan” are useful (shown in figure 3).

Q4 2020 responses for both intention to buy in the next quarter and next year show that trend reversals that would likely translate into increased buyer sentiment in 2021. In a similar fashion, intention to finance a motor vehicle purchase is showing signs of recovery post Q4 2020.

Given the positive trends of the survey responses, NRI is expecting that PH Auto buyer sentiment will be confidently trading the path of growth in the succeeding quarters.

Fig. 3. BSP Consumer Survey on Motor Vehicle Buying Sentiment



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