Economic factors affecting automobile sector

Technology, Cars

Excess Capacity. According to SCM Worldwide, an automotive research firm, in 2004 the estimated automotive industry global production capacity for light vehicles (about 74 million units) significantly exceeded global production of cars and trucks (about 60 million units). In North America and Europe, the two regions where the majority of revenue and profits are earned in the industry, excess capacity was an estimated 17% and 13%, respectively. SCM Worldwide projects that excess capacity conditions could continue for several more years. 2. Pricing Pressure.

Excess capacity, coupled with a proliferation of new products being introduced in key segments by the industry, will keep pressure on manufacturers' ability to increase prices on their products. In addition, the incremental new capacity in the United States by foreign manufacturers (so-called " transplants") in recent years has contributed, and is likely to continue to contribute, to the severe pricing pressure in that market. In the United States, the reduction of real 3. Financing Options Auto industry observers cite car loans as the biggest driving factor for the expansion of the Compact Car segment.

At present, almost 85 per cent of all new car sales are backed by autofinance, compared to 65 per cent five years ago. Interest rates on car loans have come down drastically in the past four or five years, which helps prospective buyers take the plunge. The growth of the C-segment in the past few years can be mainly credited to factors such as rise in income levels leading to increased affordability and simultaneous reduction in interest rates leading to lower MIS. The drop in interest rates usually helps very few people to probably shift from the base model to a deluxe model.

A larger shift happens if people are willing to cake long-term loans, like five years instead of the earlier three-year loans. 2. 4. Advertising and Marketing Due to the advertising techniques adopted by all the manufacturers in the C-Segment the sales have risen drastically. It is all due to because the companies now a day are using even aggressive selling techniques tort which they are even coping with the Film celebrities and Cricket stars, like Marti has contracted Refrain Path as the brand ambassador of Zen and for Santos Hounded has contracted for Shah Rush Khan.

And the companies are even trying to approach to the customer as to there emend for a vehicle at special interest loans, etc. They are using data according to the customariness and earning capacity for attracting the customers for there vehicles. 5. Income of Consumer / Buyer The income of the consumer or buyer of the car is a very important factor of demand. In recent time we have seen that due to increase in the Income of the general public, there has been a shift from the Lower C-segment cars to the Upper C-segments. Due to the recent increase in the number of multinationals in India, the income level of the employees have risen drastically and has made C-segment ears an entry level car for a lot of people. The average age of a C-segment car owner has also dropped from 35 years to 31 years in India. 6. Increase In Affordability The demand for passenger cars is driven mainly by greater affordability, which in turn increases the aspiration level of the customers. Today with high amount of disposable income in the hand of Indian youth, who forms major portion of the population, IV market has larger addressable market. . Demographic Drivers Cars being inspirational products, purchase decisions are influenced by the overall economicenvironment. Increase in per capita income increases the consumption tendency of the customer. Growth in per capita income and rising aspirations and changing lifestyle is leading to increased preference for cars over two-wheelers, which is also having a positive rub off on car demand. 8. Exports The share of exports from domestic production is currently at 12-13%, which is much lower than current export hubs.

Currently, Indian's share of global passenger cars export volume stands at less than 1%. But India is fast emerging as a manufacturing hub for leading global car makers, and several manufacturers have already firmed p plans for setting up manufacturing bases in India, which will also be used for exports. 9 Presence Across Segments Manufacturers with presence across various product segments can ensure higher volume and better capacity utilization by using the common manufacturing capacity.

Typically a customer upgrades from one segment to higher segment and the precancerous various segments ensures that the company retains its existing customers. 10. Efficient Operations Competition in IV segment is very intense and this requires the existing player's to initiate steps to reduce their cost of production. Effective and successful operation methods like platform commonality, reduction in vendor base and work force rationalization can help a company immensely. 1 1 . Wide Dealer Network and Availability of Finance A wide dealer network helps the company serve customers over wide geographical area.

For e. G. Marti has used its available wide service network as point of difference over competitors. The companies are tying up with the financial institutions having rural presence to provide additional financing options to customers in such areas. 12. Access to Latest Technologies Indian IV segment is highly competitive with as many as 14 players operating in it and more than 80 models on the offering. But still any new model launch meets with increase in sales volume for the company.

Moreover in a time when a substantial portion of Indian customer is looking to upgrade in higher segment, companies with latest technologies and latest models will catch more attentions. 13. Factors of Production There are some factors of production which influence the supply of a car like Cost of Raw Material Labor Cost Machinery Input Cost These factors influence the supply of car largely. If the cost of the raw material (Steel, Spare Parts, Rubber) increases there will be an increase in the cost of production leading to decrease in profit margins.

Costs like labor costs, machinery and input costs also influence the supply with the increase or decrease in these costs. 7. 14. Government Policies and Taxes If there is a change in the government policies regarding the increase in the road tax charged or the tax which is to be paid per unit sold, the supply of a car will fluctuate with the nature of the change. Recently the government has reduced the custom duty on input TTS and raw material trot % which NAS increase De the supply Factors affecting capital market in India:- The capital market is affected by a range of factors.

Some of the factors which influence capital market are as follows:- A) Performance of domestic companies:- The performance of the companies' or rather corporate earnings is one of the factors which has direct impact or effect on capital market in a country. Weak corporate earnings indicate that the demand for goods and services in the economy is less due to slow growth in per capita income of people. Because of slow growth in demand there is slow growth in employment which means slow growth in demand in the near future.

Thus weak corporate earnings indicate average or not so good prospects for the economy as a whole in the near term. In such a scenario the investors (both domestic as well as foreign) would be wary to invest in the capital market and thus there is bear market like situation. The opposite case of it would be robust corporate earnings and its positive impact on the capital market. B) Environmental Factors:- Environmental Factor in Indian's context primarily means- Monsoon . In India around 60 % of agricultural production is dependent on monsoon.

Thus there is heavy dependence on monsoon. The major chunk of agricultural production comes from the states of Punjab , Harlan & Attar Pradesh. Thus deficient or delayed monsoon in this part of the country would directly affect the agricultural output in the country. Apart from monsoon other natural calamities like Floods, tsunami, drought, earthquake, etc. Also have an impact on the capital market of a country. The Indian Met Department (MID) on 24th June stated that India would receive only 93 % rainfall f Long Period average (LAP).

This piece of news directly had an impact on Indian capital market with BASE Senses falling by 0. 5 % on the 25th June. The major losers were automakers and consumer goods firms since the below normal monsoon forecast triggered concerns that demand in the crucial rural heartland would take a hit. This is because a deficient monsoon could seriously squeeze rural incomes, reduce the demand for everything from motorbikes to soaps and worsen a slowing economy. C) Macro Economic Numbers:- The macroeconomic numbers also influence the capital market.

It includes Index of Industrial Production (" P) which is released every month, annual Inflation number indicated by Wholesale Price Index (WHIP) which is released every week, Export - Import numbers which are declared every month, Core Industries growth rate. This macro -economic indicators indicate the state of the economy and the direction in which the economy is headed and therefore impacts the capital market in India. D) Global cues:- In this world ofglobalizationvarious economies are interdependent and interconnected.

An event in one part of the world is bound to affect other parts of he world, however the magnitude and intensity of impact would vary. Thus capital market in India is also affected by developments in other parts of the world I. E. U. S. , Europe, Japan , etc. Global cues includes corporate earnings of Mac's, consumer confidence index in developed countries, Jobless claims in developed countries, global growth outlook given by various agencies like MIFF, economic growth of major economies, price of crude -oil, credit rating of various economies given by Moody's, S & P, etc.

An obvious example at this point in time would be that of supreme crisis & recession. Recession started in U. S. ND some parts of the Europe in early 2008 . Since then it has impacted all the countries of the world- developed, developing, less- developed and even emerging economies. E) Political stability and government policies:- For any economy to achieve and sustain growth it has to have political stability and pro- growth government policies.

This is because when there is political stability there is stability and consistency in government's attitude which is communicated through various government policies. The vice- versa is the case when there is no political stability . So capital market also reacts to the nature of overspent, attitude of government, and various policies of the government. F) Growth prospectus of an economy:- When the national income of the country increases and per capita income of people increases it is said that the economy is growing.

Higher income also means higher expenditure and higher savings. This augurs well for the economy as higher expenditure means higher demand and higher savings means higher investment. Thus when an economy is growing at a g pace capital market to the country attracts moremoneyfrom investors, both from within and outside the country and vice -versa. So we can say that growth prospects of an economy do have an impact on capital markets. G) Investor Sentiment and risk appetite:- Another factor which influences capital market is investor sentiment and their risk appetite.

Even if the investors have the money to invest but if they are not confident about the returns from their investment , they may stay away from investment for some time. At the same time if the investors have low risk appetite , which they were having in global and Indian capital market some four to five months back due to global financial meltdown and recessionary situation in U. S. & some parts f Europe , they may stay away from investment and wait for the right time to come. Risk involved in this sector. Ђ Labor unrest and industrial action. Unexpected delays and cost overrun due to. Overlapping government Jurisdiction. Corruptions and bureaucratic inefficiency. Slow down in government decision due to political instability. Raw material price. Restructuring of Automobile company Financial - Allocation and cash flow Supply Chain Operational Efficiency Raw Material prices Fuel Efficient segment Compel it t evenness Fuel Prices Demands Emerging markets