J.D. POWER
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Executive Summary

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On Asean

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Fuel Subsidies Take Center Stage in Thailand, Indonesia

Policy makers in Thailand and Indonesia are in a quandary over their expensive fuel subsidies, which while helping to curb inflation and protect consumers from higher global oil prices is also hurting their national budgets.

The removal of these subsidies, which eventually must happen, is as much an economic decision as it is a political one. As with any subsidies, the purpose is to protect the wider strata of society, and it is usually this group which forms a bulk of the electorate.

In Thailand, the outgoing Democrat-led government has maintained a fuel subsidy on diesel, capping the retail price at THB 30 per liter when global prices are much higher. This was achieved using funds from the State Oil Fund established since 1979 to protect domestic fuel prices from a global fuel crisis.

The Oil Fund is built up by imposing levies on certain key oil products when prices are in decline. This money is then used to subsidize domestic fuel prices when global prices are on the rise.

Apart from providing a diesel subsidy, Thailand's State Oil Fund also partly funds subsides for E-20, E-85, LPG and natural gas for vehicles (NGV). However, this Fund is now running at a deficit.

Whether to maintain and manage the Oil Fund is going to be one of the key policy decisions of the newly elected government in Thailand. For the moment, it plans to temporarily cut levies on three different fuels: diesel, regular gasoline (benzene 91) and premium gasoline (benzene 95) which go into the Fund. This would reduce retail prices of these fuels.

Having won the recent election on more socialist policies, the new government in Thailand may be reluctant to allow pump prices to rise in a big way immediately.

Still, given that high global oil prices are here to stay, Thailand would eventually have to allow retail prices to rise. Finding the money to maintain the fuel subsidies is also not going to be easy, and raising government borrowing just to maintain these subsidies is not prudent.

To be sure, the removal of fuel subsidies will have to happen in a phased manner. Thailand's government will also have to take into account the inflationary pressures of such a move, not only on its overall economy but also its impact on the lives of ordinary citizens.

This is the same dilemma that policy makers in Indonesia are facing with regards to the fuel subsidies there.

Indonesia's 2010 budget allocation for fuel subsidies was IDR 88.9 trillion (USD 10.4 billion). This year, the country's fuel subsidy bill could rise to IDR 120.8 trillion (USD 14.1 billion), from the previous allocation of IDR 95.9 trillion (USD 11.2 billion) according to Finance Minister Agus Martowardojo.

Due to higher global fuel prices and rising inflation, the government in Indonesia appears to have abandoned an earlier plan to ban private car owners from purchasing subsidized fuel, priced at almost half the market price, this year.

This plan is now postponed to next year, when subsidized fuel will only be available to motorcycle users, public transportation vehicles and cars manufactured before 2000. By some estimates, this could help reduce fuel subsidies by 40% over the next two to three years.

The limiting of subsidized fuel for vehicle users is likely to have an impact on light vehicle demand in Indonesia. This was evident in 2005 when the government had raised the price of petrol (up 88%) and automotive diesel (up 104%) of October that year.

The impact on light vehicle sales was severe. Volumes plunged the following year, from 484,000 units in 2005 to 290,000 units in 2006 (down 40% year on year). And it has taken the industry to slowly improve sales since.

While previous government attempts to remove fuel subsidies resulted in massive protests (most severe in 1998 which eventually forced out then President Suharto from office), public reaction to the proposed changes so far has been muted.

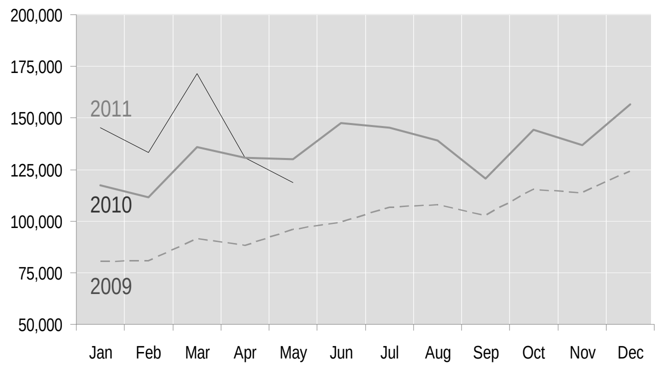
For policy makers in both Thailand and Indonesia, the critical success factor will be to phase out fuel subsidies in a manner that does not add severe inflationary pressures and thereby affect economic growth.

It is always going to be a hard decision, and much will depend on the political will of leaders to push through a policy decision which could alienate their electorate.

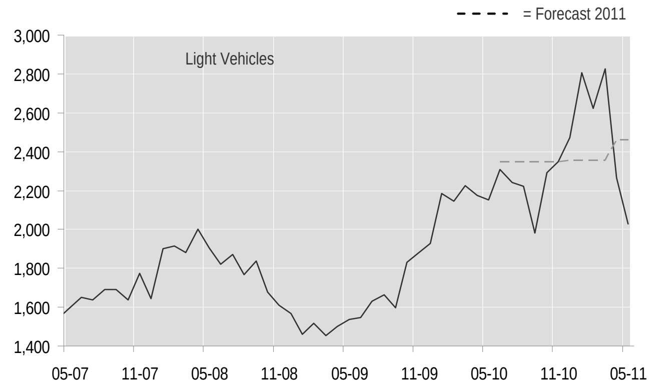
	MAY	YTD
Light Vehicle (LV) Demand	-6%	15%
Passenger Vehicle (PV) Demand	-9%	12%
Light Commercial Vehicle (LCV) Demand	2%	22%

Asean Passenger Vehicle Trends

YTD 2011 Volume: 699,400



Seasonally Adjusted Annualized Rate (thousands)



May Sales Dent on Lower Production

The lack of inventory continued to wreak havoc on light vehicle sales in the four major Southeast Asian markets. In May, automakers posted combined sales of 168,000 units in Asean, the lowest monthly total in the year so far.

Passenger vehicle sales were about 119,000 units, while demand for light commercial vehicles (up to GVW 6 tons) was at 49,000 units. Both segments have been hurt from the lack of inventory.

On a seasonally adjusted annualized rate basis (SAAR), sales for the region came in at 2.03 million units in May. We expect sales to remain low in June, before a recovery takes place by July when production is likely to have returned to levels maintained before the earthquake struck Japan in March.

Year to date though, demand for light vehicles rose 15% year on year (yoy) to 980,000 units. Passenger vehicles were at 699,000 units, while light commercial vehicle sales came to 281,000 units.

This indicates that demand for light vehicles in Asean's four major markets remains strong, driven by economic growth as well as improving business and consumer confidence.

As a result, automakers are introducing several new models and variants in the coming months. Important models hitting the market include a slew of next generation pickup trucks in Thailand as well as several new passenger vehicle models in the other markets.

Nonetheless, there are concerns over growing inflation, rising interest rates and higher fuel prices – factors which could impact demand for light vehicles in this region.

In Thailand, where a new government is taking power following general elections in July, political stability will be key to the growth of the industry. The new government's direction on issues such as minimum wage and State Oil Fund could also play a role in determining the growth of light vehicle demand in the country.

Indonesia is struggling with inflation and a burgeoning budget deficit. Policy makers are looking to cut state subsidies including fuel subsidies. For now though, it appears that the government in Indonesia has decided to delay raising fuel prices until next year.

In Malaysia, the amendments to the Hire Purchase Act 1967 taking effect in mid-June is causing delays to book sales since it requires more documentation and has lengthened the paperwork process between banks, car dealers and customers. As such, this is likely to be reflected in June sales figures, but it does not mean that buyers are staying away from showrooms.

The Philippines market remains under pressure from the lack of inventory from Japan's carmakers, which may also result in lower sales in June. This situation is expected to be resolved by the second half of 2011. Even so, we think lost sales may not be fully recovered this year, and therefore are likely to lower our 2011 light vehicle forecast for the Philippines.

We forecast total light vehicle sales in Asean's four main markets at 2.46 million units in 2011, up by 11% compared to a year ago. Passenger vehicles sales are expected to reach more than 1.77 million units, while light commercial vehicle volumes is estimated to be at 688,000 units this year. We expect demand to continue growing in subsequent years.

Executive Summary

Asean Top Lines

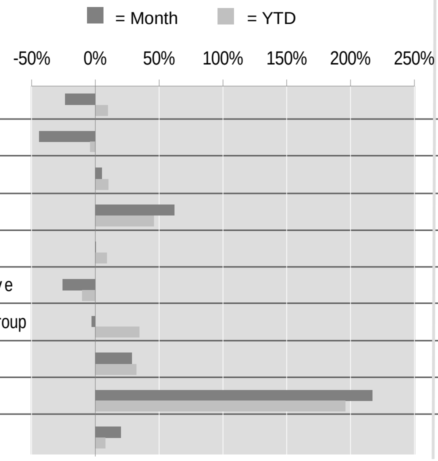
	May	Growth	YTD	Growth	2011f	Growth
Sales	175,731	-6%	1,032,594	15%		
PV	118,530	-9%	699,400	12%	1,774,965	10%
LCV	49,212	2%	281,071	22%	688,079	12%
M&H CV	7,989	-15%	52,123	18%		
Production	197,589	-19%	1,237,249	6%		
PV	120,151	-17%	738,323	9%	1,746,755	42%
LCV	70,242	-23%	451,546	0%	1,152,513	57%
M&H CV	7,196	-13%	47,380	18%		

Market Performance

		May	Growth	Share	YTD	Growth	Share
Thailand	PV	28,049	-13%	52%	185,656	31%	53%
	LCV	25,838	-9%	48%	166,263	22%	47%
Malaysia	PV	40,638	-11%	89%	227,144	3%	90%
	LCV	5,011	5%	11%	26,518	9%	10%
Indonesia	PV	39,726	-2%	72%	232,343	12%	76%
	LCV	15,751	26%	28%	74,983	32%	24%
Philippines	PV	10,117	-10%	79%	54,257	0%	80%
	LCV	2,612	-3%	21%	13,307	6%	20%

Group Sales Performance

ASEAN GROWTH RATE

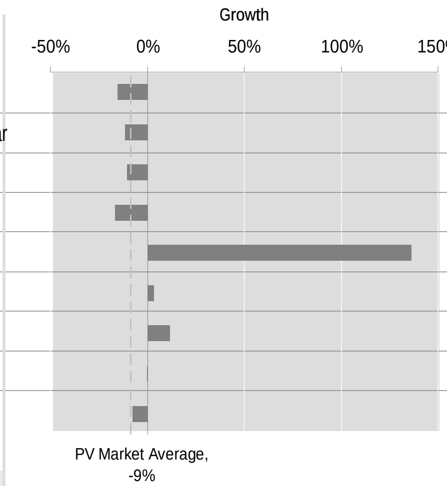


YTD VOLUMES

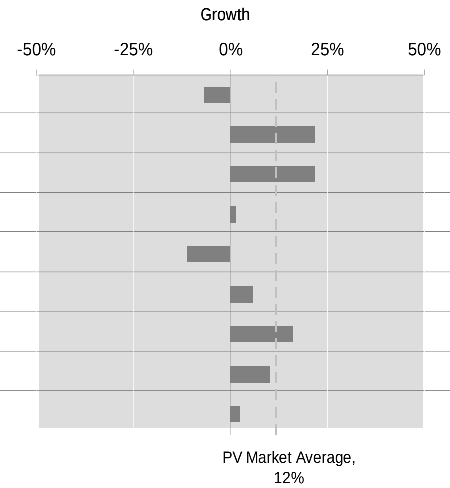
	ASEAN Volume	ASEAN Growth	Thailand Volume	Thailand Growth	Malaysia Volume	Malaysia Growth	Indonesia Volume	Indonesia Growth	Philippines Volume	Philippines Growth
Toyota Group	363,700	10%	131,051	11%	38,244	-3%	172,937	14%	21,468	0%
Honda Group	83,966	-4%	41,333	5%	17,287	-3%	19,408	-15%	5,938	-19%
Isuzu Motors	77,834	11%	62,376	14%	4,292	8%	7,276	-4%	3,890	-4%
Mitsubishi Motors	76,298	46%	27,793	112%	5,079	6%	29,546	37%	13,880	9%
Proton Group	75,619	9%	2,667	-6%	72,211	10%	741	-31%	0	N/A
Perodua Automotive	70,597	-10%	0	N/A	70,597	-10%	0	N/A	0	N/A
Renault-Nissan Group	67,359	35%	30,670	76%	14,477	3%	18,439	25%	3,773	0%
Suzuki Group	44,800	32%	3,534	86%	3,471	29%	36,224	31%	1,571	1%
Ford Group	24,730	196%	11,862	272%	2,965	240%	5,935	219%	3,968	63%
Hyundai Group	24,576	8%	2,360	68%	8,658	34%	3,957	-17%	9,601	-5%

Segment Sales Performance

May

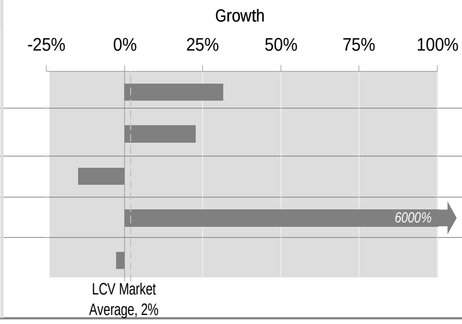


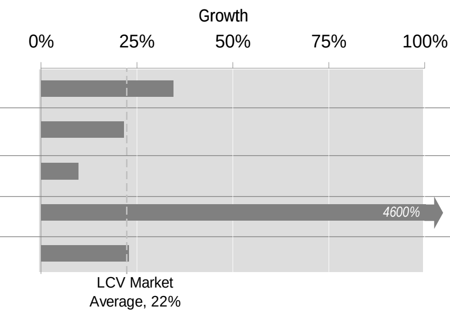
YTD



	May Volume	May Share	YTD Volume	YTD Share
Mini Car	5,607	5%	30,928	4%
Sub-Compact Car	38,058	32%	241,532	35%
Compact Car	16,836	14%	100,763	14%
Midsize Car	3,823	3%	24,186	3%
Fullsize Car	52	0%	97	0%
Sporty Car	91	0%	541	0%
Luxury Car	2,214	2%	10,597	2%
SUV	17,299	15%	95,671	14%
MPV/Minivan	34,550	29%	195,085	28%

LCV





	May Volume	May Share	YTD Volume	YTD Share
Mini Truck	6,630	13%	29,628	11%
Light Truck	5,960	12%	26,789	10%
Van-Light Bus	5,630	11%	31,960	11%
Mini Bus	61	0%	235	0%
Pickup	30,931	63%	192,459	68%

Understand the Territory

Strategic Advisory Group

Reports	Focus	Delivery
Asean Automotive Monthly; Market Trends	• By model report on monthly sales and production • JDPA perspective on trends and outlook - by brand	• PDF, Excel • Monthly
Asean Automotive Monthly; Market Assessment	• By model report on the impact changes in the business environment will have on sales and production. • Detailed manufacturer profile and by-model outlook	• PDF, Excel • Monthly
Asia Pacific Forecast	• By model report on the impact changes in business environment will have on sales and production. • Ten countries in Asia Pacific	• Hard copy • PDF • Quarterly
Global Forecast	• By model report on the impact changes in business environment will have on sales and production. • 60 countries covered	• Hard copy • PDF • Quarterly

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