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## Global/North America Report

By *Yosyf Sheremeta*, Director of Product Management & Customer Experience

### NA Economic Trend Is Shifting, and Growth Is Slowing

*This is an edited version of the report that initially appeared in the Q2 2019 Update Bulletin prepared for clients of Power Systems Research.*

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*Yosyf  
Sheremeta*

**SUMMARY.** During H1 2019, the economy remained stable and pure economic conditions in the region were favorable. Most industries performed very well, and the short-term outlook remains flat to positive for most market segments. However, we see many new developments that could suggest a shift in the trend.

The latest reports on consumer confidence as of the end of June recorded a drop greater than expected, reaching its lowest point in nearly two years. The Conference Board's consumer confidence index declined to 121.5 in June, more than expected at 131.1 points. Overall, consumers were less optimistic about the near future. At the same time, in our previous reports from three and six months ago, we projected that consumer confidence may peak during H1 2019 and we have started to see this happen.

Most major economic indicators--such as earnings outlook, revenue projections, capital spending, and technology spending--are down in comparison to just 3-6 months ago. Federal Reserve has made a 25 basis points reduction in interest rate in July and future rate cuts are possible this year, should macroeconomic conditions to worsen.

Given current economic circumstances, we project at least one more rate cut by the end of the year. Should economic conditions take a deeper turn south, we may see a couple of rate cuts (50 basis points total) by the start of 2020.

The reduced optimism about the overall U.S. economy likely reflects continued uncertainty about trade policy and weaker global economic growth.

Trade-related issues continue to spook the markets. The underlying economy is weaker than perceived when you look at transportation data and June quarter's GDP numbers. If the economy continues on this path it could enter a recession in 2020. Tariffs on Mexico and China could be major reasons for this to happen as we look at the impact China's retaliation has had on American soybean farmers.

The economy is still growing, but job growth has been decelerating. The latest employment report was quite healthy. Expectations had been running for job growth in the 175,000 to 180,000 range. The reported number for July was 164,000.

Government reports from August 6, 2019, showed a healthy unemployment rate at 3.7%. Employment continued to trend up in several industries, including

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## Global/North America Report

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manufacturing and transportation. The Construction sector added 4,000 jobs in July 2019, slightly below the average of 15000 per month in 2019. Year-over-year construction employment for July is up by roughly 2.8% in seasonally adjusted measurements.

As of July 2019, the labor force participation rate, at 63%, and the employment-population ratio, at 60.7%, were unchanged from the previous quarter. We estimate the labor market will be stable for the remainder of 2019 with a projected unemployment rate of 3.9%.

The general economy in the U.S. is in its tenth year of growth, and overall markets are still performing well. This has been an uncommon economic cycle with a very prolonged, low and slow recovery. At the same time, we see that some segments experienced a series of shorter cyclical growth patterns within a growth cycle.

Across all market segments, we expect overall total OEM equipment production numbers to be flat for 2019, which is in line with our previous projection in Q4 2018 at -0.6%. We see an almost flat to slightly lower level of overall activity in 2020 at -2.0%, as the overall economy reaches its peak in productivity, and as demand levels decline going into 2020-2021.

We saw a slight drop in demand for consumer products, starting at the end of 2016-2017, but the overall level of demand remained stable in 2018. We project these markets to be flat this year. Most of the decline is cyclical and is mainly due to markets having reached their peaks in 2016-2018. At this point, over the mid-term and long-term, we do not expect any major or significant declines in any of the segments.

Across other markets, we forecast that short-term growth is expected to be flat to slightly positive at low-single digits annually for some segments such as Construction and Industrial, with the mining sector likely to experience much stronger growth.

The Agricultural segment has not yet delivered the promised recovery, but we expect activities to improve in 2019-2022. Other segments, such as Passenger Cars, and Minivan/SUV, experienced a slowdown in 2018 and will further turn into negative territory in 2019-2020.

**AGRICULTURAL.** This segment experienced a dramatic decline, starting in the second part of 2014, and the downward trend continued in 2015-2016 with the entire period suffering another annual double-digit decline. While some activities stabilized in 2016-2018, they did not provide us with enough evidence of complete recovery and some products continue to struggle on the path to recovery.

Overall, 2018 was a slightly positive year for the industry in terms of growth in equipment production units, but the markets will not completely recover for another few years. Production volumes in 2018 were higher by 5.4% over 2017 but started to show weakness again in Q2 2019.

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## Global/North America Report

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*Latest data shows that U.S. Construction Machinery New Orders posted a 4.9% increase over 2018 numbers, but this is on a slowing growth trend.*

The demand for agricultural machinery will remain weak in H2 2019. Some applications saw declines in double digits during H1 2019, however we believe the overall 2019 numbers will not be as severe. Global trade policies will play a major role in the long run and will define market growth over the next 3-5 years. Additionally, we believe the industry will be leading the way in the autonomous driving technology.

**CONSTRUCTION EQUIPMENT.** Recent market performance has been very good, but there is a lot at stake in the long run.

While some OEMs within the segment booked double digit increases for 2017 and 2018, PSR remains cautiously optimistic in terms of the size of the growth as well as the growth trend. Trade tensions will certainly have an effect in the long run for the sector, but not so much in the short term in regard to production locations.

Latest data shows that U.S. Construction Machinery New Orders posted a 4.9% increase over 2018 numbers, but this is on a slowing growth trend

Our most recent projection is rather flat to slightly positive at 1.2% in 2019, compared to 2018; this is slightly lower than our projections from last quarter (at 1.3%). With future uncertainty in the economy, we project rather flat growth at 0-1% over the next few years.

Extremely low housing inventory levels and high demand also help drive the prices and the segment forward. A strong economy certainly has a major impact on the high level of demand. A word of caution came from home builders when they reported reduced housing starts during June of 2019, a trend that has continued since the start of the year.

Major OEMS in the Construction and Industrial segments reported significant increases in orders and activities in 2018 and 2019, but future demand seems to be tapering off, mainly due to overall economic uncertainty.

As in the Agricultural sector, we have started to see the introduction of new technologies and electric drive types. We project this trend will rapidly increase over the next few years, and it may start gaining significant market share within 5-10 years.

**INDUSTRIAL.** We see very similar trends in growth for this segment, with a gain of 1.1% in 2019 over 2018. This rate is slightly lower than previously projected in Q4 2018. The overall growth dynamic is closely mirroring the Construction segment. The main drivers for the segment are material handling and forklift applications, where the demand remains strong.

One of the applications we would like to feature this quarter is Aerial Lifts in North America. With combined plant totals of 47.5%, Genie leads in production of Aerial Lifts in North America. In second position, with combined plant totals, is JLG with 36.5%. Third, is Canadian based Skyjack with 12%.

There are 10 OEM facilities manufacturing Aerial Lifts in North America, and approximately 25% of the production is exported globally. From 2017-2018 Aerial

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## Global/North America Report

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Lift production in North America increased a nominal 1%. Production is expected to gain nearly 3% in 2019 vs 2018. Future production is projected to fluctuate over the next 3-5 years as warranted by economic factors. Overall, we estimate a gain of up to 5% over the next 5 years.

**MINING EQUIPMENT.** This sector suffered major declines during 2013-2016; however, a strong level of activities and developments in 2017 give the industry much needed hope and optimism going forward.

The main catalysts for the change have been increased commodity prices, new developments within the oil and gas industries and speculation on future administration policies and infrastructure spending. Mining employment has shown a small decline in July 2019.

Given current market trends and economic conditions, PSR does not project any rapid recovery of machinery equipment for the mining sector, due to the prolonged market decline and stagnation. Instead, it is shaping up to be a long but steady recovery. It will take several years for the industry to reach its previous production levels.

One application we would like to feature this quarter is Off Highway Trucks production in North America. There are five OEM production facilities in NA, and Caterpillar leads in the production of Off-Highway Truck in NA with 54.5% of total units manufactured. In second position is Deere with 28%; third, Komatsu America with 15.5%.

Collectively, OEMs in North America export up to 20% globally. In 2019, the production is expected to remain flat. Over the past few years there has been an increasing demand for mining operations due to the rise in the excavation of iron ore, nickel and bauxite followed by gold and copper. We forecast the production of Off-Highway Trucks to increase up to 3% over the next three years and it will continue to fluctuate with the demand for mining.

Consumer sectors, including **LAWN AND GARDEN, PASSENGER CARS, MINIVANS AND SUVs** as well as **RECREATIONAL PRODUCTS**, continue to benefit from the strong economy. These segments performed very well over the past few year (2016-2019).

**LAWN AND GARDEN** segment shows steady demand, and the growth trend will remain flat to positive in 2019 at 0.3%, shifting into a slight downward trend at -2.1% in 2020. The key drivers for this segment are solid housing starts and a strong economy; however projected lower housing starts will slow down the growth in this segment.

Furthermore, the key factors that pose risks to these segments come from a change in the generation of the population in North America that has different lifestyles and a different set of values from older generations. For example, multi-unit buildings are gaining ground in new housing starts, which will require more commercial mowers instead of push-behind residential mowers.



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## Global/North America Report

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Lawn and Garden market is set to include one of the strongest adoption rates among all other segments in the introduction of new battery-powered models and technologies. During the past few quarters we have been gathering intelligence on these electric models, and we will be finalizing data and releasing them to our client databases over the next few quarters.

We have already started to see a trend reversal for the **Passenger Cars** and **Minivan/SUVs** segment, which has experienced a slight slowdown in demand since late 2016. New vehicle sales are widely expected to drop below 17 million units after topping 17.3 million in 2018. In February 2019, overall, U.S. new vehicle sales declined 2.4% for the month, compared to February 2018.

Most of the drop was caused by waning interest in compact cars, mid-size sedans and full-size cars. Consumer preferences are shifting to roomier rides, and steady, low gasoline prices have given confidence in buying larger vehicles (SUVs)

Other drivers for these two segments are deep discounts, low interest rates, extra cash in the consumer's hands, much lower gasoline prices and record low unemployment. This year, we have started to see extra incentives from OEMs to help reduce current inventory levels. These factors will help sustain and drive current demand in the short term.

Overall, for 2019 we expect the Passenger Car segment production volumes to be negative at -2.9%, as many consumers transition into the small SUV sector. Additionally, the average lifespan of a vehicle remains above 11.6 years and that does not add to the demand for new cars. The key drivers for longer average vehicle life are improved overall quality and durability of the products.

Many consumers have switched from a car to an SUV, and that has helped to drive demand for the segment even further. The production rate for 2018 was positive at 6.8%, a very healthy overall production number in comparison to record high levels and demand in previous years.

We project that this growth trend will continue in 2019, but at a slightly lower rate of 2.6%. We see high replacement rates playing an important role that will drive overall growth. The smaller size SUV market is rapidly gaining momentum vs. large SUVs with many products coming from major global OEMs. We expect this niche market to continue to develop and be solid in the next few years with many more new product offerings from major OEMs.

Another point worth mentioning is the adoption of electric vehicles, which has been gaining ground very rapidly. Most OEMs have--or will have--solid electric product offerings within a few years, and we expect to see a more rapid increase in sales of electric vehicles.

At this point, the overall share of electric vehicles is still insignificant, but it is growing very rapidly; we expect the trend will accelerate much faster over the next five years. While we expect electric cars to gain in popularity, they will not gain any significant share of the market in the near term.

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## Global/North America Report

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*The rise of public transportation and increased ride sharing popularity, along with urbanization trends, will have some minor impact on the growth rates for personal transportation*

Due to the factors discussed earlier, such as interest rates and low unemployment, we believe the local market will remain healthy, but there will be no growth in the next few years.

Another point to consider: the rise of public transportation and increased ride sharing popularity, along with urbanization trends, will have some minor impact on the growth rates for personal transportation. Changes in demographics (baby boomers leaving the workforce and the raise of millennials entering workforce) will contribute to this flat trend with no significant growth on the horizon.

Considering these factors, we believe the personal transportation segment reached its peak in 2018, but that it will remain healthy to slightly negative over the next couple of years. We forecast production levels in North America for Cars and SUVs will decline 1.9% in 2020.

**MEDIUM AND HEAVY VEHICLES.** While demand for medium and heavy commercial trucks has been strong this year, order rates have started to decline more than expected and some 2019 build slots have opened in the class 8 segment. Class 8 demand has started to slow as freight rates continue to deteriorate. It is believed that an overall slowing of the market along with concerns about a trade war is impacting demand. We estimate the growth rate for the MHV segment in 2019 to be about 5.8% above 2018. Going into 2020, the segment will experience a decline in the production rate of -11.1% vs 2019.

Currently, the strong economy is driving the need to replace or expand the fleets. While not as strong as the heavy truck segment, the medium truck segment is having another good year driven in part, by strong consumer and vocational demand.

**POWER GENERATION.** The underlying weak conditions in the global economic picture could put pressure on the North American power generation industry for the remainder of 2019 and through most of 2020. We forecast little or no growth for the industry through 2020. Even though the power generation production market was up slightly (0.9% in 2018-2019), we see it declining about 1% over the next year.

**RECREATIONAL VEHICLES** This sector follows consumer sector trends and is expected to slip about 1.5% in 2019 with an additional decline of 2.1% in 2020. The key drivers for the segment are a peak in economic cycle, higher interest rates as well as change in demographics.

**RAILWAY.** This segment trend is flat (up 0.5% to 2.0%), mainly following the natural (organic) rate of replacements. **PSR**

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## Data Point: *Off-Highway Trucks*

**1,400**

*By Carol Turner, Senior Analyst, Global Operations*



This is the estimate, by Power Systems Research, of the number of Off-Highway Trucks that will be produced in the United States and Canada during 2019. Estimated 2019 production will be about the same as 2018.

In 2018, production was 1,412 units, down 55 units or 4% from 2017.

This information comes from two proprietary databases maintained by Power Systems Research: **EnginLink™**, which provides information on engines, and **OE Link™**, a database of equipment manufacturers.

**Market Share:** Caterpillar leads in the production of Off-Highway Trucks in NA with 54.5% of total units manufactured. In second position is **Deere** with 28%; third is **Komatsu America** with 15.5%.

**Exports:** Collectively up to 20% worldwide

**Trends:** The decline in manufacturing from 2017 is caused by the weakening of mining related activities especially within the copper and gold segments along with overseas mining related issues.

It was favorable news in 2017 for companies servicing the mining sector after project opportunities declined the past few years. There was an increasing demand for mining operations due to the rise the excavation of iron ore, nickel and bauxite followed by gold and copper. Expect the production of Off-Highway Trucks to increase up to 3% over the next three years, but that number will fluctuate with the demand for mining. **PSR**

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## Brazil/South America Report

*By Fabio Ferraresi, PSR Director, Business Development, South America*

### Sales of Brazil Cotton Harvesters Grow



*Fabio  
Ferraresi*

Cotton production is growing in Brazil, especially in the state of Mato Grosso, resulting in high demand for harvesters. In 2018, 49 units were imported and 32 sold in Mato Grosso. This year, from Jan to July, Mato Grosso alone imported 41 units.

**Source:** *M&T* [Read The Article](#)

**PSR Analysis:** Harvesters can improve efficiency and lower costs of production. These units were introduced in Brazil in 2011,



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## Brazil/South America Report

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*The main drivers for continued growth in [the motorcycle] segment are fleet renewals and credit availability in Brazil.*

and they are growing in popularity with farmers. There is still a pent up demand for these machines, given the worldwide restrictions on producing these machines and the high demand for them. There is clearly an opportunity to grow sales for those companies with technology to produce this kind of machine.

### Caterpillar Introduces Two Units Produced in Brazil

Caterpillar presented at the 2019 Concrete Show, August 14-16, in São Paulo, two new products produced in Campo Largo.

**Source:** *M&T* [Read The Article](#)

**PSR Analysis:** With local production, Caterpillar can receive FINAME funding for these machines. This helps boost sales and threatens competitors in the segment. This investment reinforces the outlook on sustainable market growth in Brazil.

### Brazilian Motorcycle Production Continues To Grow

In July 2019, 92,000 motorcycles were produced in Brazil, up sharply from the 68,000 units produced in June 2019. January to July production was 629,000, 6.3% above the 592,000 units produced in the same period of 2018.

**Source:** *Abraciclo* [Read The Article](#)

**PSR Analysis:** The main drivers for continued growth in this segment are fleet renewals and credit availability in Brazil, since exports were down by 50% in January to July of 2019 compared with the same period of 2018. **PSR**

## China Report

By *Qin Fen*, 秦奋 PSR Business Development Manager-China. [业务拓展经理](#)



### China Has World's Largest EV-Charging Infrastructure Network

China has built the world's largest electronic vehicle charging infrastructure network, attracting capital from diversified sources.

*Qin Fen*

**Sources:** *China Daily* [Read The Article](#)

**PSR Analysis:** Everything is about big and large in China. Largest population or world's biggest power plant, etc., for better or worse, people take pride in it. So is world's largest EV charging infrastructure network a bad thing or a good thing? Well, if you are battery supplier, motor supplier or any other electrical supplier, it's absolutely a good thing. It is the golden time for you now. If you are more of a "old fashioned" supplier, say, turbocharger, gearbox or engine, it is not a good thing.

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## China Report

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But hang on; let's look at other new energy markets before we explore more on EV network. We will circle back.

More than a decade ago, when central government wanted all energy companies to switch from coal to solar, wind and other alternative energy, energy companies like Shenhua or Huaneng were skeptical at best, if not vigorously against it. World's largest wind power market or solar market? How can this be possible?

Turns out it's possible, China is the largest wind power and solar market now. The key to that, is quota. Central government mandates that every additional MW produced by wind or solar, or any other "new energy" can be allocated to additional MW capacity produced by conventional coal mine power plant.

In other words, if you are an energy company and you want to raise your conventional power plant capacity, investing in wind and solar is the most feasible and efficient way.

Now, the central government thinks that what works for the energy market, must also work for the auto market. They are basically allocating quotas to all major automotive OEMs: if you want to make more conventional powered vehicles, make NEVs (New Energy Vehicle) first. After all, how different can these markets be?

And we are back on EV now. The thing is, automotive market is very diverse in terms of stake holders, suppliers, etc.,. Unlike the energy market, where all the stake holders are state owned, China's automotive market is basically market-driven. Policy and quota are just part of the factors in the market, not all of it.

Having said that, we see that EV practice is already working effectively in the bus market through subsidy and policy. It's only a matter of time when all buses in China switch engine to battery power.

Will that work in passenger vehicle market? I'm skeptical at best. **PSR**

## 中国电动车充电设施网络规模全球最大 各方资本抢滩

2019年08月12日 07:32 — 国家能源局“中国电动汽车充电基础设施促进联盟”日前发布数据显示，截止到今年上半年我国充电桩的保有量超过100万台，其中公共充电桩保有量超过了41万台，私人充电桩保有量超过59万台，我国已建成全球最大规模的电动汽车充电设施网络。

**新闻来源：**新浪财经 – [阅读原文链接](#)

**PSR分析：**在中国，所有东西都和大和最大有关，最多的人口，最大的发电厂等等，不管是好是坏，大家都引以为傲。那么全球最大的电动车充电网络是好是坏呢？这个嘛，如果你是电池供应商，电机供应商或者其他电器供应商，绝对是个好事情。现在是你的黄金时代。如果你是比较“老式”的供应商，比如说，增压器，变速箱或者发动机，那么这就不是一个好事情。

但是且慢，这篇分析不是在捍卫“传统”能源的价值，或是贬低“新能源汽车”。在讨论电动汽车之前，我们先看看其他新能源市场，我们最后会绕回来。

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## China Report

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大约十几年前（不敢想象像我这样的年轻人，现在居然开始说这个话……），彼时的中央政府要求所有的能源集团公司由煤转向风电，太阳能和其他替代能源，神华和华能这些能源集团公司即便不是强烈反对，也是心存疑虑的。世界最大的风电和太阳能市场，怎么可能？

事实证明可能，中国现在就是全球最大的风电和太阳能市场。关键就是配额制。中央政府规定，风电，太阳能或是其他新能源每增加一兆瓦，传统的煤电市场就可以新增一兆瓦的发电能力。换句话说，如果你是一家能源集团公司，想要增加火电发电能力，最可行和最有效的办法，就是投资风电和太阳能。

现在中央政府认为，能源市场行之有效的办法，汽车市场也一定可以。基本上，他们的做法就是在各主要汽车厂商中间实施配额制。如果你想制造更多的传统动力汽车，先造新能源汽车。毕竟，汽车和能源这两个市场，能有多不一样呢？

回到电动车，现在的问题是，从行业相关厂家和供应商等其他方面来看，汽车市场是如此的多元。能源市场的相关企业基本都是国有企业，和能源市场不同，汽车市场基本是由市场驱动的。政策和配额制只是市场的一部分因素，并不是全部。不过虽说如此，我们已经看到，通过补贴和政策，电动车已经在客车市场有效开展。中国市场的客车全部电动化，只是一个时间问题了。

这个做法会在乘用车市场成功吗？我心存疑虑。

## Engine China 2019 Sees Wave of NS6 and NR4 Products

Beijing – Engine China 2019 exhibits engine products from Weichai, FAWDE, Yuchai and Cummins.

**Sources:** *Orient Better Exhibition (Beijing) Co Ltd* [Read The Article](#)

**PSR Analysis:** This year is when government will enforce National Standard 6 on highway and Stage 4 in off-road market. We see a wave of these products from all major engine makers. As they roll out NS 6 and NR 4 products into mass production, they will help clean air at the same time they gain access to developed markets where emission regulation tends to be more stringent.

## Engine China 2019第十八届中国国际内燃机及零部件展览会盛大开幕

2019年8月14日 北京—第十八届中国国际内燃机及零部件展览会开幕，展出来自潍柴，解放动力，玉柴和康明斯的发动机产品。

**新闻来源:** 东方嘉恒展览(北京)有限公司 – [阅读原文链接](#)

**PSR分析:** 今年是国家开始实施道路国六，非道路国四的开年。我们在展会上看到所有主要的发动机生产厂家展出了一波这样的产品。随着厂家国六和

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## China Report

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*Ms. Ni noted that CO2 reduction is an issue of future scrutiny. NS 7 will come after NS 6 and that emission regulation will only be more and more stringent.*

非道路国四产品进入大规模生产，他们做的不光是帮助净化了空气，同时，面对着排放法规偏严的发达国家市场，他们也可以开始进入了。

## NS 7 Will Bring More Stringent Emission Regulation

In speech “Development Status and Trend of Mobile Emission Regulation”, delivered by Research Fellow Ms. Ni Hong of Chinese Research Academy of Environmental Sciences, think tank for Ministry of Ecology and Environment, in concurrent event of Engine China 2019, Ms. Ni noted that CO2 reduction is an issue of future scrutiny. NS 7 will come after NS 6 and that emission regulation will only be more and more stringent.

**Sources:** *China Automotive News* [Read The Article](#)

**PSR Analysis:** As more and more after-treatment devices are installed, it will be more and more expensive for end users. Any emerging technologies that address both emission and cost of ownership will stand a better chance of success. **PSR**

## 国六之后有国七 排放监管越来越严

2019年08月13日 - 8月8~9日，在中国内燃机工业协会六届三次理事会（扩大）会议上，中国环境科学研究院研究员倪红发表主题为《移动源排放法规发展状况和趋势》的报告，她表示温室气体协同减排是未来监管需要考虑的问题，国六标准之后还会有国七，排放监管会越来越严。

**新闻来源:** 人民网 - [阅读原文链接](#)

**PSR分析:** 随着越来越多的排放后处理设备安装到发动机上，对于终端客户来说，产品会越来越贵。任何一个新兴的技术，如果他能把排放和用户保有成本的问题解决了，成功的机会就会越大。 **PSR**

## Europe Report

*By Emiliano Marzoli, Senior Business Development Manager - Europe*

## Manitou Prepares for Slowdown after Record H1 2019



*Emiliano  
Marzoli*

[Read The Article](#)

**PSR Analysis:** Manitou group reported a particularly strong H1 2019 with 24% growth over H1 2018. Michel Denis, Chief Executive Officer, said: “Over the first half of the year, business was very strong in our markets, as well as in almost all geographical areas.”

High production levels made it possible to sell the excess order book that the group had accumulated at the end of 2018,

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## Europe Report

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he said. This performance contrasts with order intake, which is now showing a decline.

“A difficult-to-quantify part of this decrease is due to the return to normal delivery times,” he said, “which prevent our customers from having to anticipate their orders well in advance.

“Another part is due to a significant drop in some markets such as the United Kingdom or South Africa, as well as a more uncertain global economic environment with no visible signs of improvement in the short term.

“The group is reducing its production volumes and gradually limiting its structural costs and investments. Given the historical invoicing level for the first half of the year, our expectations for 2019 of revenue growth of more than 10% compared to 2018 and recurring operating income in the order of 7.3% of revenue, remain confirmed”.

These results are in line with PSR **OE Link™** forecast. **PSR**

## Doosan Bobcat Introduces Electric Mini Excavators

Bobcat has announced that the first of its new E10e zero tail swing (ZTS) 1 ton battery-powered mini-excavators has come off the production line at the Bobcat compact equipment manufacturing plant at Dobris in the Czech Republic.

### Read The Article

Doosan Bobcat has chosen the Dobris factory to produce the E10e for all markets worldwide

Jarry Fiser, Mini-Excavator Product Line Director, Doosan Bobcat EMEA, said:

*“We are very pleased that actual demand is higher than our original expectations and production capacities. We prioritized Bobcat dealers in the Netherlands, the nordic countries, Germany and Austria. These countries have very positive public acceptance of alternative power sources... The 2019 production capacity is already sold out and we are accepting orders for delivery in 2020.”*

The E10e is built on the same platform and produced on the same production line as the diesel-powered E08 and E10z mini-excavators. This line currently has a total capacity of 2000 machines a year. **PSR**

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*Dramatic change has occurred in the automotive industry since 2018 as unit sales in Europe and the United States have fallen.*

## GUEST EDITORIAL

By *Mr. Kenichiro Wada*, President and Founder, Japan Electrification Research Institute, Ltd.

### Recession May Come Before CASE Is Realized

**SUMMARY.** *The global auto industry is bubbling with changes and dramatic new ideas, but the current declining financial performances of Japanese auto OEMs may force them to drop out of the race temporarily before they can take advantage of the growing demand for autonomous vehicles.*



*Mr. Kenichiro  
Wada*

The mobility of your dreams – whether fully autonomous vehicles or “flying cars” – is part of the conversation today, and a number of ideas have even been proposed to connect autonomous cars with consumer mobility solutions like MaaS (Mobility as a Service).

Moreover, it is possible the automotive world soon will enter a new age of intuitive mobility known as **CASE (Connected, Autonomous, Shared, Electric)**, a concept proposed by Daimler chairman Zetsche at the 2016 Paris Motor Show.

Ideas such as “CASE” have become popular, and that is fine, but it is important to consider what is happening in the automotive industry today.

#### Auto Sales Are Slumping

Dramatic change has occurred in the automotive industry since 2018 as unit sales in Europe and the United States have fallen. The market further deteriorated in 2019. In the first half of this year (January to June), year-over-year (YOY) sales in the United States decreased 2.4%, while Europe decreased 3.1%, and China is expecting a double digit decrease of 12%. In China, 2019 sales could drop by 3 million units compared with 2018, if changes are not made.

In Japan, Nissan Motors suffered a precipitous 99% drop in operating income for the first quarter of fiscal 2019 (April-June). Unfortunately, Nissan is not alone. Mitsubishi Motors announced an operating profit decline of 86% in the first quarter.

In Europe, Daimler recorded a deficit of ¥ 160.0 billion (US\$ 1.47 billion) in the first quarter due to sluggish sales growth in China and increased costs related to stricter emissions standards. As the financial results of other automakers continue to be announced, the news is expected to be equally grim.

Some observers were optimistic that the downturn due to US-China trade friction would not last long. That outcome is yet to be seen.

At the same time, the consumer’s mindset has changed from a desire for vehicle ownership to a need for vehicle use, even though rideshare has not been approved in Japan. This change has spurred the explosive spread of rideshare services around the world and has added to the declines in automotive markets.

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## Guest Editorial

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### Signs of Optimism

On the other hand, it is not all bad news. Sales in China of new energy vehicles (NEV) were up 53% in Q1 2019. In 2018, sales hit 1.26 million units for the full fiscal year. If things continue at the current pace, sales will reach around 2 million units in 2019.

Autonomous driving expansion had its origins in the **2004 US DARPA Grand Challenge** which brought together top technical teams from across the US.

The challenges continued in ensuing years. Rideshare icon Uber, established in 2009, along with OEM Tesla and others, have further disrupted the market through testing of autonomous drive systems.

### Problems For Autonomous Driving

Autonomous driving technology still faces severe challenges in terms of practical application and widespread adoption. Advanced Driver Assistance System (ADAS) functions have been developed and put into practice at Levels 1 and 2. Here, the driver monitors the vehicle, and the autonomous driving function operates under very specific and controlled conditions.

### Reaching Level 3 and Level 4 will take time.

Level 5. Truly autonomous driving. At this level, computer system monitoring is centered, and requires engagement of cars, as well as communications systems, navigational equipment, urban infrastructure revision, government regulation, industry standardization, and more.

Although many companies are conducting development and verification tests, it will take years to implement these features.

### Dark Clouds

In my view, bad weather will continue to plague the auto industry in the second half of 2019, and full-fledged storms are likely to come after that. IT/AI related companies as well as automakers and component suppliers will be affected.

The decline in car sales will continue beyond the second half of 2019, which will be a harsh business environment not only for car OEMs but also for the entire car industry, including parts makers and AI/IT-related companies. In view of such a tough situation, each company is required to have a strategy that appropriately determines what is necessary and what is not necessary, to prepare experiencing such a tough environment. **PSR**

*Kenichiro Wada is President and Founder of the Japan Electrification Research Institute, a consultant firm specializing in e-mobility since April 2013. He is one of the first e-mobility consultants in Japan. Mr. Wada provides consultation in e-mobility systems including EV/PHEV business and battery charging.*

*He started his career at Mitsubishi Motors in 1989 and was involved in electric automobile development. In 2005, he became responsible for My product development as a Project Manager and was involved with the next generation*

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## Guest Editorial

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electronic car “i-MiEV.” After serving as a General Manager of the MiEV Technology Department, he became Executive Expert and was responsible for EV business development from 2010 until March 2013. **PSR**

## Far East: Japan Report

By *Akihiro Komuro*, Research Analyst, Far East and Southeast Asia

小室 明大 極東及び東南アジア - リサーチアナリスト

### Mitsubishi Heavy Industries Manufactures Wind Turbines

Mitsubishi Heavy Industries has begun manufacturing the basic structure of wind turbines at the Nagasaki Shipyard, where excess capacity exists. This is because MHI's specialty LNG carriers are monopolized by Korean manufacturers and MHI is not receiving orders. Now, they take on non-shipbuilding jobs and help maintain



*Akihiro  
Komuro*

the employment of the shipyard. Their Nagasaki Shipyard started manufacturing the basic structure that supports large wind turbines. Since the shipyard has a space for handling large parts of the ship, it can also be used to manufacture wind turbines.

The Nagasaki Shipyard will also begin repairs to a large cruise ship at Nagasaki Port. Cruise ships that travel around Asia were mainly repaired in Singapore, but if they could be repaired in Nagasaki, which is closer to the tour area, there are advantages such as shortening the travel time of the ship.

The government plans to double the number of cruise passengers in 2020 by 5 million compared to 2018, and the use of wealthy people, especially in China, is increasing. The cruise ship terminal is adjacent to the Mitsubishi Heavy Industries shipyard, so it is possible to repair the ship within 1-2 weeks when passengers land.

In the shipbuilding industry, the world's construction volume in 2018 was 58.86 million gross tons, a 13% decrease from 2017, and the business environment is severe. South Korea's top two companies, Daewoo Shipbuilding & Marine, and Hyundai Heavy Industries have decided to integrate and are strengthening their low-price offensive.

Orders for LNG and other large-sized vessels that MHI is good at have been taken away by Korean manufacturers, and a decline in the operating rate of the shipyard has become a concern.

**Source:** *The Nikkei* [Read The Article](#)

**PSR Analysis:** The Japanese shipbuilding industry is desperately working through the prolonged shipbuilding recession. Japan's shipbuilding industry has a large

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## Far East Report

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working population and functions as a major place for employment. China and South Korea are supporting the shipbuilding industry in their own country, and Japan is in a position to follow them.

Global demand is extremely limited and is almost met in Korea and China. Rising global demand is important for Japanese shipbuilding orders, but the outlook is extremely bleak. The power balance of Korea, China and Japan will continue for about 10 years. Japan can no longer afford to wait for new shipbuilding orders until the economy improves, and the Japanese shipbuilding industry may be required to survive without relying on the construction of new ships. **PSR**

## 極東 > 日本:

### 三菱重工、造船所で風車を製造 LNG船受注ゼロで

三菱重工業は、稼働率が低下している主力の長崎造船所で風車の基礎構造の製造などを始めた。同社が得意とするLNG船は韓国メーカーが独占し、受注ゼロの状況が続いているためだ。大型クルーズ船の修繕も手がける。造船以外の仕事を引き受けることで造船所の雇用の維持につなげる。

長崎造船所で製造を始めたのは、大型風車を支える基礎構造の部分だ。造船所には船の大型部品を扱うスペースがあるため、風車の製造などにも利用できる。

長崎造船所では長崎港の大型クルーズ船の修繕にも乗り出す。アジアを周遊するクルーズ船は主にシンガポールで修繕していたが、より周遊エリアに近い長崎で修繕できれば、船の移動時間の短縮などで利点がある。政府は2020年に2018年比でクルーズ旅客を2倍の500万人とする計画で、特に中国を中心とする富裕層の利用が増えている。クルーズ船のターミナルは三菱重工の造船所に隣接しているため、旅客が上陸する1～2週間の間に船を修理することが可能だという。

造船業界では2018年の世界の建造量が5886万総トンと2017年比で13%減少し、事業環境が厳しい。韓国勢では上位2社の大宇造船海洋と現代重工業が統合を決め、低価格攻勢を強めている。

三菱重工が得意とするLNGなどの資源大型船の受注は韓国メーカーに奪われており、造船所の稼働率低下が懸念材料となっていた。

**出典:** 日経 記事を読む

**PSR 分析:** 日本の造船業界は長引く造船不況に必死に取り組んでいる。日本の造船産業は就労人口も多く、雇用の受け皿として機能している。中国や韓国は政府が自国の造船産業を手厚くサポートしていて、日本は彼らを追いかける立場だ。

世界の需要は極めて限定的で、韓国と中国でほぼ満たされる。つまり、グロー

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*In Thailand, new car sales in January to June increased 5% year on year to 520,000 units. This is the highest level since 2012 and 2013.*

バル需要が上向くことが日本の造船受注には大切ということだが、見通しは極めて厳しい。今後も韓国、中国、日本のパワーバランスは10年程度は続くだろう。景気が上昇するまで新規の造船の受注を気長に待つ余裕は日本にはもうない。日本の造船業界はできることを全てやっている。造船業界が新造船の建造に頼らなくともやっていけることが求められているのかもしれない。 **PSR**

## **Southeast Asia: Thailand, Indonesia**

### **Thailand May Become Regional New Car Sales Leader**

New car sales from January to June in six major countries in Southeast Asia were 1.7 million, unchanged from the same period of the previous year.

Thailand and Indonesia are the two major markets. Thailand, where consumption is strong, increased by 7% year-on-year, while Indonesia, which faces a decline in resource prices, decreased by 13%. Thailand could be ranked first this year for the first time in six years.

In Thailand, new car sales in January to June increased to 520,000 units. This is the highest level since 2012 and 2013 when sales increased as a result of tax cuts for people who purchased cars for the first time. Demand for replacement by those who bought a car at that time is supporting present sales. If this pace continues, it is expected to exceed 1 million units for the second consecutive year.

In contrast, Indonesia is weak. New car sales in January-June decreased by 13% to 480,000 units, and there is a concern that it will fall below 1 million for the year.

Indonesia has maintained its position as the largest market in Southeast Asia since 2014, but it could be overtaken by Thailand. The reason for the slump was the fall in prices of export coal and palm oil. Coal has dropped nearly 30% since the beginning of the year. The price of cars is on an upward trend due to the weak currency.

The Southeast Asian market accounts for 60% of its sales from Thailand and Indonesia. In both countries, Japanese car manufacturers have large factories, and Japanese brands each share around 90%.

**Source:** *The Nikkei* [Read The Article](#)

**PSR Analysis:** The automobile industry in Southeast Asia is treated as a key industry in many countries, and it plays an extremely important role in driving its own manufacturing industry. And in many countries the automotive industry is undergoing a major change.

Although not mentioned in the source article, VINFAST, the first domestic brand in Vietnam, has finally announced a new car. Malaysia already has its own brands of Proton and Produa, but the government announced that it will create a new third national car brand with the aim of improving its technical capabilities and expanding employment.



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## Far East Report

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Indonesia and Thailand are the best of Southeast Asia and are in a position to lead the region.

This year and next year will be almost flat or show a slight increase due to the influence of trade friction between the US and China. However, regional supply chain development and industrial maturity, which do not appear in the unit volume statistics, are steadily evolving year by year. You should not view Southeast Asia in terms of its temporary economic ups and downs. Vulnerability is undeniable, compared to developed countries, but the abundant workforce and enthusiasm are supporting their automobile industry. **PSR**

## 東南アジア > タイ、インドネシア

### 東南ア、新車販売に明暗 タイ通年で首位も

東南アジア主要6カ国の1～6月の新車販売台数は170万台で前年同期と比べて横ばいだった。2大市場であるタイとインドネシアで売れ行きの明暗が分かれている。消費が好調なタイが前年同期比7%増えた一方、資源価格下落に直面するインドネシアは13%減った。

タイが通年で6年ぶりに首位になる可能性がある。タイは1～6月の新車販売台数が前年同期比7%増の52万台となった。インラック前政権が導入した初めて自動車を購入する人向けの減税策で販売が伸びた2012、2013年以来の高水準だ。当時買った人の買い替え需要が下支えする。このペースが続けば2年連続で100万台を超える見通しだ。

対照的に元気がないのがインドネシアだ。1～6月新車販売は13%減の48万台となり、通年で100万台割れになる懸念がある。インドネシアは2014年以来、東南アジア最大市場の地位を保ってきたが、タイに抜かれる可能性が出てきた。不振の要因は輸出品の石炭やパーム油の価格下落だ。石炭は年初から3割近くも下がった。通貨安でクルマの販売価格も上昇傾向だ。

米中貿易摩擦も影を落とす。タイは主要貿易相手国、中国の景気が悪化すれば影響が及ぶ。トヨタ自動車タイ法人の菅田道信社長は「貿易摩擦と家計債務の増大は市場心理を冷やす恐れがある」として、今年後半の販売に慎重な見方を示す。

東南アジア市場はタイとインドネシアだけで6割を占める。両国には日本車メーカーが大規模な工場を構え、国内シェアがそれぞれ9割前後に達する。

### 出典: 日経 記事を読む

**PSR分析:** 東南アジアの自動車産業は、多くの国で基幹産業という扱いで、自国の製造業を牽引する極めて重要な役割を担っている。そして多くの国で自動車産業界は大きな変革の流れの中にある。記事では触れられていないが、ベトナムでは国産初のブランドであるVINFASTがついにはじめてセダンを発売

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*“Under the slowdown in the global economy and sluggishness in the semiconductor industry, uncertainty has increased due to recent Japanese government export control measures and intensifying trade friction between the United States and China.”*

売した。マレーシアではプロトン、プロドゥアという自国ブランドをすでに持っているが、自国の技術力向上や雇用の拡大を目指して新たな第3の国民車ブランドを政府主導で作ると発表された。これらのニュースは東南アジア市場がいかにアクティブかをわかりやすく示している。

記事にもあるようにインドネシアとタイは東南アジアの双璧であり、リージョンを牽引する立場にある。今年、来年は米中の影響を受け概ね横ばいか微増で推移するだろう。だが台数統計に現れない域内サプライチェーンの発展や産業成熟度は年々確実に進化している。一時的な景気の上げ下げで見るべきではない。先進国と比較すると脆弱性は否めないが、豊富な労働人口と熱意が自動車産業を下支えしている。 **PSR**

## Far East Asia: South Korea

### Increased Uncertainty Causes Export-Investment Slump To Continue

In the August edition of the Economic Trend Report (Green Book), the Korean Ministry of Planning and Finance defined the recent Korean economy this way: “production has increased moderately but exports and investments continue to be sluggish”.

According to the report, the Korean economy in the April-June period, “Under the slowdown in the global economy and sluggishness in the semiconductor industry, uncertainty has increased due to recent Japanese government export control measures and intensifying trade friction between the United States and China.” The government said, “We will do everything possible to manage risks, such as responding to Japanese export regulations, and accelerate all fiscal measures, such as supplementary budgets, and mobilize all policy measures.”

**Source:** Chosun Online [Read The Article](#)

**PSR Analysis:** In this issue of PowerTALK™, I have avoided topics related to politics and macroeconomics, but it is inevitable to mention them when reviewing the current Korean manufacturing industry. Today, South Korea is experiencing economic friction with Japan, and many topics in the major Korean newspapers point out negatively the relationship with Japan.

Although Japan and Korea have strong economic ties, it is unknown how the current deterioration of Japan-Korea relations will affect the Korean manufacturing industry. I expect this problem to be prolonged. Politics cannot easily solve this problem because national sentiment strongly influences this situation.

The future of the Chinese market, which is another key for the Korean manufacturing industry, is uncertain, and now Korea is facing a time of trial. They will have to rethink their growth strategy. **PSR**

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## 極東 > 韓国:

日本の輸出規制などで不確実性拡大 輸出・投資不振続く＝韓国政府

韓国企画財政部は16日公表した経済動向報告書(グリーンブック)8月号で、最近の韓国経済を「生産は緩やかに増加したが、輸出と投資の不振な流れが続いている」と診断した。

同部は今年4～6月期の韓国経済について「グローバル製造業の景気など世界経済の成長鈍化と半導体業界の不振が続く中、最近の日本政府の輸出規制措置と米中貿易摩擦の激化など不確実性が拡大している」と説明した。

政府は「日本の輸出規制への対応などリスク管理に万全を期し、補正予算などの財政執行を加速化してあらゆる政策手段を動員する」として、輸出・投資・消費活性化など経済活力の向上を積極的にサポートするとの方針を示した。

**出典:** Chosun Online [記事を読む](#)

**PSR 分析:** このPowerTALKで、私は政治関連やマクロエコノミクスに関する話題をなるべく避けてきたが、現在の韓国の製造業をレビューする際、それらに言及することは不可避である。現在、韓国は日本との経済摩擦を経験しており、韓国の主要紙の話題はほとんど全て日本との関係性をネガティブに指摘するものばかりだった。もちろん日本と韓国は経済的にも結びつきが強い。現在の日韓関係悪化問題が今後韓国の製造業にどのような影響を与えるかは未知数である。私はこの問題が長期化すると予測している。国民感情がこの問題に強く影響していることから、政治がこの問題を簡単には解決できない。韓国製造業にとってもうひとつのキーとなる中国市場も先行きは不透明であり、現在の韓国は試練の時代を迎えている。成長戦略を練り直さなくてはならないだろう。**PSR**

## India Report

By *Shubham Skelke*, Research Associate-India



*Shubham  
Skelke*

### Electric 2-Wheeler Sales Fall as Only 5 Firms Receive FAME Benefits

In the April-June quarter, only 1,700 electric two-wheelers manufactured under FAME-India were sold, compared with 30,000 units in the same period of 2018, according to Society of Manufacturers of Electric Vehicles (SMEV). [Read The Article](#)

**PSR Analysis:** Since 2014, FAME I brought in 88 two-wheeler models from 18 manufacturers to be eligible for the government subsidy because

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## India Report

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*We expect the sales of electric 2-wheelers will remain low until major players such as Hero and Ampere launch cost effective models.*

of the easy-to-comply criteria. These low performance scooters, because of the FAME I subsidy, managed to reach sales of 1.5 lakh in FY19.

But in order to get better quality and high-performance products, the government upgraded the eligibility norms and only five 2-wheeler firms got the eligibility certificate for FAME II under the new criteria. In this price sensitive market, without the subsidy, sales declined drastically to 1,700 for the April-June period.

We expect the sales of electric 2-wheelers will remain low until major players such as Hero and Ampere launch cost effective models. The sales will remain slow for another six months until they pick up when new OEMs become eligible and launch new products.

### FADA Warns of Rising 2-Wheeler Inventory Levels

According to FADA, 2-wheeler inventory has reached alarming levels with 60-65 days of stock available. [Read The Article](#)

**PSR Analysis:** After production cuts by passenger vehicle manufacturers, inventory levels have returned to normal for the segment. But the two-wheeler industry is still piled up with excess inventory levels even after production cuts by some of the OEMs.

We see the near-term outlook suffering from a liquidity crisis and weak sentiments affecting the festive demand as well. Production cuts by OEMs for inventory correction are expected to continue for another month. We expect the inventory levels for two wheelers to drop to healthy levels after the festive season. **PSR**

## Russia Report

By *Maxim Sakov*, Market Consultant, Russia

### Autotor To Build Plant for BMW or Hyundai/Kia

Annual production capacity of Autotor's new plant will be 50,000 cars for Autotor's main partners - German BMW or Korean brands Hyundai and Kia..



*Maxim  
Sakov*

The new plant is expected to open in 2020. Design and project works will be done by Durr, a German company. The new plant will be located next to the existing Autotor plant and will contain two production lines, each capable of producing 25,000 cars annually. Later, the OEM plans to add welding and painting facilities.

The plant will be built to fulfil the terms of new SPIC (special investment contract). The contract includes a number of privileges and State support for the investor. [Read The Article](#)

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## Russia Report

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**PSR Analysis:** In spite of a decline in Russia's automotive market during Q2 2019 and Q3 2019, global OEMs continue to be interested in localizing production in Russia. Actually, it's the only way to win mass sales of cars in Russia.

## China Firm Offers To Complete Zvezda Shipyard

One of the largest construction corporations in the world, China State Construction Engineering Corporation (CSCEC), is negotiating with Rosneft on a contract for the construction of the Zvezda shipyard, which Rosneft and its partners are building in Bolshoi Kamen Bay near Vladivostok .

A Russian subsidiary of CSCEC "Kitaistroy" wants to get a contract for so called "finishing workshop", relating to second stage of shipyard construction.

The entire project is evaluated at US\$ 3.4 billion with US\$ 2.3 billion planned for the shipyard itself; other funding is for living apartments and the infrastructure.

CSCEC has been working in Russia many years, but previously it was constructing only commercial buildings. This is not the first Chinese company showing interest in the shipyard project. Earlier, another contractor – China Communication Construction Company (CCCC)--won three tenders for US\$ 600 million in the same shipyard.

The first stage of the Zvezda shipyard is expected to be completed in 2024.

### Read The Article

**PSR Analysis:** This project, together with other State projects for the development of shipbuilding in Russia, requires huge amounts of money, and it looks like the State has found the financing for it. Large Chinese companies have a good chance to get a major share because they have experience in building similar objects in China.

## Sales of Russian Road Construction Machinery Up 30%

Sales/shipments of Russian road construction machinery in the domestic market for six months of 2019 have increased by 30%, not including trailers and communal machinery. Common value of machinery sold for the period has reached US\$ 280 million.

The fastest growth has been in the dozer segment, up 44%. Excavators and loaders have grown by 35%. At the same time, mixers, rollers and mini-loaders have declined by 50%, 15% and 9% respectively. Experts suggest that the growth of sales is linked with State subsidies for domestic machinery.

At the same time, the growth slows because the decree #518 about State subsidies for leased machinery has been suspended. Still, the State has assigned about US\$ 35 million US\$ to support domestic construction OEMs.

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**PSR Analysis:** This version of the effectiveness of State stimulation of sales could be valid, because the growth of domestic machinery sales has taken place at the same time that imports have declined. **PSR**



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