OE Link™ Update *Bulletin*

January 15, 2026

Q4 2025 REVIEW AND OUTLOOK

Power Systems Research
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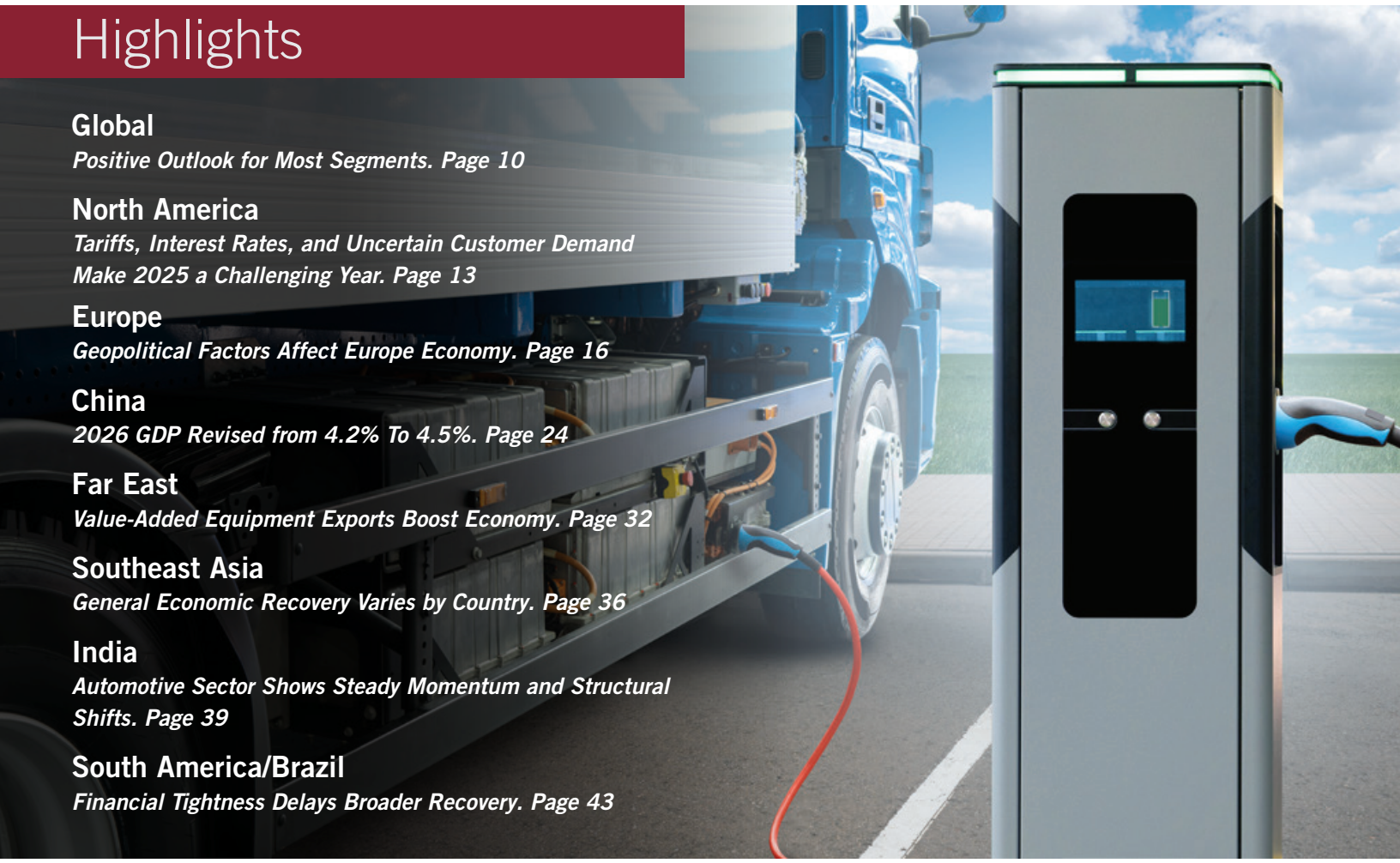
OE Link™ is a comprehensive database containing global historical and forecasted OEM production volumes. This document outlines important trends as well as the additions and enhancements applied to the database in the fourth quarter of 2025.

Highlights



Global
Positive Outlook for Most Segments. Page 10

North America
Tariffs, Interest Rates, and Uncertain Customer Demand Make 2025 a Challenging Year. Page 13

Europe
Geopolitical Factors Affect Europe Economy. Page 16

China
2026 GDP Revised from 4.2% To 4.5%. Page 24

Far East
Value-Added Equipment Exports Boost Economy. Page 32

Southeast Asia
General Economic Recovery Varies by Country. Page 36

India
Automotive Sector Shows Steady Momentum and Structural Shifts. Page 39

South America/Brazil
Financial Tightness Delays Broader Recovery. Page 43

Inside

Commercial Vehicle Outlook

Medium and heavy truck production in North America is expected to increase by 4.9% this year compared with 2025. While class 8 truck production is expected to increase by 6.1% this year, the industry continues to be negatively impacted by the weight of the tariffs, low freight demand, excess truck capacity and relatively high finance rates which is expected to continue through at least the first half of the year.

To get the full story, contact us today.

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I. Executive Notes

PowerTALK News Highlights Important Industry Developments

As we start the 2026 year, I would like to briefly discuss our monthly PowerTALK News publication. We have published PowerTALK for 10 years, and it has grown into an important industry publication that informs our readers about the latest events in the global powered equipment markets. At the same time, it helps us stay engaged in the industries we follow and regularly communicate with industry stakeholders.

The articles published in PowerTALK are a supplement to our core research with OEMs that enables us to remain current on important trends in the global powered equipment markets. Our goal with PowerTALK articles is to identify and analyze many of the most interesting and significant industry events we see.

Executives read PowerTALK to discover global events that might affect their operations; they look for important stories and updates that our analysts see each month.

Author

Joe Zirnhelt is President and CEO of Power Systems Research.

You will not find comprehensive market reviews in PowerTALK. That's not the purpose of this newsletter. It's designed to provide a quick snapshot of what's happening around the world of powered equipment and then give you our analysis regarding these events.

We select articles to share in PowerTALK that we feel will most help our readers obtain a picture of the latest market developments from alternative power to commercial vehicles. In addition to re-capping the event, PSR analysts provide their own analysis of the event and explain to readers its importance and possible implications, based on our extensive industry data and intelligence.

Over time this helps us correlate what we are hearing directly from OEMs and component suppliers and incorporate this information into our forecasts and market trends reports.

The November issue, for example, contains an interesting story on the expansion of China based OEM Lingong Heavy Machinery expanding into Brazil with the recent establishment of their subsidiary company in São Paulo. The subsidiary will provide a large spare parts warehouse to increase the efficiency of their service network. The

establishment of this subsidiary provides a milestone for the Chinese OEM's expansion into the South American market and brings the OEM closer to their customers in the Construction and Mining segments.

Lingong Heavy Machinery establishing this subsidiary adds to the existing presence of other Chinese OEMs such as XCMG and Zoomlion which have set up similar initial locations in Brazil to efficiently serve the South American market.

You can learn more about PowerTALK and sign up for a free subscription to the publication by visiting our archives here. **PowerTALK Newsletters | Power Systems Research**

Today, there are many forces at play in the current environment for the worldwide production of powered equipment. As we move forward, Power Systems Research will continue to monitor developments and reflect this knowledge in our data and intelligence. Our mission is to keep you as informed as possible while we support your market planning and forecasting initiatives.

As we prepared this Q4 2025 update, we incorporated the important insights gathered during the fourth quarter to provide our best summary of 2025 as well as our five-year forecast.

We hope you find this database update of value at this important time. As always, we appreciate your feedback and continued dialogue as you review this latest update.

We realize that you most likely consider many sources of information but are confident that this update bulletin will offer some chance to corroborate and validate the overall picture and complement your existing data and information you are receiving from Power Systems Research.

If you are facing new challenges or issues that require data-driven solutions, talk to us. We can be an important resource.

Thanks for reading and for being a valued client of Power Systems Research. **PSR**

II. Introduction

Welcome to the new OE Link Update Bulletin produced by Power Systems Research (PSR). This proprietary report contains global production and forecast information prepared by PSR analysts.

Power Systems Research has developed and maintained comprehensive market data specific to the power products and drivetrain industry since 1976. Because accurate and reliable market data has always been at the heart of its activities, PSR has developed a unique family of highly specialized databases. These core databases include:

- **EnginLink™** – Engine Production and Forecast Database
- **OE Link™** – Original Equipment Production and Forecast Database
- **CV Link™** – Commercial Vehicle Production and Forecast Database
- **PartsLink™** – Original Equipment Population Database

The **PowerLink™ 3.0** dashboard effectively combines all market databases into one Internet-based tool. Using this system, subscribers can easily access, organize and download the latest engine-powered market data anytime, anywhere in the world.

The PowerLink™ 3.0 dashboard has extensive reporting capabilities and allows for customization and report distribution within your organization. This innovative system sharpens your business and planning strategies by finding hidden opportunities and targeting potential customers.

The PowerLink™ 3.0 dashboard is your link to a competitive advantage in the marketplace. OE Link™ is continuously updated; this Update Bulletin reflects changes made to OE Link™ during the previous quarter. Included in this Update Bulletin are OE Link™ database notes listing significant data modifications and an explanation of our research and forecast methodology. Additional Power Systems Research initiatives also are outlined here.

Please feel free to circulate these research notes to your colleagues and internal data users

If you have any questions regarding this update, please contact us via email at support@powersys.com or by phone at 651-905-8400. Our support email account is monitored 8-5 CDT M-F by associates at our corporate offices and at our data center.

Thank you for your continued support of Power Systems Research. **PSR**

III. OE Link™ Database Update Notes

The following are the significant changes incorporated in this update:

OEMS ADDED THIS QUARTER:

OEM NAME	OEM COUNTRY
AT MOTORS	Mexico
Dagartech	Spain
Exact Corporation	United States
GP MOTOR(THAILAND)CO.,LTD	Thailand
Husqvarna do Brasil	Brazil
J-BUS Ltd.	Japan
Nichijo Corporation	Japan
Oxbo International – Netherlands	Netherlands
Sperling Railway Services, Inc.	United States
Strak Future S.L.	Spain
Typhon Machinery	Singapore
Yancheng Cross Machinery Manufacture Co., Ltd.	China

COMBINES. Combine production in the United States was updated. The leading manufacturers are John Deere, CNH, CLAAS, and AGCO. Production volumes for this application are in the range of 3,500 units.

The main engine suppliers are Deere and Case.

GENERATOR SETS. We continued to update generator set packagers in Europe this paster quarter. We added new OEMs. Diesel gen-sets remain dominant in the European market. Manufacturing in Europe is shifting towards greener power sources, but faces high grid costs and constraints, pushing plants to complement the grid with CHP and backup gensets.

OUTBOARD ENGINES. Updates were made and work was done in Japan and Thailand this past quarter.

OE Link™ Update Editor

Jim Downey is Vice President-Global Data Products at Power Systems Research.

Trucks, Bus Chassis, Motor Home Chassis and LCVs

OEMS UPDATED INCLUDE:

EUROPE

BMC: Procity EV: In 2025, **BMC** introduced a battery electric version of their Procity transit bus.

Ford: F-Line E: **Ford** will introduce the F-Line E heavy electric truck into production in Turkey in 2026. The truck is available in either 4x2 or 6x2 configurations and will be made in Europe and other parts of the world.

Irizar: ie EVs: **Irizar** added the ie battery electric transit bus and delivery truck into production in Spain. The electric vehicles are built on a common platform.

MAN: E-Bus: In 2025, **MAN** introduced their global battery electric e-Bus platform into production in Pinetown South Africa. South Africa's Paruk Group has placed an order for 100 e-Buses.

Mercedes: Conecto Bus: In conjunction with Otakar, **Mercedes** plans to add the Conecto bus production to the Otakar plant in Turkey in 2026. Mercedes needs to add bus production capacity.

eActros 400: **Mercedes** introduced the battery electric eActros 400 into production in December of 2025. The truck is available as a tractor or flat bed chassis.

eArocs 400: **Mercedes** will introduce the eArocs electric truck into production in 2026 to support the heavy construction market.

Otokar: e-Centro: **Otokar** introduced the battery electric e-Centro light bus in 2024. The e-Centro is a level 4 automous bus.

Ulyso T: **Otokar** introduced the Ulyso T tourist bus into production in Turkey. The Ulyso T is equipped with the Cummins B6.7 liter engine.

Renault: E-TECH: **Renault** introduced the T780, T585 and T540 E-Tech range of battery electric heavy trucks.

Setra: S 517 HD H2: **Setra** introduced a prototype S 517 HD H2 fuel cell motor coach in 2025. Setra will begin testing the prototypes over the next few years with series production starting in the 2030s once the fueling infrastructure is developed.

Battery Electric Coach: Setra is planning to introduce a battery electric coach, possibly in 2029, with series production beginning in the next decade when the charging infrastructure improves.

Solaris: U10.5 EV: In 2026, **Solaris** will begin production of the Urbino 10.5 meter bus in Poland. With the Urbino 10.5 electric, Solaris is targeting transport operators that are active in smaller and historic towns. The Urbino 10.5 electric is available with either two or three doors and can accommodate up to 85 passengers, including around 30 seated passengers.

TAM: Fuel Cell Bus: In 2025, **TAM** introduced the 70 MPa fuel cell bus into production at their plant in Maribor Slovenia. Initial shipments were sent to Soul and Vienna. The bus is equipped with the Hyundai fuel cell system.

SOUTH ASIA

Bharat-Benz: BB1924 Bus: **Bharat-Benz** introduced the BB1924 transit bus into production in 2026 targeting the country's rapidly expanding intercity passenger transport segment.

Tata: Prima EV: In 2025, **Tata** began production of the Prima E.55S battery electric Prime Mover truck in Jamshedpur India.

812 LPT: **Tata** introduced the 812 LPT in 2025. The truck comes equipped with the Tata 4SPCR 125 hp engine and supports a wide range of applications including industrial goods, market load, F&V, courier, among others.

JAPAN AND KOREA

Hino: PROFIA Z FCV: **Hino** in collaboration with Isuzu launched production of the new PROFIA Z fuel cell electric heavy truck in October 2025. The new PROFIA Z will initially target the Japanese market.

J-BUS: ERGA EV: **Isuzu** launched the ERGA EV production at the **J-BUS** plant in Utsunomiya Japan in late 2024. This plant is part of the Toyota (Hino) and Isuzu joint venture.

FLAT FLOOR FCV: Isuzu and **Hino** plan to launch their joint flat floor fuel cell route bus into production in 2026.

NORTH AMERICA

Bollinger: Out of business: **Bollinger** cancelled plans to build the FIVE and has shut down operations completely.

Fuel Cell Trucks: Class 8: PSR revised the forecast for Fuel Cell class 8 truck production through the end of the forecast cycle. All North American fuel cell truck manufacturers have pushed their series production dates out until further notice. The fueling infrastructure is typically cited for the reason for the delay.

General Motors: BrightDrop: **General Motors** ended production of the Cheverolet BrightDrop vans in 2025 due to low sales demand. Production at the plant was paused in May when GM cited slowing demand in the commercial EV market. The company said the decision will not see BrightDrop vehicles made elsewhere, marking an end to the line that was pegged to be a cornerstone of Ontario's electric-vehicle ambitions.

Kenworth: New Electric Trucks: In 2026, **Kenworth** will begin production of the new T280E, T380E and T480E trucks at their plant in Canada. The

T280E (ideal for pickup and delivery, as well as urban routes), T380E (suited for pickup and delivery, regional haul, utility and light vocational applications) and T480E (designed for heavier pickup and delivery applications, drayage, utility and select vocational applications).

Peterbilt: New Electric Trucks: In 2026, **Peterbilt** will begin production of the new 536EV, 537EV and 548EV trucks at their plant in Canada. The 536EV and 537EV are designed for regional delivery as well as service and utility trucks. The Model 548EV is a Class 8 vehicle that supports 4x2 tractors and vocational configurations with PTOs, such as dump trucks.

Sitrak: Assembly in Mexico: **Sitrak** started assembling their C7H and C7H CNG heavy trucks in Mexico in August 2025. AT Motors is a large dealer and is doing the final assemblies from kits sourced from CNHTC in China. The trucks are equipped with the Sinotruck 7 liter euro 5 compliant engines based upon MAN technology.

Tesla: E-Semi: **Tesla** has pushed back the start of full production for the E-Semi truck until the second quarter of 2026. Pre-Production models are currently being assembled at the Nevada assembly plant.

Volvo: Electric Buses: **Volvo** has introduced the battery electric BZR and 7800 articulated buses into production in Mexico. Initial shipments, which include 31 BZR, 12 BZL and 10 of the 7800 articulated buses, will go to the state of Jalisco.

SOUTH AMERICA

Iveco: 17-210 NG: **Iveco** introduced the 17.210 NG natural gas into production in Argentina.

Daily: **Iveco** introduced the Daily 65-180 and 70-180 into production in Brazil.

Tector: **Iveco** introduced a number of variations of the Tector heavy truck into Brazil.

Mercedes: Axor: **Mercedes** introduced the Axor 2038 and Axor 2538 into production in Brazil.

Scania: G460: **Scania** introduced the G460 6x2 truck into production in Brazil.

R420: **Scania** introduced the R420 truck into production in Brazil.

Volkswagen: 26.480: **Volkswagen** introduced the 26.480 heavy truck into production in Brazil in 2025.

27.260: **Volkswagen** introduced the 27.260 heavy truck into production in Brazil.

GREATER CHINA

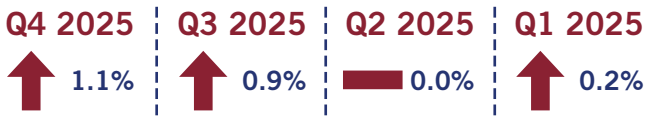
No Significant Changes This Quarter **PSR**

IV. Current Economic Trends

Global Production Trends 2025

Current Production Trends

This chart shows the last four quarters for the current forecast year and it gives an indication of how the total or regional market is trending.



Current Economic Trends Comments

The forecast is expected to pick up starting next year with strong growth until 2030. This reflects the acceptance around the tariffs raised by President Trump.

Market Drivers

These Market Drivers are forces and events that influence the Forecast Globally or Regionally or by Segment.

DRIVER	COMMENTS	IMPACT ON FORECAST
Risk of Recession	Risk of widespread recession remains in the background for several countries, notably USA, Germany, France and UK (especially within the German auto industry). Asia seems less affected	▼
National Debt	The burden of national debt (as measured by Debt / GDP ratio) remains high and is expected remain high at 94.7% of global GDP. The USA 125%, UK +94%, France 113%, Canada 111%, Italy 137% and Japan 230% are the most endebted	▼
High Inflation	Inflation continues to be a concern with central banks holding their interest rates at high levels. This poses a risk to global economic growth. Inflation and price increases are putting OEMs in a difficult situation.	▼
Political Turmoil	Despite recent easing of the turmoil in most of Europe, some countries (such as France) have increased levels of political turmoil, so this remains of some concern	—
Middle East Tension	Middle East tensions are still continuing over the but have eased in recent months	▼
Grain Prices	Ukrainian exports of wheat, other grains and fertilizer remain depressed when compared to pre-war levels, supporting increased prices for grain	▲
Ukraine	The war in Ukraine has become stagnant and shows no sign of a speedy conclusion despite recent moves towards a ceasefire	▼
Supply Chains	Supply chains continue to remain constrained and show few signs of improving but Europe and China are looking at alternative sources to the USA because of tariffs	—
Oil Demand	IEA expects global supply to rise by 3 million bpd in 2025, and has trimed demand growth forecast this year to 710,000 bpd. This implied surplus to reach 4 million bpd in 2026	▲

Global

Positive Outlook for Most Segments

AGRICULTURAL. The Agricultural sector is showing consistent signs of good growth with growth in the range of +1.1% to +3.2%. The average growth rate remains at +2.4% and the market is expected to grow by +566k units by the end of the forecast period. Most of this growth comes from China (averaging +3.2%) and India (averaging +2.5%) with Japan showing the slowest growth of the major agriculture countries, at +1.1% average over the forecast period.

CONSTRUCTION. The global construction equipment sector is expected to have grown +2.0% in 2025 and then grow well for three years before dropping back to +1.7% growth in 2029 and negative growth in 2030. The average growth rate remains at +2.1% and the market is expected to grow +154k units by the end of the forecast period. Of the major countries, China adds most of the volume with +87k by the forecast end.

INDUSTRIAL. The Industrial Segment is expected to remain positive throughout most of the forecast period with average growth rate remaining at a solid +2.8% and the market growing +838k units by the end of the forecast period. Of the big two manufacturing countries, only China remains in positive growth throughout the period, averaging +6.2% ,while the USA declines in 2025 and 2030, but averages +1.1%. The next fastest growing major region is India with average growth of +5.3%.

LAWN & GARDEN. Lawn & Garden remains positive in all forecast years except 2030 when it is expected to decline by -1.7%. The average growth rate remains at+2.1% and the market is forecast to grows +3.254m units by the end of the forecast period. The USA is the largest producer for this segment, with almost half of the total volume, so a fall in 2030 of-3.6% will contribute significantly to the 2030 market decline. Of the big five producers only China and Brazil remain positive throughout the entire forecast period.

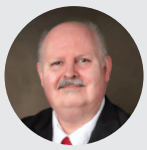
> *The global construction equipment sector is expected to have grown +2.0% in 2025 and then grow well for three years before dropping back to +1.7% growth in 2029 and negative growth in 2030.*

LIGHT COMMERCIAL VEHICLES. This segment is expected to remain positive throughout the forecast period with the average growth rate remaining a good +2.4%. The market is expected to grow +1.729m units by the end of the forecast period. Of the top two countries (China & USA), China remains positive throughout the period and adds +587k units while the USA shows a mixed growth/decline performance throughout most of the forecast but still ends the forecast period with decline of +123k.

MARINE AUXILIARY/MARINE PROPULSION. After a difficult 2025, this segment is expected to grow throughout the remainder of the forecast period with an average growth rate of +1.5%, and the market growing by +81k units by the end of the forecast period. Japan is the largest producer in this Segment with over half the volume and is expected to grow by an average of +2.5% and add +75k units in volume.

MEDIUM & HEAVY VEHICLES. This segment is expected to decline at the start and end of the forecast period. The average growth rate remains low at +1.2% and the market is expected to grow by +3761 units by the end of the forecast period. Of the big three production countries, only China remains positive throughout the period with growth rates ranging from +3.0% to +5.0% and adding 234k in volume.

Author



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Global: Positive Outlook for Most Segments

Continued from page 11

PASSENGER CARS/MINIVANS & SUVs. Generally, 2025 is expected to remain a solid year for these segments when final numbers are tallied, with a growth rate topping +4.6% in 2028. Despite this the average growth rate remains healthy at +3.1% (Minivans +3.9% and Passenger Cars at +2.0%) and the market grows by +12.186m units by the end of the forecast period.

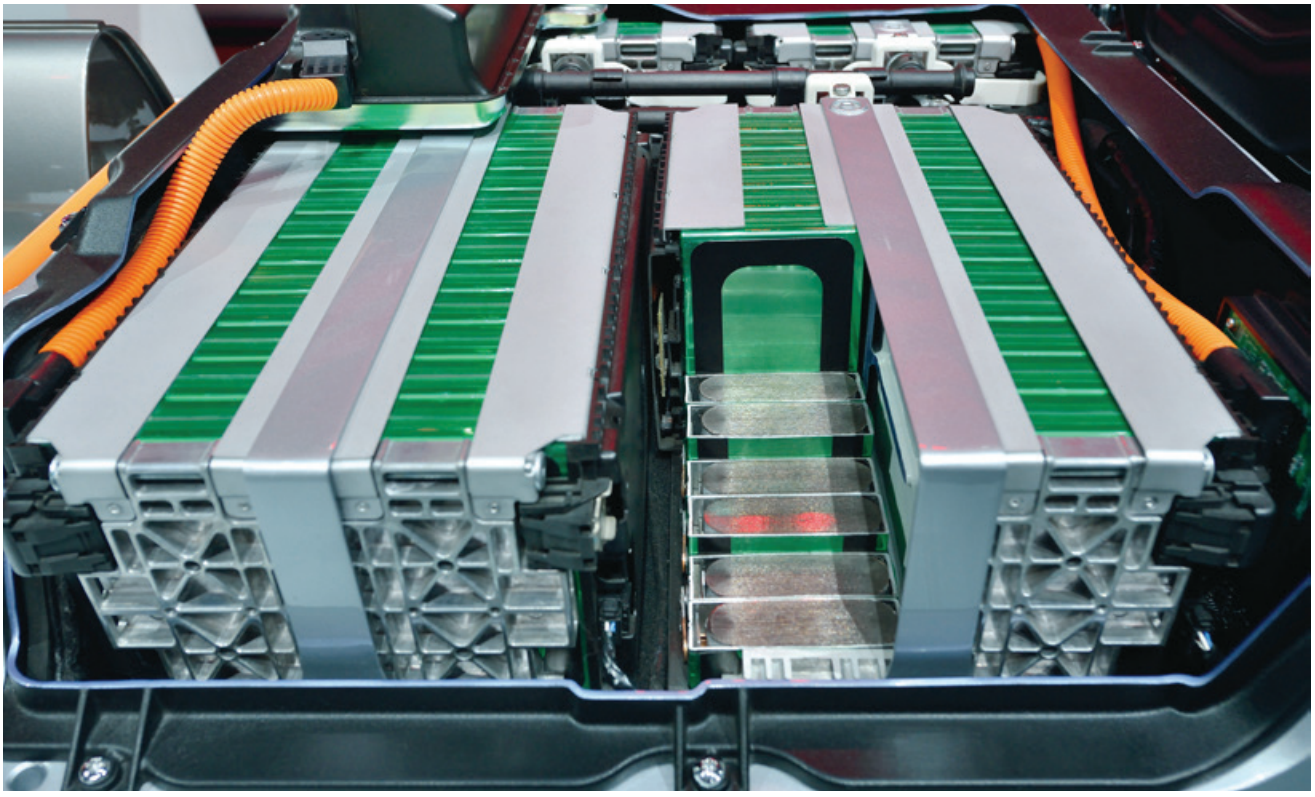
China and USA produce a little over half of the volume in these segments and both remain strongly positive for most of the forecast period, with China averaging +5.9% and USA +2.7%. Germany starts the forecast period off with a decline of -5.0% in 2025 before returning to growth for a few years.

POWER GENERATION. Power generation is expected to continue to grow strongly during the entire forecast period with growth ranging from +2.0% to +4.0%. The average growth rate remains solid at +3.0% and the market is expected to grow +1.218m units by the end of the forecast period. The top two power generation countries (China and United States) show mixed results, with China averaging +4.3% and USA averaging -2.5%.

RAILWAY. Global railway production is expected to grow strongly throughout the forecast period with an average growth rate of +9.2% and increase in size by just over +3k. The market is dominated by China (60% of the production) which is forecast to have an average growth rate of +3.5%.

RECREATIONAL PRODUCTS. This segment continues to grow strongly with volumes growing on average by +3.7% and adding at 21.939m units by 2030. The size of this segment is so large that it can distort overall market views. Growth rates for future years are driven by China and India which dominate the market (over 80% share). The key factors to better performance in Recreational Products are affordable personal transportation, significant demand for these products, the impact of electrification and higher consumer spending with more disposable income.

ALTERNATIVE POWER. After growth of +5.8% in 2025, Battery Electric Vehicles are expected to grow at between +4.6% and +8.4%, with an average growth rate of 7.1%, and add an extra 25.902m units by 2030. The Internal Combustion vehicles on the other hand are growing much slower with changes ranging from -0.6% to +1.9% and averaging +1.2%. **PSR**



North America Production Trends 2025

Current Production Trends

This chart shows the last four quarters for the current forecast year and it gives an indication of how the total or regional market is trending

Q4 2025	Q3 2025	Q2 2025	Q1 2025
▲ 0.9%	▼ -0.1%	▬ 0.0%	▼ -1.3%

Current Production Trends Comments

North America will decline by -1.9% in 2025 over 2024. The economy is experiencing slower growth currently because of the drivers listed below.

Market Drivers

These Market Drivers are forces and events that influence the Forecast whether Globally or Regionally or by Segment

DRIVER	COMMENTS	IMPACT ON FORECAST
High Interest Rates	Challenging for farmers & contractors to finance new equipment.	▼
Persistent Labor Shortages	Gap in skilled workers. Aging workforce and younger generations lack of interest in manufacturing.	▼
Tariffs/Trade Uncertainty	Tariffs have raised input costs for OEMs, squeezing profits. Difficult for long term planning.	▼
Weak Demand	Working through high inventories and low commodity prices, as well as cautious purchasing.	▼

North America

Tariffs, Interest Rates, and Uncertain Customer Demand Make 2025 a Challenging Year

SUMMARY. A gap exists between the demand for skilled machine operators, technicians, and digital engineers and the available workforce. The aging labor force and the lack of interest in manufacturing careers among young people have heightened the problem. This is leading to increased labor costs and production delays.

Elevated interest rates have increased the cost of borrowing, making it more difficult for end users, like farmers and construction contractors, to finance new capital investments in equipment and machinery. This has led to a plunge in new equipment production/sales in some market segments, like agricultural and construction.

Tariffs on new imported raw materials and components, like steel and aluminum, have raised costs for OEMs and hurt profitability. The ongoing uncertainty in trade policy has made long-term planning problematic for manufacturers and has led to some companies reevaluating their supply chain configurations.

Weakening demand from lower commodity prices, tight margins, and higher inventory levels has caused production in North America to decline overall in 2025. Manufacturers are cutting back on raw material purchases and running through remaining inventories.

North American total production, when including all the market segments together, will be down -2% in 2025 over 2024. 2025 production for many of those market segments, including Agricultural, Construction, Industrial, Medium & Heavy Vehicles, Passenger Cars, and Recreational Products will have declined.

Author

Jim Downey is Vice President-Global Data Products at Power Systems Research.

The ongoing uncertainty in trade policy has made long-term planning problematic for manufacturers and has led to some companies reevaluating their supply chain configurations.

A few segments are showing some growth, including Lawn & Garden, Minivan/SUV, Power Generation, and Railway. The forecast for 2026 is flat to down overall for market growth.

AGRICULTURAL. Agricultural machinery production in North America is down -6.6% for 2025. Falling commodity prices, high interest rates, machine oversupply, increased input costs, labor shortages, and ongoing tariffs all have affected the Ag market negatively.

Record-high crop production levels for corn and soybeans have led to an oversupply, driving down commodity prices. This directly reduces farm income and profitability, making farmers hesitant to spend on new machinery. Elevated interest rates increase borrowing costs, making financing for new, expensive equipment less accessible and further dampening demand.

Following a period of supply chain disruptions that have since been resolved, the market has seen an influx of new equipment, leading to high dealer inventory levels. This oversupply has put pressure on prices. Farmers continue to face high costs for essential inputs such as fertilizers, fuel, and labor, which further squeeze operating margins and limit budgets for equipment purchases.

Ongoing tariffs on steel and aluminum increase the cost of manufacturing new machinery, which is passed on to farmers. Many farmers are prioritizing parts and services for their current machinery over new purchases, and

North America: Tariffs, Interest Rates, and Uncertain Customer Demand Make 2025 a Challenging Year

Continued from page 14

the used equipment market is seeing more activity from those looking for lower-cost alternatives.

PSR anticipates this segment in 2026 will decrease by almost -2%. The market should stabilize and eventually grow by 2027, as technology adoption increases and economic circumstances improve.

CONSTRUCTION. Production of construction equipment in North America was down -5% in 2025 from 2024 levels. The following factors have led to difficult business conditions. They include high interest rates dampening demand, rising costs from new tariffs, and an existing oversupply of machinery, which has led to cautious purchasing.

New tariffs increase costs for steel and other components, squeezing manufacturer margins and raising equipment prices, forcing some OEMs to absorb costs or raise prices. A lack of skilled workers slows project progress, making contractors hesitant to buy new machines that might need specialized training. Government infrastructure spending, electrification trends, and the growth of the rental market are creating some optimism for increasing demand for this year.

MEDIUM & HEAVY VEHICLES. Production was down -16% in 2025. Medium and heavy truck production in North America is expected to increase by 4.9% this year compared with 2025. While class 8 truck production is expected to increase by 6.1% this year, the industry continues to be negatively impacted by the weight of the tariffs, low freight demand, excess truck capacity, and high finance rates which are expected to continue through at least the first half of the year.

Regarding the implementation of the phase 3 GHG emission regulations, it will be later in the spring before the EPA finalizes any revisions to the standards. Many in the industry believe the EPA will retain the 0.035 g/hp-hr. standard along with the 2027 implementation date but cancel the extended warranty requirements which would have added significant up-front cost to the trucks. In the EPA revision it is also likely the 0.035 g/hp-hr. standard will remain in place for the near future.

PSR expected class 8 truck demand to improve later this year and be stronger in 2027 – 2029 as the fleets replace their aging trucks purchased in the 2022 – 2024 time-cycle.

RECREATIONAL PRODUCTS. Production of recreational products manufactured in North America was down for 2025. Production declined by -1% in 2025 compared to 2024. The recreational products market in North America is currently facing obstacles from high interest rates, ongoing economic uncertainty, and lingering effects of pandemic-era overproduction, leading to cautious consumer spending and a shift towards used vehicles. New tariffs are also beginning to affect pricing and trade dynamics, adding another layer of complexity and cost. Again, this market should stabilize over the next few years and begin to create some growth patterns. **PSR**

Europe Production Trends 2025

Current Production Trends

This chart shows the last four quarters for the current forecast year and it gives an indication of how the total or regional market is trending.

Q4 2025	Q3 2025	Q2 2025	Q1 2025
↓ -1.0%	↑ 0.7%	↓ -0.1%	↓ -0.7%

Current Economic Trends Comments

In 2025, European machinery production experienced a volatile year, with output contracting in Q1 2025 (-0.7%) and Q4 2025 (-1.0%), and only Q3 2025 showing modest growth (0.7%), reflecting ongoing instability in the sector.

Market Drivers

These Market Drivers are forces and events that influence the Forecast Globally or Regionally or by Segment.

DRIVER	COMMENTS	IMPACT ON FORECAST
Geopolitical Conflicts and Security Risks	The protracted Ukraine war and the Israel-Iran conflict have become permanent fixtures, destabilizing energy markets and supply chains. US-EU trade wars, with 25–50% tariffs on steel, aluminum, and machinery, have disrupted exports, raised costs, and forced European manufacturers to relocate production or absorb losses.	▼
Trade Protectionism and US–EU Tensions	The US "Metal Content Surcharge" (50% tariffs on steel/aluminum in finished goods) has made European machinery—especially construction and agricultural equipment—uncompetitive in the US. Effective tariff rates now reach 35–42%, eroding margins and forcing firms like Liebherr and Volvo CE to shift production to the US or sell at a loss.	▼
Regulatory Shifts & Industrial Autonomy	The EU's pivot toward "strategic autonomy" is reshaping industry. The €150 billion SAFE Instrument and "ReArm Europe Plan" fund defense and machinery sectors, blurring lines between civil and military production. Meanwhile, relaxed CO_2 targets for cars (90% reduction by 2035) and delayed Euro 7 standards aim to protect domestic manufacturers from collapse.	▲
Sectoral Divergence & Pragmatic Recovery	Recovery is uneven: construction and agriculture machinery face prolonged downturns due to tariffs, while lawn/garden and industrial segments show resilience. Pleasure boats and superyachts stabilize through lifecycle services and digitalization. Passenger cars see a fragile 2026 rebound, but only due to relaxed emissions rules—risking further decline if US tariffs expand.	—

Europe

Geopolitical Factors Affect Europe Economy

SUMMARY. As we approach the final weeks of 2025, the European industrial core is grappling with a landscape defined by "Strategic Solitude." Geopolitical tensions have ceased to be temporary disruptions and have instead become the permanent architecture of the wider European economy.

More than three years have passed since Russia's full-scale invasion of Ukraine, and a comprehensive peace remains elusive, stalled by irreconcilable demands and a shifting diplomatic reality. While the war remains fierce on the ground, a new and unsettling "Direct Line" has been established between top US and Russian military officers; these high-level channels, intended to manage de-confliction, have sparked deep anxiety in European capitals that a "New Yalta" is being negotiated—a frozen conflict decided by Washington and Moscow without direct EU or Ukrainian input.

Meanwhile, on the ground, NATO has been forced to activate the "Eastern Sentry" force to bolster air defenses along the eastern flank following repeated drone incursions into Polish and Baltic airspace.

This volatility is compounded by the catastrophic escalation in the Middle East. Beginning June 13, 2025, the "Shadow War" between Israel and Iran transitioned into a full-scale direct confrontation, marked by extensive Israeli aerial bombardments of Iranian nuclear and missile infrastructure.

Tehran's swift retaliation—waves of ballistic missile strikes hitting refineries in Haifa and residential targets in Tel Aviv—has permanentized a high-risk premium for global energy. The threat of a closure of the Strait

of Hormuz, through which 20% of global oil flows, continues to cast a long shadow over European industrial production, keeping input costs high and shipping routes through the Red Sea perilously unstable.

Against this backdrop, the return of Donald Trump to the US Presidency has introduced a radical shift in transatlantic trade. Following the "Liberation Day" executive orders in early 2025, which initially threatened a 20% baseline tariff, a high-stakes deal was struck in late July setting a 15% maximum tariff on most EU exports. However, the spirit of this agreement has been systematically eroded by a series of unilateral US "clarifications."

Most damaging to the European machinery industry is the US decision to maintain 50% duties on steel and aluminum and—crucially—to apply these rates to the "metal content" of finished machinery. This means an excavator or a heavy truck is no longer just subject to the 15% baseline; its structural steel components are taxed at the higher 50% rate.

This "Metal Content Surcharge" has transformed a trade deal into a bureaucratic and financial barrier, making it nearly impossible for European manufacturers of on-road and non-road vehicles to plan with confidence, effectively forcing a relocation of production to US soil.

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Europe:
Geopolitical Factors Affect Europe Economy

Continued from page 17

The core of the problem lies in the shift from taxing a finished product (the machine) to taxing the raw inputs (the steel/aluminum content) at a rate of 50%. For European manufacturers, this has turned a predictable export model into a calculation of diminishing returns.

1. Construction Machinery: The "Mass and Weight" Penalty

Construction machinery (earthmoving, mining, and road-building equipment) is particularly vulnerable because it is "metal-dense."

- **The Effective Tariff Rate:** While the baseline is 15%, the "Proof of Smelt" requirement for heavy structural steel means that for an excavator, roughly 70-80% of its total value is now subject to a 50% tariff rate. This pushes the effective duty toward 35-42%.
- **Profit Margin Impact:** The CECE (Committee for European Construction Equipment) reports that for high-volume exports (worth over €3 billion annually--or about $US 3.5 billion), profit margins have been compressed by 800 to 1,200 basis points.
- **Strategic Result:** Manufacturers like Liebherr and Volvo CE are seeing their "Made in Europe" machines become 25% more expensive for US contractors than locally produced alternatives, forcing a rapid shift toward US-based assembly to bypass the metal content audit.

2. Agricultural Machinery: The "Precision vs. Steel" Divide

Agricultural machinery (tractors, harvesters, seeders) faces a more complex, bifurcated impact.

- **The High-Tech Buffer:** Unlike heavy construction equipment, a modern seeder or smart harvester carries more value in electronics, sensors, and software. Since these components fall under the 15% baseline and not the 50% metal surcharge, the effective tariff rate for high-tech ag-machinery is lower, typically between 18-24%.

Europe: Geopolitical Factors Affect Europe Economy

Continued from page 18

- **The "Bread and Butter" Loss:** Standard tractors and tillage equipment, which rely heavily on structural steel, are suffering similarly to construction machines. The VDMA has noted that US farmers—already facing low commodity prices—are refusing to absorb the 15-20% price increases on European imports.
- **Profit Margin Impact:** While "Smart" ag-tech has seen a margin dip of roughly 4-5%, traditional mechanical machinery is seeing its margins completely erased on the US market, with some models now being sold at breakeven or a loss just to maintain dealership footprints.

In response to this deteriorating security and trade environment, European institutions have launched an unprecedented "Fortress Europe" industrial pivot. The "ReArm Europe Plan" and the Readiness 2030 White Paper (March 2025) represent a tectonic shift toward strategic autonomy.

Supported by the $172.5 billion (€150 billion) SAFE Instrument, the EU is now aggressively funding a unified defense industrial base. This is no longer just about military hardware; it is a revitalization of the entire machinery sector, as the lines between civil and defense production blur.

Economically, the continent shows signs of a fragile, "two-speed" stabilization. While 2024 ended poorly, the latter half of 2025 has seen a timid recovery in manufacturing and infrastructure. However, the trade wars mean inflation remains stubbornly high, trending closer to 3% as the "Green Transformation" and rearmament efforts compete for resources.

The UK economy mirrors this modest recovery, with 2025 GDP growth at 0.8% and a projected 1.6% for 2026. While the UK benefited from a separate "Economic Prosperity Deal" with Washington in June, it remains vulnerable to the broader global instability and high input costs.

Germany remains the critical variable. The federal government elected in February 2025 has moved to dismantle the "debt brake," launching a massive $575 billion (€500 billion) investment fund for green infrastructure. This, combined with a gradual reduction of the corporate tax rate to 10% by 2032, is designed to spark a domestic industrial renaissance.

However, as we look toward 2026, these "timidly positive" forecasts face formidable headwinds. The confluence of a "frozen" Ukraine, an active war in the Middle East, and a predatory US trade policy creates a high-stakes environment where European industrial survival depends on the speed of its pivot toward self-reliance.

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AGRICULTURAL. The cautious optimism for the second part of 2025 did not come become reality. Instead, we have seen close to a two-digit decline in production of agriculture machinery. This trend will continue into early 2026. But fortunately, there is some light at the end of the tunnel. Outside of France that is still a little shaky, we see clear optimism for the overall 2026 year especially in countries like Spain, Italy, the UK and Poland, according the CEMA (European Agricultural Machinery Association) barometer. Although it might take a few months for this optimism to fully manifest itself, there are still many players expressing some concerns, insecurity, uncertainties over tariffs, and socio-political tensions.

CONSTRUCTION. This segment is following the same trend that we see in the Agricultural Segment; we see a downward trend although to a lesser extent. We expect the mirroring of trends will continue as we are expecting some good recovery early to mid-2026. The recovery will be fuelled by government expenditures and higher

Europe:
Geopolitical Factors Affect Europe Economy

Continued from page 19

business activity, especially in the residential and private sectors, reported by CECE (Committee for European Construction Equipment) and other trade associations. It's possible that the recovery process could take longer due to a possible labor shortage needed to fill so many incentivised positions.

The same risks are applicable to Construction as to the other segments: tariffs being tricky to navigate depending on steel and aluminum content of the machinery as the US was the primary export country putting around 2.8 Billion Euros at risk from EU manufacturers. Additionally, the operational and compliance burden of the new taxes is really taking its toll on the few companies that have tried to continue to export to the US. Companies have reported that the extra costs are already expressed in millions of Euros.

LAWN AND GARDEN. We saw some recovery in 2025, mainly fuelled by professional demand supplemented by a small contribution from residential demand. This recovery has not offset the 2024 decline but has injected some optimism for 2026. Furthermore, many consumers are investing or switching to battery-powered equipment, and even professionals are switching so they can use it as a USP (unique selling point), especially since many government contracts now call for a portion of all machines used on the job to be low emission. This trend should continue into 2026. In a lot of cases the steel and aluminium content of these products is relatively low and so therefore isn't affected much by the tariffs, although generally these products are very price sensitive and even a small effect could have a great knock-on effect by tariffs.

INDUSTRIAL. This segment has been experiencing similar trends to both the Agricultural and Construction segments on a more subdued level. Although it is also going to be a negative year overall, it won't be as affected as Ag and Construction. We expect this trend to turn around in 2026 and show an overall slight recovery, but not yet catching up to 2023 levels, and lower than Ag and Construction.

We saw a few applications outperform the segment which really elevated the overall industrial segment, such as forklifts and terminal tractors, which have not been too affected by the tariffs and economic situation. The rest of the products, however, have been impacted quite negatively by the socio-economic conditions and tariffs due to their relatively large amount of steel and aluminium, pushing some of the overall costs by close to 50%.

MARINE PROPULSION. Compared with 2025, the European marine pleasure industry in 2026 is expected to move from correction to stabilization, with selective growth depending on segment, size, and business model. The sharp post-pandemic adjustment seen in 2024–2025 — characterized by dealer destocking, delayed purchases, and softer demand in entry and mid-market boats — largely has run its course by the end of 2025. In 2026, confidence is expected to improve, but volumes do not return to boom-year peaks.

PLEASURE BOATS. The European pleasure boat market is clearly facing numerous challenges, including inventory overhang, economic uncertainty, exchange rate fluctuations, stock market volatility, tariffs, high interest rates, rising marina fees, and unclear regulations. All

Europe: Geopolitical Factors Affect Europe Economy

Continued from page 20

European countries, including Turkey, experienced a market slowdown in 2025, with no significant recovery expected by year-end. Builders such as Beneteau, Hanse Yachts, and others have reported sales declines of more than 10% in the first half of the year.

The most important structural change is that growth is no longer driven by newly built volume alone. Lifecycle optimization, a concept borrowed from commercial shipping, has become central. Owners keep boats longer, invest more in refits, upgrades, and digital optimization, and expect builders to support vessels over decades rather than sales cycles. This benefits superyacht yards, refit specialists, and large groups such as Beneteau, Fountaine Pajot, Sanlorenzo, Ferretti, Princess, and Sunseeker that have scale, aftersales capability, and modular product strategies. It also explains why new-build unit growth in 2026 remains modest, even as overall industry health improves.

Decarbonization is a differentiator in 2026, but only when it is flexible and commercially realistic. Compared with 2025, buyers are less interested in single "future-proof" solutions and more focused on adaptability. Hybrid propulsion, fuel-flexible engines, electric systems for short-range use, and designs prepared for later upgrades outperform rigid all-electric or high-cost experimental solutions. Builders in France, Italy, and the UK increasingly apply this pragmatic approach, aligning leisure boating with developments already visible in commercial shipping.

Digitalization is shifting from being a feature to being an enabler. In 2026, digital tools matter most when they reduce complexity: items such as predictive maintenance, energy management, assisted docking, and simplified control systems come to mind. This is critical for addressing the industry's biggest non-economic risk: the loss of new entrants. Compared with 2025, more builders and operators actively use charter, leasing, and shared-use models as entry points, responding to the reality highlighted by boot Düsseldorf that most new license holders are lost due to lack of follow-up and excessive complexity, not lack of interest.

From a unit-build perspective, 2026 shows clear divergence by segment versus 2025. Superyachts remain structurally strong, with European yards likely delivering roughly stable or slightly higher volumes, supported by orderbooks and wealthy buyers. Motor yachts in the 10–30 m range have stabilized after declines, with modest growth concentrated in premium and charter-friendly models. Catamarans continue to outperform monohull sailing yachts in relative growth, supported by charter demand and lifestyle appeal. Traditional sailing yachts and sports cruisers have recovered only selectively, remaining below historical peak volumes.

> *The most important structural change is that growth is no longer driven by newly built volume alone. Lifecycle optimization, a concept borrowed from commercial shipping, has become central.*

Overall, 2026 is a positioning year. Compared with 2025, risk is lower, visibility is better, and sentiment improves — but success depends on strategy rather than market momentum. Builders and operators who focus on lifecycle value, flexible decarbonization, digital simplicity, and structured customer pathways will grow. Those waiting for volume demand to "return" will see only limited recovery, even in a stabilizing market.

PASSENGER CARS, MINIVANS & SUVs. In a historic pivot on Dec. 17, 2025, the European Commission officially scrapped the requirement for a 100% reduction in CO2 emissions from new cars by 2035. This de facto ban on the internal combustion engine (ICE) has been replaced by a 90% reduction target. This 10% "survival window" is a direct concession to the reality that the European passenger car industry is in a state of managed decline. By allowing a mix of hybrids, e-fuels, and high-efficiency ICE vehicles to remain on the market past 2035, the EU is attempting to prevent the total collapse of its domestic manufacturing base, which has seen production fall by an alarming CAGR of -8% since 2019.

The human and physical cost of the industry became visible in December 2025, when Volkswagen closed its

Europe:
Geopolitical Factors Affect Europe Economy

Continued from page 21

Dresden plant, marking the first factory shutdown in the company's 88-year history in Germany. This was mirrored by Stellantis, which implemented rolling three-week furloughs across six European plants in late 2025 to manage a glut of unsold inventory.

The production data for 2025 confirms the severity of this contraction. Total EU car production is expected to end the year at approximately 10.8 million units, a 2.6% decline from the 11.1 million units produced in 2024. While SUVs continue to dominate the market with a 48% share, even this once-bulletproof segment has plateaued for the first time in two decades. Looking ahead to 2026, we expect a timid recovery of roughly 1.9% to 2% in volume (reaching ~11 million units), but this growth is artificially propped up by the "90% target" pivot. This forecast remains fragile; if the US implements further threatened duties on "metal content" (as seen in the machinery sector), 2026 could see another year of negative growth, keeping Europe nearly 20% below pre-pandemic levels.

While new CO2 emission rules legally entered into force in January 2025, the "billions in fines" once feared by OEMs have been mitigated by a May 2025 amendment allowing for three-year averaging (2025–2027). This "flexibility" essentially allows manufacturers to over-emit in 2025 and compensate in later years, effectively delaying the impact of the 93.6 g/km target. Simultaneously, the Euro 7 standards have finalized their transition into a "follower" position. While the first implementing regulations were published in September

Europe: Geopolitical Factors Affect Europe Economy

Continued from page 22

2025, they focus more on tire and brake wear rather than stricter tailpipe NOx limits, which remain untouched. By postponing significant engine changes until 2029, the EU has prioritized the short-term survival of the ICE-heavy German and Italian manufacturers over global environmental leadership.

The "Sino-European" Transformation

The market share of Battery Electric Vehicles (BEVs) reached a record 20.2% in late 2025, but this growth is increasingly driven by foreign brands. Chinese manufacturers have successfully navigated the EU's "anti-subsidy" duties by pivoting toward Plug-in Hybrids (PHEVs), which saw a 59% sales surge in the latter half of the year. The competitive threat has moved from the docks to the heartland:

- **BYD's** Szeged (Hungary) plant has completed construction as of December 2025, with production line equipment arriving on-site. Trial production is set for Q1 2026, aiming to bypass the 17% additional EU tariffs and produce "Made in Europe" EVs for the mass market.
- **Chinese brands** now account for over 6% of all EU sales, and in August 2025 alone, their registration volumes exceeded those of established giants like Audi and Renault.

POWER GENERATION. Gen-Set production and demand in Europe was hurt by the pandemic. However, the sector quickly rebounded in 2022. Demand remained positive in 2023, but we saw signs of a decrease in the last months of last year. 2024 will turn negative for this segment, when final numbers are available, but this is not a surprise, given the unprecedented levels gained during 2022 and 2023.

However, with a rebound in investments towards the end of the year, Gen-Set demand will start to pick up, and in 2025 the segment will return to a timid growth, followed by a more robust performance in 2026.

RECREATIONAL PRODUCTS. 2025 was a pivotal year for Europe's motorcycle and scooter sector, marked by KTM AG's restructuring under Bajaj Auto's full control following a €800 million investment. The Austrian manufacturer, after facing insolvency in late 2024 due to plummeting demand and high inventories, is now focused on cost-cutting and operational turnaround, with recovery expected from 2026.

> *The market share of Battery Electric Vehicles (BEVs) reached a record 20.2% in late 2025, but this growth is increasingly driven by foreign brands*

The broader European market suffered a 7.8% sales drop in early 2025, hit by Euro 5 stock clearance and new emissions rules. Southern Europe saw scooter-led rebounds, but Northern Europe's electric segment stagnated due to policy shifts.

US Tariffs Deepen the Crisis. Since April 2025, a 25% US tariff on European motorcycles and parts—matched by EU retaliatory duties on US bikes—has slashed competitiveness, raised costs, and hurt exports. The trade war, unresolved in early 2026, threatens jobs and profitability, with ACEM (the European 2 wheelers manufacturers association) warning of an "unsustainable" situation for manufacturers.

Outlook: Gradual Recovery Amid Challenges. EU GDP growth of 1.4% in 2026 and rising urban demand offer hope, with the motorcycle segment projected to grow at 4% CAGR through 2035. However, tariffs and Chinese dominance in electric two-wheelers remain key risks. The industry's recovery depends on resolving trade disputes and accelerating innovation.

RAILWAY. Demand in this segment is less affected by current market trends as contracts are usually reach out several years. We are seeing a slow but steady increase continuing into 2032. As a result, we are seeing a high percentage of contracts being fulfilled, although the numbers are still relatively low compared to other segments. Incentives are still very present for the push to reduce CO2 emissions for 2030 for many member states and outside of Europe demand. **PSR**

China Production Trends 2025

Current Production Trends

This chart shows the last four quarters for the current forecast year and it gives an indication of how the total or regional market is trending

Q4 2025	Q3 2025	Q2 2025	Q1 2025
↑ 5.1%	↑ 4.7%	↓ -2.1%	↑ 2.9%

Current Economic Trends Comments

In Q4 2025, China's overall GDP maintained a stable posture, providing a favorable internal environment for the high-speed growth of the industrial and automotive industries, thereby driving sustained high-speed growth in both the forklift and electric vehicle industries.

Market Drivers

These Market Drivers are forces and events that influence the Forecast whether Globally or Regionally or by Segment

DRIVER	COMMENTS	IMPACT ON FORECAST
Domestic Economic Circulation	Insufficient effective demand and weak investment growth constitute a dual constraint: heightened household savings willingness and cautious consumption spending have made demand insufficiency the core contradiction hindering economic recovery, leaving the macroeconomy under persistent pressure	▼
Trade Tariffs	The easing of tariff policies and short-term stabilization of trade frictions have created a more favorable external environment and a valuable strategic window of opportunity for domestic exports.	▲
Economic Transformation	The rebalancing from investment-led to consumption-led growth, and from external to internal demand drivers, may entail short-term adjustment pressures as growth drivers shift.	—

China

2026 GDP Revised from 4.2% To 4.5%

SUMMARY. China's economy is expected to maintain steady growth in 2026, with a GDP growth target likely ranging from 4.5% to 5.0% and an actual growth rate projected at approximately 4.7% to 4.8%. This growth momentum is primarily driven by manufacturing upgrades, rapid development of the digital economy, and a gradual recovery in the consumer market.

Government-promoted industrial policies and technological innovations will continue to empower traditional industries, with emerging fields such as 5G and artificial intelligence becoming new growth engines. Meanwhile, the recovery of residents' consumption confidence and upgrading of consumption structure will also provide impetus for the economy.

However, potential risks brought by the adjustment of the real estate market still need to be guarded against, as price fluctuations in some cities may affect investment and consumer confidence. In addition, global geopolitical tensions and uncertainties in the trade environment may also pose challenges to exports and foreign investment inflows, requiring flexible policies to ensure stable economic operation.

AGRICULTURAL. China's agricultural machinery market is undergoing a structural transformation driven by policy precision guidance and industrial upgrading. The Agricultural machinery market will continue to benefit from policy dividends and demand upgrades. The subsidy policy will continue the 2024-2026 three-year framework, focusing on "premium-machine premium-subsidy" to promote the penetration of high-end agricultural machinery.

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Under the dual pressures of emission upgrades and electrification, traditional fuel-powered agricultural machinery will continue to be reduced, and the proportion of new-energy products is expected to exceed 15%. The deepening trend of land-scale management and labor force reduction is expected to continuously boost demand for high-horsepower, intelligent equipment, and the export market will maintain strong growth.

However, the focus of competition has shifted from price wars to a comprehensive contest of technological iteration and after-sales service systems, and electrification and intelligence will become the key tracks for enterprises to build differentiated advantages.

Subsidy Policy: China's agricultural machinery subsidy policy has shifted from "universal" to "precision-guided," with the simultaneous optimization of fund scale and structure: The central government has allocated US$ 3.51 billion (24.5 billion RMB) for purchase and application subsidies, an 8% year-over-year increase, and has earmarked an additional $172.09 million USD. (1.2 billion RMB) for scrappage and replacement. It focuses on supporting high-

China: 2026 GDP Revised from 4.2% To 4.5%

Continued from page 25

specification models such as power-shift, GNSS-guided, and new-energy tractors, and through the "premium-machine premium-subsidy" mechanism, the subsidy cap has been raised to 50% of the sale price.

Emission Upgrade: Emission upgrade policies are being advanced. The comprehensive implementation of the National IV emission standard is forcing enterprises to accelerate technological iteration, promoting the transformation of diesel engines to low-emission, high-efficiency equipment, while also creating market space for new-energy agricultural machinery.

Market demand: The land-scale management rate has exceeded 32%, and the continuous reduction of agricultural labor force has created increased demand for high-horsepower, multi-functional agricultural machinery, driving domestic sales of tractors to 580,000 units (+6%) and harvesters to 180,000 units (+9%). Export value has surpassed USD 9.32 billion (65 billion RMB) with a growth rate of over 10%, with ASEAN, Africa, and South America accounting for 65% of the incremental volume.

Electrification: The electrification trend is reshaping the competitive landscape of the industry, becoming the core engine for the product structure's evolution toward high-end and intelligent. New-energy tractors, electric plant-protection drones, and other products, with zero-emission and low-noise characteristics, are being used increasingly in applications such as orchards and facility agriculture, and are enjoying an additional 20% subsidy incentive, driving their annual growth rate to exceed 40%. Domestic brands have achieved breakthroughs in replacing foreign monopolies in sub-sectors such as CVT continuously variable transmission tractors and electric harvesters through cost advantages and technological innovation. Sales of 200-horsepower power-shift and CVT tractors have doubled, with their market share exceeding 10% for the first time. Products under the "large-medium-small intelligent line," such as driverless tractors and compact machines for hilly terrain, are rising simultaneously, accelerating the industry's green and intelligent transformation.

CONSTRUCTION. In 2025, China's construction machinery market demonstrated a development trend of "steady progress with improved quality and efficiency" pushed by policy-driven initiatives and demand upgrades. The market scale is expected to exceed US$143.41 billion (1 trillion yuan), with intelligentization, digitalization technologies (such as 5G and AI-driven unmanned equipment), and new energy transformation serving as core drivers, propelling the product structure toward high-end and large-scale upgrades.

The electrification trend is reshaping the competitive landscape of the industry, becoming the core engine for the product structure's evolution toward high-end and intelligent.

Meanwhile, the Belt and Road Initiative accelerated the export of high-value-added equipment, gradually advancing the industry into a new stage characterized by green low-carbon practices and technological leadership. Looking ahead to 2026, the recovery of global construction activities and growth in emerging market demand will further expand the market scale. It is projected that the domestic market size will reach $36.90 billion USD (257.3 billion yuan) in 2026, with a year-on-year growth of 35.7% and a significant increase in industry concentration.

Domestic Market. Domestic market growth is primarily driven by policy support and equipment renewal demand. In 2025, ultra-long-term special treasury bonds (1.3 trillion yuan) and local government special-purpose bonds (4.4 trillion yuan) accelerated infrastructure investment, facilitating the implementation of major projects such as the Yarlung Zangbo River hydropower plant and western desert photovoltaic bases, thereby boosting sales of electric loaders (demand increased by 40%) and mini excavators (sales up by 18%).

The equipment renewal policy released latent demand, with 0.8-meter Stage III equipment entering its replacement window. (scrappage subsidies) and low-interest loans pushed the renewal share of domestic sales

China: 2026 GDP Revised from 4.2% To 4.5%

Continued from page 26

to 48% (double the 2022 level), and the penetration rate of electric/5G autonomous models jumped to 25%. Regional demand differentiation is evident: eastern provinces focus on high-end equipment for urban renewal projects, central and western regions purchase large-scale mining trucks for new open-pit copper mines, while county economies prefer "zero-tail" units.

In 2026, the continuation of the replacement cycle and the increase in the electrification rate of rental fleets (currently 55%) will support sustained market growth, with domestic revenue expected to maintain high single-digit growth.

Export Market. The overseas export market has shifted from "commodity overflow" to "value enhancement". In 2025, export volume reached 59 billion USD (a year-on-year increase of 13%), with emerging markets in Africa and Latin America growing by over 15%. Chinese equipment gained market share due to price advantages (20% lower than competitors) and delivery efficiency (30 days vs. 90 days for European OEMs).

Electric loaders and mining trucks performed excellently in field trials in Chile and Australia, reducing diesel costs by 60% and meeting environmental standards without premium pricing, thereby driving electric/hybrid equipment to account for 32% of export value (expected to exceed 35% in 2026).

Regional strategies are differentiated: Africa and Latin America have expanded through EPC financing and local CKD factories; Europe and North America face carbon regulation pressures, with electric equipment orders surging (e.g., 16-ton electric excavator orders tripled); CKD nodes in Mexico, Poland, and Indonesia, along with 24/7 cloud parts centers, shorten delivery times to seven days and keep foreign exchange risks under control within regional balance sheets.

It is projected that export compound growth will reach 10-12% in 2026, with overseas revenue share rising from 38% to 45%, providing natural hedging for the industry.

INDUSTRIAL. China's forklift market is expected to reach a scale of RMB 120–150 billion, representing a year-over-year growth of 14.9%. By 2026. It is projected to further expand to RMB 257.3 billion, with a year-over-year growth rate of 35.7%.

The trend toward electrification is significant: in 2025, the market share of electric forklifts is expected to exceed 65% when final numbers are available, with a lithium-ion battery penetration rate surpassing 40%.

In 2026, hydrogen fuel cell forklifts are expected to enter the commercialization phase, forming a dual-drive pattern of "lithium-ion + hydrogen." Intelligent upgrades are accelerating in 2025, the proportion of intelligent forklifts (including AGVs and unmanned technology) reached 18%, and by 2026, it is expected to rise to 28%, with technological breakthroughs focused on navigation precision and 5G + industrial internet integration.

The export market is performing strongly: in 2025, export value reached $59 billion USD, representing a year-over-year growth of 13%, with emerging markets such as Africa and Latin America showing prominent growth. In 2026, export growth is expected to accelerate further, with growth in Africa and Latin America markets potentially exceeding 15%.

China:
2026 GDP Revised from 4.2% To 4.5%

Continued from page 27

China's forklift industry is undergoing an accelerated deep transformation toward electrification and intelligentization. On the electrification front, electric forklifts are projected to capture over 60% of total sales by 2025, with lithium-ion battery forklifts steadily emerging as the market mainstream, thanks to their superior energy density, extended service life, and faster charging capabilities. Concurrently, hydrogen fuel cell forklifts are expected to enter a commercial take-off phase after 2028, forming a "lithium battery + hydrogen energy" dual-drive market landscape alongside lithium technology.

In terms of intelligentization, fueled by the rapid expansion of smart warehousing systems, market demand for Automated Guided Vehicles (AGVs) and unmanned forklifts continue to surge. Unmanned forklift sales have maintained robust growth exceeding 50% annually in recent years. Through the deep integration of AI, IoT, and 5G technologies, capabilities such as intelligent dispatching, remote monitoring, and predictive maintenance are being realized, comprehensively addressing the automated operational requirements of smart warehousing and unmanned warehouse scenarios.

China's forklift export market continues to show strong momentum, with export value projected to reach US$59 billion in 2025, up 13% year-over-year. Growth is particularly robust in emerging markets such as Africa and Latin America. In 2026, the growth rate is expected to accelerate further, with these markets anticipated exceeding 15% expansion. Regional strategies are precisely targeted: Africa and Latin America are achieving rapid scale-up through EPC financing and local CKD assembly plants; Europe and North America are experiencing surging electric equipment orders driven by carbon regulation pressures; while Mexico, Poland, and Indonesia have leveraged CKD hubs and cloud-based parts centers to compress delivery cycles to 7 days, enhancing supply chain efficiency while keeping foreign exchange risks manageable.

LAWN AND GARDEN. China's gardening machinery market in 2025 presented a three-dimensional landscape

China: 2026 GDP Revised from 4.2% To 4.5%

Continued from page 28

of "domestic demand upgrade + export differentiation + technological iteration." The domestic market, driven by an urbanization rate exceeding 70% and upgraded gardening consumption, sees annual demand growth of over 8% for products like lawnmowers and hedge trimmers, with intelligent robotic lawnmowers and lithium battery handheld devices becoming mainstream trends.

The export market shows significant differentiation: European and American markets have seen electric product share break through 50% under environmental regulation pressure, while emerging markets such as Southeast Asia and the Middle East still predominantly use gasoline engine models; however, with the improvement of photovoltaic energy storage facilities, electrification penetration is expected to exceed 30% in the next three years.

Industry technology is accelerating the shift from fuel power to brushless motors and intelligent IoT, with domestic companies leveraging their lithium battery production capacity advantages (accounting for over 70% of the global total) to break the high-end monopoly of European and American brands.

The 2026 market forecast indicates that electrification dividends will continue to be released, with the electric share in European and American markets steadily rising above 55% and the electrification process in emerging markets accelerating; intelligent product penetration will further increase, with AIoT technology becoming standard; export scale will continue to expand, but vigilance is required against risks of international carbon tariffs and patent barriers.

Overall, the industry will maintain steady growth based upon domestic sales growth and differentiated overseas expansion.

MEDIUM AND HEAVY VEHICLES. The 2025 Chinese medium- and heavy-duty truck market is characterized by four distinct features:

- First, policy-driven effects are prominent, as the National IV scrappage-and-replacement policy expands to operating vehicles and includes natural gas heavy trucks for the first time. This directly unlocks massive replacement demand from the existing fleet.

The domestic market, driven by an urbanization rate exceeding 70% and upgraded gardening consumption, sees annual demand growth of over 8% for products like lawnmowers and hedge trimmers.

- Second, new energy vehicles demonstrate exponential growth, with first-half sales nearing 78,000 units—a year-over-year surge of 182%—and June sales reaching 16,000 units, an all-time high.
- Third, exports have become a key growth engine, with Chinese brands leveraging superior cost-effectiveness to accelerate replacement of European and American brands, a trend expected to continue for 5-10 years.
- Fourth, deep structural adjustment is underway, shifting from traditional diesel to a "diesel + natural gas + electric" ternary structure, moving new energy from the fringe to the mainstream.

The 2026 market forecast reveals that the market structure will shift from inclusive growth to tapping structural opportunities, with new energy penetration accelerating in segmented markets such as resource transport, muck hauling, and sanitation vehicles.

Overall new energy penetration will definitively cross the 30% threshold, with some OEMs forecasting 35-40%. Technologically, AIoT will become standard, ADAS demand will shift toward the 6×4 logistics segment, Level 4 autonomous driving will achieve commercial deployment in ports and mining areas, and intelligent fleet management platforms will significantly enhance operational efficiency.

Supply chains will face challenges as electrification demands higher service standards, transforming traditional fault diagnosis methods and making localized service capabilities a critical competitive factor. Finally, risks and opportunities coexist—vigilance against

China: 2026 GDP Revised from 4.2% To 4.5%

Continued from page 29

trade friction risks like international carbon tariffs and patent barriers is needed, while seizing incremental opportunities in overseas blue ocean markets and infrastructure project implementation.

In 2025, new-energy heavy-duty trucks is achieving explosive growth, with annual sales expected to exceed 220,000 units and penetration surging to 26%. Cumulative sales from January to October reached 158,000 units, up 178% year-over-year, while the fuel mix underwent fundamental transformation: diesel's share fell to 51.3%, natural gas accounted for 25.5%, and pure electric reached 22.2%.

On the technology front, battery-electric trucks dominate with zero-emission and cost advantages, battery-swapping mode (3–5-minute energy replenishment) becomes a key growth path with over 5,000 swap stations planned for 2025, and we saw fuel-cell heavy-duty trucks begin deployment on long-haul routes.

In 2026, new-energy penetration will definitively cross the 30% threshold, with Shaanxi Auto forecasting 35-40%, while electrification shifts from policy-driven to market-driven full-scenario replacement—Lingyi Motor's founder predicts that "within three years, electric heavy-duty trucks will fully replace diesel trucks in all viable scenarios." Meanwhile, Level 4 autonomous heavy-duty trucks have already entered commercial operation at ports and mining areas, making intelligentization a new competitive arena for brands.

PASSENGER CARS. China's passenger car market is undergoing profound structural transformation, with new energy vehicles (NEVs) demonstrating accelerated penetration. Under the dual-carbon targets, environmental policies continue prioritizing green and low-carbon development, not only directly reducing NEV purchase costs through tax exemptions and R&D subsidies, but also indirectly weakening ICE vehicle competitiveness via driving restrictions, purchase limitations, and increasingly stringent emission standards, pushing them to exit the mainstream market faster.

On the technology front, pure electric vehicles achieve breakthroughs in the mainstream 100,000-200,000 RMB price segment thanks to lower operating costs and intelligent driving experiences, while plug-in hybrids continue expanding in premium markets and regions with inadequate charging infrastructure, leveraging their "no range anxiety" advantage. The market landscape features parallel "stock replacement" and "incremental penetration" dynamics. NEV penetration is expected to exceed 50% in 2025, with domestic brands dominating through vertical integration advantages, while joint ventures face mounting transformation pressure.

Looking ahead to 2026, market growth momentum will shift from policy-driven to a dual-wheel drive of technology and market forces. Power battery energy density exceeding 200Wh/kg supports the popularization of 800V high-voltage platforms, making 10-minute charging for 400km range a reality and bringing user experience close to ICE vehicles. Enhanced intelligent capabilities increase vehicle premium potential, with L2+ ADAS becoming standard equipment on models above 150,000 RMB. Overseas exports become the second growth curve.

In Belt and Road markets, Chinese NEV passenger cars rapidly gain ground through cost-performance advantages, though they must navigate trade barriers such as EU carbon border taxes and data security reviews.

China: 2026 GDP Revised from 4.2% To 4.5%

Continued from page 30

The domestic market will shift from "incremental competition" to "stock competition," forcing automakers to build competitive moats through product differentiation and service ecosystem development to prepare for market-oriented competition post subsidy phase-out.

Overall, the 2026 passenger car market will continue evolving along three dimensions—intelligentization, premiumization, and globalization, forming a new pattern of coordinated development driven by "domestic demand upgrade + overseas expansion."

POWER GENERATION. The gen-set market will meet a significant structural divergence: high-horsepower diesel generator sets, and natural gas generator sets are expected to maintain stable growth, driven by both the energy structure transition (coal-to-gas conversion) and the demand for backup power generation to support renewable energy sources.

Conversely, small gas generator sets face significant volatility risks due to their over-reliance on export markets, putting pressure on market stability. Especially in the small horsepower segment, the North American market, as a global core battlefield, has entered a mature phase. The stable but competitive growth rate of 3% over the next two years highlights market saturation. In contrast, the high-horsepower diesel and natural gas generator set markets have a relatively clear competitive landscape due to the rigid demand for industrial electricity and technical barriers, making the overall outlook more positive. The market exhibits a differentiated characteristic of being driven by both "traditional rigid demand + energy transition," with technological iteration and regional policies becoming key variables.

RECREATIONAL PRODUCTS. As a marginalized industry, China's motorcycle market is projected to exhibit a marked trend of structural differentiation. In the domestic market, traditional gasoline-powered motorcycles—supported by relatively low prices and well-established maintenance networks—will likely continue to see stable demand in rural areas and small-to-medium-sized cities. However, due to increasingly stringent environmental policies and growing consumer awareness of sustainability, overall growth may decelerate or even contract in certain segments. In contrast, electric motorcycles stand to benefit from rising urban short-distance travel needs, government policy support, and technological advancements such as improved battery performance and broader charging infrastructure. While their share is expected to grow in first- and second-tier cities, as well as some smaller urban centers, they also face intensified competition and serious challenges with product homogenization.

> *Overall, the 2026 passenger car market will continue evolving along three dimensions—intelligentization, premiumization, and globalization.*

On the export side, gasoline-powered motorcycles remain competitive in emerging markets like Southeast Asia and Africa, thanks to cost advantages and mature manufacturing processes. Nevertheless, manufacturers must closely monitor tightening emission and safety standards globally, proactively upgrading products and ensuring compliance. Electric motorcycle exports will profit from worldwide electrification trends and China's strengths in battery technology and vehicle manufacturing, offering significant future potential. However, companies must bolster brand development, product safety certifications, and after-sales service systems to meet diverse international market demands.

Overall, by 2025, China's motorcycle market will be driven by a dual momentum of "traditional rigid demand + technological transformation." Domestically, the market structure will adjust substantially, with electric motorcycles gaining momentum while gasoline-powered models maintain a stable footing. In exports, product compliance and brand advantages will be crucial, alongside continued efforts to explore emerging markets. To adapt to changing conditions at home and abroad, companies should harness the opportunities of industrial transition by accelerating technological R&D, expanding market deployment, and adopting flexible product strategies. **PSR**

Far East Production Trends 2025

Current Production Trends

This chart shows the last four quarters for the current forecast year and it gives an indication of how the total or regional market is trending.

Q4 2025	Q3 2025	Q2 2024	Q1 2025
↑ 1.7%	↓ -2.4%	— 0.0%	↑ 0.5%

Current Economic Trends Comments

Japan's manufacturing industry is projected to stabilize as a mature sector not reliant on volume growth by 2030. Domestic demand will center on replacements, with little expansion. Engines will maintain their core role as power units, incorporating electrification and alternative fuels. Competition will shift toward reliability, operational stability, and lifecycle value. Japan will retain its position defining the high-value-added market.

South Korea's manufacturing sector will strengthen its role as a global supply hub while transitioning to next-generation drive technologies. Engine equipment will continue to serve as a revenue base for exports, while investments in hydrogen, fuel cells, and electric powertrains will enter the implementation phase, solidifying a two-tier structure. By 2030, South Korea will have defined its character as a nation fully leveraging its engine industry as a bridge to next-generation technologies.

Market Drivers

These Market Drivers are forces and events that influence the Forecast Globally or Regionally or by Segment.

DRIVER	COMMENTS	IMPACT ON FORECAST
Increasing sophistication and complexity of environmental regulations.	A regulatory design that extends beyond emissions reduction to include fuel diversity and operational efficiency will help Japanese and Korean manufacturers maintain their competitive advantage in advanced engine design, control, and integration technologies.	▲
High-reliability power demand for infrastructure and industrial applications.	Against the backdrop of disaster response, stable energy supply, and business continuity planning, the demand for non-stop, long-life power units will remain strong through 2030. This will support market value, even amid declining unit volumes.	▼
Investment efficiency is reduced due to the pursuit of multiple technologies simultaneously.	The ongoing pursuit of electric, hydrogen, and alternative fuels, coupled with the prolonged payback period for technological investments, will put pressure on short- to medium-term profitability.	▼
Increasing competitive pressure from emerging manufacturers' improved quality and control technologies	The gap is narrowing in terms of not only price, but also performance and reliability. This intensifies price competition, especially for standard applications. This limits the growth areas available to Japanese and Korean manufacturers, restricting them to high-value-added segments.	▼

Far East (Japan and South Korea)

Value-Added Equipment Exports Boost Economy

JAPAN SUMMARY: The market appears to be in a state where unit sales are difficult to increase, but value and added value are maintained. Domestic demand is largely flat, but the economy is being supported by the export of high-value equipment and system integration. The sales model shifts from standalone engines to integrated packages that include engines, ECUs (control units), aftertreatment systems, electric auxiliary equipment, and software for remote monitoring.

User evaluations are shifting from assessing engines alone to evaluating these comprehensive packages. Overall, replacement demand is stronger than new installations. Users prioritize lifecycle costs over initial costs. Furthermore, demand remains strong in the Japanese market for "power units that operate stably without stopping," driven by considerations such as disaster countermeasures and business continuity planning (BCP). Although decarbonization pressure is intensifying and electrification is advancing in various sectors, engines remain essential. Companies are competing to showcase the excellence of their integrated packages.

SOUTH KOREA SUMMARY: This phase is highly susceptible to external demand and investment cycles, which result in significant short-term economic fluctuations. Due to the relatively small scale of domestic demand, development inevitably centers on exports.

In 2025, the proportion of manufacturing solely to meet domestic demand declined further, strengthening the country's position in the global supply chain. Major corporations are making clear mid-term to long-term

investments in electrification, hydrogen/fuel cells, and next-generation powertrains, and the government is actively supporting these efforts.

A two-tiered operational structure is underway, securing cash flow, employment, and equipment utilization through existing engine equipment production while shifting personnel and investment toward next-generation drive, control, and integration technologies.

AGRICULTURAL. Japan. Although the number of farms and the amount of cultivated land continue to decline, demand for equipment upgrades is supporting the AG economy. Domestic shipments of combines and tractors increased during the first half of 2025. This growth resulted from equipment reaching the end of its useful life, coupled with rising rice prices and government policies aimed at increasing rice production.

However, exports have slowed. Although automation, particularly straight-line driving automation, is gradually being implemented for labor-saving purposes, it will likely take time for machinery equipped with such functions to become widespread among general farmers due to the increased costs associated with higher value-added features.

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Far East: Value-Added Equipment Exports Boost Economy

Continued from page 33

CONSTRUCTION. Japan. Production volume has trended downward year-over-year. Although exports showed signs of recovery in the second half of the year, driven primarily by compact excavators, domestic demand remains weak. This is mainly due to a slowdown in private construction investment, project delays caused by labor shortages and high material costs resulting in delayed new equipment purchases, and the prolonged use of existing machinery.

Overseas demand is supported by: North America, where infrastructure and energy-related investments persist despite high interest rates; the Middle East and India, where urban development projects continue; and the mining and resource sectors, where replacement demand and investment focused on utilization rates have resumed.

Overseas demand centers on high-priced, high-value machines, with an increasing proportion of machines complying with exhaust gas regulations, fuel-efficient models, and ICT construction-compatible equipment.

South Korea. Domestic demand was weak in 2025. Construction investment remained sluggish due to a decline in regional development projects, deteriorating real estate conditions in urban areas, and a trend of restraining public investment. With few large-scale construction projects, market sentiment remained cool. Fortunately, external demand has functioned as a buffer, with exports supporting the CN economy amid cooling domestic demand.

South Korea exports significant quantities of construction machinery, including engines and components, to emerging nations and for mining and resource development, leveraging cost competitiveness and exchange rates. Although U.S. tariffs pose a risk, South Korean manufacturers are expanding into the Middle East and Africa, making strategic moves in the global market.

MARINE. Japan. In 2025, Japan's merchant marine engine market clarified its position. Rather than focusing on the number of newbuilds or total output, Japan defined themselves by environmental compliance

Far East: Value-Added Equipment Exports Boost Economy

Continued from page 34

and reliability. This positioned them as the driving force behind the technological philosophy and design requirements for merchant marine engines.

Japan lags China and South Korea in terms of shipbuilding volume and market size, as is well known. While some use this fact to claim that Japan's shipbuilding industry is "losing," this oversimplifies the concept of winning or losing.

In 2025, the actual demand was not driven by large-scale newbuild orders but rather by retrofitting needs for the existing fleet, such as compliance with EEXI/CII, improvements in fuel efficiency and operational optimization, and preparation for fuel conversion. Amid the trend toward next-generation fuels such as LNG, methanol, and ammonia, the development of dual-fuel systems is progressing based on a design philosophy that ensures readiness for any of these fuels.

For outboard engines, 2025 can be considered the year when operations finally returned to normal. It marked the beginning of a stable period in which neither domestic nor overseas demand experienced explosive growth, nor did demand slow down sharply. Unit sales remained flat or increased slightly, while unit prices and added value remained stable. This is due to the reduced share of small-displacement, low-cost models, the strong performance of mid-to-large models, and the ongoing shift to four-stroke engines.

Perception of outboard engines is shifting from leisure consumer goods to durable units designed for long-term use. Although electrification is a topic of discussion, its practical implementation remains a distant prospect. Realistically, Japanese manufacturers' outboard engines have reaffirmed their irreplaceable position when evaluated based on reliability, service networks, and proven track records.

South Korea. The substantial commercial ship order backlog stabilizes the outlook for commercial marine engine demand. Demand remains strong for both new builds and retrofits, with a variety of equipment installations planned to meet regulatory requirements.

INDUSTRIAL. Japan. Production of forklifts and other equipment is expected to increase year over year throughout 2025. Investment in labor-saving measures and operational efficiency improvements for logistics and warehousing remains robust. Strong ongoing demand for on-site improvements creates an environment conducive to continued fleet renewal and expansion. Although battery-powered vehicles have shown an annual increase in market share in recent years, this growth has now stabilized. Exports are also performing well, particularly for electric models.

RECREATIONAL PRODUCTS. Japan. Production is expected to remain flat or see slight growth for the full year of 2025. However, a decline is also possible, depending on export performance. Domestic demand is low, and 2025 marks a turning point with the implementation of stricter emissions regulations for motorcycles. Production of mopeds under 50cc ended in late October. This has had a particularly decisive impact on small-displacement models.

Shifting focus from watching for the domestic Japanese production to overseas production by Japanese brands, Latin America and Africa showed year-on-year growth, while Europe slowed. Going forward, with the market introduction of electric models, the competitive landscape for Japanese brands is expected to shift not only in Japan but globally. **PSR**

Southeast Asia Production Trends 2025

Current Production Trends

This chart shows the last four quarters for the current forecast year and it gives an indication of how the total or regional market is trending

Q4 2025	Q3 2025	Q2 2025	Q1 2025
▲ 2.3%	▲ 0.8%	▬ 0.0%	▼ -0.1%

Current Economic Trends Comments

Southeast Asia is one of the few regions where volume growth continues. Against a backdrop of population growth, urbanization, infrastructure investment, and mechanized agriculture and logistics, new installations and replacements proceed simultaneously across a wide range of applications. Electrification and environmental regulations will be introduced gradually, but internal combustion engines (ICE) will remain dominant.

Market growth is more likely to be uneven with peaks and valleys rather than a stable upward trajectory due to differences in national policies and regulations. On the production side, local manufacturing of finished vehicles and machinery, along with CKD assembly, will expand steadily increasing supply capacity within the region. While the growing presence of Chinese manufacturers will intensify price competition, the market itself will continue to expand.

Market Drivers

Market Drivers are forces and events that influence the Forecast whether Globally or Regionally or by Segment.

DRIVER	COMMENTS	IMPACT ON FORECAST
Continued infrastructure investment and urbanization.	Infrastructure development will continue over the medium term, sustaining demand for engine-equipped equipment through 2026.	▲
Increased demand for mechanization and equipment upgrades driven by rising incomes and industrial advancement.	Mechanization is replacing traditional manual labor and outdated machinery in agriculture, logistics, and manufacturing. This involves new installations and replacements happening at the same time.	▼
Policy and Regulatory Discontinuity	Frequent changes in emissions regulations, incentives for electrification, import restrictions, and subsidy programs tend to lead to a pattern of pulled-forward demand followed by a rebound decline.	▼
Price-driven competition due to the rapid penetration of Chinese manufacturers	Chinese manufacturers are increasing their presence in construction machinery, motorcycles, and small commercial machinery. This contributes to market expansion but also suppresses quality growth through falling prices and declining profit margins.	▼

Southeast Asia

General Economic Recovery Varies by Country

SUMMARY. Although Southeast Asia's manufacturing sector is generally recovering, the outlook varies by country. The following is a summary of the status and outlook for major nations in the region.

Indonesia. Overall, in 2025 domestic manufacturing rebounded in the in the last six months. The government prioritized rupiah stability by curbing sharp exchange rate fluctuations. Because the economy is driven by massive domestic demand, financial conditions and consumer sentiment directly impact production. Industrial policies targeting EVs and batteries attracted investment, which bolstered engine equipment production.

Malaysia. The relatively stable exchange rate has provided a tailwind for production reliant on CKD and component imports. However, the exchange rate remains highly susceptible to external factors, and domestic production is easily influenced by domestic demand and interest rate trends.

Philippines. In the second half of 2025, economic momentum in the manufacturing sector slowed and production sentiment deteriorated. Although domestic demand remains strong, the sector relies heavily on imports and assembly, making it vulnerable to fluctuations in exchange rates, logistics, and financial conditions. Although policy aims to advance manufacturing sophistication, short-term production is prone to macroeconomic volatility 2025.

Thailand. While production recovered in the latter half of 2025, primarily in the automotive sector, exporters faced profitability pressures due to the strong baht.

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The government continues its EV promotion policies, but demand for EVs remains sluggish, indicating a transitional phase. 2025 was a year of significant ups and downs.

Vietnam. Production momentum accelerated again in the second half of 2025, marking a recovery. The rebound in export manufacturing drove up production capacity utilization rates for engine equipment. Despite exchange rate fluctuations, the country remains appealing as a production base.

Cambodia. The year 2025 was marked by significant vehicle production launches and assembly investments. Government investment incentives and foreign capital, primarily from China, advanced the establishment of assembly bases. This phase is considered foundational development.

The year 2025 was marked by cyclical patterns across Southeast Asia, with adjustments in the first half and recovery in the second. Countries dependent on domestic demand, such as Indonesia and the Philippines, were influenced by financial conditions and consumer trends.

Southeast Asia: General Economic Recovery Varies by Country

Continued from page 37

Meanwhile, export-oriented hubs, such as Thailand and Vietnam, experienced fluctuating production due to exchange rates and external demand.

In the manufacturing sectors, Vietnam showed the strongest signs of recovery. Malaysia awaited recovery, while the Philippines deteriorated in the latter half of the year. In terms of policy, promoting EVs and attracting investment emerged as common themes. The focus shifted from expanding the volume of existing engine equipment to transforming production structures.

AGRICULTURAL. In Thailand and Vietnam, two key markets in the region, production remained stable without a significant decline. This was supported by domestic replacement demand and exports to neighboring countries. Indonesia's robust demand for agricultural efficiency continues to bolster regional demand. Meanwhile, the Philippines and Malaysia experienced demand adjustments in 2025 and did not actively increase production volumes.

Overall, 2025 was a year that clarified the selection and roles of production bases within the agricultural machinery market. I anticipate approximately 4% growth for the full year, but it will be necessary to closely monitor how each country finalizes its statistics.

CONSTRUCTION. For construction equipment production, the year 2025 was one of adjustment and realignment rather than expansion. Thailand and Indonesia, two major production hubs in the region, experienced a decline or stagnation in production in 2025 due to sluggish domestic demand and inventory adjustments.

Although Vietnam experienced an improvement in demand due to a recovery in construction investment, the exchange rate remains a concern.

Overall, 2025 was not a year for increasing production volume. Rather, it reaffirmed the consolidation of production bases within the region.

RECREATIONAL PRODUCTS. Compared to the previous year, final numbers for 2025 are expected to show largely flat to modest growth, marking the end of the post-pandemic rapid recovery phase and a return to normal growth rates.

In terms of volume, Indonesia and Vietnam continue to drive production, with the manufacturing focus remaining concentrated in these two countries.

Chinese brands expanded steadily, particularly in electric motorcycles and low-cost ICE models, advancing market penetration through imported complete vehicles and local assembly.

Nevertheless, Japanese brands (Honda and Yamaha) maintained their dominant position in terms of production volume, supply capacity, and sales networks in 2025.

Electric motorcycles are gradually increasing their sales and production share, particularly in Vietnam. Nevertheless, ICE motorcycles remain dominant throughout the region. By 2025, the market can be described as "electric has become visible but remains quantitatively complementary." **PSR**

India Production Trends 2025

Current Production Trends

This chart shows the last four quarters for the current forecast year and it gives an indication of how the total or regional market is trending

Q4 2025	Q3 2025	Q2 2025	Q1 2025
↑ 0.1%	↓ 4.9%	— 0.0%	↑ 2.8%

Current Economic Trends Comments

India's automotive production is moving in a stable but cautiously calibrated trajectory, driven by improving component availability and steady demand across most segments. However, OEMs are finely balancing output due to inventory pressures, regulatory transitions, and uneven export recoveries, keeping production growth measured in the near term.

Market Drivers

These Market Drivers are forces and events that influence the Forecast whether Globally or Regionally or by Segment.

DRIVER	COMMENTS	IMPACT ON FORECAST
Inventory Balancing & Demand Visibility	OEMs are calibrating production based on fluctuating retail demand and elevated dealer inventory in some segments (notably passenger vehicles and select 2W categories). While festive and year-end demand boosted dispatches, OEMs remain cautious to avoid stock buildup, moderately restraining production momentum	—
Transition to New Fuel Technologies	OEMs shifting toward EVs, hybrids, flex-fuel and CNG variants are reconfiguring production lines. This causes temporary disruptions or phased production pauses for certain ICE models while plants undergo platform upgrades.	▼
Improved Component Availability	Semiconductor supply has stabilised compared to the previous two years, allowing smoother production schedules, especially for SUVs, premium motorcycles, and electronics-heavy vehicles. Localization of wiring harnesses, electronics, and powertrain components further reduces dependency and improves production continuity.	▲

India

Automotive Sector Shows Steady Momentum and Structural Shifts

India's economy closed Q4 2025 on a steady footing, supported by resilient domestic consumption, stable inflation, and firm government spending on infrastructure. Rural demand, which had softened earlier due to uneven monsoons, began showing early signs of recovery as agri-incomes stabilized and credit availability improved.

Urban sentiment remained positive, driven by a strong services sector and expanding employment in technology, logistics, retail and manufacturing. Private investment stayed selective but showed momentum in sectors aligned with government priorities—transport, power, renewables, and industrial production. Lower commodity volatility and improved supply chains also aided cost stability across industries.

Against this macro backdrop, the wider automotive market benefitted from consistent retail traffic, better financing conditions and improved supply availability at dealerships. Tax rationalization efforts on select vehicle categories strengthened affordability and contributed to higher festive-season conversions.

OEMs increased their production schedules to align with both domestic demand and rising export requirements, reinforcing India's position as an emerging global manufacturing hub. Overall, the quarter underlined a recovery-driven but structurally strengthening economy that continues to anchor automotive sector performance.

RECREATIONAL PRODUCTS. Motorcycle and Scooters. The two-wheeler industry delivered another stable quarter supported by improving rural sentiment and strong entry-level replacement demand. Motorcycle sales picked up gradually as cash flows improved in agriculture-linked regions, while scooters maintained steady traction in urban markets driven by commuting needs and rising female ownership.

India's economy closed Q4 2025 on a steady footing, supported by resilient domestic consumption, stable inflation, and firm government spending on infrastructure.

OEMs such as Hero MotoCorp, Bajaj Auto, TVS Motor and Honda sustained product refreshes in commuter and premium segments, which helped sustain showroom activity.

A major highlight this quarter was the revival in export shipments. Manufacturers benefited from easing currency pressures in key African and Latin American markets, prompting a recovery in overseas orders. Domestically, pricing stability and the push towards newer, more fuel-efficient engines supported buying intentions in the commuter segment. Electric two-wheelers continued their expansion, though volumes were still modest compared to ICE models. Several OEMs advanced localisation of EV components to reduce cost dependencies and strengthen long-term competitiveness.

Overall, the quarter reflected a cautiously improving environment for the two-wheeler segment, with rural stabilization and export revival poised to play a larger role in sustaining growth ahead.

Three Wheelers. The three-wheeler industry maintained positive momentum driven by steady urban transport demand, expanding last-mile logistics, and accelerating adoption of electric autos. This segment remains one of the earliest beneficiaries of India's urban mobility transition, with OEMs such as Bajaj Auto, Piaggio, Mahindra Last Mile Mobility and YC-Electric leveraging strong portfolios across both ICE and EV formats.

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India: Automotive Sector Shows Steady Momentum and Structural Shifts

Continued from page 40

Domestic passenger carriers saw healthy traction as city-level mobility improved and shared-transport usage normalised. Cargo three-wheelers sustained demand from e-commerce and local delivery networks, with electric variants gaining significant ground due to lower running costs and simplified maintenance. Export markets also contributed meaningfully, as Indian three-wheelers continue to remain cost-competitive in developing nations, especially in Africa and South Asia.

Manufacturers increased production schedules for high-demand electric models and strengthened their dealership networks for after-sales support. Policy direction toward cleaner urban mobility—including incentives for electrified last-mile fleets—also boosted OEM confidence. The quarter signals not only continued recovery but a structural shift, with electric three-wheelers rapidly becoming the mainstream choice for commercial and small-business users.

PASSENGER CARS, MINIVANS & SUVs. The passenger vehicle market continued its strong performance this quarter, led by SUVs, compact UVs and premium hatchbacks. Maruti Suzuki, Hyundai, Tata Motors, Mahindra, Toyota and Kia remained the growth anchors as customers gravitated towards feature-rich and safety-enhanced models. Improved semiconductor availability allowed OEMs to clear pending orders and optimise inventory at dealerships.

SUVs remained the star category, capturing the bulk of incremental demand driven by new launches, aggressive facelifts and rising preference for higher-ground-clearance vehicles among first-time and family buyers. Sedans and hatchbacks continued to operate in stable but lower-volume territory, with the premium hatch segment showing signs of revival.

Exports were a standout positive. India-made cars expanded their global presence as OEMs leveraged domestic cost advantages and increased production flexibility. Maruti Suzuki, Hyundai, Kia and others scaled up exports to Latin America, Middle East and Africa, helping India strengthen its automotive export footprint.

India: Automotive Sector Shows Steady Momentum and Structural Shifts

Continued from page 41

EVs in the passenger car market grew gradually, led by Tata Motors and emerging competition from global players. Price repositioning, improved charging infrastructure and better financing options supported consumer confidence.

COMMERCIAL VEHICLES. The commercial vehicle (CV) sector posted a mildly positive quarter, supported by freight movement, infrastructure execution and stable fleet replacement activity. Tata Motors, Ashok Leyland, Mahindra, Eicher (VE Commercial Vehicles) and other OEMs recorded healthy activity in medium and heavy trucks, while demand for light commercial vehicles remained steady due to intra-city logistics and MSME movement.

With construction, mining and road projects operating at full capacity, heavy-duty trucks saw consistent utilisation rates. However, fleet operators remained selective in new purchases, balancing caution around costs with the necessity to modernize fleets. On the production side, OEMs expanded their BS6+ compliant offerings and broadened their CNG and electric portfolios, anticipating gradual shifts toward cleaner commercial mobility.

Exports recovered moderately as Indian CVs gained traction across Middle-East, Africa and select ASEAN markets. OEMs are also investing in platform efficiencies, including alternate-fuel trucks and hydrogen-ready engines, laying groundwork for transition over the medium term. Despite cost pressures and financing challenges for small fleet owners, the quarter highlighted underlying replacement demand and the role of infrastructure in stabilising the CV sector.

CONSTRUCTION EQUIPMENT AND AGRICULTURE. The Construction Equipment (CE) segment registered steady activity this quarter as government-led infrastructure spending continued across highways, metro rail, industrial corridors and urban development projects. Companies dealing in earthmoving, material handling and road-construction machinery saw moderate growth, though financing cycles and seasonal project delays created uneven month-to-month demand.

In contrast, the Agricultural equipment sector—especially tractors—performed strongly. Mahindra & Mahindra, TAFE, Escorts Kubota and regional manufacturers benefitted from stable crop prices, better liquidity and improved sentiment in rural markets. Tractor sales registered consistent volume growth supported by replacement cycles and increased mechanisation across states.

Export orders for tractors and farm machinery increased as well, particularly from Africa and South America, where Indian OEMs continue to benefit from competitive pricing and robust service networks. With multiple OEMs investing in upgraded engines, precision-farming attachments and fuel-efficient drivetrains, the agriculture segment remains one of the most dependable pillars of the wider automotive industry.

The quarter overall reaffirmed the dual-track trend: steady infrastructure-driven demand in CE and strong rural momentum in agricultural vehicles. **PSR**

Brazil Production Trends 2025

Current Production Trends

This chart shows the last four quarters for the current forecast year and it gives an indication of how the total or regional market is trending

Q4 2025	Q3 2025	Q2 2025	Q1 2025
▲ 24.6%*	▲ 1.6%	▬ 0.0%	▬ 0.1%

**Not including new Lawn & Garden products*

Current Economic Trends Comments

Production volumes remain broadly stable through, with limited upside and recovery postponed as interest rate and political constraints delay investment and fleet renewal decisions.

Market Drivers

High interest rates, tight credit availability, election-related uncertainty, replacement-driven demand, selective export support, and gradual portfolio shifts linked to localization and regulation rather than volume expansion

DRIVER	COMMENTS	IMPACT ON FORECAST
Lawn and Garden	New products and new OEM included at Database Local production of formerly imported products	▲
Construction	Normalization after several years of elevated sales volumes. Demand is consolidating at structurally higher levels	▬
Light Vehicles (LCV, Passenger Cars Minivans and SUVs)	Imports from China bring competition with local production. Exports to Argentina helps a small growth. MOVER program drive portfolio review and sales & production mix change.	▬
Medium and Heavy Vehicles	Class 8 Reduction due to fleet renewal postponing due to High Interest rates with perspective of reduction in 2026. Lighter segments growing with GDP growth. School bus program final steps.	▬
Agricultural	Record grain harvester in 2025/26. Expansion of planted area. Fleet renewal. Commodities price pressure Agrobusiness default risk.	▲
Recreational Products	Growth with last mile delivery use and option for low-cost transportation.	▲

Argentina Production Trends 2025

Current Production Trends

This chart shows the last four quarters for the current forecast year and it gives an indication of how the total or regional market is trending

Q4 2025	Q3 2025	Q2 2025	Q1 2025
-2.2%	9.6%	0.0%	1.4%

Current Economic Trends Comments

Argentina continues to show a moderately positive bias in 2025–2026, absorbing incremental regional volumes as macro stabilization supports a gradual recovery from depressed levels.

Market Drivers

GDP rebound, improving business confidence, normalization of agricultural activity, selective production reallocation, and stronger integration with regional trade flows, despite ongoing financing limitations

DRIVER	COMMENTS	IMPACT ON FORECAST
Light Vehicles (LCV, Passenger Cars Minivans and SUVs)	Despite of overall growth observed due to Household income increase and improved confidence with Economy recovery, there was a political instability reducing the projected growth at Q4.	▼
Medium and Heavy Vehicles	Fleet demand increase with economy growth	▲
Agricultural	Local production remains at same level but machines imports from Brazil grow with Agricultural Business growth	—
Recreational Products	Recovery of Argentina economy and investments in local production to replace imported motorcycles from Brazil.	▲

Colombia Production Trends 2025

Current Production Trends

This chart shows the last four quarters for the current forecast year and it gives an indication of how the total or regional market is trending

Q4 2025	Q3 2025	Q2 2025	Q1 2025
-2.0%	12.8%	0.0%	4.0%

Current Economic Trends Comments

Growing modestly from a low base, contributing incremental gains to the region without altering the overall regional balance.

Market Drivers

Urban mobility demand, improving consumer sentiment, and stable macro growth, with limited exposure to large-scale investment cycles

DRIVER	COMMENTS	IMPACT ON FORECAST
Light Vehicles (LCV, Passenger Cars Minivans and SUVs)	Gradual demand recovery with economy improvement.	▲
Light Vehicles (LCV, Passenger Cars Minivans and SUVs)	Issues at the ramp up of new products launched for local market and export caused revision of total volumes of 2025 down.	▼
Medium and Heavy Vehicles	Stable at low level, with episodic fleet renewal and low growth with economy recovery.	▲
Recreational Products	Economy recovery after challenging 2024. Growth with last mile delivery use.	▲

South America/Brazil

Financial Tightness Delays Broader Recovery

SOUTH AMERICA SUMMARY. The macroeconomic outlook in South America has not significantly changed since Q3 2025, but the balance of risks has become clearer as the region moves into a late-cycle adjustment phase.

High interest rates, tight credit conditions, and fiscal uncertainty continue to weigh on investment decisions, reinforcing a cautious stance across most equipment and vehicle segments, despite regional GDP growth remaining broadly positive at 2%–3% in 2025.

We see the South American GDP growing by 3.9% in 2026. However, America's intervention into the internal affairs of Venezuela has added an important element of uncertainty to South America's economic equation.

Brazil remains the regional anchor, with a forecast of reduced growth in economic activity at 2.2% GDP growth in 2025 and 1.7% GDP growth in 2026. Increased interest rates, with the policy rate near 15%, are expected to be reduced gradually to 12% from Q2 to Q4 in 2026. Real rates close to double digits will continue to constrain financing-sensitive segments and postpone fleet renewal decisions in a demand situation that is largely led by replacements rather than expansion.

Political and fiscal noise, combined with external trade uncertainty, limits visibility beyond the near term, despite selective support from exports and public programs. Brazil's upcoming election cycle adds an additional layer of uncertainty to the economic outlook, reinforcing a cautious stance among investors and corporate decision-makers.

Historically, election years tend to delay investment and financing decisions.

Author

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However, America's intervention into the internal affairs of Venezuela has added an important element of uncertainty to South America's economic equation.

While short-term economic activity is not expected to deteriorate, the election cycle increases risk aversion and constrains medium-term planning, effectively pushing a more constructive investment and growth outlook toward the post-election period. As a result, 2026 is expected to remain characterized by stabilization rather than acceleration, with clearer recovery signals emerging only after political and policy visibility improves.

Argentina continues to play a counter-cyclical role, supported by ongoing macro stabilization and GDP growth rebounding toward 3.8% in 2025 and 2.5% in 2026, estimated by the most conservative GDP forecast agencies in the region (Itaú), allowing it to absorb incremental regional volume and partially offset weakness elsewhere. Colombia and other Andean markets provide limited downside risk mitigation, with GDP growth clustered around 2–3%, yet it is a smaller contribution factor to regional production growth.

Overall, the regional macro environment reinforces a "transition year" narrative for 2025–2026, with stabilization taking precedence over growth. A more constructive outlook is pushed toward the post-2026 election cycle in Brazil and Argentina.

REGIONAL PRODUCTION OUTLOOK. Regional view: No broad-based expansion is expected before 2027; near-term performance will be driven by mix changes and execution rather than total volume growth.

Production. From a production standpoint, South America's outlook remains broadly stable versus Q3 2025, with no significant revisions to the short-term trajectory.

South America/Brazil: Financial Tightness Delays Broader Recovery

Continued from page 46

2025: Regional production remains flat to slightly negative year-on-year, constrained by credit conditions, with corporate credit growth largely in the mid-single-digit range, and cautious OEM planning.

2026: Stabilization is expected, with selective recovery in segments less exposed to financing costs and more linked to exports, rental, and project-driven demand.

Brazil: Volumes remain anchored in replacement demand, with limited fleet expansion across most segments.

Argentina continues to absorb incremental volume through improved macro conditions and selective production reallocation.

MEDIUM & HEAVY VEHICLES. High interest rates and restrictive credit conditions continue to constrain demand, particularly in heavy and extra-heavy trucks, keeping OEM production planning cautious. While freight activity, GDP growth and new record grains harvest forecast provide a demand floor, with regional GDP expanding around 2%–3%, financing conditions remain the key short-term limiting factor.

In Brazil, GDP growth is expected at 2.2% in 2025 and 1.7% in 2026, investments on fleet renewal will continue to be postponed with the expectation of reduced interest rates for new trucks during the period Q2 2026 through Q4 2026.

Brazil continues with volumes primarily driven by replacement demand rather than fleet expansion. **Argentina** plays a counter-cyclical role, supported by macroeconomic stabilization and improving business confidence, allowing it to absorb incremental regional volume and support intra-regional trade flows.

Class 8 production remains under pressure as fleet renewal decisions continue to be postponed due to persistently high interest rates, with a drop of 11.1% in 2025, compared to 2024. A gradual improvement is expected from 2026 onward, supported by the prospect of a less restrictive monetary policy.

In contrast, lighter Truck segments (Truck Class 4 to Class 7) show more resilient growth, benefiting from GDP expansion, shorter replacement cycles, and demand linked to urban distribution and regional logistics, with a growth of 7% 2025 vs. 2024. We see the total MHV segment at -5.9% in 2025 compared to 2024.

Bus production provides support through public procurement and school transportation programs. While there is a forecast of 3,000 units already approved for the public health department and there are expectations of new scholar program, the fiscal

South America/Brazil: Financial Tightness Delays Broader Recovery

Continued from page 47

constraints and demand for public expenditures from multiple sectors in an election year should restrict the volumes of buses and should hold Bus production in Brazil down to about -7.8%.

The rollout of electric buses in Brazil remains slower and more uneven than initially planned, with São Paulo continuing to set the pace but under revised timelines. SPTrans (São Paulo Bus Regulatory Agency) has formally postponed its original electrification targets, shifting the near-term focus from rapid fleet conversion to a more gradual replacement path, constrained by funding availability, charging infrastructure rollout, and operational readiness.

As a result, electric bus deliveries in São Paulo are now expected to enter the fleet at a moderated pace through 2026 rather than in large annual batches. Other major municipalities, including Belo Horizonte, Curitiba, and selected state capitals, maintain pilot programs and medium-term electrification plans, but volumes remain limited.

Electric buses are expected to gain share from the ICE Diesel buses in the next 5 – 10 years, below the announced plans, but yet providing important growth.

Overall, 2026 remains a stability year, with gradual improvement expected only as credit conditions improve.

LIGHT COMMERCIAL VEHICLES. LCV production in South America remains comparatively resilient, supported by urban logistics, services, and fleet-based demand. The overall scenario shows replacement demand and operational needs sustaining production levels into 2026.

Argentina remains a strategic pickup manufacturing hub for the region, with a significant share of output structurally linked to Brazilian demand. Uruguay continues to act as a complementary assembly base for vans and light utility vehicles, supporting regional supply through exports rather than driving standalone growth.

Looking ahead, announced hybrid pickup introductions scheduled for the next few years, incorporated in this database update, are expected to support portfolio diversification and incremental demand resilience, particularly in higher-end applications, without materially changing near-term production volumes.

> *The rollout of electric buses in Brazil remains slower and more uneven than initially planned, with São Paulo continuing to set the pace but under revised timelines.*

Electrification continues to gain attention in last-mile delivery applications; however, penetration is expected to advance gradually and at a slower pace than market expectations. Cost pressure, acquisition price sensitivity, and TCO considerations limit near-term scale adoption. Initial uptake remains concentrated in B2C distribution fleets driven by sustainability positioning, with broader operational adoption expected only as technology matures and costs decline.

PASSENGER CARS, MINIVANS & SUVs. We continue to point to gradual growth for this segment in 2025 and 2026, led by Brazil 4.3% and Argentina 3.1%, respectively, with credit availability and household purchasing power remaining the main short-cycle drivers.

SUVs further will increase their share within the vehicle mix. In Brazil, beyond demand fundamentals, the ramp-up of new local production capacity by Chinese OEMs such as BYD and GWM becomes an increasingly relevant factor, supporting higher local output and a progressive substitution of imports, particularly in electrified and SUV segments, as import tariffs rise.

Brazil remains the primary demand and production anchor for the region, with output growth increasingly driven by localization, mix optimization, and improved capacity utilization rather than aggressive greenfield expansion.

Argentina continues to function as a swing production base, with local plants structurally linked to Brazilian absorption capacity.

South America/Brazil: Financial Tightness Delays Broader Recovery

Continued from page 48

In Colombia, sales growth expectations for 2026 are comparatively more constructive, but local production remains modest and focused on domestic and Andean Pact markets, with incremental demand still largely met through imports. The renewal of trade agreement between Brazil and Colombia should reinforce stability both at Colombia sales and Brazil exports and production balance. Chile and Peru continue to reinforce the regional demand backdrop but remain structurally import-dependent, with limited impact on regional production volumes.

The confirmed increase in import duties on EVs and hybrids starting in 2026 reinforces the medium-term localization logic, accelerating local production ramp-ups and reducing import dependence over time, while near-term production trajectories remain shaped by execution pace, capacity ramp-up curves, and demand absorption rather than a sudden shift in total market volumes.

The MOVER program and the proposed "Green Tax" framework are expected to impact more the light-vehicle portfolio rather than materially lift total market volumes in the short term. The tax incentives designed to better emissions performance, energy efficiency, and local manufacturing, employ a policy framework that favors OEMs with domestic production plans and accelerates portfolio shifts toward more efficient and electrified models.

LAWN AND GARDEN. The Lawn & Garden segment shows gradual structural strengthening, supported by portfolio expansion and increased local industrial presence. New products and additional OEMs have been incorporated into the database, reflecting a broader and more diversified offering across equipment categories. At the same time, part of the recent production growth is linked to the localization of items previously supplied via imports, driven by cost competitiveness, exchange-rate exposure, and logistics efficiency, reinforcing domestic manufacturing and supporting a more resilient supply structure. Looking ahead, announced capacity expansions underpin a forecasted production increase of 25.6% in 2026 over 2025, for the segment, sustaining positive momentum over the outlook period.

AGRICULTURAL EQUIPMENT. Despite solid harvest volumes, weaker commodity prices and financing conditions keep the market replacement-driven rather than expansion-led.

Risk perception in the agricultural sector improved marginally in Q4 2025 following signals of reduced

South America/Brazil: Financial Tightness Delays Broader Recovery

Continued from page 49

trade-related pressure, particularly regarding USA-Brazil agricultural flows.

However, high agricultural business default rates and record Chapter 11 metrics at agricultural businesses are a significant concern for OEMs and funding agencies.

This slight improvement supports confidence rather than driving change in production planning. Argentina, with significant economic recovery, contributes positively through crop normalization after recent droughts, although credit constraints continue to cap demand.

Regulatory uncertainty related to PROCONVE MAR II remains a question mark. The lack of a defined implementation timeline delays product adaptation and supply chain decisions, reinforcing conservative production planning.

Expectations for 2026 point to gradual improvement as credit conditions ease, without a sharp recovery.

CONSTRUCTION EQUIPMENT. Construction equipment production in South America remains in a normalization phase and aligned with expectations of stable market conditions into 2026. After several years of elevated sales volumes, demand is consolidating at structurally higher levels, with utilization rates, parked fleet size, and disciplined capital allocation limiting short-term upside rather than signaling a downturn.

Brazil continues to anchor regional volumes, supported by a sustained replacement cycle and selective demand from rental companies, infrastructure projects, and mining-related activity. While overall market growth remains constrained by high interest rates and credit access, rental penetration continues to expand gradually, influencing equipment mix and supporting demand resilience.

Argentina provides selective, project-driven support linked to energy, infrastructure, benefiting from improving macroeconomic conditions but still operating under financing constraints.

Import pressure, particularly from value-oriented competitors, remains a key factor shaping pricing and product mix decisions. Despite a cautious short-term outlook, visibility improves in specific applications such as platforms, compact and small-size equipment, and rental-oriented fleets, where lower ticket size, faster payback, and urban and maintenance-driven use cases support relatively stronger demand compared with heavier classes. These dynamics partially offset softer demand in more traditional segments.

Construction equipment production in South America remains in a normalization phase and aligned with expectations of stable market conditions into 2026.

Regulatory uncertainty related to PROCONVE MAR II continues to complicate medium-term planning, delaying platform transitions and supply chain transition opportunities.

Overall, production expectations remain centered on stability rather than expansion, with volume performance supported by mix optimization, rental demand, and project-based opportunities rather than broad-based market growth

INDUSTRIAL EQUIPMENT. The industrial equipment outlook remains stable to slightly positive, with no major change from the Q3 2025 update. Demand continues to be driven by industrial activity, infrastructure maintenance, Oil and Gas, and Mining.

Brazil remains the primary market and production hub, while Argentina, Colombia, Chile and Peru contribute selectively through project-driven demand.

Within this segment, forklifts follow a distinct dynamic. Market expectations point to stable demand supported by logistics, warehousing, and rental fleet replacement, while local production remains structurally constrained by import competition, particularly from lower-cost suppliers. Electrification continues to advance in forklifts, driven mainly by lithium-ion battery adoption

South America/Brazil: Financial Tightness Delays Broader Recovery

Continued from page 50

and productivity gains, affecting product mix more than locally produced volumes.

POWER GENERATION. The Power Generation equipment market in South America continues to outperform the broader industrial cycle, supported by the ongoing expansion of data centers in Brazil and Chile and the associated need for backup power.

Large data center applications rely predominantly on imported high-power engines and complete gen-set solutions for standby applications, limiting direct impact on local engine production. However, they generate significant business for international players with local presence through engineering, integration, installation, commissioning, and long-term service contracts.

Oil & Gas in Brazil and Argentina and mining activity in Brazil, Chile and Peru continues to support demand for mid-range power solutions more likely to be assembled or supported locally, contributing to production stability.

Overall, this project-driven segment remains stable, with production planning anchored in confirmed demand and service opportunities.

RAILWAY. The Railway segment retains a structurally positive long-term outlook, with reinforced visibility around the investment pipeline. Public policy continues to push a shift in the freight transport matrix toward higher rail participation, supported by private investment and the railway authorization framework.

This environment remains highly supportive of rolling stock production in Brazil, particularly locomotives and wagons, providing a multi-year order pipeline and improved production visibility. While year-to-year volumes remain volatile due to project timing, the underlying fundamentals support a stable manufacturing environment and continued investment in technology and capacity over the medium-to-long term.

RECREATIONAL PRODUCTS. The motorcycle segment in South America is expected to remain resilient heading into 2026, anchored by strong fundamentals in Brazil

and supportive regional trends. In Brazil, the largest market by far, production should exceed 2.0 million units in 2025, among the highest volumes in over a decade and reflecting solid consumer demand and robust urban mobility use cases, including delivery and fleet segments. The recent growth trajectory and the economic fundamentals point to continued moderate expansion, albeit with moderation as macro headwinds persist.

For neighboring markets, Colombia's two-wheeler industry has demonstrated above-average growth over recent cycles, supported by local assembly capacity and expanding urban demand, positioning it for ongoing volume gains through 2026.

Argentina, historically a smaller producer with predominantly imported components and assembly, continues to see motorcycles playing an important role in urban and commercial mobility, even as economic volatility tempers broader market expansion.

Paraguay, while a smaller market in absolute terms, is projected to see mid-to-high single-digit growth rates through the latter half of the decade, reflecting rising affordability and demand penetration.

Taken together, these dynamics support a regional motorcycle market that remains stable to moderately expanding in 2026, with Brazil driving the bulk of volumes, Colombia contributing incremental growth, and Argentina and Paraguay reinforcing broad demand, even as macroeconomic constraints shape medium-term trajectories. **PSR**

V. Research Methodology

Power Systems Research (PSR) Research Methodology

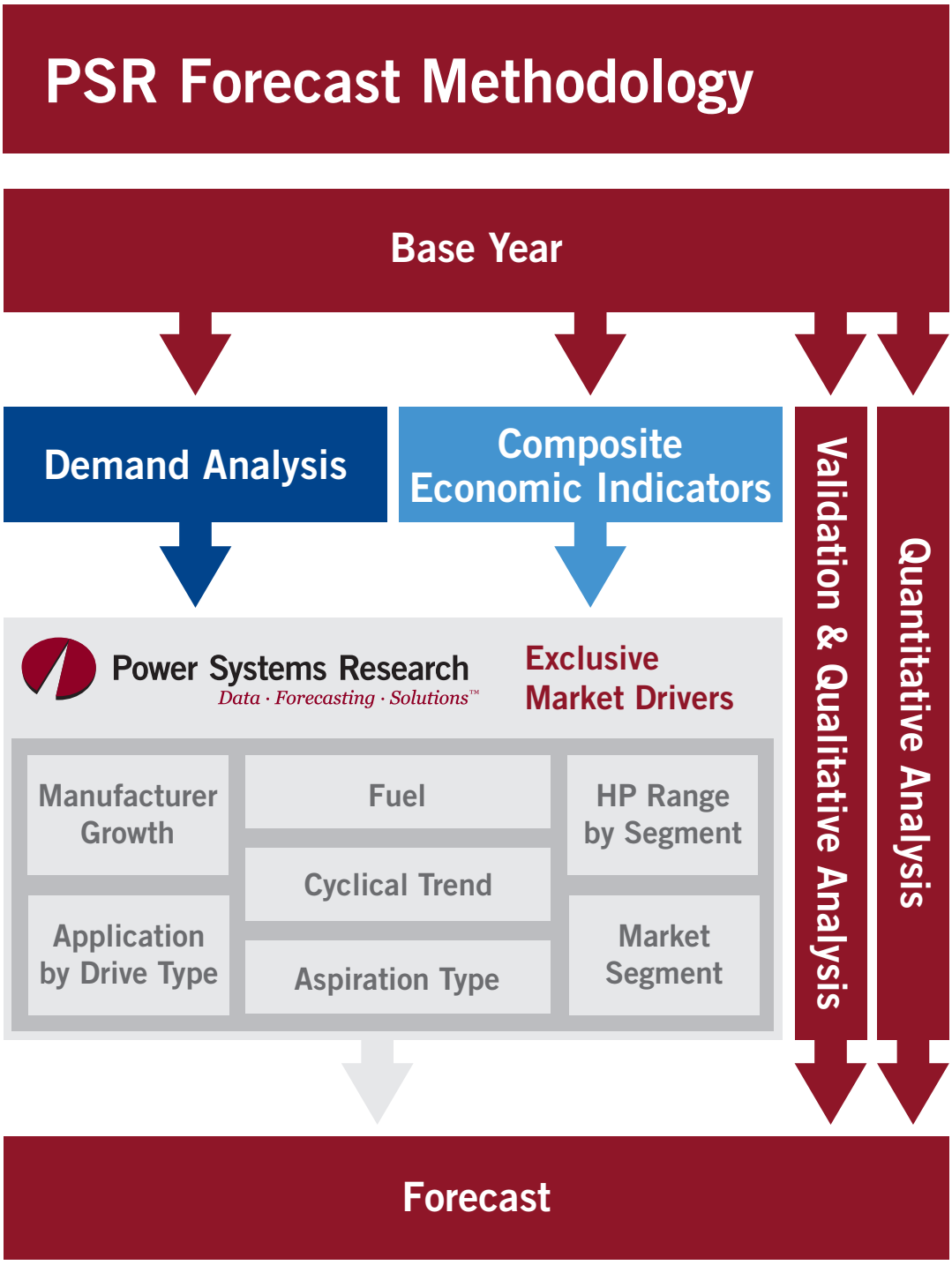
Research begins with the gathering of information from primary and secondary sources. Next, the PSR analyst team reviews and validates all data against industry benchmarks. If our analysts discover anomalies in the data, additional research and validation is performed before publishing.

PSR RESEARCH METHODOLOGY

VI. Forecast Methodology

Power Systems Research (PSR) Forecast Methodology

The analysis begins with the Base Year and key historical data then adds current and future economic indicators and market demand. Next, our exclusive market drivers are entered and the Power System Research proprietary algorithm is applied. Extensive analysis and discussion by our PSR Analyst team validates and produces the forecast.



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About Power Systems Research

Power Systems Research (PSR), established in 1976, is the leading source of data, analysis and forecasting on the global production of engines and engine-powered equipment, including class 8 vehicles. One of its databases, EnginLink,™ includes production figures down to the model level for OEMs in key market segments, such as commercial vehicles. PSR's global research network includes eight offices and stretches across 200 countries and four continents.

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