

EnginLink™ Update *Bulletin*

June 30, 2026

Q2 2026 REVIEW AND FORECAST



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EnginLink™ is a comprehensive database containing global historical and forecasted engine production volumes. This document outlines important forecast trends as well as the additions and enhancements applied to the database in the second quarter of 2026.

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Commercial Vehicle Outlook

Medium and heavy truck production in North America is expected to increase by 9.5% this year compared with low 2025 production. While class 8 truck production is expected to increase by 13.5% this year as order rates for class 8 trucks improved strongly throughout much of the year.

To get the full story, contact us today.



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I. Executive Notes

Components & Consumables Modules Can Enhance Data Utility

In this column, we will briefly highlight the information available from the Power Systems Research (PSR) database component modules. Especially for those clients who are new or tend to maintain a consistent scope year-to-year, you may not be aware of the current scope of coverage available within our component modules.

Our Component Module data covers components and consumables and relate their attributes down to the model level within EnginLink™, OE Link™, CV Link™ and/or PartsLink™ as applicable. There are three key types of components modules including specifications, components and consumables.

Here is a brief overview of the available module types:

- Specifications: Engine Oil Specifications, Engine Oil Capacity, Engine Oil Change Intervals, Engine Oil Consumption, Emissions and Electrical System Voltage.
- Components: Brake Type, Cylinder Block Material, Cylinder Head Material, Fuel Injection Equipment (FIE), Generators (Alternators), Axle Configuration, Transmissions and Turbos.
- Consumables: Batteries, Spark/Glow Plugs and Tires.

You can find the fields associated with each of these module types as well as further information at this link:

[PSR Components & Consumables Module Directory](#)

When relating the components and consumables information to our data, many clients find this a value-added tool in market sizing for components as well as in gaining further insight into product details and

specifications. If you are interested in learning more, please inquire with your PSR account manager.

Today, there are many forces at play in the current environment for the worldwide production of powered equipment. As we move forward, you can be assured that 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 Q2 2026 Update, we incorporated important insights we have gathered during the second quarter to provide our best outlook for 2026 as well as our five-year forecast out to 2031.

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.

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**

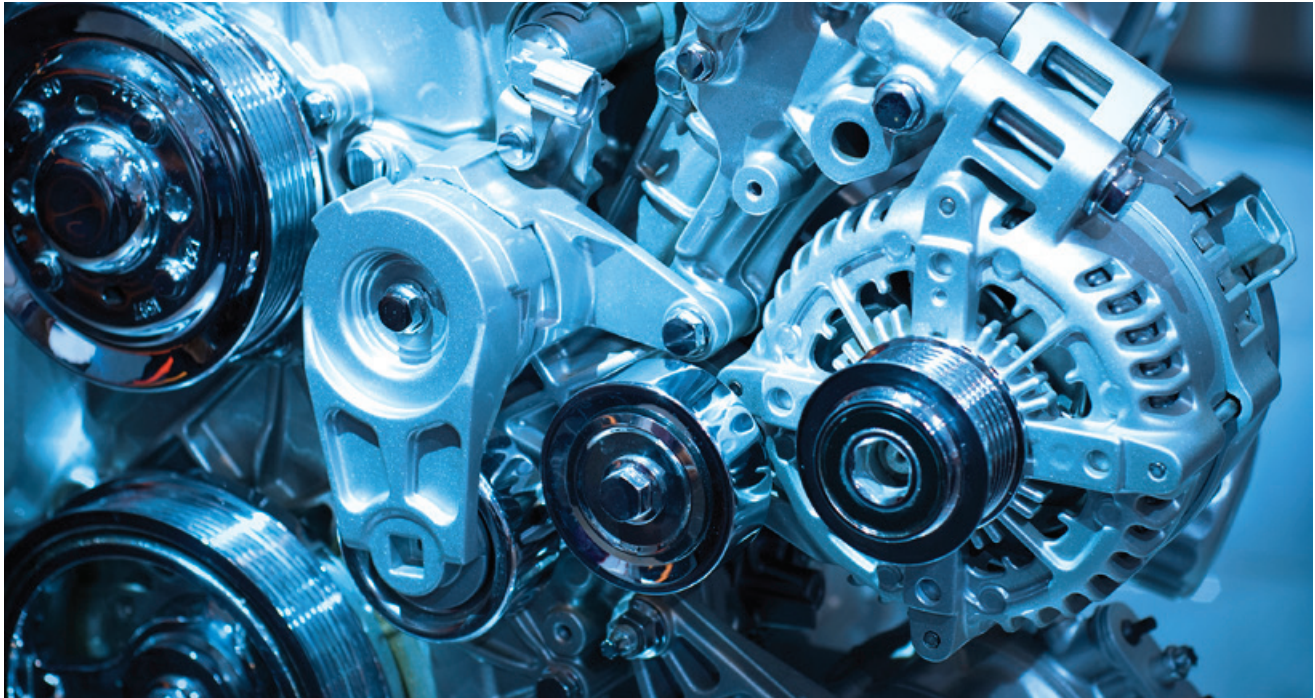


Author



Joe Zirnhelt is President and CEO of Power Systems Research.

II. Introduction



Power Systems Research (PSR) 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.

EnginLink™ is continuously updated; this Update Bulletin reflects changes made to EnginLink™ during the previous quarter. Included in this Update Bulletin are EnginLink™ 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. EnginLink™ Database Update Notes

Recreational Products in India for 2026 were increased as production was too low. The percentage drop from 2025 is now around 10% instead of 30%.

Other work was done in EnginLink to raise some production volumes where it was a little bit low, especially in the forecast years.

Engine Models Added

Manufacturer	Model
Caterpillar	13D
Cummins	X10, B7.2
Deutz	G-Drive lineup
FPT Industrial	R24, R38

Engine Manufacturer News and Notes



General Motors: GM announced a massive expansion for its internal combustion engine pipeline. This includes an investment in a next-generation V8 engine at its St. Catharines plant in Canada and a \$275 million allocation for sustained engine programs and Cadillac production in Spring Hill, Tennessee.



Stellantis: The company is drastically scaling up production of its classic Hemi engines—targeting over 100,000 units to meet consumer demand, while simultaneously rolling out its Hurricane twin-turbo inline-six.



Volvo Trucks: Volvo is introducing an all-new combustion engine platform designed specifically for superior fuel efficiency and lower emissions. Volvo Trucks' most fuel-efficient engines ever are here – two all-new 13-liter engines ready for renewable diesel and gas fuel types, including future hydrogen applications. Both are based on Volvo's latest in-house developed engine platform.

Major Manufacturers with Data Updates

- AGCO Power
- Cummins Engine Company
- Deutz AG
- Generac Power Systems
- Harley Davidson Motor
- Honda Motor Company
- Komatsu Diesel Company
- Mitsubishi Heavy Industries
- Polaris Industries
- Stihl
- Tata Motors
- Volvo Group



EnginLink™ Update Editor



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

IV. Forecast Trends

Global

Economic Growth Despite Wars, Tariffs, Inflation, Oil Problems



SUMMARY. The Global economic outlook is muddled by wars, mixed tariffs, oil shortages and inflation. The wars in the Middle East and Ukraine show no signs of coming to an end anytime soon, and the Middle East fighting continues to cause global oil shortages which push up inflation. The tariff wars begun by US President Donald Trump have upset production across the globe and further stimulated inflation. Despite these worldwide problems, the global economy is expected to show solid growth through the forecast period.

The Global economic outlook is muddled by wars, mixed tariffs, oil shortages and inflation. ... Despite these worldwide problems, the global economy is expected to show solid growth through the forecast period.

AGRICULTURAL. The Agricultural sector is showing consistent signs of good growth with growth in the range of +2.5% to +4.2%. The average growth rate grows to a level of +3.3% and the market grows by +820k by the end of the forecast period. Most of this growth comes from China and India which both add over 300k units during the forecast period. Japan shows the slowest growth of the major agriculture countries, at +1.3% average over the forecast period.

CONSTRUCTION. The global construction equipment sector is expected to grow by +6.7% in 2026 and then grow well until an expected recession in 2030 (with -0.4%). The average growth rate remains at +2.8% and the market grows by +162k units by the end of the forecast period. Of the major countries, China adds most of the volume with +76k units by the forecast end.

INDUSTRIAL. Industrial is expected to remain positive throughout most of the forecast period with average growth rate remains a solid +2.8% and the market grows by +872k by the end of the forecast period. Of the big two manufacturing countries, only China remains in

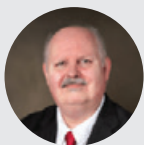
positive growth throughout the period averaging +4.8%, while the USA declines in 2030 but still averages +2.0%. The next fastest growing major region is India with average growth of +5.6%.

LAWN & GARDEN. Lawn & Garden remains positive in all forecast years except for 2030 when it is expected to decline by -2.5%. The average growth rate remains at +2.4% and the market grows by +3.317m by the end of the forecast period. The USA is the largest producer for this sector with almost half of the total volume so a fall in 2030 of -3.9% contributes significantly to the 2030 market decline. Of the big five producers only China and Brazil remain positive throughout the whole forecast period.

LIGHT COMMERCIAL VEHICLES. This segment is expected to remain positive throughout most of the forecast period with the average growth rate remains a good +2.4% and the market is expected to grow by +1.656m by the end of the forecast period. Of the top two countries (China & USA) China remains positive throughout the period and adds +565k whilst the USA shows a mixed growth/decline figures throughout most of the forecast but still end the forecast period with decline of +175k.

MARINE AUXILIARY/MARINE PROPULSION. After a difficult 2025, this segment is expected to grow throughout most of the remainder of the forecast period

Author



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with the average growth rate remaining at +1.7%, and the market growing by +74k by the end of the forecast period. Japan is the largest producer with over half the volume and is expected to grow by an average of +2.6% and add +56k in volume.

MEDIUM & HEAVY VEHICLES. This segment is expected to decline in 2026 and 2030 but grow for the remaining years. The average growth rate remains at +2.0% and the market grows by +452k by the end of the forecast period. None of the big three production countries remain positive throughout the period but China adds +282k with average growth rates of +1.9%.

PASSENGER CARS/MINIVANS & SUVs. Generally, 2026 is expected remain a solid year for these segments with a growth averaging +3.3% (Minivans +4.2% and Passenger Cars at +2.1%) and the combined market grows by +12.890m 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 +5.0% and USA +4.0%.

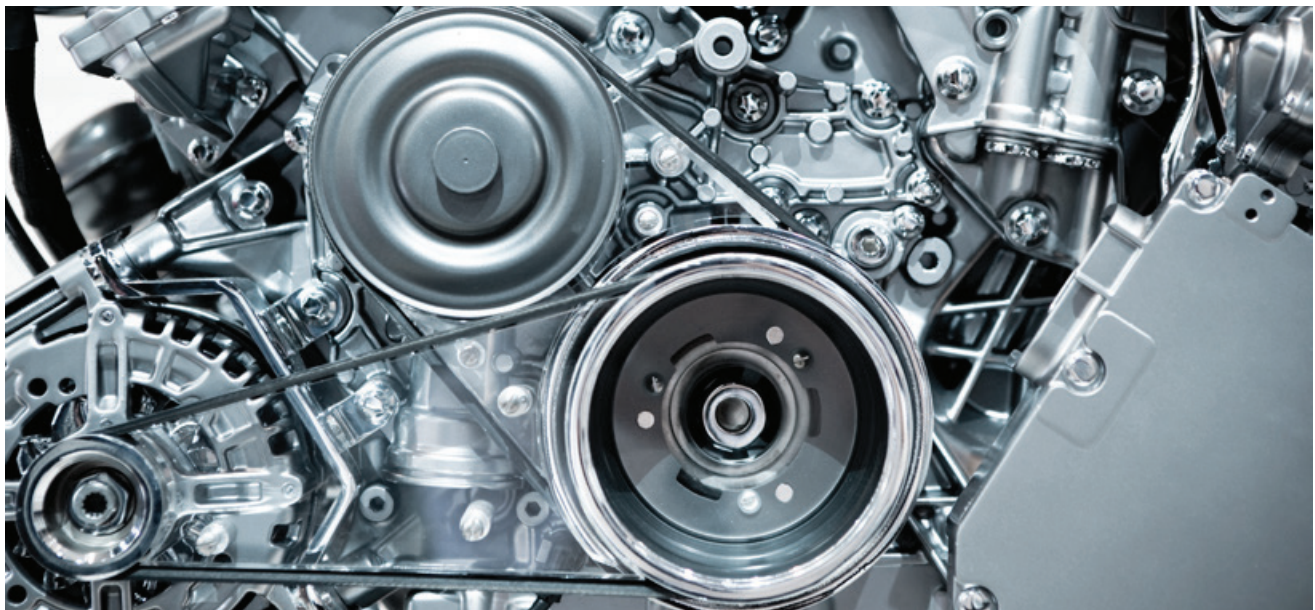
POWER GENERATION. Power generation is expected to continue to grow strongly during the whole of the forecast period with growth ranging from +2.0% to

+5.2%. The average growth rate remains solid at +3.8% and the market grows by +1.581m by the end of the forecast period. The top 2 power generation countries (China and United States) show mixed result with China averaging +4.4% and USA averaging +2.4%.

RAILWAY. Global railway production is expected to grow strongly throughout the forecast period with an average growth rate of +4.8% and increase in size by just over +1.5k. The market is dominated by China (60% of the production) which is forecast to have an average growth rate of +3.3%.

RECREATIONAL PRODUCTS. This segment continues to grow strongly with volumes growing on average by +3.5% and adding 10.158m units by 2030. The size of this segment is so large that it can distort overall market views. Growth rates for the future years are driven by China and India who 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. Battery Electric Vehicles are expected to grow at between +5.6% and +9.2%, with an average growth rate of 7.7%, and add an extra 31.443m units by 2031. The Internal Combustion vehicles on the other hand are growing much slower with changes ranging from -1.4% to +2.9% and averaging +1.0%. **PSR**



Europe

Geopolitical Factors Affect Europe Economy



SUMMARY. For Q2 2026, the European industrial landscape has shifted from dealing with isolated conflicts to an “Energy Pivot,” linking geopolitical tensions, energy-supply concerns, and EU policy developments aimed at strengthening more resilient and environmentally aligned industries. Europe continues to absorb the consequences of global conflict while also trying to preserve its influence and avoid further weakening an already fragile economic environment.

We maintain a baseline forecast of 1.8–2.0% growth for the second half of 2026, supported by recent developments surrounding the Memorandum of Understanding between the US and Iran, the positive vote in the European Parliament on the US-EU trade agreement, and the prospect of reopening the Strait of Hormuz. This forecast reflects a first half of 2026 that remained highly uncertain across many sectors, although progress toward conflict de-escalation in the Middle East has improved the outlook for H2 2026.

The situation in the Middle East remains the most immediate geopolitical risk. Alongside the ongoing war in Ukraine and ongoing debates over military support within the EU and with the US, the US-Iran conflict and the Israel-Lebanon front remain central to market uncertainty. As of mid-June, the US and Iran have announced that they signed a Memorandum of Understanding. While this is a positive signal, tensions in the region remain elevated, particularly because Iran continues to tie a long-term settlement to Israeli withdrawal from Lebanese territory, while Israel’s government has not committed to this.

For Q2 2026, the European industrial landscape has shifted from dealing with isolated conflicts to an “Energy Pivot,” linking geopolitical tensions, energy-supply concerns, and EU policy developments aimed at strengthening more resilient and environmentally aligned industries.

Although both sides have indicated support for an open Strait of Hormuz, traffic through the Strait remains far below normal levels. The continued threat of mines and other disruptions means that energy markets are likely to stay volatile until a durable settlement is in place. If fuel prices stabilize or continue to decline, this would ease pressure on the European economy, especially in sectors with high exposure to oil and gas inputs such as agriculture, construction, industry, passenger transport, and power generation.

According to the latest ECB projections, headline inflation is expected to average 3.0% in 2026, compared to 2.1% in 2025. Additionally, economic growth in the Euro Area is expected to remain modest, with GDP projected to increase by only 0.9% in 2026. These projections reinforce the view that energy prices remain a central driver of inflation risk and broader macroeconomic volatility.

The second major development shaping the European industrial landscape is the ongoing negotiation and implementation of the US-EU trade deal concluded between US President Donald Trump and European Commission President Ursula von der Leyen in July 2025. Since then, the US side has continued to pressure the EU to implement the agreement, including renewed tariff threats of 25% on European automobiles.

Author



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Emiliano Marzoli and Natasa Mulahalilovic contributed to this report.

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However, after interinstitutional negotiations among the European Parliament, the European Commission and the European Council, the European Parliament voted in favor of the proposed Regulation for a formal trade deal on June 16, making the latest threats less likely. During the negotiations, the European Parliament insisted on several safeguards to protect the European economy, most importantly the following elements:

- **Steel and aluminium derivatives:** The Commission can now suspend tariff preferences if the US maintains a tariff rate exceeding 15% on EU steel and aluminium derivatives by Dec. 31, 2026. By Dec. 1, 2026, the Commission will provide a report to the European Parliament and the Council on the tariff treatment of derivatives of steel and aluminium to address concerns about trade instability.
- **Sunset clause:** The regulation on industrial and agri-food imports will expire on Dec. 31, 2029, and the European Commission will conduct a thorough assessment of the regulation's trade effects, suggesting in a follow-up legislative proposal to extend the regulation and subsequently the trade deal.
- **Strengthening of the suspension clause:** The Commission has the right to suspend tariff preferences if the United States does not resolve the EU's issues about the tariff treatment of Union exports, which until Feb. 24, 2026, enjoyed the 15% all-inclusive tariff limit.
- **Additional safeguard mechanism:** The Parliament and Council also concurred on setting up a safeguard mechanism if tariff preferences provided to the US result in increased imports that risk causing significant harm to EU industries. The European Commission can initiate an investigation of its own accord or on the basis of information supplied by one or more Member States or the European Parliament. The Commission will report quarterly to the Parliament and the Council on changes in trade volumes and the value of US exports of the goods included in this legislation.

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Europe: **Geopolitical Factors Affect Europe Economy**

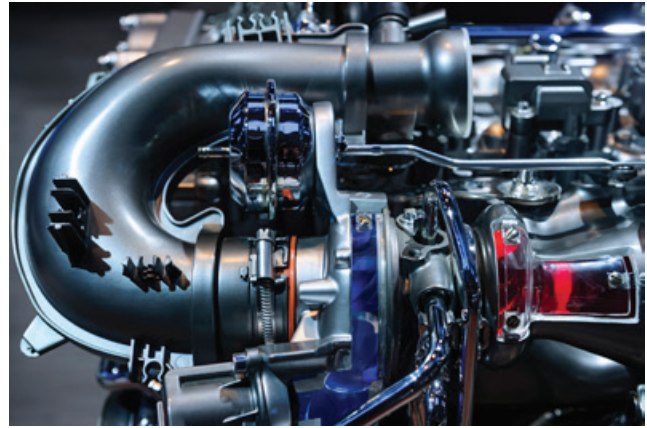
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After the positive vote in the European Parliament, the European Council must formally agree to the proposed Regulation, which, once it enters into force, will allow the trade deal to be formally implemented.

For the European economy, the most important consequence of these developments is that inflation, growth, and investment are now more tightly linked to geopolitics than at any point in recent years. If energy prices remain elevated, businesses will face higher operating costs, while households will experience greater pressure on fuel, electricity, and general goods prices. That would likely reduce consumption, delay investment decisions, and keep inflation higher for a longer period, even if governments and central banks soften some of the impact. At the same time, the labor market remains relatively resilient, which provides some short-term stability, but not enough to offset the macroeconomic drag from geopolitics and trade uncertainty.

Across the European Union, policy is increasingly focused on two linked priorities: strengthening infrastructure resilience and securing industrial competitiveness. In digital infrastructure, this is visible in the expansion of data-center strategies and cloud/AI policy frameworks, which are directly relevant for generator demand because data centers require continuous backup power and increasingly robust on-site resilience systems. These policies are not only about digital growth but also about industrial security, since they reinforce the need for reliable electricity, backup generation, and local power redundancy.

At the same time, EU and member-state infrastructure policy is also moving toward wider grid reinforcement. Transmission and distribution investments are becoming more important as Europe prepares for higher renewable penetration, greater electrification, and more volatile demand patterns. For the power-generator market, this matters because grid instability, connection delays, and resilience requirements tend to support demand for backup systems, emergency generation, and modular power solutions.



Defense and military spending is another important area of support, especially because the Ukraine war has pushed the EU and individual Member States to strengthen security and military readiness. With increased demand and available budgets by the EU and national governments, the European defence industry experienced a significant boost and allowed European companies, such as Rheinmetall and KNDS, to grow and stabilise the economy further. Higher defense budgets and new funding programs can therefore strengthen different industries, like the power generator segment, that are needed in critical infrastructure and public-sector applications.

Energy-price policy is the fourth major policy axis. At the height of US-Iran tensions, the EU and its member states were discussing measures to reduce energy costs and to cushion consumers and industry from geopolitical shocks. Germany's fuel-price relief mechanism, including temporary measures such as the "Tankrabatt", which will expire at the end of June, illustrates how policymakers have tried to limit the economic damage from elevated energy costs. These measures are directly linked to the disruption of the Strait of Hormuz, the broader oil and gas shock, and inflationary pressures in Europe. Even where such tools are temporary, they reflect the broader policy challenge: keeping the European economy competitive while energy markets remain exposed to geopolitical instability.

AGRICULTURAL. The cautious optimism for the second part of 2025 did not become reality. Instead, we have seen close to a two-digit decline in production of agriculture machinery. We have seen some recovery in this segment in this first quarter. However, the recovery will be stunted by the current socio-economic climate

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and tariffs creating much uncertainty, which in turn is slowing the recovery that we were expecting to see this year. Instead, we are now having to deal with all these moving parts and the impact of oil price increases, with heavy uncertainty. There seems to be some positive changes that could reduce some of the uncertainty, which could have a beneficial factor on recovery speed seen in the second part of this year.

According to the CEMA (European Agricultural Machinery Association) barometer, we are starting to reflect this as we are seeing an improvement in medium to long term responses from key industry players. They are seeing a potential for the next six months that will be a better business climate than the previous six months. This could still be reverted and missed depending on the outcome but there are still many players expressing some concerns, insecurity, uncertainties over tariffs, and socio-political tensions.

CONSTRUCTION. This segment is following a trend similar to what we are seeing in the Agricultural Segment; we see a downward trend although to a lesser extent. We expect the mirroring of trends will continue as we were expecting some recovery early to mid-2026. The recovery was going to be fuelled by government expenditures and higher business activity, especially in the residential and private sectors, reported by CECE (Committee for European Construction Equipment) and other trade associations.

However, we are probably going to see a slowdown in the very short term. There was already a long list of uncertainties and potential risks that could negatively impact the recovery. Unfortunately, these have increased in numbers and are more present than ever before. On top of the socio-economic global situation, possible labour shortages 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.

There seems to be some positive changes that could reduce some of the uncertainty, which could have a beneficial factor on recovery speed seen in the second part of this year.

The European construction market is expected to grow approximately 2% in real terms during 2026, marking a significant improvement from the growth of 0.2% in 2025. The recovery is being driven primarily by infrastructure investment and the gradual rebound of residential construction.

After several years of contraction caused mainly by high interest rates, inflation, and weak housing affordability, residential construction is expected to return to growth in 2026. Industrial and commercial construction is expected to grow modestly, although performance varies significantly by subsector.

Strong areas of construction include semiconductor facilities, battery manufacturing plants and logistics warehouses. The strongest growth opportunity is currently data center construction, driven by AI, cloud computing, and digital infrastructure investments. As an example, Italy alone is forecasting approximately €22 billion of data center investment over the next five years, with Lombardy expected to capture €10–12 billion

European construction equipment OEMs expect a low single digit growth during 2026, supported primarily by construction projects as mentioned above. Most manufacturers report that demand conditions improved during the first half of 2026 and will remain positive for the second half.

Regarding construction equipment key technologies, growth remains concentrated in smaller equipment such

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as mini excavators, compact wheel loaders, compact dumpers and compact rollers. The use of AI and digital fleet management systems are increasing. HVO adoption on engines is becoming more popular and the demand is increasing rapidly, while hydrogen engines are still kept as prototypes or in pilot programs. These trends are consistently highlighted by Volvo CE, Wacker Neuson, Hyundai CE, Develon and other major OEMs.

LAWN AND GARDEN. We saw some recovery in 2025, mainly fuelled by professional demand supplemented by a small contribution from residential demand. This recovery did not offset the 2024 decline but reduced optimism for 2026. We are expecting some downward trends affecting this segment, due to the uncertainties, although to a lesser degree than other segments as 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.

However, 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. The European industrial machinery market is poised for steady slow growth through 2026 and 2027, driven by increasing industrial automation, modernization efforts, and demand for energy-efficient equipment. The market is expected to continue expanding as manufacturers invest in advanced machinery to improve productivity and comply with stricter environmental regulations.

Key sectors such as manufacturing, automotive, and logistics are fueling demand for versatile and technologically sophisticated industrial machines. This growth is supported by ongoing digital transformation trends, including the integration of IoT, AI, and robotics, which enhance operational efficiency and predictive maintenance capabilities across industrial operations.



Within this broader market, the forklift segment is experiencing particularly strong momentum. The European forklift market, valued at nearly USD \$20 billion in 2025, is forecasted to grow at a CAGR of around 5.2%, reaching over USD \$32 billion by 2035. This surge is largely driven by the rising adoption of electric, automated, and digitally connected forklifts that meet sustainability goals and improve warehouse efficiency. The push for greener logistics and supply chain solutions is accelerating the replacement of traditional internal combustion forklifts with electric and hybrid models.

Additionally, advancements in automation and safety features are making forklifts more adaptable to complex industrial environments, further boosting market demand in the near term. Overall, the European industrial machinery market, including forklifts, is set to play a critical role in supporting the continent's industrial competitiveness and sustainable growth ambitions in 2026 and 2027.

Military Equipment. The European defense market continues to expand, driven by the war in Ukraine, ongoing instability in the Middle East, and growing national security concerns in the region.

In 2025, all NATO member countries met or exceeded the 2% GDP defense spending target and committed to increasing defense and security-related investments to 5% of GDP by 2035. European Allies and Canada increased defense spending by 20% versus 2024, reaching more than USD \$574 billion. As a result, demand for military vehicles, armored platforms, artillery systems, ammunition, and defense modernization programs is expected to remain strong over the coming decade. Germany, in particular, is

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significantly increasing defense expenditures as part of its objective to build Europe's largest conventional military force by 2029.

Defense vehicle manufacturers such as Rheinmetall and KNDS have experienced substantial order growth since 2020, supported by European rearmament programs and increased military procurement. Both companies are expanding production capacity, strengthening supply chains, and investing in strategic partnerships, joint ventures, and local manufacturing initiatives to meet rising demand.

Rheinmetall has expanded its cooperation with Ukraine and other European governments, while KNDS continues to increase industrial output across Europe, integrate new production facilities, and prepare for its planned IPO to support long-term growth. Looking ahead, continued geopolitical tensions are expected to sustain strong demand for military vehicles and defense systems throughout Europe.

LIGHT COMMERCIAL VEHICLES. The Light Commercial Vehicle (LCV) segment remains a resilient operational focus in European automotive production. This follows a highly challenging 2025, during which EU commercial registrations contracted significantly, highlighted by an 8.8% drop in the van market. This slump was heavily driven by SME “investment inertia” brought on by restrictive borrowing rates and structural uncertainty surrounding upcoming fleet regulations.

However, for 2026 we are seeing a production recovery of +1.9%, with a further +3.8% projected for 2027. This rebound is driven by the “Last-Mile Mandate.” Record e-commerce volumes and the 2026 enforcement of new Low-Emission Zones (LEZs) across 50 major European cities are forcing a massive fleet replacement cycle. Manufacturers like Ford Pro and Stellantis are ramping up production of “hybrid-transitional” vans, which bypass the high upfront costs and infrastructure gaps of pure BEVs while meeting the new 2026 city access requirements.

MARINE PROPULSION. The European marine pleasure industry in 2026 was 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 ran its course by the end of 2025. In 2026, confidence was expected to improve, but with the added uncertainties we are expecting to see another small decline in this segment.

Defense vehicle manufacturers such as Rheinmetall and KNDS have experienced substantial order growth since 2020, supported by European rearmament programs and increased military procurement.

PLEASURE BOATS. The global recreational boating market is estimated at USD 30.8 billion to USD 38.6 billion in 2026—a clear step up from the USD \$25.5 billion to USD \$34.94 billion baseline of 2025—with the European share accounting for USD \$15.3 billion to USD \$17.9 billion. Despite a current phase of correction and transition, the sector maintains a solid projected compound annual growth rate (CAGR) of 5% to 8% for the 2027–2031 period.

At the heart of this dynamic, the electric and hybrid boat segment is experiencing dramatic acceleration. Valued at USD \$8.9 billion in 2026 (up from under USD \$7.8 billion in 2025), this “green market” is projected to reach USD \$24.94 billion by 2034, driven by an exceptional CAGR of 13.74%. Demand is particularly robust for hybrid powertrains, which have emerged as the ideal transition technology for long-distance cruising, showing short-term growth forecasts close to 40%.

Overall European production is moving at two different speeds. Following a strict contraction in 2025 where new retail boat sales fell 8.8% year-over-year, the traditional mass-production segment is undergoing a temporary 16% decline in volume during 2026 as it continues to absorb remaining dealer inventory, with a global recovery expected by the second half of 2027. In contrast, industry leaders are staging a rapid financial

Europe: **Geopolitical Factors Affect Europe Economy**

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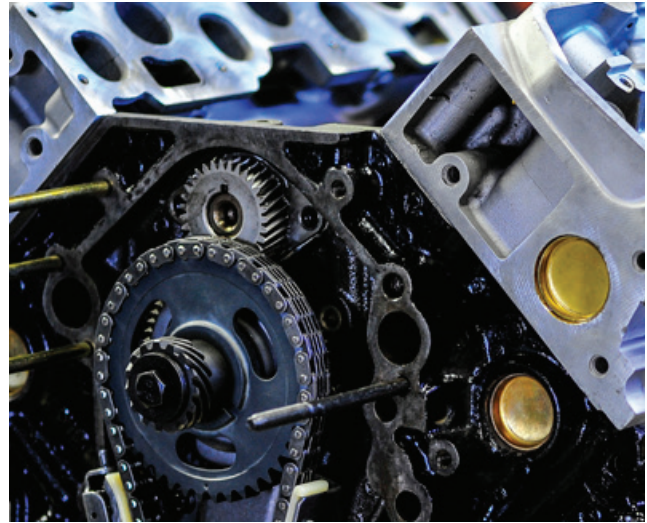
recovery. Beneteau Group, following a painful 18% total revenue drop in 2025, forecasts a net revenue of EUR 951 million in 2026 and EUR 1.049 billion in 2027, supported by a 10% increase in its 2026 order book and the launch of 24 new models.

Meanwhile, Italian superyacht builders dominate the luxury sector with order books filled through 2027.

Crucially, outboard motorboat production is surging across Europe, outperforming the broader market downturn. Holding a dominant 45.74% share of the European powerboat sector, outboard boats have become the primary engine of industry growth. Highlighting this trend, Beneteau Group recorded a staggering 38% increase in motorized dayboating revenues in early 2026 (EUR 96.9 million vs. EUR 70.2 million in 2025), heavily driven by European demand.

Builders like Jeanneau are aggressively expanding their premium outboard lineups, debuting models like the Cap Camarat 9.0 CC Series 2. At the same time, Nordic shipyards like Finland's Axopar Boats are breaking factory records with adventure-style outboards under 30 feet—a segment expanding at 6.69% annually to feed the rapid rise of boat clubs. This boom is fueled by engineering breakthroughs from brands like Mercury and Yamaha, enabling builders to place massive 200 to 500 HP outboard arrays on hulls up to 40 feet, systematically replacing traditional inboard diesel configurations.

In 2026, catamarans dominate the global yacht charter market, with Europe capturing 69% of total revenue. Multihulls now make up over 40% of Mediterranean fleets, commanding a 25% to 40% pricing premium over monohulls due to their unmatched stability and livability. A major shift is the rise of power catamarans, which now claim 25% of all multihull sales driven by non-sailors seeking a “floating villa”. Additionally, catamarans are the ideal platform for electrification, using their wide decks for massive solar arrays that allow silent, emission-free anchoring. Because charter demand is so resilient, premium brands like Lagoon,



Fountaine Pajot, and Leopard maintain long backlogs and retain exceptional secondary market resale value.

Conversely, the global sailing monohull market will reach USD \$6.51 billion by 2027 at a modest 3.12% CAGR, commanding 60.1% of active sailboats. The sector faces a severe pre-owned inventory glut coming out of late 2025. In major European hubs, 2,000 active listings compete for just ~420 annual sales, meaning 35% of listed monohulls will fail to sell without 15% to 25% price cuts as listing times exceed six months.

New 40-foot cruisers are increasingly unaffordable due to soaring labor and raw material costs. Consequently, high-volume builders are scaling back monohull lines to focus on higher-margin dayboats, outboards, and automated premium ranges (e.g., Beneteau Oceanis Yacht).

New 2026–2027 models prioritize shorthanded push-button sailing, open “walk-around” cockpits, and integrated battery banks for hybrid-electric house loads.

On the sales front, the market has shifted to a “buyer’s market” where stabilizing inventory levels favor price negotiations. While 48% of dealers anticipate a revenue increase in 2026, short-term profitability relies primarily on maintenance services and recent pre-owned boat sales.

The economic landscape is heavily disrupted by the military conflict between Iran and the United States near the Strait of Hormuz. This geopolitical crisis has caused a massive surge in energy and raw material costs (resins, electronics), as well as a 10 to 14-day extension

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of maritime shipping routes routed around Africa via the Cape of Good Hope.

Faced with skyrocketing freight rates and a slowdown in the Middle Eastern yachting market, European shipyards have entirely abandoned the “just-in-time” supply chain model. To secure their assembly lines, manufacturers are executing vertical integration strategies by directly acquiring their local subcontractors. They are also moving their sourcing to Eastern Europe or North Africa (nearshoring), maintaining 3 to 6 months of safety stocks, and aggressively accelerating their technological transition.

The shift toward hybrid and electric propulsion is further accelerated by strict European fiscal and environmental regulations. In France, the major reform of the TAEMUP (Annual Tax on Recreational Marine Vessels), effective Jan. 1, 2027, abandons displacement-based calculations to tax actual engine power in kilowatts, heavily penalizing inboard diesels in favor of cleaner technologies. Although the TAEMUP is a strictly French national tax, it applies to any French tax resident regardless of the boat’s flag of registration. Elsewhere in Europe, maritime taxation varies widely: Belgium levies a one-time Immatriculation Tax (TMC) upon purchase, Spain applies a 12% registration tax for boats over 8 meters, and Italy concentrates its fiscal pressure on luxury yachting. With the enforcement of the EU’s FuelEU Maritime regulations in 2027, European brands are facing unavoidable regulatory pressure to green their commercial catalogs.

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 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.

Faced with skyrocketing freight rates and a slowdown in the Middle Eastern yachting market, European shipyards have entirely abandoned the “just-in-time” supply chain model.

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 approximately 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

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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.

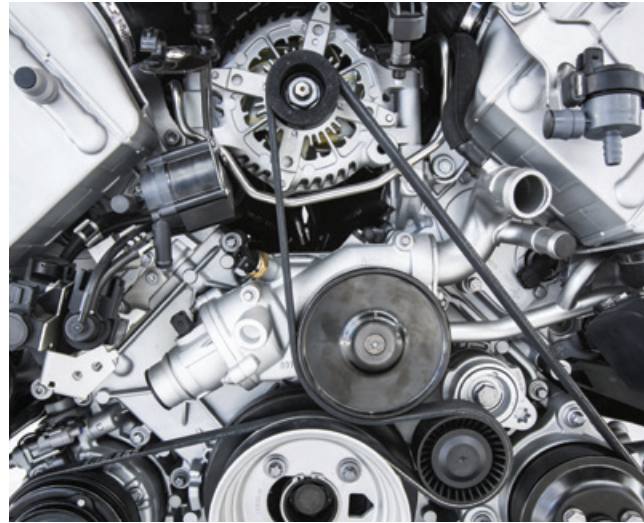
The “Sino-European” Transformation. The threat from China has moved from the sea to the soil. BYD’s Szeged (Hungary) plant began trial production in February 2026, with serial production of the “Dolphin Surf” slated for Q2 2026. By producing in the EU, Chinese brands are bypassing the 17% additional anti-subsidy duties.

In response, Volkswagen and Stellantis issued a rare joint open letter in February 2026, calling for a “Made in Europe” industrial policy. They are lobbying for purchase subsidies that favor not just local assembly, but locally manufactured battery cells and powertrains—a move aimed squarely at neutralizing the “Trojan Horse” plants in Hungary and Turkey.

POWER GENERATION. The European power generator industry entered mid-2026 in a slight growth phase, but one defined by volatility rather than stability. Market estimates point to a European generator set market of roughly USD \$6.75 billion (EUR 5.95 billion) in 2026, with a market growth of 1.6% in 2026 and 2.2% in 2027, reflecting a cautious but still positive near-term environment.

The main drivers remain data centers, critical infrastructure, healthcare, industrial backup power and grid resilience. At the same time, the Iran conflict and the associated disruption risk around the Strait of Hormuz have increased fuel price uncertainty and ambiguity regarding strong supply channels.

A partial counterweight is the prospect of a de-escalation agreement between the United States and Iran as of mid-June, which could reopen the Strait and normalize oil flows, although the timing and durability of such a shift remain uncertain. In parallel, Europe’s move toward renewable energy and lower-emission backup fuels



continues to reshape the product mix toward gas, HVO-ready, hybrid, and battery-integrated generator solutions.

In fact, the European generator market remains fundamentally supported by resilience demand. Data centers are among the main structural growth engines, as they require a continuous power supply and increasingly large-scale backup configurations, especially in AI and Cloud. The European Commission’s Cloud and AI Development Act proposal explicitly aims to triple EU data center capacity over the next five to seven years and to strengthen energy-efficient cloud and data center infrastructure, thereby accelerating data center deployment, simplifying infrastructure development, and improving the EU’s digital sovereignty.

As a key market, Germany continues to lead in market share at 21.7% as of 2025, with no significant reduction expected. However, ongoing regulation negotiations can have a significant impact on the Gen-Set industry, most importantly the Combined Heat and Power Act (KWKG), the Building Energy Act (GEG), and the Energy Tax Act. The KWKG continues to support CHP-linked generation, the GEG promotes to push buildings toward renewable heat solutions, and changes to energy tax treatment affect the economics of fuel-based generation assets. Germany has also adopted a national data-centre strategy aimed at doubling capacity and quadrupling AI/HPC capacity.

Additional demand could emerge from rebuilding efforts if major conflicts de-escalate, such as the war in Ukraine or the Israel-Palestine war, but the timing is highly

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uncertain. If the war in Ukraine ends, reconstruction could support temporary demand for distributed power and on-site generation; if the conflict in the Middle East eases, rebuilding needs in the region could also create demand, although the market impact would depend heavily on financing, logistics, and political stability.

For the remainder of 2026, the most likely outcome is modest growth with elevated volatility. Recent weeks have seen a gradual decline in oil and natural gas prices, despite remaining significantly higher than before the Iran conflict. Hence, if the US-Iran agreement and a subsequent long-term deal are reached, oil and gas prices may normalize gradually, but supply chains and pricing usually take time to settle, so the generator market would still face uncertainty over fuel supply and usage.

The years 2026 and 2027 are expected to be positive, despite geopolitical conflicts and the EU's push towards a more environmentally friendly industry. The longer-term picture is more cautious. The expectation of a global recession in 2030 is a plausible scenario risk for the sector, as generator demand is highly exposed to industrial capex, data-center financing, and infrastructure budgets, all of which are cyclical. In that sense, the European generator market looks resilient in the short run, but structurally volatile over the medium term.

RECREATIONAL PRODUCTS. As of late March 2026, the European two-wheeler industry was navigating a high-stakes structural realignment, transitioning from a "survival phase" into a complex calculation of domestic vs. global assembly. After a brutal 2025—which saw a -12.9% registration slump across the "Big Five" (France, Germany, Italy, Spain, and the UK)—the sector is now dividing into two distinct potential futures, complicated by a fresh geopolitical shock and an imminent policy "cliff edge."

We forecast a 4% increase in production volumes for 2026, confirmed by a robust start to the year. The European Association of Motorcycle Manufacturers (ACEM) confirms this spike is heavily technical—proving

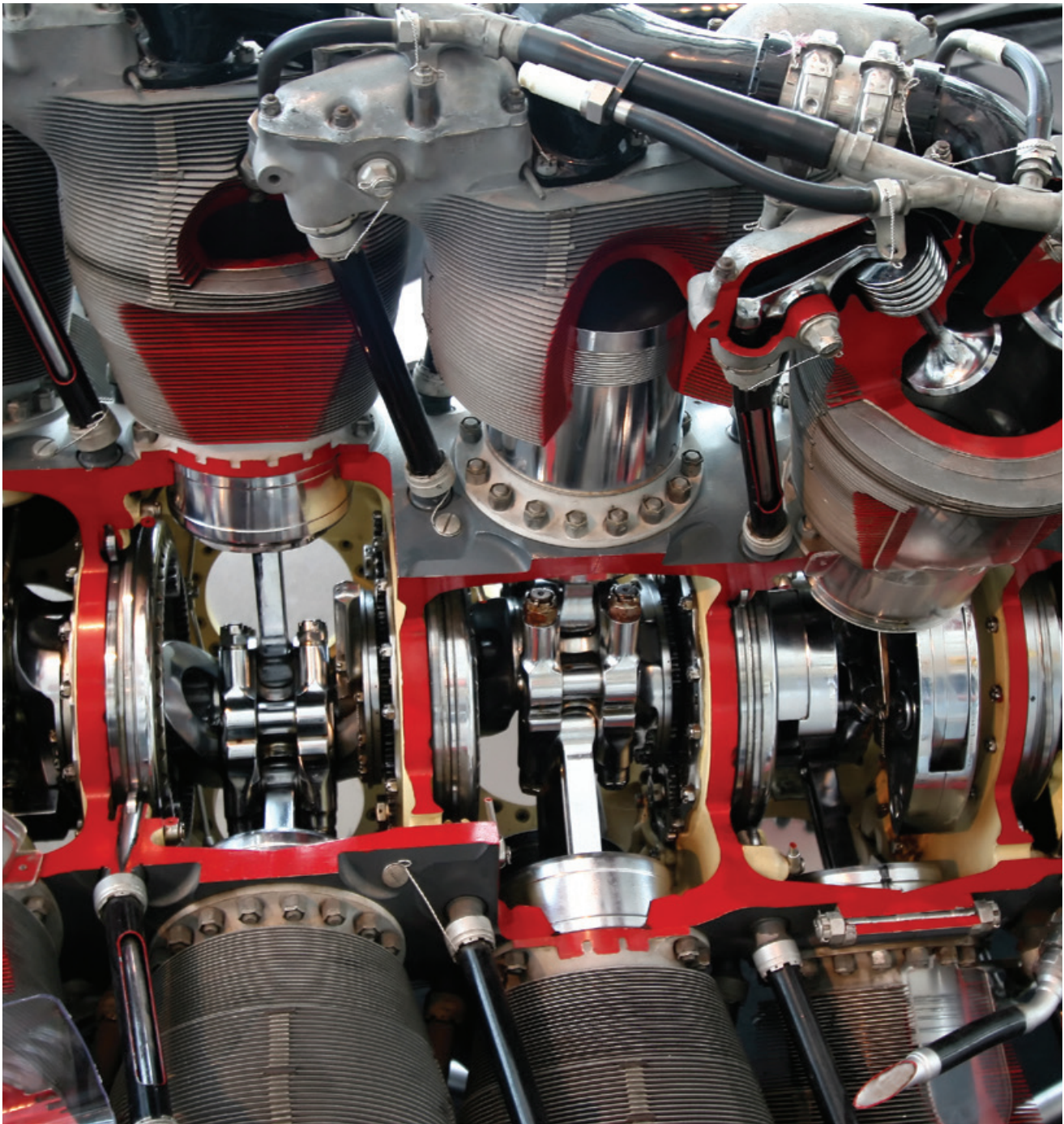
that the market has stabilized following the messy operational transition from Euro 5 to the newer Euro 5+ compliance standards. Production lines are currently running at higher capacity to replenish thin dealer networks following the high-profile KTM-Bajaj supply chain disruptions.

The years 2026 and 2027 are expected to be positive, despite geopolitical conflicts and the EU's push towards a more environmentally friendly industry. The longer-term picture is more cautious.

Despite the strong start to the year, severe downside risks threaten European assembly volumes for late 2026 and 2027:

- **The "Metal Content" Tariff Threat:** Ongoing trade tensions and threatened 50% "Metal Content" surcharges from the US remain a primary risk. Because the US is a vital export market for premium European bikes, sustained duties would make exporting steel-dense and aluminum-dense vehicles economically unfeasible. This would likely force domestic OEMs to shift production footprints permanently to Southeast Asia, Turkey, or India to preserve global margins.
- **The Energy/Inflation Tax:** The prolonged Iran conflict serves as a severe macroeconomic headwind. With Brent crude sustained above \$110 per barrel, rising factory utility costs act as an invisible tax on domestic plants. Simultaneously, high fuel costs threaten to trigger a rapid cooling of consumer discretionary spending on leisure vehicles heading into the autumn riding season.

RAILWAY. The European rail market in 2026 and 2027 is expected to experience solid growth, driven largely by increasing demand for sustainable transportation solutions and ongoing investments in rail infrastructure modernization. The market is projected to grow at a compound annual growth rate (CAGR) of around 3%,



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with a total market volume estimated at approximately USD \$239.27 billion (€211 billion) annually during this period.

Key growth factors include the push for carbon reduction in transport, enhanced cross-border

connectivity, and the expansion of both passenger and freight rail services. Rail freight, in particular, is anticipated to see steady increases as Europe seeks to shift more cargo from road to rail to meet environmental targets. Challenges remain, such as regulatory harmonization and infrastructure bottlenecks, but overall, the European rail sector is positioned for a robust and sustainable expansion in the coming years.

PSR

China

Five-Year GDP Growth Outlook Sees Moderate Recovery



SUMMARY. China's 2026 GDP growth is projected at 4.8% (range 4.5%–5.0%), following a solid Q1 (5.0%) and a softer Q2 (~4.7%) where industrial output dipped to 4.1% in April before recovering to 4.5% in May.

Consumption is now the top driver, contributing 60% to GDP growth (3.0pp), though retail sales have been weak at just 1.4% through May due to fading subsidies and a steep 11.8% drop in auto sales. Service spending remains strong at 5.5%. Investment is mixed: real estate is still bottoming out, but high-tech manufacturing (13.1%) and infrastructure are picking up. Exports face headwinds from tariffs and slower global demand, with growth expected at 3%–4%. Inflation stays low at 0.5%–1.0%, and policy support remains active with fiscal stimulus and easing monetary measures.

Looking ahead to 2031, China's economy will shift from speed to quality, targeting 4.5%–5% annual growth. Consumption will stay above 60% of GDP as incomes and social security improve. New energy vehicles and smart manufacturing will lead industrial upgrading, while exports grow slower but at higher value. The economy becomes more balanced, innovation-driven, and less dependent on real estate and cheap exports.

AGRICULTURAL. China's agricultural machinery market is shifting from basic mechanization to smart, green equipment. In 2026, subsidies are more targeted—USD \$3.89 billion (RMB 26.5 billion) for new purchases and USD \$0.22 billion (RMB 1.5 billion) for scrapping old machines—with top-tier models getting up to 55% off. The focus is on hybrid tractors, GPS-guided systems, and electric equipment, while gas-guzzlers are being phased out.

Tech breakthroughs are reshaping the industry. Hybrid tractors now cover 200–700 horsepower with 20–40% fuel savings. Domestic brands have cracked the CVT transmission market, once dominated by foreign players. Smart farms are running fully unmanned “plow-to-harvest” operations, cutting water and labor use by roughly one-third.

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Demand is driven by bigger farms and fewer farm workers. Tractor sales should hit 620,000 units (+7%) and harvesters 200,000 (+11%). Exports are booming, Q1 2026 jumped 29% to \$5.9 billion, with ASEAN now the top market.

Electric farm machines are taking off fast, with market share expected to top 15% in 2026. Orchards and greenhouses are going electric first, helped by extra subsidies. Sales of 200+ horsepower advanced tractors have doubled, breaking the 15% market share mark for the first time.

Looking to 2031: The market should grow from USD \$0.20 trillion to US \$0.31 trillion (RMB 1.34 trillion to RMB 2.08 trillion). Electric machines will surge from 15% to 52% of sales, crossing the 30% tipping point around 2028. Smart farming tech will become standard, and China will shift from a big producer to a global leader, exporting know-how and building factories abroad.

Watch out for subsidy-driven demand spikes, inventory pileups, trade barriers, and teething problems with new electric gear in tough field conditions.

Author



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CONSTRUCTION. In 2026, China's construction machinery market is booming with the market expected to hit USD \$37.79 billion (RMB 257.3 billion) this year, up sharply from USD \$24.23 billion (RMB 165 billion) in 2024. Smart tech, 5G/AI automation, and green energy are the main growth engines, while the Belt and Road Initiative keep pushing for high-value exports.

On the domestic front, Q2 2026 performance beat expectations: May excavator sales jumped 36.2% YoY to 24,794 units, with medium and large excavators leading at +45% and +20%, while loader sales hit 13,405 units (+27.2%).

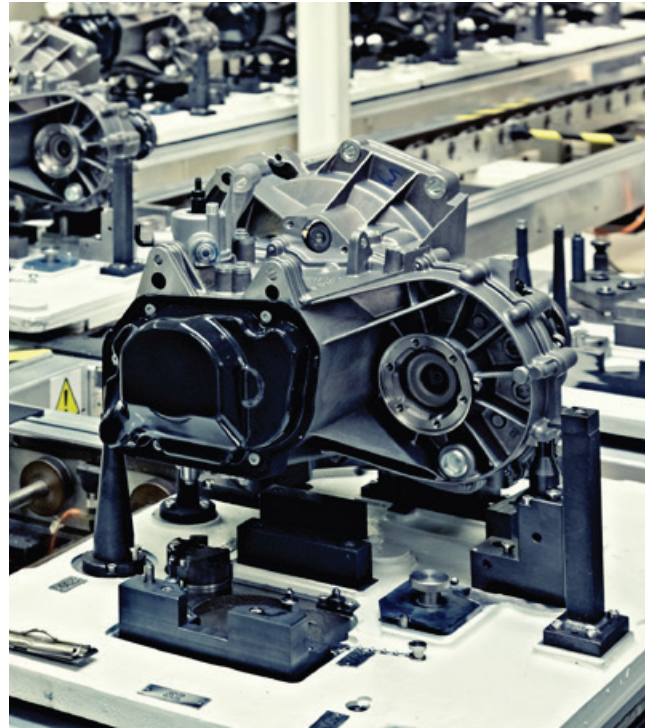
Policy support from ultra-long-term treasury bonds and local special bonds is fueling mega-projects like the Yarlung Zangbo hydropower plant, and equipment renewal policies are unlocking pent-up demand as Stage III machines hit replacement age, pushing renewal share past 50% of domestic sales.

A landmark shift also occurred in Q2 2026, as top makers XCMG, Sany, and LiuGong raised prices collectively for the first time in three years — excavators up 3-5% in May and cranes up 2-5% in June — marking a clear move from “cheap volume” to “value competition.”

Meanwhile, new energy is hitting an inflection point: electric loaders captured 63.8% of domestic sales in May and averaged 56.8% Jan-May, with overall new energy penetration forecast to reach 15.5% by year-end, nearly double the 8.5% at end-2025, driven by stronger policy incentives, battery costs down about 35% since 2023, and rising ESG pressure on construction firms.

Exports are on fire, with Q1 2026 hitting USD 16.1 billion (+24.3% YoY) and Jan-May reaching USD 27.9 billion (+20.8%). Africa is the star performer, with Q1 2026 exports surging 61.6% YoY to USD 2.8 billion and Jan-Feb growth even stronger at +77%, while Europe (+20.6%) and North America (+7%) also grew, and Belt and Road countries took 43.4% of Jan-Feb exports.

Chinese brands keep winning on price (15-20% cheaper than rivals) and speed (30-day delivery vs. 90



days for European OEMs), with electric loaders and mining trucks winning trials in Chile and Australia, cutting diesel costs by 60%. Electric/hybrid gear now make up over 35% of export value. Regional strategies differ: Africa and LatAm expand via EPC financing and local CKD (Completely Knocked-Down) plants, Europe and North America ride carbon rules with surging electric orders, and CKD hubs in Mexico, Poland, and Indonesia plus 24/7 cloud parts centers cut delivery to 7 days, keeping export CAGR at 12-15% and pushing overseas revenue share from 40% to 48%.

On the tech front, 5G remote excavators and unmanned mining truck fleets are now commercially deployed, lifting efficiency by 30%+, hydrogen stackers and pure-electric aerial platforms are spreading fast in ports and cities. Local firms have cracked foreign monopolies on core parts with localization exceeding 85%, and the top 5 players (CR5) are closing in on 80% market share.

Looking ahead to 2031, the global construction equipment market is set to grow from USD 167 billion (2025) to USD 169.6 billion (2026), reaching USD 289.5 billion by 2035 at a 6.1% CAGR. In 2027-2028, the equipment replacement cycle will peak as Stage III machines reach maximum replacement volume, with electric loader domestic share projected to top 70% and overall new energy penetration approaching 20-25%.

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Export growth will moderate to 10-12% annually but value per unit will keep rising, and the domestic market will reach USD \$41.13–44.06 billion (RMB 280-300 billion). By 2029-2031, the market will mature at USD \$44.06–47.00 billion (RMB 300-320 billion), new energy penetration will reach 30-35%, hydrogen will go commercial in heavy mining and ports in Africa, Southeast Asia, and Central Asia together will pass 50% of overseas revenue. Chinese OEMs will dominate electric and autonomous segments globally, CR5 tops 80%, and leaders earn over 60% of revenue from abroad.

By 2031, the industry will fully enter a new cycle built on “high-end products, smart operations, green energy, and global services,” where speed of tech upgrades and after-sales response become the deciding competitive edges, and AI, digital twins, and autonomous platforms redefine equipment lifecycle management while circular economy and equipment-as-a-service models open new revenue streams beyond hardware.

INDUSTRIAL. Forklifts. China’s forklift market is set to reach USD \$20.58–23.52 billion (RMB 140–160 billion) in 2026, up 18–22% YoY. Electric models now dominate with over 75% share, and lithium-ion penetration has surpassed 55% as battery costs fell about 35% since 2023. In Q2 2026, unmanned forklift sales kept growing 45%+ annually, with market size exceeding RMB 15 billion.

AGV demand is surging on e-commerce logistics automation. Core parts like laser radars are now 75% localized. Exports are projected at USD \$6.8 billion (+15% YoY), with Southeast Asia, Africa and Latin America (LatAm) leading at 18%+ growth.

Looking to 2031, the electric share of equipment will top 85%, lithium-ion will dominate all segments, hydrogen will scale in heavy-load logistics, and intelligent forklifts will exceed 50% penetration as AI, 5G and digital twins become standard.

MEDIUM & HEAVY TRUCKS. New energy heavy trucks are booming. Jan-May 2026 sales hit 92,900 units (+82.2% YoY), with May alone breaking 30,000 units.

Full-year 2026 sales are projected at 234,100 units, with penetration crossing 35%. The top four makers each sold over 12,000 units, with Sinotruk leading at 15,100 units (+116.3%).

China’s forklift market is set to reach USD \$20.58–23.52 billion (RMB 140–160 billion) in 2026, up 18–22% YoY. Electric models now dominate with over 75% share, and lithium-ion penetration has surpassed 55% as battery costs fell about 35% since 2023.

Battery-swap trucks are scaling fast with 3,000 stations nationwide, while hydrogen fuel cell trucks reached 25,000 units (+120%). Level 2 Advanced Driver Assistance (L2 ADAS) penetration hit 75%.

By 2031, new energy share will stabilize above 50%, with pure electric at 35%, fuel cell at 8% and hybrid at 4%. Level 4 autonomous trucks will deploy at scale in ports and highways, and exports will exceed 450,000 units as Chinese brands replace European and American rivals in Southeast Asia, Latin America (LatAm) and the Middle East.

PASSENGER CARS. NEV penetration hit a record 62.9% in May 2026 and 63.6% in June, with retail sales of 950,000 units in May. Domestic brands now command over 65% market share. For the first time, the top 10 best-sellers were all NEVs, with ICE vehicles falling to just 37.1% share. Battery energy density exceeding 250Wh/kg supports 800V platforms and 10-minute charging for 500km range. Exports are projected above 7 million units.

By 2031, NEV penetration will exceed 80%, with solid-state batteries commercialized and urban NOA standard on models above USD \$22,032.77 (RMB 150,000). The number of active brands will shrink 20–30% as consolidation accelerates.

MOTORCYCLES. Electric motorcycle sales grew 5.2% Jan-May 2026 to 1.49 million units, with the top 10

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makers taking 93.5% share. In first- and second-tier cities, electric share has surged past 55%. Sodium-ion batteries are entering commercial use, enabling 150km+ range. Gasoline motorcycle exports remain stable at 9–10 million units, while electric exports are growing 25–30% annually toward 1.5 million units.

By 2031, electric motorcycles will dominate urban markets with 70%+ share, connected intelligence will be standard, and Chinese brands will hold 45%+ global share through localized production and certification compliance.

LAWN & GARDEN. The gardening machinery market is shifting fast to electric and smart products. In 2026, electric share in Europe and America broke 60%, while emerging markets are accelerating toward 35% penetration on solar-storage integration. Robotic powers and smart irrigation systems are seeing 10%+ annual demand growth. China controls over 75% of global lithium battery capacity, giving domestic firms a supply chain edge. Exports are projected to be above USD \$12 billion.

By 2031, electric share in developed markets will top 75%, AIoT features like autonomous navigation, and voice control will be standard, and Chinese brands will approach 45% global share.

POWER GENERATORS. The gen-set market is splitting between high-horsepower diesel and natural gas sets which are growing steadily on energy transition and backup power for renewables, while small gas generators face volatility from export market dependence. The North American small generator market has matured at 3% growth. High-horsepower segments have clearer competitive landscapes due to technical barriers and rigid industrial demand, making the outlook more positive.

By 2031, gas-to-power transition and renewable backup demand will keep high-horsepower segments growing, while small generators will need to diversify beyond North America. **PSR**

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Far East (Japan and South Korea)

Investment Continues, But Buyers Are More Selective



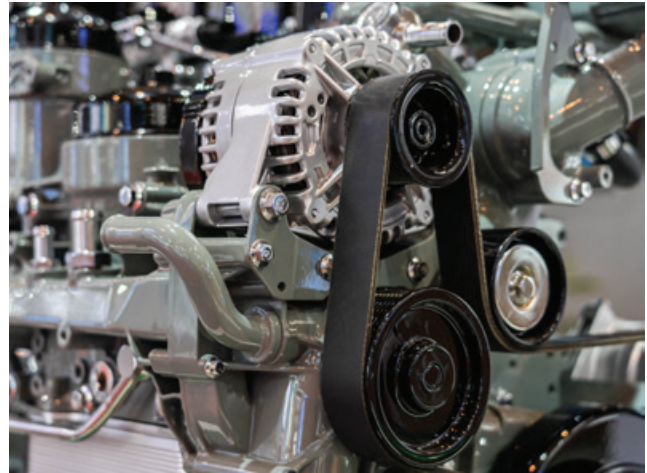
JAPAN SUMMARY: As the second quarter of 2026 begins, the Japanese market is showing a growing divide between projects viewed as essential and those that can be postponed. Demand has not disappeared, but buyers are becoming increasingly selective about where capital is deployed.

Projects linked to power reliability, logistics infrastructure, semiconductor production, and data center development continue to move forward because they address identifiable business risks or capacity constraints. In contrast, broad-based equipment replacement remains limited. Many customers are delaying purchases unless they can clearly justify improvements in productivity, labor utilization, or operational resilience.

This shift is changing purchasing behavior across multiple industries. In agriculture, improved farm income has supported maintenance spending, but large equipment purchases remain concentrated among operators with confidence in long-term profitability. In construction, contractors are increasingly prioritizing equipment availability and service support because project delays have become more expensive than equipment ownership costs. In power generation, buyers are evaluating backup power systems less as emergency equipment and more as risk-management assets.

Export markets remain important, but growth is increasingly being driven by value rather than volume. Manufacturers continue to focus on higher-output models, integrated control systems, and service-based revenue streams that extend beyond the initial equipment sale.

Overall, the Japanese market is becoming less dependent on replacement cycles and more dependent



on investment decisions. The key question is no longer whether demand exists. It is whether a project can demonstrate a compelling business case.

SOUTH KOREA SUMMARY: South Korea continues to rely heavily on exports and overseas projects to drive equipment demand. Domestic activity remains uneven, but this is becoming less important to overall industry performance.

The clearest example is shipbuilding. Korean shipyards are no longer focused primarily on winning orders. Instead, attention has shifted toward executing a substantial order backlog while managing labor availability, production schedules, supply chains, and profitability. This is creating demand not only for engines and onboard equipment, but also for retrofit solutions, maintenance services, and lifecycle support.

A similar pattern is visible in construction equipment. Domestic demand remains weak, yet manufacturers continue to pursue opportunities in infrastructure, mining, and resource-related projects outside Korea. Industry consolidation has also encouraged a greater focus on profitability. Development, procurement, engines, and service networks are increasingly being standardized in order to improve efficiency and reduce costs.

Investment in future technologies continues, but manufacturers are becoming more disciplined in how

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Far East: Investment Continues, But Buyers Are More Selective

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they allocate capital. The current priority is generating cash flow from existing products while selectively investing in technologies that may shape future markets.

For equipment suppliers, the South Korean market remains closely tied to global investment cycles. However, the source of growth is shifting. Execution, lifecycle support, and operational efficiency are becoming as important as new equipment sales.

AGRICULTURAL. Japan. Improved rice prices have provided some relief to farm income, but the impact on machinery purchases has been more limited than many expected. While cash flow conditions have improved in parts of the sector, many operators still view recent income gains as temporary rather than structural. As a result, spending has tended to flow first toward repairs, maintenance, and replacement parts before new equipment purchases.

Demand for new machinery remains concentrated among large-scale farmers, agricultural corporations, and regional farming organizations. These operators continue to face labor shortages and are under pressure to maintain productivity with fewer workers. Consequently, purchasing decisions are increasingly driven by utilization rates and labor efficiency rather than only equipment age.

Another notable trend is the growing importance of the used-equipment market. Many operators seeking additional capacity find it easier to justify used equipment than new purchases under current conditions. This is creating a more gradual replacement cycle than manufacturers would typically prefer.

At the dealer level, sales discussions are increasingly centered on machine utilization, remote monitoring, maintenance support, and operational efficiency rather than hardware specifications alone. Buyers are placing greater emphasis on reducing operating risk and securing long-term support.

Exports remain an important contributor to production, but regional conditions vary significantly across overseas markets. Exchange rates, commodity prices,

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Far East: Investment Continues, But Buyers Are More Selective

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and local agricultural profitability continue to influence purchasing activity.

Overall, demand remains stable, but growth is modest. The next phase of growth is unlikely to come from more farmers buying machines. It will come from fewer operators managing larger areas and demanding higher machine utilization. That shift favors suppliers with strong aftermarket support and productivity-focused solutions.

CONSTRUCTION. Japan. The domestic construction equipment market remains supported by infrastructure-related activity, but the source of demand is changing. Large projects linked to logistics facilities, semiconductor manufacturing, power infrastructure, disaster prevention, and data centers are becoming increasingly important as traditional private-sector construction remains subdued.

Contractors continue to face labor shortages, rising operating costs, and project management challenges. In this environment, equipment purchasing decisions are becoming more selective. Buyers are increasingly prioritizing machine availability, uptime, and service support because project delays can now create greater financial consequences than equipment ownership costs.

Demand therefore remains concentrated in sectors where work cannot be postponed. Construction rental companies, infrastructure maintenance contractors, disaster recovery projects, and industrial facility development continue to generate replacement demand even as broader market conditions remain cautious.

Export performance remains heavily influenced by North America and other major overseas markets. However, profitability is increasingly linked to higher-specification equipment, mining-related applications, remote monitoring systems, and service packages rather than pure volume growth.

For construction equipment suppliers, project selection is becoming more important than market size. The strongest opportunities are increasingly tied to infrastructure that supports industry rather than real estate. Demand is concentrating around projects that cannot easily be delayed.

South Korea. The South Korean construction equipment market remains more dependent on exports than domestic construction activity. Real estate weakness and limited large-scale project activity continue to constrain local demand, making overseas markets the primary source of growth.

Exports remain an important contributor to production, but regional conditions vary significantly across overseas markets.

Manufacturers are responding by focusing on profitability rather than market share alone. Industry consolidation and organizational restructuring are encouraging greater standardization across development, procurement, engines, and service networks. The objective is not simply to sell more equipment, but to improve operating efficiency and generate higher returns from existing business.

Infrastructure development, mining activity, and resource-related investment remain important demand drivers in export markets. At the same time, customers are increasingly evaluating suppliers based on parts availability, service response, and equipment reliability rather than initial purchase price alone.

This trend favors manufacturers that can support equipment throughout its operating life. Growth opportunities are increasingly linked to customer retention and service capability rather than one-time equipment sales.

MARINE. Japan. The marine sector remains one of the healthiest equipment markets in the region, although the focus of industry discussions continues to evolve. A year ago, attention centered on future fuels. Today, greater emphasis is being placed on operational flexibility, efficiency improvements, and practical investment decisions.

Uncertainty surrounding future fuel adoption remains. Shipowners continue to evaluate LNG, methanol, ammonia, and other alternatives, but few are willing to commit exclusively to a single pathway. As a result, investment decisions increasingly favor designs that

Far East: Investment Continues, But Buyers Are More Selective

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preserve flexibility while improving current operating performance.

Demand is therefore extending beyond new vessels. Compliance with environmental regulations, fuel-efficiency improvements, auxiliary equipment upgrades, and preparations for future fuel conversion continue to generate retrofit opportunities. For many operators, extending the useful life of existing assets remains more attractive than immediate fleet replacement.

In the outboard motor segment, market conditions have normalized following the unusually strong demand experienced during the pandemic period. Inventory levels have improved and demand patterns have become more predictable. High-horsepower products continue to provide attractive margins, while smaller segments are recovering gradually in export markets.

Japanese manufacturers continue to differentiate themselves through integrated solutions that combine engines, controls, navigation systems, and service networks. Reliability remains a key competitive advantage.

Future growth will depend less on winning new orders and more on capturing revenue throughout the vessel's operating life. Retrofit activity, efficiency upgrades, and service support are becoming as important as newbuild demand.

South Korea. The South Korean marine industry has entered a period in which execution matters more than order intake. Shipyards continue to benefit from substantial order backlogs, particularly in LNG carriers and other high-value vessel categories. The challenge is increasingly focused on converting those orders into profitable deliveries.

This is creating opportunities throughout the marine supply chain. Demand remains strong for propulsion engines, auxiliary engines, generators, electrical systems, and other onboard equipment. However, customers are also placing greater emphasis on delivery schedules, component availability, technical support, and lifecycle services.



Retrofit activity continues to expand as vessel operators seek efficiency improvements and regulatory compliance solutions. Maintenance, repair, and upgrade work is becoming an increasingly important source of recurring revenue.

At the same time, competition from Chinese shipbuilders remains intense in more standardized vessel categories. This reinforces the need for Korean manufacturers to differentiate themselves through technology, service capability, and project execution.

Future growth will depend less on winning new orders and more on capturing revenue throughout the vessel's operating life. Retrofit activity, efficiency upgrades, and service support are becoming as important as newbuild demand.

INDUSTRIAL. Japan. Industrial equipment demand remains closely linked to investment in logistics, automation, and selected manufacturing sectors. While overall industrial activity is not expanding rapidly, companies continue to invest in projects that improve productivity or reduce operating costs.

The forklift market illustrates this trend clearly. Demand is no longer driven solely by fleet replacement. Customers increasingly evaluate forklifts as part of broader warehouse and logistics systems that include automation, software integration, data management, and material handling solutions.

Investment in e-commerce logistics, distribution centers, semiconductor-related facilities, and automated

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warehouses continues to support demand. However, buyers are placing greater emphasis on total operating efficiency than on individual equipment purchases.

Electrification, fleet management systems, charging infrastructure, and maintenance contracts are becoming increasingly important competitive differentiators. Customers are often purchasing operational capability rather than equipment alone.

The industrial market is creating fewer volume opportunities, but more opportunities to sell integrated solutions and long-term support. Customers are increasingly buying productivity rather than equipment alone.

POWER GENERATION. Japan. Power generation remains one of the strongest equipment markets in Japan. However, the primary driver is changing. Demand is increasingly linked to the cost of operational disruption rather than electricity consumption itself.

Data centers provide the clearest example. As computing density increases, the financial consequences of power interruptions continue to grow. Operators are therefore investing not only in power supply capacity but also in redundancy, backup systems, maintenance programs, and operational resilience.

A similar pattern can be observed in semiconductor facilities, logistics centers, hospitals, manufacturing plants, and critical infrastructure projects. Buyers are increasingly evaluating generators as risk-management assets rather than emergency equipment purchases.

This shift is influencing purchasing behavior. Customers are placing greater value on reliability, service capability, maintenance support, and system integration. In many cases, lifecycle costs are becoming more important than initial acquisition costs.

Portable generators remain dependent on construction activity, events, and disaster-related demand. By contrast, the strongest opportunities continue to emerge in stationary and emergency power applications.

The real opportunity is not more electricity consumption.

It is the rising cost of losing power. Facilities that cannot tolerate downtime are becoming the primary source of demand for backup power systems.

Investment in e-commerce logistics, distribution centers, semiconductor-related facilities, and automated warehouses continues to support demand. However, buyers are placing greater emphasis on total operating efficiency than on individual equipment purchases.

RECREATIONAL PRODUCTS. Japan. The motorcycle market continues to adapt following the phase-out of traditional 50cc mopeds. Rather than creating a simple replacement cycle, this transition is accelerating segmentation within the market.

Entry-level transportation customers are becoming increasingly price-sensitive, while enthusiasts continue to support demand for larger-displacement motorcycles. This is creating a market in which growth opportunities vary significantly by customer segment.

Export markets remain essential for Japanese manufacturers. Production is increasingly supported by higher-value models rather than volume expansion. Profitability therefore depends more on product mix than overall unit sales.

Electric motorcycles continue to attract attention, but adoption remains concentrated in specific applications and customer groups. Questions regarding pricing, infrastructure, regulations, and usage patterns continue to limit broader market penetration.

As a result, internal combustion products remain dominant across most applications. The competitive challenge is no longer simply selling more motorcycles. It is identifying where customers continue to see value in ownership.

The market is no longer rewarding scale alone. It is rewarding manufacturers that can identify the right customer segments and deliver products that match specific use cases. **PSR**

Southeast Asia

Recovery Is No Longer the Story—It's Capital Allocation

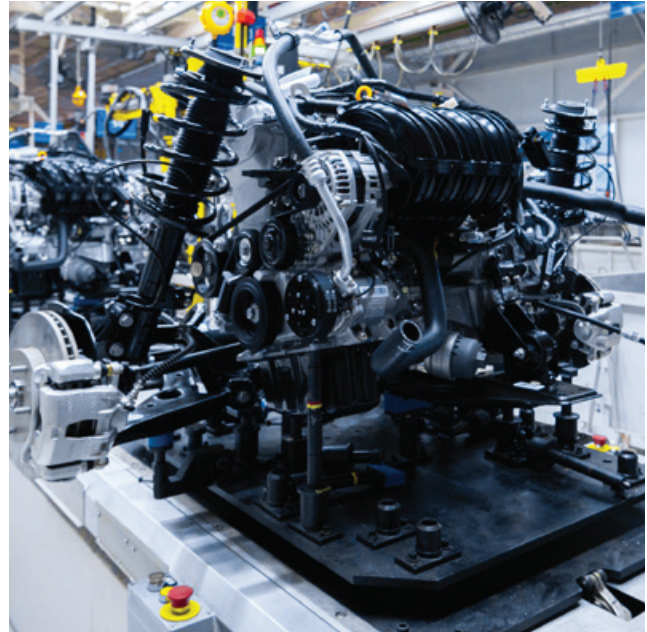
A **SUMMARY.** Recovery is no longer the defining story in Southeast Asia. The more important development is the way that investment is being redistributed across the region and how that investment is reshaping equipment demand.

Supply chains continue to diversify beyond China, but the benefits are not being distributed evenly. Countries attracting industrial investment are increasingly generating demand that extends far beyond factory construction. New manufacturing projects require power generation, logistics infrastructure, material handling equipment, industrial services, and supporting transportation networks. As a result, engine demand is becoming more closely tied to industrial investment than to consumer spending.

Indonesia continues to benefit from downstream resource processing, food security initiatives, and domestic demand. However, investment is increasingly concentrated in projects capable of generating long-term economic value rather than short-term volume growth. This is creating opportunities for construction equipment and also for power generation, logistics, and industrial machinery suppliers.

Malaysia remains closely linked to export-oriented manufacturing. While short-term factory activity continues to fluctuate, investment in electronics, semiconductors, and data-center-related infrastructure is generating demand for industrial equipment, backup power systems, and supporting facilities. The focus has shifted from increasing production volume to capturing higher-value activities within global supply chains.

The Philippines continues to benefit from improving domestic activity and manufacturing output. However,



rising operating costs remain a concern. As a result, investment decisions are increasingly evaluated through the lens of efficiency and operational productivity rather than capacity expansion alone.

Thailand remains a highly segmented market. Automotive activity, motorcycle production, construction investment, and export manufacturing are moving at different speeds. Industrial parks, logistics facilities, and selected infrastructure projects continue to attract investment, while other sectors remain more cautious.

Vietnam remains one of the strongest manufacturing markets in the region. The most important development is not simply export growth, but the continued expansion of production capacity. Investment is increasingly spreading beyond final assembly into components, logistics, industrial infrastructure, automation, and supporting services. This broadens the range of equipment categories benefiting from industrial growth.

Cambodia continues to attract investment in labor-intensive manufacturing and special economic zones. While infrastructure limitations remain, investment approvals suggest that international manufacturers

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continue to view the country as part of a longer-term regional production strategy.

Overall, Southeast Asia is no longer moving as a single market. The winners are increasingly the countries attracting industrial investment rather than simply offering the lowest production costs. For engine and equipment suppliers, understanding where capital is flowing has become more important than tracking headline economic growth.

AGRICULTURAL: The Agricultural Machinery market continues to expand, but demand patterns are becoming increasingly fragmented across the region.

In **Indonesia**, food security remains a national priority. Government support continues to encourage mechanization, but attention is shifting from equipment distribution toward actual equipment utilization. Buyers increasingly are expected to demonstrate productivity improvements rather than simply acquire machinery. This favors suppliers that can support equipment performance over time rather than relying solely on initial sales.

Thailand continues to face pressure from farm debt and aging agricultural demographics. Broad-based purchasing activity remains constrained, but demand persists among large operators and service contractors. Labor availability has become a more significant concern than machinery affordability in many areas, encouraging investment in equipment that can improve productivity with fewer workers.

Vietnam presents a different picture. Export-oriented agriculture continues to drive demand for mechanization, but the strongest opportunities increasingly extend beyond field equipment. Pumps, generators, handling systems, and processing equipment are becoming more important as producers seek to improve efficiency throughout the agricultural value chain.

The Philippines continues to develop agricultural mechanization programs, but market growth remains influenced by implementation and operational

effectiveness. Procurement alone does not guarantee equipment demand if utilization rates remain low.

Overall, Southeast Asia is no longer moving as a single market. The winners are increasingly the countries attracting industrial investment rather than simply offering the lowest production costs.

Across the region, the strongest growth opportunities are increasingly tied to productivity rather than acreage expansion. Future demand will be driven less by farm expansion and more by the need to produce more output with fewer workers. Mechanization is increasingly becoming a labor strategy rather than a yield strategy.

CONSTRUCTION: Construction remains one of the strongest equipment sectors in Southeast Asia, but the nature of demand continues to evolve.

Indonesia remains the region's largest construction equipment market. However, demand is no longer driven solely by mining activity or large infrastructure projects. Resource processing, industrial development, logistics facilities, ports, and power infrastructure are creating a broader range of equipment requirements. Many projects now generate demand for generators, handling equipment, and industrial machinery in addition to traditional construction equipment.

Thailand continues to experience uneven market conditions. Residential construction remains subdued, but industrial parks, logistics facilities, data centers, and public infrastructure projects continue to support equipment demand. This is creating a market where project quality matters more than overall project volume.

Vietnam remains one of the most active markets in the region. Public infrastructure spending, industrial park expansion, manufacturing investment, and logistics development continue to support demand. However, rising labor, material, and transportation costs are placing greater pressure on project profitability. As a result, contractors are paying closer attention to equipment utilization and operating efficiency.

Southeast Asia: Recovery Is No Longer the Story—It's Capital Allocation

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Rental companies continue to benefit from this environment. Many customers prefer flexibility over ownership when future project visibility remains uncertain.

The biggest equipment opportunities are increasingly being created by industrial policy rather than construction cycles. Manufacturing relocation, resource processing, logistics development, and power infrastructure are becoming more important demand drivers than traditional building activity.

RECREATIONAL PRODUCTS: Motorcycles remain one of Southeast Asia's most important transportation products, but the market is becoming increasingly segmented.

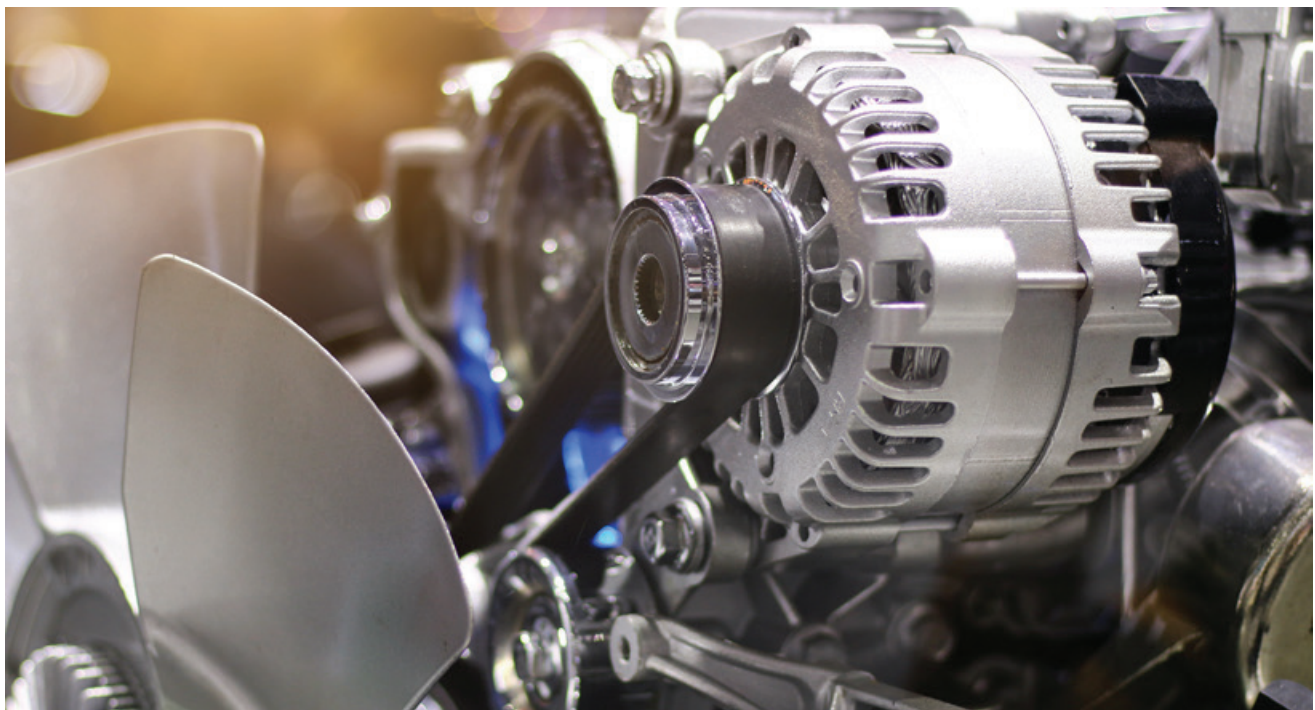
Indonesia continues to lead the region in terms of volume. Domestic demand remains healthy, and export activity continues to support production. However, competition is intensifying, particularly in lower-priced segments where Chinese manufacturers and emerging electric vehicle brands are becoming more active. This is making market share more difficult to defend through pricing alone.

Vietnam continues to evolve into a more complex market. Japanese manufacturers remain dominant, but competition is increasingly shaped by vehicle purpose, customer demographics, and powertrain choice rather than overall volume. Electric motorcycles continue to gain visibility in selected urban applications, but internal combustion products remain the primary transportation solution for most consumers.

Thailand's importance remains closely tied to its role as a manufacturing and export hub. Production activity continues to benefit from export demand even when domestic sales remain mixed. This reinforces the country's strategic role within regional motorcycle supply chains.

Across the region, electrification remains an important long-term trend, but it is not yet the primary driver of market change. The more immediate development is increasing segmentation. Customers are making purchasing decisions based on specific use cases, operating costs, and ownership requirements rather than broad market trends.

Success will depend less on selling more motorcycles and more on understanding who is still willing to buy them. Market growth is becoming increasingly segmented by income level, usage pattern, vehicle purpose, and powertrain choice. **PSR**



India

Navigating Geopolitical Uncertainty By Diversification



SUMMARY. India's automotive industry entered FY27 against a backdrop of relatively resilient domestic economic activity, continued infrastructure investment and a gradual recovery in global trade. However, the operating environment has become increasingly complex following the escalation of geopolitical tensions in West Asia.

While the immediate impact on vehicle demand has been limited, concerns surrounding crude oil prices, freight costs, shipping routes and energy security have once again moved to the forefront of industry discussions. For an economy that remains significantly dependent on imported crude oil, the developments have reinforced the strategic importance of fuel diversification and reduced exposure to global energy shocks.

This backdrop has accelerated momentum behind India's multi-pathway approach toward decarbonization. Rather than relying solely on electrification, policymakers and manufacturers are advancing a broader portfolio that includes ethanol blending, flex-fuel vehicles, CNG, LNG, electric mobility and hydrogen-based solutions. The launch of flex-fuel motorcycles, continued investments in EV ecosystems, and ongoing hydrogen pilot programs in commercial vehicles highlight an industry preparing for a more diversified energy future.

Simultaneously, increasing localization of batteries, powertrain components and vehicle manufacturing is strengthening supply-chain resilience and reducing dependence on imported technologies.

Looking ahead, the next two or three quarters are expected to be characterized by steady domestic demand, sustained infrastructure-led economic activity

Regulatory pressures, including stricter emission norms, continue to drive portfolio rationalization, accelerating the shift away from small cars toward SUVs and premium offerings, reshaping overall production mix.

and continued investment in alternative-fuel technologies. While geopolitical developments and energy prices remain key watchpoints, the Indian automotive industry appears increasingly positioned to leverage technological diversification, manufacturing competitiveness and export opportunities as long-term growth drivers.

RECREATIONAL PRODUCTS. Motorcycle and Scooters.

The Indian two-wheeler industry has maintained a positive trajectory through the first quarter of FY27, with market activity supported by resilient rural demand, improving consumer sentiment, and continued preference for personal mobility. While commuter motorcycles remain the backbone of the industry, premium and executive segments are witnessing stronger competitive intensity as manufacturers seek growth through product differentiation rather than pure volume expansion. Scooters continue to outperform the broader market, driven by urban consumers, increasing participation of women riders, and growing acceptance in smaller towns.

The competitive landscape has become increasingly dynamic. Honda has continued to narrow the gap with Hero MotoCorp, while TVS and Bajaj have leveraged broad portfolios spanning both conventional and electric powertrains. Suzuki has strengthened its position in the scooter space, and several manufacturers have accelerated refresh cycles with feature-rich products, connected technologies, and improved fuel-efficiency offerings.

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The electric two-wheeler market is also entering a more mature phase, with consumer focus gradually shifting from subsidy-led purchases to product reliability, charging ecosystem, and ownership economics.

A notable development during the period has been the industry's growing emphasis on ethanol-compatible vehicles, highlighted by the launch of flex-fuel motorcycles capable of operating on high ethanol blends. This indicates that alternative-fuel strategies are broadening beyond electrification alone.

Over the next two to three quarters, scooters, premium motorcycles, electric mobility, and flex-fuel offerings are expected to remain the primary growth drivers, with competition increasingly centred on technology, product innovation, and customer experience.

Three Wheelers. The Indian three-wheeler industry remains one of the most structurally transformed automotive segments in 2026, with electrification increasingly reshaping the competitive landscape. Electric three-wheelers have moved firmly into the mainstream, particularly in passenger mobility and last-mile cargo applications, prompting established manufacturers such as Bajaj Auto, Mahindra, Piaggio and TVS to expand their electric portfolios while continuing to cater to CNG-led demand in select markets.

Competition is increasingly centered on battery performance, vehicle uptime, charging ecosystem and after-sales support rather than solely on acquisition cost.

This segment is also benefiting from a recovery in export markets across Africa, the Middle East and parts of Latin America, reinforcing India's position as a global manufacturing hub for affordable urban mobility solutions. However, geopolitical uncertainties in West Asia have emerged as a near-term risk, creating logistical disruptions, longer shipping cycles and higher freight costs for exporters. Despite these headwinds, export demand has remained resilient, supported by diversification into newer overseas markets and sustained demand for cost-effective passenger and cargo transport solutions.

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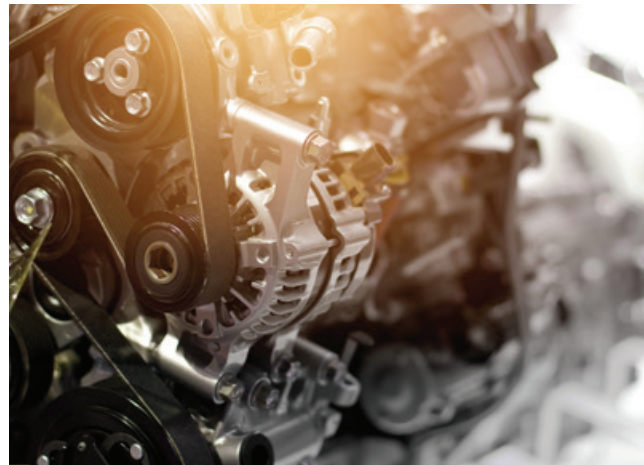
Looking ahead, electric three-wheelers are expected to gain further share over the next two to three quarters, while CNG is likely to retain relevance in infrastructure-ready regions. The industry's trajectory will continue to be shaped by fleet economics, urban logistics growth and expanding export opportunities rather than a single technology pathway.

PASSENGER CARS, MINIVANS & SUVs. The Indian passenger vehicle industry has entered FY27 with a noticeably different competitive landscape than a few years ago. SUVs continue to dominate product development and consumer preference across most price bands, prompting manufacturers to expand their utility vehicle portfolios while reducing emphasis on traditional hatchback and sedan segments.

However, the market is increasingly becoming multi-powertrain rather than purely SUV-centric, with strong hybrids, plug-in hybrids and electric vehicles gaining strategic importance alongside conventional petrol offerings. Recent launches and announcements from players such as BYD, Honda, Mercedes-Benz and Tata Motors highlight the growing focus on hybrid and electrified technologies.

Competition remains intense among Maruti Suzuki, Hyundai, Mahindra and Tata Motors, while global manufacturers are using India as both a growth market and an export hub. Export momentum has remained healthy across regions such as the Middle East, Africa and Latin America, although the ongoing West Asia crisis has introduced logistical challenges through higher freight costs, longer shipping routes and supply-chain uncertainties. Despite these concerns, industry operations and overseas demand have remained resilient.

Looking ahead, the industry is expected to remain supported by a robust launch pipeline, continued SUV preference and growing acceptance of hybrid technologies. Rather than a clear shift from ICE to EVs, the market appears to be evolving toward a diversified powertrain ecosystem where petrol, hybrid, plug-in hybrid and electric vehicles coexist, allowing



manufacturers to address varying customer needs and infrastructure realities.

COMMERCIAL VEHICLES. LCV. The Indian light commercial vehicle (LCV) industry is witnessing a gradual normalization phase in 2026 following several years of strong replacement-led and e-commerce-driven growth. Demand continues to be supported by last-mile logistics, intra-city freight movement and expanding distribution networks, although fleet operators have become increasingly focused on utilization rates and operating costs.

Manufacturers are responding through enhanced payload offerings, connected vehicle technologies and improved fuel-efficiency, while competition remains intense among Tata Motors, Mahindra, Ashok Leyland and Maruti Suzuki.

Alternative fuels are gaining traction within specific applications. CNG-powered LCVs continue to attract urban fleet operators seeking lower operating costs, while electric LCV adoption is steadily expanding in e-commerce, parcel delivery and municipal applications where predictable duty cycles favour electrification. The segment is also benefiting from increasing localization of EV components, helping improve cost competitiveness and product availability.

Export opportunities remain favourable across emerging markets, although logistical disruptions linked to the ongoing West Asia crisis have increased freight costs and transit times for certain routes. Over the next two to three quarters, the industry is expected to remain broadly stable, supported by logistics activity, replacement

India: Navigating Geopolitical Uncertainty By Diversification

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demand and continued diversification toward CNG and electric powertrains, with fleet economics remaining the primary purchasing consideration.

MHCV. The medium and heavy commercial vehicle (MHCV) industry has begun to moderate after an extended period of exceptionally strong activity driven by infrastructure construction, mining, manufacturing and freight movement. While fleet expansion has become more measured, underlying freight demand remains healthy and vehicle utilization levels continue to support replacement purchases. Manufacturers are increasingly competing through technology, fuel efficiency, connected fleet solutions and total cost of ownership rather than solely through vehicle specifications.

A notable trend in 2026 has been the growing industry focus on decarbonization pathways. LNG-powered trucks continue to gain visibility in long-haul applications, while several manufacturers are advancing hydrogen internal combustion engine and fuel-cell vehicle programs through pilot deployments and strategic partnerships. These developments reflect a broader industry effort to prepare for future emission requirements while maintaining operational viability for heavy-duty transport applications.

Exports remain an important growth avenue for Indian truck manufacturers, particularly in South Asia, Africa and the Middle East. However, geopolitical tensions in West Asia have created some uncertainty around logistics and freight corridors. Over the next two to three quarters, MHCV demand is expected to remain supported by infrastructure activity and freight movement, though growth is likely to be more replacement-driven than expansion-driven, with alternative-fuel technologies increasingly shaping long-term competitive strategies.

CONSTRUCTION EQUIPMENT. The Indian construction equipment industry continues to benefit from sustained infrastructure execution, with activity remaining robust across roads, railways, urban development, mining and renewable energy projects. Rather than broad-based capacity expansion, the

market is increasingly being driven by project-specific equipment requirements, resulting in healthy demand for excavators, backhoe loaders, wheel loaders and material-handling equipment. Manufacturers have remained focused on expanding local production, improving machine productivity and integrating telematics solutions to enhance fleet utilization and maintenance efficiency.

The medium and heavy commercial vehicle (MHCV) industry has begun to moderate after an extended period of exceptionally strong activity driven by infrastructure construction, mining, manufacturing and freight movement.

Competitive intensity has increased as domestic and global players strengthen their presence through product localization, dealer network expansion and technology upgrades. The industry is also witnessing growing adoption of higher-capacity and specialized equipment for mining, quarrying and large infrastructure projects, reflecting the increasing complexity of project execution in India. Rental and leasing models continue to gain acceptance, particularly among contractors seeking asset flexibility and improved capital efficiency.

Export opportunities remain favorable, supported by India's growing role as a manufacturing hub for select equipment categories. While geopolitical tensions in West Asia have introduced logistical uncertainties and higher freight costs, the overall outlook remains constructive.

Over the next two to three quarters, the industry is expected to remain supported by ongoing infrastructure spending, mining activity and public-sector project execution, with digitalization, localization and productivity enhancement emerging as key competitive differentiators.

AGRICULTURE. The Indian agricultural tractor industry has remained resilient through 2026, supported by favourable farm sentiment, continued farm mechanization and sustained government emphasis

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on improving agricultural productivity. While tractor penetration in several regions continues to increase, the market is also witnessing a gradual shift toward higher-horsepower models as farmers seek improved efficiency for larger and more diverse farming operations.

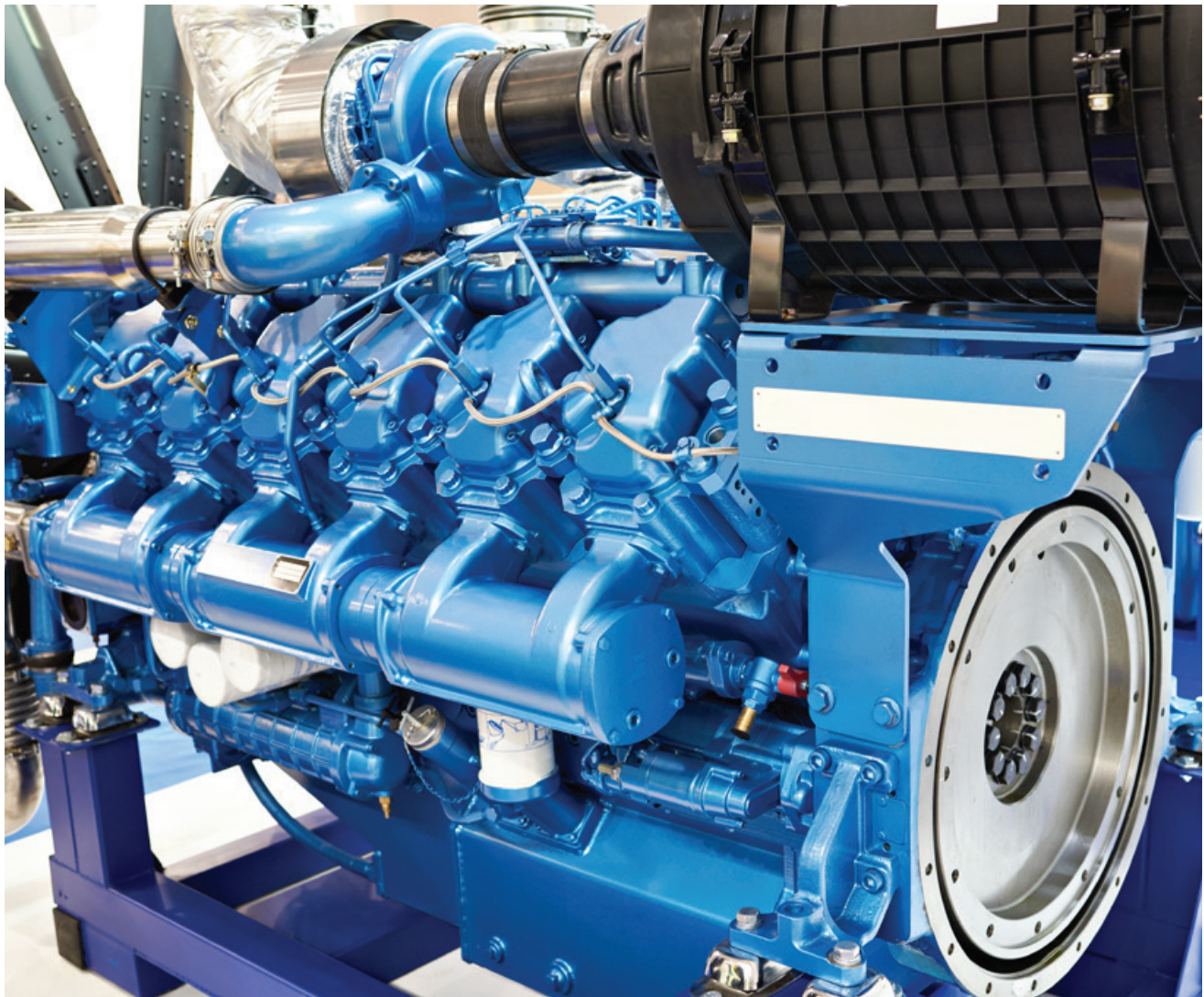
Demand is increasingly linked to crop economics and to rural infrastructure activity, haulage applications and non-agricultural usage, broadening the role of tractors beyond conventional farming.

Competition among major manufacturers such as Mahindra, TAFE, Sonalika, Escorts Kubota and John Deere remains intense, with companies focusing on

product upgrades, precision farming solutions and enhanced operator comfort. Technology integration, including telematics and smart farming features, is becoming a more visible differentiator, particularly in premium segments. Export activity continues to provide growth opportunities, with Indian-made tractors strengthening their presence across Africa, Southeast Asia and select developed markets due to their cost competitiveness and adaptability.

Looking ahead, the industry is expected to remain stable over the next two to three quarters, supported by healthy mechanization trends and replacement demand. While alternative-fuel adoption remains limited compared with other automotive segments, manufacturers continue to explore electric, hybrid and alternative-fuel tractor concepts as part of their long-term technology roadmap.

PSR



South America/Brazil

Growth Expectations Improved Across Major Economies



SOUTH AMERICA SUMMARY. Economic conditions across South America have not changed materially since the Q1 2026 forecast cycle, although several underlying assumptions have evolved, including the impact of conflict in the Middle East and the oil price volatility.

Growth expectations have generally improved across the region's major economies, particularly in Brazil, where both private institutions and the Central Bank's Focus Survey revised 2026 GDP projections (upward from 1.8% to 1.9%) following stronger-than-expected economic activity during the first half of the year.

Despite the improved growth outlook, expectations for monetary easing have become more conservative. Earlier forecasts assumed a more significant reduction in interest rates during 2026, supporting a broader recovery in financing-sensitive sectors. However, persistent inflation concerns, supported by public deficit persistency, energy market volatility and higher fuel costs, have led financial markets to revise interest-rate expectations upward, reducing optimism regarding financing conditions for equipment purchases and fleet renewal.

BRAZIL. In Brazil, the Central Bank's Focus Survey increased its year-end 2026 Selic (Benchmark interest rate for the Brazilian economy) expectation from 13.25% earlier in the year to 13.50% by June, while several financial institutions now expect rates to remain between 14.0% and 14.25% through most of 2026.

Brazil benefits from resilient consumer spending, services activity, and agribusiness output. However, elevated financing costs limit investment across capital-intensive sectors, particularly commercial vehicles,

Economic conditions across South America have not changed materially since the Q1 2026 forecast cycle, although several underlying assumptions have evolved.

agricultural machinery, and industrial equipment. Recent increases in oil prices have added inflationary pressure and reinforced expectations that interest rates will stay higher for longer than previously anticipated.

ARGENTINA. This is the region's strongest recovery story. GDP growth expectations have improved from approximately 2.5% to 2.8%, while inflation has declined from triple-digit levels toward 30%, supporting improving business confidence and industrial planning. OEM manufacturing footprint decisions and regional production allocation strategies are currently affecting production volumes more than underlying market demand. Colombia follows a more moderate growth trajectory, with GDP expectations revised from approximately 2.8% to 2.4% amid weaker investment activity.

The Agricultural sector is one of the most challenging end markets in the region. Elevated producer indebtedness, restricted access to credit, persistently high interest rates and higher operating costs delay equipment replacement decisions. Above-normal dealer inventories confirm the negative scenario for Agricultural Products production. Firmer soybean prices have slightly improved producer income expectations, although financing conditions are still the primary obstacle to a broader market recovery.

Overall, revisions to the FY 2026 production outlook reflect a more cautious assessment of investment activity and financing conditions, segment by segment, rather than weaker economic growth expectations. Segment-specific fundamentals drive production trends across the region, while structural factors such as currency volatility

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South America/Brazil: Growth Expectations Improved Across Major Economies

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and political uncertainty remain part of the operating environment rather than new sources of risk.

PRODUCTION OUTLOOK. Production expectations are mixed across segments in the region. While economic growth forecasts have improved since the previous quarter, financing conditions are less supportive than previously anticipated. As a result, revisions to FY 2026 production forecasts are driven primarily by sector-specific fundamentals rather than broad changes in regional economic activity.

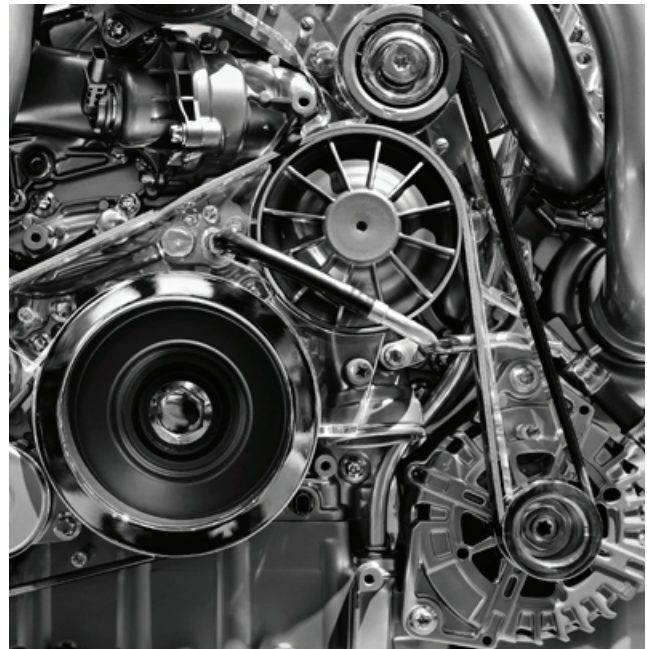
Capital-intensive segments face the greatest pressure from higher financing costs and slower monetary easing. Medium and Heavy Vehicles, Agricultural Equipment, and Industrial Equipment account for the most significant downward adjustments, reflecting weaker investment activity and longer replacement cycles.

At the same time, several sectors benefit from replacement demand, infrastructure activity, logistics expansion, and project-driven investments. Power Generation, selected Construction Equipment applications, and parts of the Light Vehicle market show greater resilience despite the more restrictive financial environment.

As a background for the analysis, Brazil serves as the primary production base for most equipment categories, with output largely tied to domestic demand conditions. Argentina benefits from improving business conditions and selective production growth, while Colombia supports regional volumes in specific vehicle and equipment applications.

MEDIUM & HEAVY VEHICLES. The outlook for Medium and Heavy Vehicles has weakened since the previous forecast cycle and it is estimated to be down by -4%, driven by Brazil (-5,8%) especially in Heavy Trucks. Despite government programs to maintain production volumes such as Move Brazil, in Brazil, strong freight fundamentals and stable economic activity support fleet utilization, but elevated financing costs delay replacement decisions across most truck segments.

Earlier forecasts assumed a more favorable interest-rate environment during the second half of 2026. As



expectations for monetary easing slowed, production forecasts moved lower, particularly in heavy and extra-heavy trucks where financing plays a critical role in purchasing decisions.

Government incentive programs provide some support to the market but do not fully offset the impact of tighter credit conditions. Bus production benefits from public programs. But the forecast for the segment in Brazil remains unchanged at -4% down.

In Argentina, the market volumes are in line with previous expectations and the Q2 2026 forecast review is related to previously announced manufacturing plans such as the movement of Mercedes Euro V Models production from Brazil to Argentina, and the faster ramp up of Zarate plant of Mercedes.

LIGHT COMMERCIAL VEHICLES. The Light Commercial Vehicle segment demonstrates better resilience than most financing-sensitive markets, but it is still down by -1%. Demand from urban logistics, services, e-commerce, and fleet operations supports production activity across the region.

Brazil serves as the main production hub, with some models produced in Uruguay, while Argentina maintains its strategic role in pickup manufacturing for both domestic consumption and export markets. New investments and upcoming product launches support production levels through 2026 and beyond.

South America/Brazil: Growth Expectations Improved Across Major Economies

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Electrification keeps expanding in selected delivery applications, although cost considerations and infrastructure limitations constrain broader adoption.

PASSENGER CARS, MINIVANS & SUVs. The light vehicle outlook is constructive despite restrictive financing conditions. 2026 growth forecast in the two combined segments is at 2.3% growth, flat in Passenger Car, but growth of 4% in Minivans and SUV. Stronger-than-expected economic activity and resilient consumer demand support production levels, particularly in Brazil.

Recent investments by Chinese and traditional OEMs are reshaping the competitive landscape. New production capacity and increasing local assembly activity support output growth and gradually reduce dependence on imports in selected vehicle categories. While models formerly imported from China grow in production volumes, the traditional European, American and Japanese OEMs see their share reduced by the growth of the Chinese in Brazil, the main market. The product mix and the OEM share changes are significantly higher than the total market growth.

In Argentina, although the exports to Brazil maintain forecast levels, the internal sales numbers show a soft reduction, and the main impact on volumes is related to VW moving some products production to Mexico, which brings down the Minivans & SUV in Argentina by 44%.

Electrified vehicles continue gaining market share through new product introductions and expanding consumer acceptance. However, replacement demand, local manufacturing investments, and product portfolio expansion remain the primary production drivers for 2026.

AGRICULTURAL EQUIPMENT. Agricultural equipment faces one of the most challenging environments among South America's major equipment segments, down by -8%. Production forecasts have moved lower as high financing costs, elevated producer indebtedness, and restricted credit availability weigh on purchasing decisions.

Commodity prices have improved in recent months, particularly soybeans, providing some support to farm

income expectations. However, higher fuel prices, elevated operating costs, and inventory levels across parts of the dealer network delay a broader market recovery.

The light vehicle outlook is constructive despite restrictive financing conditions. 2026 growth forecast in the two combined segments is at 2.3% growth, flat in Passenger Car, but growth of 4% in Minivans and SUV.

A more meaningful recovery depends on improved financing conditions and stronger confidence among agricultural producers, especially with risks associated with a stronger El Niño effect in the second half of 2026.

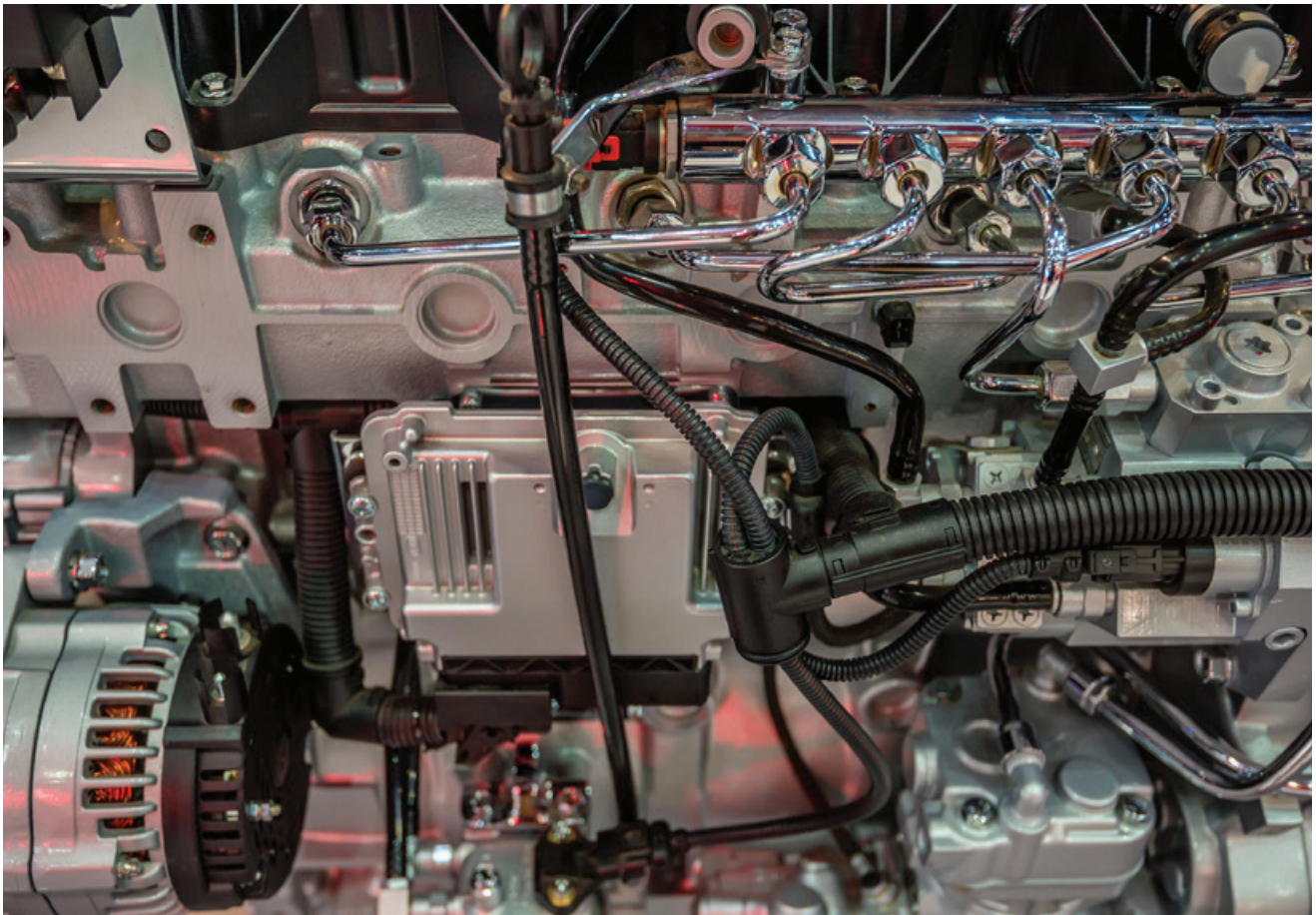
CONSTRUCTION EQUIPMENT. The construction equipment outlook is relatively stable, with 3% growth, in line with last forecast cycle. Infrastructure activity, rental fleet replacement, mining projects, and selected industrial investments support demand.

The segment has entered a normalization phase following several years of strong growth. Fleet utilization is healthy, but disciplined capital allocation and higher financing costs limit the potential for significant near-term expansion.

Market surveys and dealer feedback support expectations for stable production levels through 2026, with gradual improvement expected beyond the current forecast year.

INDUSTRIAL EQUIPMENT. Although it still demonstrates 4% growth, the industrial equipment outlook has softened since the previous forecast cycle. Recent revisions from industry associations and weaker investment indicators point to a more cautious environment for capital expenditures across manufacturing and industrial sectors.

Mining, oil and gas, infrastructure maintenance, and project-driven investments support demand and forecast maintenance. However, higher financing costs and weaker activity in agriculture and manufacturing have reduced near-term growth expectations.



South America/Brazil: Growth Expectations Improved Across Major Economies

Continued from page 38

Forklifts represent one of the segment's most resilient applications, supported by logistics, warehousing, and fleet replacement activity.

POWER GENERATION. Power Generation is one of the most interesting segments in the region. It benefits from data center expansion, energy reliability concerns, oil and gas activity, and mining investments. Demand is high for higher power units, however these headwinds affect market sales more than production with 5% growth, because the high-power Gen-Sets are mostly imported.

Large projects in Brazil and Chile support demand for high-power generation equipment, while distributed generation and backup power applications generate opportunities across multiple industries.

Most market growth is tied to specific projects and confirmed orders rather than broad economic cycles,

providing greater visibility and stability than many other equipment segments.

RECREATIONAL PRODUCTS. Motorcycle production is the main highlight in the region with growth of 13%. It benefits from strong urban mobility demand, delivery services, and affordability advantages relative to passenger vehicles.

Brazil is the primary growth driver for the segment, supported by stable consumer demand and expanding fleet applications. Argentina and Colombia also contribute positively with growth higher than expected through local assembly activity and strong urban transportation demand.

While financing costs influence consumer purchasing decisions for Light Vehicles, fuel price pushes buyers to more efficient mobility solutions, motorcycles remain one of the most accessible forms of personal transportation in the region. This is the main driver for 2026 forecast review in this quarter, significantly more positive. **PSR**

North America

Economy Stable but Slowing Growth



SUMMARY. There seems to be a divide between strong corporate growth and tight consumer budgets. While the threat of a recession has largely been avoided, ongoing inflation, elevated interest rates, and trade tensions are pressuring household purchasing power.

Real GDP increased at an annualized rate of 2.1%, reflecting steady but cooler momentum compared to previous years. The unemployment rate sits at about 4.3%. While job creation remains relatively resilient, long-term unemployment has seen a slight increase. Consumer price growth remains stubbornly above the Federal Reserve's target, hovering near 3.8%. Persistent services inflation and global supply constraints are keeping upward pressure on prices. The federal funds rate remains in a restrictive range of 3.5% to 3.75%, keeping borrowing costs high as the Federal Reserve navigates the balance between slowing growth and entrenched inflation. Despite a strong stock market, consumer confidence has slipped. Higher energy costs and the lingering impacts of tariffs have left many households cutting back on discretionary spending.

The Federal Reserve faces a delicate balancing act under new Chairman Kevin Warsh. While politicians and markets desire rate cuts to stimulate the economy, the Fed is leaning toward holding or raising rates to fight inflation.

Implemented and proposed tariffs are acting as a drag on growth and complicating supply chains. As stated in previous bulletins, much of the added costs are passed onto the end customer.

AGRICULTURAL. North American agricultural machinery production is down in 2026 as manufacturers scale back to prevent excess inventory. This slowdown is driven by weak crop prices, elevated borrowing costs, and rising input expenses that have compressed farmer profit margins, leading producers to delay major equipment purchases and focus on servicing existing debt. PSR is estimating production to be down -5% in 2026 from 2025. The US has reduced tariffs to 15 percent on agricultural and certain industrial equipment, down from 25 percent. This took effect on June 8, 2026, and will be in place until the end of 2027.

CONSTRUCTION. Production of construction equipment in North America is expected to be flat this year. Construction equipment production will show some growth in 2026, driven by a surge in demand for data centers, and AI-related infrastructure. Federal and state funding for large-scale infrastructure projects and a shift in domestic manufacturing is also fueling growth. Due to high purchase prices and longer, lead times, there is a surge in demand for rental and used equipment, encouraging manufacturers to maintain production to feed these markets. While residential construction has slumped, major infrastructure projects are driving strong, steady demand.

MEDIUM & HEAVY VEHICLES. Medium and heavy truck production in North America is expected to increase by 9.5% this year compared with low 2025 production. While class 8 truck production is expected to increase by 13.5% this year as order rates for class 8 trucks improved strongly throughout much of the year. Improvement in freight rates and freight demand along with tightening truck capacity and some level of truck pre-buy ahead of the 2027 GHG emission regulations is expected to drive increased truck production this year. While truck sales have been down for much of this year, production levels are expected to be strong in the second half of the year. Oil prices have been declining recently, which will also help drive truck demand in the third and fourth quarters of 2026. **PSR**

Author



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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.

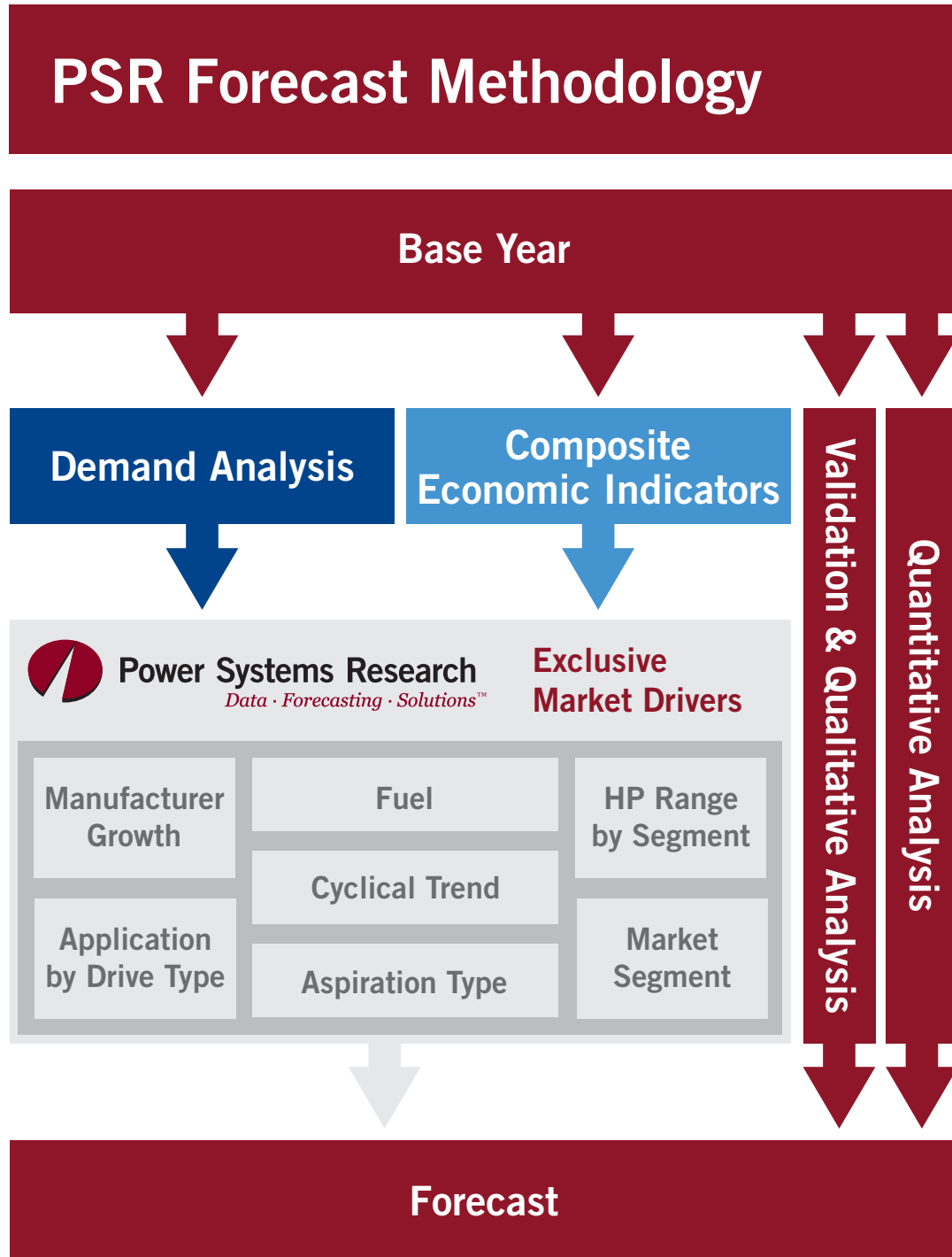
PSR RESEARCH METHODOLOGY



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,TM 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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