INTRODUCTION

• Global economic growth has slowed dramatically since the “Great Recession”
• The slowdown has been described by former Treasury Secretary Larry Summers as “secular stagnation”
• Christine Lagarde, the Managing Director of the IMF, was even more colorful in her description, calling it the “new mediocre”
• After suffering a sharp contraction during the Great Recession, the U.S. economy has sustained a modest, but steady, pace of economic growth
• But, the current recovery is one of the slowest in the post-WWII U.S. history. Consequently, we have not yet seen the accumulation of excesses and imbalances compared to the peak in previous cycles. Thus, we expect the U.S. economy to continue growing at a modest pace
• The Trump presidency is adding uncertainties to the economic outlook, both on the upside and downside. It is too early to draw definitive conclusions regarding the impact of Mr. Trump’s economic policies
• The Chinese economy has slowed while transitioning from an investment/export growth model to a consumption-based model
• Emerging market economies are especially impacted by China’s slowdown
• Moderate economic expansion in Europe has continued, mainly driven by strong domestic demand
• Political climate in major regions has changed
  – Brexit
  – The election of Donald Trump
  – Growth of nationalist movements in many European countries
AUTO INDUSTRY HAS SEEMINGLY DECOUPLED FROM THE GLOBAL ECONOMIC MALAISE

• China had a bumper year in 2016, with sales increasing by more than 3 million units over 2015 to 28.3 million
  – A temporary reduction in the consumption tax and supportive monetary policy contributed to this remarkable performance

• North America also reported a record year, led by strong growth in Mexico
  – The U.S. reported the seventh consecutive year of growth, posting a new record high
  – Canada also reported an all-time high in vehicle sales

• Sales in Western Europe exceeded consensus forecasts

• UK reported an all-time sales record, belying some of the fears about BREXIT

• India continued its steady growth

• Auto sales in Brazil and Russia remain at recessionary levels
  – There are some signs that both countries have reached bottom

• Expect these trends to continue
  – However, another bumper year in China is unlikely given the government’s decision to partially reverse the cut in the consumption tax
CHINA OUTLOOK

• The Chinese economy continues to slow from its previous double-digit pace to around 6.5%. We expect growth will moderate slightly in 2017.
• Transition from an investment/export driven economy to a consumption driven model is not smooth, but China is making progress.
• Heavy indebtedness and capital outflows limit the room for monetary easing.
• Success of structural reforms are critical for China to achieve long term sustainable growth.
• Vehicle sales grew strongly in 2016 to over 28M, boosted by the 50% purchase tax cut for small vehicles. The tax benefit was partially extended this year. We expect continued sales growth in 2017, but at a more moderate pace.
• The Eurozone economy has shown no obvious signs of slowing in response to political events in the UK, the US, or domestically
• Domestic demand remains strong, supported by an exceptional level of monetary policy accommodation, decreasing unemployment, and low oil prices
• European vehicle industry came in at 20.2 million in 2016, the highest level since 2009
• Since the Brexit vote, the UK economy has performed more solidly than expected. Vehicle sales reached a new record high of 3.1 million in 2016
• Europe faces many challenges in 2017
  – Potentially contentious Brexit, fallout from the referendum defeat in Italy, elections in Germany, France, and the Netherlands, and increasingly authoritarian political situation in Turkey
• Growth is expected to remain gradual and uneven
**SOUTH AMERICA OUTLOOK**

- South America has suffered the most from the collapse in commodity prices
- Brazil’s economy remains mired in a deep recession, but there are hopeful signs that the bottom has been reached
  - Financial indicators, including the Brazilian real and the BOVESPA, have turned positive
- Argentina’s commitment to structural reforms, fiscal consolidation, and the commencement of an inflation-targeting program is expected to improve economic competitiveness and support sustainable growth
- Chile, Peru, Columbia, and Ecuador have all been hurt by collapsing commodity prices, but prudent economic management has enabled them to ride out the storm
- Venezuela is suffering through its third year of a deepening recession, with no end in sight
- In 2016, regional vehicle sales fell to 3.3M units, a decline of 44% over three years. Sales in 2017 are expected to recover slightly – with upside potential in following years – however, political stability is fragile in key markets.
GM International’s regional growth is expected to outpace the global economy; however, the outlook at the country level is expected to remain uneven with India and most ASEAN markets posting the fastest growth rates.

In 2016, regional vehicle sales declined slightly (3%), mainly due to slowdown in the Middle East and Africa. A few markets have benefitted from lower oil prices; primarily Korea, India, Vietnam and the Philippines where strong performances are expected to carry into 2017.
NORTH AMERICA OUTLOOK

• North American economy is growing at a modest pace

• The U.S. has outperformed most other large developed economies. President-Elect Trump’s proposed policies add uncertainties on both the upside and the downside

• Canadian growth was dragged down by forest fires in Alberta and the collapse of oil prices. With the stabilization of oil prices and the proposed fiscal expansion, growth is expected to rebound

• Mexican economic growth was very modest in 2016. The Peso was one of the worst performing currencies. We expect Mexico will continue to grow slowly in 2017

• All three markets in North America reached all-time highs in 2016. We expect sales will stay around record levels in 2017
AUTO SALES HAVE TRACKED PREVIOUS RECOVERIES

Vehicle Sales (Million units)

- Current Recovery
- 1975 Recovery
- 1983 Recovery
- 1991 Recovery

Source: Bureau of Economic Analysis; GM Calculations
LARGE VEHICLES ARE OUTPERFORMING

Market Share (Pct.)

- Car
- Crossover/SUV
- Truck

Source: GM Sales Reporting; 2015 Data is through August
THE TRUMP PRESIDENCY IS ADDING UNCERTAINTIES TO THE OUTLOOK

• President-elect Trump’s proposals, if enacted, would have significant implications on the economic outlook over the next few years, some positive and some negative

• Deficit Financed Fiscal Stimulus
  – A cut in the corporate tax rate would help boost investment in the U.S., and in turn, productivity, profits, and personal income. Reduction in personal income taxes will boost spending. Higher infrastructure spending will provide a modest direct boost to overall economic activity. Vehicle sales, especially sales of pickup trucks, will benefit from these policies. On the downside, strong fiscal stimulus this late in the economic cycle could be inflationary, and would force the Fed to raise interest rates faster than currently anticipated

• Regulatory Reform
  – Mr. Trump has called for significant rollback of federal regulations on healthcare, energy production and the financial sector. It still is too early to tell how he plans to modify these regulations. On net, easing of financial regulations will be a positive for auto sales

• Energy and Climate Change
  – Mr. Trump has been an aggressive supporter of increased U.S. energy production, has vowed to cancel America’s participation in the Paris climate agreement, has said he will scrap the Clean Power Plan, and has stated he will review, and possibly reverse, the Environmental Protection Agency’s (EPA) endangerment finding with respect to CO2

• Rocky road ahead for trade
  – Adoption of protectionist policies presents risk for the U.S. economy
INITIAL RESPONSES FROM CONSUMERS AND FINANCIAL MARKETS ARE POSITIVE

Consumer Confidence

10-Year Treasury Yield (Avg., % p.a.)

Nominal Broad Trade-Weighted Exchange Value of the US$ (Jan-97=100)

Stocks:
November 8th = 100

S&P 500
GM
SUMMARY

• Global auto sales reached a new record despite slow economic growth and considerable economic and political uncertainty

• China led the way

• Auto sales in the U.S. reached an all-time high in 2016 and are expected to remain at, or near, record levels in 2017

• Western Europe’s markets have improved faster than expected

• Sales growth is set to resume in large emerging markets, such as Russia and Brazil

• Low oil and gasoline prices will continue to support sales of larger vehicles, especially crossovers

• Long-term demand for vehicles remains very promising

• While political uncertainty remains elevated around the world, global auto sales are expected to continue growing modestly