

German auto makers' credit loss rates remain at rock bottom, but for how long?



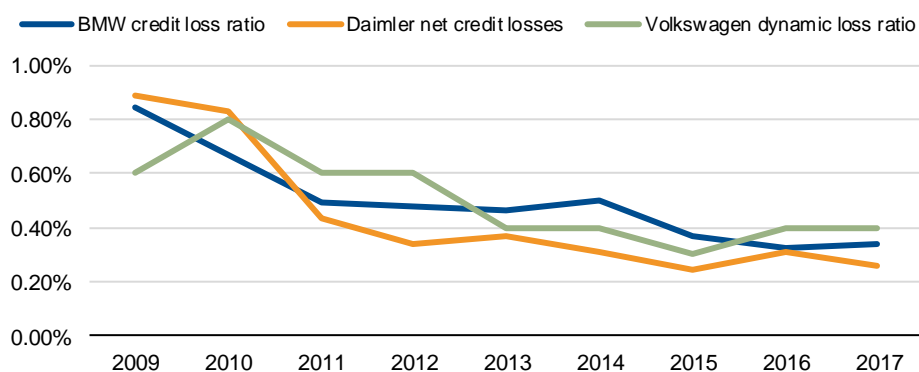
Credit loss rates at the financing arms of BMW, Daimler and Volkswagen are bumping around multi-year lows, as much a warning of possibly tougher times to come as a sign of the auto sector's health, says Scope Ratings.

Financial services are one of the strengths of the three manufacturers. BMW, Daimler (A-/Stable) and VW exploit strong investment-grade credit ratings to offer customers attractive terms for leasing vehicles compared with those of rivals and other credit providers.

As with any form of lending, a percentage of customers inevitably fail to make repayments. For the German auto makers, that percentage was reassuringly low last year, much as it has been since the end of the Global Financial Crisis in 2010.

Figure 1: The Only Way is Up

Credit loss ratios for leading German automakers



Source: Company reports, Scope

Daimler's net credit losses fell to 0.26% of total lending from 0.31% previous year though that was just above a recent low of 0.24% in 2015. BMW's equivalent measure rose slightly to 0.34% from a credit-loss ratio of 0.32% the previous year, though down from 0.37% in 2015. VW's equivalent dynamic loss ratio was unchanged last year at 0.40%.

Encouraging as the data appear, there is a caveat.

"Years of ultra-low interest rates and falling unemployment have been unusually favourable for car makers and their ability to finance growing demand from customers," says Werner Stäblein, analyst at Scope. "The probability of credit risks materialising has been low, but some of these benign conditions are changing," he says.

Scope forecasts little or no growth in global auto demand this year, with the US market likely to shrink. The Federal Reserve is committed to further interest-rate increases while the ECB is moving to a less accommodative policy

Credit risk can intensify quickly when the economic environment worsens. BMW's credit-loss ratio was nearly three times higher in 2009 at 0.84% than it was last year. Daimler's was similarly at an elevated 0.89%, with VW's at 0.60% in 2009 and then 0.80% in 2010.

The German automakers are well covered in the event of any uptick in credit losses. Daimler's reserves ratio of 1% last year was nearly four times the loss ratio.

Still, growing credit losses have a double impact on returns on equity at the financing units via higher write-offs and higher provisioning when the credit ratio worsens. For now, the lights are flashing green, but perhaps for not too much longer.

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