

## Monthly Tyre Watch: July 2023

Weakness in consumer RT continues; second-half rebound expected

**Overall, RT volumes** surprised to the downside in the first half of 2023 - primarily in Europe (with HV RT down 2% y/y YTD as well). Overall high pricing, normalisation of channel inventories and tough comps on dealer pre-buys has led to continued weakness in sell-in data. De-stocking has continued for longer and it seems like dealers are waiting for price cuts. Tyremakers continue to expect a rebound in sell-in volumes in the second half (with slight growth in the HV segment and a mid single-digit decline in standard tyres). On the other hand, China replacement data showed signs of recovery coming out of pandemic-related lockdowns. **Trends in vehicle miles** driven in key markets were robust (up 2% y/y YTD and back to pre-pandemic levels) and should support overall volume levels going into 2024. **In terms of raw material prices**, our JPM raw material index is now tracking ~20% lower y/y since September (on average), mainly due to lower natural rubber, oil, and synthetic rubber prices. The index is now only +5% when compared to 2018 levels. Tyre companies now don't expect any more raw material headwinds in the second half of the year and might also start seeing some benefits from Q4. **Pricing** continues to be resilient, up 8-10% y/y in EU/NA in June 2023 and still flat sequentially since the beginning of the year. However, we have started to see a few tyremakers offering consumer rebates in NA. In terms of important recent announcements, **Bridgestone** introduced its first RT tyre for premium electric vehicles. **Hankook** is on-track to double its NA PC/LT capacity to 11mn units. Monthly Data Points - page 2 onwards.

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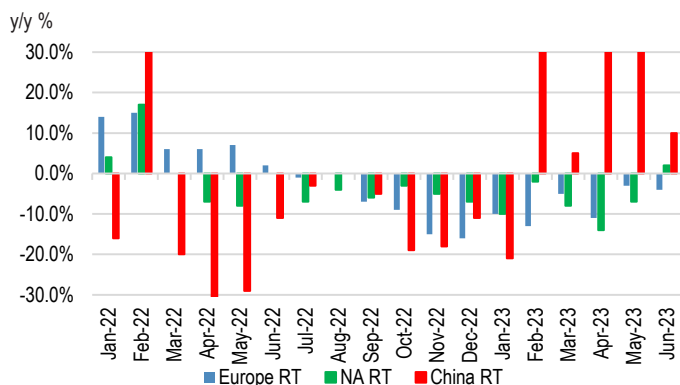
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## Monthly Data Point Tracker

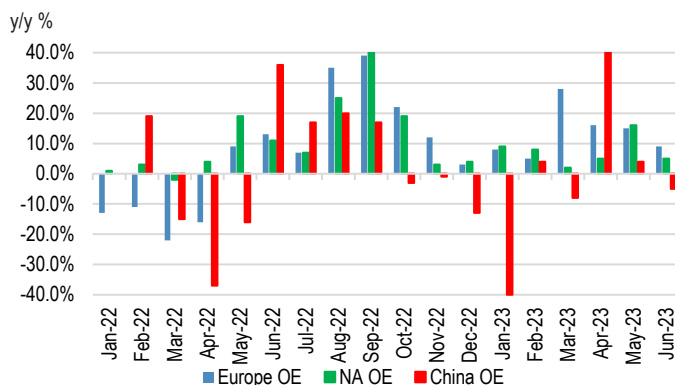
- Michelin monthly tyre data.** For the overall PC replacement market (RT), we have seen a sharp slowdown in demand across NA and Europe since the 2H of 2022. Overall high pricing, normalisation of channel inventories and tough comps on dealer pre-buys has led to continued weakness in sell-in data. De-stocking has continued for longer and it seems like dealers are waiting for price cuts. China replacement data showed signs of recovery coming out of pandemic-related lockdowns. YTD 2023, PC RT market is down 6% in Europe (vs. Conti's FY expectation of -5% to -2%), down 6% in NA (vs. Conti's FY expectation of -3% to -1%) and up 16% in China. In terms of trend growth and expectations for 2024, we still see room for growth in Europe PC RT tyre market. On the other hand, the NA RT market recovered strongly since 2021.
- Pirelli tyre market watch:** The high value market (>18" tyre segment) has continued to outperform the standard segment (<17") in both Europe and NA LV replacement. However, in Nov'22 - European HV RT turned negative for the first time. YTD, the >18" segment has declined by 2% in Europe (outperformed Standard by ~10% points) and has grown by 1% in North America (outperformed Standard by 13% points). Pirelli expects the HV market to grow at 2% in 2023, with a rebound in sell-in volumes in the second half (vs. +3% earlier).

Figure 1: PC Replacement tyres - retail sales trend



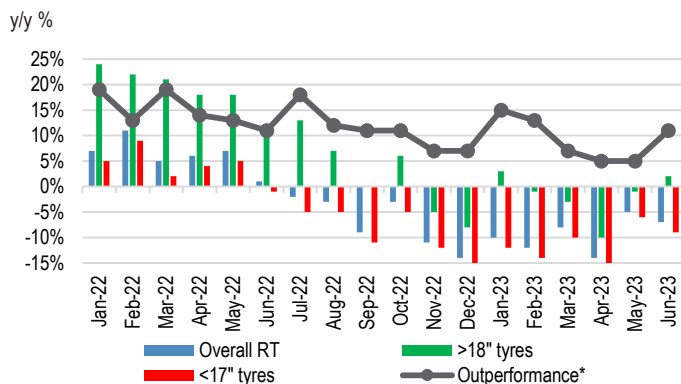
Source: Company reports and J.P. Morgan

Figure 2: PC OE tyres - retail sales trend



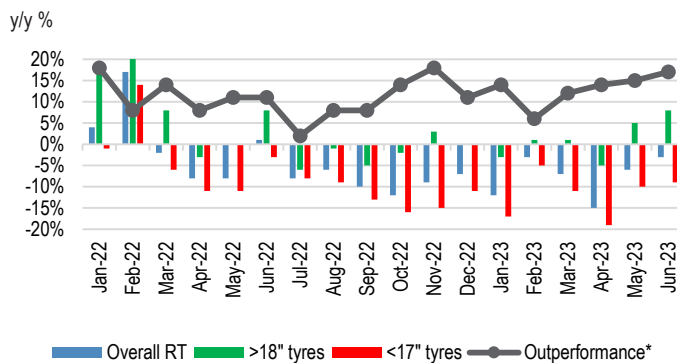
Source: Company reports and J.P. Morgan.

Figure 3: Pirelli tyre market watch: Europe



Source: Company reports and J.P. Morgan. \*Outperformance of high-value tyres over standard tyres

Figure 4: Pirelli tyre market watch: North America

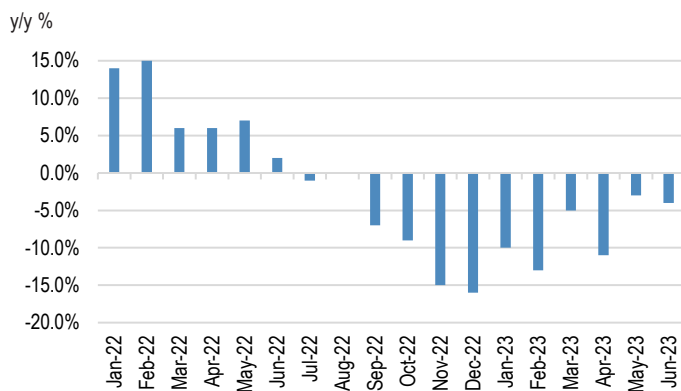


Source: Company reports and J.P. Morgan. \*Outperformance of high-value tyres over standard tyres

## Europe Tyre Shipments

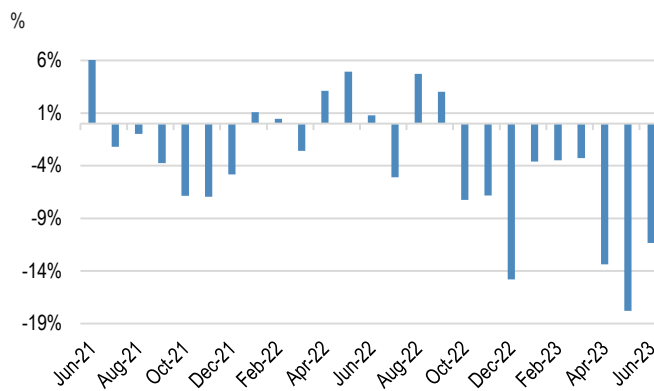
In Replacement, tyre market sell-in is down 6% YTD in 2023 as various markets saw channel inventory normalisation, a slower onset of the winter season and a strong pricing environment. We also have an unfavourable comparison basis as sales volumes were driven by purchases made (last year) in anticipation of the price increases announced in a highly inflationary environment.

Figure 5: Europe Light Vehicle Replacement Tyre Shipments



Source: J.P. Morgan.

Figure 6: France - Manufacture of rubber tyres and tubes



Source: J.P. Morgan.

Table 1: Monthly Traffic performance - Toll Roads

% ch. in Km Travelled

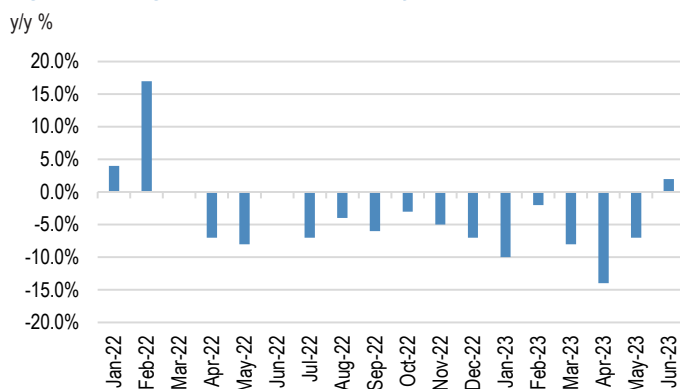
	France		Italy		Spain		Brazil		Chile		Mexico	
	y/y	vs. '19	y/y	vs. '19	y/y	vs. '19	y/y	vs. '19	y/y	vs. '19	y/y	vs. '19
Jan-22	16.3%	-2.9%	43.1%	-11.8%	52.6%	-10.4%	1.1%	-3.4%	40.3%	11.4%	14.9%	11.5%
Feb-22	22.9%	0.2%	19.0%	-1.7%	51.9%	-1.5%	2.1%	5.8%	23.3%	9.5%	15.9%	11.2%
Mar-22	27.0%	-2.2%	39.0%	-3.7%	24.5%	-11.2%	18.9%	3.6%	30.0%	11.1%	9.5%	13.2%
Apr-22	62.7%	-4.7%	42.2%	-2.4%	64.3%	-2.8%	18.7%	8.0%	65.8%	10.9%	13.8%	11.1%
May-22	21.6%	9.0%	13.2%	3.4%	13.7%	-2.3%	5.0%	6.9%	28.4%	13.1%	7.6%	11.2%
Jun-22	9.9%	-4.1%	6.0%	0.5%	3.6%	-3.8%	4.6%	3.6%	20.1%	8.9%	5.1%	10.3%
Jul-22	508.0%	4.3%	0.3%	-1.2%	0.1%	-1.9%	7.3%	6.9%	-1.6%	5.3%	3.4%	6.2%
Aug-22	3.6%	2.2%	-1.7%	0.0%	-4.1%	-3.0%	3.6%	5.8%	-3.1%	6.7%	10.7%	10.0%
Sep-22	-0.7%	1.8%	-0.5%	1.1%	-1.5%	-2.6%	2.0%	6.1%	-4.7%	10.0%	7.8%	12.1%
Oct-22	-6.2%	-4.2%	-1.4%	-0.7%	-8.9%	-8.0%	0.3%	1.4%	-5.7%	20.1%	3.6%	12.4%
Nov-22	-1.7%	1.7%	0.0%	1.4%	-5.1%	-7.2%	-1.7%	-1.1%	-6.7%	17.8%	2.1%	10.4%
Dec-22	0.9%	-3.3%	2.3%	1.2%	-0.9%	-7.2%	-4.3%	-2.4%	-8.8%	5.3%	0.8%	12.6%
Jan-23	7.3%	4.2%	14.3%	0.8%	4.9%	-6.0%	8.5%	4.6%	-3.1%	6.7%	7.8%	20.1%
Feb-23	1.8%	2.0%	3.2%	1.5%	-3.2%	-4.6%	4.2%	10.3%	-1.5%	7.0%	4.6%	16.3%
Mar-23	1.5%	-0.6%	5.0%	1.1%	7.2%	-4.8%	3.1%	6.7%	-1.8%	7.8%	3.2%	16.7%
Apr-23	3.2%	-1.7%	5.2%	2.6%	0.6%	-2.3%	1.9%	10.0%	-5.0%	4.4%	0.6%	11.7%
May-23	4.8%	14.2%	1.4%	4.9%	-0.5%	-2.8%	4.5%	11.6%	-3.5%	8.6%	3.5%	15.0%
Jun-23	4.1%	-0.1%	1.3%	1.8%	0.6%	-3.2%	5.7%	9.3%	-3.7%	4.4%	4.6%	15.3%
2022	10.7%	-0.1%	10.1%	-1.2%	9.8%	-5.0%	4.3%	3.2%	11.1%	10.7%	7.5%	11.0%
2023 YTD	3.8%	2.9%	4.7%	2.1%	1.5%	-3.8%	4.7%	8.6%	-3.1%	6.4%	4.0%	15.8%

Source: J.P. Morgan.

## US Tyre Shipments

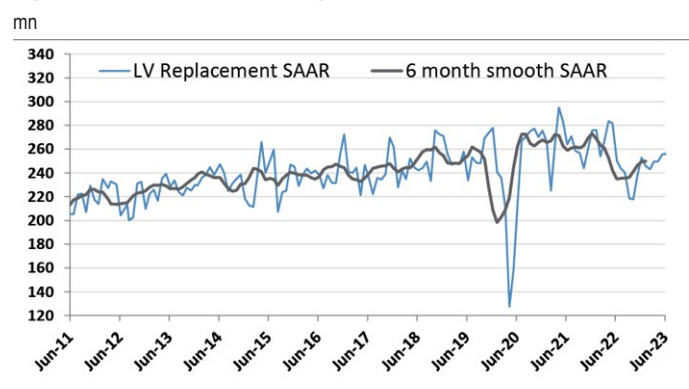
The latest tyre industry dynamics are confirming the trend seen in prior months - an overall slowdown in RT volumes driven by a sharp recovery post the pandemic and high tyre prices. PC RT sell-in volumes are down 6% YTD in 2023. **Vehicle miles driven** is now tracking +2% y/y in May. Overall, miles driven in NA are up 2% y/y YTD, but down 1% vs 2019 levels. **Gasoline demand** is up 2% y/y YTD and down 3% vs 2019 levels. We continue to look out for a structural impact on miles driven as inflation and energy costs hit the consumer in the near term and a larger share of people work from home and shop online in the longer term.

Figure 7: US Light Vehicle Replacement Tyre Shipments



Source: RMA

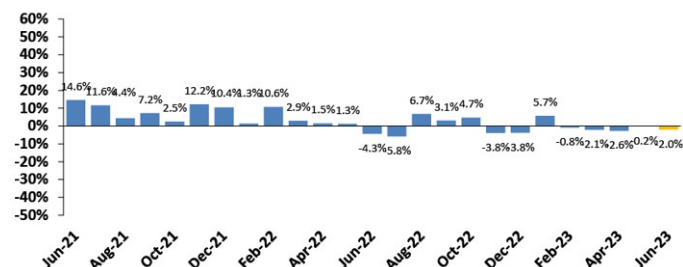
Figure 8: U.S. LV Replacement Tyre Shipment SAAR



Source: Rubber Manufacturers Association (RMA) and J.P. Morgan estimates

Figure 9: U.S. Vehicle Miles Driven Trends (non-seasonally adjusted)

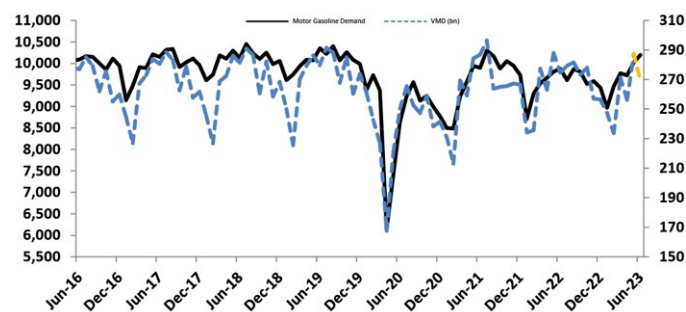
% Change Y/Y



Source: U.S. Department of Transportation – Federal Highway Administration and J.P. Morgan estimates. Note: Bars in orange indicate J.P. Morgan estimates.

Figure 10: U.S. Gasoline Demand and U.S. Vehicle Miles Driven (VMD) Trends

Gasoline Demand in 000s barrels per week on L-Axis and Vehicle Miles Driven (VMD) in bn on R-Axis



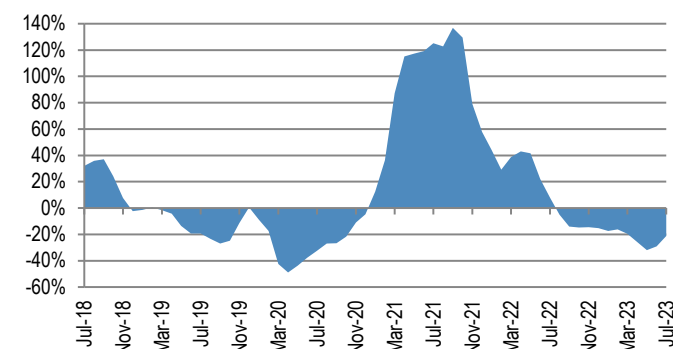
Source: U.S. Department of Energy, Energy Information Administration, U.S. Department of Transportation – Federal Highway Administration, Bloomberg Finance L.P., and J.P. Morgan estimates. Note: Vehicle Miles Driven data lags by two months. Orange line represents J.P. Morgan estimates based on historical correlation between y/y changes in VMD and gasoline demand.

## Raw Material Price Index

After 19 months of y/y raw material price increases (Jan'21 - Jul'22), our JPM raw material index has stabilised at current levels in the last nine months. The JPM tyre raw materials spot index is now +5% compared to the levels seen in 2018. Tyre companies now don't expect any more raw material headwinds in the second half of the year and might also start seeing some benefits from Q4.

Figure 11: J.P. Morgan Tyre Raw Material Index

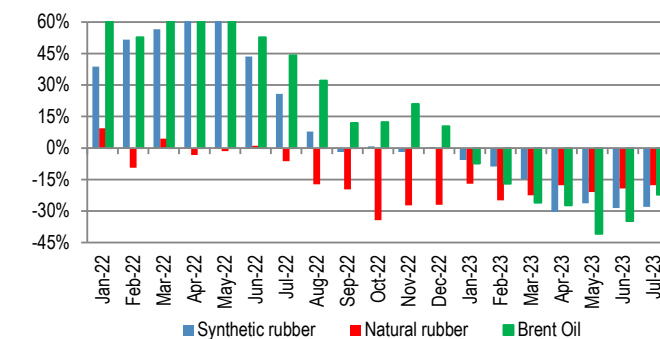
y/y (%)



Source: J.P. Morgan estimates.

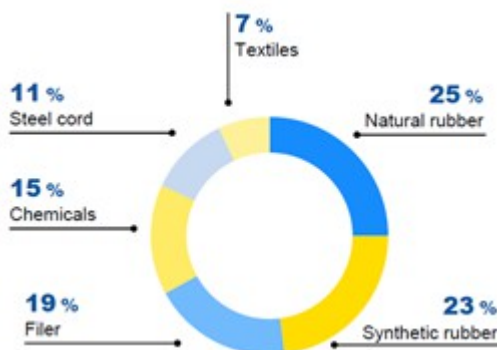
Figure 12: Raw Material tracker

y/y (%)



Source: J.P. Morgan.

Figure 13: Michelin: Raw material purchases



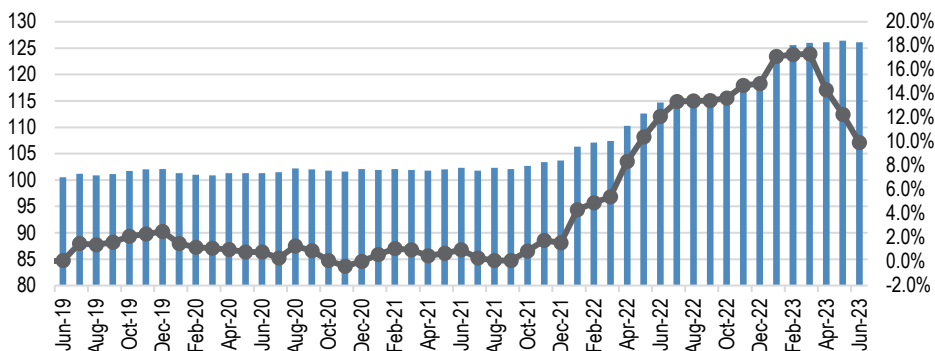
Source: Company reports.

## Tyre Prices and Recent Updates

**In Europe**, tyre PPI remain at high levels (flat sequentially since Feb 2023) - but were up 10% y/y in June 2023. Pricing remains strong, even with easing raw material costs - as tyre manufacturers cope with inflation in energy costs, personnel expenses and road freight. **In the US**, tyre PPI continues to inch higher - up 8% y/y in Jun'23 and flat sequentially. However, we are now seeing tyre makers starting to offer consumer rebates in the market.

Figure 14: Europe Tyre PPI

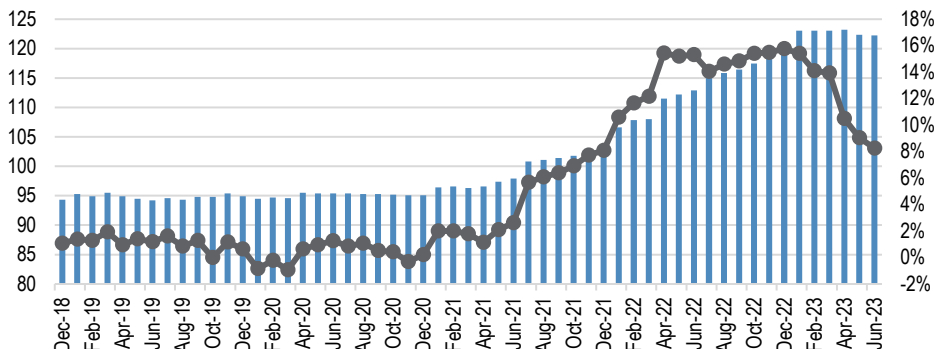
LHS: Tyre PPI Index (2015=100); RHS: y/y (%)



Source: J.P. Morgan.

Figure 15: US Tyre PPI

LHS: Tyre PPI Index (2011=100); RHS: y/y (%)



Source: U.S. Bureau of Labor Statistics.

#### Tyre price change announcements (North America)

Effective From	Date Announced	Company	Region	Change	End Markets							
					Pass	LT	MT	Comm	Ag	OTR	Ind	M
1-Jan-23	1-Dec-22	Michelin	North America	Up to 9%	x†	x†				x†		x†
1-Jan-23	2-Dec-22	Bridgestone	North America	–	x†	x†						
15-Jan-23	2-Dec-22	Pirelli	North America	Up to 10%	x†	x†						
1-Oct-22	26-Aug-22	Continental	North America	–	x†	x†						

Source: J.P. Morgan.

#### Noteworthy Announcements in the Tyre Sector

- **May'23:** Hankook and Continental extended their consumer tyre rebate through 30th June, offering up to \$110 in savings on purchases of at least four eligible tyres.
- **May'23:** Bridgestone unveiled its first replacement tyre made for premium electric vehicles: the Turanza EV grand touring tyre. The tyre comes with a 50,000-mile limited warranty.
- **May'23:** Hankook is on-track to expand its NA PC/LT tyre capacity to 11mn units. Last summer, Hankook announced it would invest \$1.6bn to expand consumer tyre production at the plant and enable commercial truck and bus tyre production there.
- **March'23:** The new Lamborghini Revuelto will roll on tailor-made Bridgestone Potenza high performance tyres.
- **Dec'22: Hankook** - Hankook is bringing its first tyres specifically made for electric vehicles to the US. Combined, the iON evo AS and iON evo AS SUV is available in 26 sizes, for wheels ranging from 18 inches to 22 inches in diameter.
- **Dec'22: Bridgestone** - Bridgestone has developed "bespoke tyres" for the BMW iX.

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