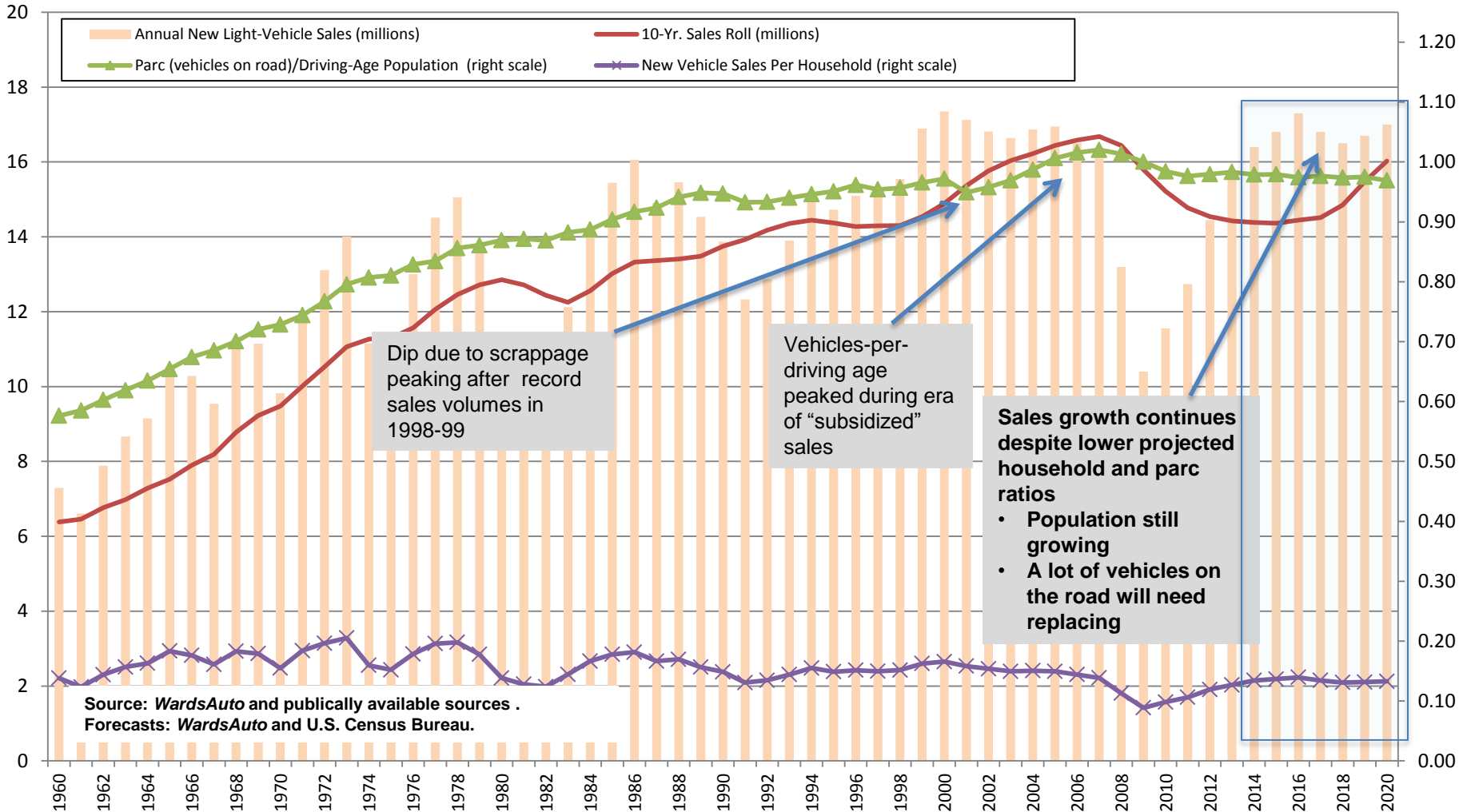


WardsAuto

U.S. Automotive Industry Outlook – 2015

**Federal Reserve Bank of Chicago
Annual Economic Outlook
Symposium
December 5, 2014**

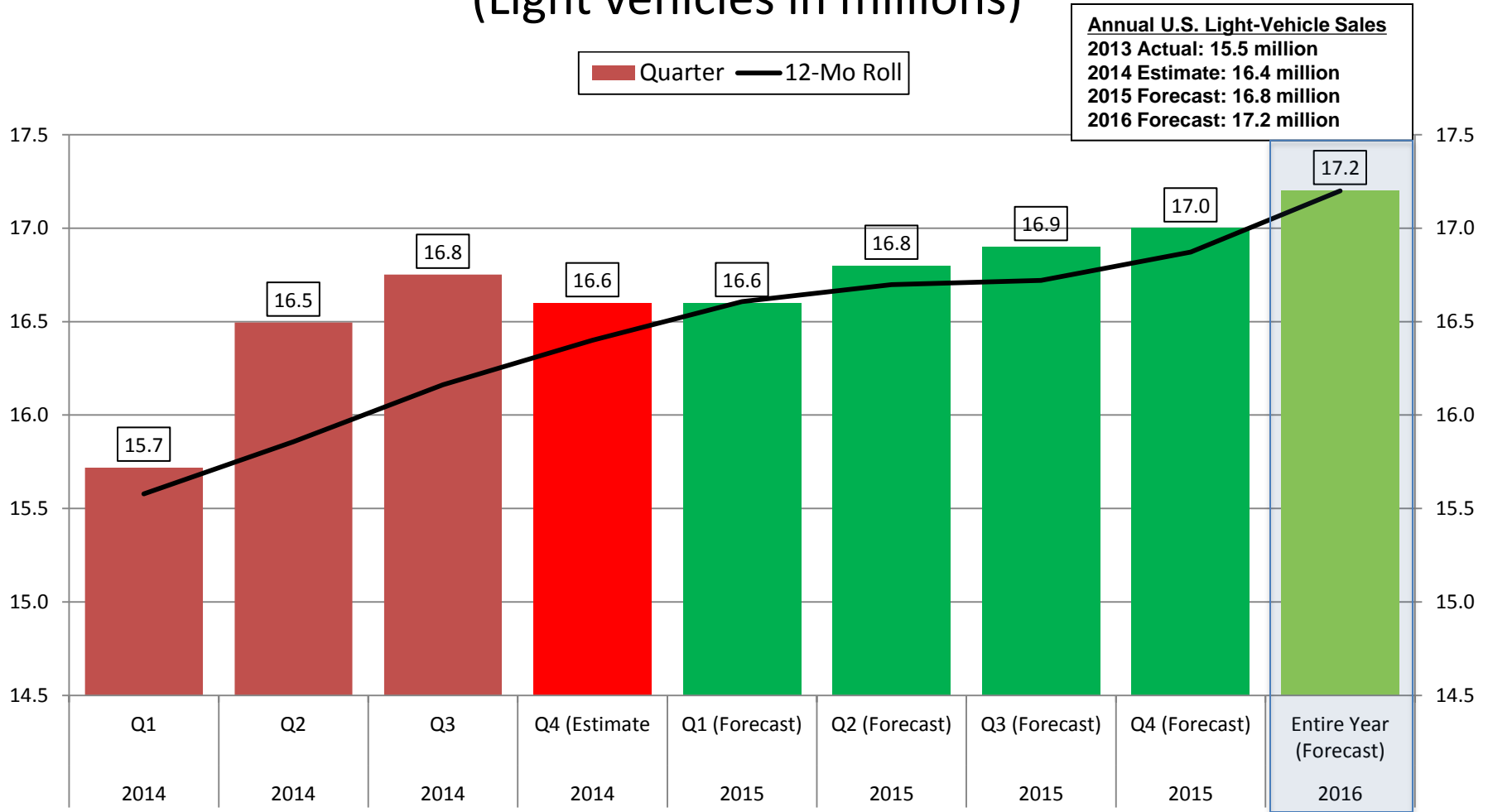
U.S. Light-Vehicle Sales – Vehicles to People



U.S. Light-Vehicle Sales – Why Bullish

- Assume economic growth averages between 2% and 3% annually through 2020.
- Assume interest rates stay in line with economic growth.
- Growing population in general - even though growth rates have slowed
- Used-vehicle prices could trend down but should remain relatively strong overall – good in long run for new-vehicle sales (trade-in value)
- Heavy lease replacement at least through 2018-19
- More content on lower-price vehicles – there is some blurring between premium-priced and non-premium
- Even if there is a cost penalty to meeting fuel efficiency mandates, there will be more smaller (or less robust) and lower-priced vehicles available - trucks from CUVs to full-size pickups already have undergone major improvements in fuel efficiency in just the last year, with more improvements to come
- **THE BIG ONE:** Replacement – the next five years will be a good time to be in the car and truck scrappage business; a lot of vehicles on the road for 10-plus years.
 - Millennials eventually will need vehicles (more will strike out on their own as long as economic and job growth continue)
 - More seniors, because they're living and driving longer, will replace vehicles that would not have been replaced in prior times

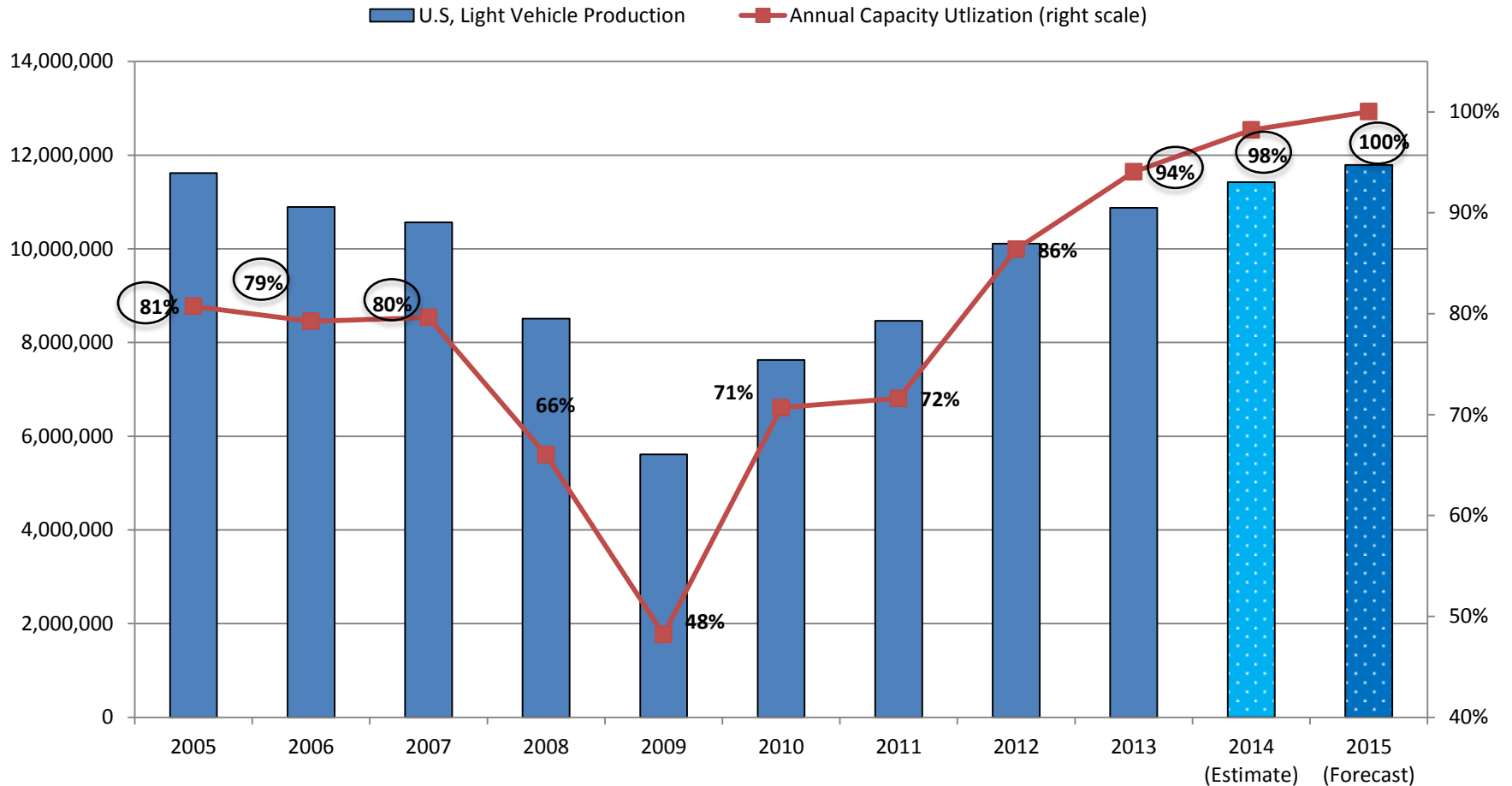
U.S. Sales – Seasonally Adjusted Annual Rate (SAAR) (Light vehicles in millions)



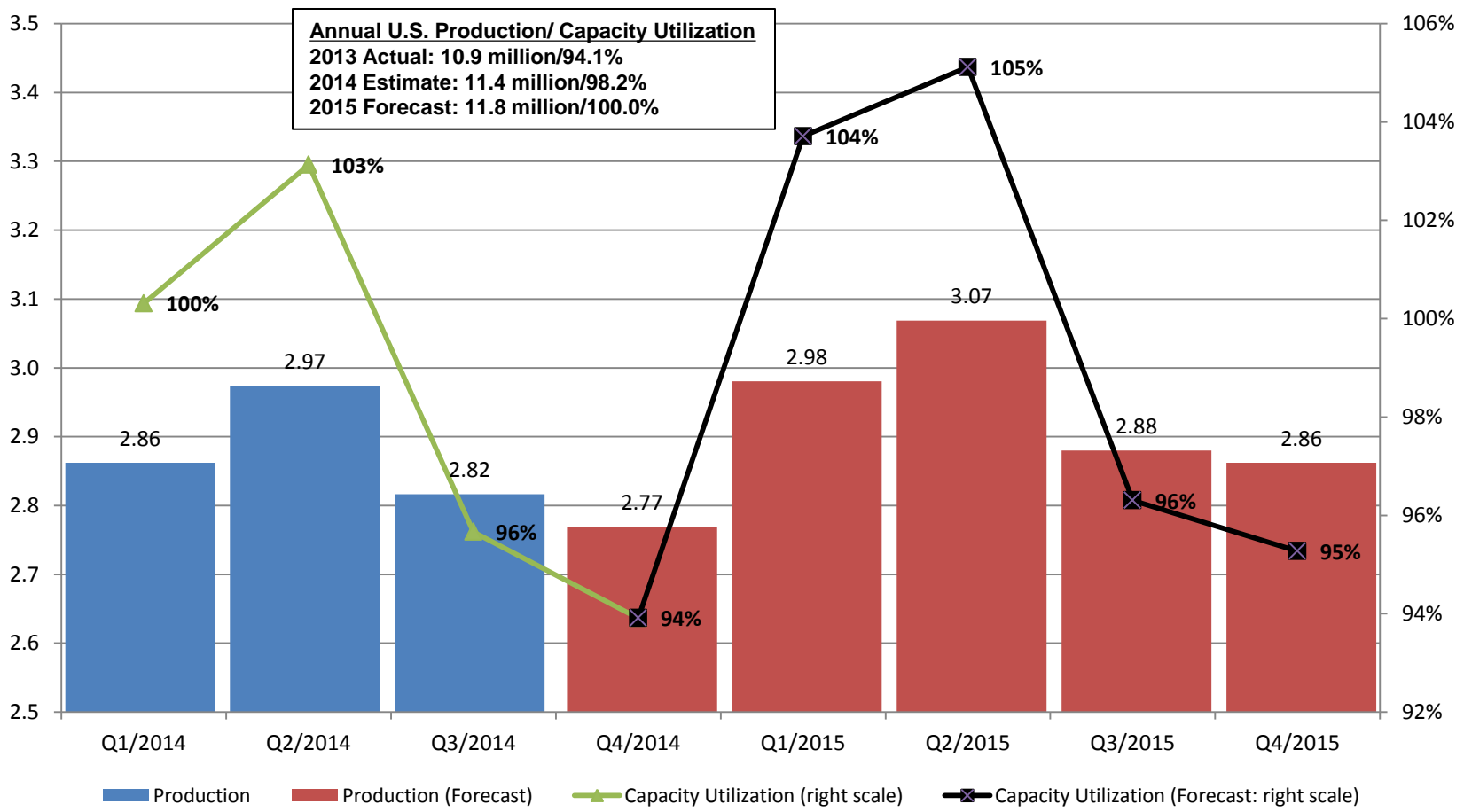
Short-Term Sales Outlook – cont.

- There is still pent-up demand created from the recession that should last through 2016 – scrappage should accelerate.
- Economic growth expected to be good
- Off-lease volume will continue gaining steam
- Competitive pressure expected to push up retail incentive activity, though not necessarily to out-of-control levels
- Fuel prices expected to remain relatively low
- The specter of rising interest rates should not have much of a negative effect in 2015 or 2016 – subprime lending continues to expand
- New offerings and key redesigns in the fast-growing cross/utility segment
- Pickups and large sport/utility vehicles boost industry volume through fresh product and competitiveness – Last stand of the traditional truck?

U.S. Light-Vehicle Production vs. Capacity Utilization

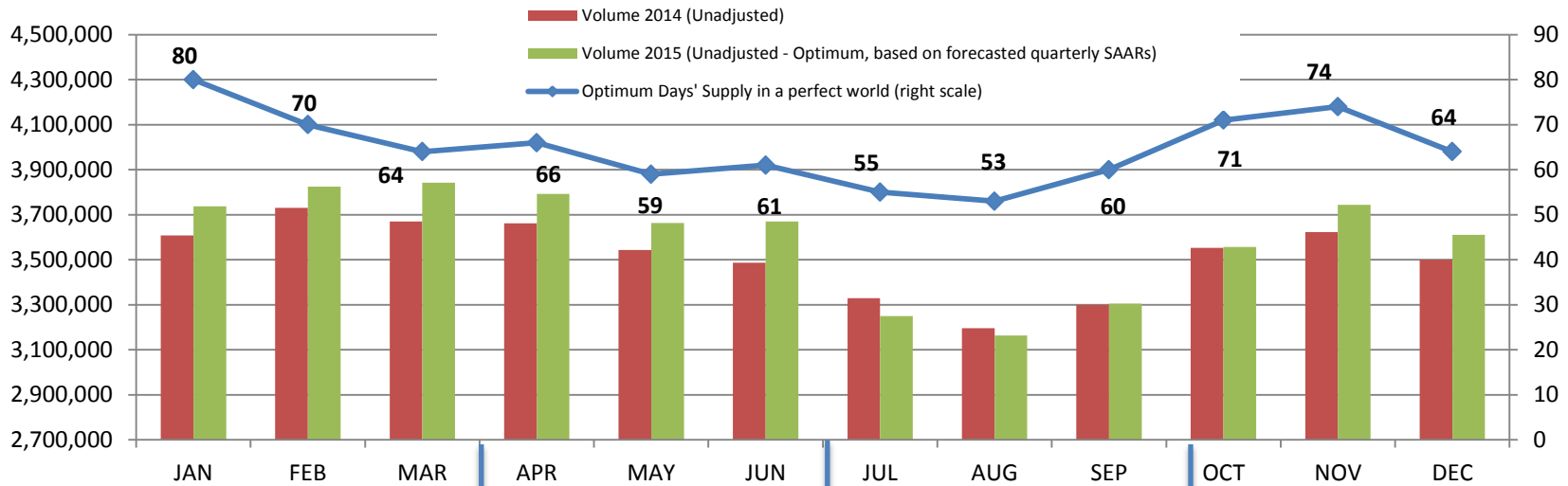


U.S. Light-Vehicle Production and Capacity Utilization by Quarter (Production in millions)



Source: WardsAuto

U.S. Light-Vehicle Inventory Assessment



2015 Forecast SAAR: 16.6mm
2014 Actual SAAR: 15.5mm

- **Jan.-Feb 2014** inventory pushed up because of the winter-related crimp on sales
- **March 2014** sales included holdover from Jan-Feb, thus inventory declined month-to-month

2015 Forecast SAAR: 16.8mm
2014 Actual SAAR: 16.5mm

- **Q2 2014** sales included some holdover from Q1

NOTE: End of Q1 2015/beginning of Q2 2015 inventory likely lower due to tooling shutdowns mostly at plants in Canada and Mexico

2015 Forecast SAAR: 16.9mm
2014 Actual SAAR: 16.8mm

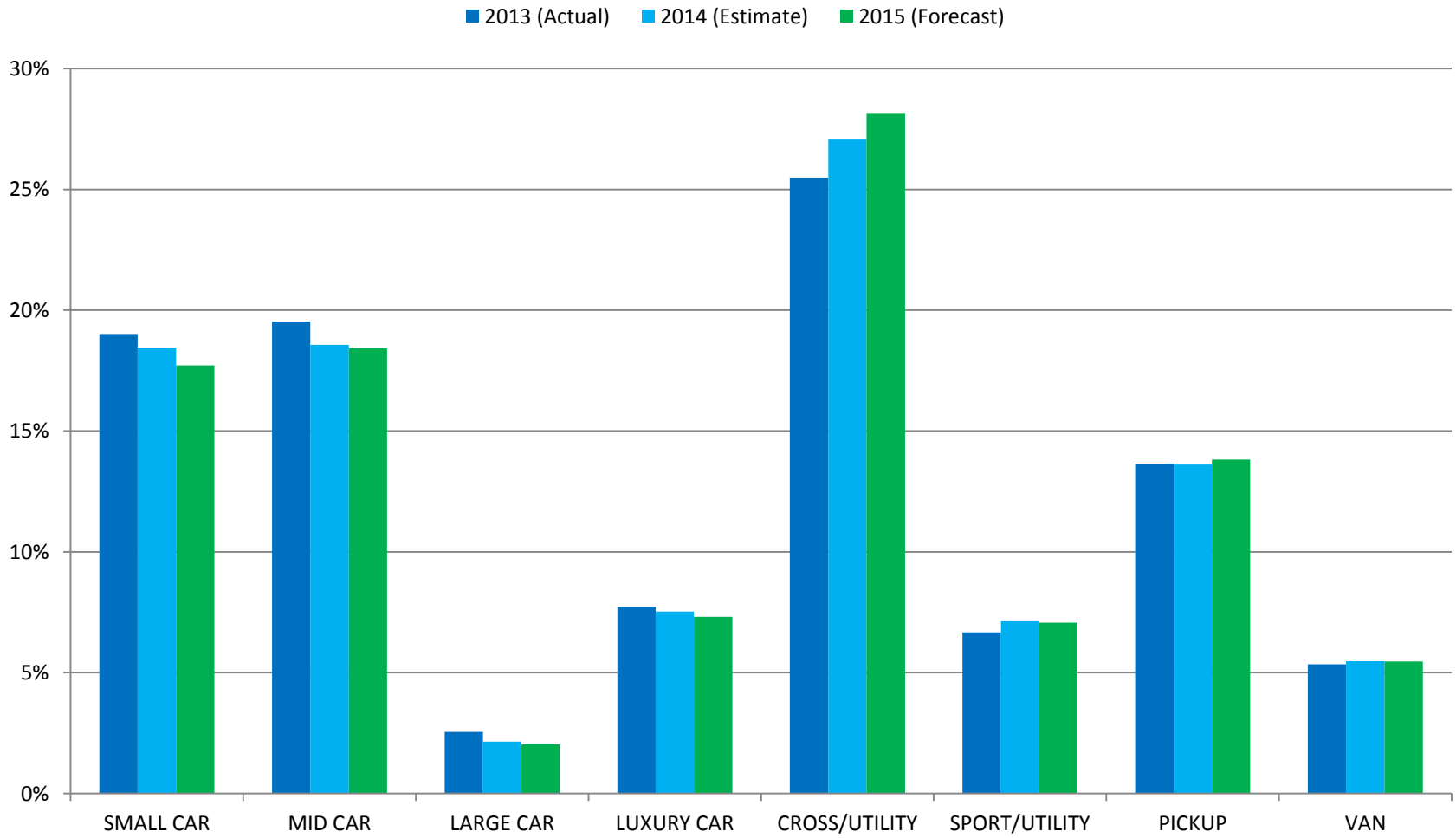
- **Q3 2014** inventory started to get ahead of demand – some inventory buildup for upcoming tooling shutdowns partly why
- **August 2014** surge to 17.3 million annual rate alleviated much of the overflow

2015 Forecast SAAR: 17.0mm
2014 Estimated SAAR: 16.6mm

- **Q4 2014** inventory in balance with demand – sales growing largely based on economic fundamentals (though retail and dealer incentives are ticking up)

NOTE: December 2015 should be highest volume sales month of year, possibly including SAAR

U.S. Light-Vehicle Sales by Segment Group

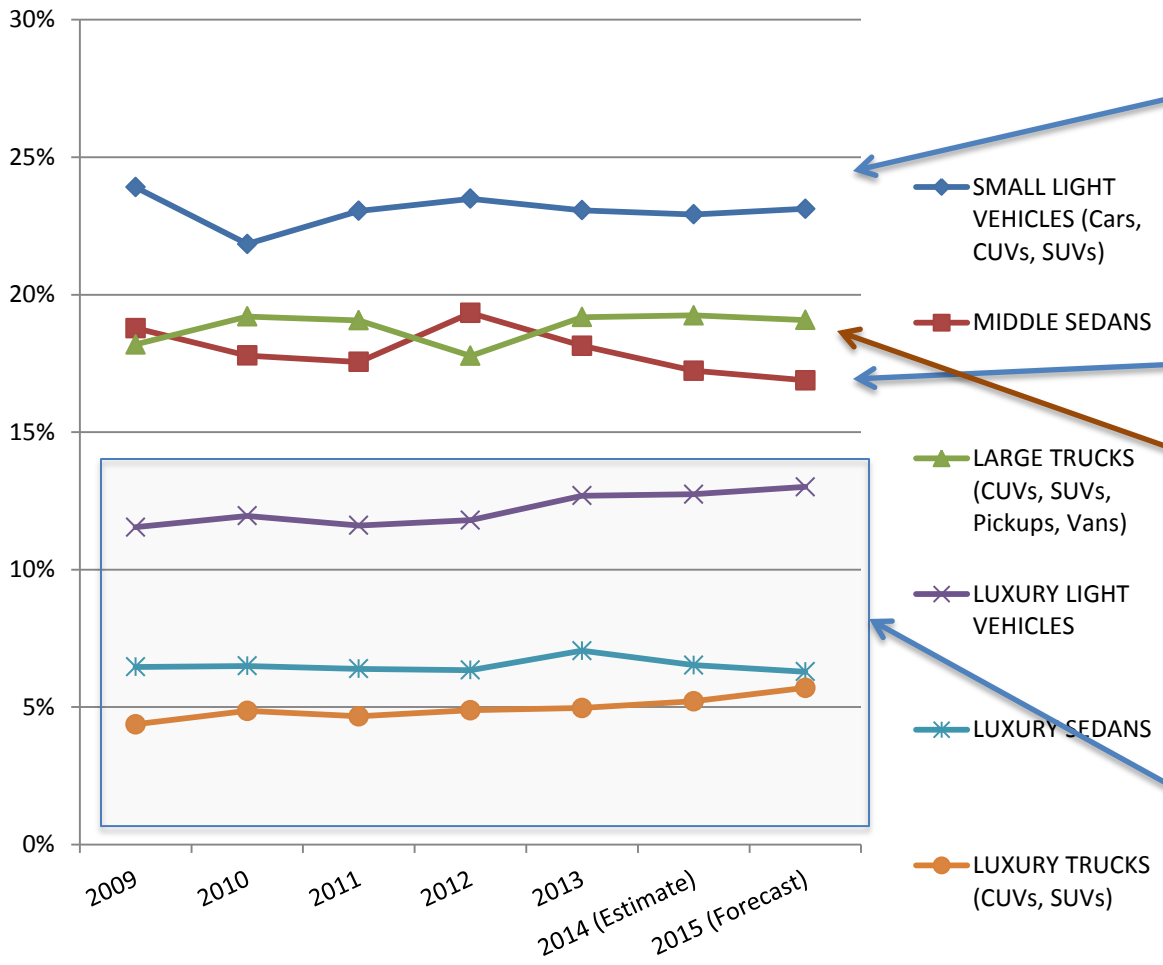


U.S. Light-Vehicle Sales: % Share by Segment (Including projected segment best-sellers 2015 Calendar Year)

	2009	2010	2011	2012	2013	2014	2015	2015 Segment Best Sellers
SMALL LOWER	3.8	3.6	3.9	4.0	4.0	4.2	3.9	Nissan Versa, Kia Soul
SMALL UPPER	15.3	13.9	13.7	14.2	13.8	13.2	12.8	Honda Civic, Toyota Corolla
SMALL SEDAN TOTAL	19.0	17.4	17.6	18.2	17.8	17.4	16.7	
MIDDLE LOWER	15.6	14.6	14.6	16.3	15.5	14.8	14.5	Toyota Camry, Honda Accord
MIDDLE UPPER (near-premium)	3.2	3.2	3.0	3.0	2.6	2.4	2.4	Toyota Prius, Nissan Maxima
MIDDLE SEDAN TOTAL	18.8	17.8	17.6	19.3	18.1	17.2	16.9	
LARGE CAR	4.2	4.0	3.2	2.8	2.6	2.1	2.0	Chevrolet Impala, Dodge Charger
LARGE SEDAN TOTAL	4.2	4.0	3.2	2.8	2.6	2.1	2.0	
LUXURY LOWER	4.5	4.4	4.4	4.4	4.9	4.3	4.1	BMW 3-Series, Mercedes C-Class
LUXURY MIDDLE	1.6	1.7	1.5	1.5	1.6	1.7	1.6	Mercedes E-Class, BMW 5-Series
LUXURY UPPER	0.4	0.5	0.5	0.5	0.6	0.5	0.5	Mercedes S-Class, Tesla Model S
LUXURY SEDAN TOTAL	6.5	6.5	6.4	6.3	7.1	6.5	6.3	
SMALL SPECIALTY	0.9	0.6	0.8	1.3	1.2	1.0	1.0	Fiat 500, Volkswagen Beetle
MIDDLE SPECIALTY	1.9	1.9	1.6	1.5	1.4	1.3	1.5	Ford Mustang, Chevrolet Camaro
LUXURY SPECIALTY	0.3	0.3	0.3	0.3	0.3	0.5	0.6	BMW 4-Series, Audi A5
SPECIALTY CAR TOTAL	3.0	2.7	2.7	3.1	2.9	2.9	3.1	
LUXURY SPORTS CAR	0.4	0.3	0.3	0.3	0.4	0.5	0.5	Chevrolet Corvette, Porsche 911
SPORTS CAR TOTAL	0.4	0.3	0.3	0.3	0.4	0.5	0.5	
SMALL CROSS/UTILITY	2.1	2.1	2.7	2.1	2.6	3.0	3.5	Subaru XV Crosstrek, Jeep Patriot
MIDDLE CROSS/UTILITY	14.2	15.9	15.6	15.5	16.1	17.4	17.6	Honda CR-V, Ford Escape
LARGE CROSS/UTILITY	2.6	2.6	2.4	1.9	2.5	2.2	2.1	Chevrolet Traverse, GMC Acadia
TOTAL NON LUX. CROSS/UTILITY	18.9	20.6	20.7	19.5	21.2	22.6	23.2	
SMALL LUX. CROSS/UTILITY	0.2	0.2	0.2	0.3	0.4	0.4	0.9	Mercedes GLK, Audi Q3
MIDDLE LUXURY CROSS/UTILITY	2.6	2.9	3.0	3.1	3.0	3.1	3.2	Lexus RX, Cadillac SRX
LARGE LUXURY CROSS/UTILITY	0.6	0.8	0.7	0.8	0.9	0.9	0.9	Acura MDX, Infiniti QX60
TOTAL LUXURY CROSS/UTILITY	3.4	3.9	3.9	4.2	4.3	4.4	5.0	
SMALL SPORTS/UTILITY	1.7	1.5	1.7	1.6	1.0	1.1	1.0	Jeep Wrangler (only offering)
MIDDLE SPORTS/UTILITY	2.0	2.4	3.3	3.3	3.3	3.5	3.3	Ford Explorer, Jeep Grand Cherokee
LARGE SPORTS/UTILITY	2.2	2.1	2.1	1.6	1.7	1.8	2.0	Chevrolet Tahoe, Chevrolet Suburban
TOTAL NON LUX. SPORTS/UTILITY	5.9	6.0	7.0	6.5	6.0	6.4	6.3	
MIDDLE LUXURY SPORT/UTILITY	0.5	0.5	0.3	0.3	0.3	0.3	0.3	Lexus GS, Range Rover Sport
LARGE LUXURY SPORT/UTILITY	0.5	0.5	0.5	0.4	0.4	0.4	0.4	Cadillac Escalade, Cadillac Escalade ESV
TOTAL LUXURY SPORTS/UTILITY	1.0	1.0	0.8	0.7	0.7	0.8	0.7	
SMALL PICKUP	2.6	2.3	2.3	1.9	1.6	1.5	1.8	Toyota Tacoma, Chevrolet Colorado
LARGE PICKUP	10.7	11.6	11.7	11.2	12.1	12.1	12.0	Ford F-Series, Chevrolet Silverado
TOTAL PICKUP	13.3	13.9	14.0	13.1	13.6	13.6	13.8	
SMALL VAN (mostly minivans)	4.1	4.2	4.0	4.0	3.7	3.7	3.9	Chrysler Town & Country, Dodge Caravan
LARGE VAN	1.5	1.7	1.8	1.7	1.7	1.7	1.6	Ford Transit, Chevrolet Express
TOTAL VAN	5.6	5.9	5.8	5.8	5.3	5.4	5.5	

Car share will turn up if pump prices rise (>\$3.50 for significant turnaround)

U.S. Light-Vehicle Sales by Selected Segment Groupings



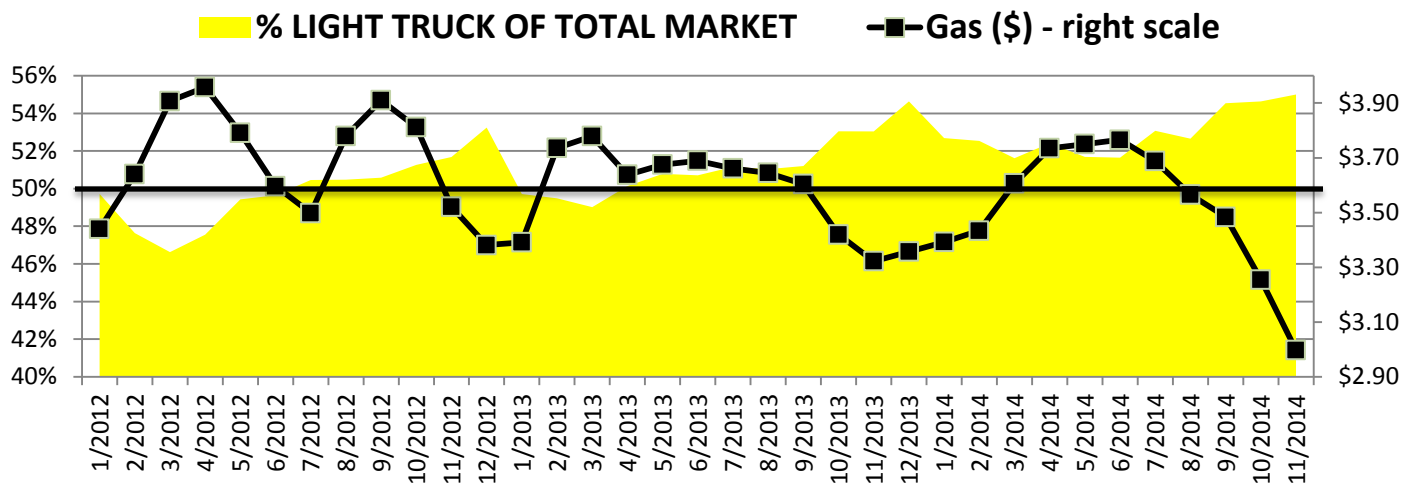
Small vehicles are sensitive to swings in gas prices; sales of cars are down but trucks (CUVs and Jeep Wrangler – the lone small SUV now in the market – are pushing share back up. Small CUVs include new luxury versions

Midsize sedans losing out the most to surge in CUV demand; also negatively impacted to small extent by softening demand for hybrids

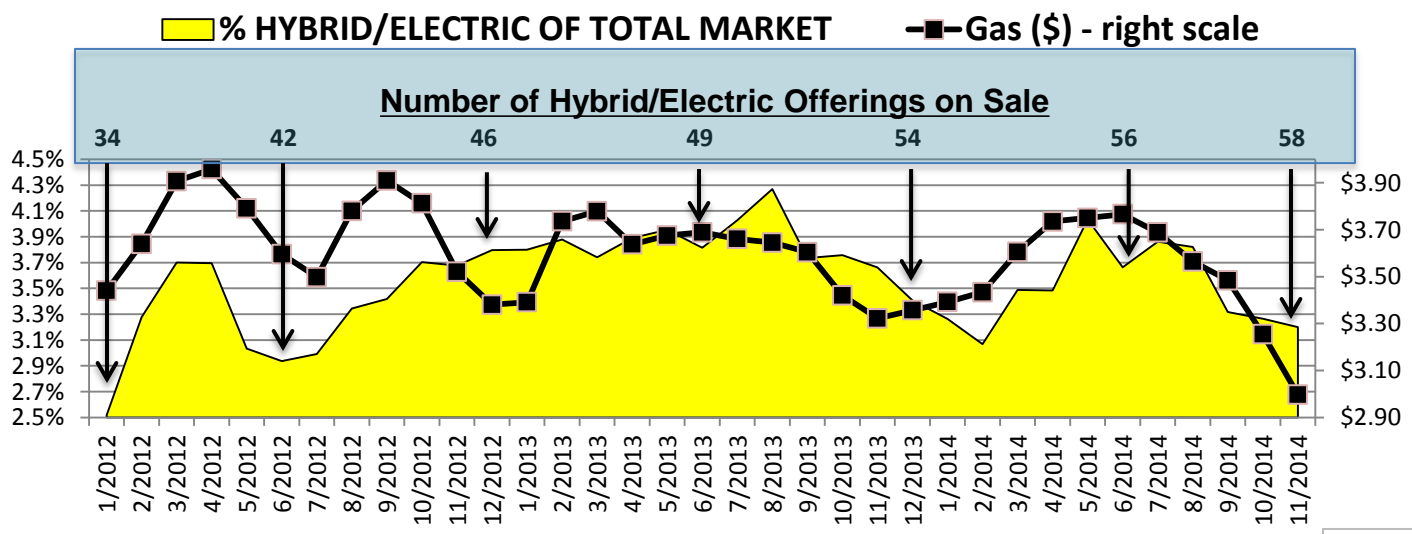
Excluding vans, share for **large trucks** would rise in 2015; new F-150, relatively new Chevrolet Silverado, GMC Sierra, will prime pickups; GM's new big SUVs will pump the large SUV segment. Big vans losing volume to onslaught of new small commercial vans

Luxury vehicles are undergoing some softening after strong growth – cars are the weakness; trucks, including new small CUVs, will lead an increase in luxury share one more year

Monthly U.S. Sales vs. Gasoline Retail Price (\$US per gallon)



- Lower fuel prices help total volume but are having a greater effect on the mix – **MORE TRUCKS**
- Helping sales of pickups and SUVs, but it's really the small and midsize crossovers supplanting small and midsize cars that is pushing up truck penetration



- Lower fuel prices is capping demand for alternative fuel vehicles

Gasoline Prices: U.S. Energy Information Administration

Forecast U.S. Light-Vehicle Market Share by Manufacturer

GM: share rises on sales of big trucks – pickups, SUVs, CUVs

Toyota: temporary decline while it transitions to some new product and tries to fix Scion brand

Honda: One more year of softening until new Civic, Pilot, HR-V in full availability in 2016

Hyundai/Kia: Kia brqnd will keep share from declining; Hyundai portfolio gets a jumpstart in 2016

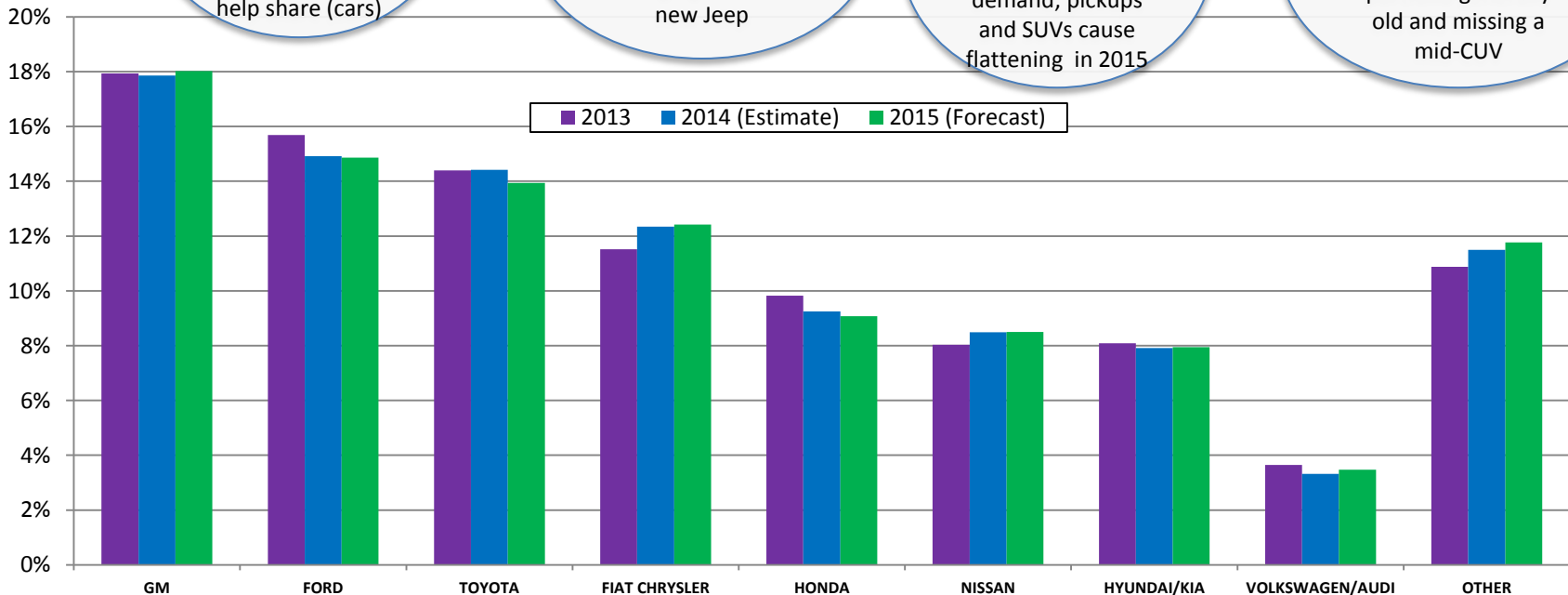
Other: Increased share in 2015 mainly due to Subaru; BMW and Mercedes helping with luxury trucks

Ford: share drops again – transitioning to new pickup and Edge CUV; higher gas prices would help share (cars)

Fiat Chrysler: share rise again as it continues replacing old product and bringing another new Jeep

Nissan: Riding new product wave and recent increases in capacity to meet demand; pickups and SUVs cause flattening in 2015

VW/Audi: All Audi – even bucking the softening in luxury cars. VW brand portfolio generally old and missing a mid-CUV



Thank You

[Haig Stoddard](#)

Industry Analyst

1-248-799-2619

hstoddard@wardsauto.com

[Lisa Williamson](#)

Bus. Development Director

1-248-799-2642

lwilliamson@wardsauto.com

[Amber McLincha](#)

Bus. Development Manager

1-248-799-2622

amclincha@wardsauto.com