



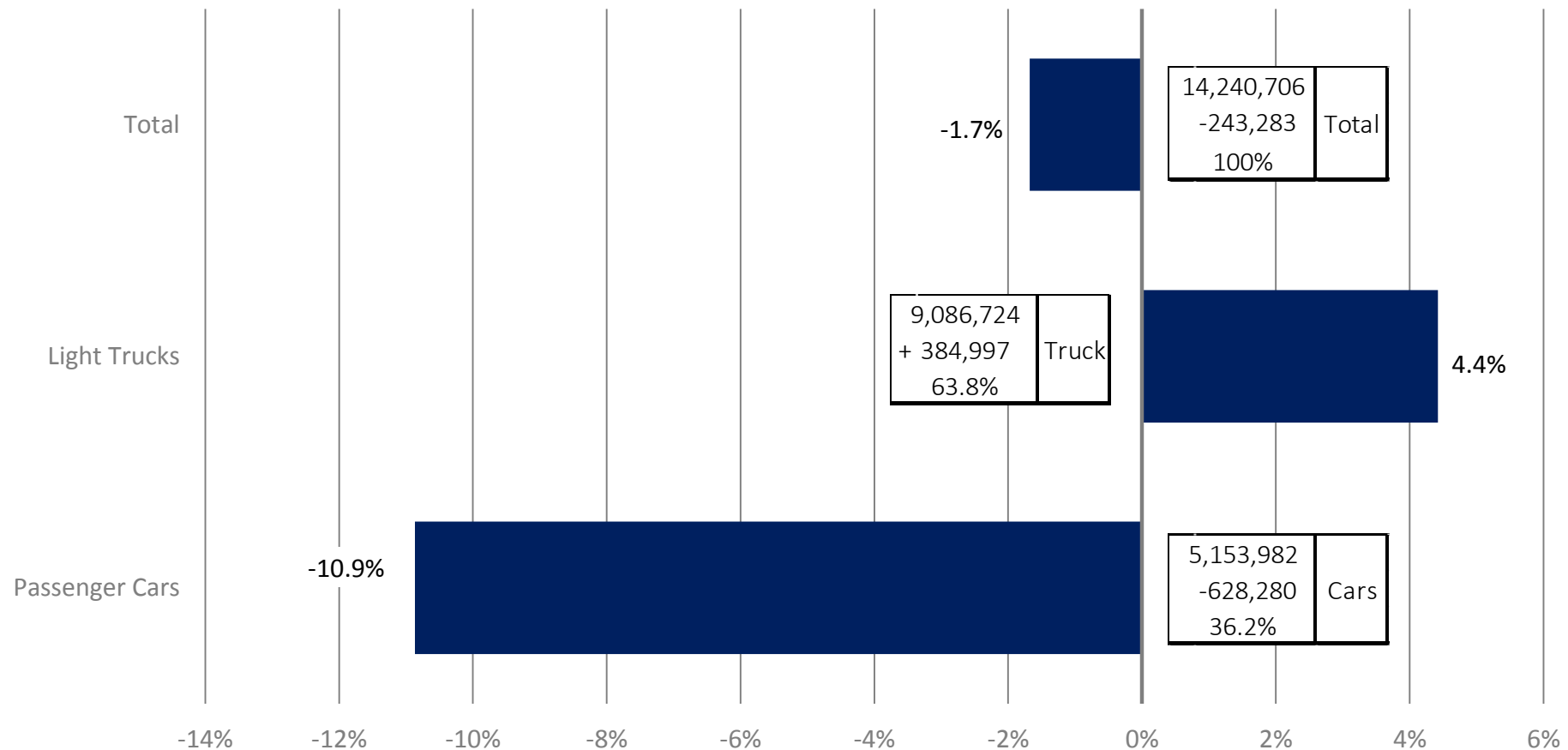
The Party Is Over — U.S. Automotive Outlooks

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Center for Automotive Research

Federal Reserve Bank of Chicago Economic Outlook Symposium
December 1, 2017

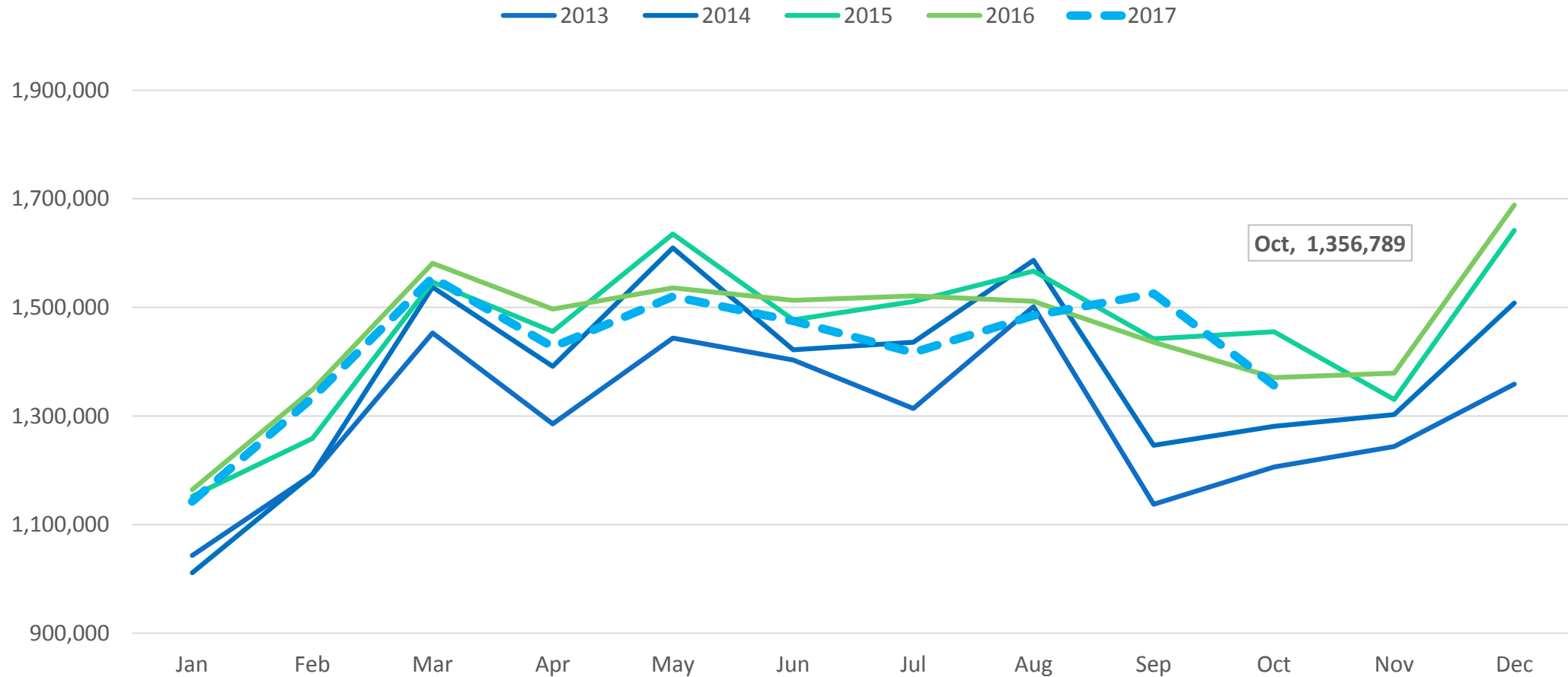
U.S. Light Vehicle Sales

Percent Change YTD Through October: 2017 vs. 2016



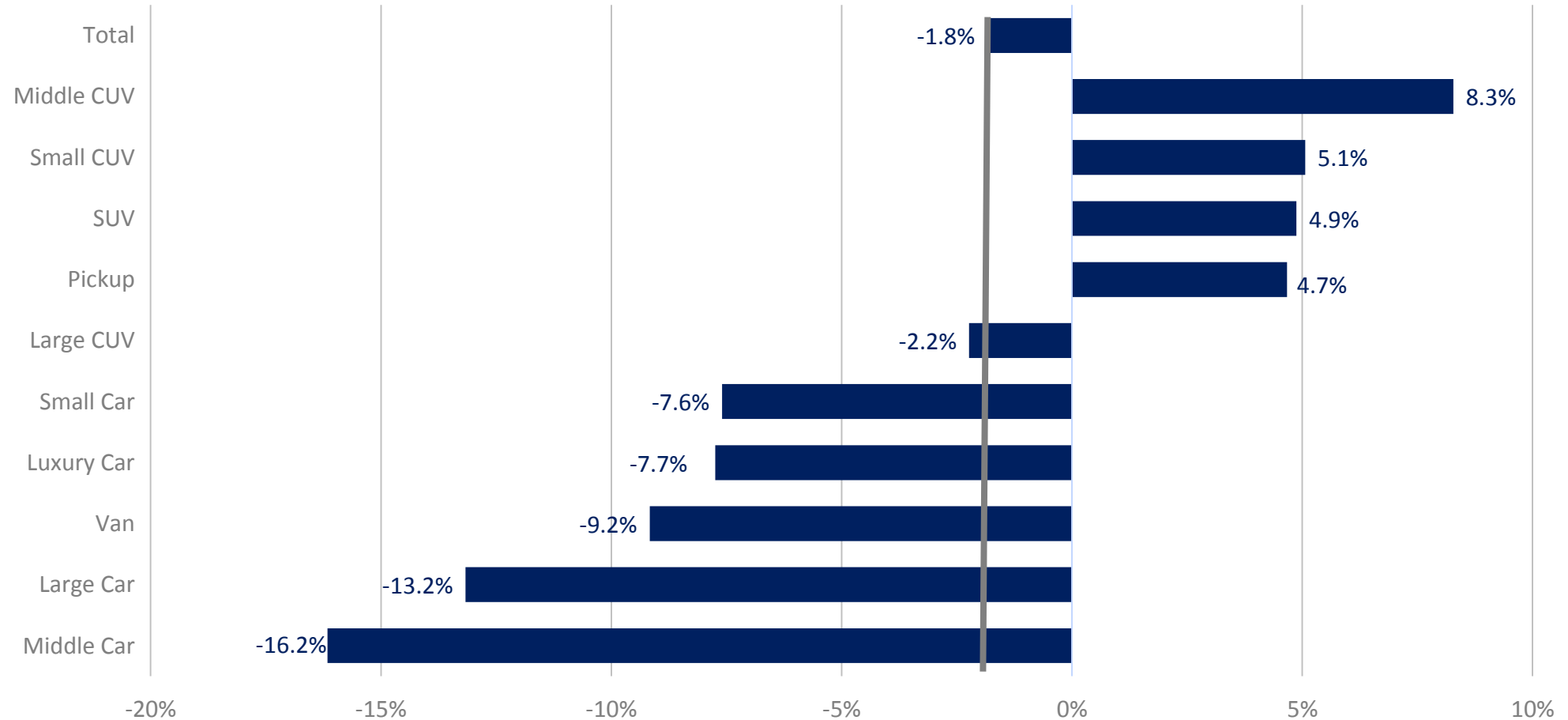
U.S. Light Vehicle Monthly Sales

January 2013 – October 2017

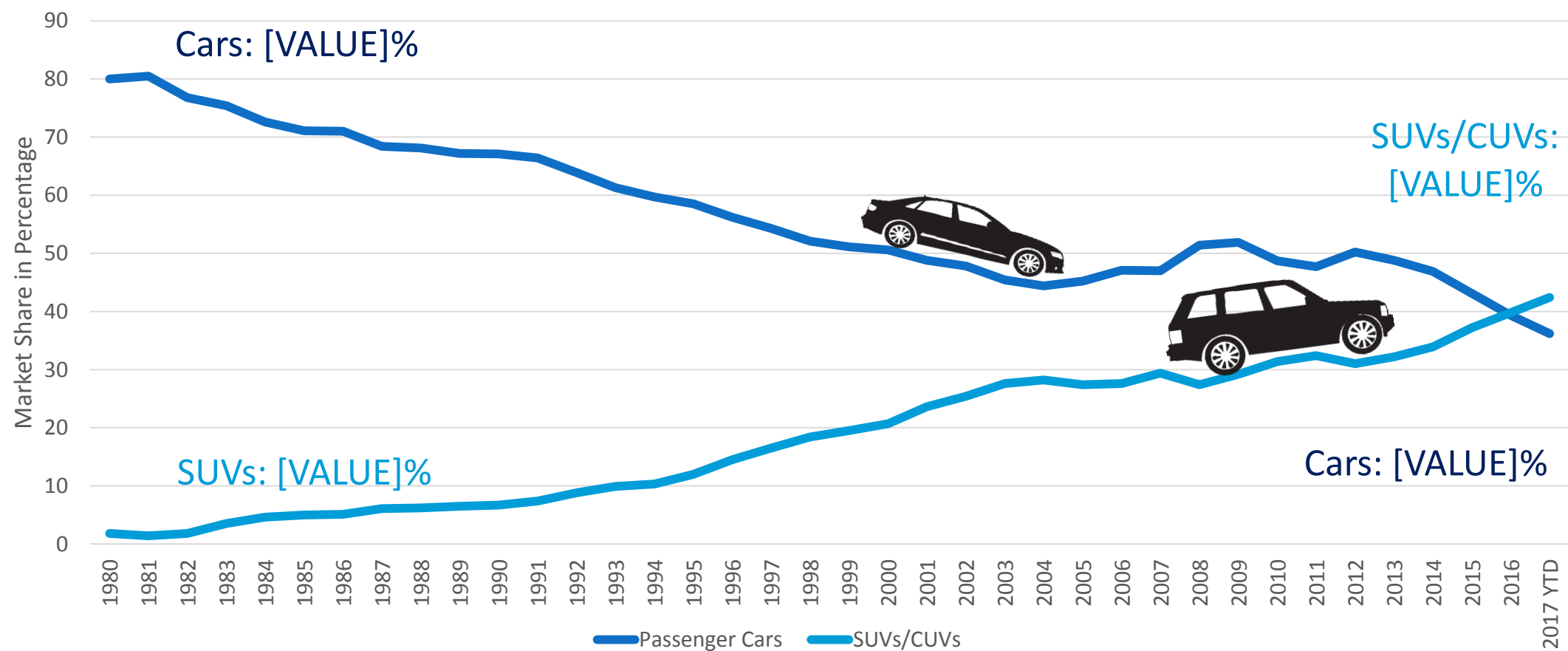


Segment Breakdown – U.S. LV Sales Percent Change

October YTD 2017 vs October YTD 2016

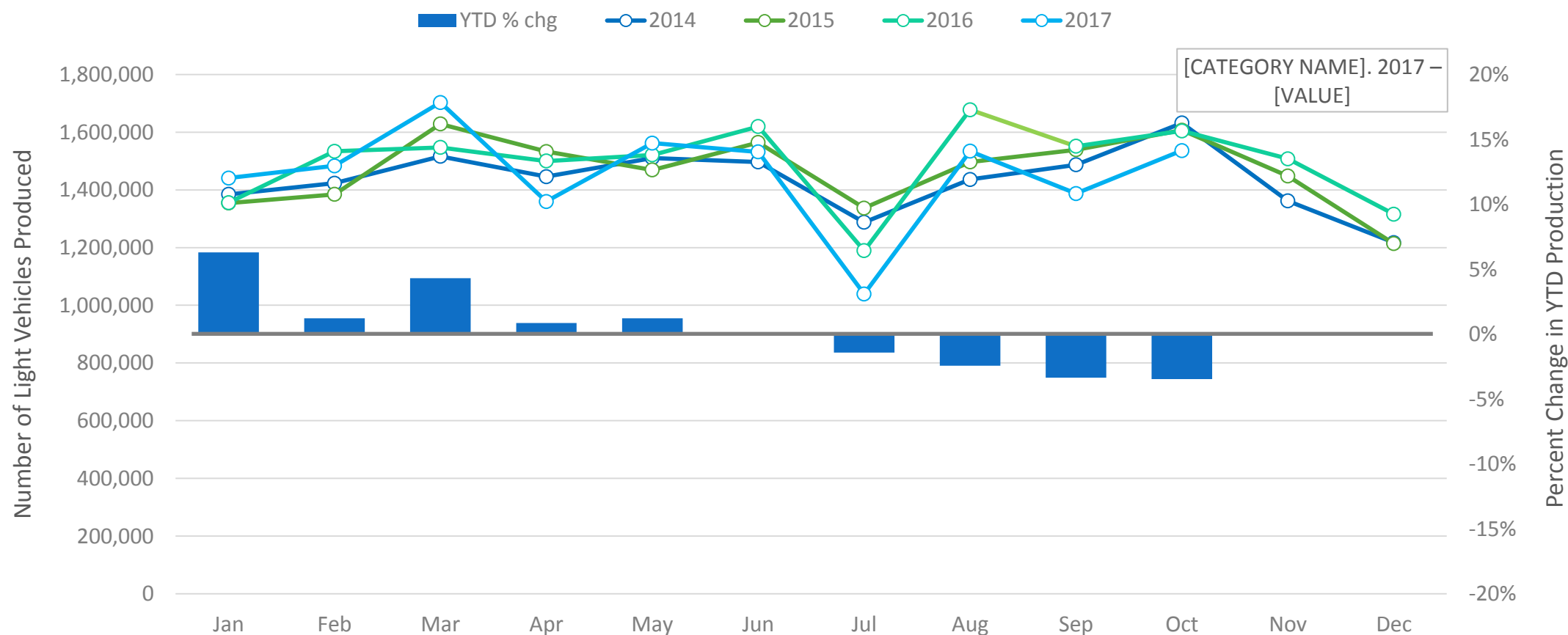


U.S. Market Shares of Passenger Cars and CUVs/SUVs 1980 – 2017 YTD



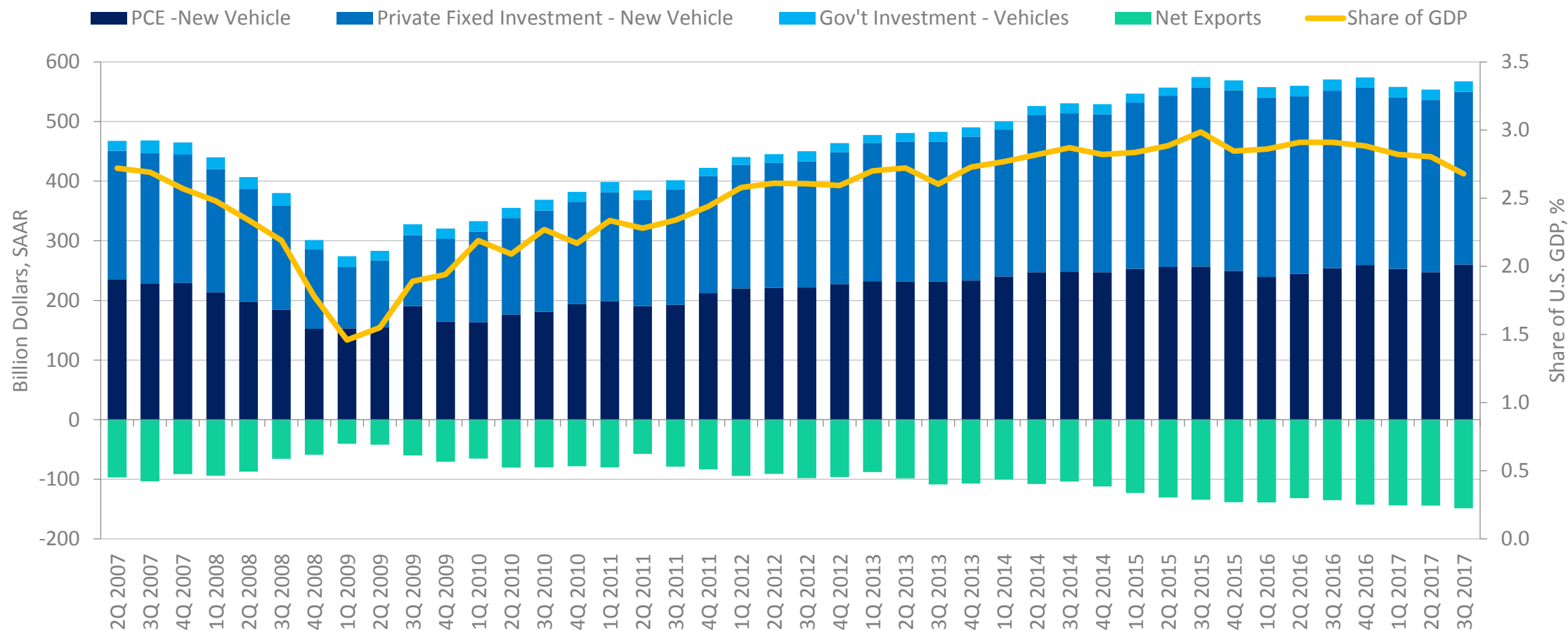
North America Monthly Production

October 2017



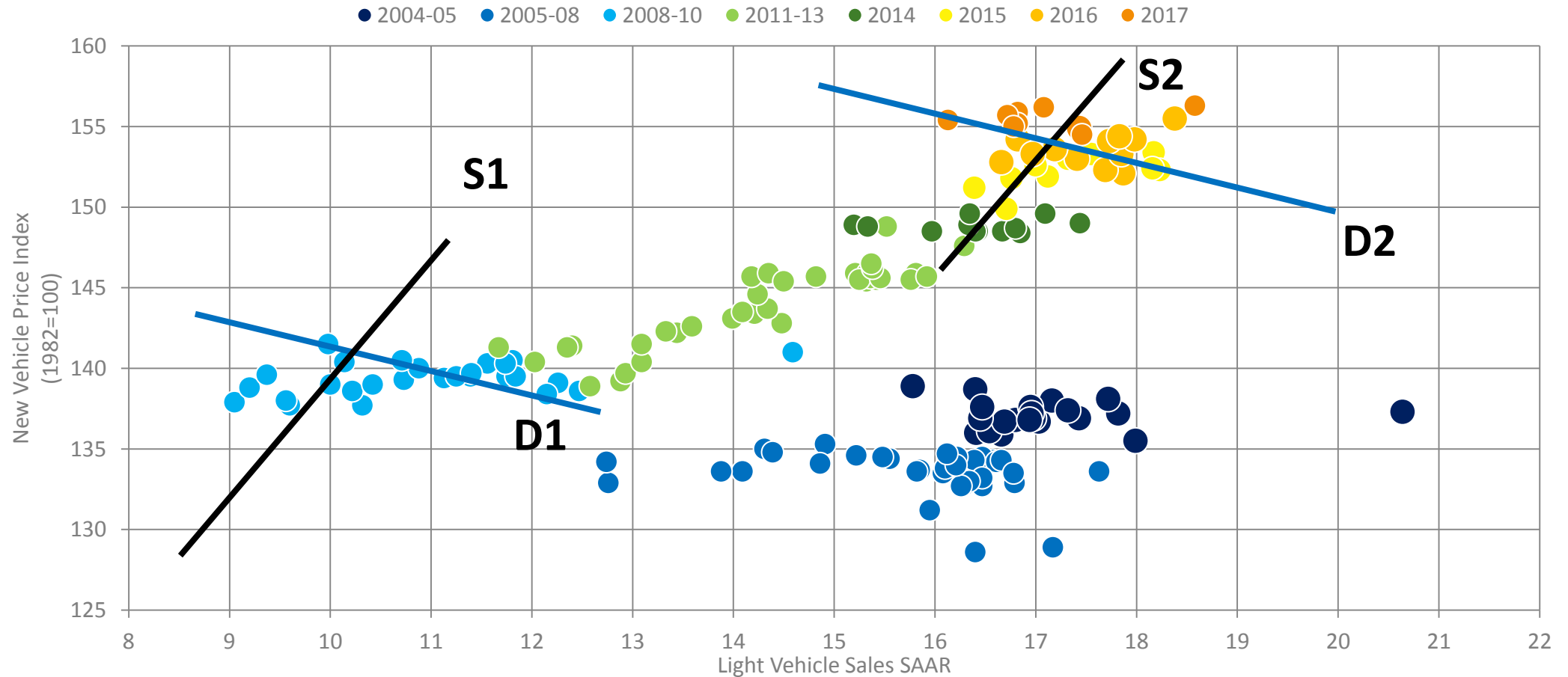
U.S. Motor Vehicle Output and Share of GDP

2Q 2007 – 3Q 2017



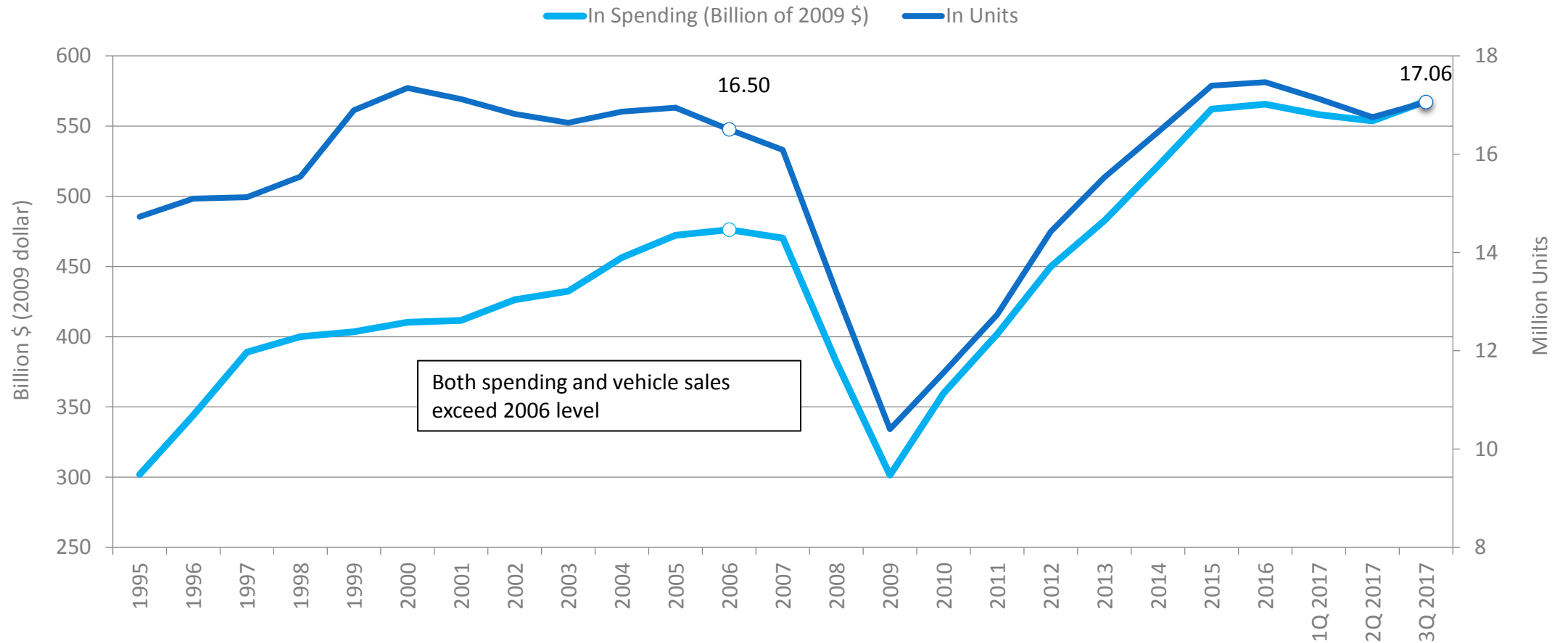
Light Vehicle Sales and New Vehicle Price Index

January 2004 – September 2017



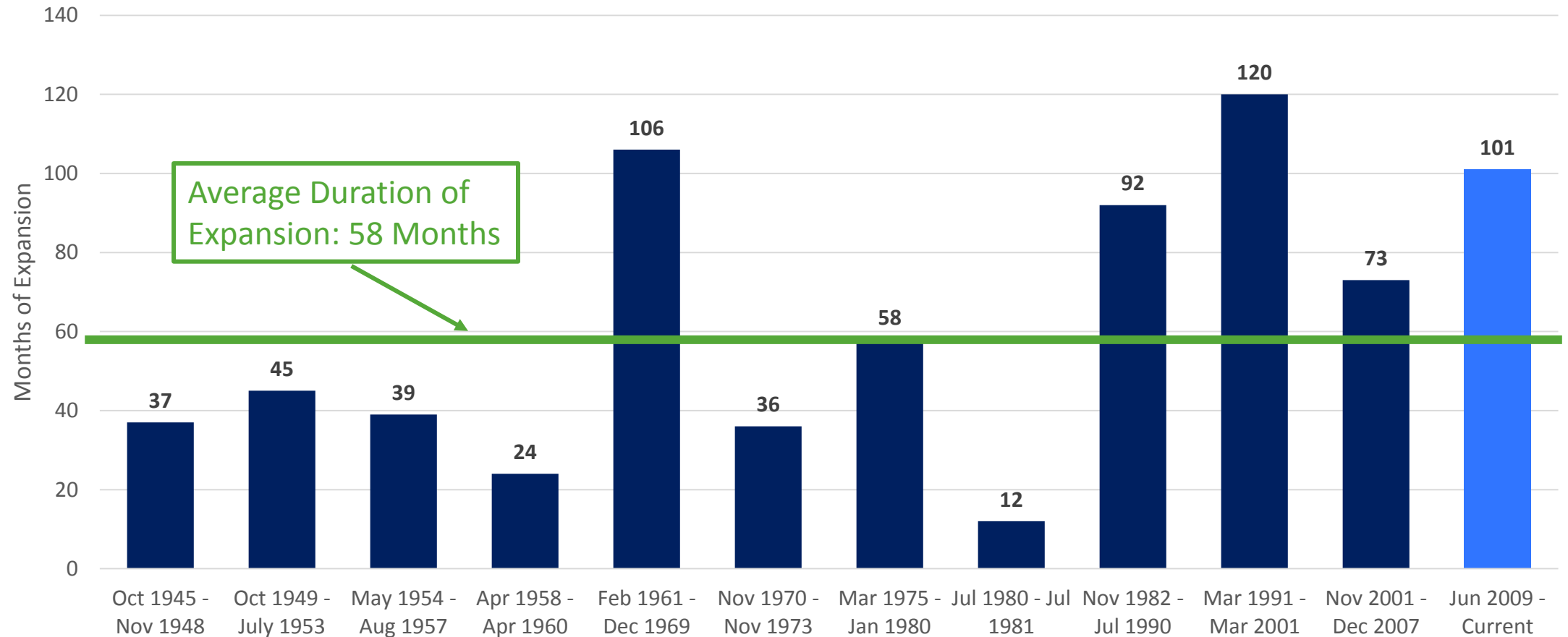
Are Sales Peak?

1995 – 3Q 2017



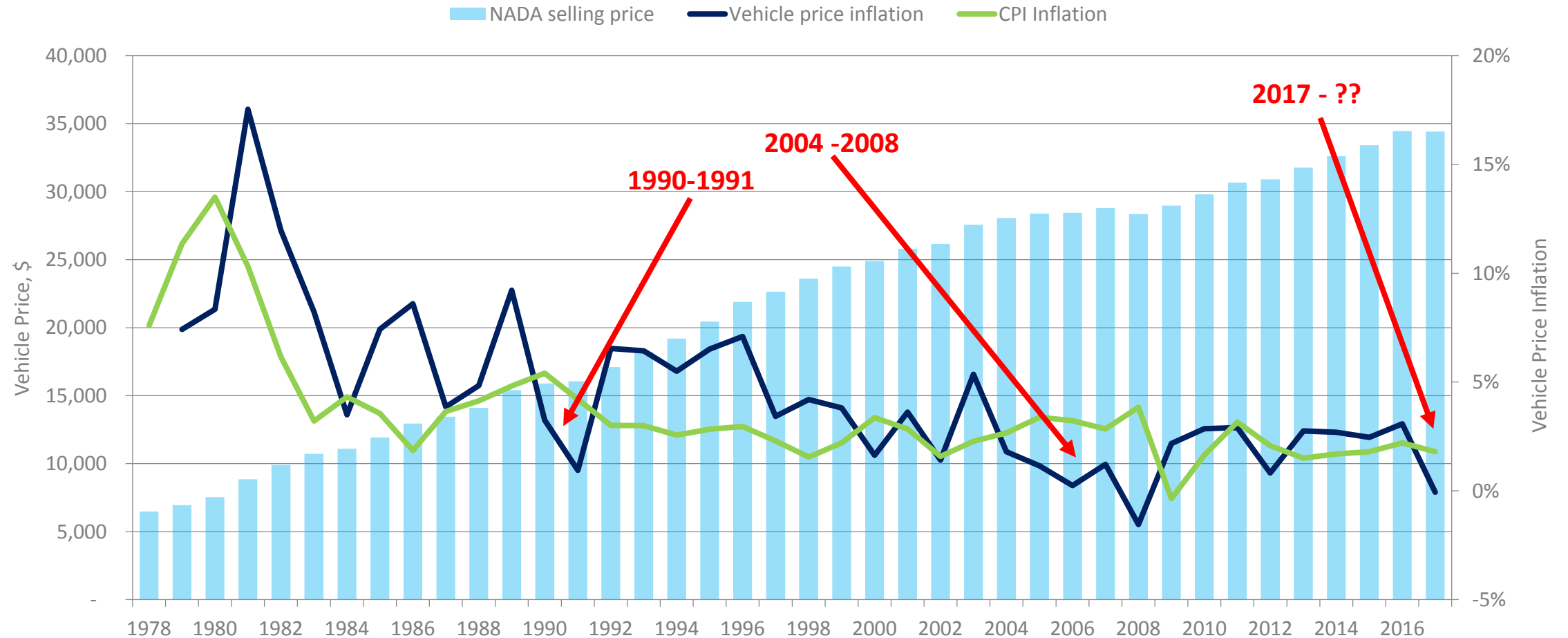
US Business Cycles

Months of Expansion Since 1945

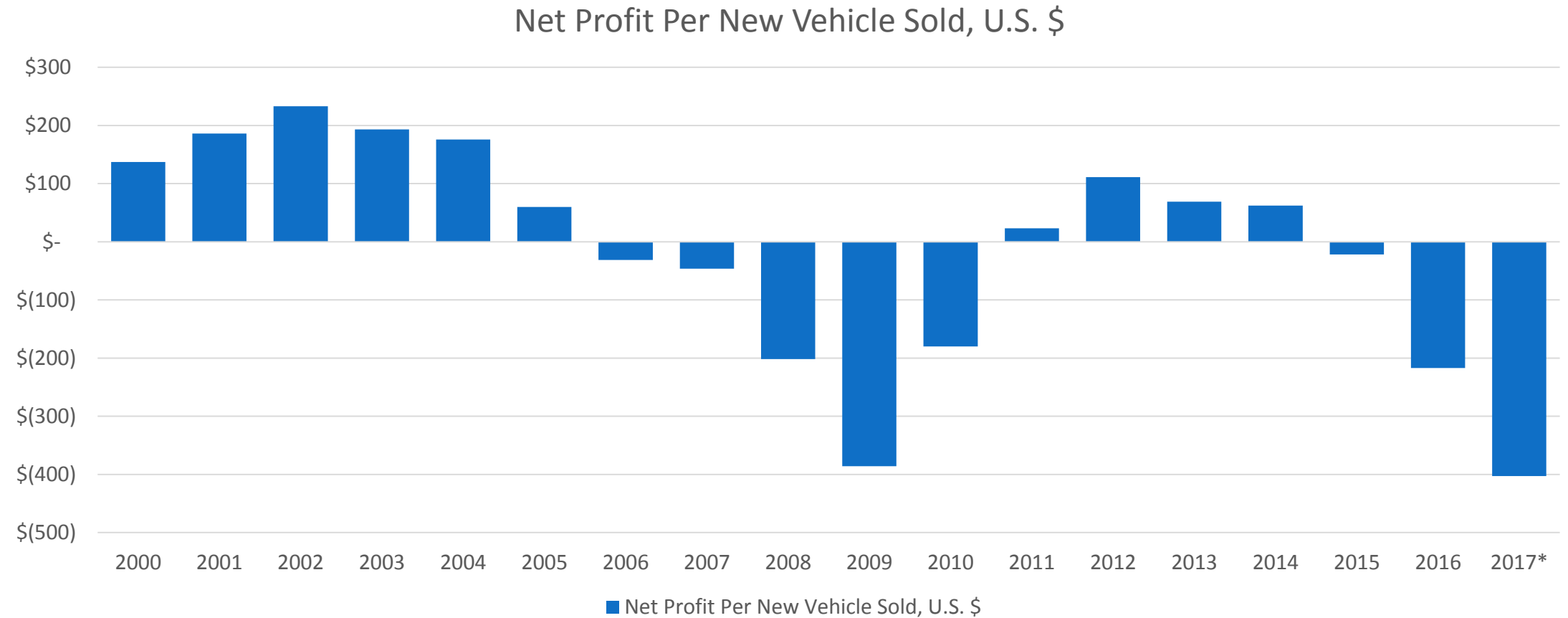


NADA New Vehicle Selling Price

1978 – 2017 (Sept)

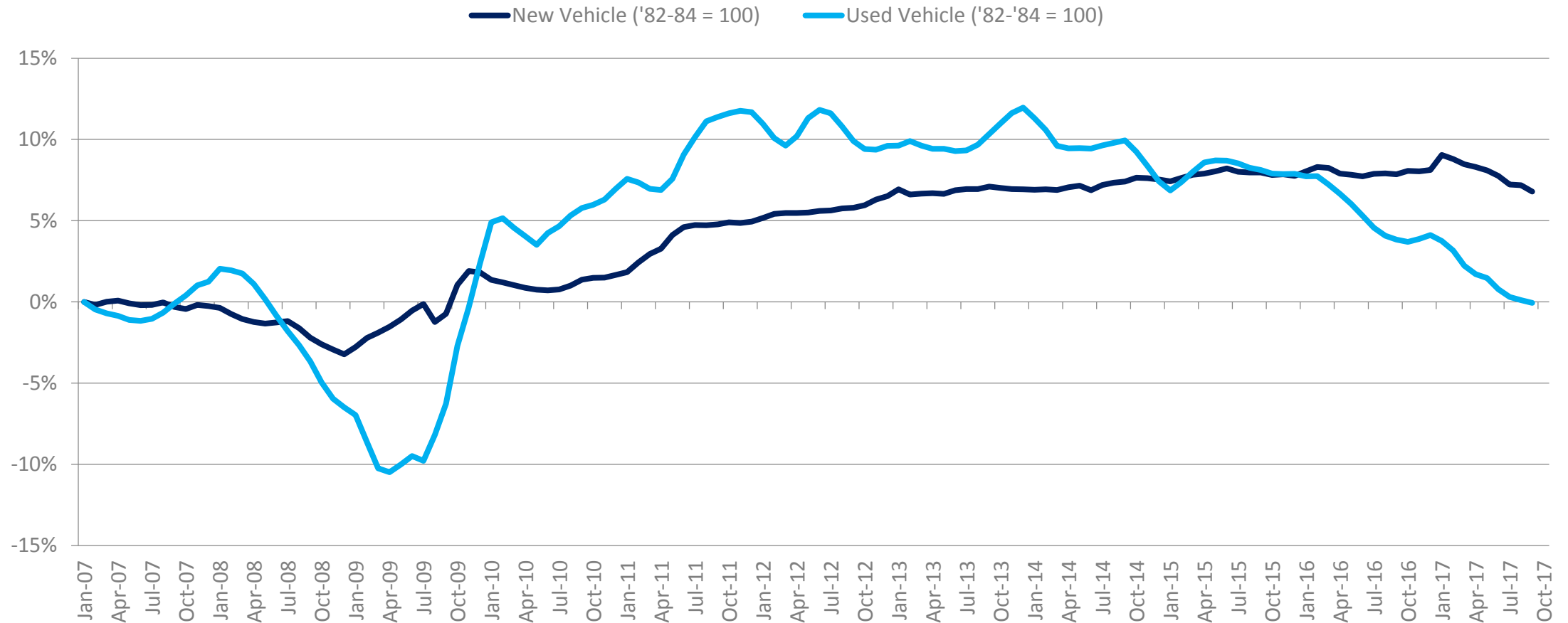


NADA Dealership Financial Status



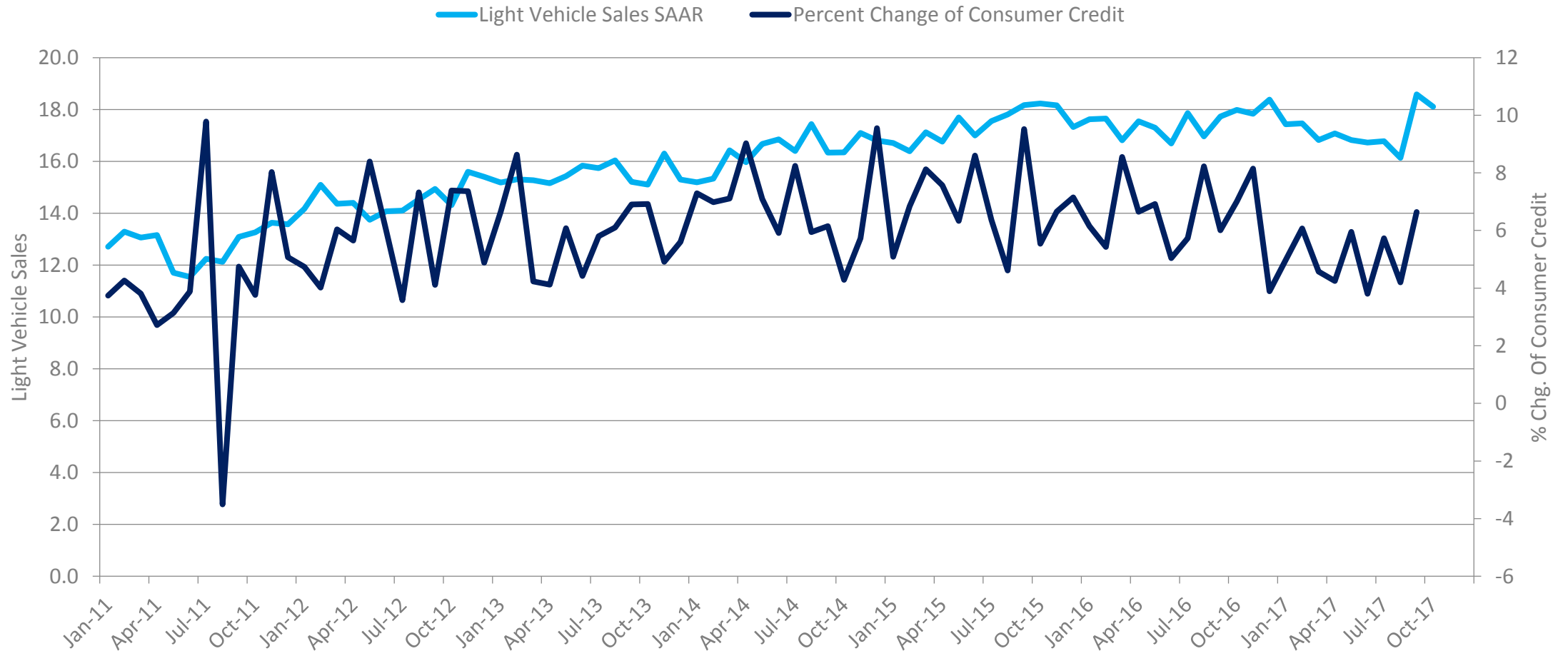
Changes from Jan '07: CPI – New Vehicle and CPI-Used Vehicle

January 2007 – September 2017



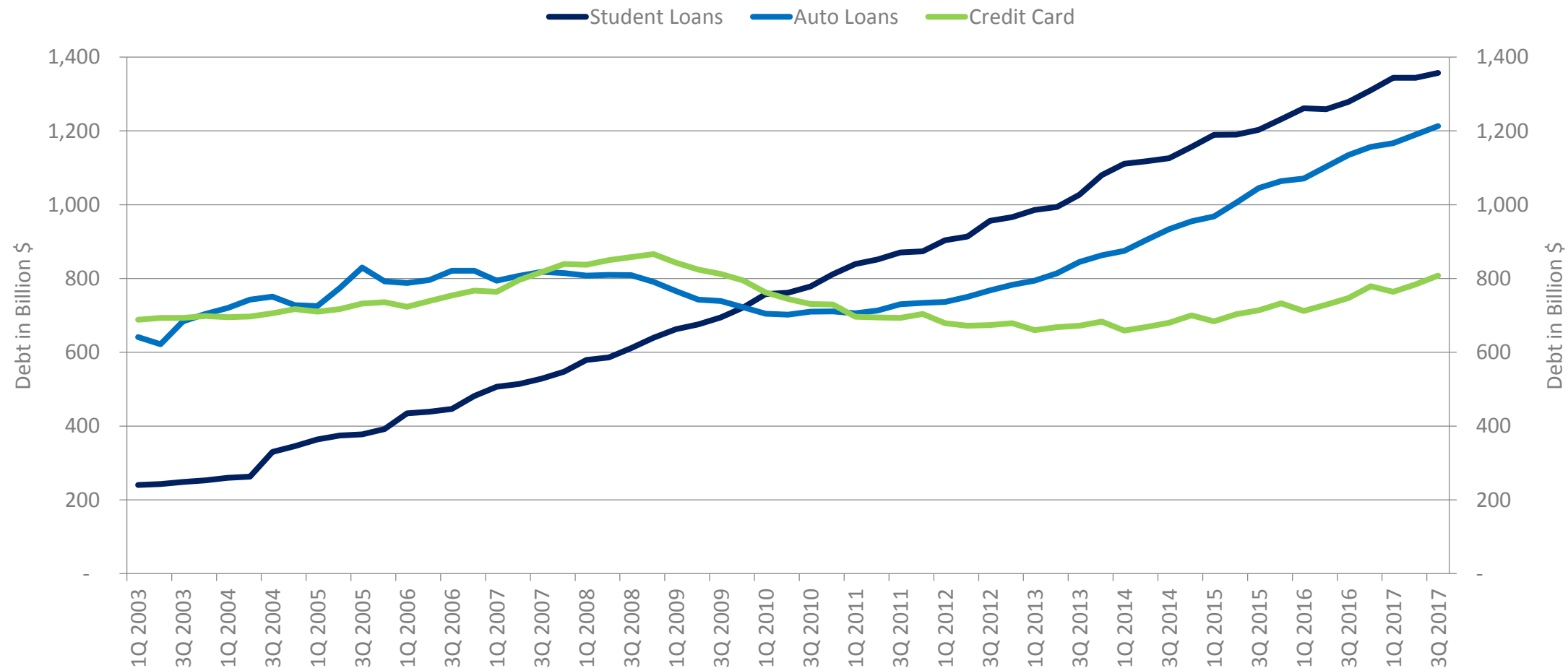
Consumer Credit and Light Vehicle SAAR

January 2011 – October 2017



Households are Carrying More Debt

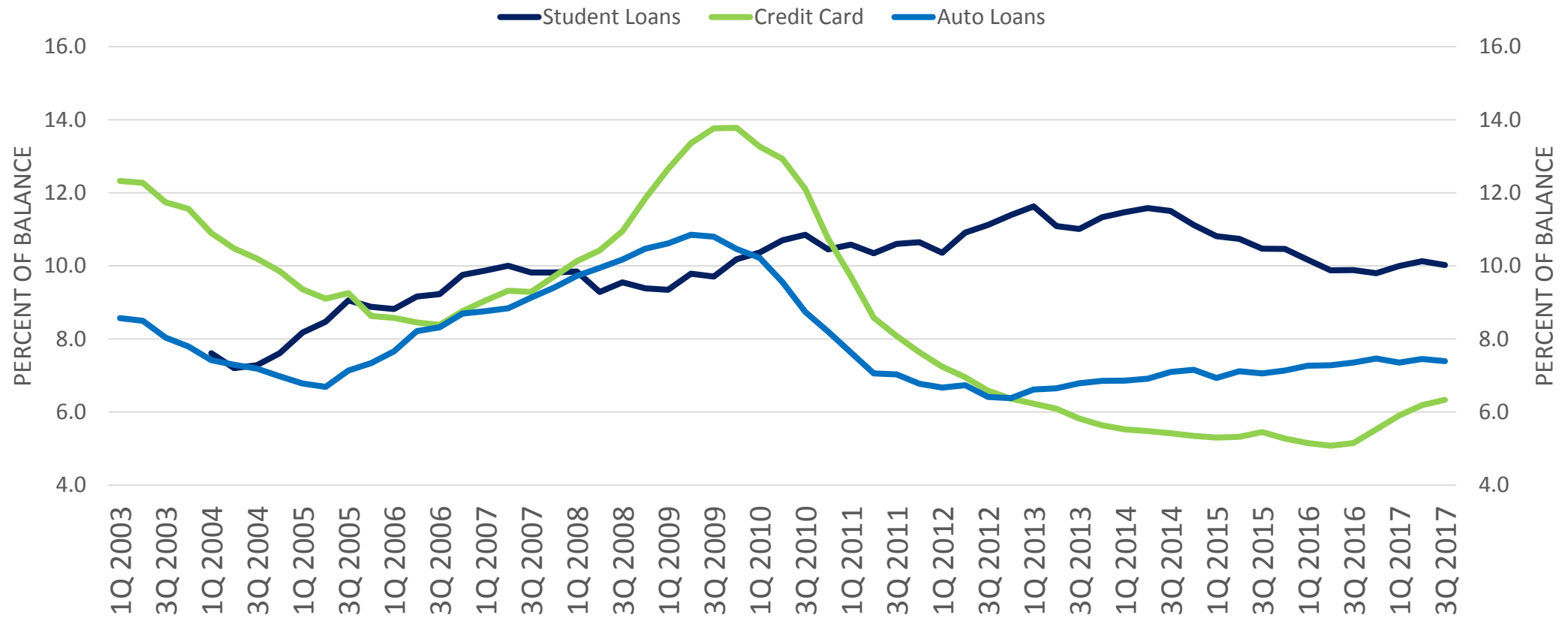
Household Non-Housing Debt* 1Q 2003 – 3Q 2017



*Excludes mortgage and home equity line of credit

Auto Loan Delinquent Rate Is Rising

30+ Days Delinquent Percentage by Types of Non-Housing Loan

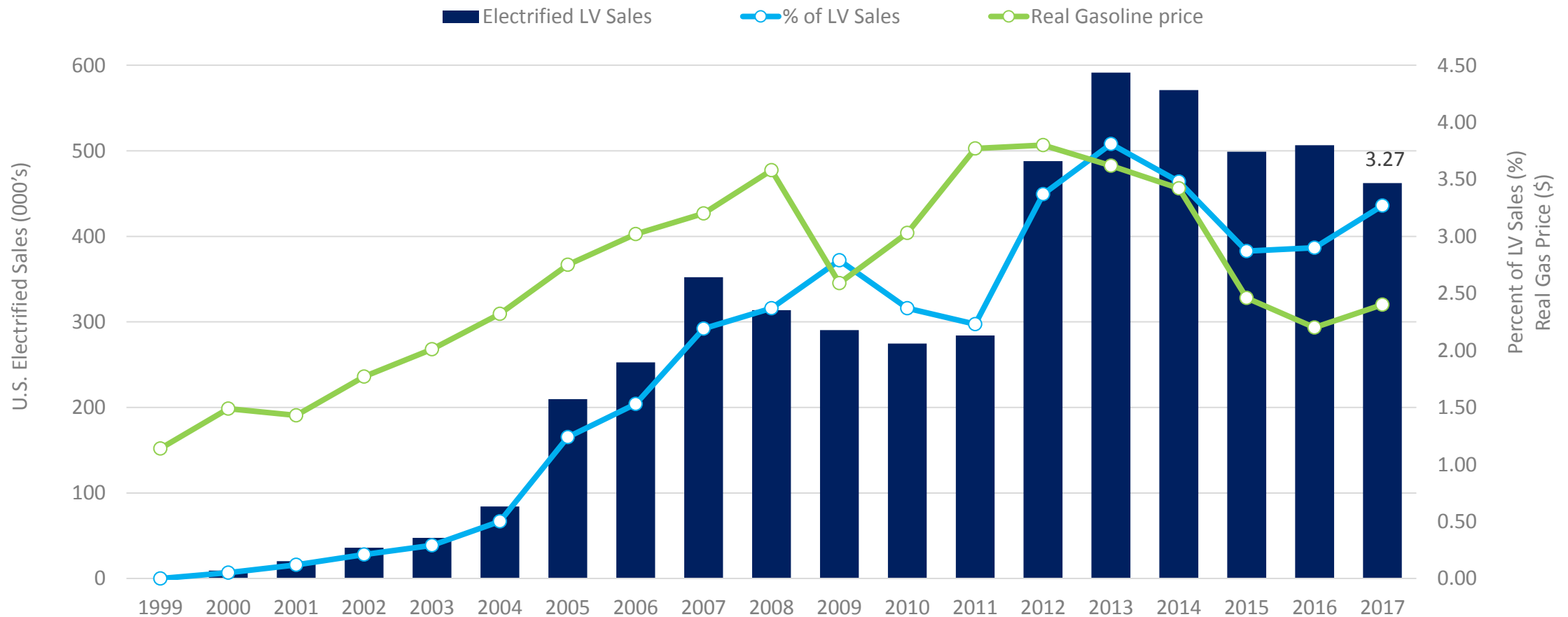


Gasoline Prices (Real)

Jun. '03 – Oct. '17



U.S. Electrified Light Vehicle Sales and Take Rate 1999 – 2017 YTD (October)

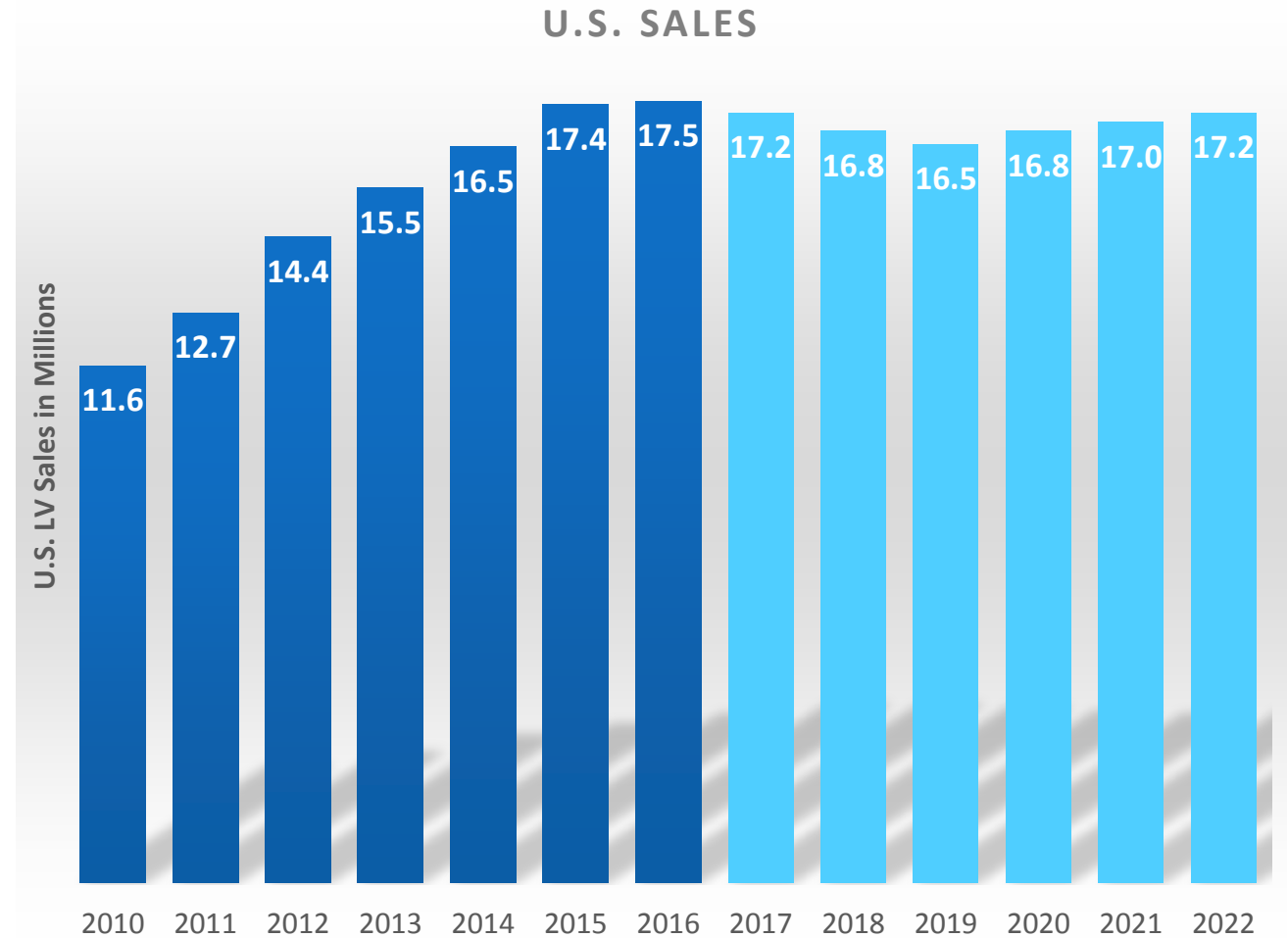


Note: Electrified vehicles consist of BEV, HEV and PHEV

CAR's U.S. Light Vehicle Sales Forecast 2017-2022

Factors:

- N.A. production drop in 2017
- U.S. MV output declining share of GDP
- U.S. sales down in quantity and value
- New vehicle prices stagnant
- New vehicle sales price inflation lower than CPI for first time in 5 years
- Dealership new car net loss/vehicle highest level in a decade
- Used vehicle prices at a 10-year low
- Consumer credit slowing
- Auto loan defaults rising
- Gasoline prices highest since Q4 2014





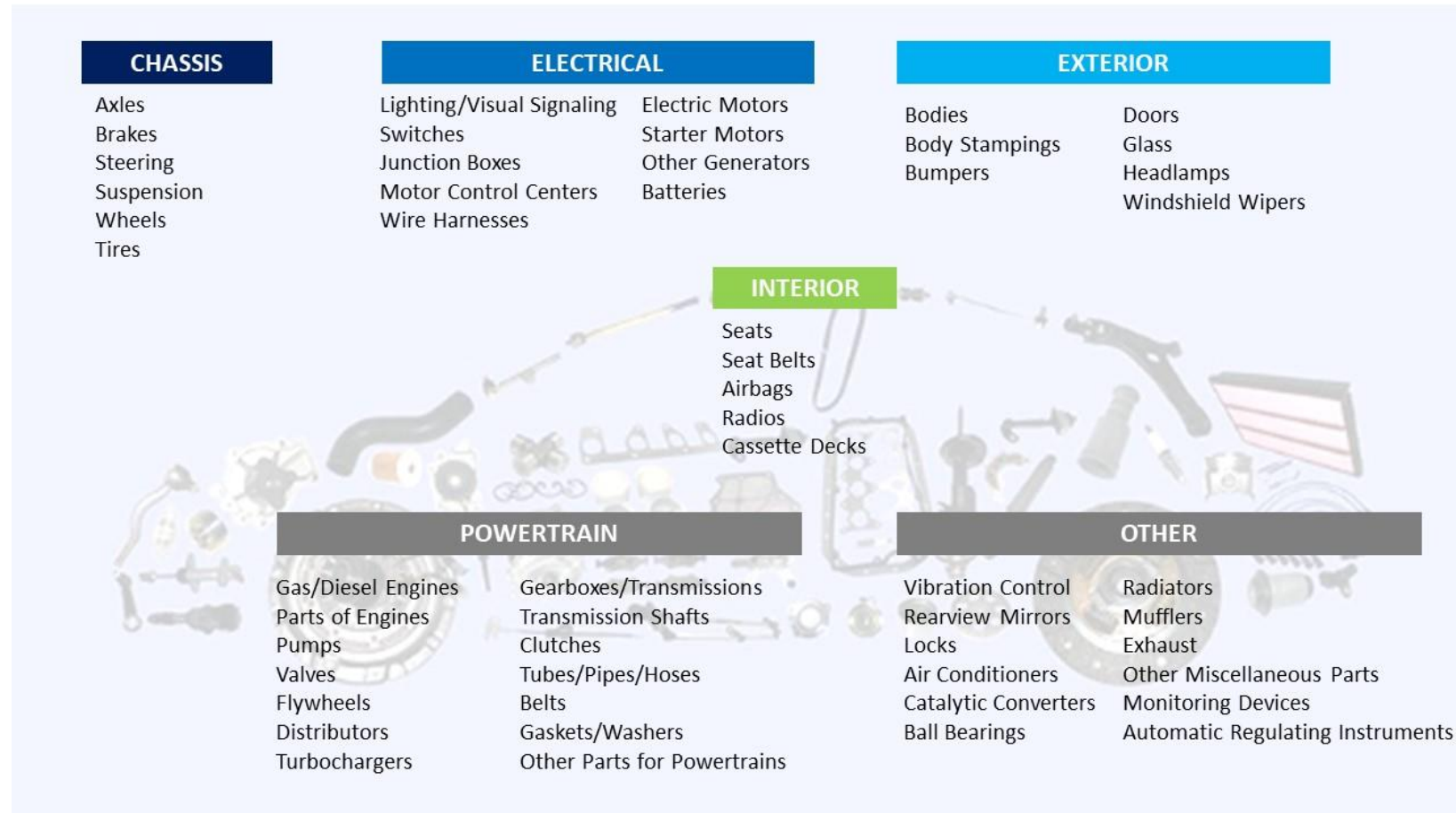
NAFTA Update

It's not going well...



- NAFTA Auto Rules of Origin (ROO) already the highest of any U.S. Free Trade Agreement (FTA) @ 62.5%
- The Trump Administration is proposing:
 - Raising the NAFTA Regional Value Content (RVC) threshold to 85 percent
 - Requiring 50 percent U.S. content as part of the 85 percent RVC
 - Including all parts, components, and materials in a light vehicle to “modernize” the tracing list
 - Instituting a validation process for content, rather than the current process whereby manufacturers can “deem originating” for parts, components, and vehicles produced within the NAFTA region
 - A 5-year renewal period
- Negotiations that were supposed to wrap up in December will now extend into Q1 2018

Modernizing the NAFTA Tracing List



Tracing is meant to keep manufacturers from “rolling up” foreign content to achieve preferential trading status for imported content.

What Could Happen

The Peterson Institute for International Economics outlines four scenarios for how NAFTA talks may proceed:



Least
Likely

Most
Likely

- 1) Canada and Mexico give in to U.S. demands;
- 2) U.S. gives up on demands that Canada and Mexico oppose, and focuses on modernizing the agreement (deal falls short of Trump's campaign promises);
- 3) Deadlock that leads to terminating NAFTA (supply chain disruptions, decline in cross-border investments);
- 4) "Muddle through" with concessions on specific products and some "modernization," talks last beyond December 2017 (no one gets what they want, but each party is able to claim a "win" on something)

What if NAFTA Falls Apart?

- The risk of this happening is high.
- Mexico is talking with other trading partners to diversify trade and replace goods and services currently sourced from the United States.
- Mexico and Canada are still part of TPP
- It is not clear how exactly NAFTA would unravel
- Congress would have to repeal NAFTA's enabling legislation NAFTA in place



Gary Clyde Hufbauer, a noted trade expert and Professor of International Financial Diplomacy at Georgetown University, predicts five things would happen if the U.S. pulls out of NAFTA:

- 1) Dispute resolution systems would disappear;
- 2) MFN tariffs would be re-instituted;
- 3) Trump would need to decide whether or not to re-instate the Canada-United States Free Trade Agreement;
- 4) Congress would “wage war on Trump” through investigations and blocking his legislative agenda; and
- 5) There would be a lot of lawsuits.

Summary

- **U.S. vehicle sales reached peak and is declining**
- **SUVs and CUVs are new kings, as long as gasoline prices are low**
- **Several econ conditions are weakening — production, credits, interest rates, new/used vehicle price, dealers profitability, etc.**
- **Political turmoil and potential US-EXIT lead to murky motor vehicle market outlooks**



Thank you

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