PEAK OR PLATEAU – U.S. AUTO INDUSTRY BEYOND 2015

G. Mustafa Mohatarem
Chief Economist
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INTRODUCTION

• The U.S. economy will grow at a slow and steady pace
• The current recovery is one of the slowest in the post-WWII U.S. history. Consequently, we have not yet seen the excesses and imbalances build up as much as we witnessed around the peak in previous cycles. This leads us to forecast continuing recovery
• Job market is improving strongly. Household balance sheets are strong. Gasoline prices dropped 28% in 2015 from 2014 and averaged slightly above $2.40 in 2015. Interest rates are at historical lows. These developments have created a perfect environment for auto sales, leading to record high vehicle sales
• Housing recovery has been weaker than expected, but improving household formation will lead to continued improvement
• Strong dollar is hurting domestic manufacturers’ competitiveness, but it is positive for the U.S. consumers
• U.S. auto sales reached a record high of 17.9M, including medium and heavy duty trucks, in 2015. We expect another new record in 2016
GLOBAL GROWTH OUTLOOK REFLECTS REDUCED CONTRIBUTION FROM EMERGING ECONOMIES WHILE ADVANCED ECONOMIES ARE ASSUMED TO ACHIEVE MODEST, ALBEIT SUSTAINABLE, GROWTH

Real GDP Growth

- End of post-WWII growth
- Shift toward global growth
- Collapse of USSR
- BRICs
- Housing Bubble
- Great Recession
- Quantitative easing
- Asia Crisis
- Tech Bubble
- Start of Euro Zone
- China slowdown
- EM restructuring

Source: World Bank, General Motors; Haver Analytics; Calculations: General Motors
CHINA – HAVING BOOSTED GROWTH BY IMPLEMENTING HUGE STIMULUS DURING THE CRISIS – IS NOW EXHIBITING SIGNS OF ACUTE STRESS


Source: Bureau of Economic Analysis/Haver

Retail Sales (YTD, Pct. Chg. YoY)

Source: Bureau of Economic Analysis, Energy Information Administration/Haver

Housing Starts (YTD, Pct. Chg. YoY)

Source: Bureau of Economic Analysis, Bureau of Labor Statistics/Haver

Loan as Pct. Of GDP

Source: Bureau of Economic Analysis, Federal Reserve Board/Haver
DRAG FROM MANUFACTURING INDUSTRY CAN NOT BE OFFSET BY GROWTH IN SERVICE INDUSTRY. AS A RESULT, THE CHINESE REAL GDP GROWTH CONTINUES TO SLIDE.

China Growth (Pct. Chg. YoY)

Source: China National Bureau of Statistics; Calculations: General Motors
PERFORMANCE OF VEHICLE SALES CLOSELY TRACKING ECONOMIC FUNDAMENTALS


Western Europe
United States
China

BRIC (Brazil, Russia, India, China) Vehicle Sales; 2000 – 2015 (prel.) Mils.

Brazil
India
Russia
China (2nd axes)

Source: GM Sales Reporting
AUTO SALES IN THE BRIC COUNTRIES ARE STRUGGLING AFTER THEIR STIMULUS-FUELED BOOMS


- Brazil
- China
- India
- Russia
- United States

Source: GM Sales Reporting
Calculations: General Motors
U.S.
STEADY GROWTH
THIS IS A SLOW ECONOMIC RECOVERY

Source: Bureau of Economic Analysis
Calculations: General Motors
AUTO SALES HAVE TRACKED PREVIOUS RECOVERIES

Source: Bureau of Economic Analysis
Calculations: General Motors

GM Confidential
FISCAL POLICY HAS BEEN A SIGNIFICANT DRAG IN THIS RECOVERY

Source: Office of Management and Budget
Calculations: General Motors
LABOR MARKET HAS AN ESPECIALLY SLOW RECOVERY

Source: Bureau of Labor Statistics
HOUSEHOLD BALANCE SHEETS IMPROVED SIGNIFICANTLY

Source: Federal Reserve Board
HOUSING RECOVERY IS MISSING IN THIS CYCLE

Source: Census Bureau / Haver Analytics
IMPROVING HOUSEHOLD FORMATION BODES WELL FOR FUTURE HOUSING MARKET ACTIVITIES

Source: Census Bureau / Haver Analytics
INFLATION REMAINS LOW

Source: Bureau of Labor Statistics
POLICY NORMALIZATION BY THE U.S. FED HAS JUST STARTED

Effective Fed Funds Rate (Pct.)

Source: Federal Reserve Board;
Note: Shading Indicates Recession

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OIL PRICES HAVE BEEN TRENDING LOWER …

Source: Energy Information Administration
Note: Shading Indicates Recession, Annual Data excluding 2016 which is calendar year to date
... AND ARE LIKELY TO REMAIN LOW FOR LONGER

WTI (Real, 1985 Peak = 100)

236 Months

Source: Energy Information Administration
LARGE VEHICLES ARE OUTPERFORMING

Market Share (Pct.)

- Car
- Crossover/SUV
- Truck

Source: GM Sales Reporting
GROWTH IN VEHICLE SALES VS. GROWTH IN REAL GDP

Source: Bureau of Economic Analysis
Calculations: General Motors
KEY ECONOMIC VARIABLES THAT DRIVE AUTO SALES

Vehicle Sales and GDP Growth (Rt. Axis)

Vehicle Sales (and Employment (Rt. Axis))

Vehicle Sales and Gasoline Prices (Pct. Chg., Inverted)

Vehicle Sales (Pct. Chg. Incl. med/heavy) and Credit Availability

Source: Bureau of Economic Analysis/Haver

Source: Bureau of Economic Analysis, Bureau of Labor Statistics/Haver

Source: Bureau of Economic Analysis, Energy Information Administration/Haver

Source: Bureau of Economic Analysis, Federal Reserve Board/Haver
AUTO SALES REACHED AN ALL-TIME HIGH IN 2015. WE EXPECT A NEW RECORD IN 2016.

Source: Bureau of Economic Analysis
Note: Shading Indicates Recession

Global Economics and Trade
SUMMARY

• 2016 to be more or less a repeat of 2015
• The North American economies will grow at a slow and steady pace, with auto sales hitting new record highs
• The modest recovery in Western Europe will continue along with a modest growth in new vehicle sales
• Slowing economic growth in China will be a source of global economic uncertainty as China makes the difficult transition from export/investment-led growth to growth in services and domestic demand
• The end of the commodity boom will impart significant downward pressure on many emerging and commodity dependent economies