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

Dip due to scrappage peaking after record sales volumes in 1998-99

Vehicles-per-driving age peaked during era of "subsidized" sales

Sales growth continues despite lower projected household and parc ratios
- Population still growing
- A lot of vehicles on the road will need replacing


Haig Stoddard, Industry Analyst
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)

<table>
<thead>
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<th>Quarter</th>
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<td>Q1 2014</td>
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<td>Q4 (Estimate)</td>
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<td>Q4 (Forecast)</td>
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<td>Entire Year (Forecast)</td>
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Annual U.S. Light-Vehicle Sales
2013 Actual: 15.5 million
2014 Estimate: 16.4 million
2015 Forecast: 16.8 million
2016 Forecast: 17.2 million
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

Haig Stoddard, Industry Analyst

U.S. Light Vehicle Production vs. Capacity Utilization (right scale)

Annual Capacity Utilization (right scale)

(2005-2015)

2005: 81%
2006: 79%
2007: 80%
2008: 66%
2009: 48%
2010: 71%
2011: 72%
2012: 86%
2013: 94%
2014: 98%
2015: 100%
U.S. Light-Vehicle Production and Capacity Utilization by Quarter

(Production in millions)

Annual U.S. Production/ Capacity Utilization
2013 Actual: 10.9 million/94.1%
2014 Estimate: 11.4 million/98.2%
2015 Forecast: 11.8 million/100.0%

Source: WardsAuto
Haig Stoddard, Industry Analyst

U.S. Light-Vehicle Inventory Assessment

- **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

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

- **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

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

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

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

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

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

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

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

**2015 Forecast SAAR:** 16.9mm  
**2014 Actual SAAR:** 16.8mm
U.S. Light-Vehicle Sales by Segment Group

- **SMALL CAR**
- **MID CAR**
- **LARGE CAR**
- **LUXURY CAR**
- **CROSS/UTILITY**
- **SPORT/UTILITY**
- **PICKUP**
- **VAN**

**2013 (Actual)**

**2014 (Estimate)**

**2015 (Forecast)**

**5%**

**10%**

**15%**

**20%**

**25%**

**30%**
## U.S. Light-Vehicle Sales: % Share by Segment

(Including projected segment best-sellers 2015 Calendar Year)

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<td>4.0</td>
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<td>3.9 Nissan Versa, Kia Soul</td>
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<td>12.8 Honda Civic, Toyota Corolla</td>
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<td>3.7</td>
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<td>3.9 Chrysler Town &amp; Country, Dodge Caravan</td>
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<td>5.4</td>
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Car share will turn up if pump prices rise (>$3.50 for significant turnaround)

**Haig Stoddard, Industry Analyst**
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.
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 brand will keep share from declining; Hyundai portfolio gets a jumpstart in 2016

**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

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

**GM:**

**2013**

**2014 (Estimate)**

**2015 (Forecast)**
Thank You

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