



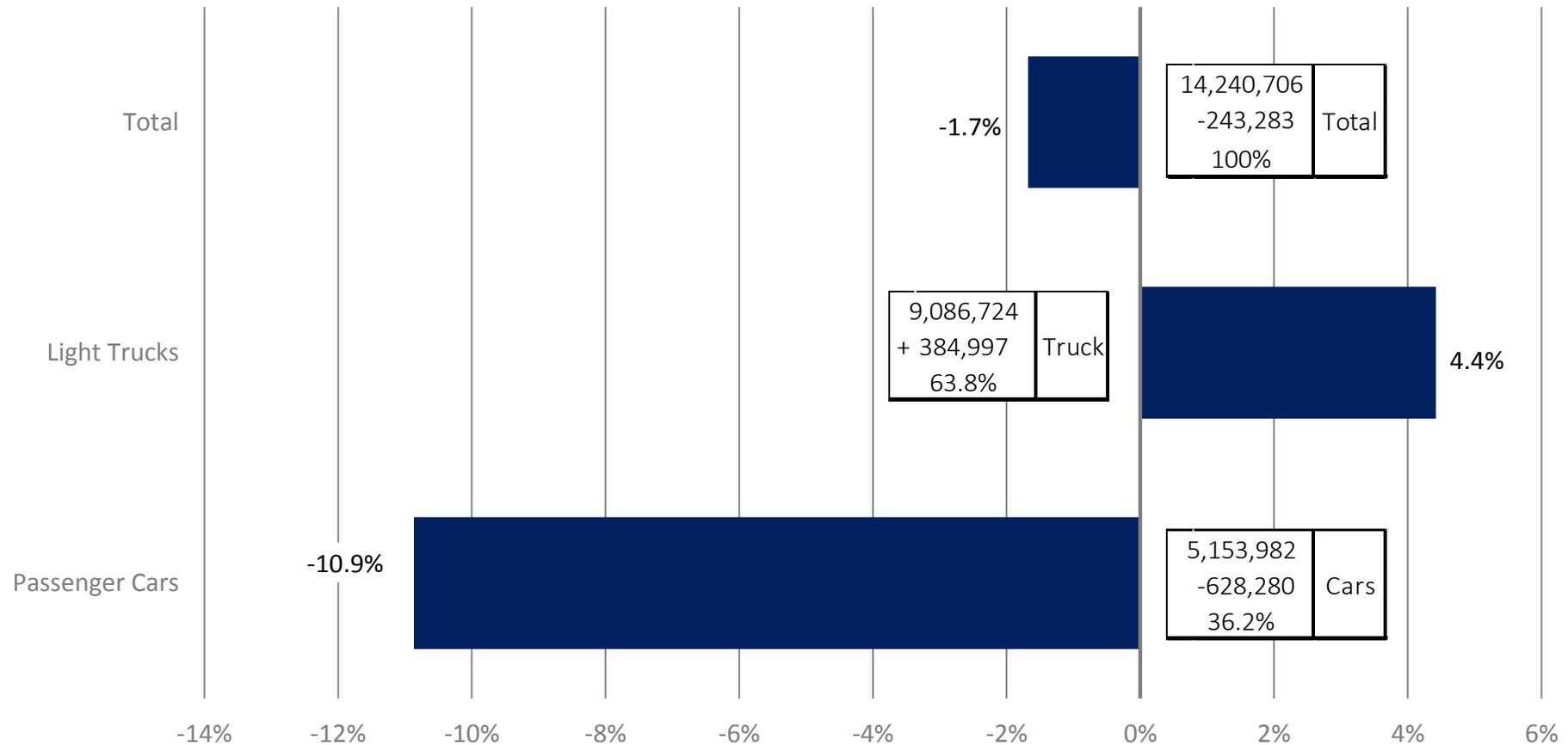
# The Party Is Over — U.S. Automotive Outlooks

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Center for Automotive Research

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

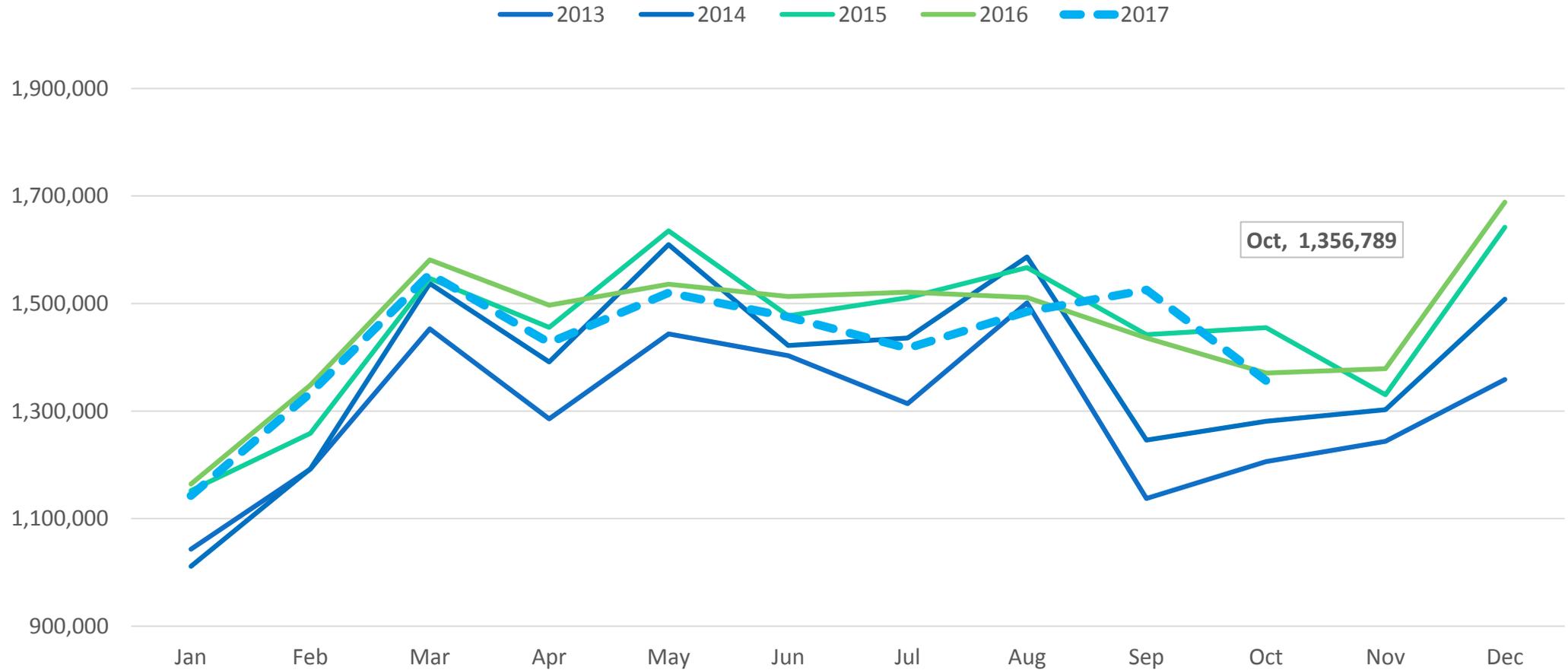
# U.S. Light Vehicle Sales

## Percent Change YTD Through October: 2017 vs. 2016

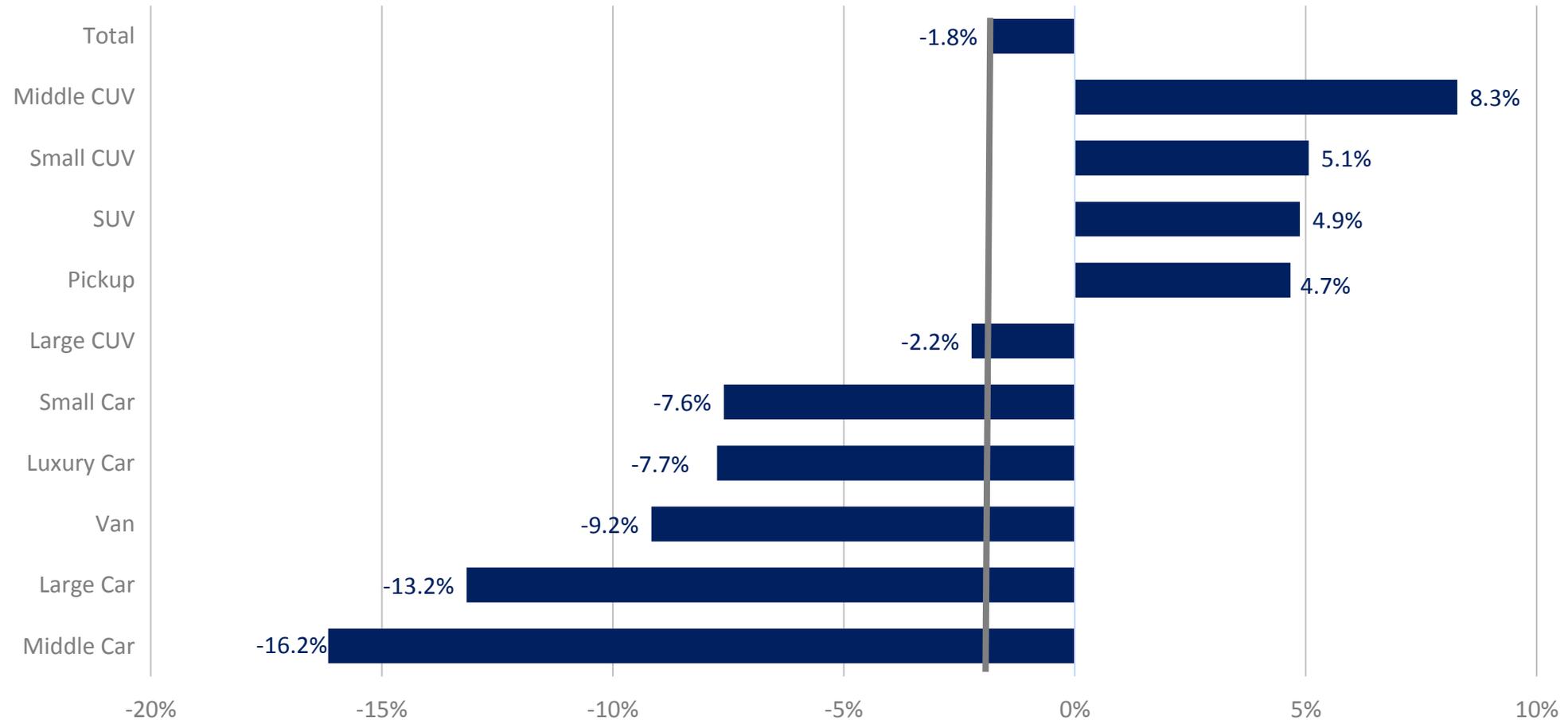


# U.S. Light Vehicle Monthly Sales

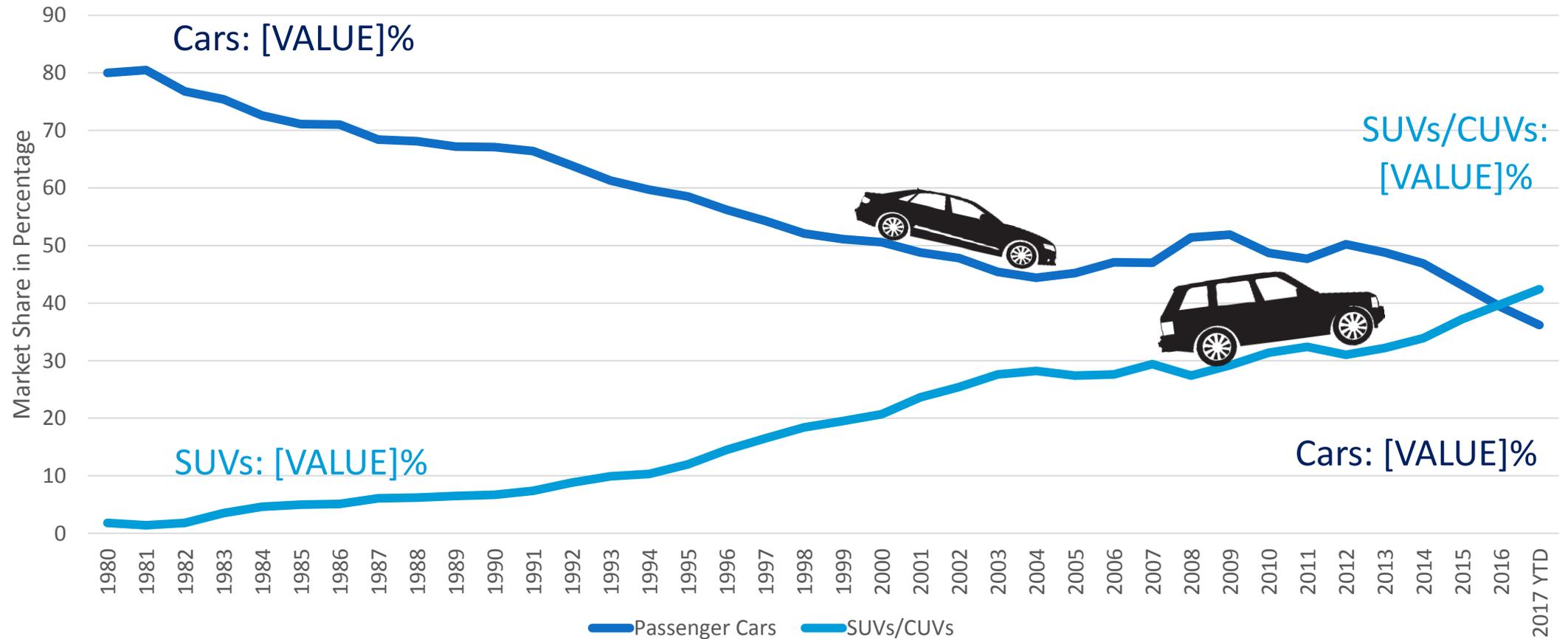
## January 2013 – October 2017



# Segment Breakdown – U.S. LV Sales Percent Change October YTD 2017 vs October YTD 2016

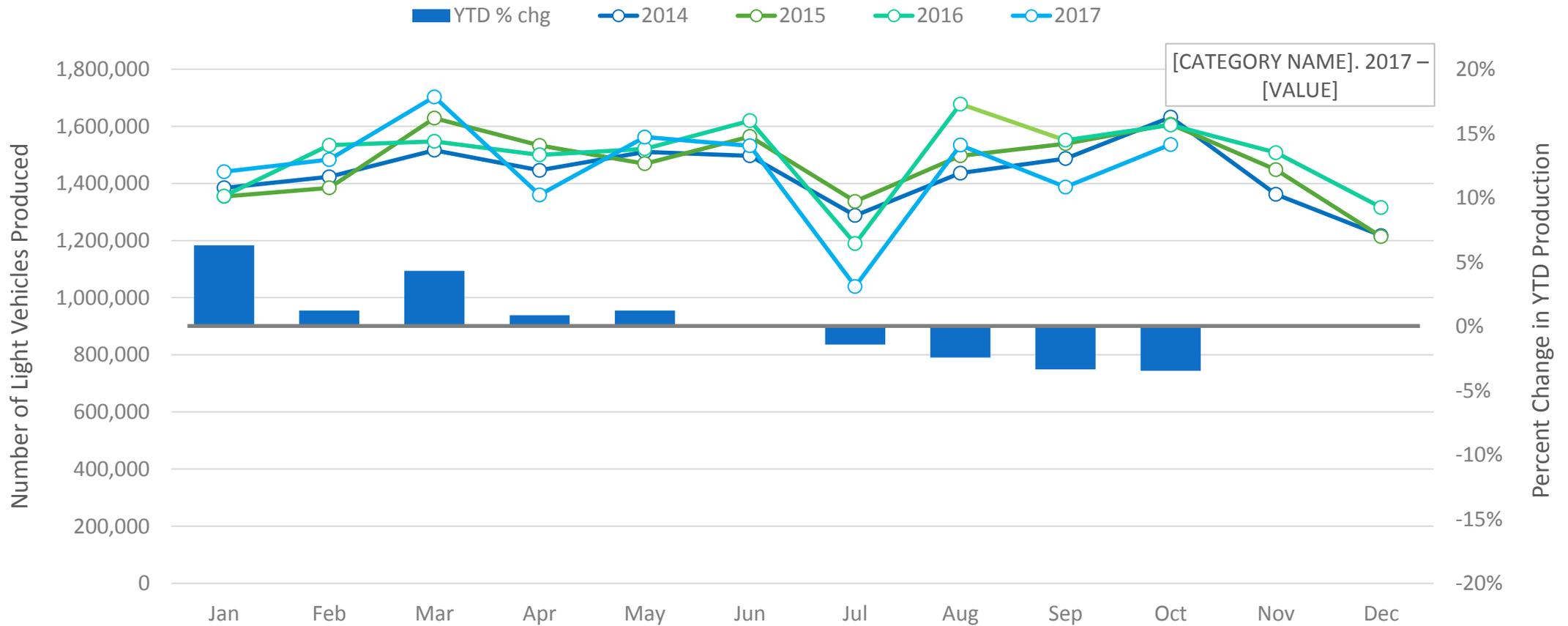


# U.S. Market Shares of Passenger Cars and CUVs/SUVs 1980 – 2017 YTD



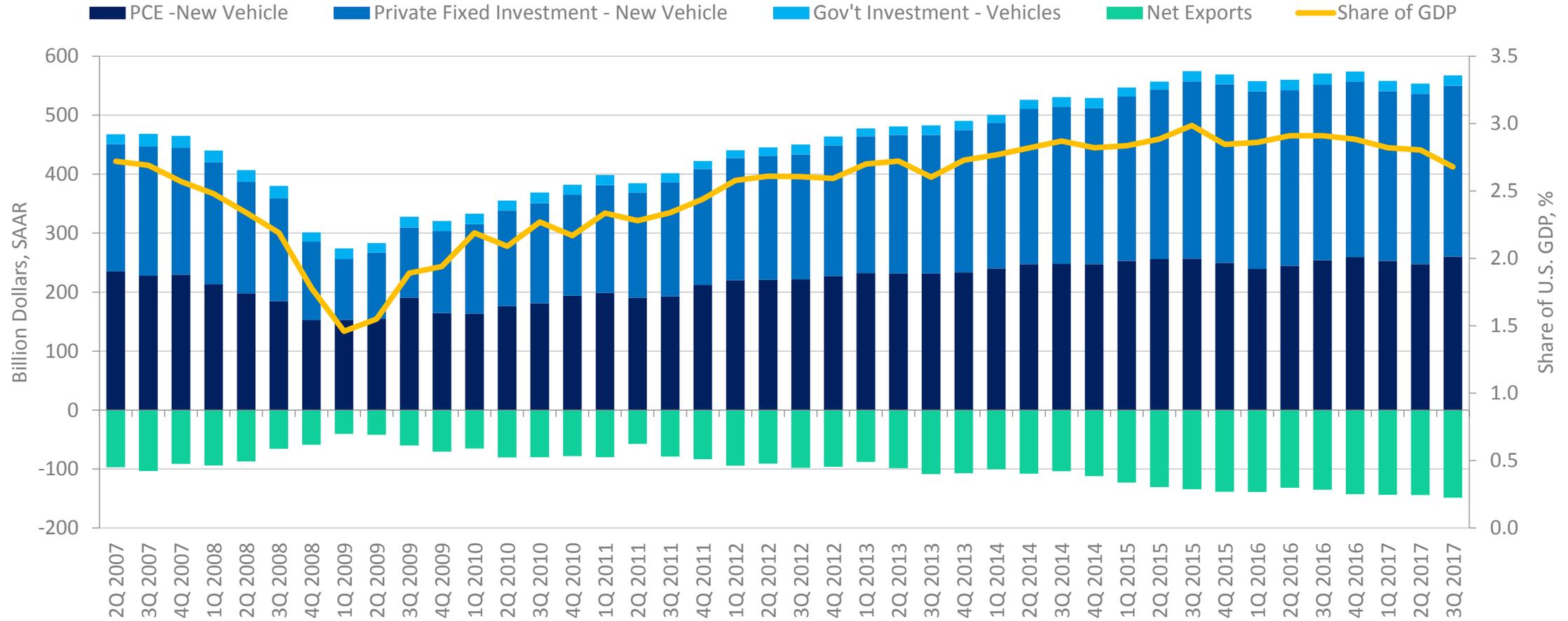
# North America Monthly Production

## October 2017

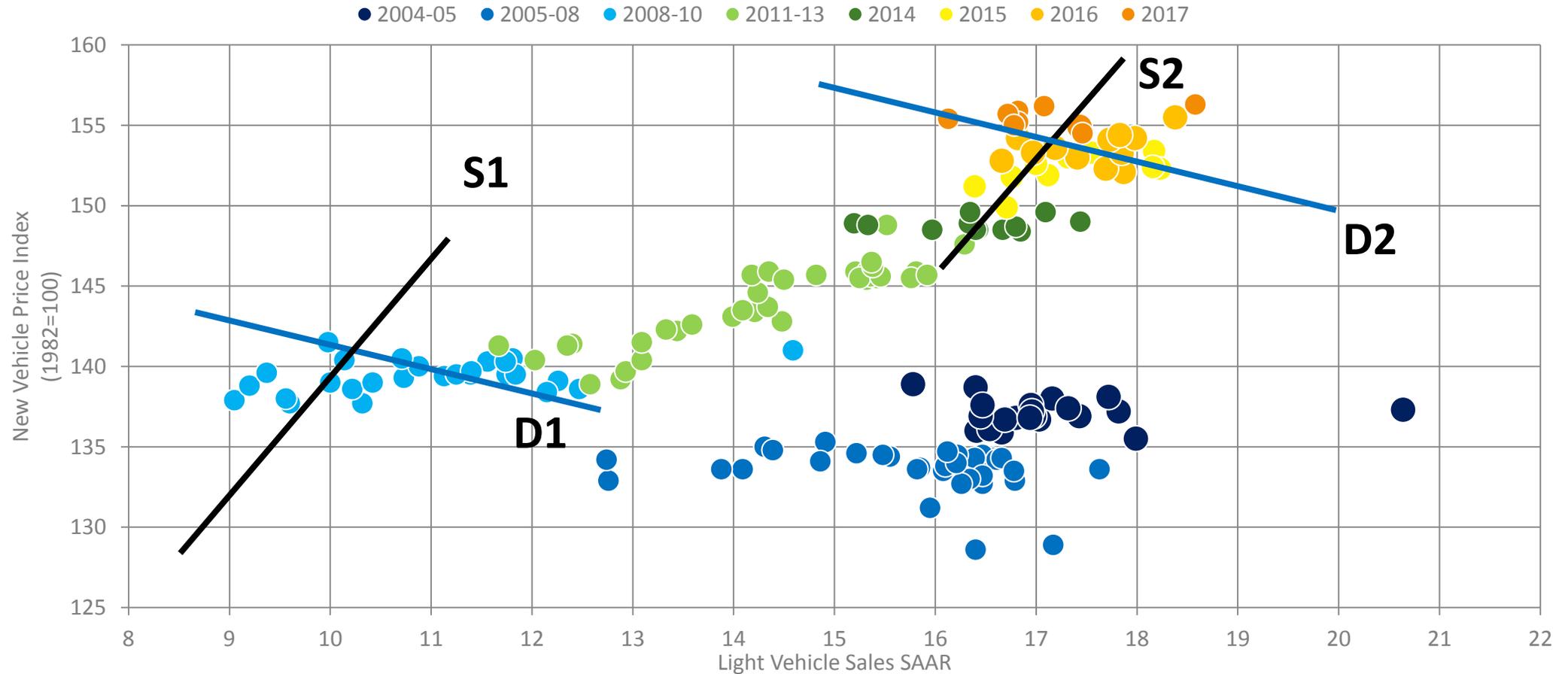


# U.S. Motor Vehicle Output and Share of GDP

## 2Q 2007 – 3Q 2017



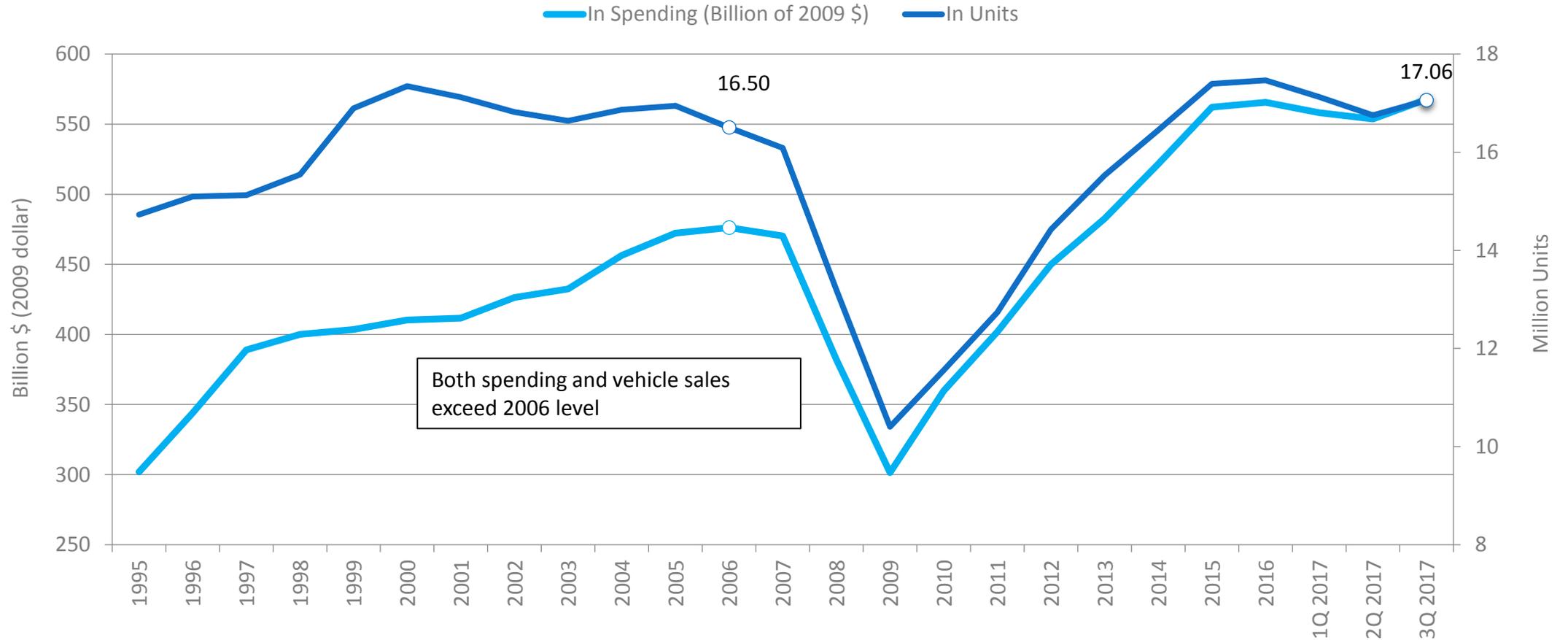
# Light Vehicle Sales and New Vehicle Price Index January 2004 – September 2017



S1: Average sales of Jan '08 – Dec '09  
S2: Average sales of Jan '12 – Dec '12

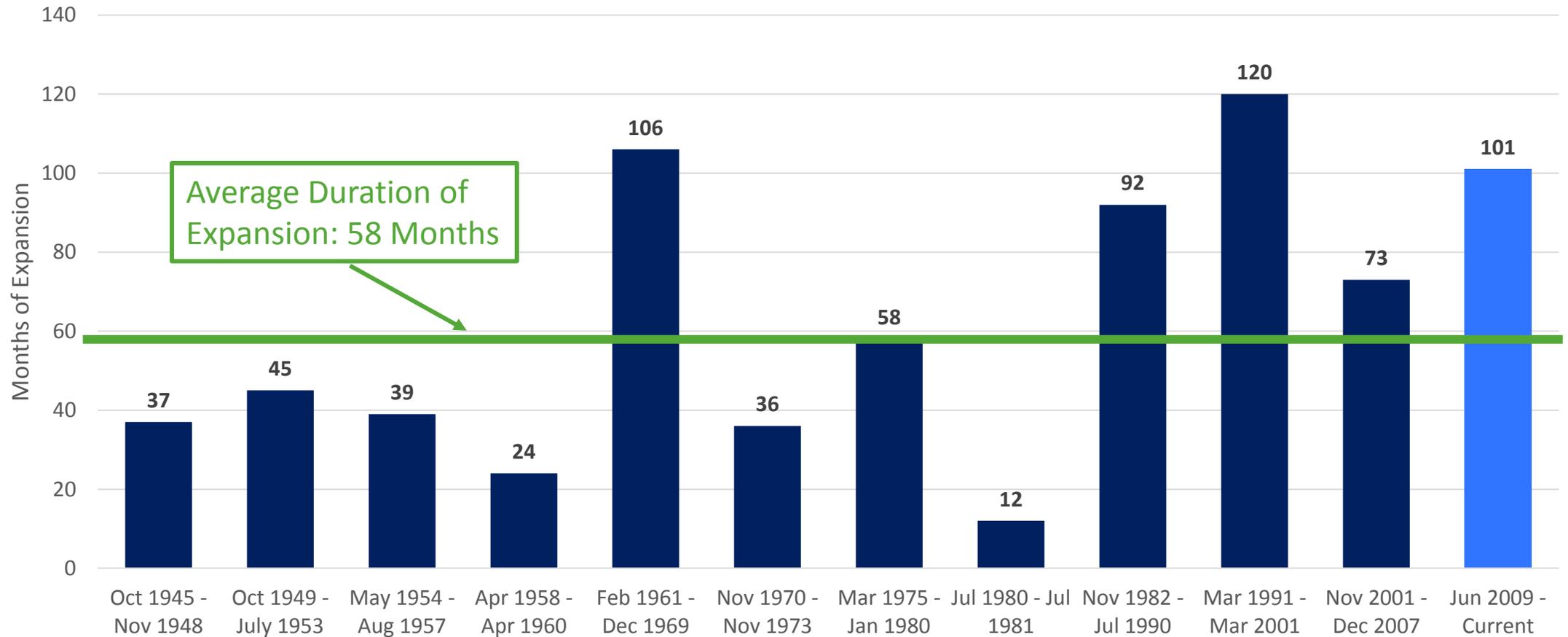
# Are Sales Peak?

## 1995 – 3Q 2017

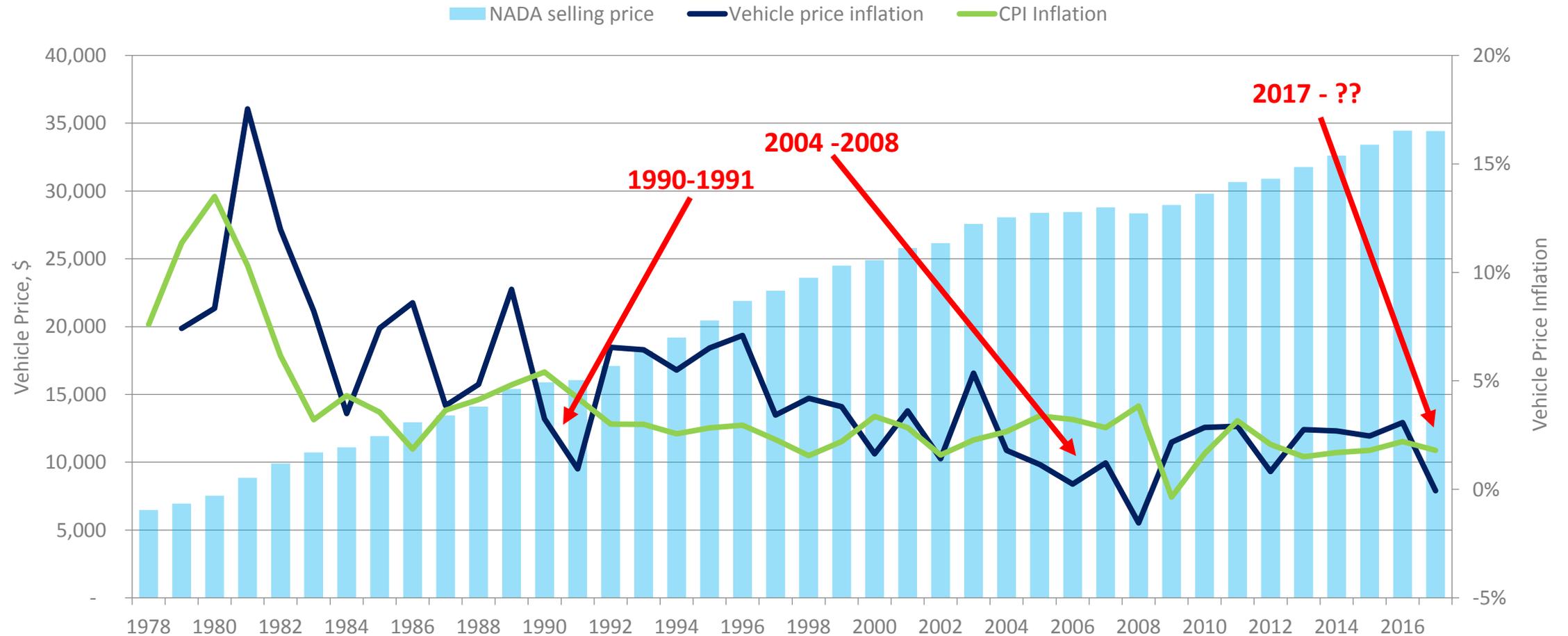


# US Business Cycles

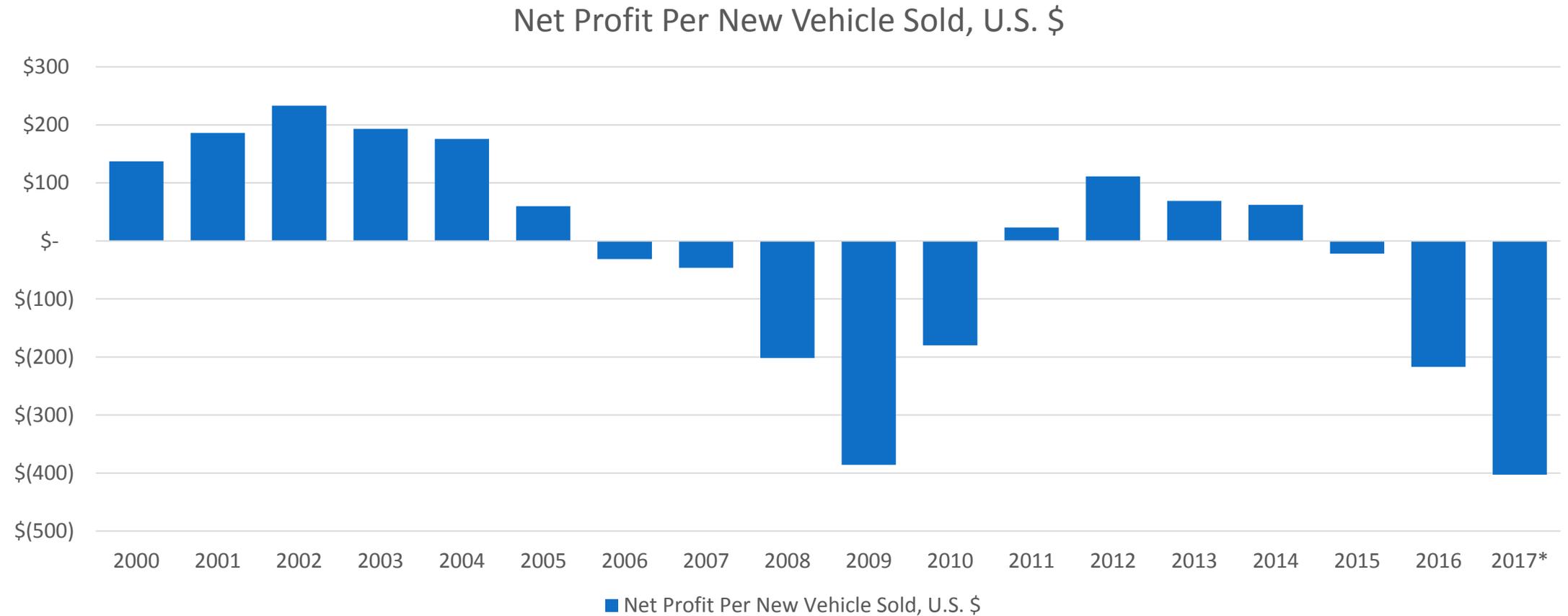
## Months of Expansion Since 1945



# NADA New Vehicle Selling Price 1978 – 2017 (Sept)

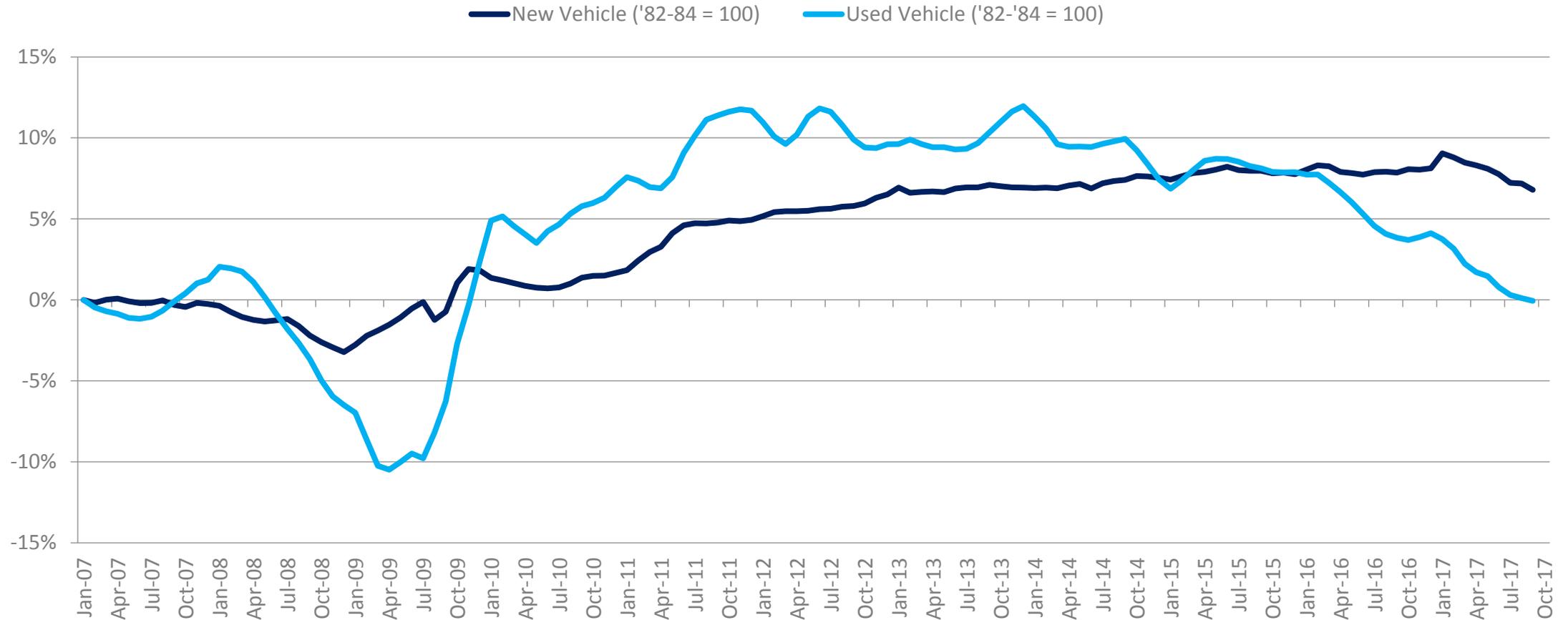


# NADA Dealership Financial Status



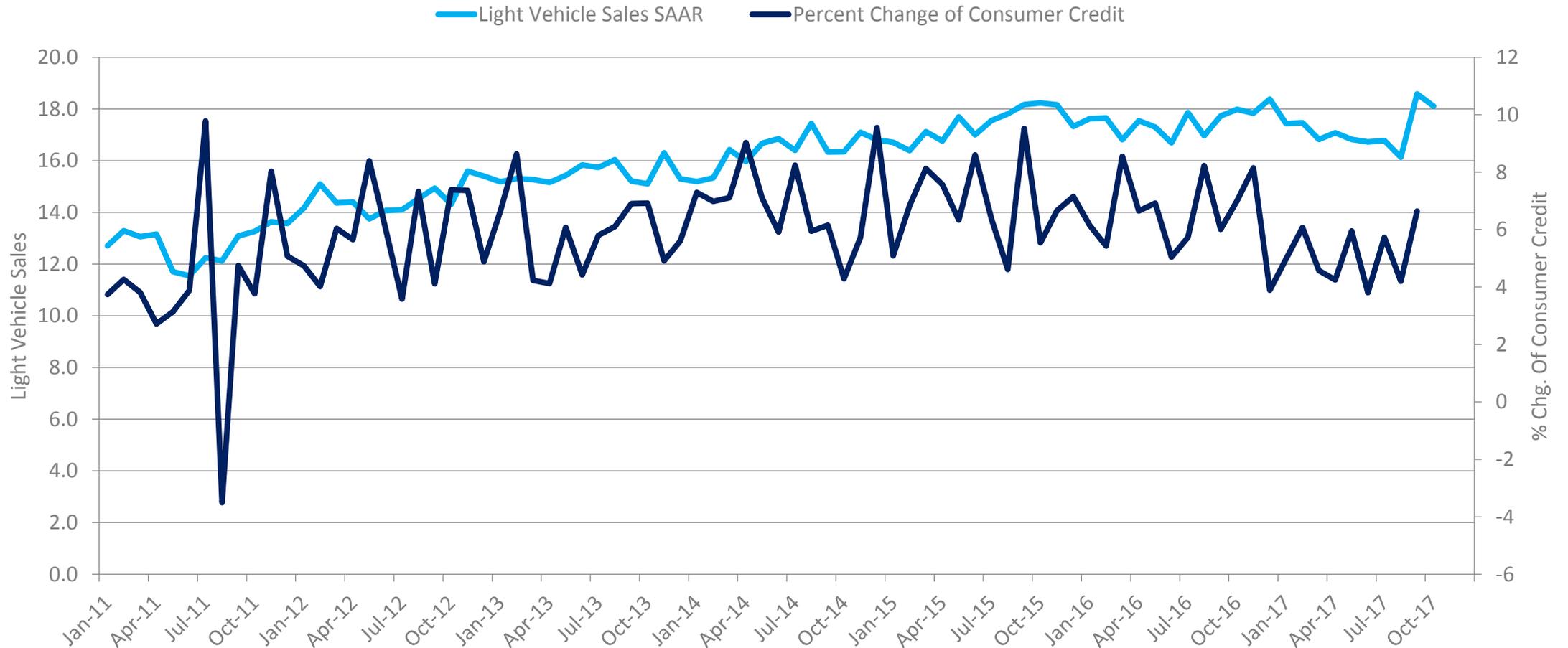
# Changes from Jan '07: CPI – New Vehicle and CPI-Used Vehicle

January 2007 – September 2017



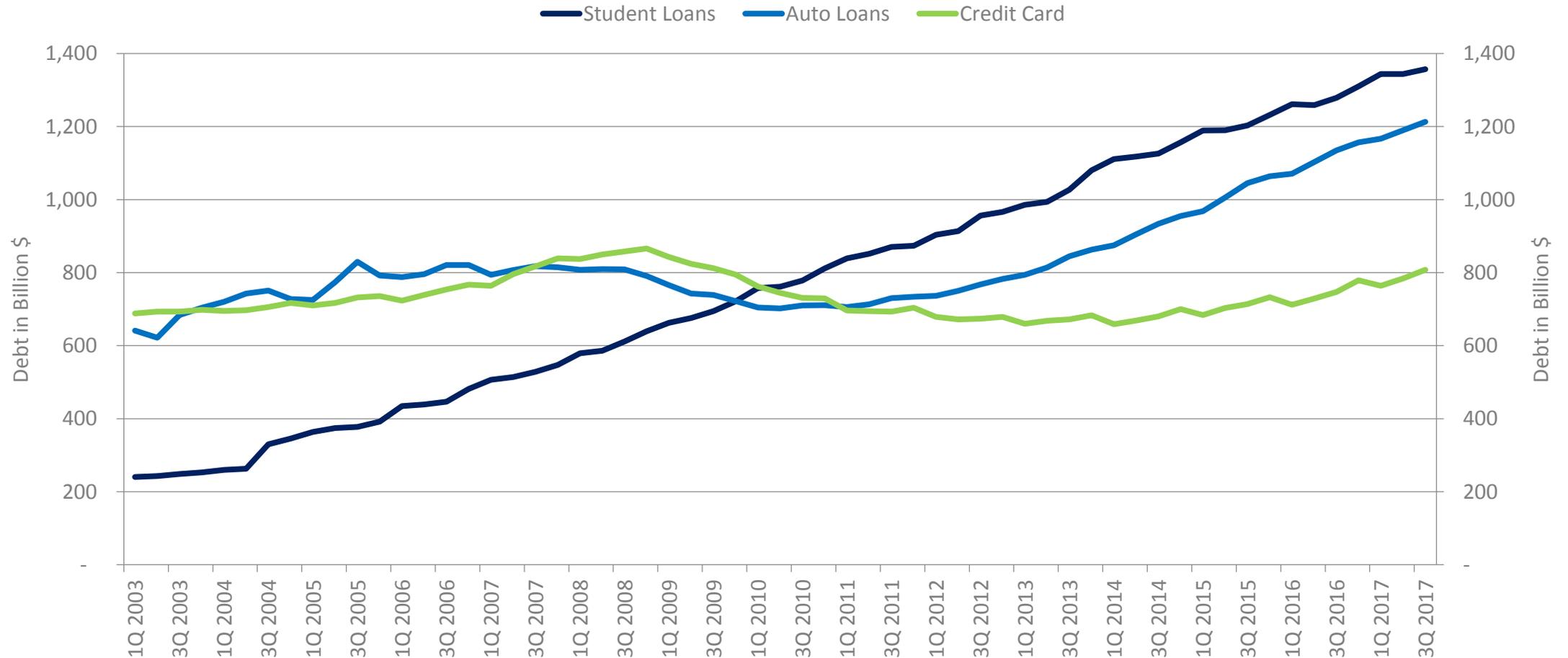
# Consumer Credit and Light Vehicle SAAR

## January 2011 – October 2017



# Households are Carrying More Debt

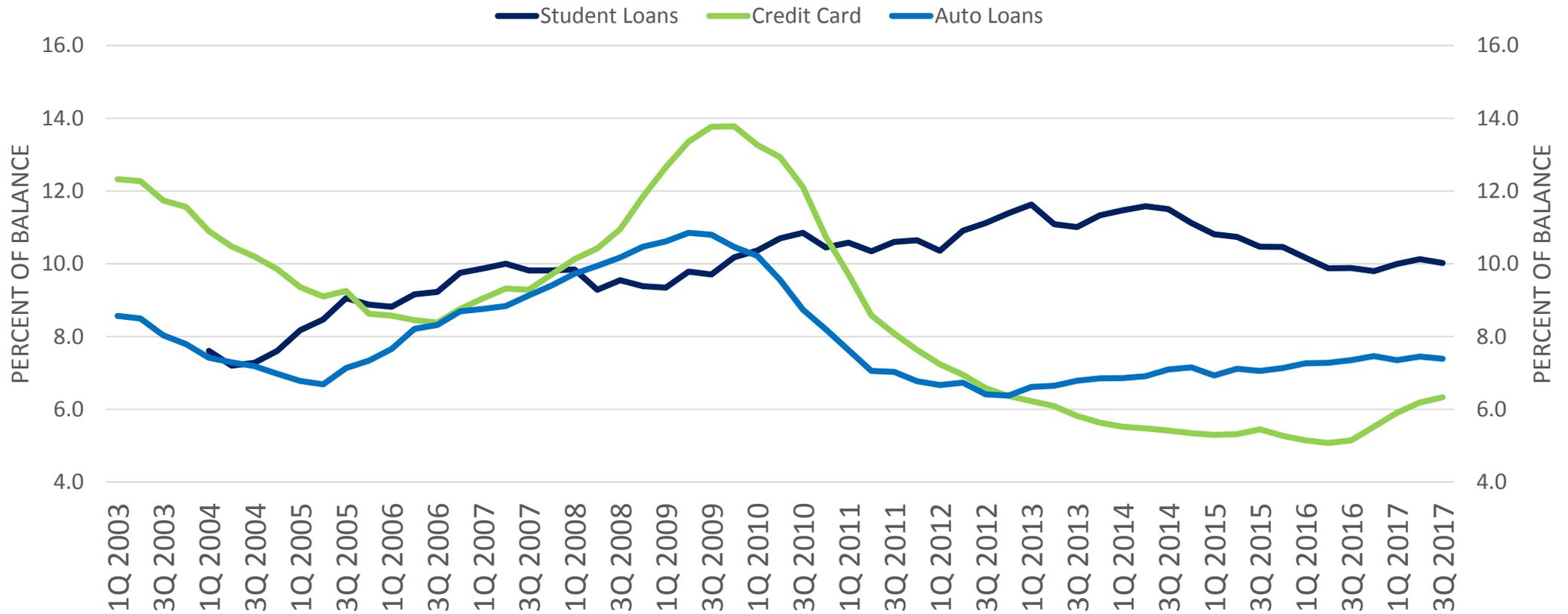
## Household Non-Housing Debt\* 1Q 2003 – 3Q 2017



\*Excludes mortgage and home equity line of credit

# Auto Loan Delinquent Rate Is Rising

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

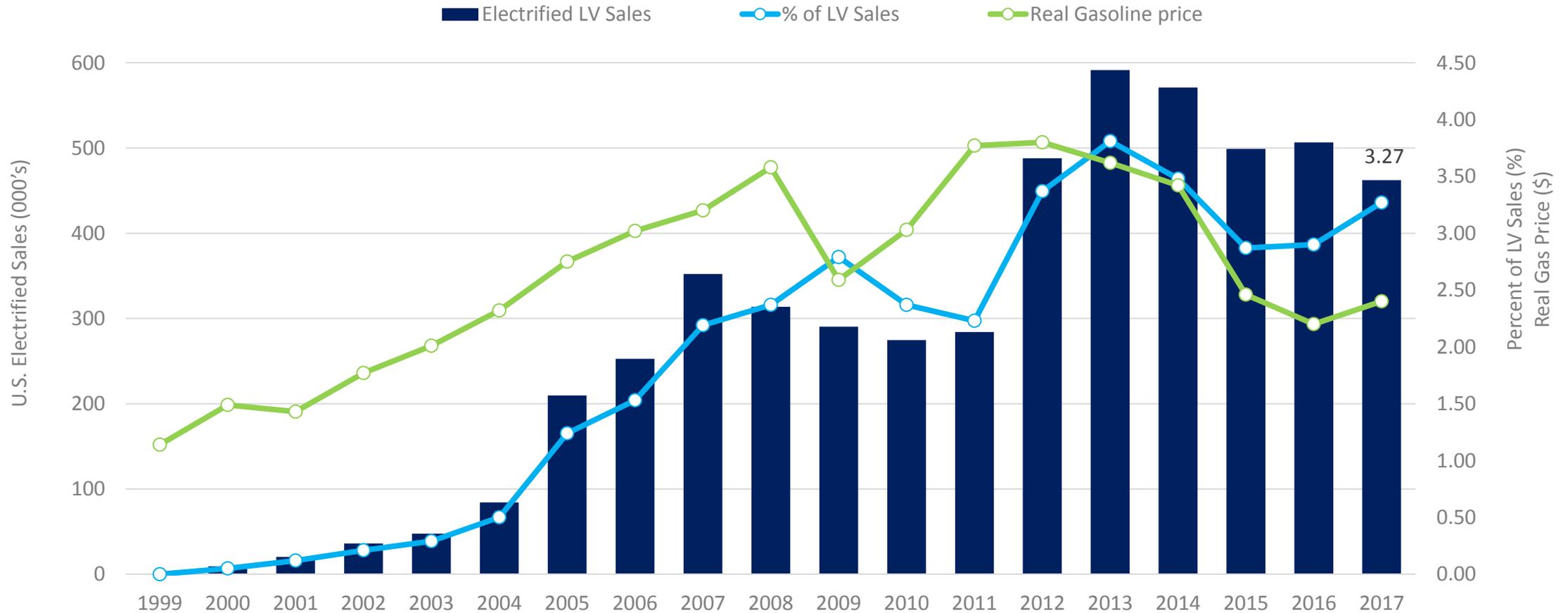


# Gasoline Prices (Real)

Jun. '03 – Oct. '17



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

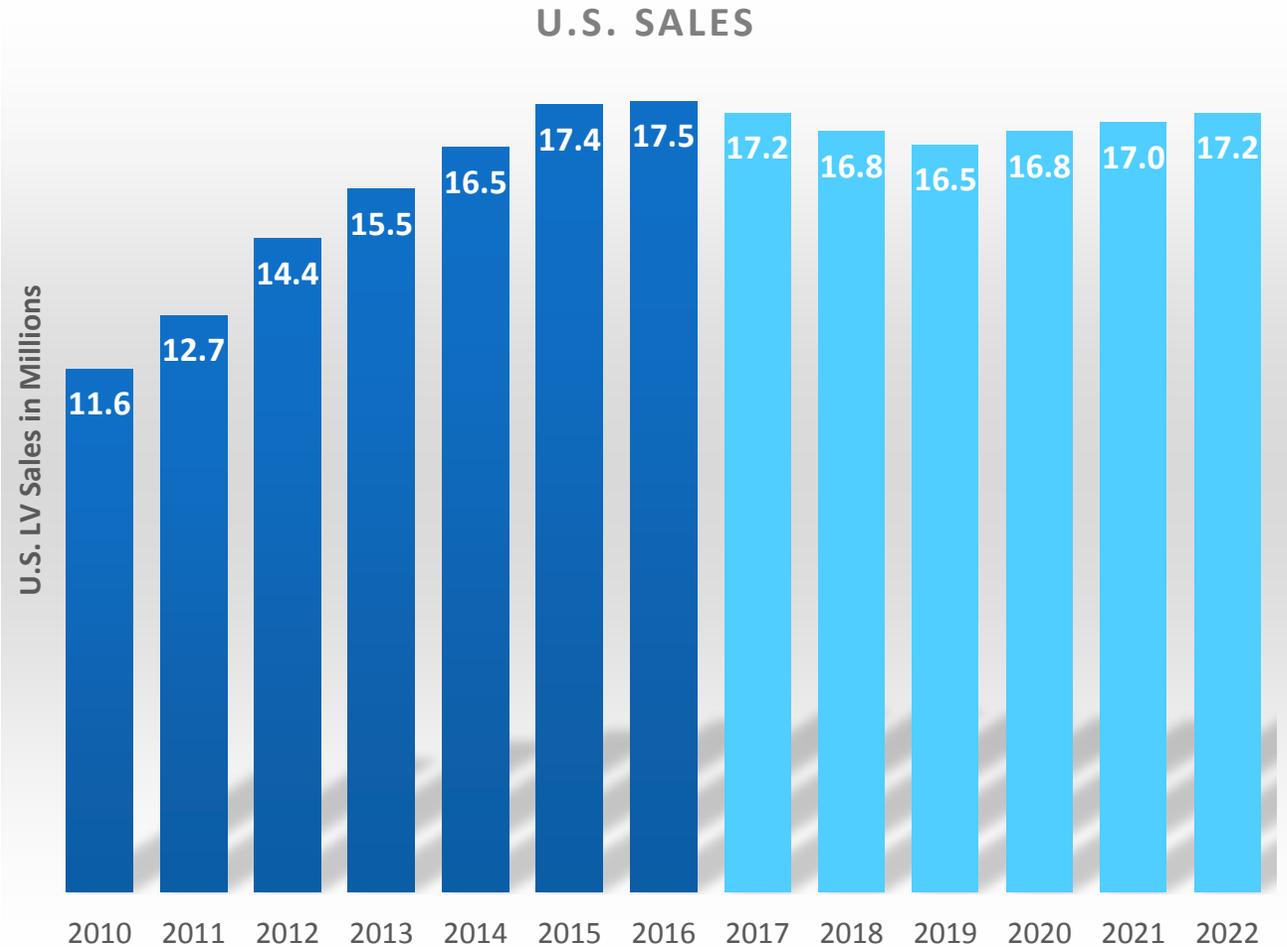


Note: Electrified vehicles consist of BEV, HEV and PHEV

# 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



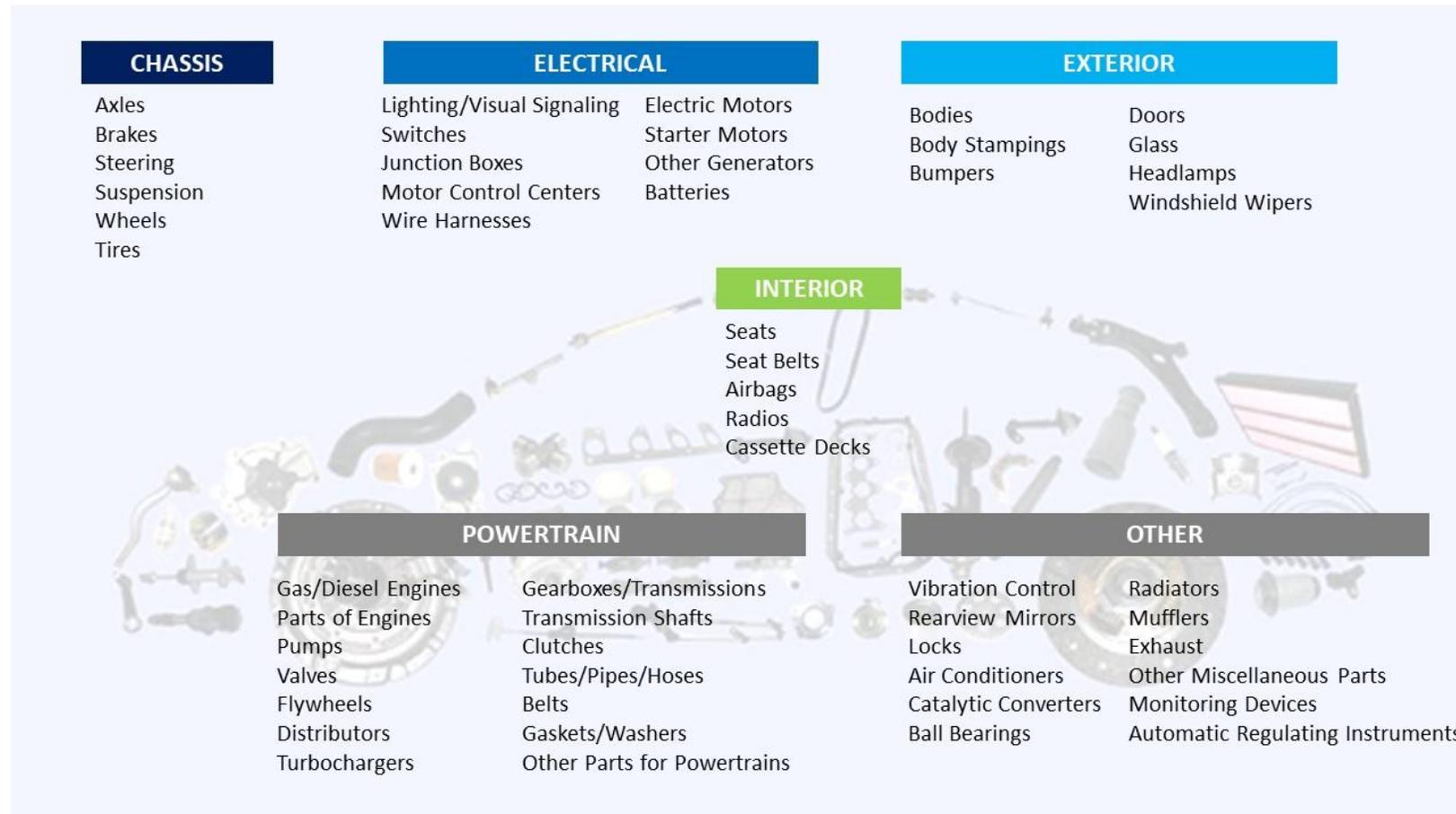
# NAFTA Update

## 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

- 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)

Most  
Likely

# 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**



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# Thank you

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