



Curves On The Road Ahead

Light Vehicle Market Outlook
November 2018

Charles Chesbrough
Senior Economist

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Agenda

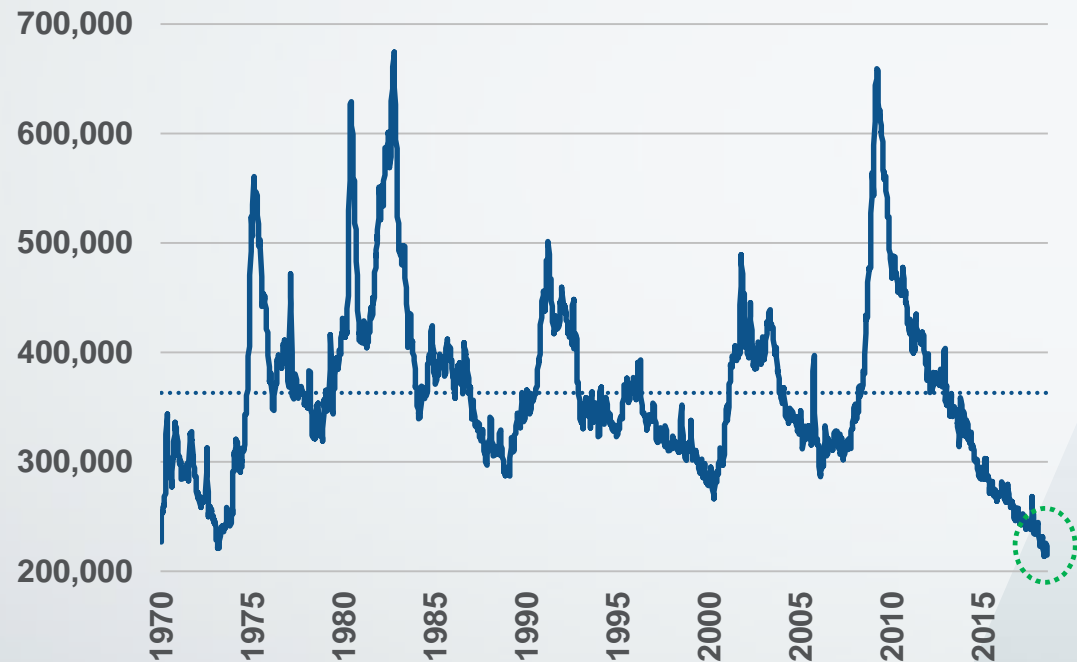
- **Economic Outlook and New Vehicle Sales**
- Affordability Threat and the Used Vehicle Market
- Dealers' Perspective and Tariff Concerns

Economy Strong But Threats Rising

- Economy is strong and so is vehicle demand:
 - High confidence + low unemployment + credit availability = the perfect storm for robust auto sales.
- Vehicle affordability a growing concern:
 - Rising interest rates, gas prices, vehicle prices coupled with low wage growth, inflation = strong headwind.
- Trump Tariffs are major threat to vehicle sales:
 - Prices will rise for new and used products, and parts. Weaker economy will lower demand further.
- Vehicle demand to shift toward used as off-lease vehicles flood the market:
 - Affordability and product mix will capture new buyers. New car/entry segments under greatest threat.

Labor Markets Are Historically Strong

Initial Unemployment Claims



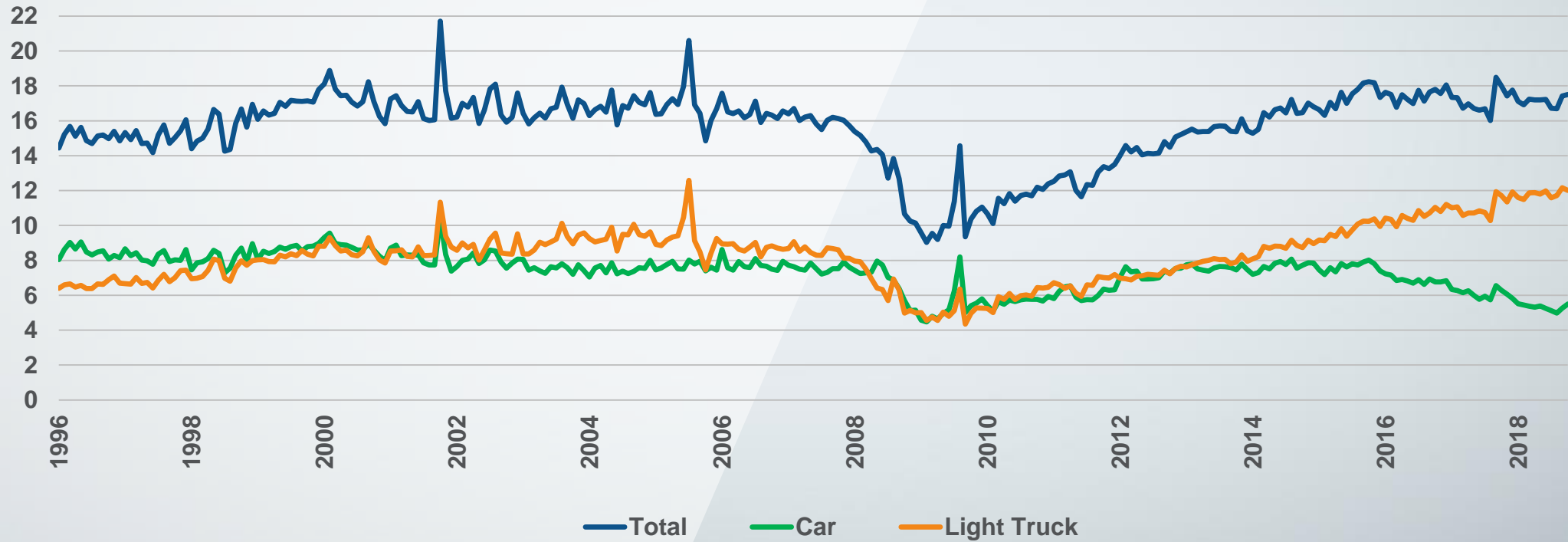
Unemployment Rate



Source: Department of Labor

Sales Pace Strong But Dichotomy Increasing

Monthly Sales SAAR (millions)

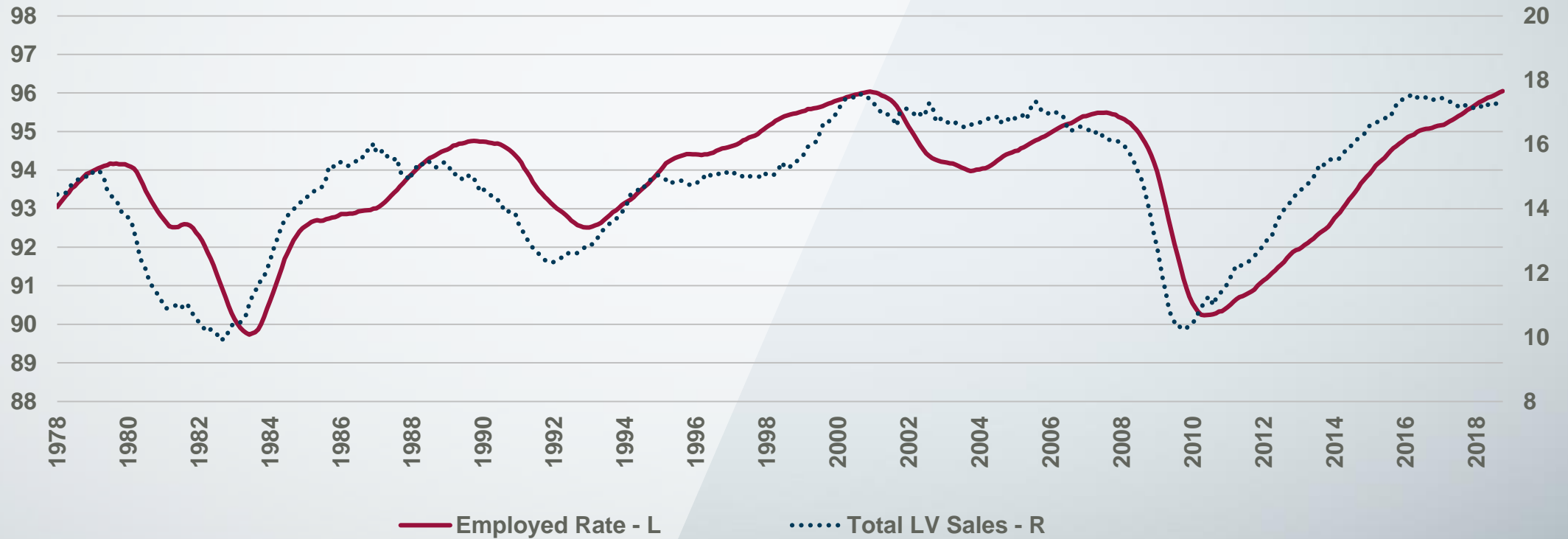


Source: US Bureau of Economic Analysis

Employment and Vehicle Sales Closely Linked

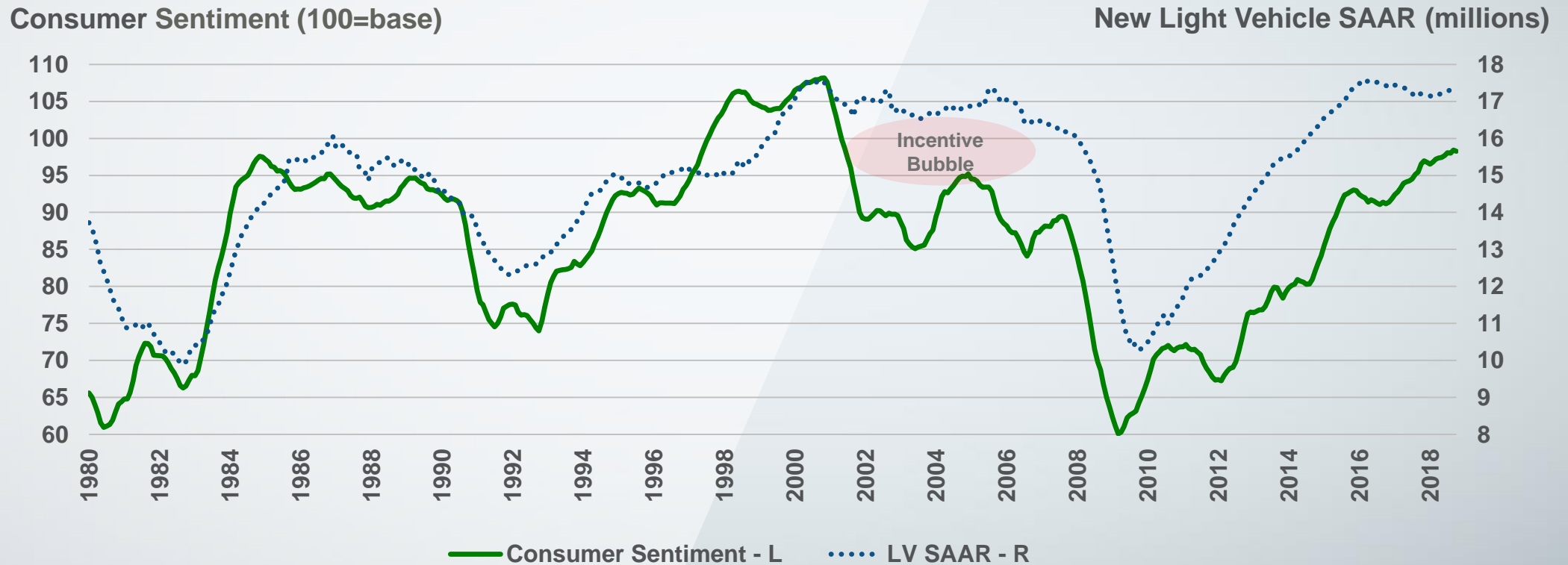
Employed Rate (100-U3)

New Light Vehicle Sales (millions)



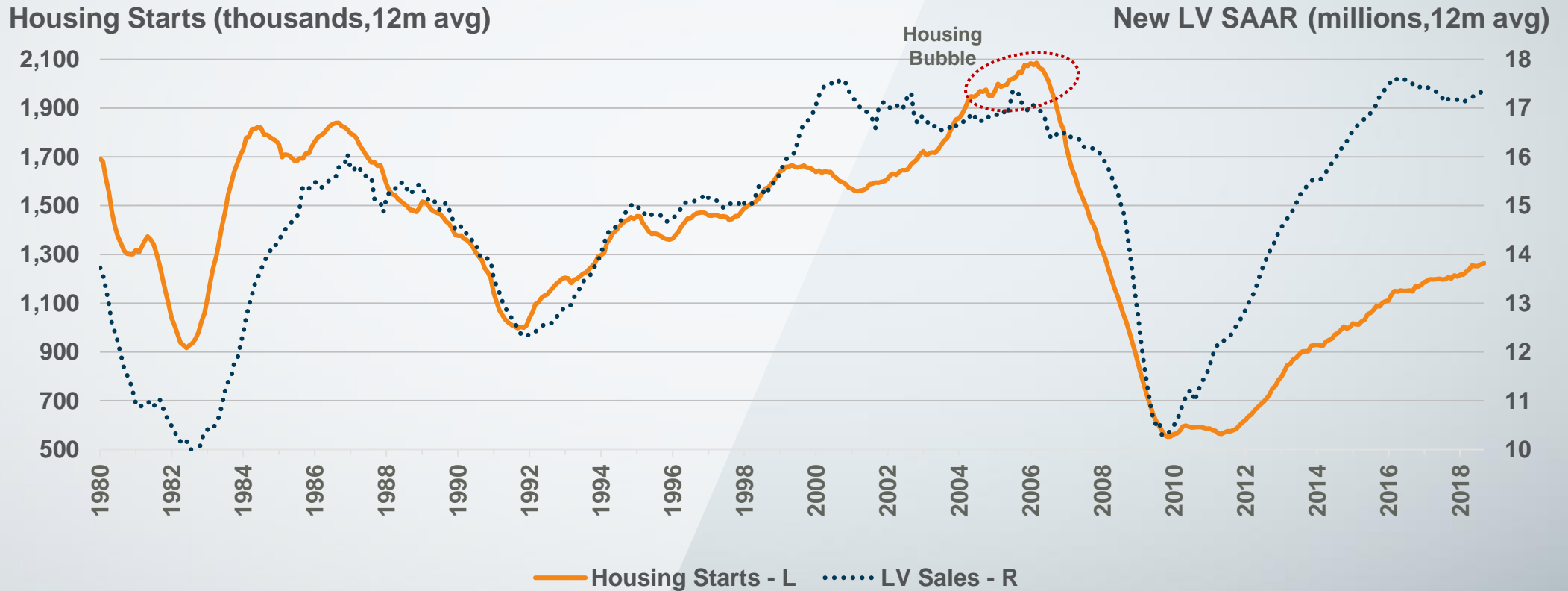
Sources: US Bureau of Economic Analysis, Dept of Labor, 12 month moving average

Optimism Critical To Vehicle Sales



Sources: University of Michigan Survey, US Bureau of Economic Analysis, 12 month moving average

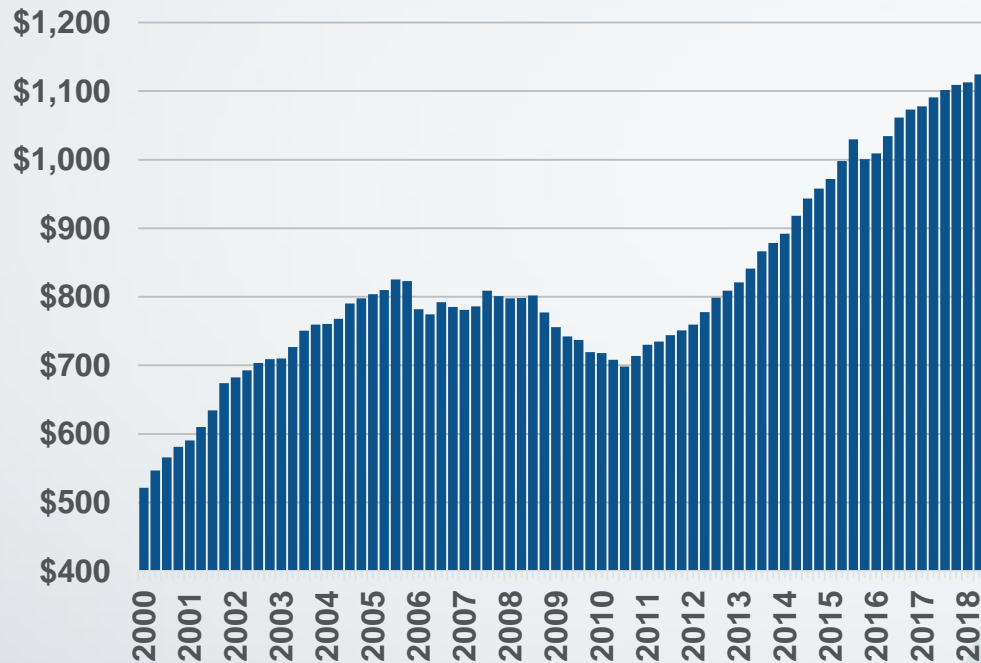
Key Durables Recovering At Different Speeds



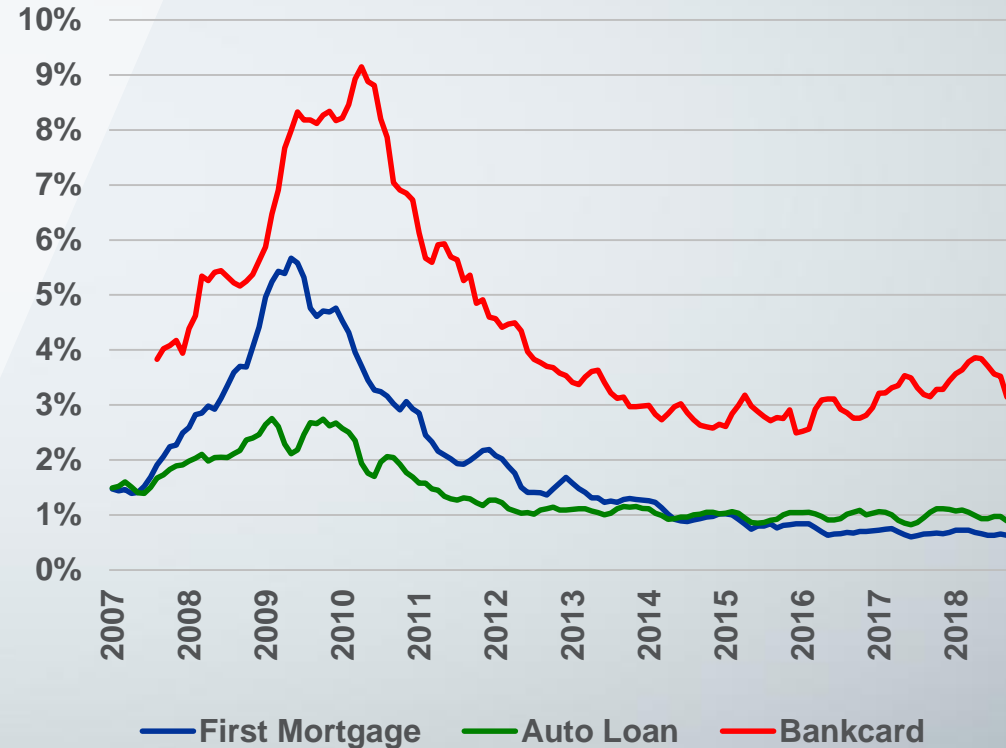
Sources: US Bureau of Economic Analysis, US Census Bureau, 12 month moving average

Wall Street Funded Vehicle Market Recovery

Motor Vehicle Loans Outstanding (billion \$)



S&P/Experian Default Indices



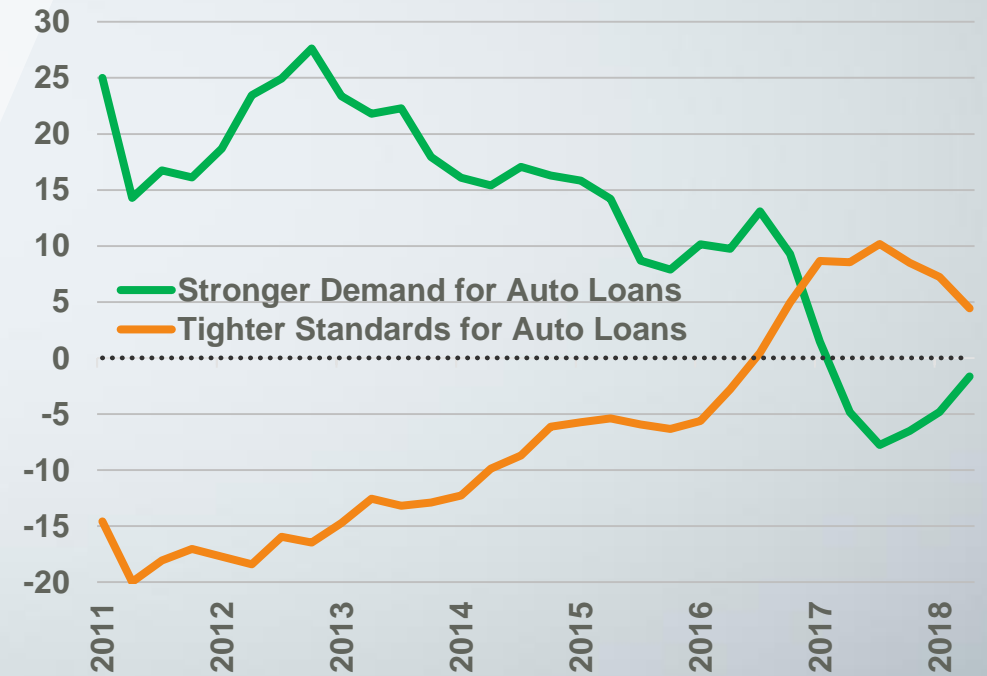
Source: Federal Reserve; Experian

Borrowing Conditions Vulnerable

US Average Amount Financed (new vehicle)



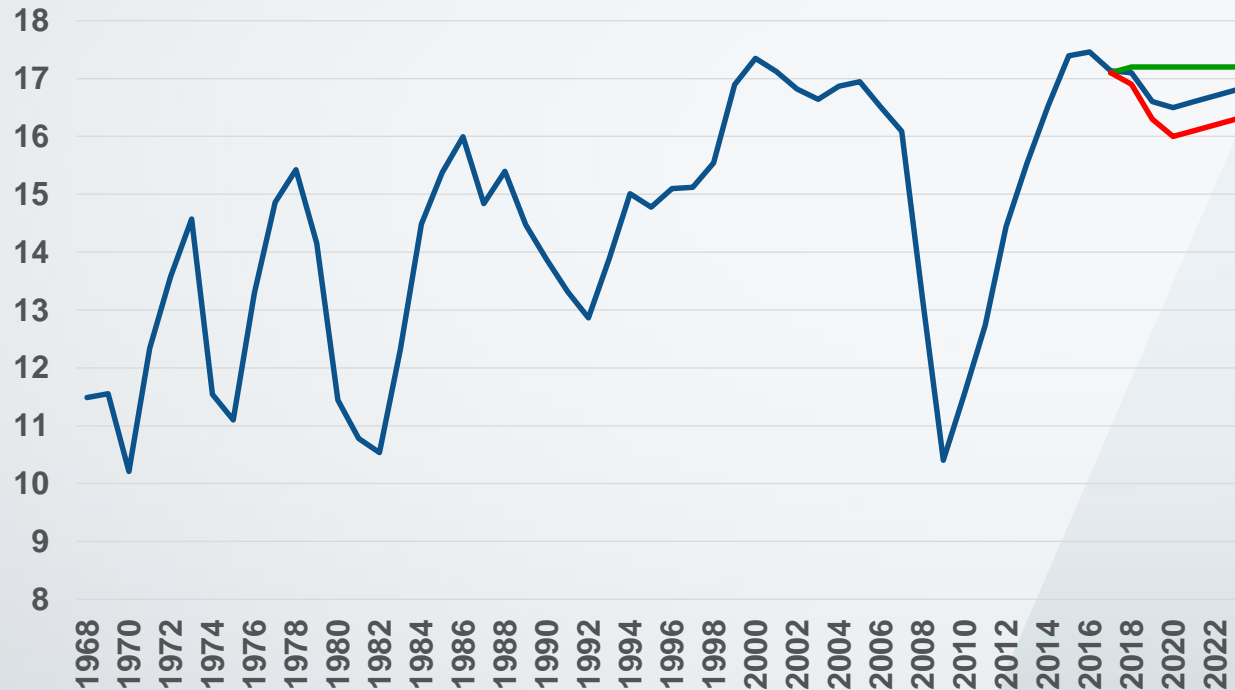
Auto Loan Availability (net percentage YES)



Source: Federal Reserve, Loan Officer Survey 4q avg

Rising Headwinds To Slow New Market

New Light Vehicle Sales Scenarios (millions)



- **Base View** – Mild economy-wide decline in 2019, but no trade war, coupled with higher interest rates (75bps), cause 4% sales decline from 2018’s likely 17.1m finish. Sales fall to 16.6m in 2019 and 16.5m in 2020 before starting gradual recovery.
- **Optimistic** – Little economic inflation from modest wage growth slows FRB rate increases, tariff changes remain modest, recession avoided, higher vehicle prices and market satiation keep sales “post peak” as sales level at 17.2m.
- **Pessimistic** – Inflation rate increases causing more aggressive FRB policy, trade war intensifies, credit availability deteriorates, consumer spending contracts and resulting recession leads to market bottom of 16.0m in 2020 before recovering.

Source: Cox Automotive Forecast, November 2018

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- **Affordability Threat and the Used Vehicle Market**
- Dealers' Perspective and Tariff Concerns

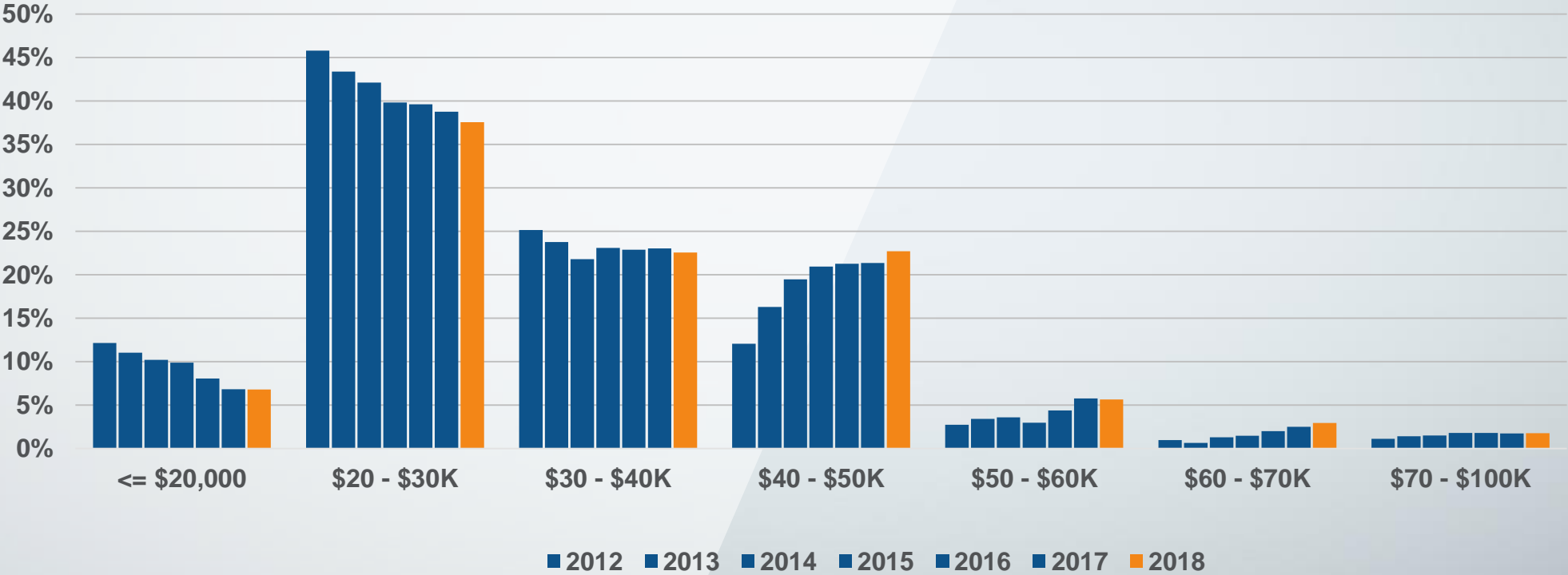
Buying Conditions Changing Since Record Year

	<u>2016</u>	<u>2018</u>	<u>Change</u>
New Vehicle Sales	17.5m	17.1m	-400K
Avg Transaction Price	\$34,353	\$35,762	\$1,409
Avg 5 year Loan Rate%	4.1	4.9	0.8
Federal Funds Rate%	0.4	1.7	1.3
Income Growth	1.7%	2.8%	1.1%
Inflation	1.3%	2.5%	1.2%
Gasoline Price	\$2.15	\$2.76	\$0.61

Source: Cox Automotive

Share Of Market Less Than \$30,000 Declining

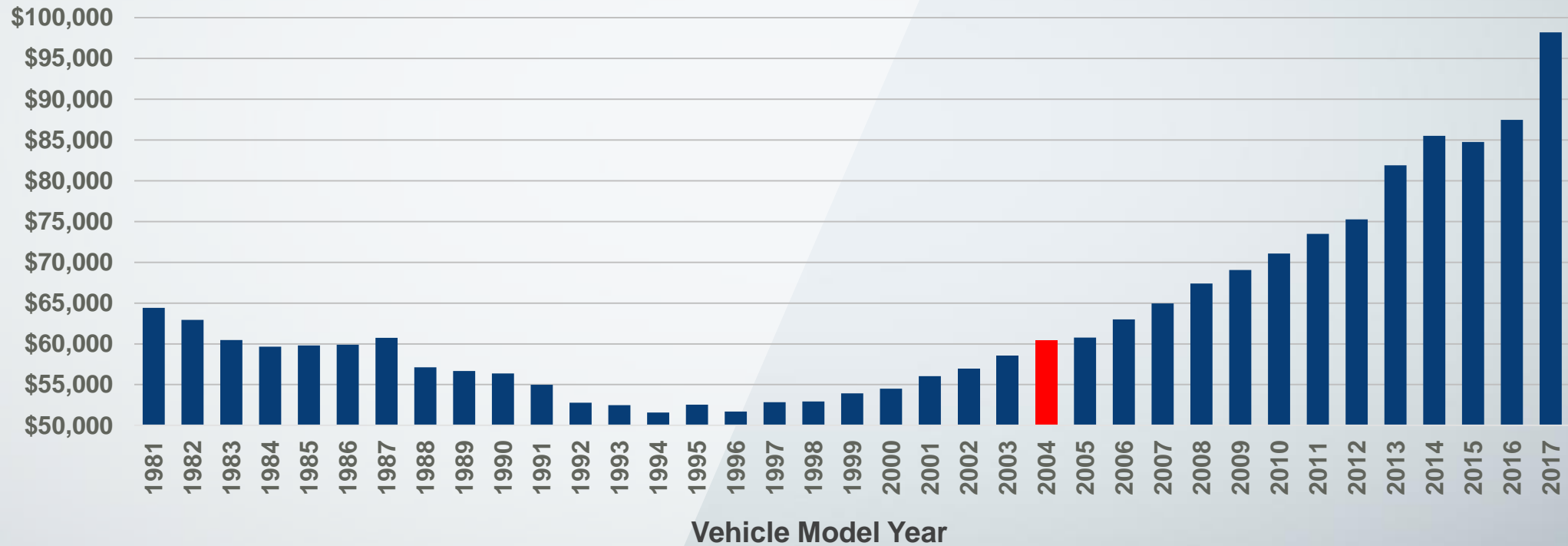
New Vehicles - Transaction Price Market Share (2012-2018)



Source: Cox Automotive/KBB

Affordability Critical To Buyers Decision

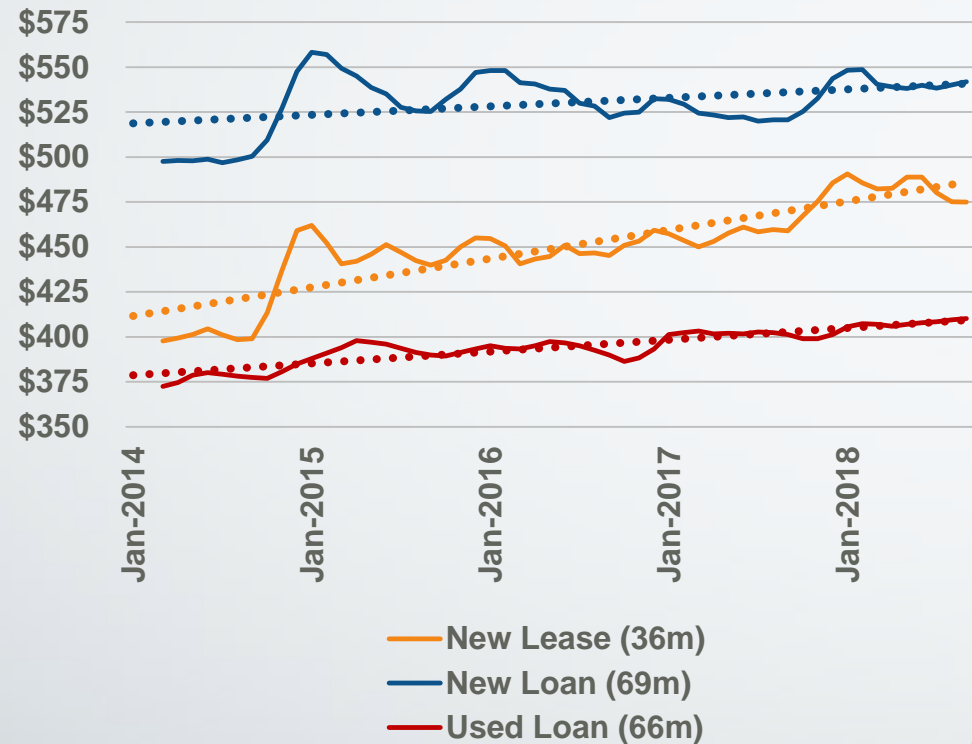
Used Vehicle Buyer Average Household Income



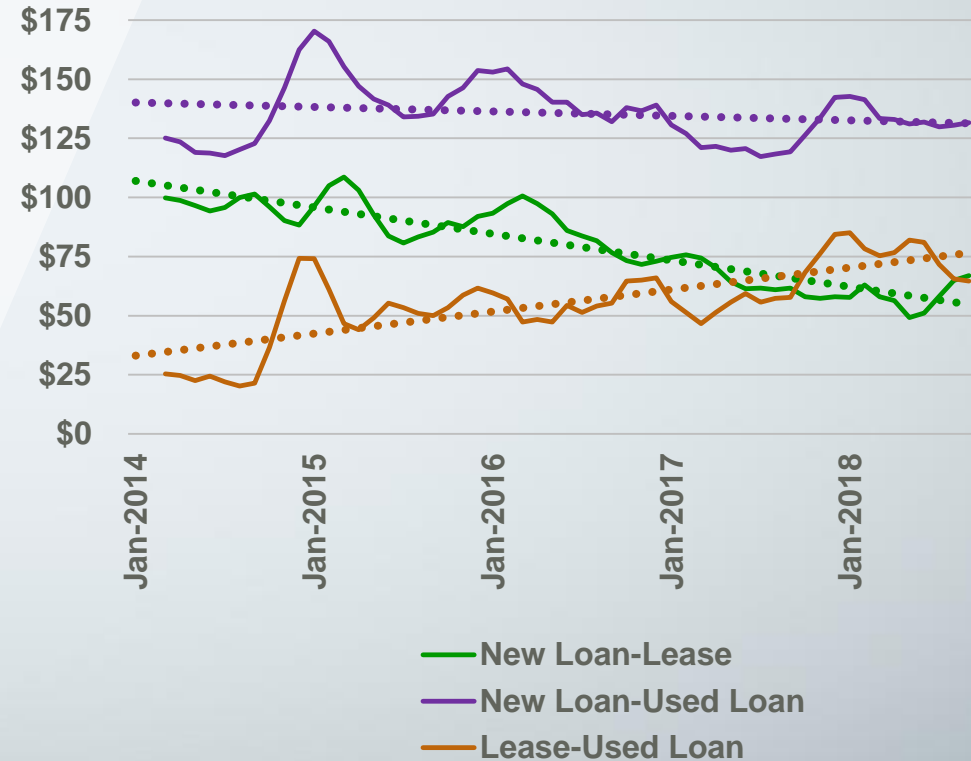
Source: Cox Automotive Estimates, IHS registrations

Rising Lease Payments Impacting Choices

Monthly Payment (3m avg and Trend)



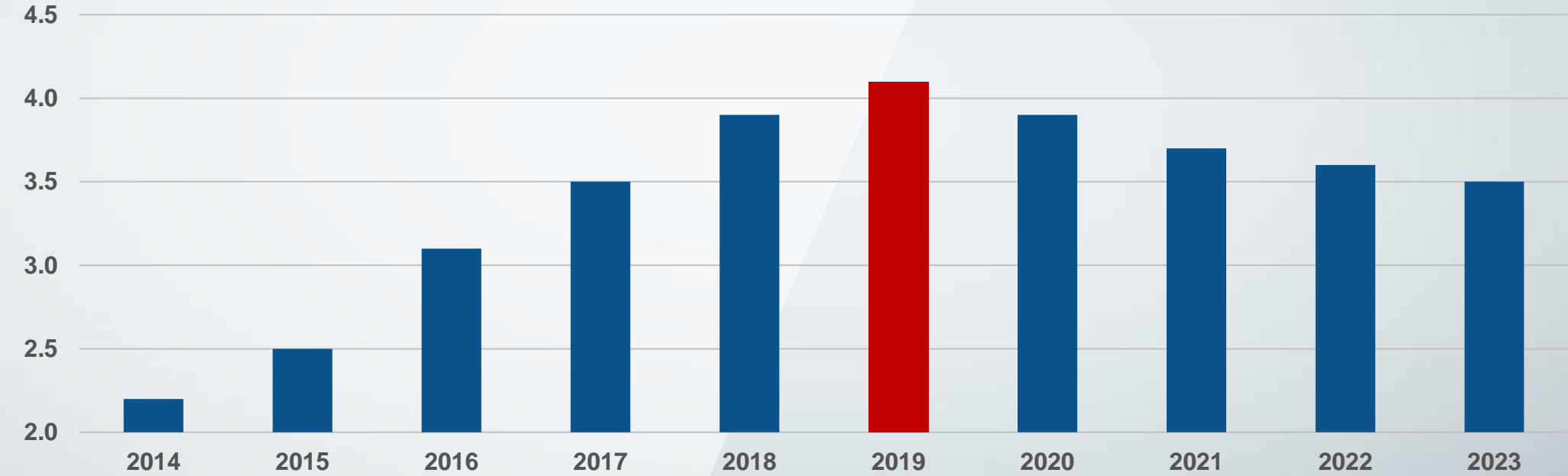
Payment Differences (3m avg and Trend)



Source: Cox Automotive Estimates

Previous Leasing Creating Major Headwind

Off-Lease Maturities (annual volume, millions)



Source: Cox Automotive Estimates

Manheim Used Vehicle Value Index Is Strong

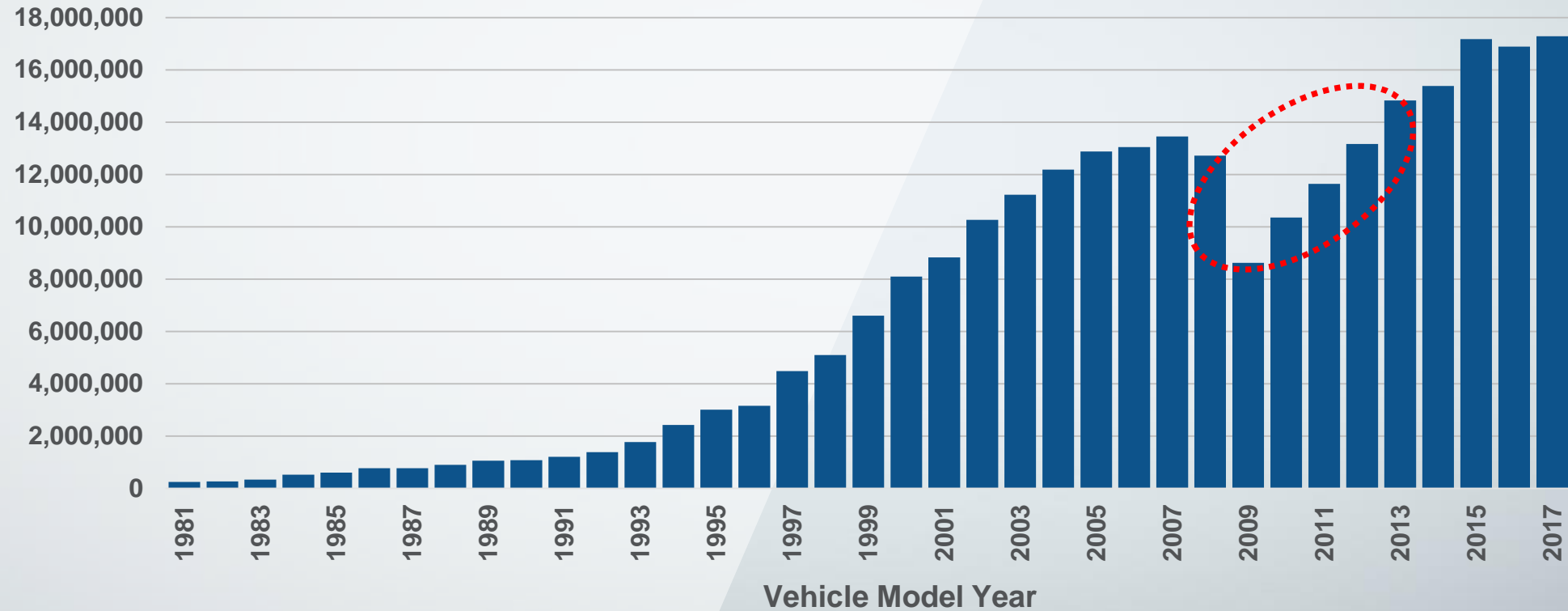
Manheim Index (1995=100)



Source: Cox Automotive

Recession Impacting Used Vehicle Supply

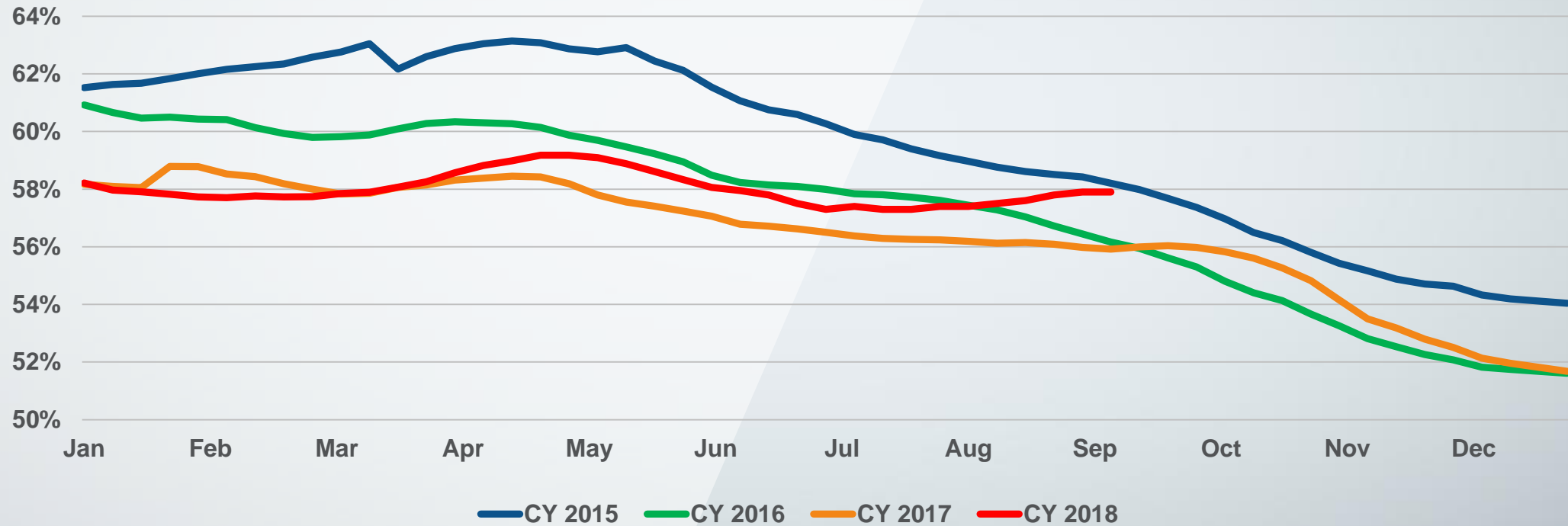
Total US Registrations (270 million)



Source: Cox Automotive/IHS Registrations

Retention Values Stabilizing In 2018

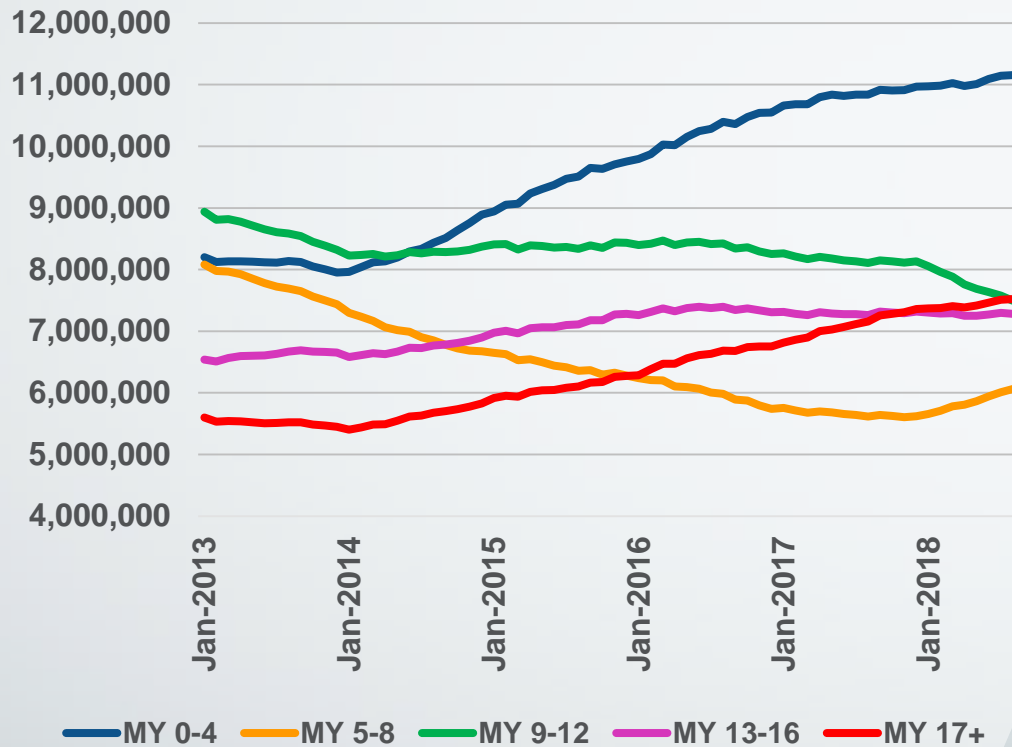
Retention Values as % of MSRP



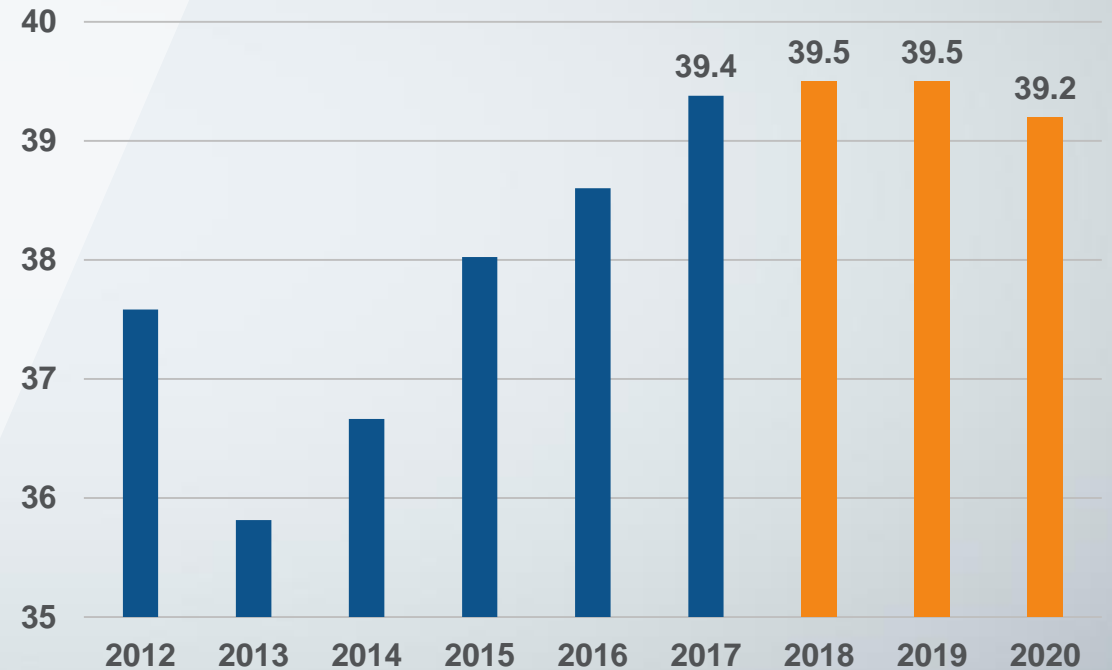
Source: Kelley Blue Book Auction Values as a % of MSRP, 1-3 year old group, and New Vehicle Sales Weighted

Used Market To Rise While New Declines

Total Registrations By Model Year (12m average)



Used Sales (annual, millions)



Source: Cox Automotive analysis of IHS Registrations

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What are the Factors Holding Back Your Business?

OVERALL RANK

		Q3 '18	Q2 '18	Q3 '17
1	Limited Inventory	38%	36%	34%
2	Market Conditions	37% ↓	43%	43%
3	Credit Availability for Consumers	35%	36%	34%
3	Competition	35% ↑	28%	34%
5	Expenses	29% ↑	25%	30%
6	Interest Rates	17%	16%	7%
7	Consumer Confidence	16%	15%	18%
8	Consumer Transparency in Pricing	15%	14%	11%
9	Staff Turnover	12%	11%	11%
10	Credit Availability for Business	9%	9%	11%
11	Regulations	7% ↓	12%	11%
11	Dealership Systems/Tools	7%	7%	6%
13	Too Much Retail Inventory	5% ↓	7%	9%
13	OEM Mandates/Restrictions	5%	6%	5%

↓ Significant decrease vs previous quarter

↑ Significant increase vs previous quarter

Import Tariff Impact (Full Breakout)

OVERALL	Q3 2018
Positive Impact	11%
No Impact	51%
Negative Impact	38%

FRANCHISE	
Positive Impact	9%
No Impact	35%
Negative Impact	56% B

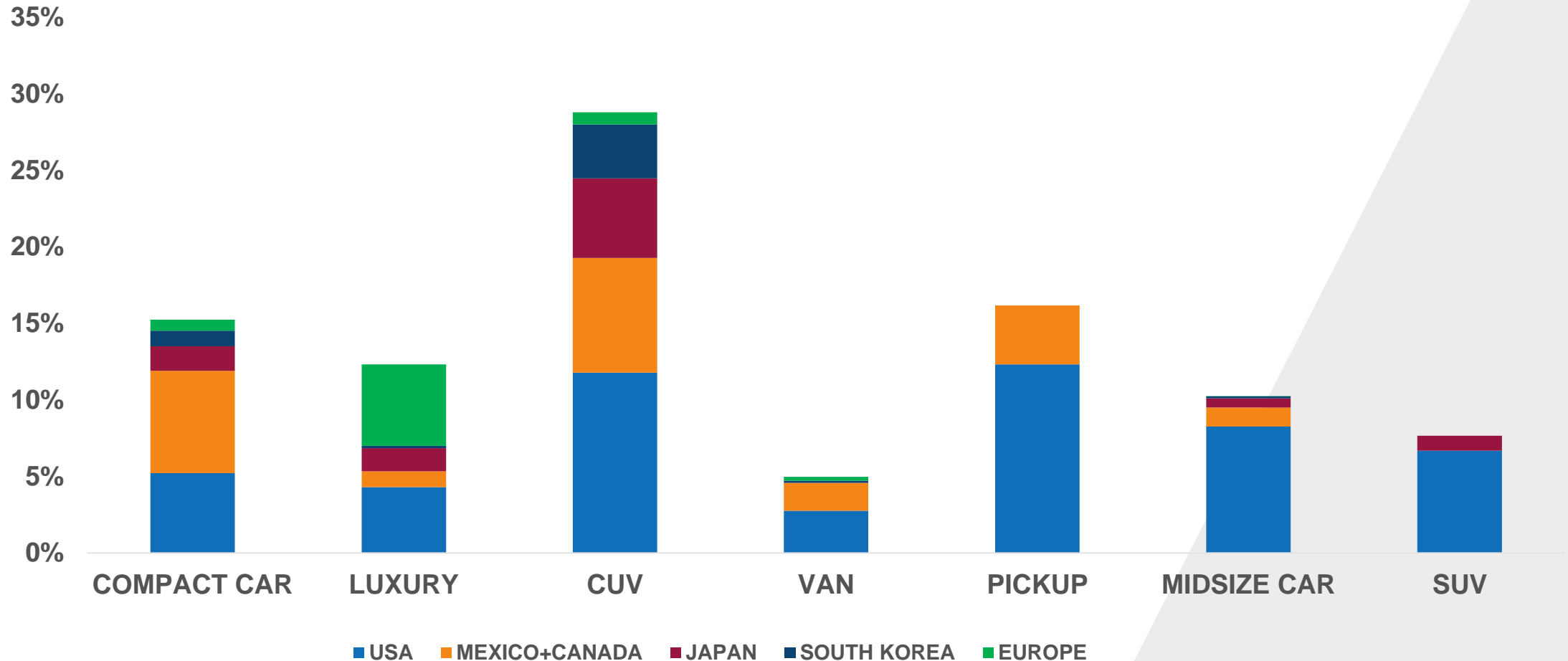
INDEPENDENT	
Positive Impact	11%
No Impact	57% A
Negative Impact	32%

Q: Which of the following best describes the impact on your business' profitability next quarter if tariffs are imposed on imported vehicles and parts?

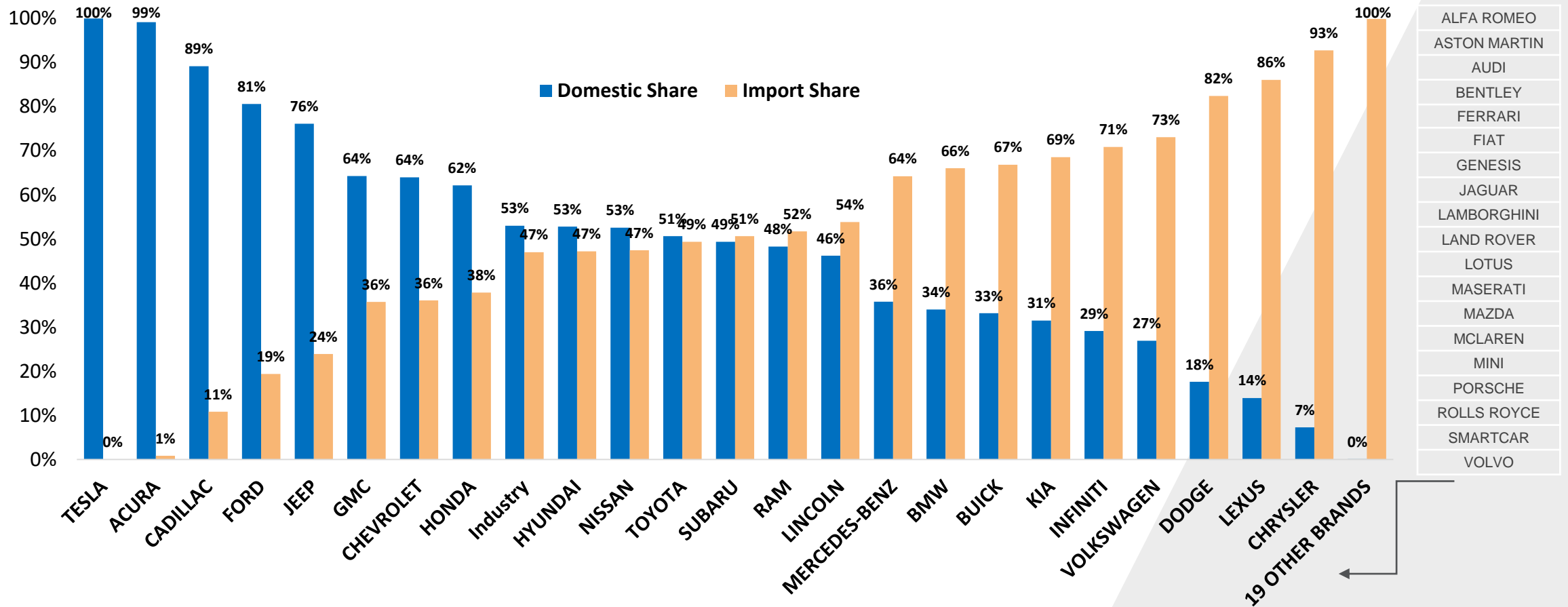
A/B Indicates significant difference between groups at the 95% confidence level.

The US Market Is Heavily Dependent on a Complex Global Supply Chain

Composition of New Vehicles Sold in the US by Major Segments and Major Regions of Origin



Each Brand's Exposure To Tariffs Differs Based On Non-USA Production



Tesla Has Finally Arrived

- Model 3 having huge initial success:
 - 72,000 sold since July
 - Biggest selling “luxury” car
 - 400,000 orders still to be filled
- MSRP: Model X \$104K, Model S \$100K, Model 3 \$62K (with features well above \$35K target).
- Trump tariffs could be a huge plus for Tesla – Made in USA
- Success may be short lived:
 - Selling to “fans” today – will broader market be so forgiving?
 - Direct to customer has many risks – repairs difficult
 - Lots of competition coming – many new OEMs will enter the space, many luxury electric nameplates from current brands.

Tesla Sales

