INDUSTRY UPDATE

MARCH 2017

ECONOMIC INDICATORS

- **The GDP growth forecast for Q1 2017 is 1.2%.** Wage gains aren't yet far enough ahead of inflation to substantially lift the growth rate closer to a more desirable ~3% (which is associated with improvement in living standards).
- Import tariffs/taxes and fuel economy standards remain hot topics under the Trump administration. In a visit to Detroit the week of March 12, Trump is expected to discuss how the **EPA and USDOT will review the greenhouse gas emission standards** that require automakers to produce car and truck fleets averaging more than 54.5 miles per gallon by 2025.
- As the market continues to transition from one of steady growth to a more slowly evolving plateau, industry health may be increasingly gauged by indicators such as plant closings/shift eliminations, dealer throughput/staffing levels, incentive levels /activity and transaction prices.

DEMAND

- **New Vehicle Retail Sales were up 0.6%** in February, but Fleet, Commercial, Rental and Government reported YOY declines of 2%, 9% and 12% respectively.
- Used car sales are off to a solid start this year with a 5.5% YTD increase in Franchise sales and 7% increase in Independent sales.
- Despite the YOY sales loss and an uptick in incentives, OEMs did not resort to pulling the rental fleet lever to move units, which is **an indicator of a healthy market.**
- In February, **GM and Nissan captured the most market share, and Ford and Toyota captured the least.** Chevy was the top brand, with record-setting Crossover deliveries. **Truck/SUV segments were top sellers,** although dealers should largely focus on make/model desirability in their local market to inform stocking decisions.

LIGHT VEHICLE SAAR

↑ **0.6%** New Retail

VS.

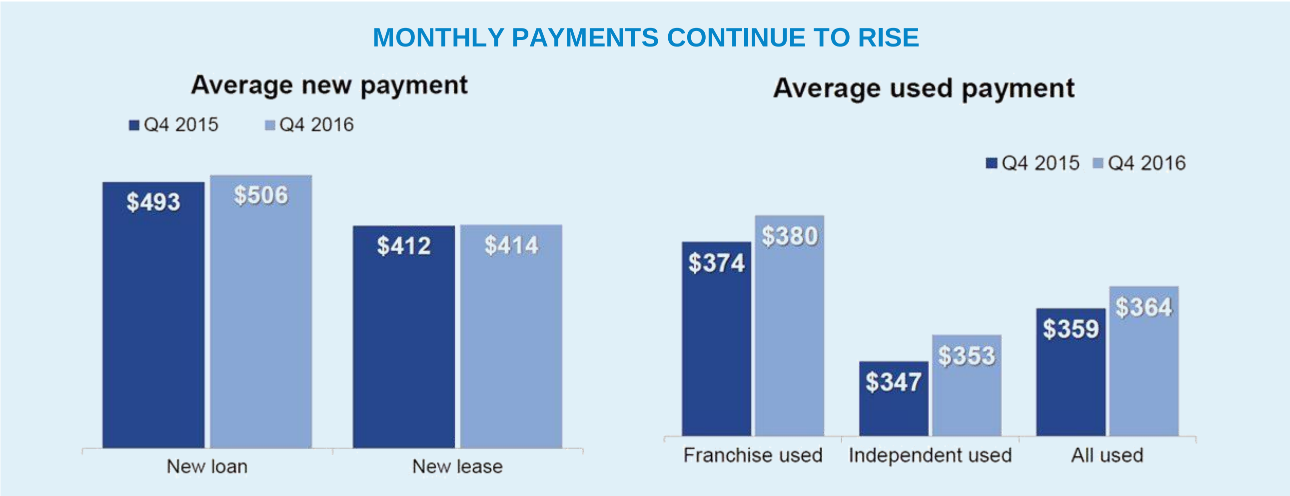
↓ **2%** Fleet

↓ **9%** Commercial

↓ **12%** Government

SUPPLY

- **OEM incentive spend continues to grow** along with rising new vehicle transaction prices. In 2016, the incentive/ATP ratio was the highest it's been in the last 15 years at 9.8% and, for the last four months of 2016, the average was 10.5%. In February 2017, incentives were up 18% YOY, reaching an industry average of $3594.
- A surge in off-lease vehicles entering the used vehicle market indicates that **dealers should focus on capturing share from those consumers coming off-lease** who are entering the market again.



Source: Experian Automotive

CREDIT

- In the coming weeks, interest rates will likely rise by a nominal estimated .25%, which may result in a **slight increase in monthly car payments.**
- Leasing continues to grow (now ~30%) as **monthly lease payment continue to be lower than monthly new car loan payments.**

↓ **4Q16 Avg. New Lease Payment : $414**

VS.

↑ **4Q16 Avg. New Loan Payment : $506**

Source: Cox Automotive Industry Update Report, March 14, 2017