

INDUSTRY UPDATE

September 2017



ECONOMIC INDICATORS

- **The economy will grow less in Q3 as a result of hurricanes Harvey and Irma.** Before the storms, the economy appeared to be growing at an annual rate of 3%, but estimates now range from 1.5 to 2.5%, which is still positive.
- Inflation in August was impacted by the hurricanes, as the Consumer Price Index increased 1.9%, driven primarily by rising gasoline prices. As a result, real hourly earnings growth fell to 0.6%, from 0.8% in July. **However, earnings are still growing faster than inflation, so buying power remains on the upswing.**
- The negative impacts of the hurricanes should be mostly limited to Q3. The net impact to the automotive market will be positive as we expect to see an increase in new and used vehicle sales in September as replacement demand drives growth. **Vehicle sales should be stronger than recent months through November.**

DEMAND

- **Total new vehicle sales were down 2% YOY in August.** Commercial fleet sales increased 13% while Rental and Government fleet sales fell 11% and 3% respectively.
- **Strong demand for off-lease vehicles continues to drive used car market growth.** Used pickups, vans, and SUVs continue to see price gains while used midsize cars saw YOY price declines in August. Wholesale used vehicle prices increased 0.75% month-over-month, bringing the Manheim Used Vehicle Value Index to a record high of 131.3. **As demand surges following hurricanes Harvey and Irma, the Manheim Index is likely to hit new records in September and October.**
- **The top OEM in August was GM** with deliveries up 8% YOY, boosted by Chevrolet which had its best August since 2004 thanks to strong crossover sales.

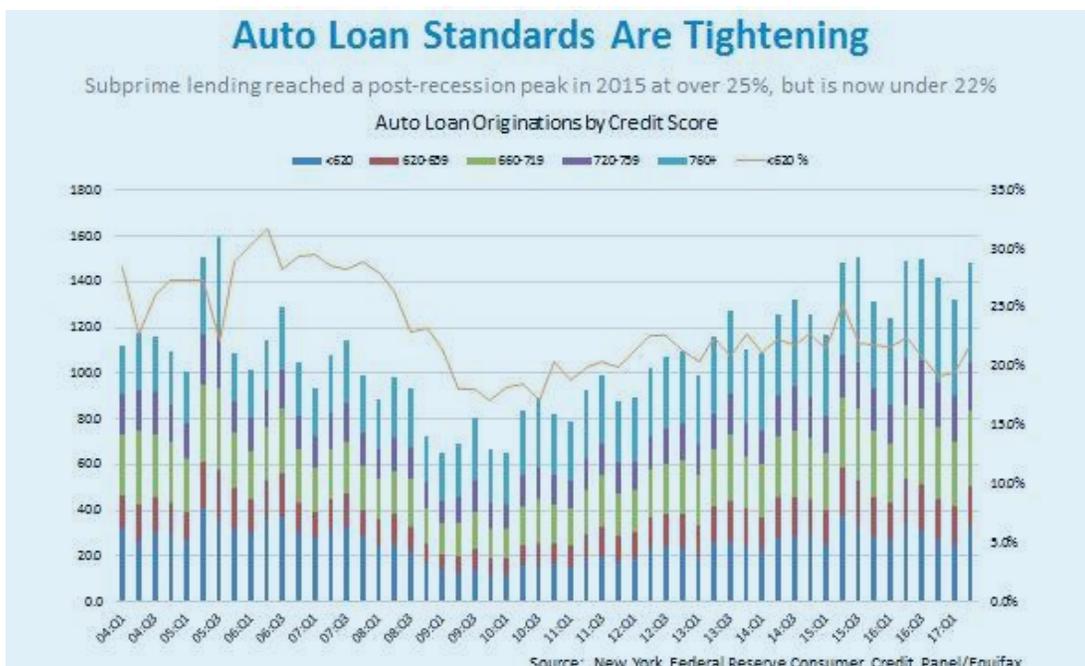


SUPPLY

- The days' supply for August was 69, up 8 days YOY and up 1 day from July. Inventories of new vehicles at dealer lots stayed below 4 million units and are at the lowest absolute level of the year.
- Average incentive spend came in at \$3,736 which is up 11% YOY and up 3% from July. **Incentive spend was not a record in August, but it was the highest monthly average for 2017.**

CREDIT

- Auto lending standards have tightened for 5 straight quarters as lenders require higher minimum credit scores and down payments, and are imposing tougher standards on riskier applicants. While this tightening was needed to keep credit healthy, it does limit total demand and shift demand into lower price points. **This is a key reason why the used car market is growing while new vehicle sales are declining.**



Source: Cox Automotive Industry Update Report, September 15, 2017