

INDUSTRY UPDATE

February 2018



ECONOMIC INDICATORS

→ The Dow Jones Industrial Average officially entered correction territory this week having fallen more than 10% from its recent peak on Friday, January 26. **However, the economy remains on solid footing.** Corporate earnings are good and on the upswing. Forecasts for first quarter GDP growth remain high. The odds of a recession remain low and have not increased as a result of the equity selloff.

→ New vehicle sales can be disrupted when a stock correction results in a corresponding decline in consumer confidence. However, consumers seemed to ignore the market selloff in August 2015 when the market declined by 11% in one week, and **any decline in confidence should be short-lived given that the economy is strong.** Luxury vehicle sales are more likely to be affected because Luxury buyers are more likely to have wealth in non-retirement stock assets, but **it remains possible that we'll see no impact to sales as was the case during the last stock market correction.**

DEMAND

→ **January New vehicle sales volume increased 1% YOY.** Commercial fleet sales increased 21%, Rental fleet decreased 11% and Government fleet decreased 5%.

→ **Cox Automotive estimates that Used car sales decreased by 2% YOY in January.** This modest decrease does not materially change the forecast for 39.5 million used sales for 2018. Now that Used vehicle pricing is back to pre-hurricane levels, Used sales should pick up momentum for a strong March and April.

→ **The top OEM in January was Toyota North America,** with sales up 17% and setting a January record bolstered by 4Runner, RAV4, Highlander and Camry sales.

LIGHT VEHICLE SALES

↑ **1% New Retail**

↓ **11% Rental**

↑ **21% Commercial**

↓ **5% Government**

SUPPLY

→ January average incentives came in at \$3,740, up 8% YOY but down 6% MOM. **The days' supply for January was 83, down 1 day YOY and up 23 days from December.** The January Manheim Used Vehicle Value Index was 131.0, a 4.9% increase YOY.

CREDIT

→ **Auto loan rates are the highest we've seen in 6 years,** influenced by long-term bonds like the 10-year U.S. Treasury rate reaching a 4-year high. A Fed rate increase in March is now a given, but **consumer plans to purchase a vehicle were at a healthy 13.4% in January, an increase of more than 7% YOY.**

