Transcript: APA Real-Time Auto Intelligence
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Erin Keating, Executive Analyst at Cox Automotive
Moderated by Jamie Butters, APA Vice President and Executive Editor, Automotive News

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00:00:06.740 --> 00:00:25.410
Jamie Butters: Hey? Hey? Hello, everybody! Welcome to this Apa real time. Auto intelligence update. I'm Jamie Butters, Vice president of the Automotive Press Association. I'm also executive editor of automotive news and host of the Daily Drive podcast this is our second or 3rd real-time update during the trump tariff times.

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00:00:25.410 --> 00:00:40.330
Jamie Butters: We're going to be looking at the impact of President Trump's tariffs and the outlook for the year. It's a very timely discussion. The President just dialed back the auto tariffs. GM. Set new guidance and April sales. Results are trickling in from those still brave enough to share them.

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00:00:40.440 --> 00:00:58.410
Jamie Butters: Before we get too far along. I want to make sure to thank our sponsors. We've got Ford, GM. Honda, Hyundai, Kia, lucid Nissan, subaru, stellantis, and Toyota. We really appreciate them. They keep the Apa in good fiscal health, so we can serve the working press, and through them serve the public and the industry.

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00:00:58.820 --> 00:01:23.819
Jamie Butters: We've got some great events coming up on May 16.th We're having a panel discussion with Mema's Colin Shaw, Paul Mccarthy, and Mike Jackson, June 4, th John Murphy breaks down the car wars product pipeline report. But first, st we're really going to serve the news media with a happy hour on May 8th we'll be toasting the careers and celebrating the retirements of several recent Board members, Rod Maloney, Patrick Morrissey, Bob Gritzinger, Sean Morgan.

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00:01:23.820 --> 00:01:35.400
Jamie Butters: and Ben Clayman. If you want to go and you aren't an Apa member check out this next slide. You can send an email or call Kevin. You can text him anytime. Trust me, I do it day and night.

6

00:01:35.490 --> 00:01:40.750
Jamie Butters: I would also point you toward our website. automotivepressassociation.net

7
00:01:41.260 --> 00:02:01.360
Jamie Butters: and one last little bit of housekeeping. Don't forget to give credit to the Apa. Good journalists always give credit, and we ask that you include the context in which it is given, namely, that you heard it on a webinar or live stream, hosted or conducted by the Apa, by the Automotive Press Association. Spell it all out, if you would please. I trust you to word it your own way, though.

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00:02:01.470 --> 00:02:25.940
Jamie Butters: All right. Now that everyone is logged in. Let's get to the good stuff. I'm glad to bring you our special guest for today. Jonathan Smoke, chief economist for Cox automotive and Aaron Keating executive Analyst at Cox. Automotive Cox. Automotive, of course, is the umbrella group of auto-related companies under Cox enterprises. It includes brands such as Kelley Blue Book auto trader and Mannheim, the auto auction giant.

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00:02:26.450 --> 00:02:35.700
Jamie Butters: We welcome your questions, please put them in the chat. But first, st Jonathan, I believe you're going to start us off with just a small number of slides to set the stage.

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00:02:35.880 --> 00:02:41.510
Jonathan Smoke: Well, actually, I'm gonna give that courtesy to our chief tariff impact officer.

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00:02:42.260 --> 00:02:43.010
Erin Keating: Heating.

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00:02:43.170 --> 00:02:47.180
Jonathan Smoke: That's that's what we're all here for, and that's what we're going to lead off with.

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00:02:47.180 --> 00:02:47.969
Jamie Butters: Right on.

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00:02:47.970 --> 00:02:50.270
Erin Keating: Absolutely next slide.

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00:02:52.260 --> 00:03:21.349
Erin Keating: Hi, everybody good to see you all. So we all know that April 29th came, and May 3rd is yet to be here, and we still don't know if there's anything additional coming out between now and Saturday. But our presumption is that there isn't that this might be the last we hear before May 3rd tariffs come into play, but to talk about a little bit about what happened yesterday, and how the industry should be thinking about it. So what has changed to date? Mostly the stacking tariffs have been eliminated

16
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Erin Keating: is not completely that way, because there are still tariffs on Chinese goods that are coming over that will be stacked. So there's some complexity still to. It's a little bit of a flow chart you've got to follow to see, you know. Follow your path to find out what your tariff situation is going to be. But for the most part the steel and aluminum stocking is coming off, and then the Iepa

17
00:03:43.410 --> 00:04:11.150
Erin Keating: imposed tariffs will also come off. Now. Granted, those were already exempted, at least for Usmca. Compliant vehicles. Those were exempted so far. So that's not necessarily an additive effect, but it's now completely obliterated or taken off. For now, from the stacking effect, there was no mention of the 10% reciprocal, tariff stacking, baseline and country specific rates. So we'll assume that that is the same where the automotive tariffs do not stack on reciprocal

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00:04:11.150 --> 00:04:19.399
Erin Keating: tariffs. There is a new offset, and it's important just to understand the difference here. So the tariff is staying in place.

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00:04:19.459 --> 00:04:48.589
Erin Keating: Anyone who is importing the specific automotive parts that were identified in annex. One will still be held accountable to pay the 25% tariff on those goods when they cross into our borders. What has been allowed is a proclamation stating that all automakers who assemble their vehicles in the Us. May claim up to a 3.7 5% offset on the average aggregated Msrp. Of the vehicles that are assembled in the Us.

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00:04:48.760 --> 00:04:49.930
Erin Keating: So

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00:04:50.020 --> 00:05:16.380
Erin Keating: technically, when that has been delivered in the proclamation directly from the President, he means to say, Look, if you have produced a car that has 85% content on it from

the Us. As well as Usmca. Compliant parts. Then, essentially, we've given you a break there, and in the 1st year you aren't paying a tariff. It's not that you're not paying the tariff. You're paying it. You are coming up with the financing upfront to pay that tariff as the

22
00:05:16.380 --> 00:05:20.960
Erin Keating: goods across the border. You will just be allowed to apply for an offset.

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00:05:20.960 --> 00:05:44.270
Erin Keating: and that, offset theoretically, should wipe out. Quote, unquote your expense for the tariff. If you've got 85% content with us. And Usmca. Approved. It is not applying to suppliers directly there has been some mention about how automakers can apply this or transfer it or defer it to their suppliers. There's no real clarity on exactly how that would happen.

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00:05:44.310 --> 00:06:10.320
Erin Keating: and it does not excuse anyone else, nor offer an offset for anyone else who may be importing parts which significantly may and still impact repair maintenance and other types of importers of parts that are coming in. And so this still will impact everybody. There is just a specific offset for automakers, and again, potentially, some other suppliers to be determined at some time how that actually works out

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00:06:10.320 --> 00:06:21.250
Erin Keating: the implementation guidance is still unclear. The Federal Register, as we were just looking at before we hopped on. This call, has an unpublished version of the proclamation there.

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00:06:21.400 --> 00:06:46.300
Erin Keating: Strangely it is published. It is on the Federal Register. You can see it, but it is called the unpublished version. So feel free to peruse those 9 pages of dialogue there to see the order in which all of the different proclamations have been made. What has not changed again is that there is still a 25% tariff on any imported vehicles. And approximately 50% of the market, as we see it still has significant risk. We have heard lots of announcements of some

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00:06:46.300 --> 00:06:57.850
Erin Keating: coming back onto the Us. But there's been no concrete numbers on how that might offset. So are we up to 60%. You know, us made vehicles and 40% imported. We don't have details yet on that.

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00:06:58.264 --> 00:07:05.819

Erin Keating: Again, what? As I said earlier, it's unclear. If the May 3rd tariffs are going to well, it's not unclear whether they will.

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00:07:05.910 --> 00:07:30.770
Erin Keating: you know, impact, repair service, but it's unclear whether they will still go through. We anticipate that they are. We anticipate that this was the big move that was made ahead of the May 3rd deadline. But it's not necessarily clear on how that may change. In the next 48 h. Stay tuned. We might see you back here tomorrow, and then you know the other 2 points that we like to just continue to point out. Tariffs are inherently inflationary for the automotive market. Jonathan's going to go through some

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00:07:30.770 --> 00:07:55.250
Erin Keating: details here in the next few slides about how we're looking at that, and uncertainty persists. I think everyone's been checking into whatever quarterly calls have been made, and we continue to hear automakers and all other manufacturers that are working in the United States. Talk about how they're unclear and not able to provide full guidance for the rest of the year. So the uncertainty persists in this, of all things is what we're most concerned about. So with that, I'm going to

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00:07:55.250 --> 00:08:02.499
Erin Keating: turn this over to my esteemed boss, Jonathan Smoke to take you through our details of how things have unfolded so far.

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00:08:02.500 --> 00:08:19.580
Jonathan Smoke: Well, thank you, Erin and I totally agree that uncertainty persists, and and all all we can say really about this that's been touted as a reprieve is that it's just taking a bad situation and making it slightly less worse.

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00:08:19.800 --> 00:08:30.629
Jonathan Smoke: It's not good. It is more inflation to come that frankly, from my perspective, looks worse than the tariffs on imported vehicles for the broader economy.

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00:08:30.910 --> 00:08:44.980
Jonathan Smoke: But while the industry and consumers deal with these new details and the negative impacts. Let's take a look at what has happened in April as the 1st round of tariffs starting to impact the market, and the economy really started to bite.

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00:08:45.230 --> 00:09:13.810

Jonathan Smoke: So the soft data, like consumer sentiment data shown here indicate a very wary customer. Every measure of consumer sentiment has shown declines this year, and especially over the last 100 days. We prefer the daily measure from morning consult, because it's daily, and its base is much larger and much more likely to be accurately reflecting what's really happening. As you make comparisons over time.

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00:09:13.860 --> 00:09:36.589
Jonathan Smoke: we track it every day, because in normal times high and increasing sentiment is highly correlated with vehicle sales. So when the consumer is worried about the future, they are less likely to make major purchase decisions. And now we've seen consumers be more negative since the pandemic and the declines in 2021 and 2022

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00:09:36.610 --> 00:09:57.540
Jonathan Smoke: didn't really keep them from spending back then. But the declines then were more about covid and inflation, and the situation which I'll argue is very different today than then. We had lots of supportive spending. We had a strong labor market favorable to workers, record low interest rates and loose credit

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00:09:57.630 --> 00:10:06.549
Jonathan Smoke: consumers have none of those advantages today, and yet face higher prices, not just on vehicles, but on many goods in the economy.

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00:10:06.630 --> 00:10:25.200
Jonathan Smoke: So if you go to the next slide, we can see what the expectation of higher prices to come has led to, and it's led to a surge in sales as consumers rush to buy before vehicles are completely impacted by the tariffs that have already announced and gone into play.

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00:10:25.240 --> 00:10:39.579
Jonathan Smoke: So prior to the March 26th announcement on tariffs, on imported vehicles, we were seeing seasonally strong, but what I would call normal patterns for tax refund season in both the new and the used market.

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00:10:39.710 --> 00:11:03.380
Jonathan Smoke: After the March 26th announcement we saw an acceleration in sales in both new and used, that looked very similar to the patterns that we had indeed, back in the spring of 2021, when it was clear that a supply chain problem was emerging, however, unlike in 2021, that frenzy couldn't even last for the whole month of April. It would appear in our data

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00:11:03.470 --> 00:11:31.980

Jonathan Smoke: in the New market. We have seen sales increase each week, but the pace of increase has been slowing, especially in the back half of April. Yes, sales are strong. They're running up approximately in our latest estimates, up 21% year over year in the new vehicle market. But the slowing pace of increase suggests that we may just be at the peak, and possibly even starting the other side of that peak

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00:11:32.080 --> 00:11:37.729
Jonathan Smoke: in the use market. We're also seeing strong gains year over year of about 15%.

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00:11:37.850 --> 00:11:54.600
Jonathan Smoke: But the increase week over week has definitely ended there. It looks like the market has hit a ceiling, and I would argue that it has, and that ceiling has tight supply and higher prices. So unlike in 2021, the consumer is unable

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00:11:54.740 --> 00:12:04.080
Jonathan Smoke: and unwilling to continue buying cars at quote unquote any price. The industry and the White House are about to get a lesson in what

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00:12:04.220 --> 00:12:15.889
Jonathan Smoke: economists call price elasticity, and we can talk about that if we we have interest in it. So if you go to the next slide, our V auto data clearly shows that supply has tightened substantially.

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00:12:15.930 --> 00:12:38.050
Jonathan Smoke: especially over the last 5 weeks. If you focus on the New Market, you see that strange blip and you saw it on the Prior slide in sales and supply. Well, just for a second, to explain that wasn't really real. Last year it was the impact of the cyber attack that disrupted dealers ability to update their inventory and sales data.

48
00:12:38.050 --> 00:12:53.709
Jonathan Smoke: What was really happening last year was that day supply normalized and was fairly consistent all year long at a level in our data. That was about 80 to 85 days of supply throughout the year on a fairly consistent basis

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00:12:53.720 --> 00:12:58.740
Jonathan Smoke: that aligned with inventory on lots for dealers of about 3 million units.

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00:12:58.790 --> 00:13:28.530

Jonathan Smoke: Well, we're already down to less than 2.6 million units. Now, this spring, with deliveries being cut by some of the importers, and with the surge in sale. So day supply is down even more than we see in just the basic inventory levels to just ahead of 60 days. We could easily get back to 2022 levels of day supply very soon, and by soon, I mean, I mean within the next 3 to 4 weeks.

51
00:13:28.680 --> 00:13:44.070
Jonathan Smoke: and remember that going forward, all of the inventory refreshes that we see over the next several weeks will be vehicles that are exposed to tariffs. First, st the tariffs on imports, which is nearly half.

52
00:13:44.370 --> 00:13:53.079
Jonathan Smoke: But now the tariffs also being added that includes the content in those vehicles, or the parts that are used to to make those vehicles.

53
00:13:53.430 --> 00:14:21.939
Jonathan Smoke: Well, let's go to the next slide, so we can see what the impact is of strong demand and tight supply. Well, make no mistake. Its prices are rising while manufacturers have been very careful since the tariffs have been announced, to use language about keeping prices stable. They are really talking about Msrps and not what consumers actually pay. Consumers pay market prices for new and used vehicles.

54
00:14:21.940 --> 00:14:42.839
Jonathan Smoke: What they pay in the new market is a function of the asking price from dealers. The negotiated discounts that they end up getting by working with dealers and net of incentives that manufacturers are willing to provide well as demand surges and supply tightens. Microeconomics taught us that prices should go up.

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00:14:42.910 --> 00:14:48.029
Jonathan Smoke: and a leading indicator of that is what we have observed in April, listing prices.

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00:14:48.130 --> 00:15:03.489
Jonathan Smoke: Listing prices for the industry are basically asking prices, and we have observed that they have increased each week since the tariff announcement. And that's pretty abnormal in the vehicle market in either new or used.

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00:15:03.660 --> 00:15:22.690

Jonathan Smoke: Keep in mind these are not tariffed vehicles, yet this is simply the market reacting. It takes a few days after the end of the month for us to really have the full picture of how this played out model by model in real transactions. But we know, for a fact that used prices have moved higher.

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00:15:22.990 --> 00:15:35.080
Jonathan Smoke: and I guarantee you that consumers who bought new vehicles in April paid more than they did in march, especially when you take into account incentives which brings us to the next slide.

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00:15:35.200 --> 00:15:46.769
Jonathan Smoke: Motor intelligence and and wards will be reporting on incentives within the next 24 h that we all measure and pay attention to, based on what the Oems report they spent.

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00:15:46.870 --> 00:16:05.050
Jonathan Smoke: We track offers as the month is proceeding, and financing offers are usually a very good proxy for what the trend in incentive spend will be well, it looks like the tight supply has produced a seller's market, because financing offers are the lowest we've seen since. Well, before the pandemic.

61
00:16:05.120 --> 00:16:25.879
Jonathan Smoke: there is no need to get aggressive with financing when you don't have much to sell, and frankly, when you also have much higher costs coming down the pipe. So no attractive offers, no urgency, higher prices, no urgency, no urgency. And we're about to see the market transition again on the other side of this demand frenzy.

62
00:16:25.970 --> 00:16:44.280
Jonathan Smoke: So if you go to our final slide, we already reduced our forecast that we shared at the end of March, and we see no need to change it for 2025 at this point. But we do see a declining, not growing market. But it's 1 that the peak for the year is probably just behind us

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00:16:44.300 --> 00:16:57.339
Jonathan Smoke: and likely to see slowing as the market transitions from what was fundamental demand of closer to 16.5 million pre-tariffs to what is likely closer to 15 million post tariffs.

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00:16:57.440 --> 00:17:04.599
Jonathan Smoke: There is no free lunch in economics, and that's definitely no free lunch in the vehicle market today.

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00:17:04.819 --> 00:17:19.820
Jonathan Smoke: Higher costs either lead to higher prices or lower profits. Lower profits lead to production cuts higher prices lead to lower demand. We'll end up with a mix of both, we believe, and that means lower sales are inevitable.

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00:17:20.020 --> 00:17:38.790
Jonathan Smoke: It would appear that the 1st phase of frenzy in the retail vehicle market seems to have already passed, as April is ending with a little less momentum than certainly it began. Meanwhile uncertainty remains acute, especially regarding what will indeed happen with these tariffs that Aaron covered.

67
00:17:38.890 --> 00:18:00.190
Jonathan Smoke: Price. Motivated buyers, we believe, acted 3 to 4 weeks ago. Supply has since tightened, and prices have moved higher and with higher prices. Urgency has diminished that alone should make it clear that this is not 2021 all over again. Back then it was the shock from Covid. Now it's the shock from tariffs.

68
00:18:00.300 --> 00:18:18.989
Jonathan Smoke: Covid strengthened demand for vehicles not destroying it. Tariffs hurt demand for vehicles, and that includes the tariffs on parts that will lead to higher inflation in repair and maintenance and insurance which impact every American and not just the people thinking about buying a new imported vehicle.

69
00:18:19.020 --> 00:18:41.459
Jonathan Smoke: and although we have seen a similar sales surge dynamic this spring, compared to 2021, and the early days of Covid. Back, then demand was supported by 4 trillion dollars in stimulus record, low auto rates and loose credit, a booming economy and labor market, and a red hot housing market that generally creates more demand in the vehicle market

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00:18:41.460 --> 00:19:02.290
Jonathan Smoke: there will be no stimulus. In 2025 rates are near 25 year highs, and the fed is not coming to the rescue with inflation expected to rise. Credit is tight and not likely to change for the better with such uncertainty and restrictive monetary policy, and the housing market looks more like 2,009 than 2021.

71
00:19:02.410 --> 00:19:13.220

Jonathan Smoke: So I told you last month that the roller coaster ride had begun, and I would generally say, we're now at the point where you throw your hands up and hope you don't lose your lunch on the way down.

72
00:19:13.420 --> 00:19:21.200
Jonathan Smoke: The good news is, if there is good news I can share today is the next 2 months should prove out how different this year will end up being.

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00:19:21.340 --> 00:19:25.879
Jonathan Smoke: and you can count on us to share facts about how this ride proceeds.

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00:19:26.100 --> 00:19:30.000
Jonathan Smoke: So with that charming analogy, Jamie, I'll hand it back to you.

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00:19:30.520 --> 00:19:48.760
Jamie Butters: Wow, okay. Well, you know, it's 1st of all want to remind everyone to put your questions in the queue. Not that I don't want to monopolize all the questions here, but I do want to also get to some of yours. But 1st I mean, let me just to draw you out just a little bit more on that. I mean, it's

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00:19:49.000 --> 00:19:58.829
Jamie Butters: really interesting. You know. March was such a gangbusters. Month and April started off really strong. But it's interesting what you said about the sales momentum slowing throughout the month

77
00:19:59.360 --> 00:20:28.619
Jamie Butters: as the consumer confidence is falling. And these other trends, I mean, it's I know you just cut the outlook for the full year at the end of the 1st quarter, but this seems like it's adding up to a scenario with some pretty bad, and we just saw 1st quarter. Gdp was negative. It seems like this is adding up to a scenario with some pretty bad implications for the rest of the year. At what point might you need to adjust your outlook again? Would it be in a month or 2.

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00:20:29.030 --> 00:20:43.069
Jonathan Smoke: Well, we all focus on an annual number. And so part of the magic when you've had such a frenzy and strength in the 1st quarter. And now and you know, April is going to be a really solid number. We just think it's going to be slightly down

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00:20:43.130 --> 00:20:56.869

Jonathan Smoke: from what it was in March, and that sets you up to well, if you do the math to end up at a year that we projected to be 15 6. Now that definitely implies a pretty substantial amount of slowing

80
00:20:57.230 --> 00:21:20.019
Jonathan Smoke: that probably gets you at least into the low 14 s. And possibly lower than that before you get really back to what we think the natural market would be with this level of pricing and reduced production is closer to 15, maybe 15 5 at its top. So essentially, we've got to deal with the market radically adjusting from that level to below.

81
00:21:20.020 --> 00:21:32.999
Jonathan Smoke: But to your point it also means we have to be talking about the broader effect on the economy. And so all of that talk and yes, the forecast revision we did was for what we expect to happen.

82
00:21:33.060 --> 00:21:47.140
Jonathan Smoke: not including a recession. But if part of the mix is that the economy goes into a recession? Well, then, yes, there's a negative impact on vehicle demand. Because when people lose their jobs, that's really when consumer spending.

83
00:21:47.200 --> 00:22:07.689
Jonathan Smoke: and historically, where we see the biggest decline always in in vehicle purchases, I guess there is a little bit. The scenario modeling that we've done suggests that a recession probably brings sales down closer to 14 million and and not worse. And it's because

84
00:22:07.690 --> 00:22:24.619
Jonathan Smoke: we've never really had a recession before when there is really low supply like we have, and a pretty substantial, I would argue amount of pent up demand. The problem with the pent up demand is that it's not capable of buying any vehicle at any price.

85
00:22:24.630 --> 00:22:29.090
Jonathan Smoke: It's pent up demand that is highly payment and price sensitive.

86
00:22:29.230 --> 00:22:48.189
Jonathan Smoke: And so, as a result, with tariffs being the real driver of this, the prices are going in the in the wrong direction, and we don't think this environment is favorable for credit to fix those issues so effectively. It just means that we're stuck with this environment.

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00:22:50.070 --> 00:23:01.309
Jamie Butters: Digging into some of the the details of the executive order, or one of the one of the 2. It was interesting that one of them is tied to the Msrp.

88
00:23:01.390 --> 00:23:24.259
Jamie Butters: And I think you know, one could argue that that's kind of an artificial number that automakers can set as they please. Is this open to manipulation? Can they game the system by maybe bumping up the Msrp. And offering some incentives that would would counteract that? But let them, capture more chargebacks, offsets.

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00:23:24.260 --> 00:23:25.070
Erin Keating: 3.rd

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00:23:25.220 --> 00:23:32.699
Erin Keating: Sure, I mean why not? Of course they could. But most I mean oems to this point right now have said that they're actually not touching Msrps.

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00:23:32.840 --> 00:23:51.289
Erin Keating: and have declared, some of them declared, going into June that they're not touching the Msrps. Ford even just said today they're not touching Msrps on on any Maybel vehicles. So I think consumers are still highly sensitive to Msrps, and I do believe that that is where a lot of

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00:23:51.430 --> 00:24:13.540
Erin Keating: consumers might be looking to see evidence of tariff increases in cost, because we've been sort of coaching individuals on how to especially look at their Monroni labels to see what their content is, and things like this. So I think we do have a consumer that's getting a little bit more aware of how to look at the pricing of the vehicle and the assembly of a vehicle that said, absolutely, I mean, if you know, at the end of the day the customer is sensitive to the payment, amount

93
00:24:13.800 --> 00:24:35.630
Erin Keating: to what their insurance is going to be. Their monthly, you know their monthly expenditures, and not not always to the grand price of the vehicle so it could be a way that they manipulate it. It has to be an aggregate number of the vehicles that are sold in the Us. So it does need to take into account, of course, for manufacturers that are also importing vehicles, because, again, not every vehicle is actually assembled in the Us.

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00:24:36.680 --> 00:24:46.279

Jonathan Smoke: Yeah, I I really don't see this as a great OP. Opening for manufacturers to play games with the Msrp.

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00:24:46.480 --> 00:25:02.349
Jonathan Smoke: Because one as Aaron is mentioning. They've been very careful, and they know that the White House and consumers alike are paying attention to what is happening with the Msrps. But also raise the issue with that Msrps at the end of the day

96
00:25:02.380 --> 00:25:19.970
Jonathan Smoke: are very key to measuring the residual and are key to the dynamics of understanding loan to value on on the vehicle and in financing, which is 80% of the transactions that occur. So when you start

97
00:25:20.040 --> 00:25:37.979
Jonathan Smoke: contemplating potentially monkeying with the Msrp. You also really bring in credit challenges and the like, that. I don't think manufacturers are willing to open up that bottle that Pandora's box

98
00:25:38.180 --> 00:25:51.500
Jonathan Smoke: to cause more problems. So I really, I think the action is going to be this distinction that I'm trying to draw out that well, the Msrps may not change. But what consumers are really paying in the short term may spike.

99
00:25:51.550 --> 00:26:08.930
Jonathan Smoke: but that's probably not going to last over the longer term, and the real action is going to be? How how do some of the costs get passed along? How does it relate to the decisions for model by model? And we think that action is really going to play out at the segment level.

100
00:26:10.900 --> 00:26:24.639
Jamie Butters: Have you looked at specific models that will be most impacted, or have the biggest impact, maybe on the overall market? I mean, like the Rav. 4 is made in largely in Canada. A lot of pickups come from Mexico.

101
00:26:25.310 --> 00:26:39.599
Erin Keating: Yeah, I mean, we've seen that. Certainly. We've kept an eye on the top 5 most impacted models. And we based that on 2024 volume sales, and if we had multiplied that out, if the tariff had been applied last year, and so that was the chevy equinox, the chevy

102
00:26:39.950 --> 00:26:47.309
Erin Keating: sorry the Honda, Hrv. Honda crv subaru forester and Chevy, equinox and chevy tracks.

103
00:26:47.971 --> 00:27:09.980
Erin Keating: And so those 4 models are some of I mean by very virtue of the fact that they were the largest volume that got that would have been impacted, the most given their import. Percentages. We've actually seen sales for all of those jump up, prices being held on those supplies going down in all 5 of those. So it's evident that you know whether it's that people were pulling ahead.

104
00:27:10.400 --> 00:27:22.540
Erin Keating: Truly, because of those specific models or otherwise, they just knew like compact Suvs is another segment. Every single compact Cv will be impacted in some way. From a tariff perspective. So it's it's

105
00:27:22.820 --> 00:27:32.030
Erin Keating: it's across the board where there are lower and less expensive vehicles available to the consumers. Typically, they're lower and less expensive because they are manufactured outside of the Us.

106
00:27:32.200 --> 00:27:34.870
Erin Keating: So again, yesterday's actions don't really help

107
00:27:35.160 --> 00:27:50.400
Erin Keating: a ton with those types of models, Chevy tracks coming over from Korea, and we heard from GM. This morning them speaking to that effect. So we're still going to see a real crunch on vehicles that are actually affordable, quote unquote from an average transaction price perspective.

108
00:27:52.380 --> 00:28:15.310
Jamie Butters: Speaking of average transaction prices you have. Those charts were really great, but they were mostly directional, not like hyper labeled, which is useful for the size screen run. I'm not complaining, but we have a question from the audience. Can you can you share the numbers for like atps in January and April, and if you have an outlook going forward.

109
00:28:17.792 --> 00:28:25.820

Jonathan Smoke: Sure I can. While we're talking, pull up. We'll pull up what we see or have seen with with the atps

110
00:28:26.440 --> 00:28:32.899
Jonathan Smoke: we've generally really didn't see price changes in the 1st quarter prices were relatively flat

111
00:28:33.130 --> 00:28:42.249
Jonathan Smoke: month to month, but the Kelly Blue Book average transaction price started the year at.

112
00:28:43.390 --> 00:29:02.510
Jonathan Smoke: Let me here we go. January 48,145. That was a decline from a peak for last year, which is usually the case in December. You've got strong demand. You've got fully represented new models driving a lot of the increases. So we we'd hit 49,

113
00:29:02.510 --> 00:29:18.339
Jonathan Smoke: 7, 68. In December we fell to 48, 1, 45, in January. We actually then saw further declines, modest declines each month in February and march to March's number being 47, 4, 6, 2.

114
00:29:18.450 --> 00:29:47.719
Jonathan Smoke: And that was a 0 point 2% change from the month before. And really, what's happening at the beginning of the year is less about, more discounting. Discounting has been relatively stable. It's more mix of vehicles, more lower price vehicles have been in the transaction, and correspondingly. One of the biggest ironies that I saw in the 1st quarter is, we saw more subprime buyers buying vehicles, too, which correlates with that mix being softer in the 1st quarter.

115
00:29:47.800 --> 00:30:09.590
Jonathan Smoke: As I mentioned that data also tells us that discounting was stable in the last 2 months of the year, so consumers have generally been seeing about a 4% discount relative to Msrp. And that has been going up from premiums being paid over Msrp. Back in 2021

116
00:30:10.070 --> 00:30:16.910
Jonathan Smoke: to now, you know. Looks like it was sort of stabilizing last year at at 4%,

117
00:30:17.360 --> 00:30:27.769

Jonathan Smoke: and then incentives incentives have been increasing over the last several years. From all time lows back during the supply chain

118
00:30:27.890 --> 00:30:47.709
Jonathan Smoke: challenges we had a modest increase, decrease in incentives in March, and it was really because I think the surge and frenzy in the last 5 days of the month didn't really materially change the offers. It's really April that I would expect that number to be a big decline. So incentives were still up year over year, 5%

119
00:30:47.960 --> 00:30:56.639
Jonathan Smoke: in March in our Kelly Blue Book data, and I suspect they will be down year over year when we get the April numbers done.

120
00:30:59.220 --> 00:31:12.039
Jamie Butters: You mentioned the mix by price, the demand for the more affordable vehicles kind of skewing things down going forward. Do you anticipate that automakers will

121
00:31:12.310 --> 00:31:19.909
Jamie Butters: refocus and shift their production to the high cost. You know. High Msrp. Vehicles to maximize, you know.

122
00:31:20.090 --> 00:31:28.569
Jamie Butters: Try to maximize profits by hitting at a higher price point, as Gary asked. You know, maximize their domestic production capacity a la the covid approach.

123
00:31:29.520 --> 00:31:34.530
Erin Keating: I mean, one of the things that's interesting is when we were looking at the dynamics of supply over the last few weeks.

124
00:31:34.750 --> 00:32:04.479
Erin Keating: pickups and large Suvs are the ones that aren't dwindling in supply. As much so that would lead you to believe we've already got plenty of supply in those areas right now. It's not. You know. Those are still price sensitive, you know, expensive vehicles. But the the challenge is that those vehicles that are less expensive are the most more popular and high volume vehicles that get entry into the brand, and it's highly competitive. So I I can't imagine that most automakers are willing to seed share

125
00:32:04.480 --> 00:32:24.390

Erin Keating: across the board by not having either the available inventory and or pricing themselves out of their competitive set. And I think that's really the dynamic we're going to continue to see play out over the next few months is this, as I've called it, sort of a bonanza market share bonanza. Just how do each of these manufacturers look across their segment and say.

126
00:32:24.420 --> 00:32:36.680
Erin Keating: how do I think about competitors? I typically haven't thought about cross shopping? And and how do I promote my vehicle? That might be less expensive than this other vehicle over here, especially if supply is starting to drop on those imported vehicles.

127
00:32:36.750 --> 00:32:58.770
Erin Keating: and let's say you might have a domestic version, or a less expensive version, or your portfolio in general is more protected, and therefore you can afford to take the hit on the lower cost vehicles. So I struggle to believe that they're not going to continue to focus on the more affordable cars whether they're able to move a lot of those here to the Us. Or not. Assembly is certainly the easier thing to do than parts

128
00:32:59.125 --> 00:33:08.939
Erin Keating: and a lot of, you know, investments continue to come out. So it's anyone's guess it's really going to be a manufacturer by manufacturer decision. Don't think there's going to be one solid answer across the industry.

129
00:33:10.100 --> 00:33:18.629
Jonathan Smoke: And I I'll go back to the earlier theme that I mentioned. The action is going to be at the segment level, because you assess your competition at the segment level

130
00:33:18.830 --> 00:33:35.330
Jonathan Smoke: price. Elasticity is majorly different at the segment level. So what's possible to pass along and what what the consumer can can actually handle will be a part of that discussion. And how important that is to their global portfolio. You know, in some some cases.

131
00:33:35.570 --> 00:33:39.019
Jonathan Smoke: So that's that's where we're gonna see the big changes. I think.

132
00:33:41.000 --> 00:33:52.800
Jamie Butters: So affordability, you know, with the vehicle prices and the lending rates has been a big limiting constraint on auto sales. Tariffs can only make that worse. Right? How do you try to quantify that.

133
00:33:54.060 --> 00:34:00.849
Jonathan Smoke: Well, we quantify it every month in partnership with Moody's analytics, where we do the math on what the prices and incentives and

134
00:34:01.090 --> 00:34:19.499
Jonathan Smoke: income levels and and rates are dictating and and ironically, yes, affordability limits the market, and has been a key reason why we've been under 16 for the last couple of years, but we've been making great progress. I mean, affordability has improved every month, almost every single month, sequentially for 2 years.

135
00:34:19.639 --> 00:34:28.009
Jonathan Smoke: as prices have come down. Well, really, the 2 variables that have worked in favor of consumers are solid income growth.

136
00:34:28.070 --> 00:34:45.340
Jonathan Smoke: and then prices coming down. So tariffs start to ruin that by 2 ways, prices going up which our forecast and others are generally seeing both new and used should go up roughly 5%. We think that's a function of all the calculation of all the costs

137
00:34:45.340 --> 00:34:58.689
Jonathan Smoke: in the past. What's possible to pass along, what the market dynamics are going to do? Net effect is prices are going going up, but not going up like we had in in 2021, because there's a limit to it. So obviously, if prices are going up. That's bad.

138
00:34:58.710 --> 00:35:07.870
Jonathan Smoke: But if the whole tariff picture is changing the labor market dynamics and worse, we have a recession. Then the positive income story becomes the greater at risk.

139
00:35:08.100 --> 00:35:34.699
Jonathan Smoke: And then I'll raise the question that I'm most worried about with this parts. Tariff is the fact that it impacts every American through insurance and through repair and maintenance, and I think all of us are going to have to reconstitute what we use as affordability metrics to include the cost of insurance, because I think the cost of insurance is going to become a gateway threshold

140
00:35:34.840 --> 00:35:53.990

Jonathan Smoke: that becomes as important as the quote unquote loan monthly payment has been historically, because this is going to send insurance rates continuing highward skyward, and we know that insurance is already an impediment to purchase activity.

141
00:35:56.460 --> 00:36:23.819
Jamie Butters: Really good point. Thank you for that. Another question from the audience, GM. Said. They estimate tariffs will take a 4 to 5 billion dollars bite out of 2025 earnings, less, 30% for offsets, unidentified offsets. But it plans to not raise Msrps over the tariffs. Do you anticipate that Ford, or maybe Stellantis would match that pledge.

142
00:36:23.890 --> 00:36:35.209
Jamie Butters: And if they do, is there a risk that Atps will potentially be above Msrp. On some GM. Models or anyone else who, you know, commits to holding the line at beginning of the year. Prices.

143
00:36:36.430 --> 00:36:54.620
Erin Keating: Well, we already heard, Ford said, that they're not going to raise their Msrps in the immediate future, so I would imagine that they're going to try to stay neck and neck with what their competitors are doing, and I would imagine that Stellantis and Chrysler will, you know, quickly follow suit in that. And remember that Stellantis is a little bit of an odd duck, because they have so many different brands that are also available

144
00:36:54.620 --> 00:37:10.170
Erin Keating: in foreign markets. So they're doing some other mental calculus that all of us can't think of. That's not typical for the domestic manufacturers as well. So and they've got, you know inventory still built up from last year. So they've got a little flexibility there.

145
00:37:10.518 --> 00:37:21.040
Erin Keating: So we'll see what they do. But I I don't imagine again in this competitive environment that any of the automakers are not going to try to hold price alongside their segment. Competitors.

146
00:37:22.310 --> 00:37:40.500
Jamie Butters: What about other ways to raise prices? I mean, we've already seen destination charges double or triple over the last 10 years. Can those go up, and it seemed like Vw. Which did say they were going to identify them almost sounded like they were going to put the tariff costs in the destination charge because it basically happened.

147
00:37:40.500 --> 00:37:40.820

Erin Keating: Yeah.

148
00:37:40.820 --> 00:37:41.870
Jamie Butters: Product of shipping.

149
00:37:42.200 --> 00:37:43.300
Erin Keating: I mean, if they want to

150
00:37:43.440 --> 00:38:08.369
Erin Keating: not make their dealer body terribly happy, because, of course, then it escapes margin. You know they they seem to. They haven't come out saying it much more about that. So I imagine that they're still trying to work out. How are they going to, you know. Are they really going to put it in a destination charge? How does that then get finance? How does it get calculated against the total value of the vehicle. I suspect, if no one else does it, they're not going to do it.

151
00:38:08.530 --> 00:38:32.560
Erin Keating: We heard, you know, just as an as a example analog example yesterday. What happened to Amazon? You know we're gonna put the tariff charges on here, and by the end of the day, Nope, they're not going to be there. And that's a much broader market, right? That's Chinese view inventory coming over and so I can't imagine that Volkswagen is going to poke the bear in that way. Given the dynamics right now.

152
00:38:32.790 --> 00:38:38.259
Jamie Butters: One more follow up on prices. Sorry we we've gotten a bunch from the audience. And sorry, Jonathan, if you had more, you wanted to add.

153
00:38:38.260 --> 00:38:38.839
Jamie Butters: that's all right.

154
00:38:38.840 --> 00:38:41.849
Jamie Butters: Throw this in the mix, too. I mean, we're really

155
00:38:42.040 --> 00:38:52.479
Jamie Butters: only a few months away from summer changeover, so maybe they can hold the line on prices through the 2025 model year. But maybe we'll see a recalibration for 2026 is that.

156

00:38:52.480 --> 00:38:53.370
Erin Keating: Something that's reasonable.

157
00:38:53.370 --> 00:38:54.310
Jamie Butters: To expect.

158
00:38:54.610 --> 00:39:22.440
Erin Keating: Yeah, I think it's reasonable to. I mean, 1st of all, we typically see that happen anyway, in the pricing dynamics for newer models. And because we will be lower on supply theoretically, of the 25. So you know, we've been in cases last year, especially with some brands where we were sitting on a lot of 20, you know, year before inventory, needing to move that the dust off the metal there, and I don't think we're going to be in that same dynamic. So I think they're gonna have a little bit more freedom to look at pricing for 2026 model year.

159
00:39:22.717 --> 00:39:38.399
Erin Keating: But it's still going to be a matter of what the mix is available on the ground at the dealership. And will they even have, you know, when will the 26 start rolling off, depending on whether they're imported or produced here? Have they started to slow down some of that production, so we might not even see that until

160
00:39:38.850 --> 00:39:46.350
Erin Keating: you know August, September. And then how is that impacted by what's happening in the market at large, like Jonathan's been speaking to so.

161
00:39:46.920 --> 00:40:09.509
Jonathan Smoke: Yeah, I think we're more likely to see some Msrp changes with the model year. But I think the real action is gonna be in what the consumer is actually paying net of incentives as well as the invoice. I think the invoice is where we're gonna see a lot more movement and we're preparing to really look at that. Even in the month of April.

162
00:40:11.350 --> 00:40:11.910
Erin Keating: Alright!

163
00:40:12.690 --> 00:40:13.295
Jamie Butters: So

164
00:40:15.330 --> 00:40:36.340

Jamie Butters: a couple of questions bundled up together in one new car. Buyers tend to be quite affluent. Really, top quintile top quartile earners. Is there any insight into their sentiment as consumers versus other demographics? Obviously the stock market's taken a hit, but maybe they don't feel as vulnerable on other inflation.

165
00:40:36.640 --> 00:41:05.289
Jonathan Smoke: So in the consumer sentiment data from morning consult. They look at it by income, tier, and political party, all of the and the declines that we've seen particularly over the last 30 to 45 days have been across the board, but in the last couple of weeks the highest income cohort has started going back up again, and along with that, very interestingly, as you would guess, we pay attention to vehicle, purchase intentions

166
00:41:05.320 --> 00:41:08.299
Jonathan Smoke: in their data and

167
00:41:08.450 --> 00:41:24.759
Jonathan Smoke: purchase intention net is down dramatically, but it's being driven by Median income and lower income households. And what we're actually seeing as cinnamon is improving for higher income consumers is their purchase. Intention is not down, it's still high, so that bodes

168
00:41:25.080 --> 00:41:38.309
Jonathan Smoke: well, I guess, for the luxury end of the segment. I was more worried about that a month ago, when it looked like we had a full on 20% more stock correction and the negative wealth effect that you would expect from that.

169
00:41:38.690 --> 00:42:04.039
Jonathan Smoke: But clearly, yes, the affordability story is about the total market and really about the median income consumer. But the market has shifted to be very dependent on the top 2 income quintiles. And you know, news story. There is no affordability problem in those segments. Hence why handling a 20% increase in costs. Theoretically, when

170
00:42:04.420 --> 00:42:07.600
Jonathan Smoke: part of the reason is to lower somebody's income tax rate.

171
00:42:08.310 --> 00:42:33.530
Jonathan Smoke: Probably net net isn't going to be a challenge to the market longer term assuming you don't destroy the economy in the process, and and wipe a quarter of market value off at the same time. So I do think it is worthy of asking those questions and paying attention to

the dynamics. We probably are destined to a market that becomes even more concentrated and dependent on those very consumers.

172
00:42:33.660 --> 00:42:45.099
Jonathan Smoke: That means a smaller market, but that means a market. Probably that is a little less volatile from a credit perspective, and other things historically, that have caused some of the ebbs and flows that we see.

173
00:42:46.550 --> 00:42:55.860
Jamie Butters: We're just about out of time. But we still have a ton of questions. Are either of you available to stay for a few more minutes. See if we can get a couple more in.

174
00:42:56.140 --> 00:42:56.560
Jonathan Smoke: Yes.

175
00:42:56.560 --> 00:42:57.170
Erin Keating: Check.

176
00:42:57.170 --> 00:43:01.760
Jamie Butters: Okay. If, Aaron, I know you've got a flight to catch. If you need to drop, just say goodbye, and we'll.

177
00:43:01.760 --> 00:43:02.479
Erin Keating: Okay. Yeah.

178
00:43:02.480 --> 00:43:03.090
Jamie Butters: Carry on has been.

179
00:43:03.090 --> 00:43:04.700
Erin Keating: I've got 2 more of these before I get to.

180
00:43:04.700 --> 00:43:05.360
Jamie Butters: That's my pleasure.

181
00:43:05.360 --> 00:43:06.582
Erin Keating: Don't you worry.

182
00:43:06.990 --> 00:43:07.540
Jamie Butters: Great.

183
00:43:07.930 --> 00:43:26.840
Jamie Butters: I know you guys focus more on the consumer market than the production side. But is there a sense that production is is made vulnerable by this by the parts tariffs kicking in at 1 point it had been thought maybe there could be

184
00:43:27.370 --> 00:43:37.210
Jamie Butters: widespread shutdowns within a week or 2. Does it look like that's going to be avoidable? Certainly GM's guidance today seems to think they think this is manageable.

185
00:43:37.860 --> 00:43:45.948
Erin Keating: I mean my take on, it would be again pretty specific to which lines you're talking about, which vehicles you're talking about, what they're relying upon

186
00:43:46.260 --> 00:44:10.220
Erin Keating: it is key to note that the suppliers still are not getting the relief here directly, so it would be up to an oem or an automaker to pass on that 3.7 5% offset at some point. And it's still the case that all suppliers and automakers have to have the money available on record when the good crosses the border, because the tariff is still in place. This is just an offset right now from a parts perspective.

187
00:44:10.300 --> 00:44:36.480
Erin Keating: So I anticipate that we'll continue to hear from me and other. You know, industry resources around the suppliers say that this continues to be a challenge for financial stability for our tier 2 and tier 3 suppliers, and being able to finance the cost of a either changing over their production to the Us. If it's even possible which we think the park parts transference here reshoring here is a lot more difficult than the assembly.

188
00:44:36.560 --> 00:45:03.630
Erin Keating: but there's also other things like the rare Earth minerals that are being threatened. We think of those very much in term of Evs, but they are also really important in componentry and coatings and things like this. And so there are other elements that could really disrupt our supply chain still to come. And it's not just tariffs we keep saying. I don't want to be an automaker right now, in the sense that you got a lot of dynamics you're managing through.

189

00:45:03.630 --> 00:45:17.769
Erin Keating: And it's not just tariffs, even though that's what we're all focused on, because it's a pretty big bullseye. So yeah, I anticipate that we will still hear of challenges, even if the automakers and their quarterly earnings aren't making it sound. That stressful.

190
00:45:18.380 --> 00:45:24.190
Jonathan Smoke: And we still are uncertain about some of the mechanics of how this is gonna be actually handled.

191
00:45:24.190 --> 00:45:25.020
Erin Keating: Implemented? Yeah.

192
00:45:25.020 --> 00:45:30.700
Jonathan Smoke: How do you inspect, assess, and and charge and collect the tariff?

193
00:45:30.820 --> 00:45:41.439
Jonathan Smoke: That alone could be disruptive? Certainly adding time and and inefficiencies to the process. And that's really where I think the worry is going to unfold.

194
00:45:42.066 --> 00:46:05.630
Jonathan Smoke: You know, as we see the disruption taking place. We think that some of them. These moves with the credits, etc, are an attempt to more directly deal with the oems in the way that this is being billed and collected, and sort of hint that it could be a little less disruptive and more efficient in that regard. But we we're not going to know for certain until we actually hear what's happening.

195
00:46:09.630 --> 00:46:15.219
Jamie Butters: Jonathan, wondering if you have a schoolhouse rock version of price. Elasticity.

196
00:46:15.750 --> 00:46:17.870
Erin Keating: I saw that question.

197
00:46:17.870 --> 00:46:23.170
Jonathan Smoke: A great idea I'll have. I'll have to work on that one, but you know it.

198
00:46:23.170 --> 00:46:26.240
Jamie Butters: Maybe something with the spinner's rubber band man would be good.

199
00:46:26.240 --> 00:46:31.979
Jonathan Smoke: Yes. Well, I've got a song list of now up to 50 songs we did

200
00:46:31.980 --> 00:46:42.509
Jonathan Smoke: by lots of people in the industry to deal with the tariffs, but I'm sure there's 1 or 2 of them that might directly relate to it. But elasticity is essentially

201
00:46:42.690 --> 00:47:07.569
Jonathan Smoke: to what degree did price changes impact the actual demand. So when you're when you're perfectly inelastic, it basically means people are going to still keep buying you because they absolutely need you to exist, and the vehicle market is not perfectly inelastic. Well, on the perfectly elastic side every small change in price would have a dramatic decline in volumes, and we're not quite there either.

202
00:47:07.600 --> 00:47:14.719
Jonathan Smoke: Where we really see things as being different is the analogy to 2021. I would argue

203
00:47:14.760 --> 00:47:35.040
Jonathan Smoke: that the vehicle became central to what was most important to consumers. Back then you were avoiding public transportation. You were moving to further out places you were no longer commuting every day and living in the compact Sedan, and more contemplating the larger Suv. That was better for the family

204
00:47:35.100 --> 00:47:52.709
Jonathan Smoke: trip to the beach twice a year. You know you had all of these things happening, and then you also juice demand by having, you know, record low interest rates, loosest credit possible, and 4 trillion dollars being sent out to people's pocketbooks, so demand was

205
00:47:52.800 --> 00:47:55.759
Jonathan Smoke: unusually strengthened and enabled.

206
00:47:55.870 --> 00:48:05.610
Jonathan Smoke: which effectively made. We had. We had no elasticity, there was no sensitivity, because there was somebody that was willing to pay whatever price just to get that vehicle.

207
00:48:06.190 --> 00:48:30.070
Jonathan Smoke: We're not. We don't have that now we have. I would argue the exact opposite, with the exception of, like the luxury end of the market, and if we navigate things without a recession, then I do think we could see some of the cost absorption taking place, and much more stability in that part of the market where credit doing things like with leasing, and all

208
00:48:30.190 --> 00:48:48.160
Jonathan Smoke: become, you know, a straightforward way to to make this a virtuous cycle and and supporting. But where you have real challenges are in the affordable price points. Because there, I would argue, that's where the maximum elasticity is meaning.

209
00:48:48.640 --> 00:48:54.999
Jonathan Smoke: A 1% increase in costs could take away 10% of the market, and

210
00:48:55.190 --> 00:49:15.719
Jonathan Smoke: that kind of volume, change and sensitivity really will force some manufacturers to decide. Can we make it in this segment? Is it worth making in this segment, in terms of our global platform, etc. And I think at last, count, don't we have 20 vehicles in that category, Aaron? I wouldn't.

211
00:49:15.720 --> 00:49:16.230
Erin Keating: Yep.

212
00:49:16.230 --> 00:49:24.929
Jonathan Smoke: I would definitely expect less than half of those models to exist if the permanent, if we see the tariffs remain permanent.

213
00:49:26.130 --> 00:49:38.639
Jamie Butters: All right, let's do one last multi-part type question. You know, there's been in light of the affordability challenges and the challenge of trying to buy any kind of vehicle for the middle part of the market.

214
00:49:38.870 --> 00:49:45.669
Jamie Butters: There's a lot of excitement around the slate unveiling, and I think, related to that, you know, is there?

215

00:49:45.950 --> 00:50:05.099
Jamie Butters: Is there a chance that automakers would, you know, offer few, you know, add fewer features, fewer bells and whistles in order to keep prices down and and reach more consumers. Or, again, it's sort of that that play versus the sort of covid play of just going upscale, because maybe it depends by segment. How do you look at that.

216
00:50:05.100 --> 00:50:16.487
Erin Keating: Yeah, I mean, here's what I would say about the sleet. 1st and foremost, I think we just have to remember the reach of which that got exposure. So I'm not sure that I can count on those

217
00:50:16.840 --> 00:50:25.166
Erin Keating: consumers that we're looking for a vehicle 20 to $25,000 are necessarily paying attention to the hottest influencers in our in our

218
00:50:25.530 --> 00:50:36.079
Erin Keating: media round clock coverage of everything. So how how realistic an ev that can only go 150 miles on range, and and has roll down windows and no screens.

219
00:50:36.080 --> 00:51:01.029
Erin Keating: The interesting thing about that is that yes, I mean carmakers for a while now have said, and I've talked about it plenty of times. That part of the affordability challenge is the pickiness of us consumers, and the desire to have the car built the way you want it built with all the bells and whistles. We saw a lot of this really come through with some of the Korean manufacturers when they came over. I mean, we were just all sort of blown away by how highly equipped these vehicles

220
00:51:01.030 --> 00:51:03.090
Erin Keating: were, but yet they were more affordable.

221
00:51:03.090 --> 00:51:12.270
Erin Keating: So I think that consumers have really ratcheted up their expectations, which then, of course, causes complexity for the automakers to build these vehicles to spec

222
00:51:12.596 --> 00:51:28.620
Erin Keating: and you know, then that's why we see excess inventory around the country that we've got to move around because we've guessed wrong right? And so I think any automaker out there is realistically looking for ways to cut down costs, whether it really comes at the sacrifice of some software technology or newest

223
00:51:29.019 --> 00:51:44.630
Erin Keating: you know, mechanics, that everyone is expecting to see on vehicles these days. I I think it's going to come more from a lot of that consolidation you're seeing under the hood. So the the sharing of technologies or hardware and things like that, they're gonna try to find cost efficiencies that way.

224
00:51:45.034 --> 00:51:55.680
Erin Keating: More than trimming down vehicles. I think the other situation is that those individuals might. And this is just me speaking what I think about human behavior and and consumers.

225
00:51:55.680 --> 00:52:18.199
Erin Keating: Individuals that are coming into the market with lower budgets typically are coming in from a used vehicle and depending on how old that used vehicle is, we do have to remember that expectations on technology may not be as advanced as we think they need to be, and carmakers would be smart to think about that. So when they're thinking about dialing back some of those expensive trim packages or software or hardware developments

226
00:52:18.280 --> 00:52:32.196
Erin Keating: to remember who is the customer. That's likely jumping in at that range. I think everyone thinks it's a Gen. Zer who has been a digital native and you know, I would question, how many individuals in that age range are truly coming into the new car market?

227
00:52:32.480 --> 00:52:50.030
Erin Keating: and if they are, they're likely getting paid for by a parent somewhere or something like that. So I think it's a great time for automakers to really rethink how they plan their products and how they find efficiencies. And I've said it a couple of times before, like we're at 600, over 620

228
00:52:50.030 --> 00:53:06.949
Erin Keating: variance in this country. We used to be at before electrification came in. We we were in the 400 S. That was still insane. So I mean, there's a lot of room, I think, here for manufacturers to get pretty laser focused on what's really selling. What do they really need for their clientele, and certainly way for them to dial back some of the costs.

229
00:53:07.790 --> 00:53:33.479
Jonathan Smoke: Yeah, I totally agree, reinforce enormous opportunity. There is tremendous white space available and absolutely think about the consumer who for affordability is

realistically only considering used and within used, is having to consider a 6 to 10 year old, or even older vehicle in order to make that payment work. So a bare bones vehicle

230
00:53:33.710 --> 00:53:46.270
Jonathan Smoke: actually would be compelling, absolutely compelling. I think so. I'm all for seeing someone attempt to do that, and I think you'll see success may not be with the Gen. Zers.

231
00:53:46.804 --> 00:53:50.820
Jonathan Smoke: But I know some crotchety old Gen. Xers and and boomers that.

232
00:53:51.210 --> 00:53:53.450
Erin Keating: I think we have some on our team right.

233
00:53:53.700 --> 00:53:54.060
Jonathan Smoke: Maybe.

234
00:53:55.570 --> 00:53:57.836
Erin Keating: Bring the 5 speed back.

235
00:53:58.290 --> 00:54:26.010
Jamie Butters: All right. Well, we have enough questions. We could do a whole Labor Day telethon kind of thing. But we've got to let you go. We've got to let everyone get back to work. Thanks everyone for joining us today, thanks to Jim Martino for producing, thanks to Kevin Singer, Apa, President Kaylee Hall and the rest of the Apa Board for pulling together this series. Thanks especially to our terrific guests, Jonathan Smoke, chief economist at Cox Automotive Aaron Keating executive Analyst at Cox Automotive. I'm Jamie Butters. Have a great rest of your day.

236
00:54:26.160 --> 00:54:28.000
Erin Keating: Thanks for having us. Take care.