INDUSTRY UPDATE

FEBRUARY 2017

ECONOMIC INDICATORS

- **Consumer sentiment is strong** with energized optimism for consumer finances and economic performance.
- **Trade & Tarriff issues** continue to be a central topic with both media and OEMs as top officials visit the White House (e.g., Japan's Abe, Canada's Trudeau). Affordability is a major concern as car prices are at an all-time high while wages stagnate.
- **Corporate Average Fuel Economy (CAFE) standards** will be an ongoing focus as CEOs of major OEMs sent a joing letter asking the White House to review the current standards (which added approximately $1000 to the cost of each vehicle sold in 2016). The Trump administration could scale back the standards.
- **A cyclical decline** may be coming after 7 years of steady growth.

DEMAND

- **Demand for SUVs and Trucks remains strong while demand for sedans, hybrid and alt-fuel vehicles remains weak.** This will be an ongoing battle for the OEMs that will likely result in manufacturing downtime.
- **CPO sales** grew almost 1% YOY.
- **Leasing growth** continues YOY, indicating a healthy supply of off-lease vehicles for the next 3-4 years that can continue to fill growing demand for CPO.
- **VW has reported 100,000 buybacks,** with 10-20% of these customers buying another VW.

LIGHT VEHICLE SAAR

⬇ **17.5M** 2017

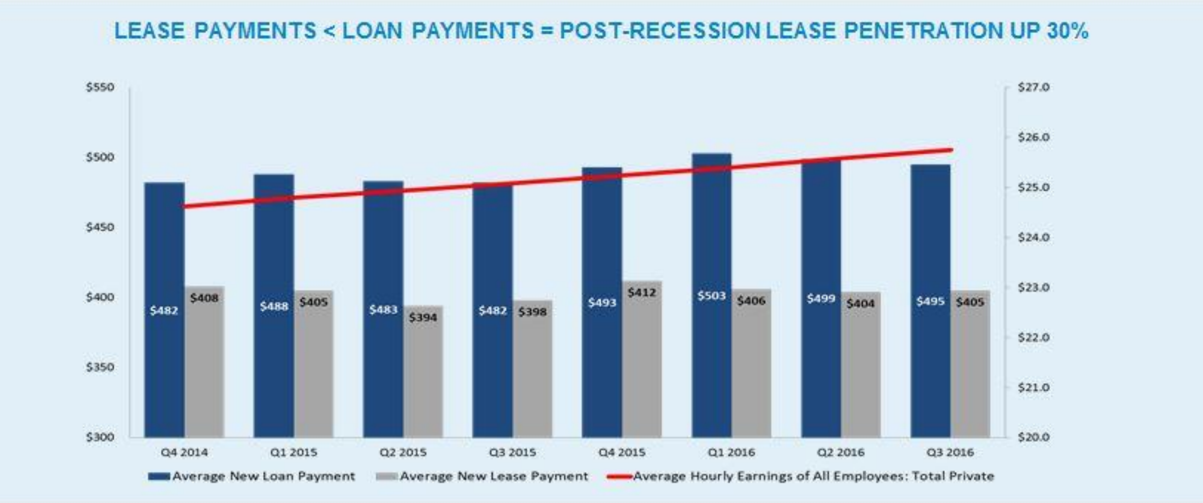
VS.

⬆ **17.8M** 2016

2017 sales predictions are slightly lower compared to 2016. This year's performance will likely depend on credit availability & consumer confidence, which are still shaping up for the year.

SUPPLY

- **Incentive levels have come down** slightly from historic high levels in December and January, but are still high. Many OEMs believe 2017 sales will drop compared to 2016, which will likely lead them to more aggressively pursue market share.
- **Tesla's CY 2016 financial results** announcement on February 22 will likely draw media attention as the company ramps up production, launches the more affordable Model 3 and wrestles with rumors of the UAW organizing Tesla production workers.



CREDIT

- **Auto Debt** is roughly 9% of total U.S. household debt, which is significantly higher compared to Recession lows.
- **Subprime originations have grown rapidly** but remain lower than 760+ score originations.

⬇ **Household financial obligations ratio is below pre-Recession levels.**

VS.

⬆ **Consumer credit as share of GDP is increasing.**