

INDUSTRY UPDATE

July 2017

ECONOMIC INDICATORS

- Consumer prices for many goods and services are down. The overall Consumer Price Index (CPI) is up now only 1.6% YOY, and most of that gain is based on housing being up 3%. **Substantial increases in vehicle prices may not be advisable while the overall CPI remains at or near the current level.**
- The economy's continued strength increases the likelihood of higher interest rates. **Eventually, higher rates will start to impact demand**, especially for new vehicles, as budgets dictate more affordable alternatives.
- Distractions in D.C. could dent consumer confidence, but low unemployment, consistent job creation and modestly higher wages should support continued **solid retail demand for autos that should stabilize annual new vehicle sales volumes in the 16- to 16.5-million range.**

DEMAND

- **New vehicle retail sales were down 1% in June.** Commercial fleet sales increased 15% while Rental and Government fleet sales fell 22% and 13% respectively.
- Registration data through April 2017 suggest total retail used sales are up approximately 5% YTD, with Franchise used sales up 4% and Independent used sales up 5.4%. While CPO sales decreased 0.8% YOY in June, YTD CPO sales are up 1.3%.
- **Toyota was the top OEM in June** with an overall sales increase of 2.1% boosted by fleet sales that increased 6%.
- **Hyundai and Kia saw sharp declines**, as sales were down 19% and 10% respectively, likely due to having vehicle portfolios that favor cars in a market currently dominated by the SUV/Truck segment.

LIGHT VEHICLE SALES

↓ **1%** New Retail

vs.

↓ **22%** Rental

↑ **15%** Commercial

↓ **13%** Government

SUPPLY

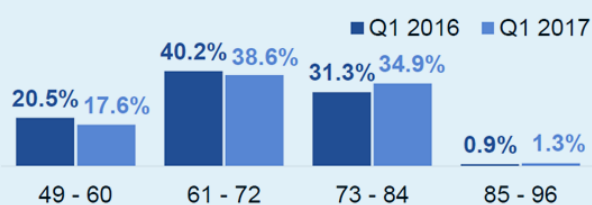
- **June new vehicle days supply was up 6 days from May** (an increase of 7 days YOY), which continues to be high as new vehicle retail and fleet sales are marginally declining. Increased incentives and production cuts will help achieve a better inventory balance.
- The market has efficiently absorbed an estimated 27% increase in off-lease supply YTD, compared to 2016 when total off-lease auction transactions grew 41%. **Off-lease supply growth going forward will likely be less than what we've already experienced in the last 12 months.**

CREDIT

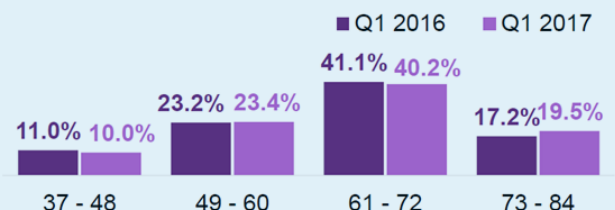
- Longer-term loans are gaining market share, possibly because lower monthly payments are desirable as the costs for necessities such as housing, insurance and health care have been rising ahead of incomes in recent years.

Longer-Term Auto Loans Are Gaining Market Share

Percentage of new loans by term



Percentage of used loans by term



Source: Experian Automotive