

INDUSTRY UPDATE

May 2017



ECONOMIC INDICATORS

- The economic environment remains mixed: the labor market is strong and consumer sentiment is high but retail sales and GDP remain moderate.
- **The unemployment rate has dropped to the lowest level seen since May 2007**, and job openings and hires remain at near post-recession highs, which is a **good sign for near-term income growth**.
- Average hourly earnings continue to grow steadily, with a 2.5% change YOY, but personal consumption expenditures (which account for almost 70% of GDP) are flat and One-Year Ahead Household Spending Growth Expectations are down 2.6% YOY. This indicates **only moderate growth ahead**, likely because wage gains haven't been high enough to keep up with rising health care, education, housing and auto insurance costs in 2017.

DEMAND

- **New vehicle retail sales experienced a slight decrease of 0.3%** in April compared to 2016, and the three categories of Fleet – Rental, Commercial & Government – reported YOY declines of 12%, 11% and 17% respectively.
- **CPO sales are up to 0.7% as growth rates are moderating**, likely because CPO seems to be currently less of a comparative bargain for consumers due to high OEM incentives on new vehicles. In addition, off-lease CPO vehicles are mainly sedans, while trucks and SUVs continue to be more in demand.
- **The top OEM in March was Nissan**; although its overall sales dipped 1.5%, its light truck divisions rose more than 11% YOY. Subaru was the second-best performer with a .33% share increase. After a slow start to the year, Toyota's share increased by 0.15%. Fiat Chrysler was once again the month's biggest decliner.

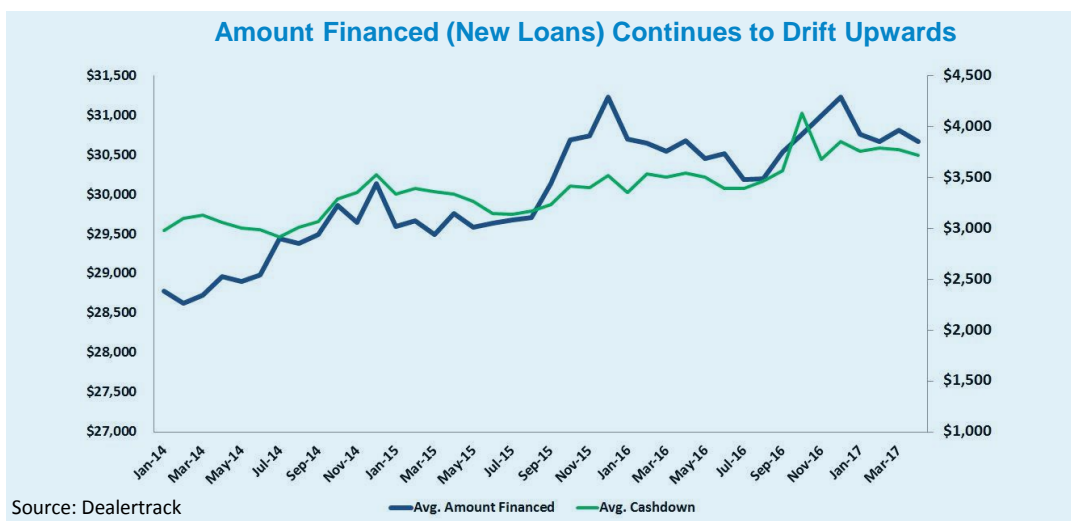
LIGHT VEHICLE SAAR

↓ **0.3% New Retail**
VS.
↓ **12% Rental**
↓ **11% Commercial**
↓ **17% Government**

SUPPLY

- **Total wholesale prices were up 1.6% YOY**, with SUVs/CUVs rising 1.5% and pickups rising 7.0%, reflecting the increased consumer demand for these segments. Wholesale prices for luxury cars remained flat while compact car prices rose 0.3%. Midsize car and van prices declined by -2.8% and -0.1% respectively.
- **Industry incentive spend and days supply remain elevated**. Days supply for trucks increased to an average of 77 days, an increase of six selling days compared to April 2016.

CREDIT



- While the **auto loan growth rate declined 3.8%** from March, the amount financed by new loans continues to trend upward, as does the average cash-down amount.
- As OEMs adjust residuals to expectations of weaker used-vehicle values in the future, they are reducing lease subvention, which is **reducing the cost advantage of leasing versus buying**.

↓ **% of Banks Reporting Stronger Demand for Auto Loans**
VS.
↑ **% of Banks Tightening Auto Loan Standards**

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