INDUSTRY UPDATE

October 2017

ECONOMIC INDICATORS

- Inflation in September was impacted by the late summer hurricanes, as **the Consumer Price Index increased 2.2%,** driven primarily by higher gas prices. The hurricane-related increase in inflation has led to a higher probability of the Fed increasing short-term interest rates by another quarter of a point in December.
- **Retail sales jumped 1.6% in September, the highest growth since March 2015.** Much of the increase was driven by auto sales. Consumers remain positive and retail spending is growing as earnings continue to rise faster than inflation, even after a 2-month spike in gasoline prices following Hurricane Harvey.
- The biggest risk to automotive demand in the near- to medium-term is the impact of higher interest rates coupled with continued credit tightening. **However, as long as the economy continues to grow and unemployment remains low, consumers will keep buying vehicles but will shift to lower price points and more used vehicles.**

DEMAND

- **September new sales volume jumped 6% YOY**. Commercial fleet sales increased 26%, Rental fleet was up 2% and Government fleet increased by 4%.
- Cox Automotive estimates indicate that **used vehicles sales increased 193,000 from August to 3.369 million in September,** an increase of 8% YOY fueled by hurricane-generated replacement demand. The corresponding used-vehicle SAAR (Seasonally Adjusted Annual Rate) was 40.4, the highest used SAAR since November 2015. **CPO sales increased 7% YOY.** Vehicles less than 4 years old currently represent the largest age segment in the used auto market.
- **The top OEM in September was Toyota,** with sales up 14.9% YOY, boosted by the popularity of the RAV4, Highlander and 2018 Camry.

LIGHT VEHICLE SALES

↑ **6%** New Retail

VS.

↑ **2%** Rental

↑ **26%** Commercial

↑ **4%** Government

SUPPLY

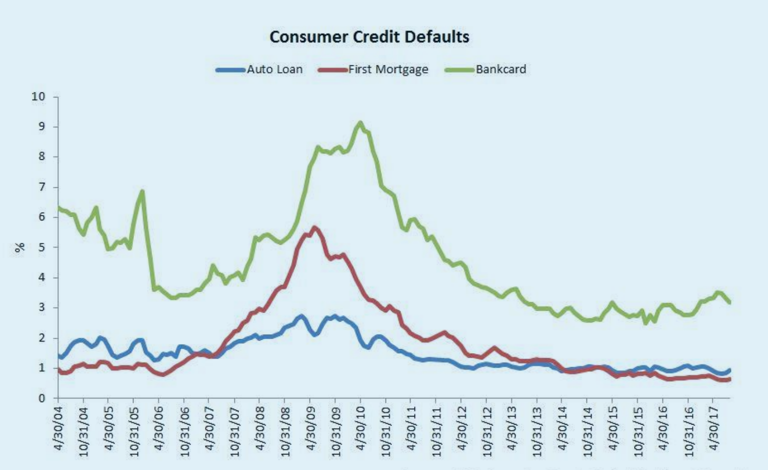
- The days' supply for August was 63, down 1 day YOY and down 6 days from August. Inventories of new vehicles at dealer lots stayed below 4 million units and remain at the lowest level of the year.
- Average incentive spend in September was $3,889, which is up 5% YOY and up 4% from August. **This is the highest monthly average incentive spend on record since January 2009.**

CREDIT

- Auto loan rates have remained tight. According to Bankrate.com, **the average rate on a 60-month new vehicle loan was 3.38% as of October 12,** up two basis points since September 12.
- Auto lending standards have been tightening for more than a year and, as a result, **auto loan defaults remain nearly the lowest they've been in almost a decade.** While the auto loan default rate increased to 0.95% from an all-time low in June, it's still a fraction of the Great Recession-fueled rate of 2.7% reached in 2009.

Auto Loan Defaults Remain Near Post-Recession Lows

Defaults reached a rate of 0.95% in September compared to 2.7% in 2009



Source: Cox Automotive Industry Update Report, October 13, 2017