



# 2019 MID-YEAR REVIEW AND OUTLOOK

Cox  
AUTOMOTIVE™

**WELCOME!**

**COX**  
AUTOMOTIVE™

# *Our Team*

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**Shirley Powell**

Senior Vice President, Communications & Industry Relations

**Chintan Talati**

Senior Director, Public Relations

**Mark Schirmer**

Director, Public Relations

**Dara Hailes**

Manager, Public Relations



# *Our Team*

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**Marianne Johnson**

Executive Vice President and Chief Product Officer

**Mark Luber**

Chief Data Officer

**Jonathan Smoke**

Chief Economist

**Charlie Chesbrough**

Senior Economist

**Michelle Krebs**

Senior Industry Analyst

# OUR VISION

Transform the way the world buys, sells, owns and uses cars



# OUR PURPOSE

Empower clients to thrive in a rapidly changing marketplace


Autotrader 

 CLUTCH

DEALER.COM

Dealertrack 

 HOMENET  
AUTOMOTIVE

 Kelley Blue Book

 Manheim

NEXTGEAR  
CAPITAL

PIVOT

 RIDEKLEEN

RMS/AUTOMOTIVE

vAuto  
LIVE MARKET VIEW

VinSolutions

∞xtime

# Schedule

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## 10 a.m. – State of the Industry

- Economy – Jonathan Smoke
- Market Conditions – Charlie Chesbrough
- OEM Performance – Michelle Krebs
- Curves Ahead – Jonathan Smoke

Q&A

## 11 a.m. – The Data Revolution

- Advanced Data & AI – Marianne Johnson

Q&A

Noon – Lunch



# STATE OF THE INDUSTRY

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June 26 // TROY

## JONATHAN SMOKE

CHIEF ECONOMIST


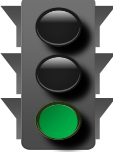
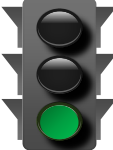

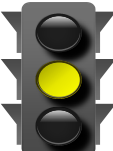


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# OUR ECONOMY: Under Pressure

Overall Economy	GDP Growth	1.4% (Q2 NY Fed Nowcast)	3.1% (Q1 '19) 4.2% (Q2 '18)	
Employment Conditions	U3 Unemployment Rate	3.6% (May)	4.0% (June '18)	
Buyer Confidence	UofM Consumer Sentiment	97.9 (June Early)	100.0 (May '19) 98.2 (June '18)	
Wages	Earnings Growth	3.1% (May)	3.2% (April) 3.4% (March)	
Buyer Ability	Disposable Income Y/Y	3.8% (April '19)	4.9% (2018)	

## OUR ECONOMY: Under Pressure

Credit Availability	NY Fed	1,160 (Q1 '19)	1,128 (Q2 '18)	
Interest Rates	Target Fed Funds Rate	2.25 -2.50% (June '19)	1.75 -2.00% (June '18)	
Borrowing Costs	Avg Rate 60m Auto Loan	6.33% (May '19)	5.96% (Dec '18) 6.06% (May '18)	
Ownership Costs	Weekly Retail Gasoline Price	\$2.74 (June '19)	\$2.89 (June '18)	

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## CHARLIE CHESBROUGH

SENIOR ECONOMIST



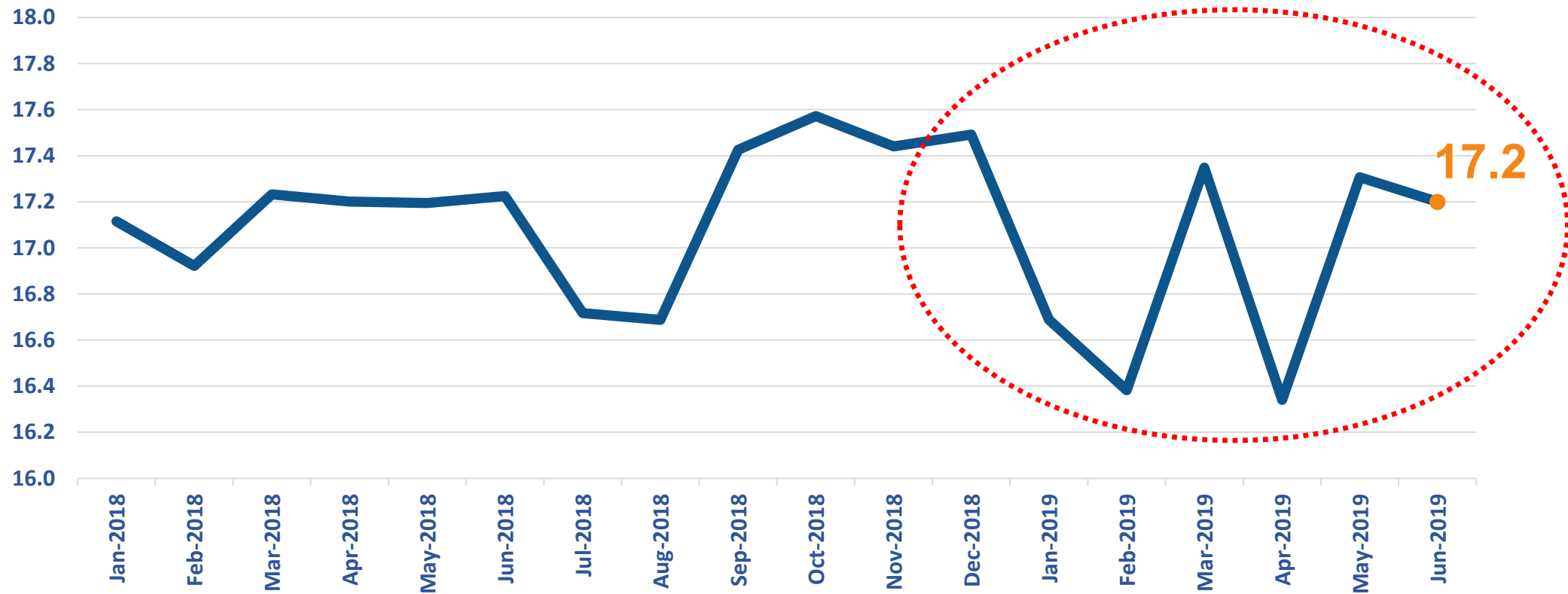
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# U.S. SALES SAAR: First-Half Volatility Likely To Continue

Return to “normal” in June forecasted – but not expected

New Light Vehicle Seasonally Adjusted Annualized Rate (Millions)



# U.S. NEW-VEHICLE SALES: First Half Down, Second Half More

Month	Jun-18	Jun-19	YOY	May-19	MOM Change
Sales Millions	1.55	1.51	<b>-2.7%</b>	1.59	<b>-5.0%</b>

Quarter		2018	2019	Change
Sales Millions	Q1	4.1	4.0	<b>-3.1%</b>
	Q2	4.5	4.4F	<b>-1.3%</b>
	Q3	4.3	4.2F	<b>-2.0%</b>
	Q4	4.4	4.2F	<b>-4.0%</b>
	Year	17.3	16.8F	<b>-2.5%</b>
	1st Half	8.6	8.4F	<b>-2.2%</b>

Pace of sales decline expected to increase in H2: Higher vehicle prices, consumer budget constraints, credit tightening slow purchases

# U.S. NEW-VEHICLE MARKET: Channels Reveal Weakness

	New Market	Fleet	Retail Purchase	Retail Lease
2018	0.5%	4.3%	-0.4%	-0.2%
2019F	-2.4%	4.0%	-3.5%	-4.6%
YTD	<b>-2.2%</b>	<b>6.9%</b>	<b>-5.2%</b>	<b>-2.9%</b>

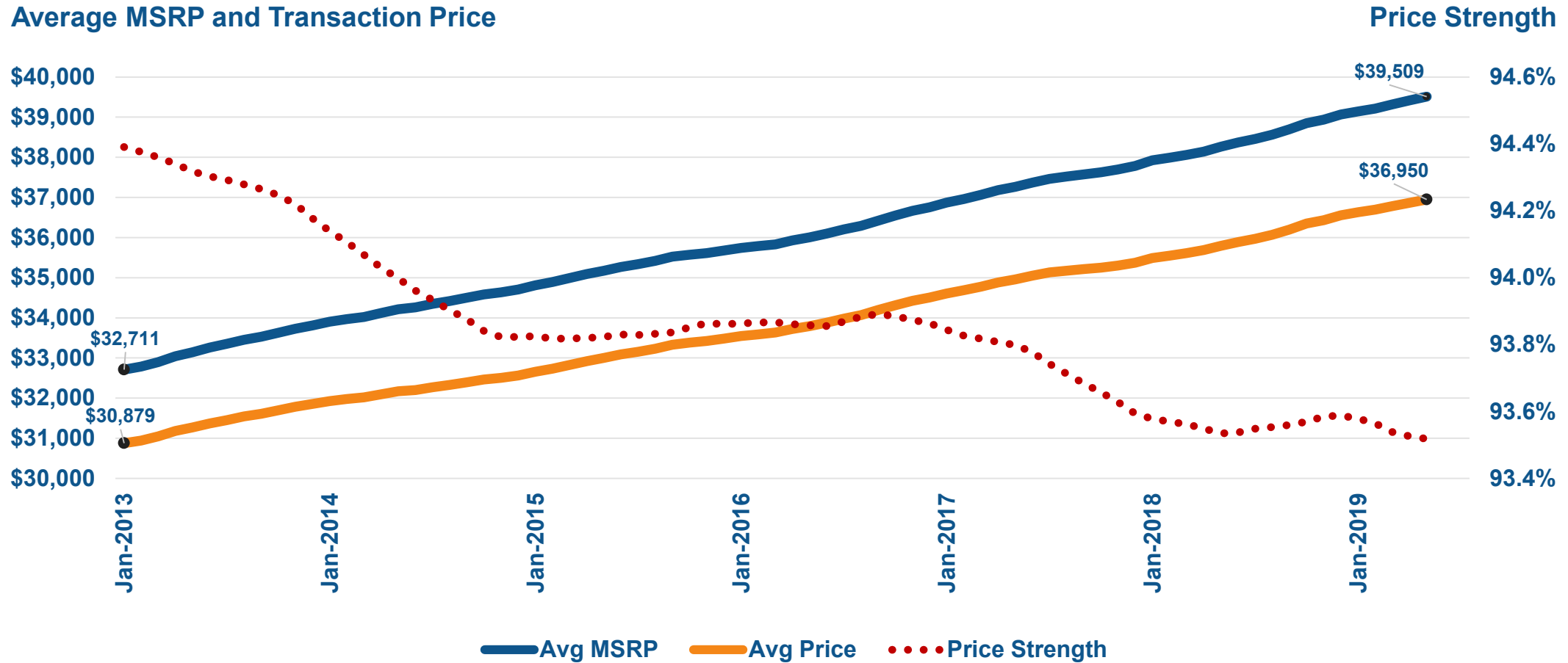
**Cox Automotive**  
**Sales Forecast**  
 2019 = 16.8 million  
 2020 = 16.5 million



# MARKET PRICING: Higher Prices Off-setting Lower Volumes

Average MSRP approaching \$40,000 – affordability issue likely increasing

Average MSRP and Transaction Price

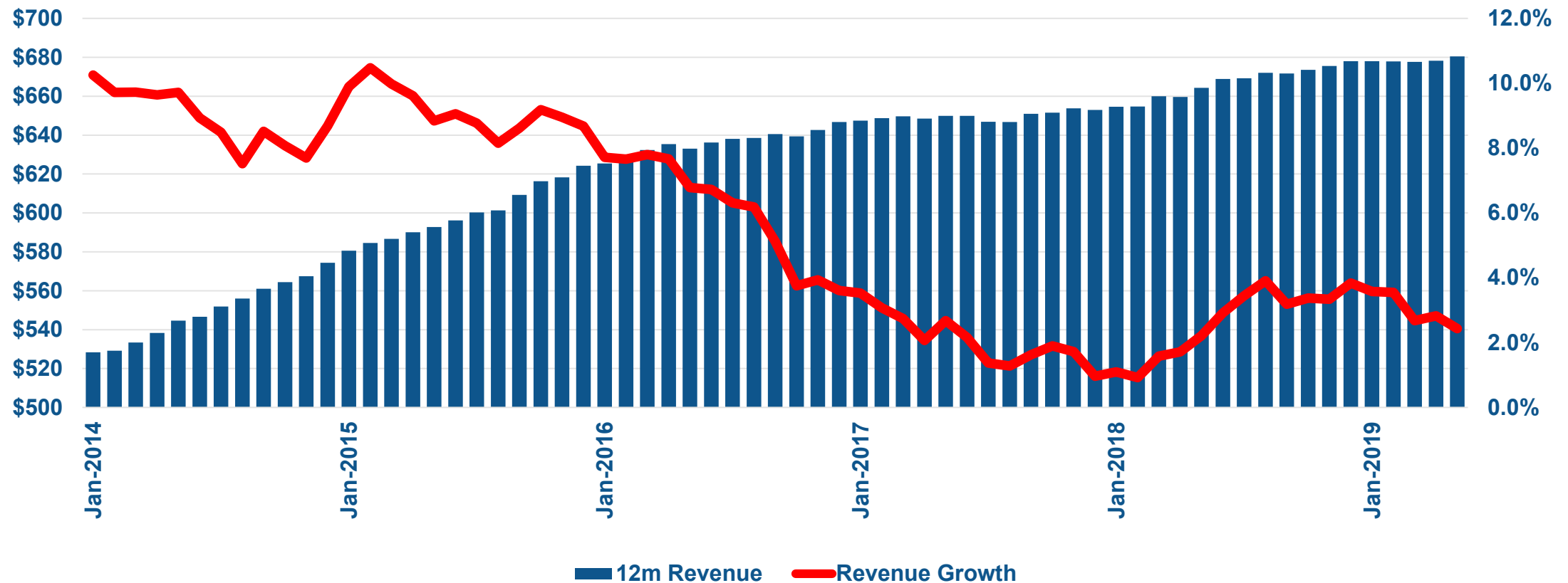


# MARKET REVENUE: Annual Pace Near \$680 billion, Still Rising

Revenue at post recession peaks, but weakening prices eroding growth

Market Revenue (12m Total, Billion \$)

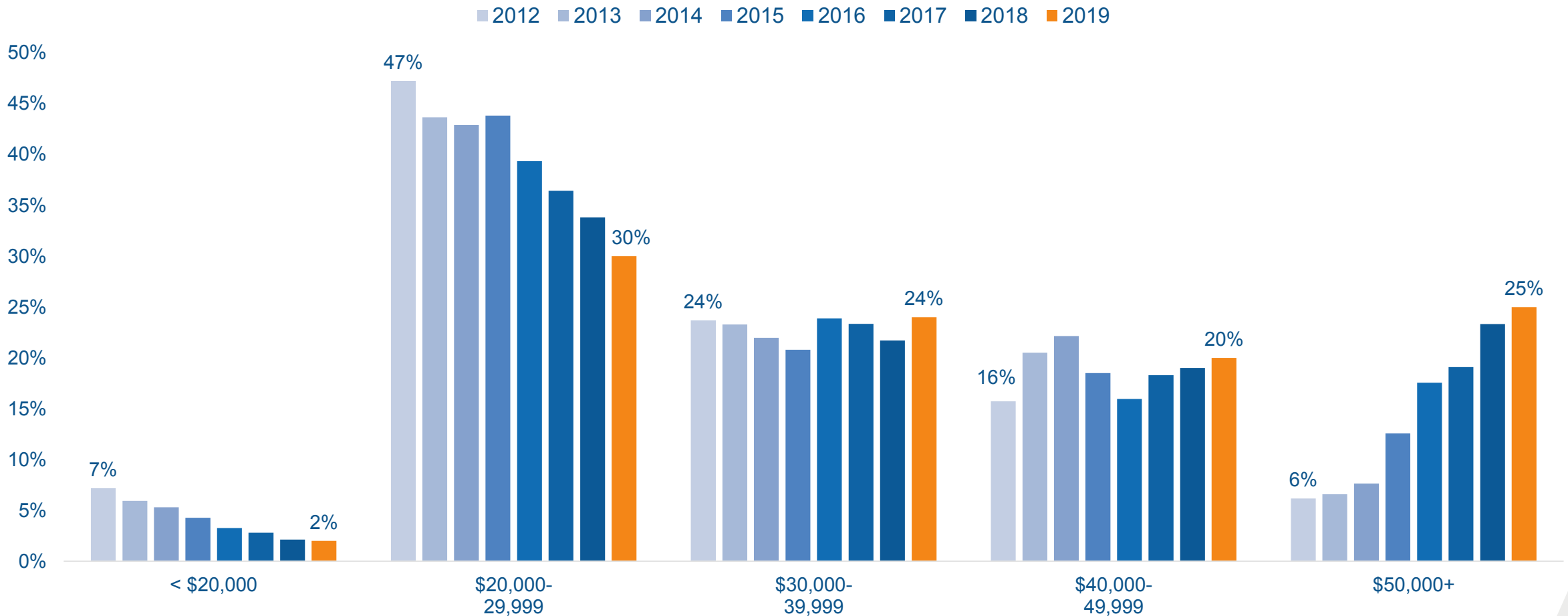
Revenue Growth





# MARKET CONDITIONS: Affordability Issues Worsening In 2019

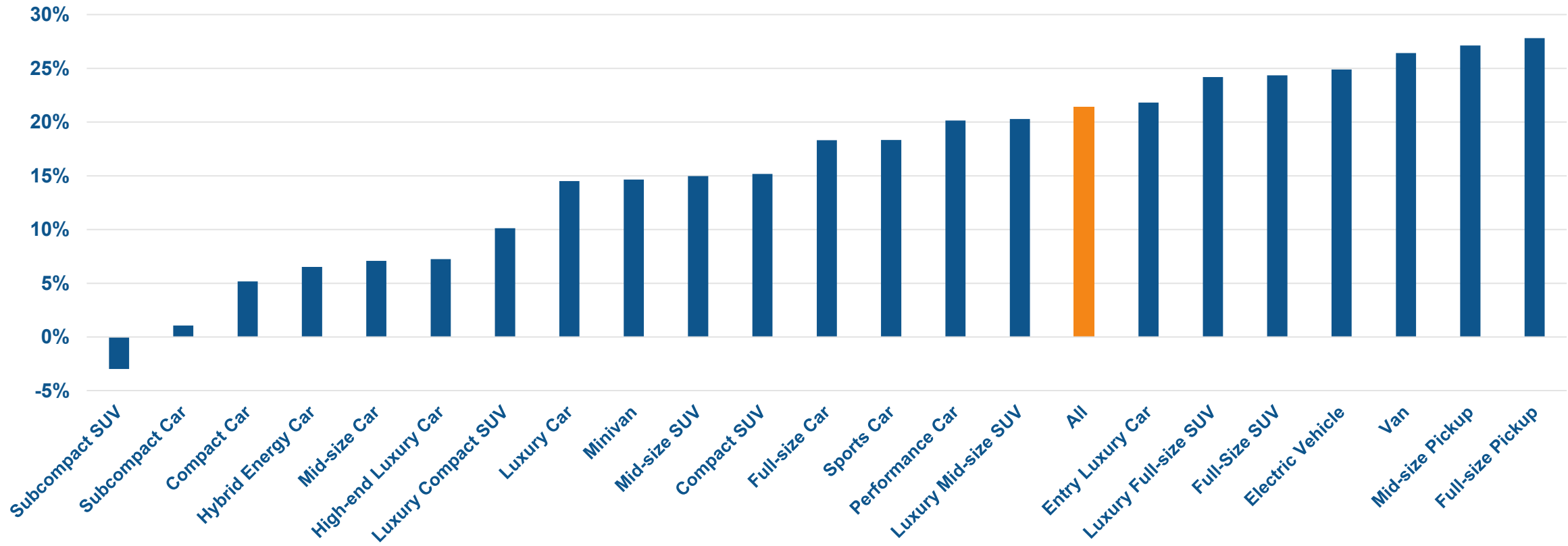
Continued shift to expensive vehicles



# SEGMENT PRICING: “Largest” Vehicles = Largest Price Increases

Average MSRP up 21% since 2012 but variation significant across vehicle product segments

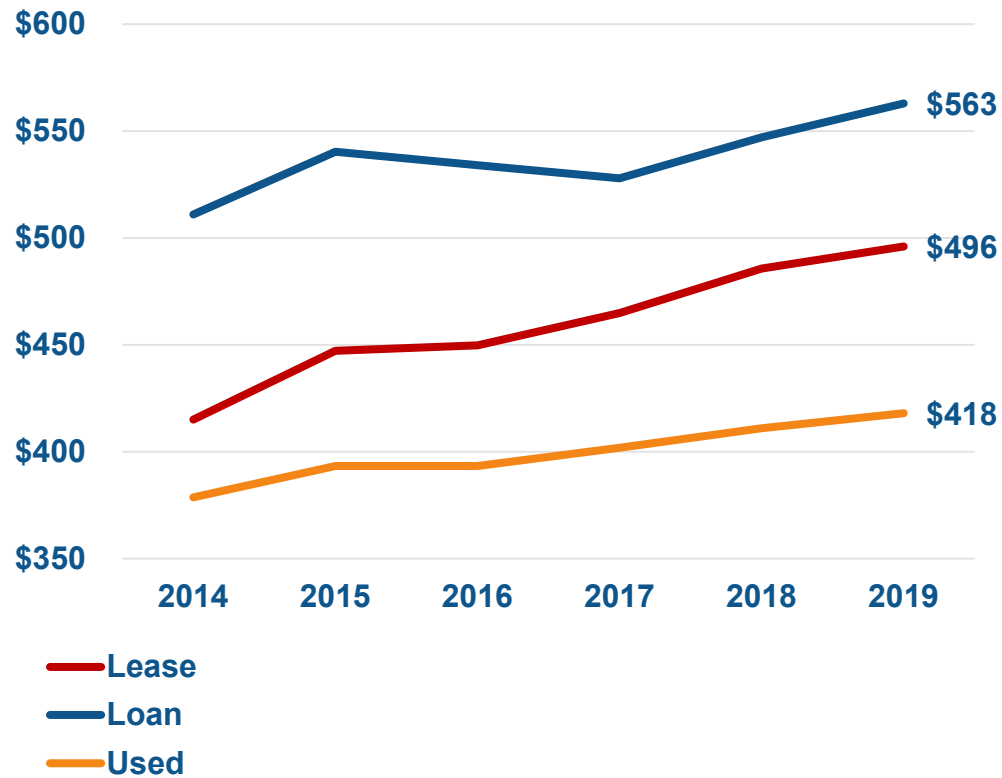
MSRP Change: 2012-2019



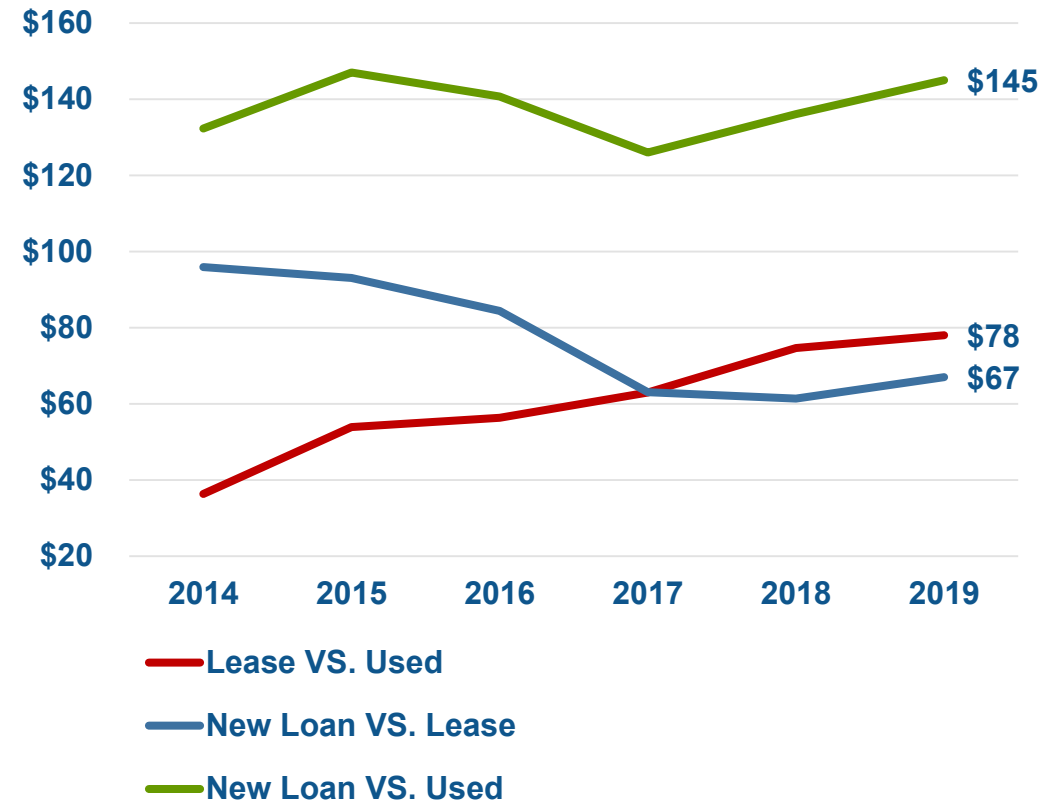
# MONTHLY PAYMENTS: Differences Drive Consumer Choices

Rising lease payments will lead some potential buyers to used market

Monthly Payment



Payment Difference

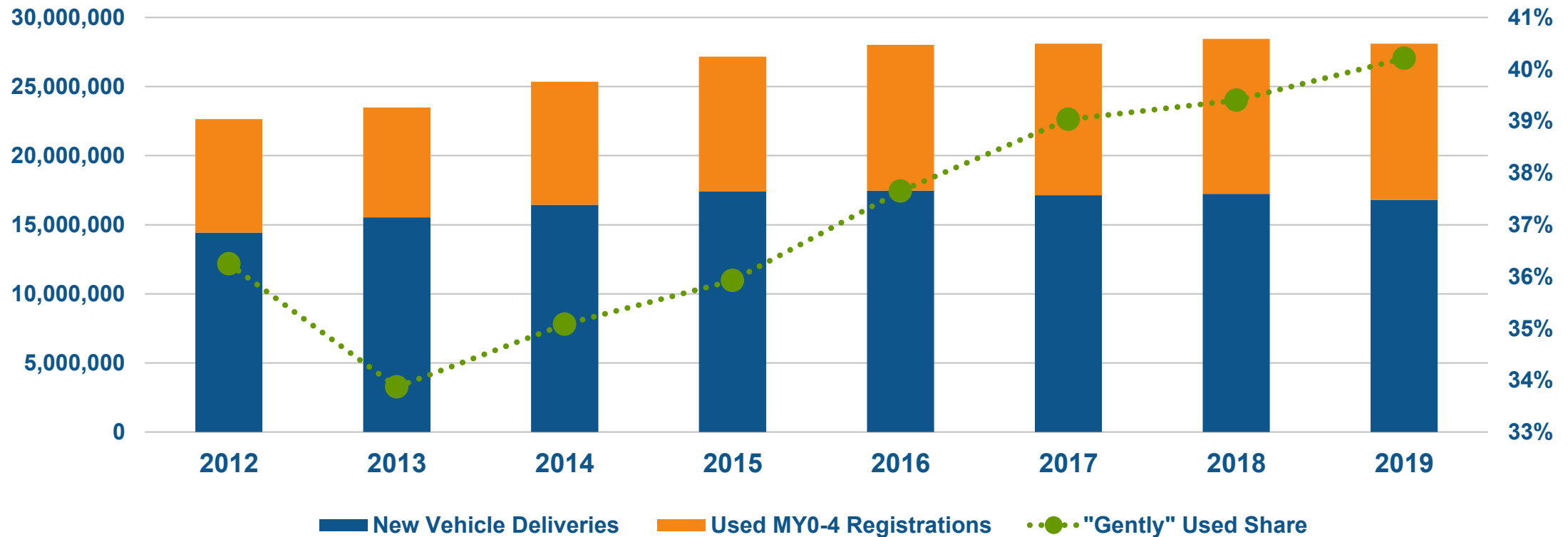


# THE POTENTIAL MARKET: New + "Gently Used" = 28 Million Vehicles

Previous lease and fleet strategies providing growing headwind for new sales

## New and Used MY0-4 Vehicle Market

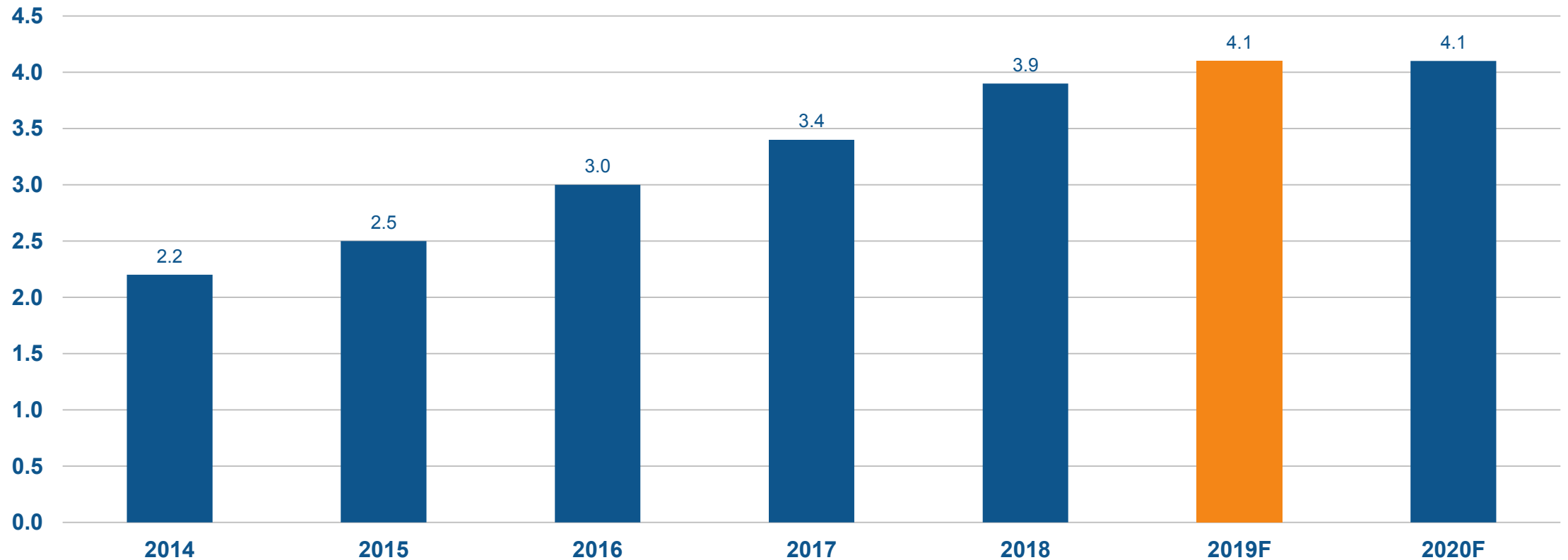
Used Share



# OFF-LEASE MATURITIES: Threat Volume At Peak

A lot of “gently used” vehicles and potential new customers – dealers benefit twice

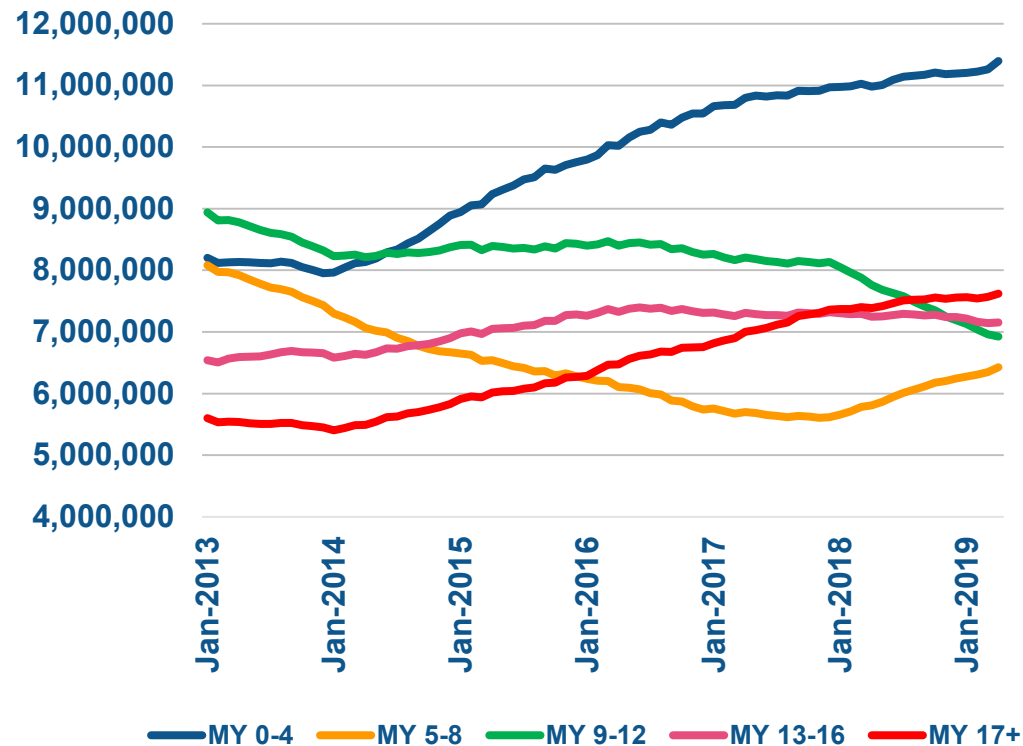
Off-Lease Maturities (annual volume, millions)



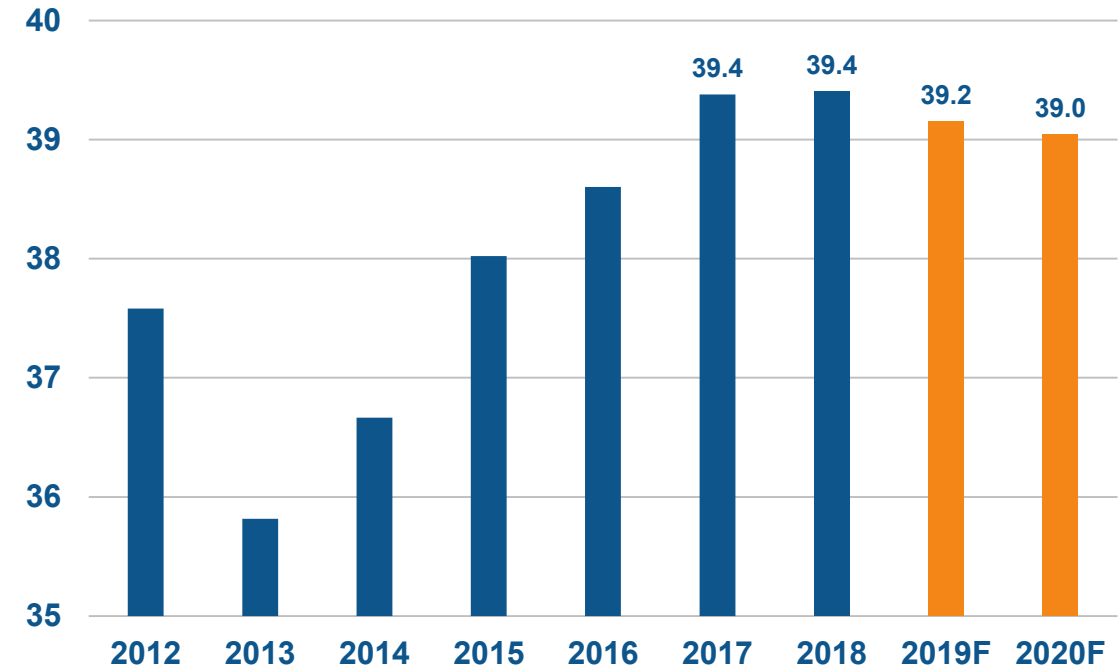
# THE USED-VEHICLE MARKET: Decline Due To Supply Constraints

High demand for off-lease vehicles and supply limitations from recession keep prices elevated

Total Registrations By Model Year (12m average)



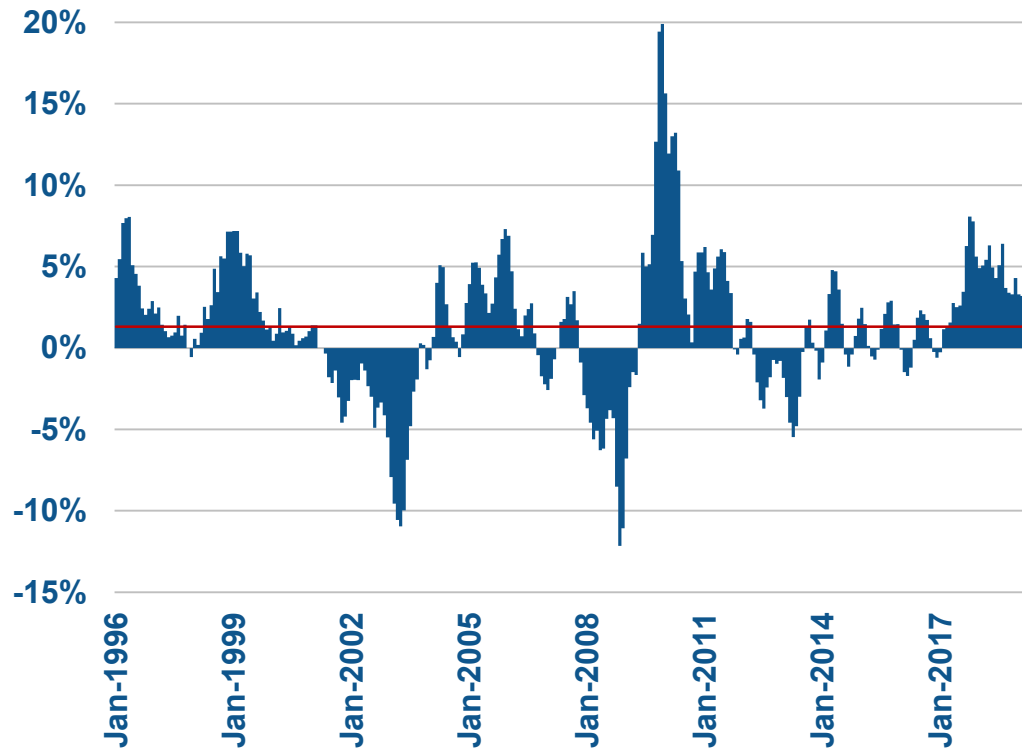
Used Sales (annual, millions)



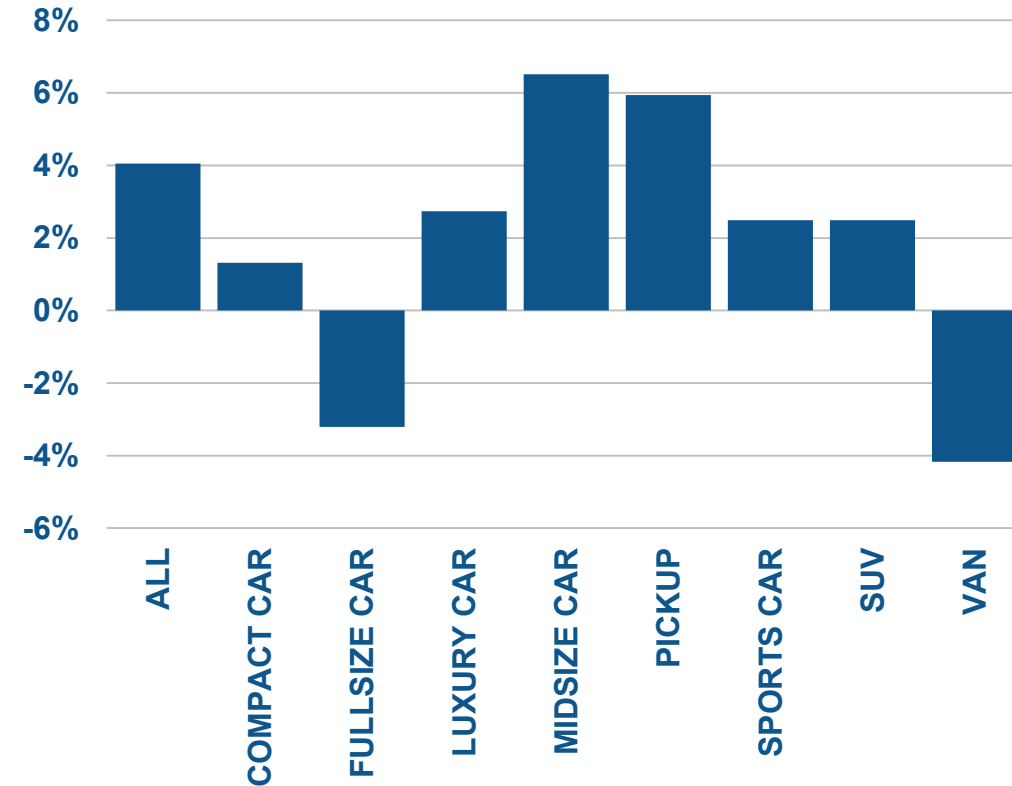
# AUCTION MARKET: Prices Near Highs, Continued Growth Expected

Strong demand for affordable transportation coupled with limited supply causing tight market

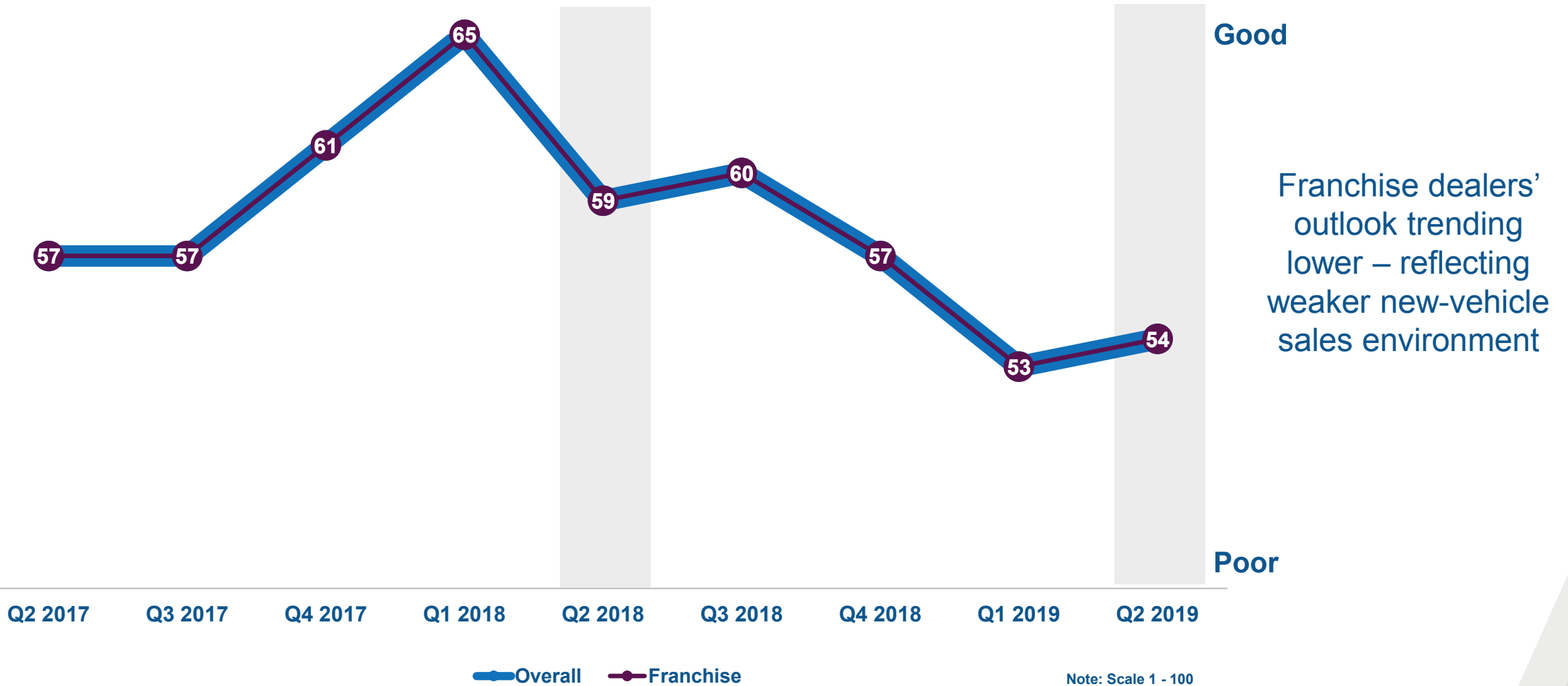
### Manheim Index (annual change)



### Segment Prices May (annual change)

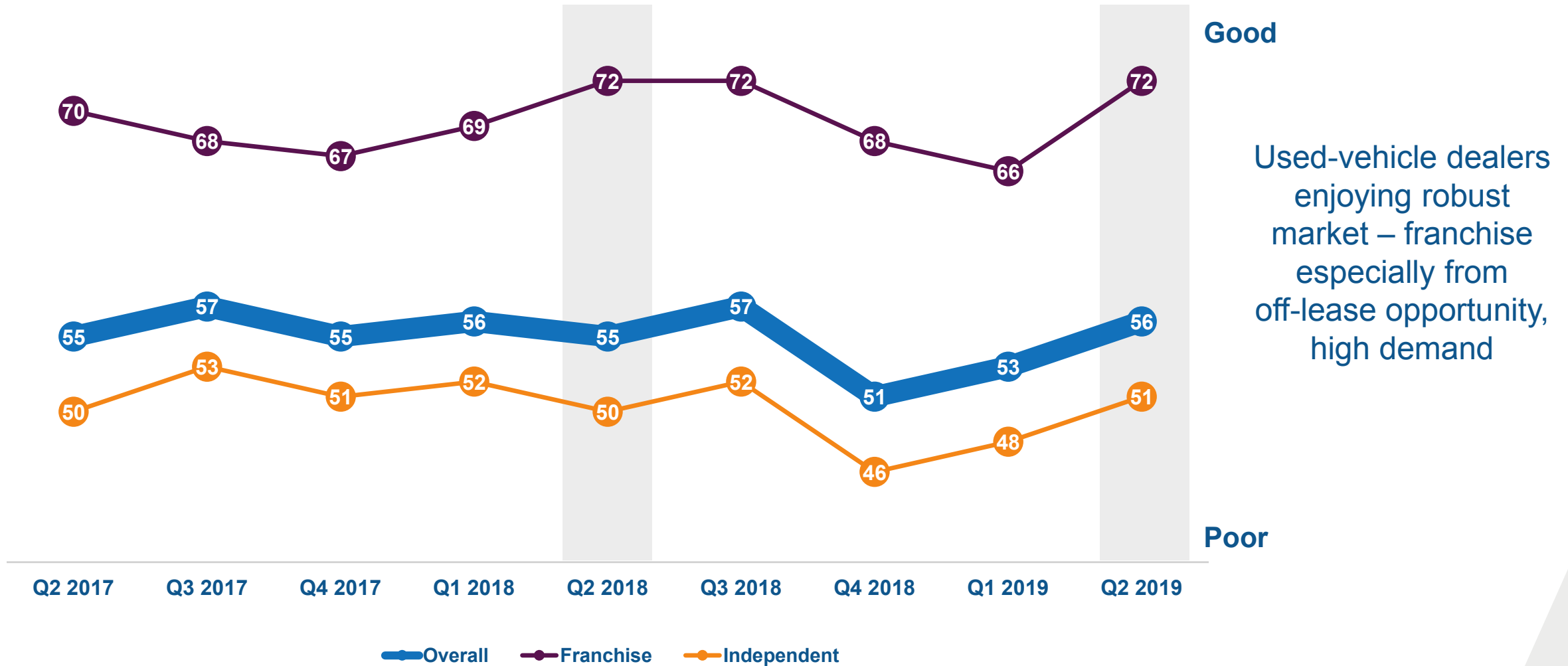


# DEALER SENTIMENT – NEW MARKET: Down From Peak





# DEALER SENTIMENT – USED MARKET: Rising, Strong Market



Note: Scale 1 - 100

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## MICHELLE KREBS

SENIOR INDUSTRY ANALYST



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## JUNE & FIRST-HALF FORECAST: A Slowing Industry

### Cox Automotive Forecast: June Auto Sales to Slow Following Surprisingly Strong May

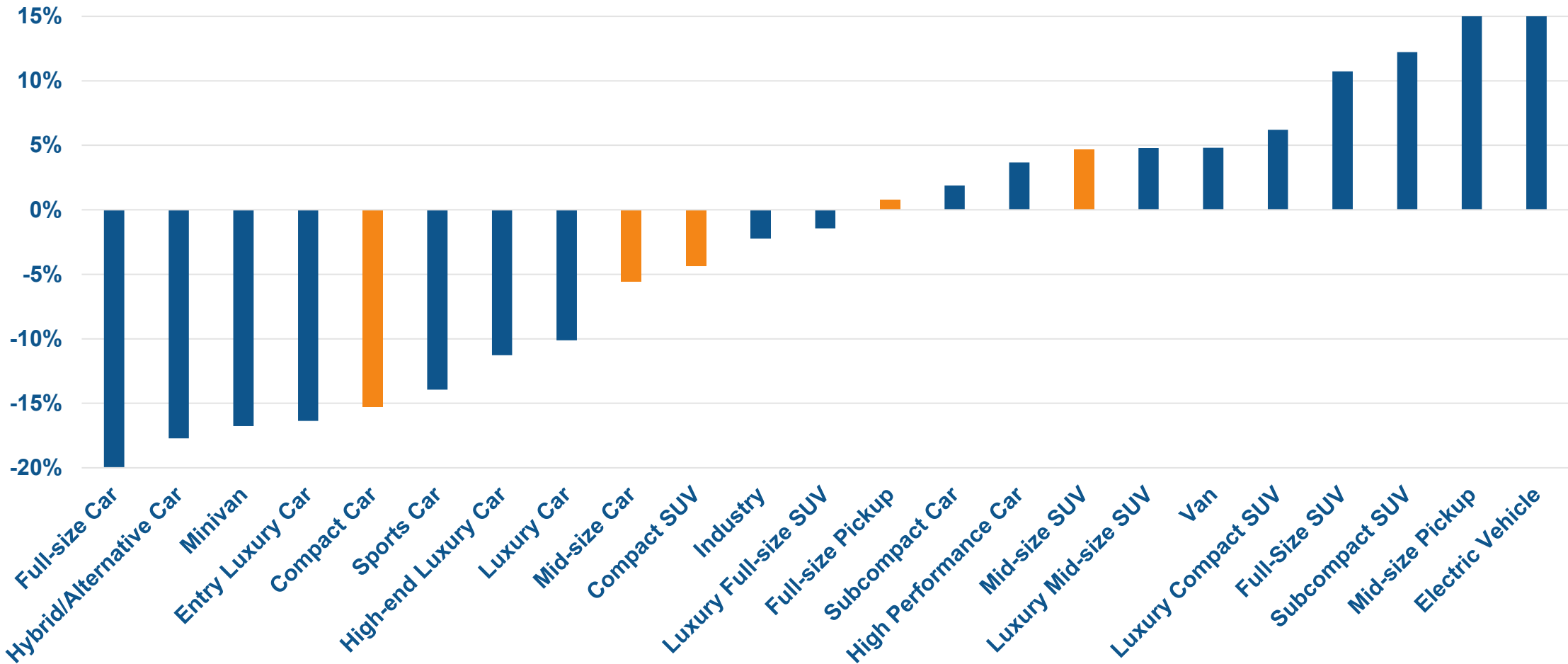
	Monthly Forecast			First Half Forecast		
	June '19	June '18	YOY%	Jan – Jun '19	Jan-June '18	YOY%
GM	242,000	255,000*	-5.2%	1,397,825	1,473,414	-5.1%
Ford Motor Co	218,000	229,000*	-5.0%	1,230,763	1,271,714	-3.2%
Toyota Motor Co	203,000	209,602	-3.1%	1,151,353	1,189,309	-3.2%
FCA Group	198,000	202,264	-2.1%	1,088,027	1,115,476	-2.5%
American Honda	145,000	146,563	-1.1%	786,094	787,824	-0.2%
Nissan NA	133,000	145,096	-8.3%	726,532	780,695	-6.9%
Hyundai Kia	125,000	120,623	3.6%	650,289	628,612	3.4%
Subaru	62,000	59,841	3.6%	340,014	322,860	5.3%
VW	55,000	53,304	3.2%	314,966	310,261	1.5%
<b>Grand Total</b>	<b>1,512,000</b>	<b>1,553,200</b>	<b>-2.7%</b>	<b>8,417,457</b>	<b>8,615,260</b>	<b>-2.2%</b>

June 2019 Cox Automotive Industry Insights Forecast; all historical data from OEM sales announcements

Note: Total includes brands not shown. GM and Ford monthly sales are estimated

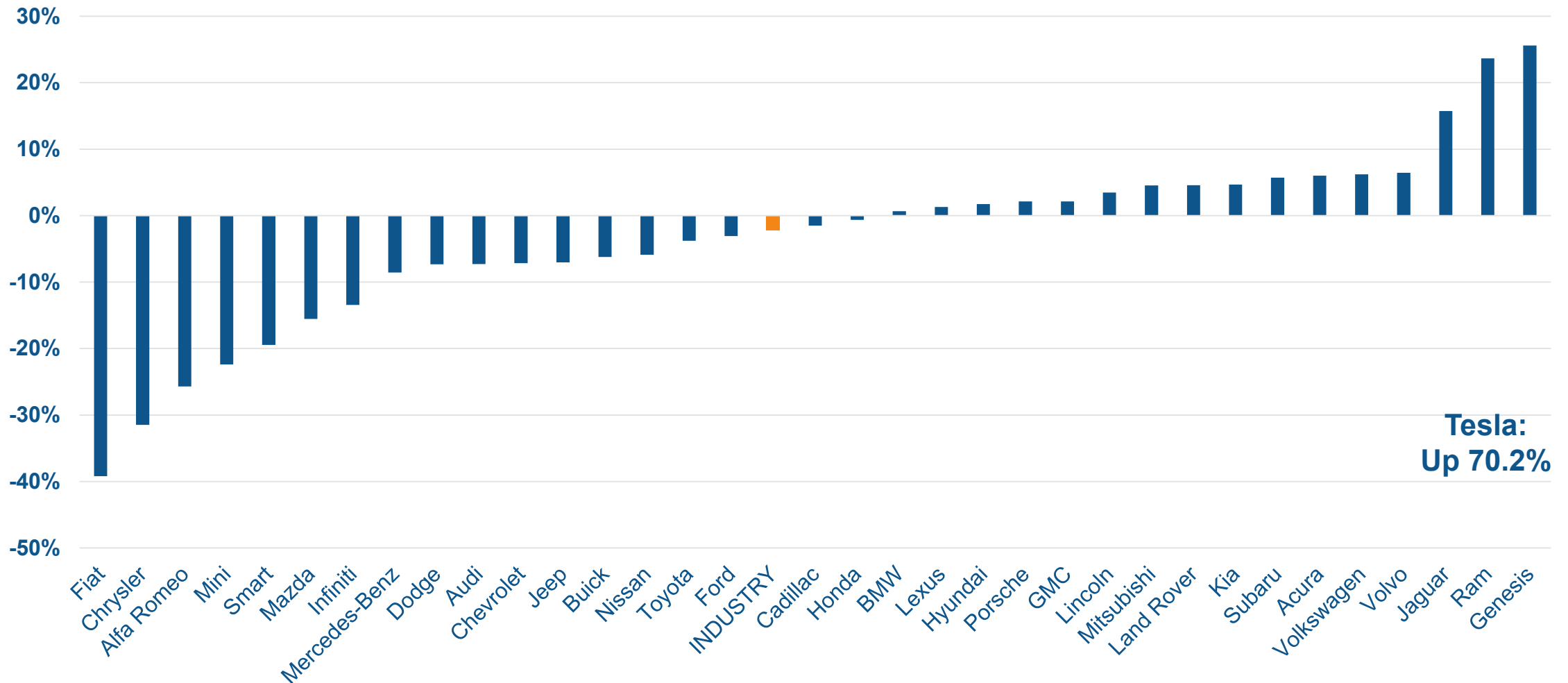
# SEGMENT SALES YTD: Cars Continue To Drag Down Market

Of **Top 5 Volume Segments**, three are in decline and full-size pickups are just hanging on



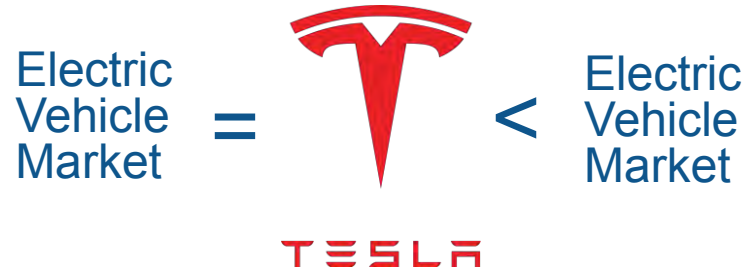
# BRAND SALES YTD: “Value” Imports Showing Growth

Large brands in decline – Fiat wins the bottom



**Tesla:  
Up 70.2%**

## SEGMENT PERFORMANCE: So What About Electrics?



### U.S. Luxury Share: 8.7%

Beats Acura, Lincoln and Cadillac  
Behind Lexus, BMW, Mercedes, Audi

### Brand Rep: Gold Standard

Top in 7 of 12 factors luxury-vehicle shoppers consider important

### Highest Interest:

Top-of-mind brand for EV shoppers  
Without Tesla, EV shopping would be stagnant on KBB.com



### New Cox Automotive EV Study:

- Consumers can see the future

### Barriers Remain:

- Cost of purchase vs ownership
- Infrastructure
- Skeptical dealers

### Tools Needed:

- Education & training
- Incentives
- Marketing

### Global Impact:

- China & Europe
- Investments – 45% in next 5 Years
- Battery supply

# U.S. NEW-VEHICLE SALES: **What We're Watching**



**Nissan** – Turmoil at the top. Relied on fleet and incentives during the good times. Now what? And Infiniti has few new products in the coming years.



**Tesla** – Everyone is watching, always. Every quarter is new adventure, as the bulls and shorts fight it out on Twitter. The real question: Is demand softening?



**Ford** – Will Ford execute critically-important launches of the high-volume, high-profit Explorer and Escape?



**Fiat & Mini** – Limited, small-vehicle portfolios and no U.S. production capacity may spell trouble for these brands as the market slows.



**European Luxury** – There are new bosses at all the luxury houses from Germany. With tariff threats and a push for electric, will they hold share?

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CHIEF ECONOMIST



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# FIVE TAKEAWAYS: First Half 2019

THE SEASON  
OF VOLATILITY



Lo/Hi—  
Black Keys

AFFORDABILITY  
WORSENS



La La Land—  
Bryce Vine  
featuring YG

CREDIT  
CRUNCH



Easier—  
5 Seconds of  
Summer

FLEET – THE  
NEW NORMAL



Jump—  
Armin van  
Buuren Remix

ALL PATHS  
LEAD TO USED



Don't Stop  
Me Now—  
First Ladies  
of Disco

## ***Curves Ahead***

*“The first half of the year was marked by volatility.  
The second half will be worse.”*



# CURVES AHEAD: Geopolitical Risks / Trade & Tariff

Ratification of USMCA (ITC Report Delivered)

~~Immigration Related Tariffs on Mexico (for now)~~

Section 232 Tariff on Imported Autos and Parts /  
Action on EU and Japan Postponed to Nov. 18

~~China Trade Deal (March 4; tbd)~~

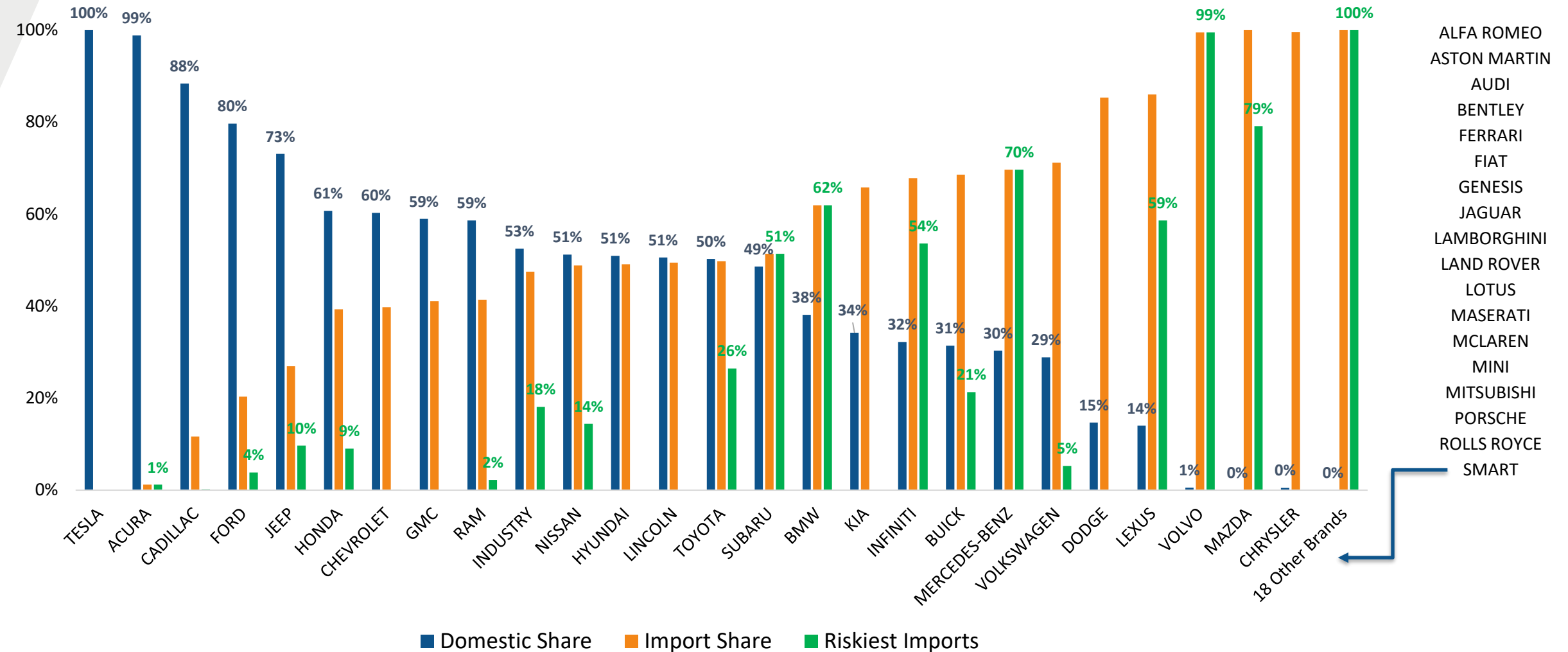
EU Trade Deal

Japan Trade Deal

UK Trade Deal Post Brexit?



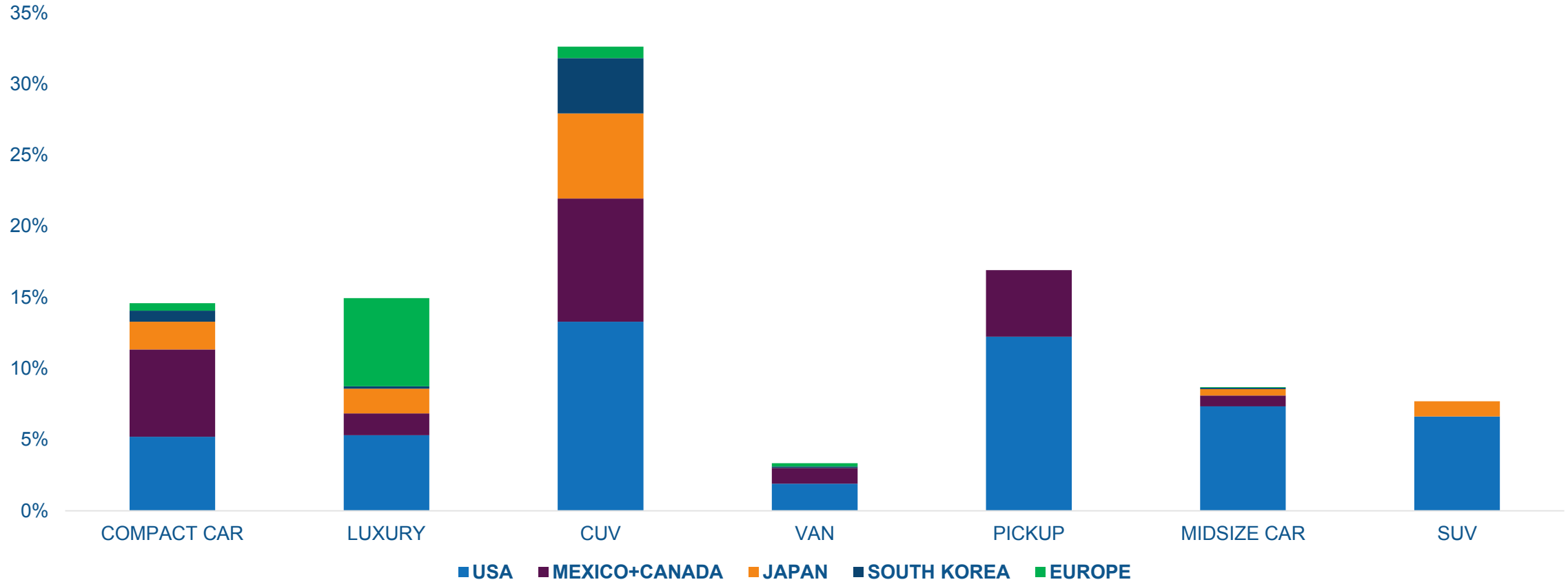
# CURVES AHEAD: Tariff Exposure



- ALFA ROMEO
- ASTON MARTIN
- AUDI
- BENTLEY
- FERRARI
- FIAT
- GENESIS
- JAGUAR
- LAMBORGHINI
- LAND ROVER
- LOTUS
- MASERATI
- MCLAREN
- MINI
- MITSUBISHI
- PORSCHE
- ROLLS ROYCE
- SMART

# CURVES AHEAD: Tariff Exposure

Composition of New Vehicles Sold Retail in 2018 in the US by Major Segments and Major Regions of Origin



# CURVES AHEAD: Industry Risks

## UAW Negotiations

- Contracts Expire Sept. 14, 2019
- Issues: Health Care, Plant Closing, Tiered Job Structure
- Likely Target: GM



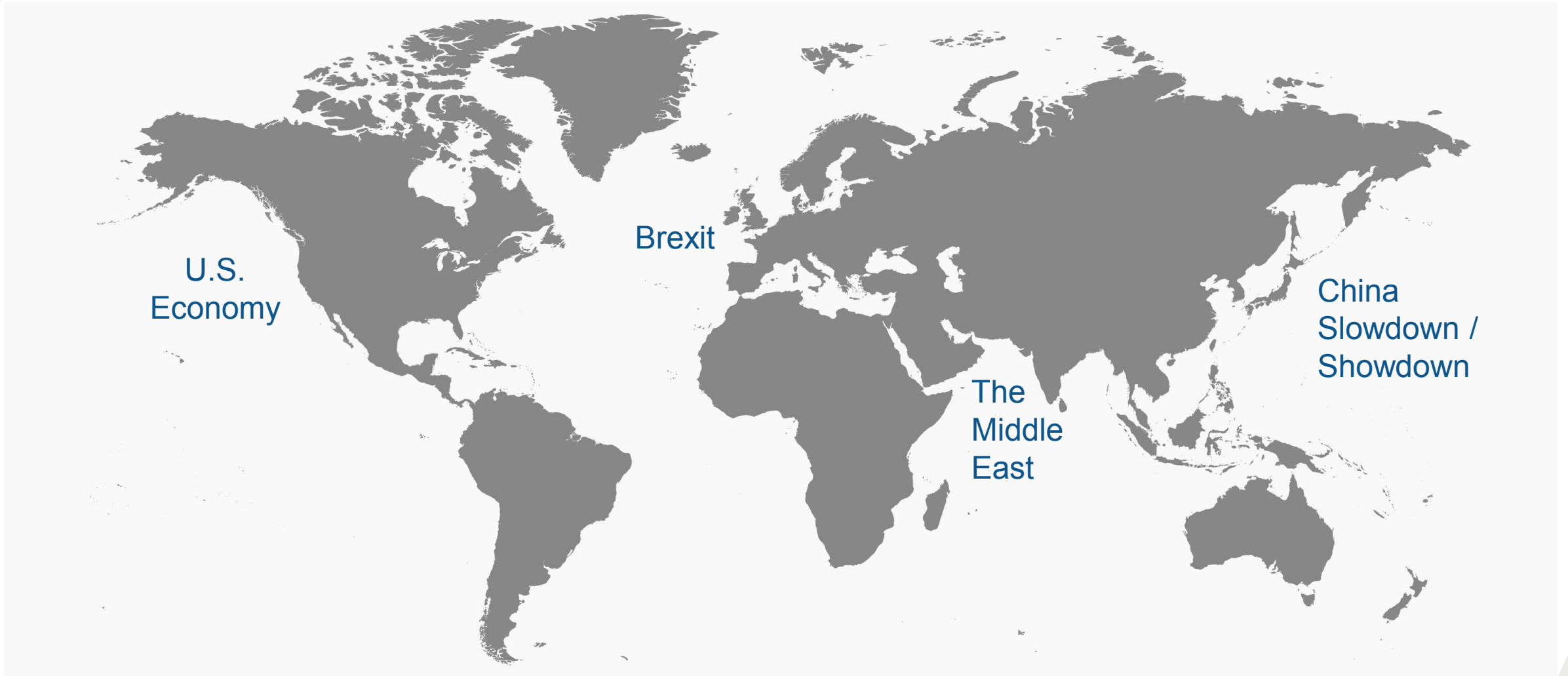
Credit Steve Carmody

## Fuel Economy Standards

- CARB vs. the 50 State Solution
- Safer Affordable Fuel-Efficient (SAFE) Vehicles Rule proposal
- MY2021 - 2026



# CURVES AHEAD: Economic / Financial Risk



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## Q&A







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