ROADWORK AHEAD

SEPTEMBER 2017

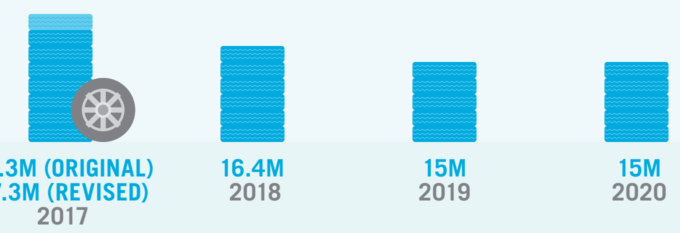
Continued slowdown in new vehicle demand suggests the U.S. auto industry may be hitting a roundabout after successive years of sales growth. Ironically, as car manufacturers have improved their quality, more consumers are holding onto vehicles longer, not only impacting automakers, but also parts suppliers. However, lessening lower-margin fleet sales could point to greater profits. And, greater numbers of used cars bode well for the service and replacement parts industry.

▼7%
TOTAL U.S. VEHICLE SALES
JULY 2016–JULY 2017
1,415,139 units
Source: Autodata Corp

OEMS: A DECLINE AHEAD

Lower vehicle sales will reduce demand for OEM parts, negatively impacting companies who make that componentry—Tier 1 to Tier 3 suppliers who solely compete in the automotive space. Diversified products and markets will be important factors in bolstering OEM performance.

PROJECTED SALES (UNITS):
Source: Morgan Stanley



SHIFTING GEARS

While lower fleet sales may prove beneficial due to inherently thin margins, four of the five largest automakers, comprising two-thirds of the market, have taken hits to their sales.

GM

To battle YOY sales declines in July, General Motors will offer the largest line of crossovers among U.S. manufacturers.

▼15% TOTAL SALES

80% OF TOTAL SALES
Crossover Vehicles and Trucks

▼81% RENTAL SALES
Lowest daily rental sales mix of any U.S. automaker

HONDA

Honda reported less favorable YOY performance in July 2017, as tight supplies put the brakes on sales of four new product lines—the Odyssey minivan, CR-V and Pilot crossovers, and the new Ridgeline pickup.

▼1.2% OVERALL SALES

MARKET SHARE INCREASED TO 10.7%

FORD

U.S. YOY sales are on a decline in July due to lower fleet sales and a recall on the popular Ford Transit light cargo van.

▼7.5% OVERALL SALES

▼26.4% FLEET SALES

TOYOTA

The only automaker to report positive YOY U.S. sales in July, Toyota benefited from record sales of the RAV4, as consumer preference shifts toward crossovers.

▲3.6% OVERALL SALES

MARKET SHARE INCREASED TO 15.7%

FCA

YOY sales declines in July were partially offset by record-high July sales for Jeep Compass, Chrysler Pacifica, and Ram ProMaster City lines.

▼10% OVERALL SALES

▼35% FLEET SALES

ON THE ROAD AGAIN. AND AGAIN.

Increasingly older vehicles on the road bodes well for the aftermarket automotive sector, as aging vehicles and vehicles with more miles on them will require repairs and replacement parts.

▲2.2%
TOTAL VEHICLE MILES DRIVEN
MAY 2016–MAY 2017
281.2 billion miles

11.6
YEARS OLD
HIGHEST EVER AVG. VEHICLE AGE

▲17%
VEHICLES OVER 16 YEARS OLD
PROJECTED BY 2021

Source: IHS Market

A NEW LEASE ON LIFE

Used car prices will likely fall as heavy numbers of off-lease vehicles return to dealership lots in 2017, putting further pressure on new vehicle sales.

55%
OF PRIME CREDIT BUYERS BUYING OFF-LEASE
Up from 49% in 2007
Source: Experian

▲13%
OFF-LEASE VEHICLES RETURNING TO DEALERSHIPS
Up from 3.1 million in 2016
Source: Bank of America

5 MILLION LEASE VEHICLE RETURNS
PROJECTED BY 2021

THE REVVING ENGINE OF CHANGE

Due to increased quality and reliability, the average age of cars on the road is at an all-time high and is predicted to rise even further. The resulting increased supply will continue to contribute to lower used car prices. In turn, this new reality is expected to continue to erode residual values for leasing and drive more consumers away from the new car market to the used market, potentially setting up further sales deflation for years to come.

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