NADA DIRECTOR'S REPORT

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NADA's New-Vehicle Sales Forecast Remains Unchanged at 17.1 Million for 2017

With six months of U.S. new-vehicle sales in the books, the National Automobile Dealers Association (NADA) is holding steady at its **original sales forecast** of 17.1 million new cars and light trucks for 2017.

Through the first six months of the year, 8,401,715 new light-vehicles were sold, down 2.2%, compared to last year.

"Overall consumer demand for new vehicles is still very healthy," said NADA Chairman Mark Scarpelli during NADA's quarterly economic briefing today. "Consumer tastes continue to trend away from sedans and toward light trucks and SUVs. Sedans now account for 37 percent of sales, meaning that roughly two out of every three retail transactions are now a light truck, SUV or crossover. Simply put, there is great demand for the utility that SUVs and light trucks provide."

Scarpelli, president of Raymond Chevrolet and Raymond Kia in Antioch, Ill., and co-owner of Ray Chevrolet and Ray Chrysler-Jeep-Dodge-Ram in Fox Lake, Ill., highlighted three "big-picture takeaways":

(1) It is important to note that there is little to indicate a broader weakness or fall off in sales as some analysts have suggested. Overall economic growth remains strong, and the trends that are fueling consumer demand across the economy are still positive. And while new-vehicle buyers are not coming into stores at the same rate as the past two years, it is critical to keep in mind that those were record years. Sales are declining, but they are most certainly not in a free fall.

(2) New-vehicle buyers continue to hold a very strong affinity for their personal vehicles. 2017 is proof-positive that the need and desire for reliable and affordable personal transportation is alive and well, and that sales of new vehicles will continue to be a cornerstone of industry – and broader economic – health for years to come.

(3) It is still a great time to be a consumer shopping for a new vehicle. The mix of makes, models and features is as good as it's ever been, and the competition among competing brands for customers is fierce. And because of the franchised dealer model, consumers are benefiting from an additional layer of intra-brand competition. We know from empirical research that intra-brand competition lowers prices for consumers, and as a dealer I can tell you that these competitive forces are present in abundance on the ground.

NADA Chief Economist Steven Szakaly added that the "typical stresses and strains from rising interest rates, excessive lending and overall weak consumer spending are not visible in the broader economy."

"There is little indication that the Fed's rate raising actions have as yet had any impact on overall growth," Szakaly said. "While we will see on Friday [July 7, 2017] how the labor market continues to perform, we expect payroll growth to have been strong at 190,000."

Szakaly highlighted three areas of concern about consumers, incentives and inventory:

(1) There are some fundamental changes to consumers and their buying patterns. For example, loan financing terms have extended to nearly six years. This leaves consumers waiting longer to get into a net equity position, pushing into the fourth year of ownership compared to three years before the financial crisis.

(2) We have seen some deterioration in credit scores overall for new-vehicle loans. But here again it is important to separate what is really hype from some important realities. Strong employment growth and low unemployment levels make some consumers a less risky credit bet. If it is easy to find a job or to find a new job, the odds of making a payment across all credit scores improves. It is a natural part of the cycle to expect consumers with improving financial positions to enter the new-vehicle market. It is, after all, nearly a decade since the last recession. People with improved financial positions are expected to look at new purchases and one of those large purchases are new vehicles.

(3) As for rising incentives, they largely remain in unpopular sedan segments. We do expect incentives to continue to rise this year especially as off-lease vehicles begin to exert further downward pressure on sedan pricing throughout the rest of 2017. In our own pricing analysis, the weakness in new- and used-transaction prices remain heavily concentrated in the sedan segments. Adding to the pressure on sedans is the reality of off-lease vehicles concentrated in sedan segments. We expect about 200,000 new-vehicles buyers to drift into the used-car market as the value proposition from off-lease vehicles will simply be too tempting. It is important to remember that manufacturing often lags consumer signals, it can take months to adjust production. Incentives can be an important tool to bridge the gap between when consumers begin to leave a segment and when production is finally reduced. Rising inventories continue to signal that the industry continues to seek a balance. We expect inventories to continue to rise into September before falling. A critical indicator for where incentives and sales in fall and winter will be whether we see inventories level off in the third quarter.

"Record sales years do not last forever and what we have seen is that the industry has moved steadily toward a model that is more productive and flexible particularly on the new-car side," Szakaly added. "Given these still stronger than average market fundamentals it is difficult to see sales falling below a long-run rate of 16.5 to 16.8 million. This would still represent a strong market."

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