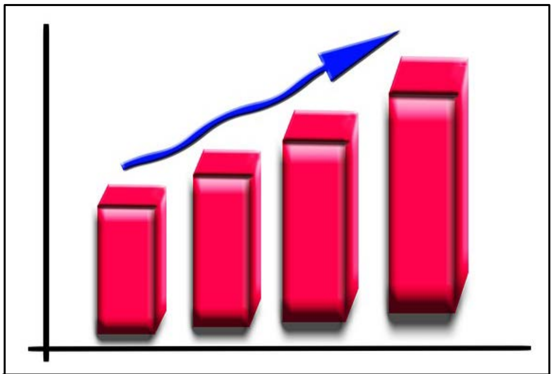
THE WANADA BULLETIN

NEWS AND INFORMATION FOR AND ABOUT FRANCHISED NEW CAR DEALERS IN THE WASHINGTON AREA

WANADA Bulletin # 8-14 **March 7, 2014**

Headlines...

Strong Washington area sales got even stronger in 2013, up 2.6%



Area sales last year continued their modest growth in an already strong market.

Washington area auto sales never experienced the effects of the recession as much as the rest of the nation. So 2013 sales here reflected modest gains in an already robust market. Sales for the year rose 2.6 percent, which included a small dip in the fourth quarter. U.S. sales, by contrast, were up 7.5 percent for the year and 6 percent for the quarter. But, here again, they had much farther to climb. Washington area figures for 2013 are from WANADA's Area Report, based on R.L. Polk new-vehicle registration data. U.S. sales figures are from NADA and Ward's Automotive.

Washington area sales for DC and 11, mostly county jurisdictions, in the Maryland suburbs and Northern Virginia, totaled 67,116 for the fourth quarter and 298,563 for the year. As always, numbers were substantially higher in December (24,851) than October (21,497) and November (20,988). The trend of much higher sales of imports (non-Detroit 3 vehicles) in the Washington area continued to hold true, as 70.5 percent of vehicles sold in 2013 were imports. That's about even with 2012's share of import vehicles at 70.7 percent. Imports made up 78 percent of the regional passenger car market in 2013 and 61 percent of passenger trucks. In U.S. sales, imports accounted for just 55 percent of the market.

Area car sales rose 3 percent in 2013, and trucks were up 2 percent. For the fourth quarter, car sales dropped slightly, by 2.3 percent. Truck sales were up 2 percent for the year and down 2.4

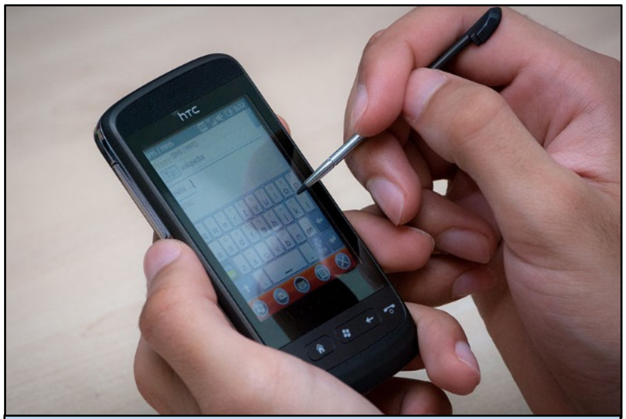
percent in the fourth quarter. Washington area drivers continue to buy more cars than trucks, with cars making up 54 percent of sales last year, up a fraction of a percent from 2012. Nationally, 49 percent of vehicles sold in 2013 were cars.

For the complete report on fourth quarter Washington area sales, WANADA members can click here and log in with their email and password.

Fewer dealerships in future, more service-only – McKinsey report

Dealers will remain a crucial part of the sales process, but they will need to adapt their sales and service to embrace a more digitized customer base, says a new report by McKinsey & Company.

The dealer's role has already changed, McKinsey says. With more than 80 percent of new-car and almost 100 percent of used-car customers starting their research online, dealers are no longer the primary source of retail market information. That's especially true for consumers aged 18 to 34, who use a variety of online sources – OEM and dealer websites, social media, blogs and forums – to gather information and compare offers.



Sales reps will need to become expert on connecting smartphones and tablets to vehicles.

That means dealers often get just one chance to influence consumers. They have to fight for that chance online, not only by upgrading their own website, but also by integrating traffic from third party sites such as Kelley Blue Book, Consumer Reports or JD Power. Salespeople will need to be more knowledgeable than ever, especially on questions of connectivity for smartphones and tablets.

As the market is saturated and fewer dealerships are needed, OEMs are making greater demands on their dealers, the report says. "More OEMs are adding terms to their dealer contract renewals that give them the right to set up an online channel, partially bypassing or at least augmenting the traditional dealership channel, as well as increasing their control over the dealership's appearance and operations." OEMs are experimenting with new retail formats, including "boutique-style stores in prime city center locations," such as Tesla stores, and online stores, such as BMW's customer interaction center. In the future, dealerships may specialize in particular aspects of car ownership, creating, for instance, service-only centers.

Even with increased digitization, however, vehicle consumers generally want to test drive a car before buying it and get expert advice on optional equipment and services such as F&I. That's especially true with used-car sales. Designing a superior test drive with a well selected route and explanation of the car's features will become increasingly important, the report concluded.

Budget battle shaping up in Virginia General Assembly

The House and Senate in Virginia, which works on a two-year budget, passed separate budgets recently that aren't apt to be reconciled before the scheduled March 8 adjournment of the General Assembly this week. The most likely outcome, then, is adjourning without a budget.

Negotiations can continue this spring, but if there's no budget by July 1, government operations could shut down. Sound familiar?

The biggest point of contention has been Medicaid expansion. Under the Affordable Care Act, Virginia can expand Medicaid to 400,000 individuals with the federal government reimbursing 100% of the costs through January 1, 2017. After this date, the federal reimbursement gradually reduces over several years until it reaches 90% and stays there. The Senate has proposed creation of an insurance marketplace funded by federal dollars. The House leadership does not want to take federal money for Medicaid expansion because they do not believe that the federal government with the current deficit situation will be able to fulfill their funding commitment. In line with the democrat controlled Senate, the new governor, Terry McAuliffe, supports Medicaid expansion.

A couple of bills of interest to dealers are these:

Both the House and Senate passed by wide margins a bill to repeal the $64 annual registration fee on hybrid vehicles included in last year's transportation bill. The repeal awaits the governor's signature.

Both Houses have passed a bill with changes proposed by the staff of the Motor Vehicle Dealer Board. Among the proposed changes included in this legislation are: raising the fees for the Transaction Recovery Fund for dealers and creating another consumer seat on the MVDB in place of the seat previously filled by the Commissioner of Agriculture and Consumer Services or his representative.

What's next for Maryland health care exchange?

Despite a lot of boosterism from Governor Martin O'Malley, Maryland's health care exchange has been plagued by problems. The website problems culminated in late February with the state firing Noridian Healthcare Solutions, the main IT contractor for the site. Optum/QSSI is taking over the contract on an interim basis.

Maryland's health care website has had problems since the beginning.

Now Maryland must decide whether to partner with the federal exchange, healthcare.gov, join a consortium of states, or use another state's technology. A report by state budget analysts said one possibility was adopting a successful state system, like Connecticut; but doing so could take up to a year. Media reports say that partnering with the federal exchange is unlikely.

The budget analysts' report says that the Maryland website's problem in determining Medicaid eligibility could cost the state as much as $30.5 million.

Stay tuned.

Auto loan debt rose for 11th straight quarter; delinquencies low

Auto loan debt per borrower rose for the 11th straight quarter, increasing 4.4 percent from $16,060 in fourth quarter 2012 to $16,769 in fourth quarter 2013, reports TransUnion.

Additionally, the auto loan delinquency rate increased to 1.14 percent in the fourth quarter of 2013, but that's still below the fourth quarter average of 1.29 percent for the past six years.

Despite the uptick in delinquencies, they should remain fairly low in the near future, said Pete Turek, vice president of automotive in TransUnion's financial services business unit. "First, while auto loan originations are increasing at a rapid pace, the percentage of nonprime accounts remains low." Though the share of nonprime, higher risk loan originations remains below pre-recession levels, it will likely keep rising because of the growth of competitors in the segment, said Turek.

Competing tax reform proposals include billions for infrastructure

Competing tax reform proposals, from President Obama and House Ways and Means Committee Chairman Dave Camp (R-Mich.), include billions of dollars to repair and build highways and bridges. Although any tax reform proposals are unlikely to move in an election year, everyone agrees that money is badly needed for infrastructure repair. Transportation Secretary Anthony Foxx has said that the Highway Trust Fund could run out of funds as soon as August.

The president's plan would set aside $300 billion for fixing highways and bridges in the next four years. Obama suggests that half of that sum could be raised through business tax reform, but said he is open to other ideas for funding. Camp's tax reform bill sets aside $126 billion for transportation.

Both proposals were praised by the American Association of State Highway and Transportation Officials and the American Society of Civil Engineers, which has given U.S. infrastructure a grade of D. Senate Environment and Public Works Committee Chairman Barbara Boxer (D-Calif.) has said she plans to introduce a transportation bill as early as April.

Some have suggested replacing the fuel tax with a vehicle miles traveled (VMT) tax, which is already being tried in Oregon. It has the advantage of spreading the tax burden to drivers of electric and hybrid vehicles, who now pay little or nothing for fuel and therefore don't contribute to the Highway Trust Fund.

Child safety seat labels revised to include weight of child *and* seat

The National Highway Traffic Safety Administration has revised the guidelines for child safety seat labels to include the combined weight of the car seat and the child. The maximum total weight has been revised from 70 lb. to 65 lb. Children at the higher weight are safer if they are protected with seat belts and tethers.

The new guidelines, which took effect February 27, 2014 are for the LATCH system-- Lower Anchors and Tethers for Children. The system includes frame-mounted brackets between the rear seats of every vehicle manufactured since 2002.

Older drivers' crash rates keep dropping, new study shows

Another myth shattered: Older drivers are involved in more crashes. In fact, oldsters are *less likely* to be involved in accidents than previous generations, and they're less likely to be killed or seriously injured if they do crash. That's the conclusion of a new study by the Insurance Institute for Highway Safety.

"This should help ease fears that aging baby boomers are a safety threat," says Anne McCartt, the Institute's senior vice president for research and a coauthor of the study. Two of the reasons for the study's conclusion: Autos are safer than in the past, and seniors are healthier.

Accident rates for older drivers have been dropping since 2008. In fact, drivers 70 and older have seen bigger declines in fatal crash rates per licensed driver and per vehicle mile traveled than drivers ages 35 to 54.

Older drivers also increased their average annual miles driven by a greater percentage than middle-aged drivers from 1995 to 2008. That could mean older drivers are more comfortable with driving, as they often self-regulate by cutting back on driving in response to memory and mobility problems, the Institute says.

Washington area has some of richest neighborhoods in U.S.

Everyone knows the Washington area has some of the highest income counties in the nation. Here’s some official confirmation: A study of the 25 top earning neighborhoods includes six entries in the Washington area.

Bradley Manor-Longwood in Bethesda, Md., is #2, with mean household income of $599,440; Potomac Manor in Potomac, Md., is #3, with mean household income of $599,331. The others are in Potomac, McLean, Va., and Chevy Chase Village, Md.

The study is by Stephen Higley, a professor *emeritus* of urban social geography at the University of Montevallo (Ala.).

Staying Ahead…

We can complain because rose bushes have thorns, or rejoice because thorn bushes have roses.

-- Abraham Lincoln