THE WANADA BULLETIN

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

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Strong March sales seen, but future concerns loom

Even as analysts predict strong March sales, notes of caution are coming from forecasts of flat auto sales nationwide in 2017, with sales for some franchises and geographic areas forecast to start dropping this year.

The 2016 Nissan Altima had an average incentive of $1,715 in March, according to TrueCar.

"Overall, auto sales figures continue to post strong results, but when you peel back just one layer beneath the surface, some worrisome trends are taking hold," said Thomas King, vice president of Power Information Network, at the J.D. Power Automotive Summit, which kicked off the NADA Convention in Las Vegas.

Rising incentives are a particular concern, King said, noting that first quarter sales incentives averaged 9.6% of MSRP and are moving toward levels seen at the height of the recession.

"The increased spending, which is due primarily to manufacturers trying to offset a shift in demand from cars to trucks and SUVs, has the potential to reduce future resale value," said King. If trade-in values are lower, consumers would be less able to buy new cars and off-lease vehicles would see their value drop, hurting residuals.

Manufacturers need to reduce incentives on new cars quickly and substantially, King said. Spending on cars has reached 12.3% of MSRP, well above peak recession levels, while spending on trucks has remained stable at 8.2%. That means manufacturers will have to cut production of cars.

Dealerships can focus more on service if new-car sales start to flatten.

J.D. Power sees retail auto sales growing from 14.2 million in 2015 to 14.5 million this year and 14.7 million in 2017. But the company is concerned that future problems could stem from the increase in long-term loans and leases and the decline in buyer credit scores.

An annual dealer poll by *Automotive News* found that dealers are more pessimistic than a year ago, with just 49 percent expecting their vehicle sales to be "better" or "much better" this year, down from 71 percent a year ago.

NADA Chief Economist Steven Szakaly said a lot depends on the presidential election, which could particularly affect employment. That's especially true in the Washington area. But automakers could well continue to offer heavy incentives – a plus for dealers, in Szakaly's view – and he is sticking with his forecast of 17.7 million light vehicles this year.

U.S. small-business jobs saw 0.36% growth in first quarter

Jobs at small businesses saw their best three-month increase in two years in first quarter 2016, growing by 0.36%, according to the Paychex/IHS Small Business Jobs Index. The index was nearly flat from the previous month, following gains in January and February.

"The continued index level above 100 signals consistent gains in small business employment," said IHS.

The greatest growth was in the Mountain region, and Seattle ranked as the top metro area for small-business job growth. But in the Northeast, the Middle Atlantic had the best 12-month growth rate at 0.73%.

Ride-sharing could lead to *increase* in auto sales, analysts say

Much has been written about the potential for a downturn in auto sales that could result from wider use of ride-sharing services such as Uber and Lyft. The thinking is that fewer people would bother to buy their own cars when they could use a ride-sharing service for on-demand mobility.

But analysts at Deutsche Bank AG see the opposite scenario. The cars used by ride-sharing services are likely to have a shorter life because of the demands put on them. If those cars turn over every three years, they would have a shorter life cycle and sales would need to rise to meet demand.

"Each on-demand vehicle will travel more miles (10 to 20 percent more) than the cumulative six to nine privately owned vehicles that it replaces," wrote the analysts. Sales volumes would be driven by miles traveled rather than by credit availability and the state of the economy.

Potential 3-year lag before connected cars are secure

It could take up to three years before systems in connected cars – such as adaptive cruise control, self-parking and collision avoidance – are secure from cyber-threats. That's the conclusion of market research company, IDC, after interviews with auto manufacturers and industry representatives. IDC and security firm, Veracode, did a joint survey of drivers in the UK and Germany and found that half were concerned about security of the driver-aid features.

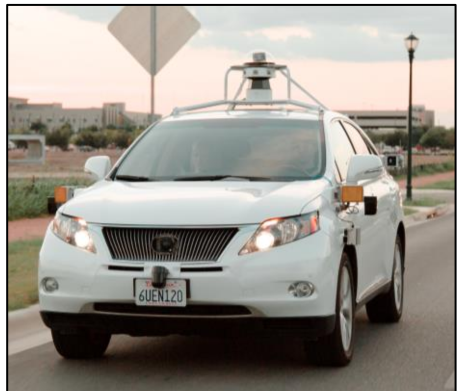
The biggest concern, the research found, was with security apps downloaded by the driver independent of the auto manufacturer. An overwhelming majority of drivers polled said auto manufacturers should be liable for all aspects of the safety of the connected car, even if the apps were developed by an independent software company.

Driver privacy is another matter because nearly half of drivers are concerned about the issue. For example, as navigation systems evolve to find, reserve and pay for parking automatically, the potential for leaking credit card information and other personal data arises.

"What we're seeing happen in the auto industry is a microcosm of what's happening in financial services, health care and virtually every other sector," said Chris Wysopal, CTO of Veracode. "Applications are not created with security in mind, creating a major area of risk."

DOT to issue guidance on autonomous cars by mid-summer

Transportation Secretary Anthony Foxx said DOT would issue federal guidelines on autonomous vehicles by mid-summer, a major step to bringing them on the road. Foxx suggested that DOT would not go through a lengthy, formal rulemaking process but would find a faster way to offer guidance.



Google's "driverless" Lexus RX450

The goal is to avoid a patchwork of state laws and regulations. Several states have already started to take action. California, for example, has issued draft regulations requiring that a human driver be present in an autonomous vehicle in case of an accident and liability problems. NHTSA recently told Google that a car's software could be considered as the driver if no human is present.

Safety advocates are worried that federal guidelines could be rushed through before the technology is ready for mass adoption. What's more, cybersecurity concerns have yet to be addressed. And some observers' confidence in the technology was shaken when a Google car hit a municipal bus earlier this year.

In other news on autonomous vehicles:

- **Young people prefer to do their own driving.** While awareness of autonomous vehicles is strong among young people, more than 60% say they would prefer to do the driving themselves, according to new research by Nielsen. The older the youth (through grade 12), the stronger their preference for driving themselves. Young consumers overall are nearly as interested in owning an autonomous vehicle made by a technology company as in buying one from an auto manufacturer. But middle-and high-schoolers favor traditional automakers.
- **Fuel efficiency for autonomous vehicles could improve by up to 10%.** That's *if* the EPA revamps its fuel economy and emissions standards tests to account for the early autonomous vehicle (AV) technologies likely to be offered in coming years, said researchers at Carnegie Mellon. Without changes to the current tests to include those technologies, fuel economy could drop by 3%. Connected autonomous vehicles will be able to predict how other cars will behave on the road, an ability that will allow the autonomous cars to accelerate and decelerate more smoothly. That could significantly affect fuel use. "Because existing standardized tests don't consider AV technologies,

there are limited incentives for car manufacturers to design cars for optimum fuel efficiency," said Carnegie Mellon assistant professor Constantine Samaras.

- **More autonomous vehicles could mean far fewer accidents and lower insurance costs.** A report from Moody's Investors Service predicts that widespread adoption of autonomous vehicles, while still decades away, will mean far fewer accidents and could bring down insurance premiums by 10%. "Regulators, lawmakers and courts will have to determine how liabilities are shared among insurers, automobile manufacturers and technology companies," said Jasper Cooper of Moody's.

Headlights in midsize cars rate poorly, says IIHS

The Toyota Prius v is the only midsize car that earned a good rating for its headlights.

The Toyota Prius v is the only midsize car out of 31 evaluated to earn a good rating in the Insurance Institute for Highway Safety (IIHS)'s first headlight ratings. To get those headlights, consumers must buy the advanced technology package, available only on the highest trim level.

The best available headlights on 11 cars earn an acceptable rating, while nine earn a marginal rating. Ten of the cars – many of them luxury vehicles – can't be bought with anything other than poor headlights.

Government standards for headlights, based on lab tests, allow huge variation in the amount of illumination that headlights provide in real-world driving, said IIHS. With about half of traffic deaths occurring either in the dark or at dawn or dusk, improved headlights have the potential to bring about substantial reductions in death rates.

In many vehicles, high-intensity discharge (HID) or LED lamps have replaced halogen. Curve-adaptive headlights, which swivel according to steering input, are also becoming more widespread. Research has shown advantages for the new headlights, but they don't guarantee good performance. IIHS tested for glare for oncoming vehicles as well as illumination for five approaches.

Among the 44 headlight systems earning a "poor," the halogen lights on the BMW 3 series are the worst. A driver would have to go 35 mph or less to stop in time for an obstacle in the travel lane.

Any color, as long as it's white, black, gray or silver

Although nearly 60 percent of consumers have identified color as a major factor in their vehicle-buying decisions, automakers continue to sell nearly 75 percent of cars in conservative colors such as white, black, gray and silver, says PPG Industries, Inc.

"Our research indicates that global car manufacturers have good reason to give their brands and models a unique appearance using color and effects," said Jane Harrington, PPG manager for color styling, automotive OEM coatings.

Maybe the reason that the usual suspects are the most popular colors is that those are what buyers can find at the dealership. In North America, the most popular are, in order, white, black, gray, silver, red and blue.

PPG has introduced more than 64 shades to manufacturers to consider for their 2018-2019 models. The four palettes are Hyper HD, IM Perfect, Knight's Watch and Lucid Dreams. Look for white, black, gray and silver.

Projecting the population of the Washington area

Traffic seems worse every day. The entire metro area looks like one big construction site. We read reports that the population of the Washington area is projected to grow substantially in the next 25 years. And now George Mason University (GMU) has come out with a report that the number of residents leaving the Washington area is growing. How can that be?

The overall population of Greater Washington grew by 63,793 from July 1, 2014 to June 30, 2015. But all the increase was from births and international immigration. In domestic migration, 27,900 more people moved away than moved here.

The *Washington Business Journal* talked to Terry Clower, director of GMU's Center on Regional Analysis, to find out why. The bottom line: The area economy has been sluggish (government shutdowns don't help) and the Washington area is a very expensive place to live, especially when it comes to child care and housing.

Clower cites GMU research showing that the region must wean itself off its dependence on federal jobs. If the economy becomes substantially more diversified, 400,000 jobs could be added in the next 10 years. The area's population could grow by 14 percent through 2025 instead of the 4 percent increase that would occur if nothing changed.

Staying Ahead…

It is amazing what you can accomplish if you do not care who gets the credit.

--Harry S. Truman