THE WANADA BULLETIN

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

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BAT unlikely to pass, industry observers say

The Border Adjustment Tax (BAT) legislation, which has created strong opposition from the automotive sector and other industries, is unlikely to pass Congress, industry experts said at the New York International Auto Show.

Some were more confident about its demise than others. Nariman Behravesh, chief economist for IHS Markit, called the tax "basically dead." The tax was a pet project of House Speaker Paul Ryan, who said it would help pay for a corporate tax cut. But the Republican base was never enthusiastic about the BAT, NADA President Peter Welch said at the New York International Auto Show.

The Toyota Corolla has the highest domestic content of any vehicle sold in the U.S. – showing the global nature of the auto industry.

NADA strongly opposes the tax and, along with WANADA and other dealer organizations, was part of a dealer fly-in organized by AIADA last month. AIADA President Cody Lusk has said a 20 percent BAT would add $2,000 on average to the price of a new car. Other studies have pegged the figure at $1,700. Mitch Bainwol, CEO of the Alliance of Automobile Manufacturers, gave the tax only a small chance of passage.

Trump meets with and listens to business leaders, and CEOs from a variety of industries have expressed their opposition to the tax.

Costly FTC consent order with dealer group on spot delivery practices

A recent $3.6 million consent order the Federal Trade Commission imposed on a dealer group in California reminds dealers nationwide to follow FTC regulations on vehicle deliveries when financing hasn't been secured -- a.k.a. "spot deliveries."

The defendants included nine new-car dealers and their holding and management companies, and their senior officials. The consent order was the result of a multi-count complaint filed in federal court against the dealer group for several sales and advertising practices.

Spot delivery triggers several best practices that dealers must follow.

Practices prohibited by the consent order:

- Failing to return the down payment and trade-in if the deal falls through;
- Disposing of the trade before financing has been completed;
- Charging the customer for the terminated transaction;
- Threatening or starting abusive repossession or debt collection practices.

The order prohibits the dealer from charging a consumer for any "add-on product or service" without having obtained express, informed consent. The order also contains punitive oversight, record-keeping and monitoring obligations with which the dealer group must comply *for 20 years* (emphasis added).

Thanks to Michael Charapp of Charapp & Weiss, LLP, for providing this information.

SUVs, CUVs will soon be half of US vehicle market, Ford exec says

Sport-utility vehicles (SUVs) and crossover utility vehicles (CUVs) could soon make up half of the U.S. vehicle market, said Ford executive Mark LaNeve at the New York Auto Show, according to TheDetroitBureau.com. They reached 40 percent in 2016 and have continued to climb this year. LaNeve, the head of Ford's sales, service and marketing, said he expects the figure to reach 45 percent in the next five to seven years. In March, 61 percent of new-vehicle sales were in the larger category of utilities and light trucks.

LaNeve believes two groups will help drive the growth of SUVs: *Millennials*, who grew up with them and may want their own as they start a family; and *baby boomers*, who may want a compact SUV or CUV for practical reasons as they downsize from a large sedan.

Today's utility vehicles, especially CUVs, have a smoother, more carlike ride than SUVs of the past, but still offer off-road capability, LaNeve said. And modern utilities also get better gas mileage and have fuel-saving technologies like Ford's turbocharged EcoBoost engine.

At the NADA/J.D. Power Automotive Forum before the New York Auto Show, John Hinrichs of Americas, Ford Motor Company put the history of SUV sales in perspective. "Let's not forget that 10 years ago, at the dawn of the financial downtown, the trend was dour on trucks and SUVs," Hinrichs said. "But now, with SUV popularity clearly growing, we need to meet those demands and meet the regulations, and we have."

Why do consumers prefer light trucks?

The primary reason consumers buy a light truck is the increase in utility over a passenger car, and the main reason to own a car instead of a light truck is cost savings. Those are two of the findings from a recent survey by the University of Michigan about vehicle preferences and light-truck use. Light trucks are mainly used for general transportation and commuting, the survey found.

Light-truck owners and passenger-car owners both listed small (or smaller) light trucks as the vehicle type they were most likely to consider over their current vehicle.

Is Tesla's stock overvalued?

Last week saw much discussion at the New York Auto Show and elsewhere about Tesla briefly surpassing Ford and then General Motors in its valuation, based on market capitalization (number of outstanding shares multiplied by the stock price). Financial and auto industry analysts agreed that the valuation was based on potential (high) and not on earnings or financial fundamentals (shaky). Where they varied was in assessing whether the potential was enough to justify the stock runup.


Tesla's high performance EV, Model S, is one of only two models the company has now.

Mike Jackson, CEO of AutoNation, called Tesla's stock valuation "totally inexplicable." He said Tesla might be "one of the greatest Ponzi schemes of all time." Former GM Vice Chairman Bob Lutz called Tesla's stock price "the ultimate bubble, which is doomed to burst," according to the *Washington Post*. Without mentioning Tesla, GM EVP Mark Reuss said that GM has to deliver results and does not have the "luxury" of simply making promises, the *Detroit News* reported.

But clearly many in the financial community see much promise in Elon Musk's vision of an all-electric car company that makes and sells its own batteries, has an investment in solar power and is working to present itself as a mobility company. The mobility company label is one that some of the more traditional car companies, such as Ford, see as their own future. The question is, can Tesla make money doing all that?

The company has ambitious plans to produce 500,000 Model 3 electric compacts by the end of next year, far more than the 100,000 vehicles it has produced in a year until now. The Model 3 will be introduced later this year.

A few days after the stock valuation news, Musk announced in a series of tweets that Tesla would bring out a semi-truck in September and a pickup in 18 to 24 months. No details were provided.

Worrisome trends in auto industry, from J.D. Power analyst

In the wake of March's lackluster sales report, J.D. Power analyst Thomas King outlined several potentially worrisome trends in the industry, from high incentives to production mismatched to consumer demand. King spoke at the NADA/J.D. Power Automotive Forum in New York last week as the auto show there was poised to commence.

- *Incentives hit an average of $3,900 per unit in the first quarter, up from $3,400 a year earlier and higher than at any point during the Great Recession.* King doubted that automakers would cut production to meet demand and risk losing market share.

As consumers move more toward crossovers like the Honda CR-V, cars are piling up on dealer lots.

- *As consumers keep moving to CUVs and SUVs, car inventory is piling higher.* Demand for utility vehicles is likely to increase (see article on page 2), and production plans will continue to lag consumer demand. That should give manufacturers more reason to cut back on production, at least of cars.
- *An oversupply of used cars has brought down used-vehicle prices.* That trend could cause problems for dealers when consumers find their trade-ins are worth less than they thought.
- *Loans are getting longer*. Loans of 72 months or longer accounted for 33.9 percent of new-vehicle transactions in the first quarter, up from 32.3 percent a year earlier, according to J.D. Power. As dealers may remember from the bad old days of many upside down buyers, long loans may trade instant gratification (making the sale) for long-term pain (consumers who cannot afford a down payment when they are ready for a new vehicle and they are upside down on their trade).

Heavier vehicles are safest for teenage drivers, says IIHS

In coming up with its list of the best used vehicles for teenage drivers, the Insurance Institute for Highway Safety (IIHS) focused on three criteria: High horsepower and young drivers don't mix; bigger, heavier vehicles are safer, *and electronic stability control is a must for teens.*

As a result, the list has no minicars or small cars. Small SUVs are fine. And electronic stability control, which cuts single-vehicle fatal crash risk in half, has been a required feature on new vehicles since 2012.

IIHS also recommends that teenagers and parents should check to see if the vehicle is under recall. Dealers could make parents happy by addressing that issue proactively, says IIHS.

The IIHS list has "49 best choices," starting under $20,000, and "82 good choices," starting under $10,000.

Shared autonomous EVs could cause major disruption to auto industry

By 2030, about a quarter of all miles driven in the U.S. could be in shared autonomous electric vehicles (SAEVs). The trend will mainly occur in large cities and will cause major disruption to the auto industry, according to the Boston Consulting Group (BCG).

In that time more than 5 million conventional vehicles per year could be replaced by a combination of fully autonomous electric vehicles for urban fleets and partially autonomous cars for personal use. "Dealers will be less relevant as fleets make up a much bigger portion of sales," said a BCG statement.

The three trends – ride sharing services such as Uber and Lyft, autonomous driving and electrification of vehicles – have been studied separately, but this is the first study that has looked at how the trends will work together. Because of their ability to work together, SAEVs could shift about 25 percent of miles traveled from private vehicles, the report says.

"The technology exists and our research shows that many consumers will embrace it," said Brian Collie, who heads BCG's automotive practice in North America.

The shift to SAEVs, which would be gradual and would begin in the early 2020s, would likely occur in cities of more than 1 million. That's where there is enough demand to keep fleet use high and there are enough difficulties associated with private vehicle ownership (high insurance rates, trouble finding parking and traffic congestion).

BCG says SAEVs would save time, money and lives. By using SAEVs, a typical Chicagoan who owns a car and drives 10,000 miles a year could cut the cost of travel from $1.20 per mile to 50 cents a mile. Over the course of a year, that could put more than $7,000 in that driver's pocket.

Staying Ahead…

The supreme quality for leadership is unquestionably integrity. Without it, no real success is possible, no matter whether it is on a section gang, on a football field, in an army, or in an office.

--Dwight D. Eisenhower