

THE WANADA BULLETIN

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

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U.S. July auto sales best in ten years: 17.55 m. SAAR



Ford F-150 sales rose 4.8 percent in July, making it the bestselling vehicle.

Auto sales continued their relentless upward trajectory in July, thanks to readily available credit (and long loans), falling gas prices and seemingly unending pent-up demand. Light trucks continued to rule, constituting 56 percent of sales, up from 52 percent a year ago. (In the Washington area, car sales generally top trucks.) Last month saw the best July sales in a decade, with overall sales up 5.3 percent.

“The second half of 2015 is off to a great start, with industry sales above expectations,” said Kurt Mc Neil, General Motors U.S. vice president of sales operations.

The seasonally adjusted annual rate for new vehicle sales in July was 17.55 million, the fourth month this year where the SAAR was above 17 million. NADA Chief Economist Steven Szakaly forecasts year-end sales of 17.2 million. New vehicle sales in the U.S. have not reached 17 million since 2001.

GM sales were up 6.4 percent, even with its cutback in fleet sales. Chevrolet and Buick did especially well, up 7.8 percent and 18 percent, respectively. Ford sales rose 5 percent (with SUV sales up 11 percent) and Fiat Chrysler was up 6 percent, thanks to strong Jeep sales. Nissan and Honda saw sales rise nearly 8 percent, and Hyundai and Kia both set monthly sales records.

Good news for dealers: The average transaction price rose to \$33,453, a 2.6 percent increase from a year ago, according to Kelley Blue Book. Vehicles spent an average of 62 days on dealer lots before being sold, the lowest monthly average since 2011, according to Edmunds.com.

On the credit side, July yielded the lowest APR, 4.38 percent, since last September. Average loans rose slightly to 68.1 months, meaning monthly payments were lower and consumers could afford a nicer car, Edmunds said. A full 13 percent of buyers who financed their new car purchase got a 0 percent APR.

Greg Gardner of the *Detroit Free Press* notes three possible notes of caution: First, with more consumers getting longer loans, even seven or eight years, buyers could well be *upside down* when they're ready to trade. This was a problem many years ago, but many analysts think the situation is different now.

Second, leasing is now 28 percent of new-car retail transactions. That will mean more cars at auction in a few years, which will drive down used car prices. As new-car buyers find their trades are worth less, more will need to finance with longer loans, continuing the cycle.

Third, the Justice Department and some states are investigating the securitization of auto loans, especially those made to subprime borrowers. Although it has not reached the levels it did in the Great Recession, 8.3 percent of car loans in June were too risky for subprime borrowers, says Edmunds.

NADA: Auto sales will peak at 17.46 in 2016

U.S. new auto sales will keep climbing from 17.2 million this year and peak at 17.46 million in 2016, said NADA Chief Economist Steven Szakaly at a recent conference in Michigan. He predicts 16.65 million sales in 2017.

"Employment is doing very well, which is critical to new-and-used-car sales, and we expect gasoline prices to remain low," Szakaly says.

NADA forecasts that new-car dealerships will retail a total of 31.77 million new and used vehicles in 2015, an increase of 3.3 percent from 2014.

But Szakaly said the generational shift in car buying demographics could present challenges to long-term growth in auto retailing.

"It will take four millennials to replace the spending power of one baby boomer in the auto retailing marketplace," he said. The wage gap between baby boomers and millennials, stagnating wages for millennials, increasing vehicle transaction prices caused by regulatory requirements, and an expected increase in interest rates will pose long-term challenges for the industry.

"We're talking about the industry having to make trade-offs, and those trade-offs tend to be in terms of profitability and in terms of revenue," Szakaly told reporters, according to the *Detroit News*.

If the industry wanted to sell more units, it could use more incentives.

"I certainly hope our industry learned something from the financial crisis and the bankruptcy of two automakers," Szakaly said.

Speaking at the same conference, past NADA Chairman Forrest McConnell talked about the higher vehicle prices that fuel economy requirements will bring.



So far, millennials don't have anywhere near the spending power of baby boomers, said NADA's Szakaly.

“The government estimates it will cost us an increase of \$3,200 to the average price of a car,” McConnell said, according to TheDetroitBureau.com. “That’s an increase that new-car buyers will have to pay up front.”

Young rely on dealers for advice when buying their first car



Millennials depend just as much on the dealer in buying a car as older drivers.

Scion may be enabling young buyers to buy a car online. But a new report says that the dealership experience is just as important for younger buyers as for older ones.

“While [millennials] are certainly digital-savvy buyers overall, for more than half of them this is their first new car purchase and they are just as reliant on dealers as older buyers,” said Chris Stommel, president of Foresight Research, which did the 2015 Dealership Immersion Report. In 2013, just over half of 18- to 34-year-old buyers were influenced by their dealer experience. That figure jumped to 63 percent in 2014.

In choosing a dealership, millennials more often value a comfortable environment for browsing and shopping, the report found. Because many are first-time buyers, they are less likely to choose a dealer based on previous experience with a particular dealership or salesperson. They are more likely to use digital tools, including the dealer website and online reviews.

For their second vehicle purchase, “much more so than boomers, millennials are open to online or ‘on my own time’ options like virtual showrooms and online price negotiation,” Stommel said.

In Virginia, gas may be under \$2 a gallon by Christmas

Virginia could be one of 20 states where motorists spend less than \$2.00 a gallon for gas by Christmas, said petroleum analysts for GasBuddy, which tracks gas prices nationwide.

“Last year the national average shed more than \$1.27 from August 1 through December 31, when the U.S. average was \$2.24, said senior petroleum analyst Patrick DeHaan. “This year, if we see just half of that decline it will bring us to below \$2.00 per gallon.” GasBuddy didn’t make that forecast for Maryland and DC.

Regional, national and global supply and demand fundamentals continue to put more downward pressure on crude oil prices than upward pressure, and that trend is expected to continue well into 2016, the company said. Refining margins are strong, and gas stations will switch to cheaper winter grade gas in the next month.

Cyberhacking: cars, automakers and dealerships

It’s been quite a month for vehicle cyberhacking. Fiat Chrysler, General Motors and Tesla have had their cars remotely controlled by hackers, and 1.4 million Fiat Chryslers were recalled. NHTSA issued a strong warning to the auto industry. One poll found that a majority of consumers are worried about car hacking. And dealerships, one expert says, are as vulnerable to cyberattacks as large businesses like Target.

The Fiat Chrysler incident, with two hackers remotely taking control of a Jeep Cherokee and sending it into a ditch, has been well publicized. More recently, a hacker was able to remotely

control a Chevrolet Volt, and GM had to issue a security update for a smartphone app to fix the problem.

NHTSA had strong words for the auto industry. “It’s a warning basically that whether it happens again tomorrow or a month from now or a year from now, it doesn’t matter – these are areas we have to address,” NHTSA Administrator Mark Rosekind told reporters, according to the *Detroit News*. “Everybody’s been saying cybersecurity. Now you have to step up.”

The Alliance of Automobile Manufacturers and Association of Global Automakers are developing an information sharing center on cyberhacking that is scheduled to begin by the end of the year. But Rosekind said, “They’ve got to do it now.”

In early August, after Rosekind’s remarks, two cybersecurity experts remotely took control of a Tesla Model S sedan and stopped the car at 5 mph. The automaker quickly issued a software patch to fix the problem.

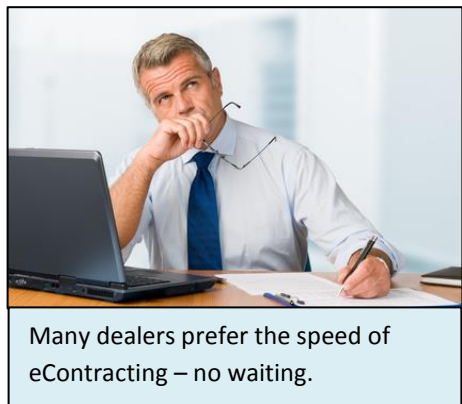
A recent survey by Kelley Blue Book found that 72 percent of Americans were aware of the Jeep Cherokee hacking, and 41 percent will consider that incident when buying their next car. Nearly 80 percent said vehicle hacking will be a frequent problem in the next three years or less.

The vast majority think the car manufacturer is most responsible for securing a vehicle from hacking. An impressive 64 percent would prefer to go to a dealership to get a car’s security patch installed rather than do it themselves.

More than half of respondents said they would be willing to pay for a monthly subscription to ensure their car would be completely protected from hacking, with \$8.00 the average they would be willing to pay.

There’s clearly plenty of reason to be concerned about cars being hacked. Small businesses like dealerships may well be vulnerable to cyberattacks, too, says Tony Petcou, channel manager at Nuspire Networks, a managed-network security service provider (OK, not a completely objective source). A column he wrote for WardsAuto says that small businesses often have fewer data protection measures and limited budgets and resources devoted to cybersecurity. Petcou recommends that dealers develop a cybersecurity program for all levels of security at their store, such as IT, financial services and vehicle inventory.

Dealers care more about lenders’ service than their price



A survey by J.D. Power measuring dealer satisfaction with their finance providers found that the level of service provided, including technology and a collaborative and consultative staff, is more important than price. Dealers are even willing to pay a premium for high quality service.

“Speed of funding has become a critical differentiator in the eyes of the dealer as efficient cash flow is demanded by dealer management, not absolute finance and insurance income,” said Michael Buckingham, senior director of the auto finance practice at J.D. Power.

Overall satisfaction is highest when sales reps talk about customer retention, dealership performance consulting, and training and clarification of programs. The study finds that eContracting improves dealer satisfaction, with more than half of dealers saying that faster funding time is the main reason to use it.

The financial services companies of Mercedes-Benz, Mini and Alpera received the highest dealer satisfaction ratings for prime retail credit.

Manheim Dealer Party, August 20

Manheim Pennsylvania Auto Auction is celebrating its 70th anniversary with a special dealer party on Thursday, August 20 from 3 p.m. to 8 p.m. The event will take place in more than 14 auction lanes transformed into decade-specific environments from the '40s, '50s, '60s, '70s, '80s and Future.

All dealers in the Mid-Atlantic market are cordially invited.

If you can't make it to the party, come to the 5th Annual Xtreme Spring 100Grander and Classic Car Sale, at Manheim Pennsylvania Auto Auction on March 17, 2016. Manheim Pennsylvania is also hosting the World Automotive Auctioneer Championship Competition on April 28, 2016, sponsored and broadcast by NIADA TV.

Staying Ahead...

In the end, it's not the years in your life that count. It's the life in your years.

--A. Lincoln



WASHINGTON AREA NEW AUTOMOBILE DEALERS ASSOCIATION