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

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Headlines…

Trade-in equity rising, but used vehicles likely to drop in next year
How would Pentagon cuts affect your customer base?
California still wants cleaner cars
If it wins, would other states follow?
NGVs are a "natural," auto analysts say
Why consumers exit their lease: It's not what you think
Drivers phone and text while driving, but advocate a ban
October 3 F&I Professionals Workshop at WANADA headquarters
Staying Ahead…

Trade-in equity rising, but used values likely to drop in next year

The recent rise in trade-in equity should help release pent-up demand for new cars, says a new report by the *NADA Used Car Guide*. As the pricing gap between new and used vehicles narrows, demand for used is softening. As a result, ALG (formerly Automotive Lease Guide) expects used market values to *decrease* by 4 to 5 percent in the next year.

Used Car Guide executive automotive analyst Jonathan Banks gives an example of the rise in trade-in equity: In 2006 it took a consumer who bought a new Ford Explorer XLT 4WD with a 6-cylinder engine 41 months to reach positive equity. But in 2009, it took just 26 months.

A consumer reached positive equity 15 months faster when buying a Ford Explorer in 2009 than in 2006.

NADA estimates that used-vehicle depreciation averaged just 13.1 percent from 2009 through 2011, nine percentage points better than the 22 percent average over the past 10 years.

The percentage of dealership transactions nationwide attributed to used-vehicle sales has been declining since their peak of nearly 65 percent in 2010, according to ALG. The percentage of new-vehicle sales passed 50 percent in August 2012.

ALG predicts that in two to three years, thanks to lower demand and rising supply, used-vehicle prices will be 8 to 10 percent *lower* than now. Long term, the company expects residuals to drop.

How would Pentagon cuts affect your customer base?

With the Pentagon employing such a large proportion of the region's workforce, Washington area dealers should pay attention to the potential effects of sequestration on the Defense budget. In that light, two new reports provide mixed news about a bad situation: Even if sequestration goes through and automatic spending cuts of $1.2 trillion are made in the nation's budget, the Pentagon budget would be cut by $50 billion and go below $500 billion for one year only, according to the Bipartisan Policy Center. The Department of Defense (DoD) budget would gradually rise to $600 billion by 2020.

Automatic Pentagon budget cuts could have mixed effects on Washington consumers.

"Defense *contractors* would not feel the full effect of sequestration immediately," says a report by the Center for Strategic and Budgetary Assessments, a nonpartisan think tank. "Sequestration would, however, force *layoffs of DoD civilian employees* soon after it takes effect." (emphasis added).

Congress is not expected to act on the budget until the lame-duck session between Election Day and the end of the year.

California still wants cleaner cars, asks EPA for waiver

If it wins, would other states follow?

The new CAFE guidelines are out, but the debate continues.

The EPA held a hearing this week on California's Advanced Clean Cars Program, a more stringent version of the national fuel economy standards issued earlier this month. In addition to those standards, the California program, which was approved by the California Air Resources Board earlier this year, would require automakers to increase the percentage of low-emission and zero-emission cars produced by as much as 15 percent by 2025. California has asked EPA for a waiver that would allow the state to carry out the advanced program.

Area dealers will recall that Maryland and the District of Columbia were among the 13 jurisdictions that adopted the California low emissions vehicles (CAL-Lev) standards in their earlier form, which effectively required automakers to create two versions of vehicles.

Yet a report from the International Energy Agency said that the new U.S. fuel efficiency standards set tougher standards for reducing greenhouse gas emissions than Canada or the European Union. The U.S., for example, has set a goal of 163 grams of carbon dioxide (CO^2) emissions per mile by 2025, compared with 209 for the EU.

Where are we now with fuel economy? The new U.S. standards require an overall fleet average of 54.5 mpg by 2025. In August, the average fuel economy for new cars sold nationwide rose to its highest level ever, at 27.3 mpg, according to the WardsAuto Fuel Economy Index. For all light duty vehicles, August was the fourth highest month.

One reason was the jump in small-car sales, which made up more than 20 percent of sales. Crossover utilities were the best-selling segment, at 24 percent of the market.

NGVs are a "natural," auto analysts say

Natural gas vehicles (NGVs) may be the best choice for meeting tough new fuel economy standards, auto analysts said at the recent meeting of the Society of Automotive Analysts, according to a report in the *Detroit Free Press*.

With the increased interest in natural gas drilling, "The U.S. now has a 100-year supply of natural gas," said General Motors chief economist Mustafa Mohatarem. "I'd make a bet it's the next big transportation fuel. The price is so much lower than gasoline, so it's likely people will find a way to use it."

Electric vehicles are less likely to be widely adopted, as they face obstacles of price, driving range and charging time, said John Casesa, senior managing director of investment banking at Guggenheim Partners.

Dealers could see more cars like the Honda Civic Natural Gas, if analysts are right.

Why consumers exit their lease: It's not what you think

Contrary to popular belief, mileage constraints are not the biggest reason consumers exit a lease, says a new survey from Swapalease.com. It's that they no longer need their car because they relocated, received a company car, or a family member died.

Four years ago, the top reason was financial concerns, but that has slipped to 2nd place. Gas prices are, surprisingly, far down the list, in 8th place down from 6th place in 2008.

"We just saw a summer of repeated gas price increases, yet these price spikes do not seem to be negatively impacting people and their driving habits," said Scot Hall, executive vice president of Swapalease.com.

Here are the top 10 reasons why people want out of their car lease:

1. No longer need vehicle
2. Financial concerns

3. Want a new car
4. Lifestyle changes
5. Dislike present vehicle
6. Family size
7. Mileage concerns
8. Gas prices
9. Insurance costs
10. Maintenance

Drivers phone and text while driving, but advocate a ban

More than 90 percent of teens say their parents talk on a cell phone while driving, 88 percent speed and 59 percent send text messages, according to a new survey from Liberty Mutual Insurance and SADD (Students Against Destructive Decisions).

Of the 1,700 teens surveyed, 47 percent said their parents have driven at least occasionally without a seatbelt and 20 percent under the influence of alcohol. The teens have told the surveyors in the past that parents are their primary driving influence. Not surprisingly, 90 percent of the teens said they talk on a cell phone while driving, 94 percent speed, and 78 percent text.

Driving while phoning: Parents do it, teens do it. Many want to ban it.

Parents saying one thing to their children and doing another is an old story. Here’s another: A whopping 90 percent of those surveyed by AutoTrader.com support a legislative ban on texting or emailing while driving and 57 percent support a legislative ban on talking on a mobile device while driving.

Yet 29 percent said they write or read texts at least occasionally while driving and 48 percent make or accept calls. (And those are the ones who admit it.)

Automakers are working on the problem – not by advocating a ban, but by developing technology that will make it safer to text or talk on the phone while driving. Volvo is working on SARTRE, Safe Road-Trains for the Environment, which supports vehicle “platooning.”

The technology allows the driver to join a road train led by a professional driver. Each car measures the distance, speed and direction and adjusts to the car in front. The driver shouldn’t have to do any active driving – like an advanced cruise control.

And it would leave plenty of time to check your email.

October 3 F&I Professionals Workshop at WANADA headquarters

WANADA will present an F&I Professionals Workshop on October 3 at WANADA headquarters presented by finance and insurance specialist JM&A Group. The JM&A presenter, Ty Courtney, will talk about best practices for reviewing paperwork and complying with the myriad of federal regulations, all in the context of successful selling. Those who pass a multiple choice exam at the end of the workshop will receive a certificate of completion.

Trainer Ty Courtney spent 25 years as an attorney and elected official before turning to auto retail, where he has been a sales manager, finance manager and finance director. He has been a trainer with JM&A Group since 2006.

For a workshop registration form, click here. For more information, contact Kristina Henry at (202) 237-7200 or kh@wanada.org

Staying Ahead…

The test of courage comes when we are in the minority. The test of tolerance comes when we are in the majority.

--Ralph W. Sockman
Pastor, author and radio personality (1889-1970)