

THE WANADA BULLETIN

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

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Special report: Tariffs and the auto industry

Trump's tariff plan could raise vehicle prices, cause job losses



President Trump says he wants to protect industries "ravaged by aggressive foreign trade practices." Photo by Gage Skidmore.

"At the Geneva Motor Show last week, one topic dominated conversations among OEMs and dealers of all nameplates: President Donald Trump's tariffs on imported steel and aluminum," said NADA President Peter Welch. Three representatives from WANADA attended the Geneva show: Chairman John Bowis, Auto Show Chairman John Ourisman and President and CEO John O'Donnell. A more detailed report will be included in next week's Bulletin.

Despite the objections of many economists, executives from different industries and senior Republicans in Congress, Trump imposed tariffs of 25 percent on steel and 10 percent on aluminum. Considering the president's habit of changing his stance on issues, some observers

had thought that he might or could still change his mind on this one. But media reports have noted that even with all of Trump's changes on other issues, an unfair trade imbalance for the United States has long been an obsession of his.

"It's a process called dumping," Trump said when presenting the tariff plan, "and other nations dumped more than anytime, anywhere in the world, and it drove our plants out of business."

The tariff plan exempts Canada and Mexico, with the idea that the threat of tariffs could be used as leverage to gain more concessions for the U.S. in the North American Free Trade Agreement (NAFTA). NAFTA talks are currently stalled.

"If we don't make the deal... then we're going to terminate NAFTA and we're going to start all over again, or do it a different way," Trump said. The auto industry is closely watching the

NAFTA talks, as U.S. automakers have plants and manufacture parts in Mexico and Canada. The auto industries of the three countries are closely intertwined.

NADA: Vehicle affordability is the focus

On both NAFTA and tariffs, NADA is focused on vehicle affordability. The U.S. dealer group has joined the Alliance for Competitive Steel and Aluminum Trade (ACSAT), a coalition representing a broad cross-section of industries, including autos, that produce and sell intermediate and finished goods containing steel and aluminum. ACSAT's immediate recommendation is for "Congress and the president [to] work more cooperatively to achieve the proper balance between trade concerns and other national priorities."



Under the tariffs, vehicle sales would go down and up to 40,000 auto jobs could be lost, one study found.

AIADA had already come out against tariffs before they were formally announced. Like NADA, AIADA President Cody Lusk emphasized the harmful effect they would have on vehicle affordability.

John Bozzella, president and CEO of the Association of Global Automakers, sounded the same theme: "A tariff is a tax that will result in higher prices that consumers will ultimately bear," Bozzella said. "Exemptions will not address the fundamental problems tariffs will create for U.S. car and truck manufacturing. Increased costs will make our industry less competitive and harm American workers, consumers and the economy."

Independent study confirms affordability argument

A study by the Council on Foreign Relations (CFR), an independent think tank, gave hard numbers to the vehicle affordability argument.

"Given that tariffs tend to increase import prices (which determine domestic prices) by *at least* as much as the tariff, we calculate that a 25 percent steel tariff will increase the price of new passenger vehicles manufactured in the United States between 0.5 and 0.8 percent," the council's report said. The price rises could lead to a decline of between 1.6 percent and 3.6 percent in global vehicle sales.

Because of the close relationship between vehicle sales and jobs, the CFR said **job losses in the U.S. auto industry could reach 40,000 by the end of 2019** as a result of the proposed tariffs.

"Employment in the U.S. auto industry will suffer from Trump's tariffs to a vastly greater degree than it could possibility benefit the U.S. steel industry," the CFR report said.

What's next?

The Trump administration has invited the other affected countries besides Canada and Mexico to enter discussions to create similar exemptions in exchange for trade concessions. We should expect an intense round of lobbying, which will likely result in many more caveats and clarifications as the tariffs are rolled out. The busiest period will be from now until March 23, when the tariffs will take effect.

In his blog post for NADA, association president Welch raised the question of whether Trump can unilaterally impose the tariffs without Congressional approval. Sen. Jeff Flake (R-AZ), has indicated he will introduce a bill to overturn the tariffs, but it likely does not have sufficient Congressional support to withstand an expected presidential veto.

Another possibility is administrative challenges or litigation filed against the Trump administration for imposing the tariffs, says NADA. The affected industries may challenge the tariffs in court, and U.S. trading partners will likely challenge them before the World Trade Organization.

Save the date!

MADA/VADA/WANADA Reception at NADA Show March 23



The MADA/VADA/WANADA party is generally seen as one of the best at the NADA Convention.

Washington area dealers attending the 2018 NADA Show (formerly the NADA Convention) in Las Vegas later this month are cordially invited to stop by the MADA/VADA/WANADA Reception at the TopGolf Club on Friday, March 23, from 6:30 to 8:30 p.m.

The MADA/VADA/WANADA party at NADA is widely regarded as one of the best at the Convention, and this year promises to be no exception. The TopGolf venue is spectacular, located at 4627 Koval Lane in Las Vegas. There is no need to register – just show up, ready to connect with old friends and meet some new ones.

The MADA/VADA/WANADA Reception at NADA is generously sponsored by Armatus, Chesapeake Petroleum, Charapp & Weiss LLP, Cox Automotive, DHG Dealerships, JM&A Group, Rifkin/Weiner/Livingston LLC, SunTrust and TrueCar.

Mike Jackson, John Krafcik to have fireside chat at NADA Show

AutoNation chairman and former WANADA member Mike Jackson will sit down with Waymo CEO John Krafcik for a fireside chat at the NADA Show in Las Vegas on Saturday, March 24. NADA President Peter Welch will moderate the discussion following Krafcik's keynote remarks.

The fireside chat will delve into many issues, to include lessons learned and future opportunities and insights for new-car dealerships around autonomous vehicles. In November 2017, AutoNation, the largest U.S. auto retailer, announced a multi-year agreement to support Waymo's autonomous vehicle program. AutoNation offers its strategic capabilities to maximize the life of Waymo's vehicles.

NADA to promote value of dealership service technician jobs

The NADA Foundation plans a large-scale workforce initiative to promote the value of dealership jobs, especially service technicians, in the retail auto industry.

The initiative – which will include a new NADA Foundation website, videos, digital and social media content and outreach to opinion leaders – will be developed in 2018 and launched at the 2019 NADA Show in San Francisco. The Foundation will also begin fundraising for the initiative in 2019.

“Local dealerships provide more than a million good-paying jobs in sales, management and service, which benefit communities

everywhere,” said NADA Foundation Chairman Annette Sykora, dealer principal of Smith South Plains Ford and Lincoln in Levelland, TX. “Considering the shortages that dealerships now face, especially in recruiting, training and retaining technicians, the time is now for our Foundation to educate America on the value of these jobs to workers and local communities.”

The NADA Foundation developed the framework for its workforce initiative in 2017, after identifying the need to harmonize efforts between automakers, training centers and dealerships – especially on recruiting technicians.

“What we found are a lot of competing silos that don’t appear to be talking to each other, which makes getting into a technician career unduly burdensome on potential recruits,” said Jonathan Collegio, NADA’s senior vice president of Public Affairs, the department that administers the NADA Foundation. “It is incredibly difficult for someone interested in an auto technician career to find clear information about its benefits, and how to gain the training and certifications necessary.”

Collegio cited competing information on training centers as a major hindrance to recruiting, as OEMs often refer only to training centers they are partnered with, while ignoring other programs.

There is also a lack of targeted messaging and marketing to promote the careers, which Collegio says the NADA Foundation will address in its marketing efforts.

How has the move from cars to SUVs impacted buyer loyalty?

Edmunds’ 2018 Loyalty Report offers a historic perspective on the shift from cars to SUVs, showing how that change has affected buyer loyalty rates. The results are not always straightforward, as some companies that have dropped passenger cars have watched buyers defect to competing brands.

Just before the recession of 2008, gas-guzzling SUVs had a fairly loyal following, Edmunds says. But then gas prices spiked, and automakers were forced to start making more fuel-efficient SUVs. Today, car-based cross over utility vehicles that are still roomy, but get better gas mileage than full-size SUVs, have created a segment that can’t seem to stop growing.



NADA plans a major workforce initiative promoting the value of dealership jobs, especially service technicians.

New-vehicle buyers started trading in their cars for crossovers, and the trend accelerated. Last year, passenger cars made up just 36 percent of all new vehicles sold, a record low.

Automakers that want to keep selling large quantities of cars do so by appealing to buyers' emotions rather than describing cars as "the pragmatic, cost-effective choice," the report says. Toyota and Honda have been especially successful with this strategy, reporting the highest model-to-model loyalty rates in many segments. The Camry and Accord are prime examples in the midsize car segment.

Loyalty for SUVs, including CUVs, is very high, with 75 percent of SUV owners trading in their SUV for a new one. On the other end of the spectrum, loyalty among luxury buyers has hit new lows. In 2017, only 37 percent of luxury buyers traded in their vehicle for one from the same brand.

Edmunds cites subcompact luxury as a successful experiment, both for cars and SUVs. It is the only portion of the luxury market bringing in mainstream-brand buyers.

Thought for the Week...



On the 8th day, God thought what a boring bunch humans are -- Let there be laughter and fun in the world, He said, so He created the Irish.

--Happy St. Patrick's Day

March 17, 2018

