

ECONOMIC UPDATE



National Automobile Dealers Association, Industry Analysis Division

Which Brands Best Cope as the End of a Difficult Year Approaches?

By Paul Taylor, NADA Chief Economist

This difficult year has produced some surprises. At the top, insufficient new car supplies for many brands came in a year when sales were just starting to recover and world over-capacity in vehicle manufacturing was the expected concern.

By manufacturer's country of origin, Germany is the major producer with the best gain in volume over the year, in a year when Japan's production is growing less than 2 percent. South Korea is down by 1.3 percent, due to a 6.2 percent drop in car production despite the homerun new car introductions from Hyundai and Kia.

The unsung winner in 2012 has been North American production facilities which saw a 12.3 percent gain in unit output sold compared to a 4.3 percent gain in output sold for offshore production. From a small base of less than 200,000 cars per year, countries outside of North America, other than Germany, Japan and Korea enjoyed a 14.9 percent increase in unit output sold in the United States. While the world grew in output sold in the United States, the U.S. market remained a magnet for light vehicle sales even though economic growth was only about 2 percent for the year.

Overall sales for North American-based manufacturers (the Detroit 3 plus several hundred units from Navistar) grew 15.2 percent. Market share grew by more than a percentage point for the Chrysler Group, by 0.6 percent for General Motors and by 0.1 percent for Ford (in the midst of a downsizing of brands). Europe-based makers saw an 18 percent increase in sales, with production by Volkswagen in Tennessee helping to fuel the growth. Asia-based producers managed a 4.3 percent gain despite tragic disruptions in production in Japan and Thailand during the year.

Which Brands Have the Inventory to Sell in December?

With economic indicators brighter in the fourth quarter, a key concern is having adequate inventory to sell in

For manufacturers headquartered in Asia, there is on average 46 days supply, an inventory too tight to guarantee maximal sales. But inventory levels vary greatly among manufacturers.

December and into the New Year. The Detroit 3 have an average of about 80 days of supply, over the target rate of 60 days of supply considered an average inventory. Result? Expect incentives from manufacturers to sweeten over the next several months. For manufacturers headquartered in Asia, there on average 46 days supply, an inventory too tight to guarantee maximal sales. But inventory levels vary greatly among manufacturers. Honda, Hyundai, Subaru and Toyota are well under 60 days of inventory, while Mazda, Mitsubishi and Nissan are at or over the target level of 60 days for an adequate inventory. So market share will not only depend upon the strength of the economy but also the supply of vehicles in the hands of a given brand's new car dealers. For European brands, inventory is also tight on average, at 44 days, with full-line competitor Volkswagen at 53 days of supply as December began. BMW held just 32 days supply compared to Daimler's 48 days of supply as December was underway, so the results for the last month of the year will be interesting.

Currently, the Detroit 3 brands have 59 percent of the inventory, Asian brands have 33 percent and European brands have almost 8 percent of the inventory available for sale in the U.S. market.

Detroit 3 market share for sales is up about 1.5 percent in the last three months, as inventory has started to rebuild for the Asian brands. Year to date, the Detroit 3 share was up 2 percentage points to 47 percent of total sales this year compared to last year. European brands hold about 9 percent of U.S. market sales this year. The tumult of the last year has had an impact on the distribution of sales that would not have been expected two years ago, and the U.S. taxpayer can be thankful for that serendipity

What Threatens the U.S. Economy During 2012? Europe, U.S. Residential Real Estate and Even Real Estate in China

Europe remains a concern because a break-down in the financial system in Europe could lead to a disruption of the world banking system. On December 1 major Central Banks took simultaneous action to keep the European banking difficulties from exploding. The market has begun to believe that the action will succeed and one result is a modest "Santa Claus rally" in U.S. stocks to end the year.

The other major concern in the U.S., residential real estate appears to be on the mend from the double dip of housing prices in recent years. NADA Industry Analysis is still talking about housing because housing prices have continued to fall to some degree in most markets on a yearly basis over the last year.

Residential real estate remained a net drag on economic growth and new car purchases in 2011. In 2012 it may be a neutral influence on the new car market as home prices on average hit bottom and some states see home price appreciation. We are happy to report that housing prices appear to be trying to put in a bottom in nearly all states east of the Rocky Mountains (see Page 3). That is good news.

West of the Rockies, states with energy production are doing reasonably well, but housing continues to correct at near double-digit rates of decline on a yearly basis. Even the good news in housing, an uptick in the build rate for rental housing, is, in part, a sign of the dysfunction in the housing market.

Foreclosed homes have been held off the market, and not made available to the rental pool; the lack of rental housing is abnormally high. The full-size map on Page 3 shows the rate of decline for each state, and also the four states in the Midwest that actually have house price increases on average. In the first two quarters of 2012, we will know if the bottom has actually been reached, but it appears to be nearly at hand, as reflected in the very low rates of housing price yearly decline in many states east of the Rockies during the 3rd quarter of 2011.

Building more rental housing will slow, but not stop, the recovery of U.S. housing prices. That assures, along with relatively high unemployment, that inflation is likely to remain subdued over the coming year, and thus lending rates for new and used cars and trucks should remain historically very low. We also expect some correction of what appears to be a real estate bubble in the Chinese Economy.

The 2012 Economic Outlook is for Modest Growth and Stronger Light Vehicle Sales. NADA Industry Analysis Expects Sales of 12.945 Million Units

NADA Industry Analysis thinks that the U.S. economy has muddled through 2011 as Economic Update had suggested over the last six months. So we are going to pop a cork on New Year's Eve to slow but sustainable growth continuing to bring a modest recovery in the U.S. Economy. We appear to have dodged the bullet of a European financial and banking meltdown that could have spread to the world financial system. Our forecast for next year is based on only a mild recession coming to Europe in 2012, due mostly to concerted Central Bank intervention from the developed economies.

U.S. growth will be about 2 percent in the first quarter of the year, improving to over 3 percent in the second half of 2012. Because new vehicle inventory will be back to service the pent-up demand created over the last several years, new car and light truck sales will continue to outperform and to lead the overall U.S. economy. Used car inventory will remain tight because demand for used cars is increasing along with higher numbers of trade-ins as new car sales increase.

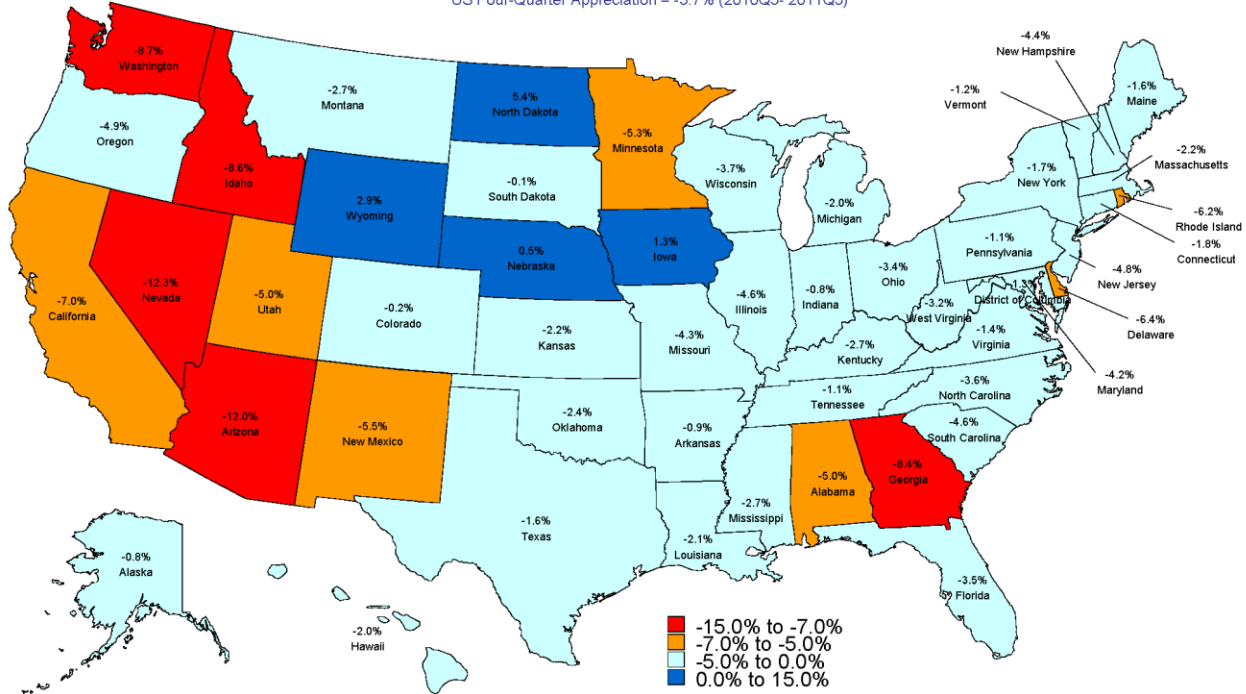
Old cars and trucks (age), affordable credit and expected aggressive incentives from manufacturers anxious to grow or regain U.S. light vehicle market share are three legs of support for light vehicle sales in 2012. This is a market that is about needs, particularly the need to get to work each day, and does not require the euphoria of desire and loose credit that characterized 2002 through 2006.

NADA Industry Analysis forecasts a rate of 12.945 million new car and light truck sales in 2012, despite economic growth of only about 2 percent to start the New Year.

Best of the Holidays to New Car Dealers, Commercial Truck Dealers and other friends of NADA, as we prepare to meet in Las Vegas for the 2012 NADA Convention.

Four-Quarter Price Change by State: Purchase-Only Index (Seasonally Adjusted)

US Four-Quarter Appreciation = -3.7% (2010Q3-2011Q3)



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