Hilco Global
Asset Smarter

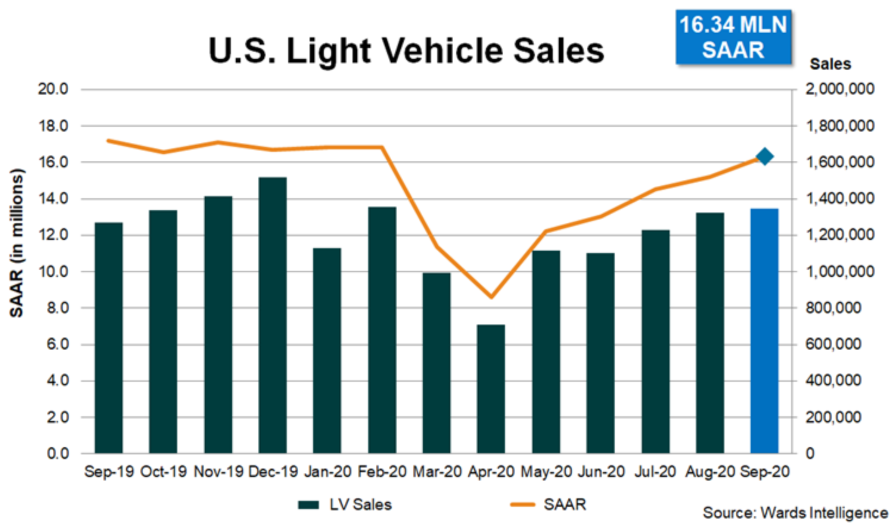
HILCO SMART INSIGHTS: AUTOMOTIVE INDUSTRY

The U.S. Automotive Industry Show Signs of Optimism in the Third Quarter

By Keith Spacapan

Q3 2020

October 5, 2020 – The seasonally adjusted, annualized rate of sales (SAAR) for U.S. deliveries of light-duty vehicles reached 16.4 million vehicles in the month of September. That is a much better result than most expected back in April when the industry slumped to a 50-year low of 8.7 million vehicles. While trying to defy the prevailing negative sentiment, the market received no support from the fleet sector which is now underrepresented by historical standards. Fleet margins are relatively thin as compared to retail margins, but the additional volume can lift sales by 20% and help keep the assembly plants operating at maximum efficiency. Fleet sales currently represent only 10% of total deliveries. Rental companies, one source for fleet sales, are heavily dependent on the travel industry which has been slow to recover. Commercial fleet operators, the other primary source for fleet sales, have been extending their replacement cycles pending corporate restructuring plans.



Thankfully, low gas prices, affordable finance rates, and generous sales incentives have contributed to an improving mood among retail buyers. There also is a renewed interest in private transportation as a safer alternative to public transportation.Cox Automotive's (COX) Dealer Sentiment Index confirms that some optimism has returned to the marketplace. Cox's quarterly index is based on a survey of more than 1,000 dealers and a score above 50 indicates dealers view conditions favorably. According to the survey, overall dealer sentiment in the third quarter was 56, up from 20 in the second quarter and 48 one year ago. When Cox asked the question, "What is holding back your business?" dealer response indicated that inventory availability is now more detrimental than COVID-19.

The vehicle manufacturers and their extensive supply chain have struggled to operate consistently at pre-pandemic build rates. Excessive absenteeism related to COVID-19 continues to hobble the industry and the collective output from all manufacturers is barely sufficient to keep up with demand. September opened with only 2.3 million cars in inventory, down 70 thousand vehicles from August and 870 thousand vehicles from one year earlier. Overall dealer inventory is now considerably below the industry benchmark of 60 days. Toyota has only 34 days' supply; the tightest inventory levels among mass market brands. Other headwinds include troubling unemployment prospects, tight credit for sub-prime borrowers, and the as of yet undetermined form of additional, if any, government stimulus. Of course, let's not forget the onset of the normal flu season, coupled with COVID-19. At this time, most industry forecasts for the full 2020 calendar year are between 13.5 and 14.5 million light-duty vehicles, an improvement of 1.0 million vehicles from three months ago.

Finance Cost	Fuel Cost	Inventory	Incentives
4.6% APR	$2.18 per gallon	50 days	$4,001 per vehicle
+40 bp QOQ	-$0.02 MOM	-1 day MOM	-$59 QOQ
-110 bp YOY	-$0.49 YOY	-16 days YOY	+$199 YOY

For Further Information, Please Contact: Keith Spacapan | 847-313-4722 | kspacapan@hilcoglobal.com