



Auto Industry Brief

March 2011

Accelerate *Your Business*

ECONOMY: OUTSIDE FORCES WILL TEST THE U.S. RECOVERY *page 1*

RETAIL AND WHOLESALE VEHICLE MARKETS *page 3*

Q&A WITH TOM WEBB *page 6*

The *Auto Industry Brief* is published monthly by Manheim Consulting.

About Manheim Consulting. Manheim Consulting is a business arm of Manheim, the world's leading provider of used vehicle services. Manheim Consulting comprises a team of automotive strategic consultants who work with clients to solve business challenges. With access to the most comprehensive used vehicle database in the industry, Manheim Consulting creates highly-customized solutions for its customers to help them achieve greater success.

Manheim Consulting is dedicated to helping its customers drive business results and maximize their profit potential through a broad scope of services, including custom analytics, business optimization, macroeconomic analysis, data services, strategic development, research and more.

For more information, visit www.manheim.com/consulting or call 800-777-2053.

Annual Subscription: \$495

MANHEIM CONSULTING
6205 Peachtree Dunwoody Rd.
Atlanta, GA 30328

678-645-2377
800-777-2053

www.manheim.com/consulting

© 2011 Manheim Inc. All rights reserved.



SUMMARY

As anticipated, the U.S. enjoyed significant job growth in February. However, that good news was quickly overshadowed by rising gas prices, political unrest in the Middle East and North Africa, and then the earthquake and tsunami in Japan.

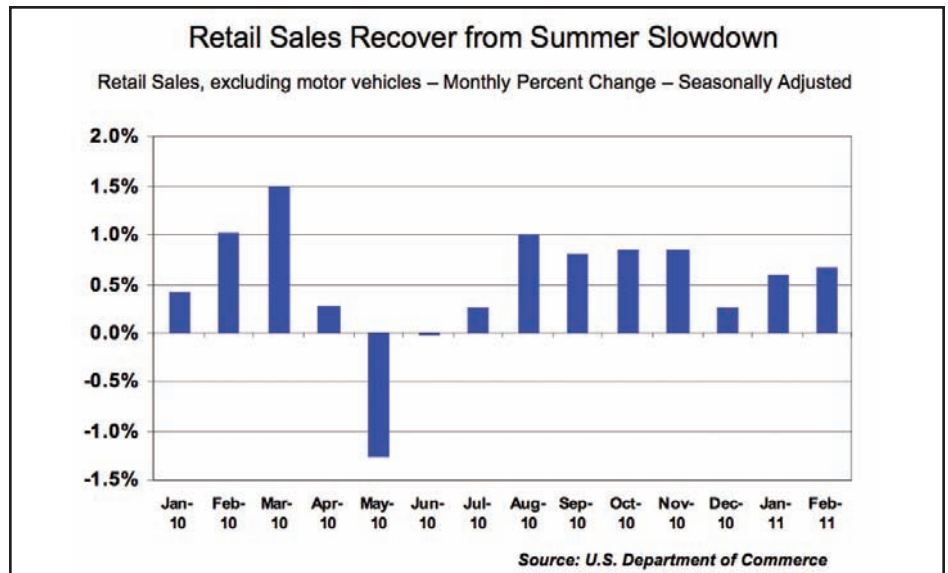
As of this writing, the full extent of the catastrophe in Japan, and certainly all of its ramifications, remain unknown. What is clear, however, is that financial markets were shaken and they suggested significant problems ahead. Optimistically, we expect the various financial indicators will start to stabilize and provide a clarity that will allow us to keep our recovery forecast intact.

The new and used vehicle retail markets maintained their upward movement, despite the outside events. Wholesale used vehicle prices resumed their rise in the first half of March. And, with new vehicle inventory levels likely to remain tight, auction prices should stay lofty.

ECONOMY: OUTSIDE FORCES WILL TEST THE U.S. RECOVERY

Retail sales: February strong, outlook cloudy. Consumers are buying again, but there is fear that higher gas prices, a falling stock market, and a dormant housing market will send them back into retreat. In February, total retail sales rose 1%, and sales excluding autos were up 0.7%. That, plus an upward revision to January's tally, resulted in an 8.9% year-over-year gain in total retail sales. The gains have been broad-based, including both low-end and high-end stores.

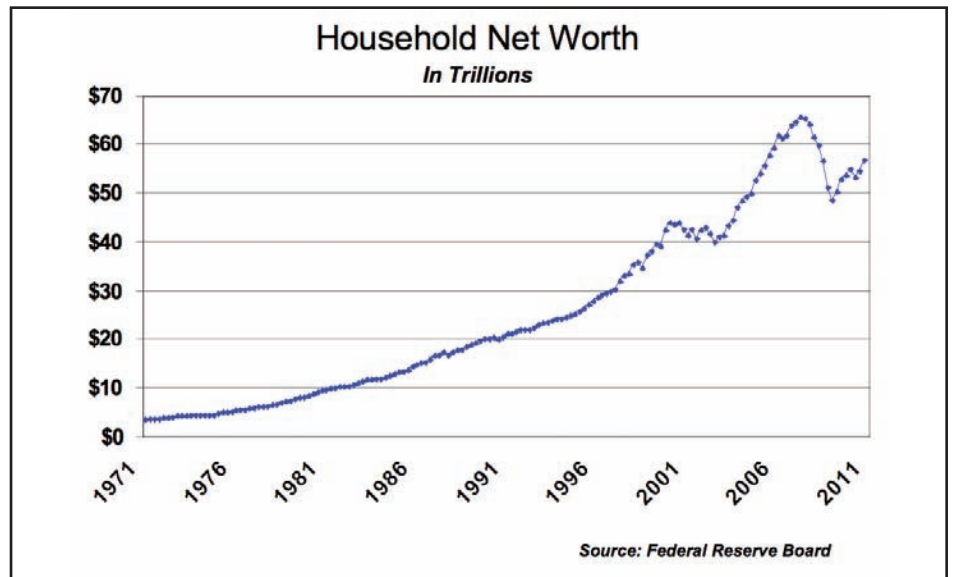
On the same day that retail sales were released, however, the University of Michigan reported that consumer sentiment fell at its sharpest rate in five years. That, of course, was the result of the rapid run-up in gas prices – a factor that will inevitably impact discount retailers. Meanwhile, high-end retailers are concerned about the sudden falloff in equity values that occurred in the wake of the Japan quake. As a result, many retail analysts are now expecting a repeat of last year's summer slowdown. We would caution, however, that both the rise in gas prices and the fall in stock prices may, for the most part, be over. In addition, it should be remembered that, despite the summer slowdown, 2010 was a good year for retailers.



Housing: dormant, but no longer a wealth destroyer. In February, both single family housing starts (-11.8%) and existing home sales (-9.6%) declined more than expected. Of those sales, 39% were “distressed” sales (foreclosures and short-sellers), with the buyer often being an all-cash investor. Given that environment, it is not surprising that new home building permits fell to an all-time low last month.

News on the pricing front wasn't any better. Home prices fell another 5% last year, which pushed values 33% below their peak, according to CoreLogic. As a result, 11.1 million homes (or 23% of those with a mortgage) are upside down. In 10% of the cases, the amount of negative equity is 25% or more of the mortgage.

Despite those ominous trends, it appears that the erosion in household wealth created by the collapse of the real estate market has fully played out. In the fourth quarter, household net worth was up \$8.1 trillion from the trough (but still down \$8.8 trillion from the peak). Henceforth, housing will not be a booster to the recovery, but neither will it be a detractor.



MANHEIM CONSULTING
6205 Peachtree Dunwoody Rd.
Atlanta, GA 30328

678-645-2377
800-777-2053

www.manheim.com/consulting

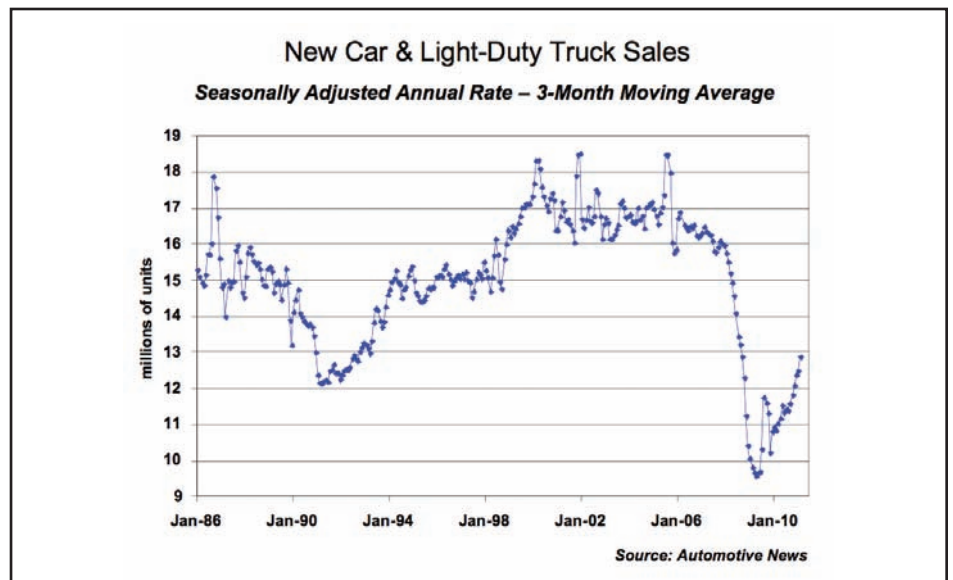
© 2011 Manheim Inc. All rights reserved.



New and used vehicle retail markets continue to strengthen. The seasonally adjusted annual rate of new vehicle sales came in at a better-than-expected 13.4 million in February, which pushed the average pace for the first two months above 13 million. As in January, all of February's gain was the result of retail purchases; fleet sales declined 5.6% during the month.

Most analysts believe that March's new vehicle sales pace will also be in the 13 million range. Some decline in April should be anticipated due to selective shortages in inventory.

Used vehicle sales were also strong in February, as CNW put the gain at 12%, which resulted in a year-to-date rise of 9%. Indicators are that sales remained strong in the first part of March and may even have picked up on a year-over-year basis due to the delayed tax refund cycle. Increased used vehicle sales have occurred in all channels (franchised, independent, and private party) and for all price points.

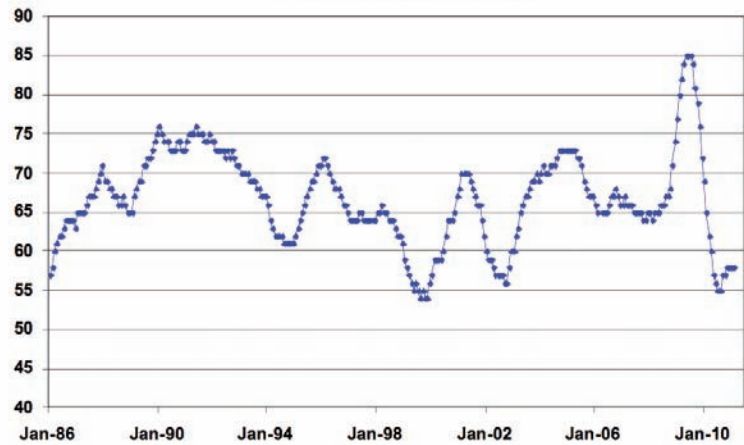


Not all incentives are created equal. Reports of higher new vehicle incentive spending in February (most notably at GM, Toyota, and Nissan) captured headlines, but the increase for the overall industry was minuscule or nonexistent (depending on whose time series you use). More importantly, it was not the incentive spending of old that was used to simply get rid of excess production. In fact, dealer inventories are currently tight.

Recent incentives have been strategically used to capture market share in particular market segments or from certain buyer groups. And, the spending has come in the form of reduced-rate APRs or lease support, as opposed to cash-on-the-hood. As such, there was no evidence that recent incentive activity has impacted used vehicle residuals. As we have noted in the past, new vehicle inventory levels provide a better statistical explanation of used vehicle pricing than does incentive spending.

On March 1, inventory fell to a 60-days supply, down from 70 days at the beginning of February due to the 27% rise in new vehicle sales. With likely supply disruptions due to manufacturer and part-supplier shutdowns in Japan, future incentives will become even more strategic, and they will be concentrated on the dwindling number of models that have a heavy supply.

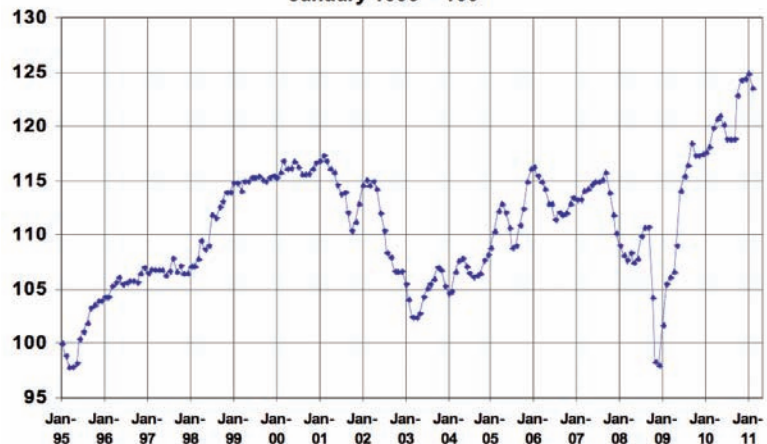
New Vehicle Inventory Days Supply 12-Month Moving Average



Source: Automotive News

Wholesale used vehicle prices remain strong. Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) declined 1% in February after rising in each of the previous five months. (Before the seasonal adjustment, wholesale prices rose 2% during the month.) The Manheim Used Vehicle Value Index stood at 123.6 for February, which represented an increase of 4.7% from a year ago. In the first half of March, wholesale prices moved up both before and after the seasonal adjustment.

Manheim Used Vehicle Value Index January 1995 = 100



Source: Manheim Consulting

Small and midsize segments show pricing strength. There is little doubt that rising pump prices have captured the consumer's attention and that dealers, recognizing this, have bid up the prices for small and midsize cars. But, it is also true that these segments have been strong for some time (they are the strongest segments on a three-, six-, and 12-month basis) as a result of:

- Better product offerings in the wholesale market,
- Long-term shifts in consumer preferences, and
- New model introductions that truly differentiate themselves from their late-model counterparts in the wholesale market.

MANHEIM CONSULTING
6205 Peachtree Dunwoody Rd.
Atlanta, GA 30328

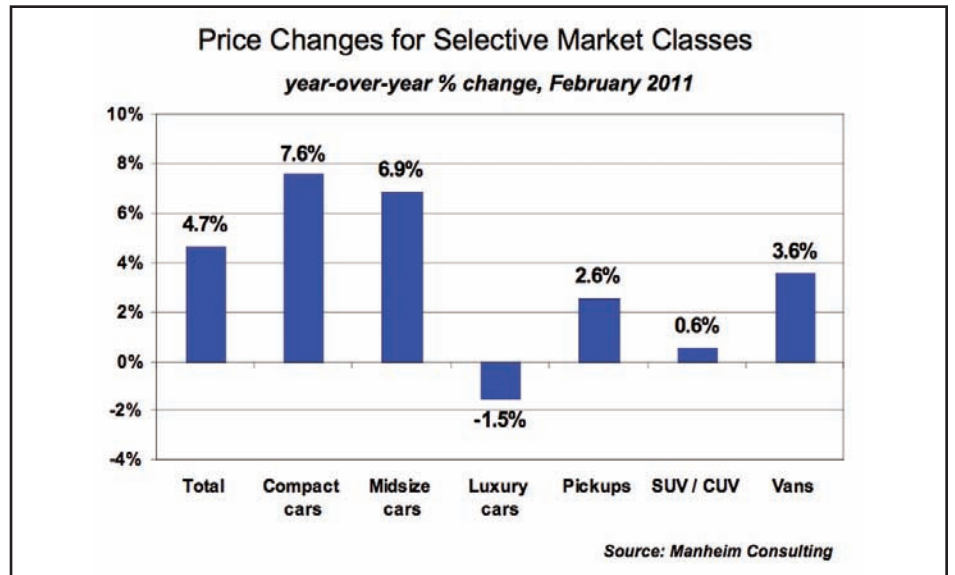
678-645-2377
800-777-2053

www.manheim.com/consulting

© 2011 Manheim Inc. All rights reserved.



Fullsize SUVs showed further weakness in February, but, as noted last month, the overall decline has been substantially less than that indicated by reports which don't adjust for the higher-mileage these units now have. Given the supply/demand dynamics in the wholesale market, we think the concern over higher gas prices should be focused more on its marcoeconomic impacts, rather than the possible disruption in wholesale used vehicle pricing.



MANHEIM CONSULTING
6205 Peachtree Dunwoody Rd.
Atlanta, GA 30328

678-645-2377
800-777-2053

www.manheimconsulting.com

© 2011 Manheim Inc. All rights reserved.





Thomas Webb

Chief Economist

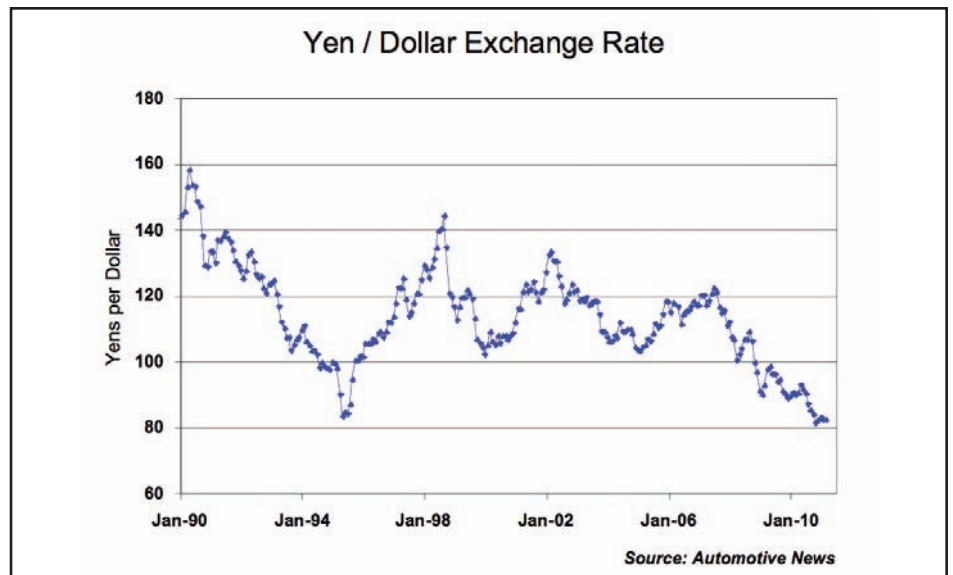
Manheim Consulting

(540) 364-3735

Thomas.Webb@Manheim.com

- Q. Do you have any thoughts on how the quake, tsunami, and resulting nuclear plant problems in Japan will alter the economic landscape in the U.S.?
- A. I believe that the most significant, most problematic, and least predictable impacts will be felt in the financial markets. Japanese insurers will need to off-load U.S. Treasuries. All other things being equal, that alone will cause U.S. rates to rise. In addition, one day prior to the quake the largest U.S. bond fund announced it had gotten out of long-term Treasuries.

And, of course, we have already seen the turmoil that arose in the foreign exchange markets. Initially, there was the rather perverse response as the yen rose in value. The dollar responded similarly after the collapse of Lehman Brothers, but, in this instance, the yen was already at a near-record level and was imposing a real drag on Japanese exporters. As such, Japan and the rest of the G-7 intervened in the markets to stop rise in the yen. My concern going forward is the possible whipsaw effect when the yen begins to weaken naturally and European and U.S. central banks pursue opposite monetary policies. (Europe talks of tightening while the U.S. hints at further easing.) History tells us that volatile foreign exchange markets often inflict harm on the real economy.



More simply, we have to note that the third largest economy in the world has had 10% of its electrical generating capacity destroyed. In addition to the lost production capacity, which is a hit to the global economy, Japan will need to eventually increase oil and natural gas imports to offset the loss of nuclear power generation.

And, specifically related to the auto industry, it remains unclear how severe and how widespread the supply disruptions will be both for auto manufacturers and parts suppliers. But they will occur. So, for economists, this unpredictable event offers a legitimate excuse for a free do-over to their previous new vehicle sales forecast. I'll keep mine unchanged at 13.1 million.

MANHEIM CONSULTING
6205 Peachtree Dunwoody Rd.
Atlanta, GA 30328

678-645-2377
800-777-2053

www.manheim.com/consulting

© 2011 Manheim Inc. All rights reserved.