Media Group Online, Inc.

/// AUTOMOTIVE UPDATE

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CAUGHT BETWEEN THE PRESENT AND THE FUTURE

May auto sales declined –0.5%, resulting in a red number for each of the first 5 months of 2017. This is typically known as a trend; however, there is a much bigger, more monumental and historical trend at work.

The biggest automakers are already well aware that, as Mary Barra, CEO of General Motors, phrased it, "We are on the verge of a revolution in personal transportation." It is very likely (although predicting the future is always hazardous) that fewer and fewer people will choose to own a vehicle and will view transportation as a service (TaaS).

Automakers, however, must still maintain the traditional sales/ownership business model as they also pivot to a future where that model will likely become obsolete.

During April, for example, Ford had to cut costs by $3 billion to invest that money in new technology, or lose its share of the future to its competitors and the new disrupters, Tesla, Google, Apple and others. Diverting that $3 billion may result in the loss of 20,000 jobs in the Ford global workforce.

Ford was very clear that it had seen the future with its May 22nd announcement that it was replacing Mark Fields, a 30-year veteran of the company and the CEO during the past 3 years, with Jim Hackett, who has been heading Ford's autonomous vehicle development program.

Most of the major automakers are making another unsurprising move by cutting their Q3 2017 North American production schedule. The current forecast is the production of 4.3 million vehicles during July–September, which is 4.9% less than Q3 2016. Car production is expected to decrease 10.8%, but trucks just 1.5%.

AUTOMAKERS' NORTH AMERICAN PRODUCTION, CHANGE FROM Q3 2016 TO Q3 2017

Decreasing Production		Increasing Production	
Automaker	% Change	Automaker	% Change
FCA (Fiat Chrysler)	-10.2%	Volkswagen	+43.6%
General Motors	-5.9%	Kia	+19.5%
Mercedes	-4.8%	Subaru	+18.3%
BMW	-3.8%	Mazda	+12.2%
Honda	-3.7%	Nissan	+2.0%
Ford	-3.5%		
Hyundai	-3.4%		
Toyota	-1.7%		

WardsAuto, May 2017

MARKETING FORWARD

The Perfect Storm: More New Models and Returning Leases

Another source of the growing turmoil in the auto industry is the introduction of new and replacement models during the 2018–2021 period and a continuing flood of returned leased vehicles. The study reports there will be a total of 57 total new models, which is considerably more than the historic average of 39.

According to the 27th annual Car Wars study from Bank of America Merrill Lynch, the overall model replacement rate for this period is 83%, with the top three: Toyota, 85%; General Motors, 84%; and Ford, 83%. Nissan has the lowest projected replacement rate for the period, or 77%.

Of course, automakers must make these replacement plans well in advance of the actual launches and many probably did so as sales continued their 7-year increase. Now that sales are declining, there may not be much that automakers can do to change their plans.

If this commitment to replacement and new models wasn't enough of a hurdle, 2017 is forecast to be a record year for returned leases, totaling 3.5 million vehicles. Another 1.5 million are returning by 2019. With so many leased vehicles coming into the marketplace, it's feared that residual values and used-vehicle prices will likely suffer.

Revealing Diversity in Car Buying

Data from The Media Audit's Spring 2017 surveys for Madison, WI and Phoenix, AZ provide some interesting comparisons of consumers' car, van, truck or SUV buying plans based on their ethnicity.

Phoenix, unsurprisingly, has a much larger Hispanic American population, at 23.7%, compared to Madison's 4.5%, which means dealerships in cities similar to Phoenix should allocate a significant portion of the their ad budgets and messages to reach this target audience.

Even more revealing is whether these target audiences are planning to buy a domestic or foreign car, van, truck or SUV.

COMPARISON OF ADULTS 18+ IN MADISON AND PHOENIX WHO PLAN TO BUY A DOMESTIC OR FOREIGN VEHICLE, BY ETHNICITY

Ethnicity	Madison				Phoenix			
	Domestic		Foreign		Domestic		Foreign	
	Percent	Index	Percent	Index	Percent	Index	Percent	Index
Caucasian American	6.6%	97	8.1%	93	7.4%	63	4.0%	111
African American	9.7%	112	*	*	9.7%	83	13.1%	362
Hispanic American	19.7%	228	6.7%	211	18.6%	160	1.5%	41
Asian American	11.8%	136	8.6%	270	26.7%	230	7.4%	205

Based on The Media Audit's 2016 survey **insufficient data*

ROAD SIGNS

5G to Drive the Revolution Forward

As important as it is for automakers to design and produce autonomous vehicles and governments to develop new "rules of the road," the actual driving force behind the widespread sales and use of autonomous vehicles will be 5G technology.

Today, our digital devices and the digital world in general rely on 4G technology, which is amazing compared to just 10 years ago; however, 5G will be an enormous improvement and absolutely necessary for vehicles to be fully autonomous.

When millions of autonomous vehicles fill the roadways, they will have to be interconnected at a much higher level than 4G to provide the almost zero tolerance for accidents and the avoidance of obstacles and dangerous situations. In addition, 5G will be able to manage all of this interconnectivity and data processing much faster, as millisecond-decisions will have to be the norm for driving and road safety.

Maintenance, fuel usage and a whole range of vehicle operations and performance improvements will be possible with 5G technology. The infotainment systems in today's new cars are quite sophisticated, but 5G technology will allow drivers and passengers to stream video.

The Electric Future Is Here

For many, the promise of electric vehicles (EVs) has advanced too slowly, but, according to multiple sources, this component of the transportation revolution is about to become the major disrupter that was expected.

The cost of the batteries, which are approximately half the cost of an EV, are forecast to plunge 77% by 2030, according to Bloomberg New Energy Finance, with the price of an EV essentially the same as a gasoline-powered vehicle by 2025.

As EVs become less expensive than conventional vehicles, Morgan Stanley analysis forecasts that 50% to 60% of all light vehicles sold in the world by 2040 will be electric.

PRICE COMPARISON OF CONVENTIONAL AND ELECTRIC VEHICLES, 2016–2030

Year	Conventional	Electric
2016	$27,500	$43,500
2018	$27,750	$37,500
2020	$28,000	$35,000
2022	$28,500	$32,500
2024	$29,000	$30,500
2026	$29,500	$28,000
2028	$30,000	$27,000
2030	$30,000	$26,500

Bloomberg, May 2017

MONTHLY AUTOMOBILE SALES CHART

RANK	AUTOMAKER	MAY 2017	% CHANGE FROM MAY 2016	2017 YEAR TO DATE	% CHANGE FROM 2016 YEAR TO DATE
#1	Ford	229,962	+2.2%	1,020,169	-3.9%
#2	Toyota	192,847	+0.1%	843,423	-3.5%
#3	Chevrolet	162,950	-3.8%	799,040	-3.2%
#4	Honda	134,475	+0.7%	592,260	+1.1%
#5	Nissan	124,957	+1.9%	609,488	+1.0%
#6	Jeep	75,516	-14.7%	333,138	-13.1%
#7	Kia	58,507	-7.0%	239,593	-9.8%
#8	Hyundai	58,259	-18.0%	283,547	-7.5%
#9	Subaru	56,135	+12.1%	252,753	+8.5%
#10	Ram	51,044	+18.2%	230,950	+7.8%
#11	Dodge	44,922	+8.4%	218,430	-2.0%
#12	GMC	41,126	-5.2%	221,741	+4.8%
#13	Volkswagen	30,014	+4.3%	133,861	+6.9%
#14	Mercedes-Benz*	29,959	-6.8%	145,658	-0.9%
#15	Mazda	26,047	-7.9%	119,282	+0.1%
#16	BMW	25,818	-11.0%	120,124	-3.6%
#17	Lexus	25,401	-4.8%	109,362	-13.1%
#18	Buick	20,077	+28.5%	91,017	+3.9%
#19	Audi	19,197	+2.5%	83,555	+6.5%
#20	Chrysler	17,969	-1.8%	82,354	-22.8%
#21	Acura	13,939	+2.8%	59,833	-11.5%
#22	Cadillac	13,211	+9.2%	59,493	+0.9%
#23	Infiniti	12,514	+15.6%	66,872	+24.0%
#24	Lincoln	10,288	+4.9%	47,062	+5.8%
#25	Mitsubishi	9,429	+4.5%	46,951	+6.9%
#26	Volvo	6,202	+12.0%	26,802	-4.5%
#27	Land Rover	4,993	+0.9%	30,079	-2.8%
#28	Porsche	4,805	+5.0%	23,052	+3.7%
#29	Mini	4,060	-11.6%	17,792	-12.1%
#30	Jaguar	3,113	+43.9%	17,719	+115%

RANK	AUTOMAKER	MAY 2017	% CHANGE FROM MAY 2016	2017 YEAR TO DATE	% CHANGE FROM 2016 YEAR TO DATE
#31	Fiat	2,670	-15.8%	12,440	-13.5%
#32	Genesis	1,752	---	8,306	---
#33	Maserati	1,265	+33.9%	5,818	+36.5%
#34	Alfa Romeo	919	+1,989%	2,702	+935%
#35	Smart	331	-21.2%	1,757	-19.6%
	Ford Motor Company	240,250	+2.3%	1,067,231	-3.5%
	General Motors	237,364	-1.3%	1,171,291	-1.0%
	Toyota Motor Corporation	218,248	-0.5%	952,785	-4.7%
	FCA/Chrysler Group	194,305	-0.7%	885,832	-6.4%
	American Honda Motor Company	148,414	+0.9%	652,093	-0.2%
	Nissan Motor Company/ Infiniti /Mitsubishi	137,471	+3.0%	676,360	+2.9%
	Hyundai-Kia Automotive Group	118,518	-11.5%	531,446	-7.1%
	Volkswagen Group†	54,226	+3.9%	241,398	+6.6%
	Daimler AG	30,290	-7.0%	147,415	-1.2%
	BMW Group	29,878	-11.1%	137,916	-4.8%
	Jaguar/Land Rover	8,106	+13.9%	47,798	+22.0%
	TOTAL‡	1,519,793	-0.5%	6,981,919	-2.0%

Source: Automakers and The Truth About Cars

** Includes Mercedes-Benz vans: increased 7.7% to 3,066 for May; increased 0.1% to 12,692 during YTD.*

† Includes Audi, Bentley, Porsche and Volkswagen brands

‡ Industry total takes into account Automotive News figures/estimates for brands, such as Tesla (4,400 May units) and other low-volume, high-priced manufacturers.

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