

/// AUTOMOTIVE UPDATE

June 2022 www.mediagrouponlineinc.com

Double-Digit Losses Body Slam the Industry

Given the 2022 track record for the auto industry, it's no surprise May was another dismal month as all the reporting manufacturers had YOY double-digit declines, except Ford. It was only able to achieve a "positive" 4.4% decrease because almost half of its retail sales were pre-orders.

Honda reported a similar trend as more than 80% of Honda-brand vehicles that arrives at a dealership are already sold. A Cleveland Heights, OH Toyota dealer stated any customer wanting a Sienna minivan will have to wait 12 months and the wait time to purchase a new Corolla Cross crossover is almost a year, too.

The good news is consumer demand remains very strong. If manufacturers can finally return to a "normal" supply of vehicles and dealerships can sustain themselves during this unprecedented period, then sales should increase significantly, but it appears that won't happen until late 2023.



The seasonally-adjusted, annualized rate (SAAR) plummeted from 14.6 million units during April to 12.8 million for May. LMC Automotive has reduced its 2022 target for total units sold to 15.0 million from a previous forecast of 15.3 million. Its analysis still projects better sales during the second half of the year, but if not, then total sales for the year could be less than 14 million units.

The Ukraine-Russian War Is a Production Chokepoint

Because the world's economy is so integrated, an event, such as the Ukraine-Russian war, can have a significant effect on an auto part that doesn't normally receive much attention – wire harnesses.

Most of the production of wire harnesses occurs in Ukraine and a single wire harness for a vehicle with an internal-combustion engine (ICE) uses the equivalent of 3.1 miles of cables. The work is very labor-intensive and is performed by low-cost manual labor. Many of those workers in Ukraine are focused on fighting and surviving instead of making wire harnesses.

Some major automakers have been able to find alternative sources for wire-harness production, but for many, it's another trend accelerating the transition from ICE vehicles to EVs. Automakers have no interest in investing in a new wire-harness manufacturing process. They are pivoting to the process Tesla and other new EV manufacturers are using, which is more automated, but legacy manufacturers can't make that change quickly.





Auto Ad Dollars Continue to Flow

Despite very few vehicles on their lots, auto dealerships are recognizing it is critical to remain active advertisers. According to Borrell Associates' 2022 Local Automotive Advertising Outlook, dealerships spent 15% more for advertising during 2021 than during 2020 and they are forecast to increase their spending by 8.8% during 2022.

For manufacturers and dealers, a continued ad-media presence helps to retain loyal customers, especially in the current chaotic marketplace. Research from Polk Automotive Solutions shows 50% of consumers prefer to purchase the same brand of vehicle they are driving now.

The unprecedented lack of inventory while consumer demand is high is causing some to become less loyal. Polk reports loyalty has already deteriorated by 2%. Neither manufacturers nor dealerships want to see that trend continue and discover when the industry returns to a normal supply-and-demand situation, a significant number of previous customers are buying a different brand.

Manufacturers and dealerships' concern about losing loyal customers is causing automakers and dealers to increase their digital ad presence, with dealers' digital display ads increasing 152% YOY and video ads increasing 70% YOY during March 2022.



Auto YouTube Content and Ads Work Better When Not Aligned

In a new report, How We Watch Now, from Pixability, research of YouTube auto advertising campaigns during the first half of 2021 revealed too many manufacturers and dealers think an ad must appear on the same page as their YouTube videos. The research found just 28% of surveyed consumers said they were even aware a matching ad was aligned with a video they were viewing.

Data from the research indicated a negative one-percent view-to-completion ratio for automotive content, so auto marketers were missing much larger audiences watching non-auto content. The YouTube content categories with the most positive view-to-complete ratio were music & audio at +23%, science at +19% and television at +11%.

The difference in click-through rates was even greater. The automotive content category scored a -24% while healthy living was +68%, pop culture at +49%, news & politics at +36% and food and drink at +36%.

ROAD SIGNS



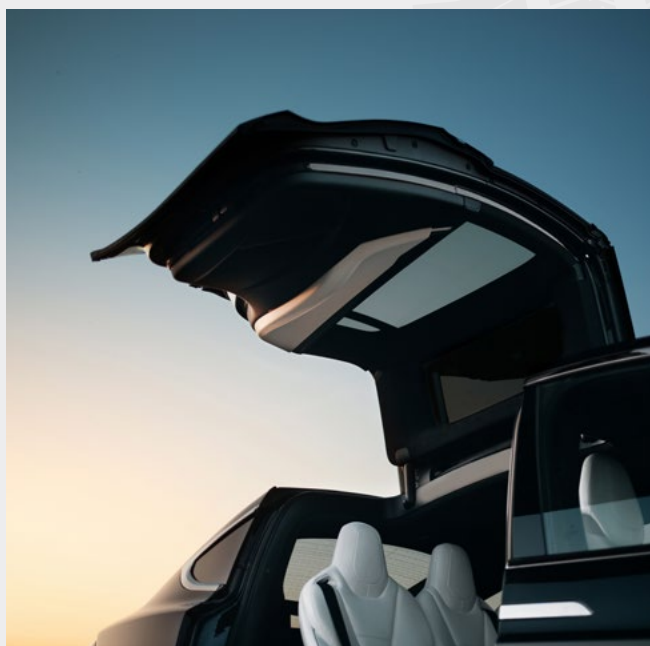
Fleet Customers Want EVs

The rapid conversion of companies that purchase and manage fleets of vehicles to electric vehicles (EVs) is another sign EV technology is entering the mainstream. This has been the recent experience at General Motors as almost 370 companies have asked GM to help them develop a plan to convert to EVs and they've already ordered 85,000 of the Chevrolet Silverado EV truck.

Even as GM continues to invest billions in a larger lineup of EVs for fleet use, the demand for fleet vehicles from customers increased from 17% during Q1 2021 to 24% during Q1 2022.

The Silverado EV is only one of the vehicles GM will start to manufacture and market to fleet companies during the next few years. Others include the Equinox EV and a battery-powered Chevy cargo van. GM expects the increasing presence of fleets of commercial vehicles on the roads will convince more consumers that the time has come for them to purchase an EV too.

GM is taking a comprehensive approach to the market for fleet EVs, providing educational materials and training and explaining the charging options. GM will outfit its EV fleet vehicles with its Ultium batteries, which are expected to provide more range on a single charge. Plus, EVs require less maintenance, reducing repair costs and keeping more of them on the road.



Consumers Are Still Wary of EVs

A March 2022 survey/report from Morning Consult shows consumers uninterested in purchasing an EV are more concerned about the price and less about their range on a single charge. The charging issue had been the top concern in many consumer surveys.

It's likely the recent increase in inflation is somewhat responsible for 53% of the surveyed consumers citing price as a major reason for not purchasing an EV. Vehicle range and lack of charging infrastructure were tied for the second major reason and was still a significant 45%.

Although the survey results indicate consumers uninterested in purchasing an EV are following the progress of the EV trend, the third major reason, cost of ownership, at 42% suggests many of them don't yet realize the lifetime cost of an EV is predicted to be less than a vehicle with an internal-combustion engine.



MONTHLY AUTOMOBILE SALES CHART

NOTE: General Motors, Stellantis and Tesla announce their light-vehicle sales quarterly instead of monthly; however, Ford is now reporting monthly sales again. As of January 2020, BMW Group, Nissan North America, Volkswagen Group, Jaguar Land Rover and Mercedes-Benz also decided to report sales only quarterly. They will publish their Q2 2022 sales during early July 2022. Their brands are not included in this month's sales table.

Rank	Auto Brand	May 2022	% Change from May 2021	2022 Year to Date	% Change from 2021 Year to Date
#1	Toyota	154,223	-27.4%	767,114	-19.6%
#2	Ford	145,841	-4.3%	722,551	-13.1%
#3	Honda	69,031	-56.5%	389,483	-35.9%
#4	Hyundai	59,432	-34.0%	280,776	-16.1%
#5	Kia	57,941	-27.8%	268,198	-13.5%
#6	Subaru	42,526	-24.8%	220,620	-20.7%
#7	Lexus	21,767	-26.8%	108,428	-17.2%
#8	Mazda	15,312	-63.7%	127,673	-18.5%
#9	Volvo	9,372	-29.1%	42,151	-18.1%
#10	Lincoln	7,593	-6.8%	35,999	-18.2%
#11	Acura	6,460	-64.4%	45,676	-37.0%
#12	Genesis	4,400	+18.0%	21,162	+38.8%
Toyota Motor Corporation		175,990	-27.3%	875,542	-19.3%
Ford Motor Co.		153,434	-4.4%	758,550	-13.3%
Hyundai-Kia Automotive Group		121,773	-30.0%	570,136	-13.6%
American Honda Motor Company		75,491	-57.3%	435,159	-36.0%
TOTAL*		593,898	-31.4%	3,029,831	-20.0%

*of all reporting auto manufacturing groups

Source: Automotive News, June 2022

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Sources: Automotive News Website 6/22; Reuters Website 6/22; Media Village Website 6/22; Pixability Website 6/22; Morning Consult Website 6/22;

