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# U.S. Automotive Outlook

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# Presentation Overview

- U.S. Economic Outlook
  - U.S. Economic Overview
  - Key U.S. Indicators
  - U.S. Real GDP Forecast
  - Challenges to the U.S. Economic Outlook
- Vehicle Industry Outlook
  - State of the Automotive Industry
  - Key Vehicle Market Indicators
  - Key Macroeconomic Indicators
  - Short-term Industry Outlook
- Summary

# U.S. Economic Overview

- U.S. economy is currently working its way through a “soft patch”
  - U.S. economy grew at a 2.8% annualized rate in Q2, down from the 4.5% pace in Q1. Personal consumption grew at a 1.6% annual rate as spending on durable goods was flat for the quarter
  - Consumer spending rebounded in July, rising 0.8% m-o-m
- Business sector activity – capital spending, manufacturing, and housing
  - is providing underlying support to the economic expansion
  - During Q2, the business sector – on a combined basis – contributed 2.7 points to real GDP growth
- Economy likely to face major challenges from
  - Transition from policy-led growth
  - High and volatile energy prices
  - Geopolitical tensions

# Key U.S. Economic Indicators

	Recession <sup>1</sup>	1 Year Following Recession <sup>2</sup>	Previous Year <sup>3</sup>	Latest Data <sup>4</sup>
<b>Real GDP</b>				
Average Q/Q% @ AR	-0.2%	2.5%	4.7%	2.8%
<b>Real Consumption</b>				
Average Q/Q% @ AR	1.5%	3.6%	3.6%	1.6%
<b>Index of Consumer Sentiment</b>				
Average Index	88.2	89.8	94.2	95.9
<b>Corporate Profits</b>				
Average Y/Y% Change	-1.5%	21.7%	22.7%	17.9%
<b>ISM-Manufacturing Index</b>				
Average Index	44.3	51.9	60.9	59.0
<b>Home Sales</b>				
Average, Thousands	6,181	6,524	7,642	7,854
<b>West Texas Intermediate</b>				
Average \$/Bbl	25.67	25.26	35.69	44.94
<b>CPI Inflation</b>				
Average Y/Y% Change	2.8%	1.5%	2.3%	3.0%
<b>Fed Funds Rate</b>				
Average %	3.5%	1.7%	1.1%	1.5%

## Notes:

<sup>1</sup> 2001:Q1 - 2001:Q3 for quarterly data or March 2001 - November 2001 for monthly data.

<sup>2</sup> 2001:Q4 - 2002:Q3 for quarterly data or December 2001 - November 2002 for monthly data.

<sup>3</sup> 2003:Q3 - 2004:Q2 for quarterly data: August 2003 - July 2004 or September 2003 - August 2004 for selected monthly data.

<sup>4</sup> Latest quarter or month.

# U.S. Economic Outlook

## Year-Over-Year Percentage Change

	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Motors (September 2004)	4.2% (--)	3.5% (--)	3.1%
BAK-Oxford (September 2004)	4.3% (--)	3.7% (--)	3.1%
Blue Chip (September 10, 2004)	4.3% (4.4%)	3.6% (3.7%)	NA
Economist Intelligence Unit (August 2004)	4.2% (4.3%)	3.1% (3.5%)	NA
Economy.com (August 2004)	4.3% (4.4%)	3.4% (3.5%)	3.4%
Macroeconomic Advisers (August 2004)	4.3% (4.4%)	3.9% (--)	3.7%
RSQE (August 2004)	4.3% (4.6%)	3.3% (4.1%)	3.4%

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Notes:

Prior Month's forecast in parenthesis.

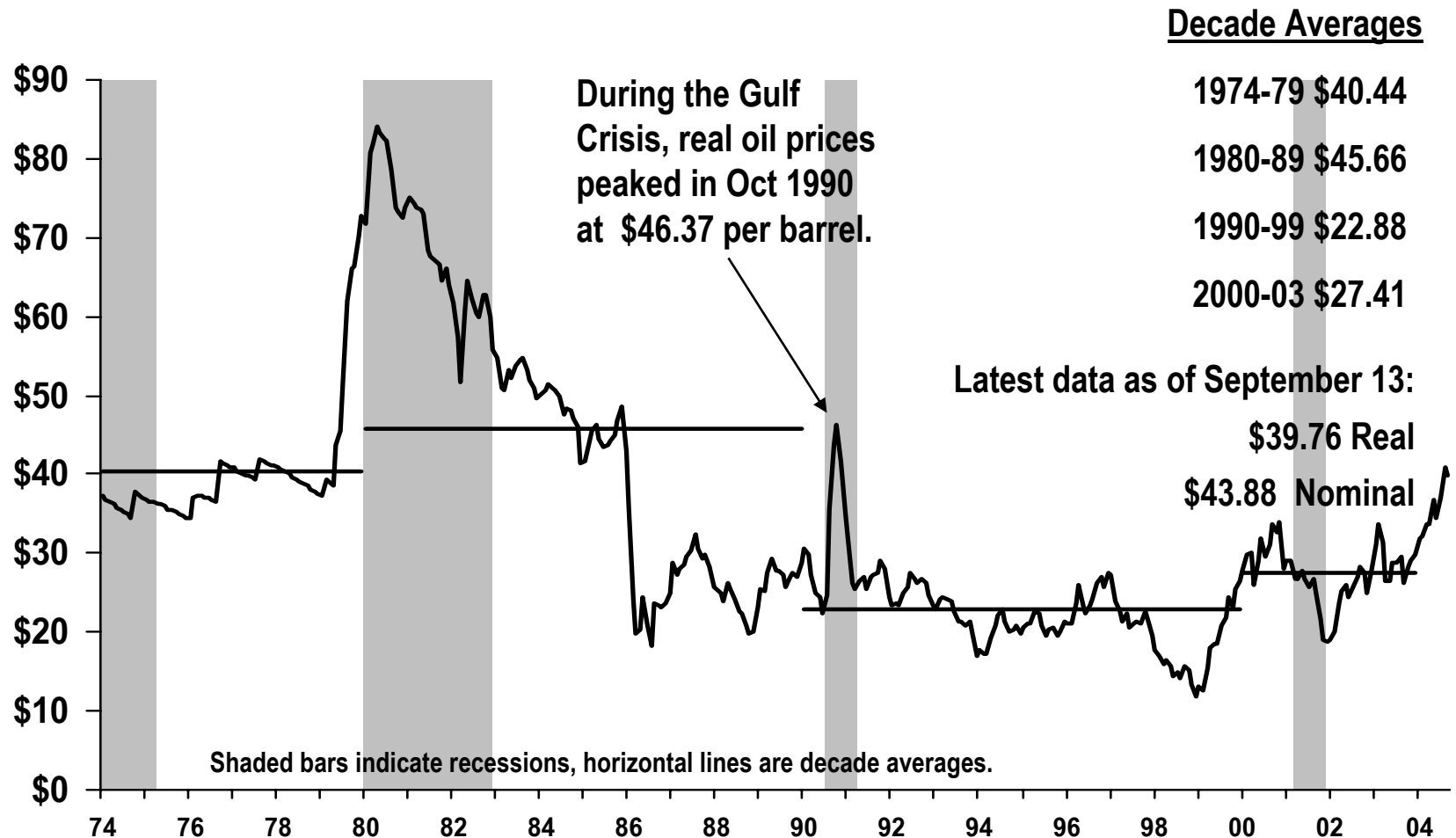
(--) indicates no change

# Challenges to the U.S. Economic Outlook

- Spiking oil prices
- Gradual removal of monetary stimulus
  - Could potentially bring EOP fed funds rate to 2.25% for 2004 and 4.25% for 2005 if Fed continues with measured pace of policy tightening
- Diminishing tax stimulus
  - Real disposable income on y-o-y basis down sharply in July
  - Investment tax incentives expire at the end of 2004
- Sluggish employment growth providing minimal support to wage gains
  - Following 8.1% m-o-m increase in July, layoff announcements up 6.6% m-o-m in August
  - Impact from hurricanes likely to be reflected in subsequent employment reports
- Growth in real debt outstanding slightly outpacing growth in disposable income
- Mortgage refinancing activity down 34% from peak in March
  - Expected slowdown in home price appreciation could further limit refinancing activity

# West Texas Intermediate Crude Oil Price

## Average Monthly Price Per Barrel, in 2000 Dollars



- After reaching a peak \$48.70/bbl on August 19, the price of oil has fallen by roughly \$5/bbl.
  - Still, strong demand combined with constrained supply will likely provide underlying support to oil prices.

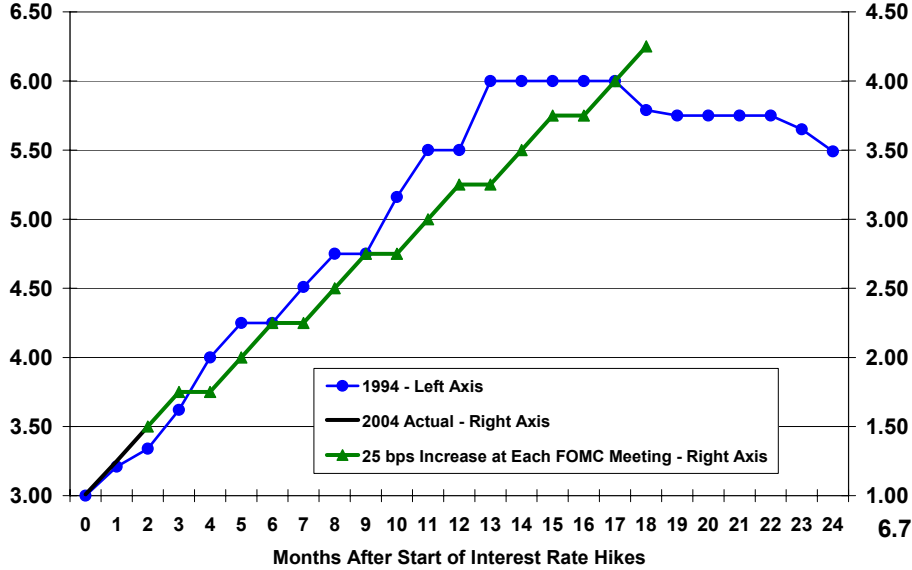
Sources: BLS, Department of Energy

Calculations: General Motors

# Fed Funds Rate: Projected vs Prior Rate Hikes

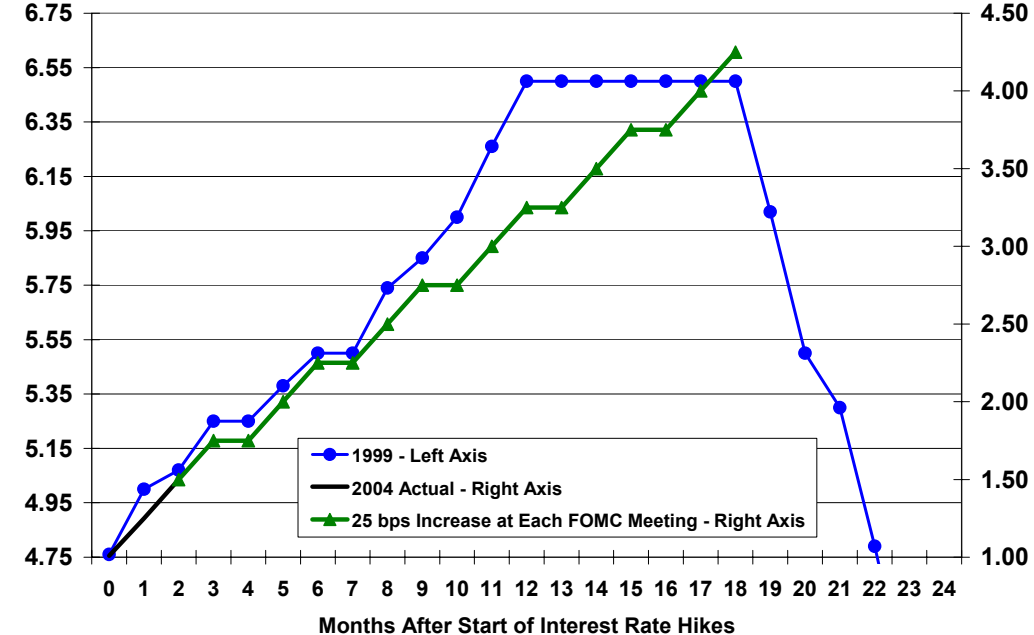
## Percent

### 1994 versus 2004 Forecasted Rate Hikes



Source: Federal Reserve

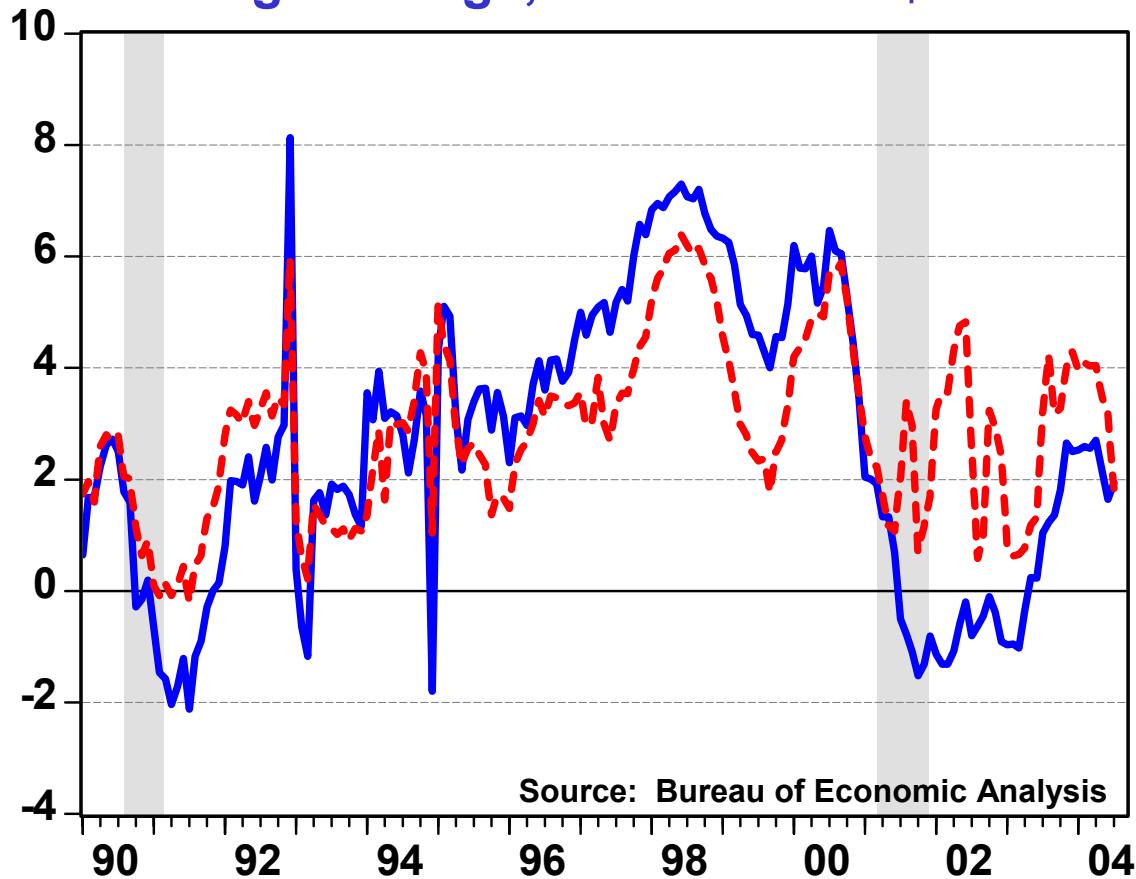
### 1999 versus 2004 Forecasted Rate Hikes





# Wages & Salaries versus Disposable Personal Income

## Year-Over-Year Percentage Change, Chained 2000\$



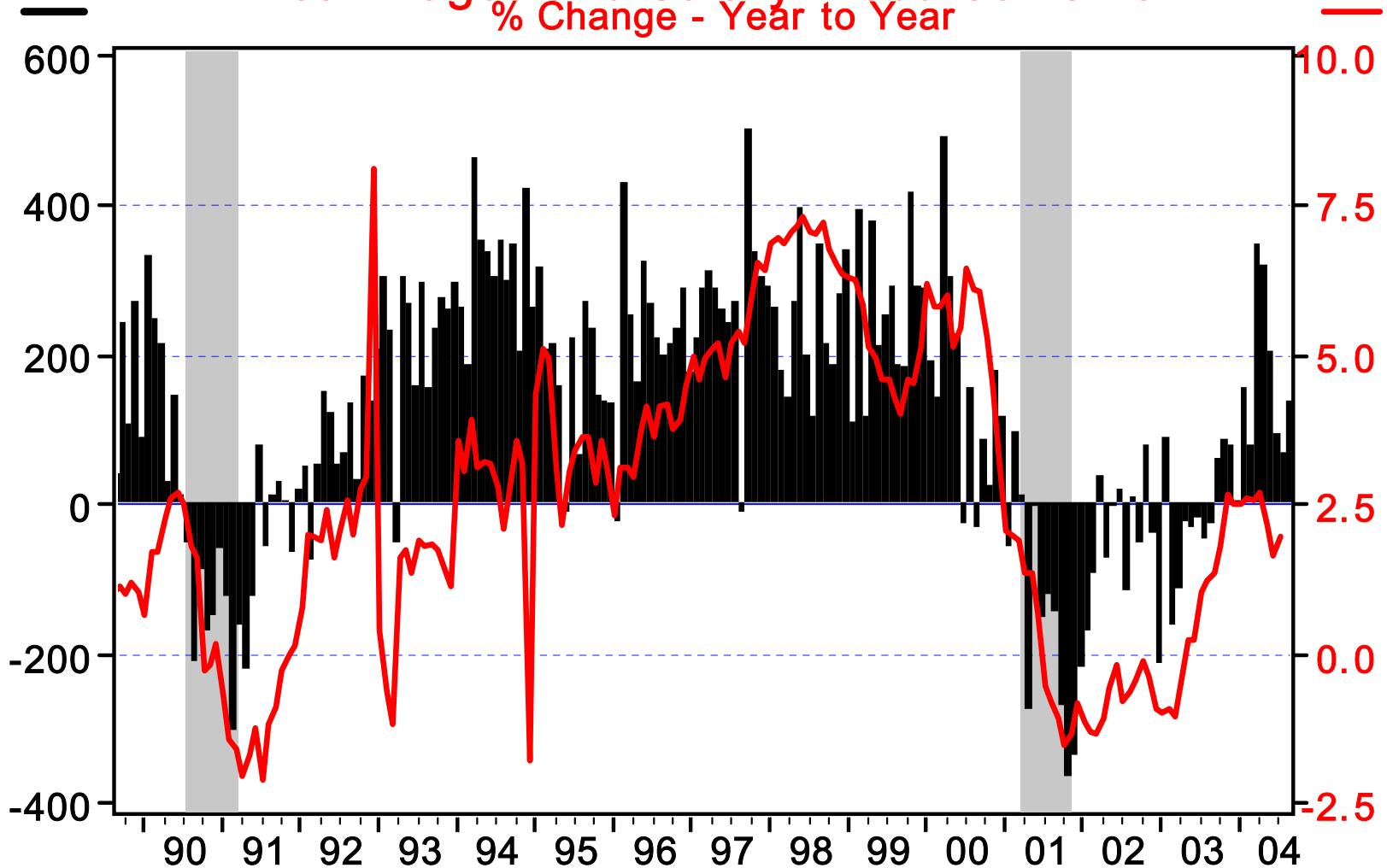
— Wage and Salary Disbursements    - - - Disposable Personal Income

- The slowing growth in real disposable incomes reflects the diminishing influence of recent tax stimulus whereas the slow recovery in wages mirrors the weak job market gains since the recession.

# Real Wages vs Payroll Employment

< All Employees: Total Nonfarm  
Difference - Period to Period SA, Thous

Real Wages and Salary Disbursements >  
% Change - Year to Year

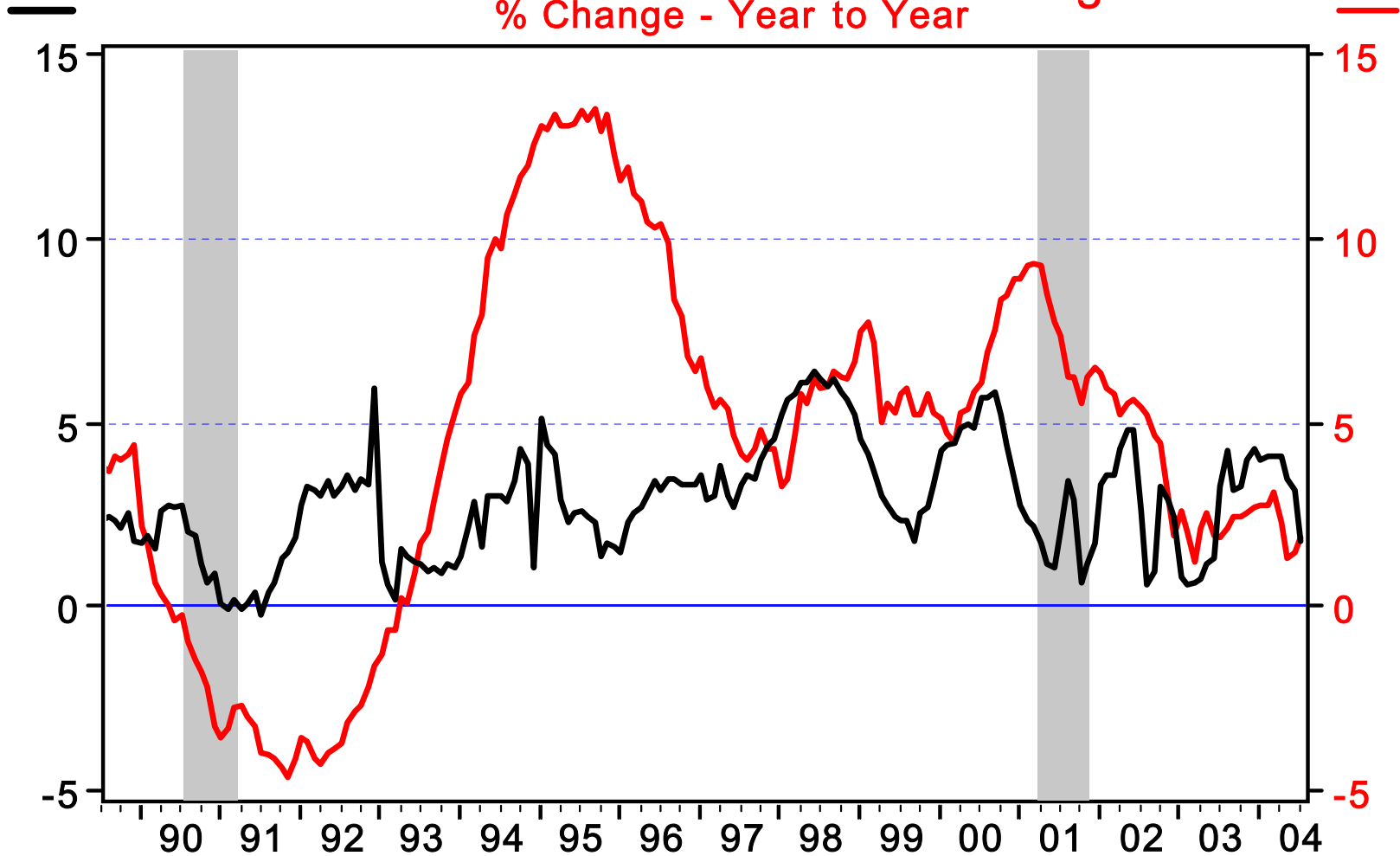


Sources: BEA, BLS, Haver

# Real Income vs Consumer Debt

< Real Disposable Personal Income  
% Change - Year to Year

Real Consumer Debt Outstanding >  
% Change - Year to Year

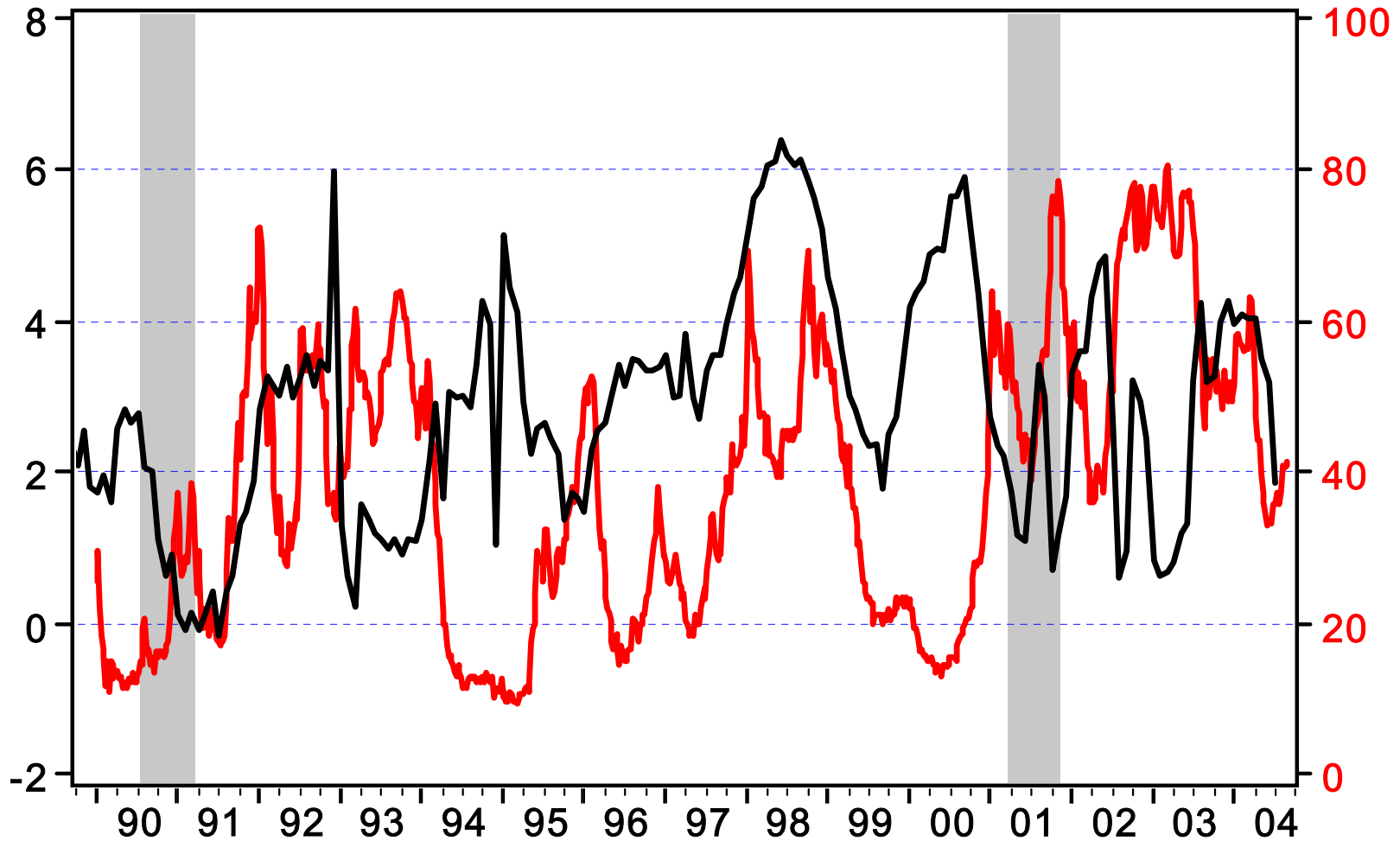


Sources: BEA, Federal Reserve, Haver

# Real Income vs Mortgage Refinancing

< Real Disposable Personal Income  
% Change - Year to Year

MBA: Total Loans: Percent of Number of Refinancing Loans >  
Percent



Sources: BEA, MBA /Haver

# Vehicle Industry Outlook

- Vehicle Industry Outlook
  - State of the Automotive Industry
  - Key Vehicle Market Indicators
  - Key Macroeconomic Indicators
  - Short-term Industry Forecast

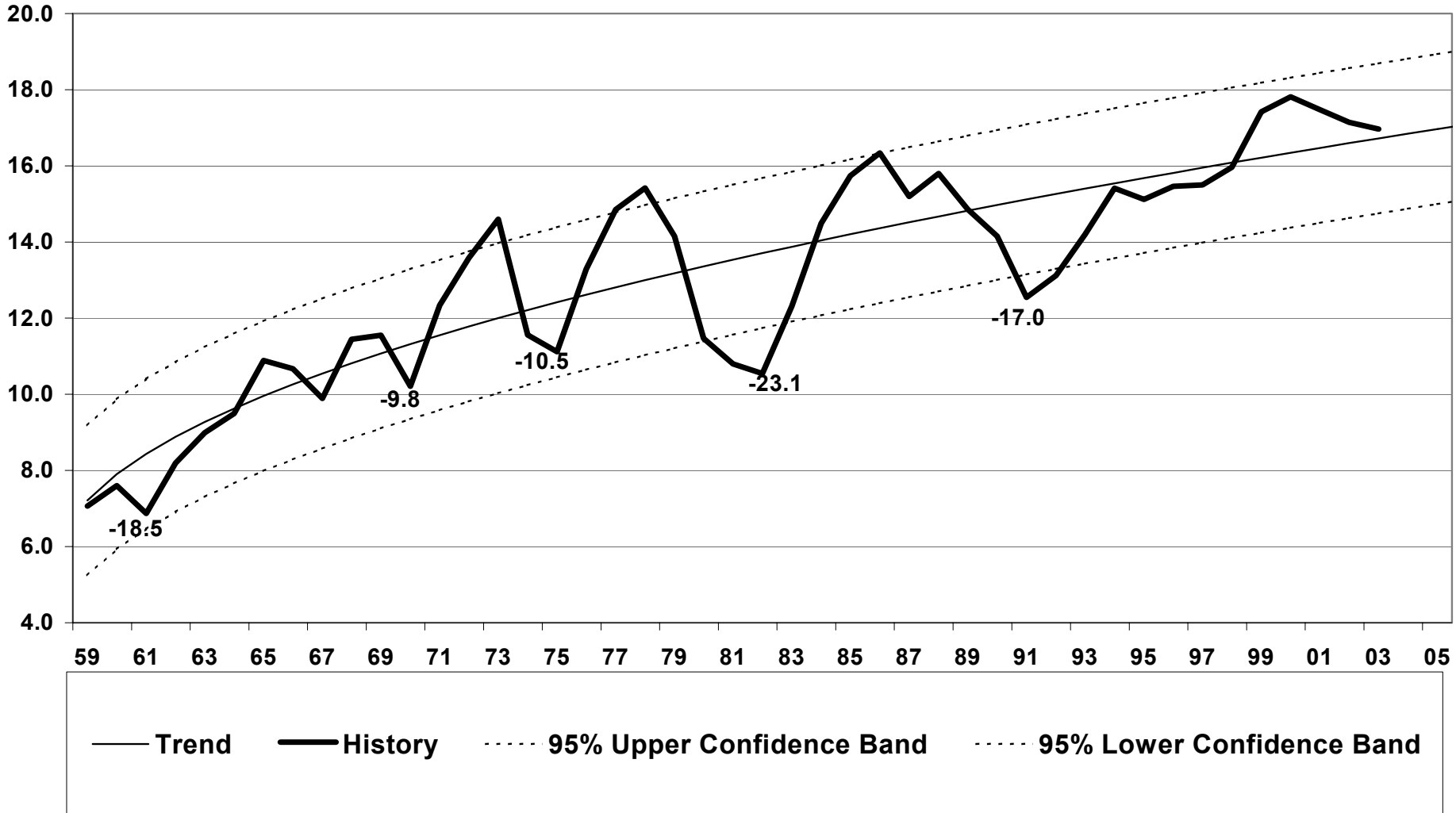
# State of Vehicle Industry Since 2001 Recession

- Moderation in vehicle sales from record levels
  - Compared to prior recessions, industry adjustment came from price rather than volume
- Underlying purchase patterns persist despite cyclical ups and downs
  - Moderate overall vehicle demand growth
  - Luxury segments/trucks continue to dominate
  - Competitive pressures from used vehicles

# U.S. Industry Vehicle Sales

## Including Deviation of Trough from Trend

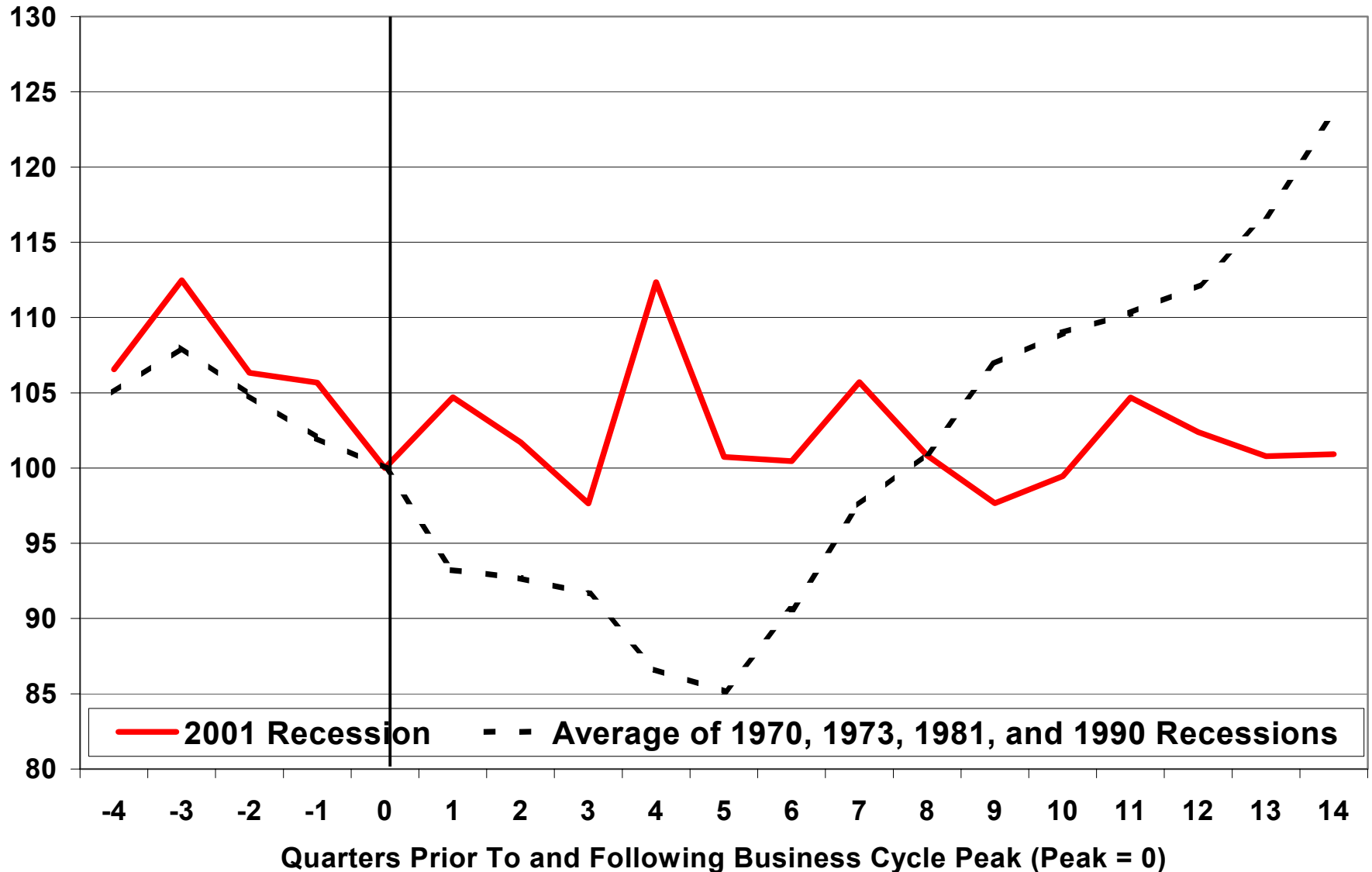
Millions



Source and Calculations: General Motors

# Vehicle Sales Comparison During Business Cycles

## Vehicle Sales At Business Cycle Peak = 100



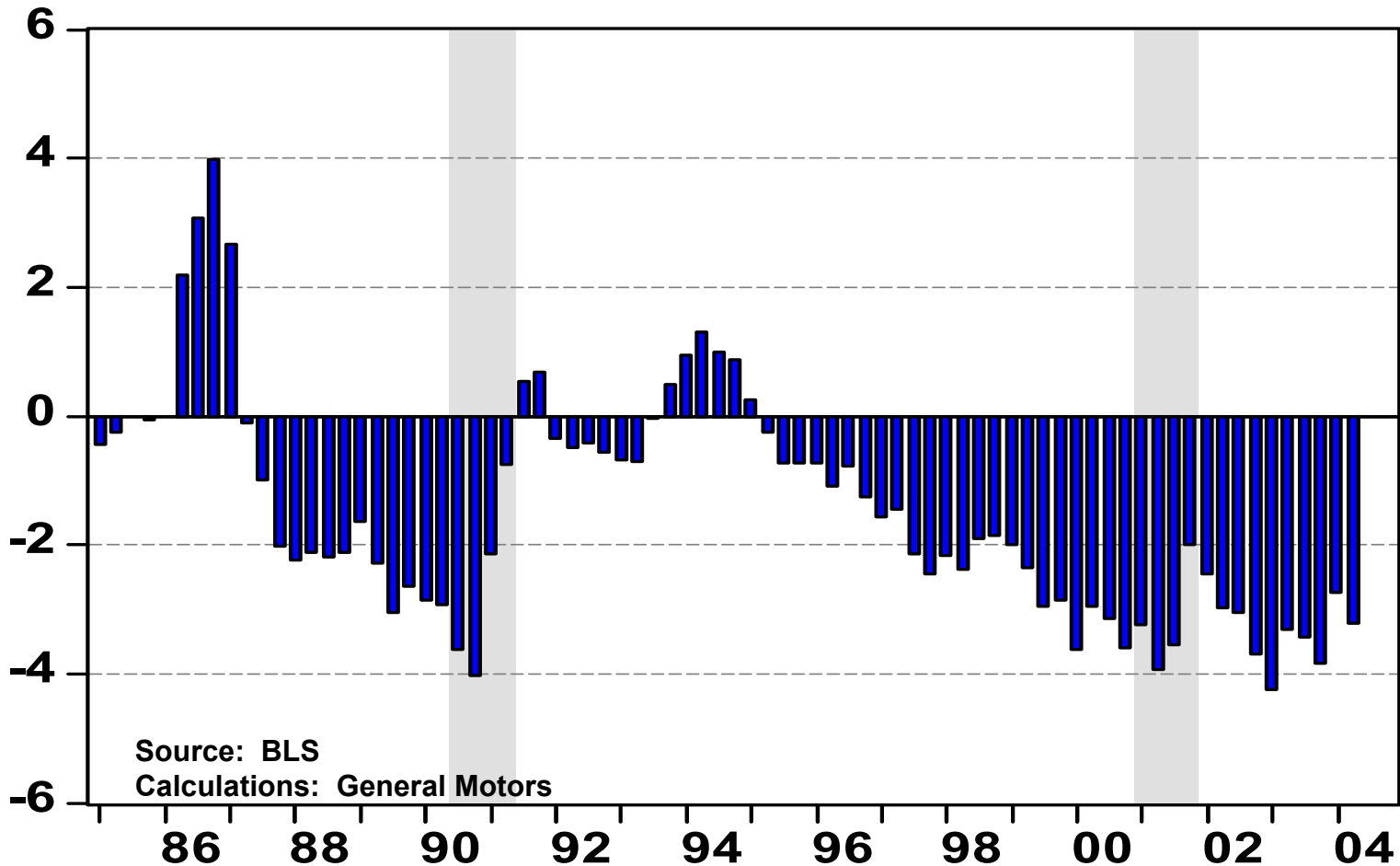
Source: BEA

Calculations: General Motors



# CPI – Real New Vehicles

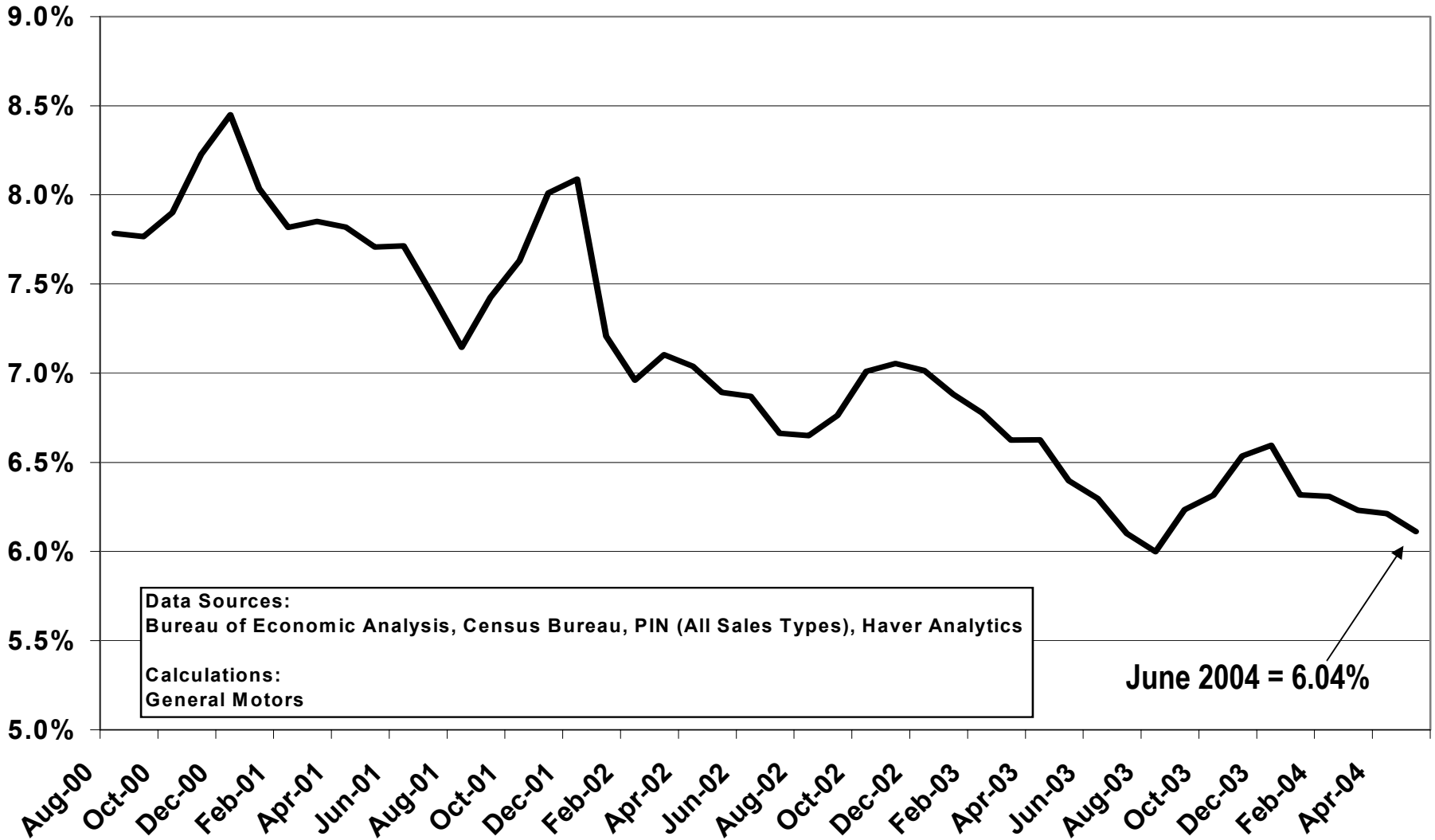
## Year-Over-Year Percentage Change



- Compared to the post-1991 recovery, pricing pressures since the 2001 recession remain intensely competitive.

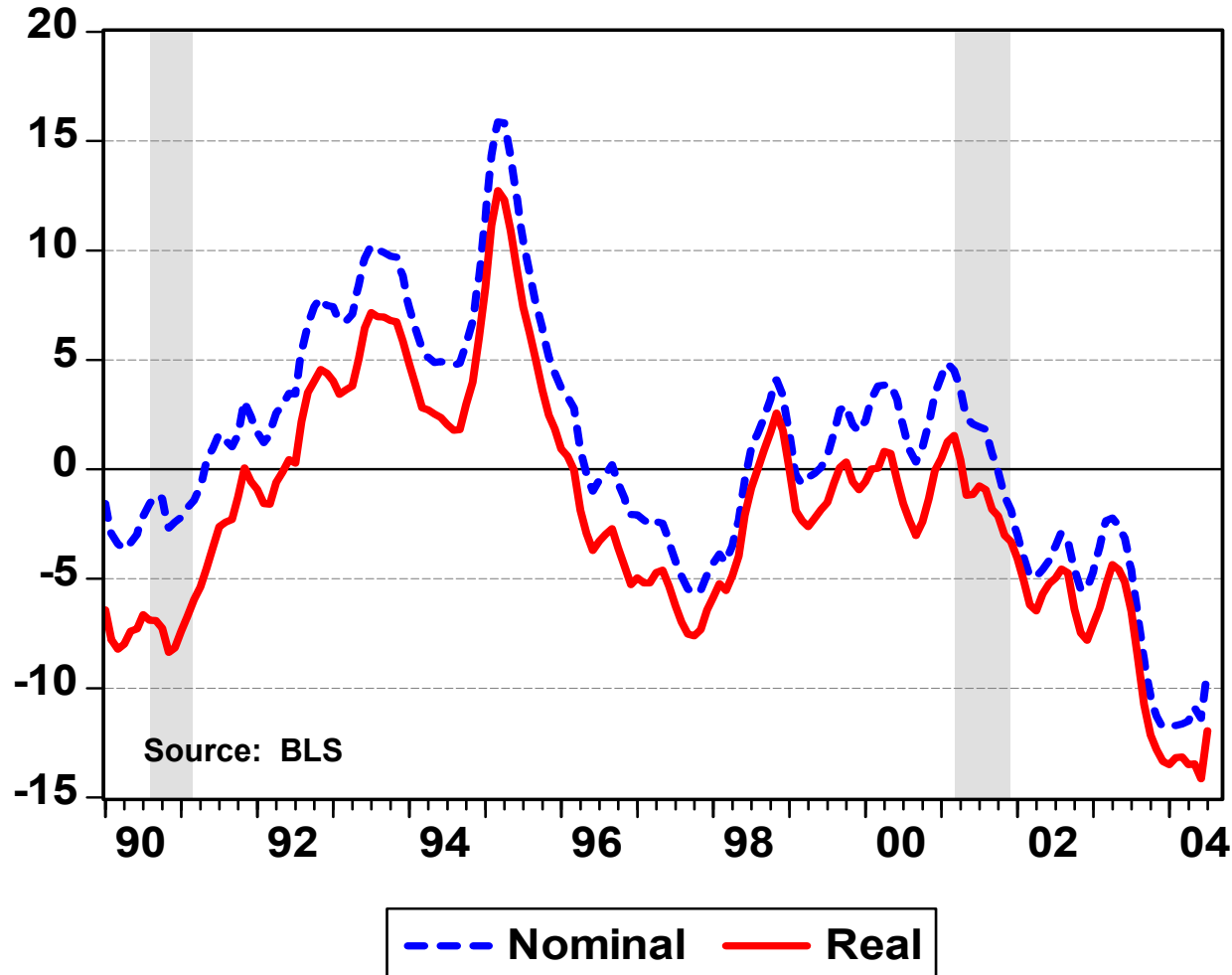
# New Vehicle Affordability

## Payment as a Percentage of Disposable Income per Household



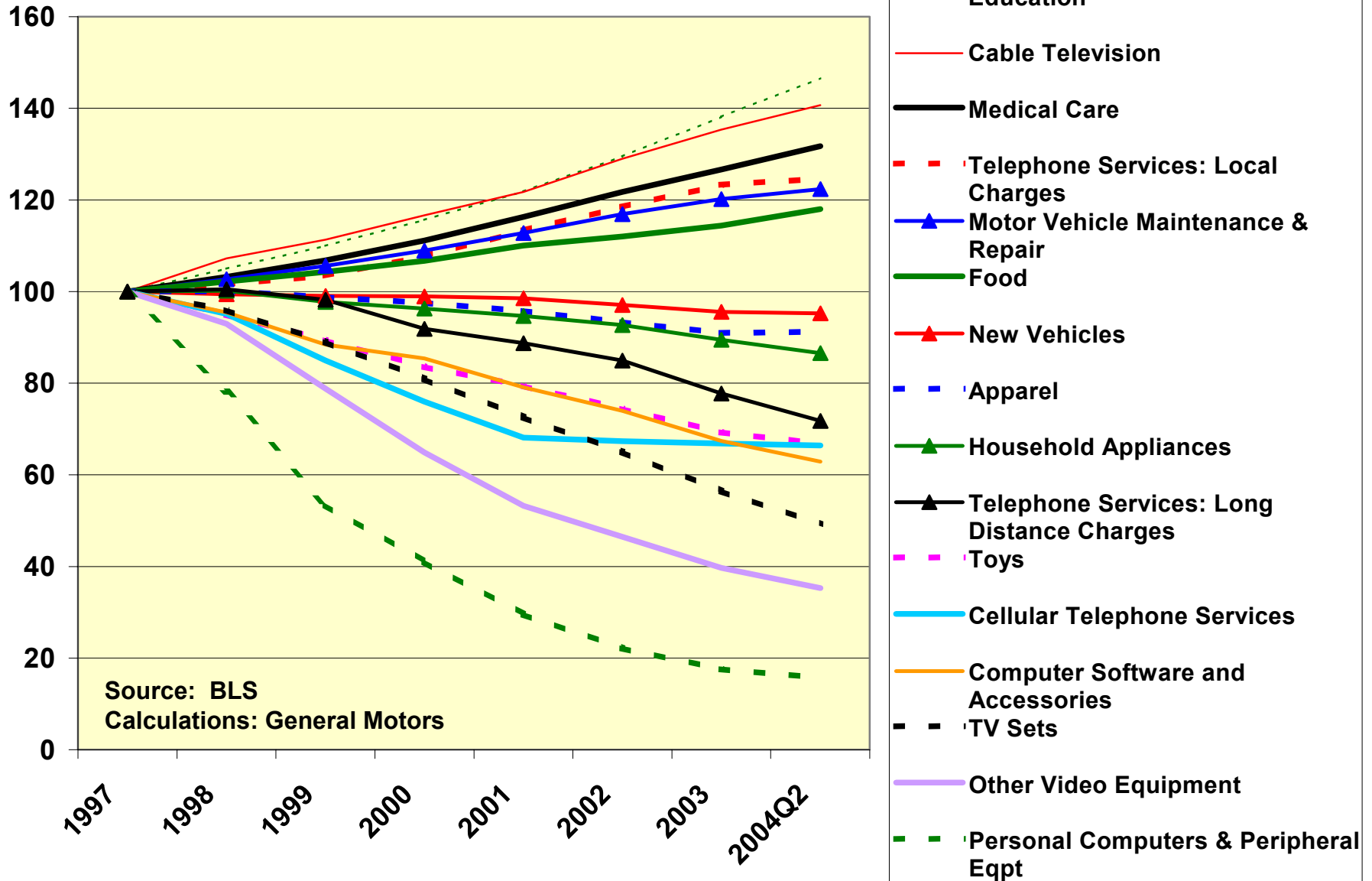
# CPI – Used Vehicles

## Year-Over-Year Percentage Change



- On a y-o-y basis, used vehicle prices in July fell 9.3% and 12.0% in nominal and real terms, respectively.

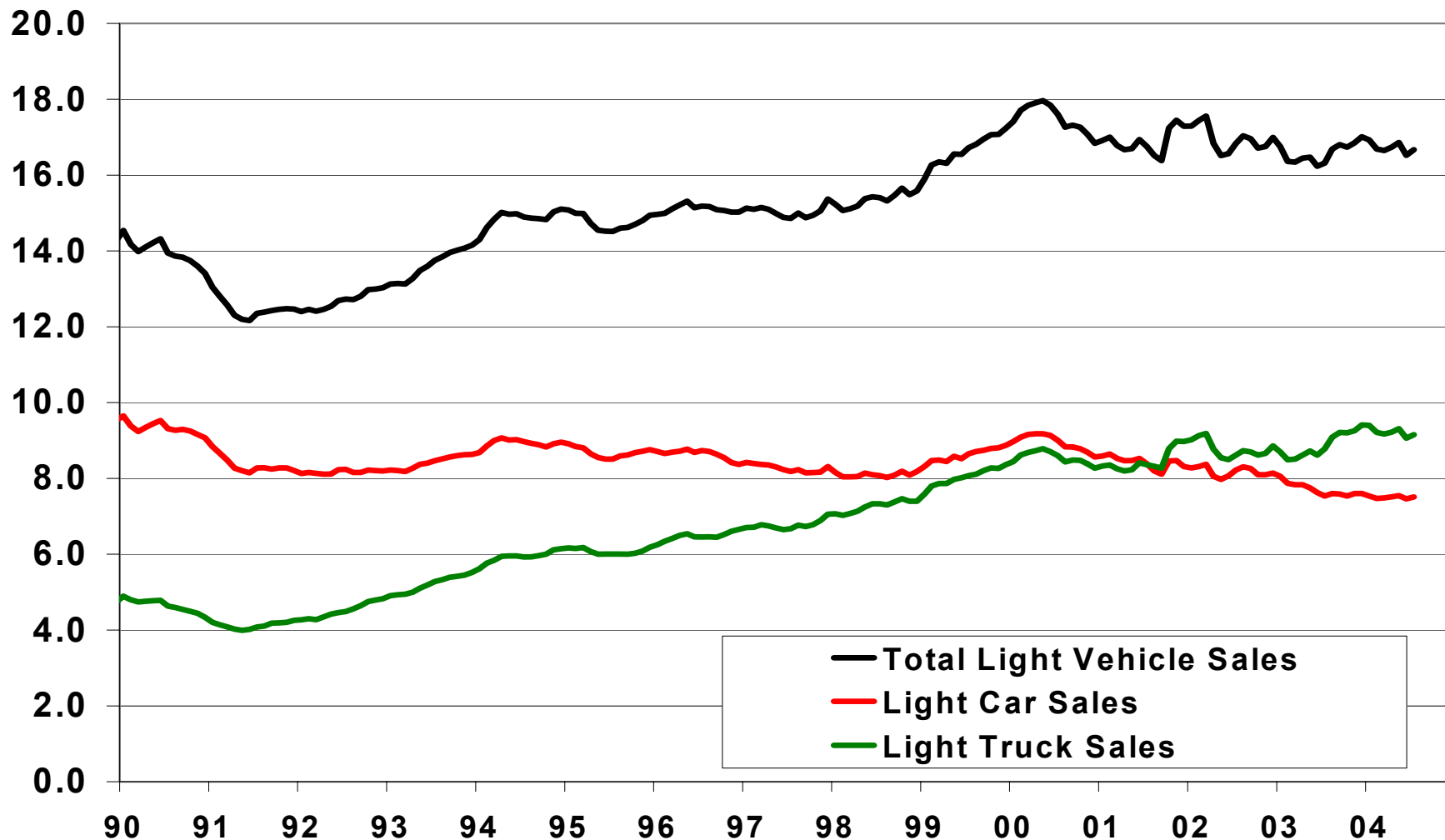
# CPI Comparison – Selected Consumer Goods Indexed to 1997



# Light Vehicle Sales

## Millions - Seasonally Adjusted Annual Rates

Six-Month Moving Average



Source: BEA

# Vehicle Industry Competitive Landscape

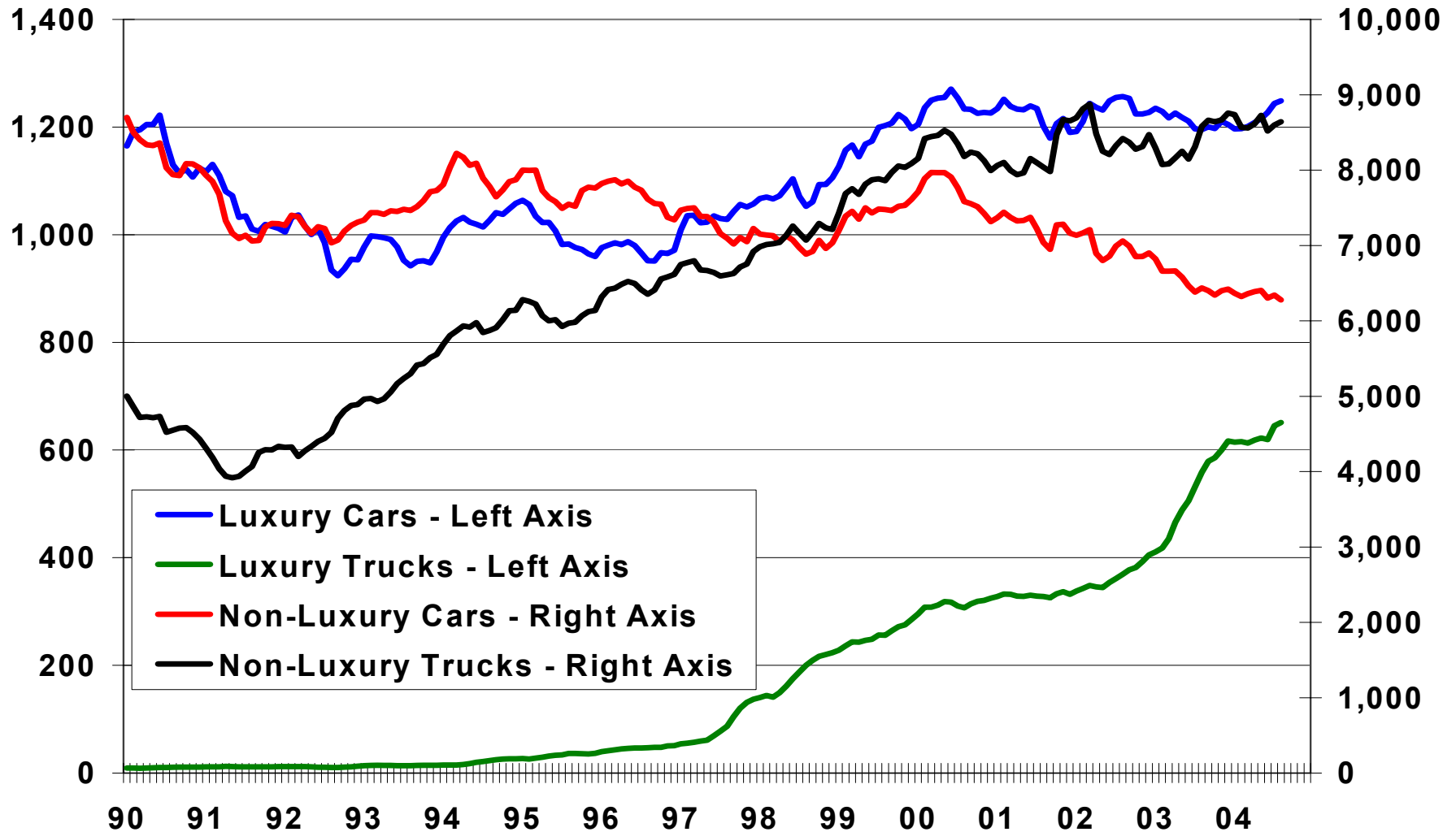
## U.S. New Vehicle Entries

	<u>2000</u>	<u>2005</u>
Car	163	222
Truck	96	155
Total	259	377
Memo: Utilities	54	88

# Light Vehicle Sales: Luxury vs Non-Luxury

## Thousands - Seasonally Adjusted Annual Rates

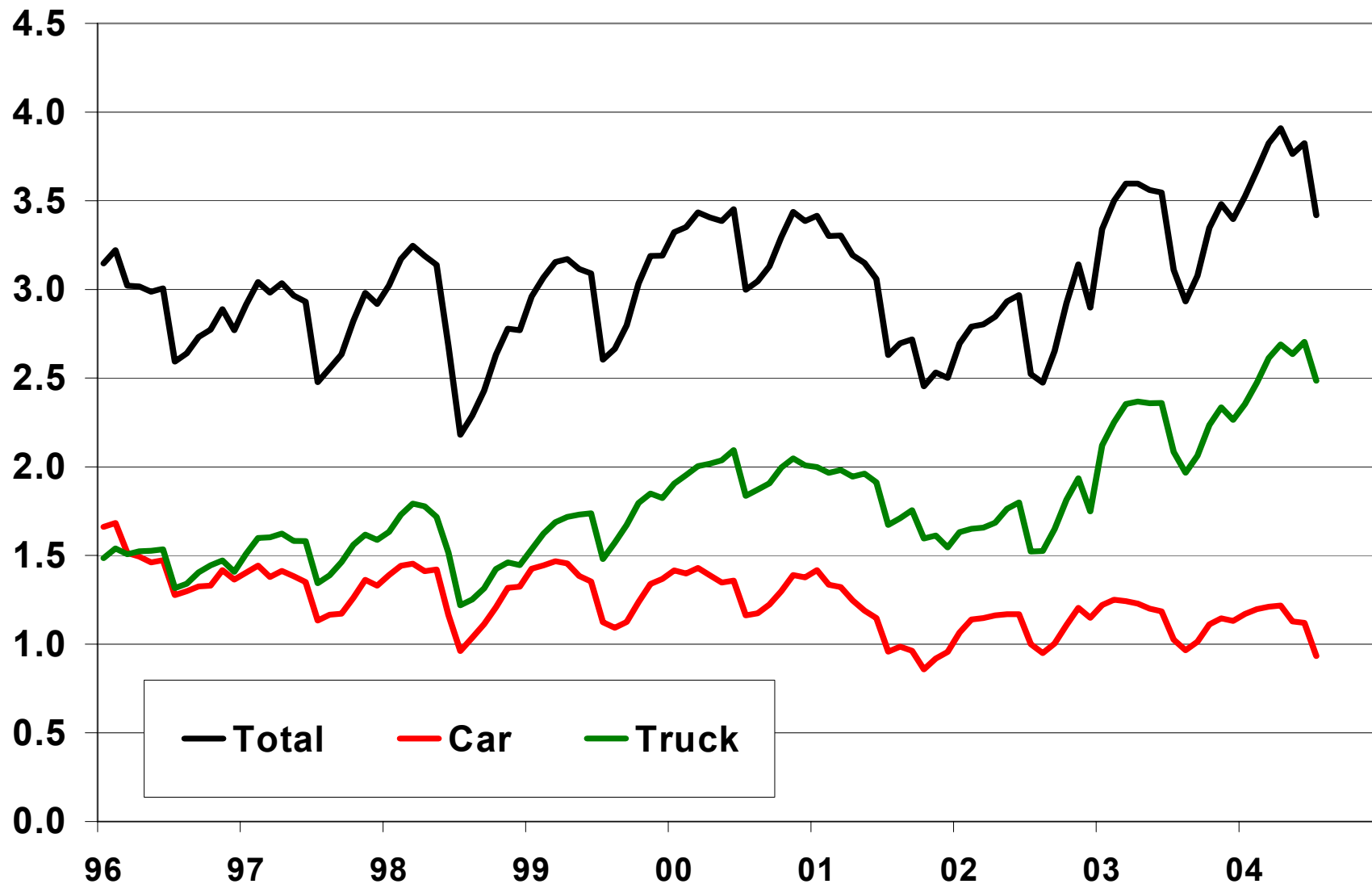
### Six-Month Moving Average



Source: General Motors

# Inventories – Light Vehicles

Millions – Not Seasonally Adjusted



Sources: BEA, Ward's Communications



# Key U.S. Vehicle Sales Indicators

	Recession <sup>1</sup>	1 Year Following Recession <sup>2</sup>	Previous Year <sup>3</sup>	Latest Data <sup>4</sup>
Nonfarm Payroll Employment Thousands	-1,636	-566	1,686	144
Real Disposable Income Average Y/Y% Change	1.8%	3.0%	3.6%	1.8%
Real New Vehicle Prices Average Y/Y% Change	-3.4%	-2.8%	-3.3%	-3.5%
Real Fed Funds Rate Average %	0.7%	0.2%	-1.2%	-1.7%
Gasoline Prices Average \$/Gallon	1.46	1.32	1.73	1.88
Vehicle-Buying Attitudes Average % "Bad Time to Buy"	24.4	16.4	20.4	23
New Orders for Consumer Durables Average Y/Y% Change	-5.1%	5.6%	5.0%	-3.2%

## Notes:

<sup>1</sup> 2001:Q1 - 2001:Q3 for quarterly data or March 2001 - November 2001 for monthly data.

<sup>2</sup> 2001:Q4 - 2002:Q3 for quarterly data or December 2001 - November 2002 for monthly data.

<sup>3</sup> 2003:Q3 - 2004:Q2 for quarterly data: August 2003 - July 2004 or September 2003 - August 2004 for selected monthly data.

<sup>4</sup> Latest quarter or month.

# Impact of Rising Gasoline Prices During the Past Eight Months

## Passenger Cars

As of:	\$/Gallon <sup>2</sup>	Per Vehicle Gasoline Consumption Cost <sup>1</sup> Current Dollars		
		Per Week	Per Month	Per Year
December 31, 2003	1.48	15.66	67.86	814.38
August 30, 2004	1.87	19.77	85.68	1,028.17
Net Change	0.39	4.11	17.82	213.79

Notes:

<sup>1</sup> Based on average annual per car fuel consumption of 551 gallons as of 2002 (the latest data available).

Source: Ward's Automotive Yearbook 2004 (page 280).

## Light Trucks

As of:	\$/Gallon <sup>2</sup>	Per Vehicle Gasoline Consumption Cost <sup>1</sup> Current Dollars		
		Per Week	Per Month	Per Year
December 31, 2003	1.48	18.33	79.44	953.31
August 30, 2004	1.87	23.15	100.30	1,203.57
Net Change	0.39	4.82	20.86	250.26

Notes:

<sup>1</sup> Assumes average annual per light truck fuel consumption of 645 gallons as of 2002 (the latest data available).

Source: Ward's Automotive Yearbook 2004 (page 280).

<sup>2</sup> U.S. Retail Gasoline Price - All Formulations. Source: Department of Energy

# U.S. Vehicle Industry Outlook

- Supported by still-low interest rates and competitive pricing, new vehicle-buying fundamentals remain generally favorable
  - Drag from high gasoline prices not likely to have a material impact on sales, but continues to be closely monitored
- Industry mix patterns are largely unchanged – growth in luxury and in trucks expected to continue
- Key concern is whether current “soft patch” evolves into a more prolonged slowdown

# Summary

- Economy transitioning from policy-led growth
  - As a result of key imbalances, downside risks dominate
- U.S. vehicle sales expected to moderate toward trend
  - New vehicle affordability is providing underlying support to the industry
- Industry dynamics suggest persistent competitive pressures
  - Downward price pressures
  - New product entries
  - Used vehicles