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The 5 biggest auto stories of 2016

By David Kiley

The auto industry is a prime mover of the U.S. economy. According to the Center for Auto Research, in Ann Arbor, Mich., the industry provides some 7 million private sector jobs, and $500 billion in salaries. Each auto manufacturer job creates 11 other jobs in related industries (dealers and suppliers) as well as indirect jobs (businesses that are otherwise dependent on auto plants, corporate offices, supplier parks, etc.).

On the whole, the auto sector is responsible for almost 4 percent of the U.S. economy, so it is worthwhile taking a look at the biggest stories impacting the industry in 2016.

Peak auto sales

Industry sales have peaked at 17.4 million, and will trend downward through 2024, heading to a low of slightly above 15 million, according to multiple analysts. That will put pressure on earnings for many automakers. Though General Motors, Ford and FCA dramatically lowered their "break-even" levels after the 2009 economic meltdown and restructurings, those break-break even points (the level of industry sales necessary for the companies to earn a profit) have crept up since then. Still, automakers will remain in the black at that level.

Despite stock market gains, higher wages and low unemployment, nearly record incentive spending by automakers are only allowing automakers to tread water, compared with last year's sales levels.

Shot across the bow from Trump

President-elect Donald Trump won industrial swing states Michigan, Ohio, Wisconsin and Pennsylvania, as well as reliably red-state Indiana, by promising working-class people in towns that have lost jobs to Mexico, China and other developing cheap-labor countries that he will shake up trade and tax policy to bring jobs back.

It remains to be seen if Trump has the resolve to take executive-order actions at his disposal, or if he can garner support from House and Senate Republicans to essentially punish corporations for practicing free-trade and following trade agreements signed and supported by the last three U.S. presidents. The likely result: Not that many jobs are prevented from leaving the U.S., or are specifically repatriated to the U.S. because of Trump in the next four years.

The uncertainty of what Trump will do will impact decisions by GM, Ford and FCA in particular about where they source products over the next four years. Because Mexico has become a place where these companies can build small, fuel-efficient passenger cars and minimize their labor costs on small-margin or no-margin small cars, Trump's chess moves will have a lot to do with product and manufacturing decisions until

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Was 2016 a good year for auto dealers?

By Todd Bryant

For auto dealers, 2016 has been a fairly stable year, occasionally marked by ups and downs. October was the third consecutive month with falling car sales, yet November defied expectations and saw numbers that put the industry within reach of record volume for a second straight year.

That, alongside a stable economy and positive predictions from industry experts, for now has abated concerns that any significant drop in car sales can be expected in the coming year.

Here's a look at how auto dealers did in 2016, what reg-

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AIADA chairman: Proposed border tax a real threat to dealers

By Greg Kaminsky
2016 AIADA Chairman

In the weeks following the election, many dealers, myself included, have been optimistic at the prospect of new policies and legislation that will help our businesses succeed. Reining in the Consumer Financial Protection Bureau and making it easier to do business is high on all of our priority lists, and it looks like we have more allies in Washington on our side heading into 2017.

Funnily enough, as we head into the New Year, the biggest danger facing international nameplate dealers isn't from the CFPB, the Trump transition team, or even a trade issue. It's a new import tax. And it's a real threat to every single dealer in the United States.

A border adjustment tax is included in the House Republican's Better Way Tax Reform proposal. While no official legislative language has been released, the tax likely sits at 20 percent and is a crucial piece of the proposal, paying for many of its popular cuts. Some members of the House Ways and Means Committee see a clear path for the tax bill through Congress and to President Donald Trump's desk in the first 100 days of the 115th Congress.

What is a Border Adjustment Tax? It's a simple, across the board tax on any goods or services coming across the border and into the United States. The idea marries well with some of the ideas Trump espoused on the campaign trail, and could be popular with Americans who worry jobs are being lost overseas.

That is, until they go to buy a car.

See, the BAT would apply to every vehicle built outside the U.S. border — even Canada, which has long been considered "domestic" under the quirky 1994 American Automobile Labeling Act. Auto parts would also be subject to the tax, so even the most American-made vehicle sold in the U.S. today — the Toyota Camry — would be subject to a significant price increase.

As dealers, we would dearly love to see some sensible tax reform legislation go into effect. A simpler, more business-friendly code would do wonders for America's small business owners. However, a Border Adjustment Tax could be devastating to our business model, and to consumers who look to us for affordable, safe means of transportation.

It could immediately result in reduced sales and dealership job loss, more expensive repair costs (and, accordingly, less safe roadways), and consumers priced out of the new-car market.

A BAT is bad for the car business, bad for consumers, and bad for America. This issue is at the top of the American International Automobile Dealers Association's legislative agenda. As we work in Washington, D.C., to educate legislators on this important topic we will continue to keep you informed and involved.

Excess Detroit 3 inventory could lower auto sales in 2017

The U.S. auto industry is likely to set a record for industry sales in 2016, before declining slightly this year in part due to bloated inventory that is already beginning to impact Detroit Three production, according to one forecasting firm.

IHS Markit predicts the U.S. auto industry will sell a record number of vehicles in 2016, surpassing 2015's record of 17.47 million sold. For 2017, it is lowering forecasts to 17.37 million from an earlier predicted 17.5 million in part because of rising inventories and automakers' use of incentives.

Fiat Chrysler Automobiles and Ford Motor Co. on Dec. 20 were the most recent automakers to confirm that downtime is coming to some plants in early January.

Ford will halt production at its Kansas City Assembly Plant in Claycomo, Mo., home to the Ford F-150 and Ford Transit, for the week of Jan. 2, according to a UAW Local 249 Facebook post that was confirmed by the automaker.

Fiat Chrysler said it would halt production at its two Canadian assembly plants for less than one week. That comes after the automaker completely cut mainstream car production in the United States in recent months.

The Italian-American automaker on Dec. 20 confirmed Canadian assembly plants in Windsor and Brampton will be down Jan. 3-6, a four-day extension to the Jan. 2 observation of New Year's Day. The roughly 9,000 hourly workers at the plants, including more than 5,600 in Windsor, will be on temporary layoff.

The Brampton Assembly produces the Dodge Charger and Challenger as well as the Chrysler 300 for Fiat Chrysler — all large cars that have experienced flattening sales. But Windsor Assembly produces the automaker's minivans, including the all-new Chrysler Pacifica that began production in February.

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David E. Sloan — President, Publisher
Erik K. Higgins — Editor, Director of Dealer Affairs

Year at a glance: Final message from 2016 NADA chairman

By Jeff Carlson
2016 NADA Chairman

As the last month of 2016 concludes, we often become engrossed in holiday plans, end-of-year travel and New Year's resolutions. But it's equally important to pause and appreciate what we've accomplished over the past year.

The National Automobile Dealers Association would like to thank its amazing dealer network — more than 16,500 strong — for the hard work and passion that helped us earn a record-breaking year.

2016 has been an excellent year for the auto industry as we end with about 17.5 million new-car sales. It seems timing is on our side. In the regulatory and legislative arenas, the NADA continued to hold its defensive line with the Consumer Financial Protection Bureau's intrusion into our business. We worked hard to gain traction for the critical Senate Bill 2663, which aims to curb the CFPB's regulatory overreach. We tackled many other regulatory agencies with the knowledge that many of their policies have a significantly negative impact on the dealer business.

We quantified and communicated the potentially negative economic impact to consumer affordability. This includes examining CAFE rules, recall mandates, manufacturer direct sales and many others. The NADA's messages were effectively circulated and re-circulated through the year in major news outlets including The Wall Street Journal, Bloomberg and The New York Times, just to name a few.

I have had the honor of reminding the greater public that dealers are the solution, not the problem. We are agents of change, and I've had the great opportunity to meet many of you and speak at your state association conventions.

Internally, the NADA has never been stronger. Our re-branding is complete and with NADA President Peter Welch at the helm, this association has never been leaner, more focused and more ready to take our members through the challenges of the next century. Let's celebrate the association's century milestone together at the 100th Convention & Expo in New Orleans in January. Allow me the opportunity to thank you in person while handing the keys over to Antioch dealer and 2017 NADA Chairman Mark Scarpelli.

Finally, I want to thank each and every one of you for an excellent year as your NADA chairman. I have met so many passionate and hardworking dealers throughout the United States and abroad in four different countries. Each time, I'm amazed at the kinship we have and the spirit we share — we are all resilient and energetic, with high risk tolerance and boundless entrepreneurial skills. U.S. dealers have the best advantage with our incredible business model called the franchise system.

It is a valuable asset for dealers and the envy of the world. For 100 years, we've served the driving public better than anyone else through this system and I know it will take us through the next 100. I could not have had such a productive year without the great leadership at the NADA and the love and unswerving support of my wife Nancy and my children. As we all look to the future, let us not forget to appreciate the blessings of the past year.

On behalf of the NADA, I wish you a very happy holiday season and a boundless and prosperous New Year!

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ulatory changes were introduced and what can be expected in the coming year.

2016 Results and 2017 Expectations

Although 2016 saw some months of falling car sales, the overall picture is positive. Depending on December sales, the U.S. industry may end up with record sales for a second year in a row.

In a midyear report, the National Automobile Dealers Association noted a slight preference shift toward used cars, with new-car sales dropping somewhat. In 2017, new-vehicle sales are expected to reach a healthy plateau and level off in response to the saturated and mature market.

In terms of the types of cars being sold, 2016 saw light trucks take the lead, while car sales dropped. Officials with the NADA expect that trend to continue, with light-truck sales accounting for about 60 percent of the market in 2017 and continuing to rise.

The NADA also reported midyear employment at dealerships had topped 1.1 million, on a par with 2015 levels, while average dealership employment had risen from 67 in 2015 to 69. Future NADA data will show whether those trends continued throughout the year, though the report predicted an all-time high employment in dealerships by the end of 2016.

Another development for auto dealers in terms of employment has been the ongoing shift in generational demographics. In 2016, 60 percent of all new hires were Millennials, a 3 percent increase over last year. Millennials now account for about 42 percent of the total dealership workforce in the U.S. This is due to increasingly greater work schedule flexibility as well as payment plans that match that flexibility.

Todd Bryant is the president and founder of Bryant Surety Bonds.

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he establishes actual policy.

His move with Carrier Corporation to save some 700 jobs in Indiana that were headed to Mexico does not constitute policy. Indeed, the company's CEO has strongly suggested he kept some jobs in Indiana as a carrot to the new President to not target the government contracts of Carrier's parent's company, United Technologies.

But the Carrier move and other small measures like that could be merely intended to get companies to not make decisions to send jobs south of the border on his watch, saving him from having to make actual policy.

Fuel economy challenges

The federal government is sticking to its tougher emissions and fuel economy regulations to be reached by 2025. But stubbornly low gas prices and consumer love of SUVs and pickup trucks is making that very difficult.

"Low energy prices have increased the demand for less fuel-efficient vehicles, and this will make achieving the fuel standards tougher," said Martin Zimmerman, a professor at the University of Michigan's Stephen M. Ross School of Business.

"It was a significant," he said, "but perhaps not surprising, move by the Environmental Protection Agency to propose that the 2022-2025 standards remain unchanged and set the stage to implement that ruling before the new administration takes office, an action that will make it more difficult for the Trump administration to change the standards, though there will be continuing pressure for some modification, perhaps extended deadlines."

Consumer Debt-a-Palooza

The average U.S. household today can't really afford the average-priced new vehicle. Instead of buying new cars that they can afford, consumers are piling on huge long-term debt for new wheels.

Data from Experian shows that the average loan term for a new car in the U.S. is 68 months. That is an all-time high. It's also an average, which means some desperate consumers are taking eight years to pay off a new vehicle. The average amount financed is $30,032, the first time that amount has gone over $30,000. And the average monthly loan is $503, the first time the amount has gone over $500.

This trend is resulting in consumers spending thousands of dollars more over the life of their loans than they would if they had better credit and kept their loan terms to a more manageable four or five years.

Longer loan terms, like the ones we are seeing today, also keep consumers out of the market for a new car longer, and keeps them upside-down in their loan and the value of the car for a longer period of time.

Unfortunately, car dealers and auto company finance companies are not in the business of protecting consumers from themselves. They are in the business of closing loans.

The mania over autonomous driving

There is a race among auto companies, and even players such as Apple and Google, to deliver "autonomous driving" to consumers. This story has taken on a life of its own, with most leading automakers playing "can-you-top-this" with the latest concept technology or statements about when, as in what year, they will deliver "autonomous driving."

The whole concept grew out of a suite of technologies meant to make drivers safer, and to rely less on the human factor to prevent accidents. Tech such as radar, GPS, adaptive cruise control, blue-tooth-enabled cameras, electronic stability control and more have all had an impact on better enabling cars to avoid accidents and override the driver's ability to react on their own in the split seconds it takes for an accident to occur.

But the technology has grown into a phenomenon that has us awaiting a time when "hailed" cars such as Uber and Lyft will be driving passengers around urban centers programmed for traffic control without a driver, cars that will drive themselves from a parking space in a multi-level garage to a valet area for the driver, and for drivers on the highway or suburban neighborhoods to be able to freely text with one hand while eating a chicken dinner with the other without worrying about running into something.

I'm not sure when we transcended safety and began applying this technology to our own sheer laziness, but here we go, as long as the regulators and trial lawyers get on board. Said the University of Michigan's Zimmerman: "I think we will see continued progress and technology developments, and some new alliances as well as more pilot programs. We are still somewhat away, however, from fully driverless cars for the mass market or even widespread use in the taxi market."

Sales tax increases in 2017

Businesses in select areas in Illinois must adjust for a sales tax increase effective Jan. 1. The increase is on sales of general merchandise but not on automobiles.

Locally, East Dundee dealers operating inside the Christina Drive Business Development District need to charge 0.25 percent more for parts and similar, changing the rate from 9.5 percent to 9.75 percent.

Also, Willowbrook dealerships inside the Illinois Route 83/Plainfield Road Business District must charge an additional 1 percent sales tax, moving from 7 percent to 8 percent.

When determining what sales tax is due, the Illinois Revenue Department considers three categories: general merchandise; food and medicine; and items which must be titled, such as automobiles, motorcycles and boats.