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New CATA directory mails

One complimentary copy of the 2018-2019 CATA annual report and directory mailed Sept. 7 to every member of the Chicago Automobile Trade Association.

The publication is chock-full of useful information, including a listing of all members — dealer and allied — and their addresses, telephone numbers, and business websites.

Members can purchase additional directories for $10 each.

New-vehicle sales maintain pace, for now

Most major automakers reported increases in U.S. sales in August, though analysts expect vehicle demand to cool for the remainder of 2018 amid higher interest rates and rising vehicle prices.

Overall U.S. auto sales were expected to rise slightly in August as customers took advantage of Labor Day discounts against a backdrop of a healthy U.S. economy, analysts said. Consumers continued to flock to sport-utility vehicles and pickup trucks, helping push the average selling price to $31,836 in August, market research firm J.D. Power said.

The year-over-year comparison benefited from weak sales in August 2017, when Hurricane Harvey forced the closure of hundreds of dealerships in southeast Texas, denting the national total.

Sales are expected to cool in coming months with such factors as rising interest rates, higher vehicle prices and the threat of tariffs on automotive imports prompting customers to consider buying a used car or delay a vehicle purchase altogether, analysts said.

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AS CFPB focuses on education, regulation falls on state attorneys general

The retreat by the Consumer Financial Protection Bureau as a consumer watchdog is causing states to "feel like they have to step in where the government is pulling back," said Patty Covington, an attorney at Hudson Cook, a law firm that focuses on banking, consumer financial services and privacy law.

Since CFPB Acting Director Mick Mulvaney assumed leadership of the Bureau last year, the CFPB has transitioned the Office of Fair Lending and Equal Opportunity to an educational focus compared with the enforcement powers it once held.

As evidence, the office in late August announced a new educational symposium on the topic of consumer access to credit, to take place this month.

However, with midterm elections coming up in November, it will be interesting to see how the CFPB enforcement pans out, "particularly with the amount of blue attorneys general that come in place," Covington said. More blue attorneys general means the trend of tighter state regulations could take place, especially as more states — even conservative states — have already ramped up regulations.

Covington said Georgia, South Carolina, and Virginia are the most notable states because those three are not usually aggressive in enforcement. "The fact that conservative states are putting attention on regulation is indicative of where the attorneys general are going," Covington said.

There are 31 candidates for 13 open seats in the upcoming 2018 election, according to the National Association of Attorneys General's website.

Mulvaney began the pullback of enforcement actions focused on fair lending in February, when he transferred the Office of Fair Lending and Equal Opportunity from the Supervision, Enforcement, and Fair Lending Division to the Director's Office, where it became part of the Office of Equal Opportunity and Fair-

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EPA issues guidance on undeployed airbag modules and inflators

An Environmental Protection Agency memo issued this summer addresses the management of undeployed airbag modules and inflators.

For several years, clarification was sought from the EPA on how the Resource Conservation and Recovery Act, which governs the management of hazardous and nonhazardous solid wastes, applies to the materials. The effort was driven largely by several adverse state agency positions, by the Takata-related and other federal safety recalls applicable to these parts and by off-site management costs and liability concerns.

The EPA memo addresses the following six scenarios:

1. New, never-installed modules and inflators: parts found in dealership inventory that are not suitable for installation, such as mistaken orders and parts subject to a federal safety recall or OEM campaign. Dealerships should return those parts to the OEM or deploy them on-site for legitimate recovery of the scrap metal, unless the OEM instructs otherwise.

2. Used modules and inflators that can be legitimately reused: many non-recalled parts recovered by recyclers. (Note: The National Automobile Dealers Association generally recommends against the installation of used parts for vehicle repairs.)

3. Used modules installed in used vehicles: parts typically managed by scrap processors processing vehicles.

4. Used modules removed from vehicles that can be safely deployed electronically onsite: most recalled non-Takata modules. Dealerships should safely deploy these modules onsite consistent with OEM instructions/guidance, if any.

5. Used modules removed from vehicles that cannot be safely deployed on-site: most recalled Takata modules. Dealerships should follow applicable OEM instructions for these parts, which may include shipment to the OEM or to a third party.

6. Used inflators that cannot be legitimately reused: Dealerships should not deploy these onsite for scrap metal reclamation and should generally manage them as hazardous waste.

The NADA is working with the OEM trade associations to encourage consistent communications in recall notices, service bulletins and otherwise, on how modules and inflators should be properly managed and on how management costs will be reimbursed.

Since the RCRA allows state waste management programs to impose different and even stricter mandates, dealerships should be made aware of any additional state requirements in this area.

Contrary to numerous YouTube videos on the topic, dealerships deploying modules onsite should also recognize that the Occupational Safety and Health Administration's General Duty Clause requires that workplaces be kept free from recognized hazards that are causing or are likely to cause death or serious physical harm.

Car ownership vs. ride-hailing: AAA studies which costs more

Consumers who live in a big city probably have mulled whether they should own a car or simply rely on ride-hailing services. It turns out that saving money by taking the latter route may be another urban legend.

New research from travel organization AAA, which advocates for individual motorists, found that ride-hailing services actually cost more per year than owning a car.

AAA compared how much consumers pay for both in 20 U.S. cities, basing the calculations on owning a medium sedan, plus additional costs for gas and insurance. The calculation was based on driving 10,841 miles annually.

Under those metrics, AAA found that the average cost to own a car is $7,321 a year not including parking charges, or $10,049 with parking charges.

By contrast, ride-hailing services cost $20,118 a year to cover the same distance.

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"All the positive economic news can't overtake the worsening buying conditions for consumers," Charlie Chesbrough, senior economist for Cox Automotive, said in a statement. He believes the U.S. auto market, which peaked in 2016 with a record 17.6 million vehicles sold, is tracking about two years ahead of the broader economy.

Still, the auto industry remains historically strong, on pace to reach U.S. sales of about 17 million vehicles this year. The shift toward higher-price SUVs and pickup trucks continues, which should help bolster automakers' bottom lines.

SUVs, pickups and vans accounted for about 68 percent of the new-vehicle retail sales in August, the highest-ever level for the month, J.D. Power reported.

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Local dealerships and the National Council for the American Worker

By Wes Lutz
2018 NADA Chairman

President Donald Trump in July announced an executive order establishing the President's National Council for the American Worker and the American Workforce Policy Advisory Board. The council is developing a national strategy to address urgent workforce issues, including a national campaign to raise awareness of the job skills crisis.

The NADA applauds the president's efforts since America's auto dealerships are facing our own crisis with a shortage of automotive service technicians. Improving our employment numbers with skilled workers is a top priority, and I'm proud that NADA leadership has been meeting with White House officials to examine how we can be involved in this vital initiative.

Peter Welch, the NADA president & CEO, and NADA Foundation Chairwoman Annette Sykora met last month with White House officials who are overseeing the new workforce initiative. We presented our own plans for the NADA Foundation's Workforce Initiative — which will launch in early 2019 — to promote the value of careers at new-car and -truck dealerships.

For an industry that is part of Main Street, we know that we can successfully tackle this skills crisis head-on.

Dealerships nationwide provide more than 1 million jobs in sales, management and service, and service departments are especially critical in a time when thousands of cars are still in need of repairs following recalls and scheduled maintenance and warranty.

The U.S. Bureau of Labor Statistics estimates that 750,000 auto techs and mechanics are currently employed across the industry. New-vehicle dealerships alone employ around 317,000 service techs. But to meet future demands from retired workers and those learning to adapt to new-car technologies, our industry will need close to 70,000 more technicians by 2026.

A lack of dealership workers means that thousands of good-paying local jobs remain unfilled, and we will have difficulty getting the necessary people — and skill sets — to service and repair vehicles on the road. Without the service operations at local dealerships — and our technicians staffing those operations — the entire economy would grind to a halt. The future of the auto business rests in the employees who work with us day-in and day-out, and we must retain the best ones out there.

Dealership jobs are among the last jobs in America where individuals without a four-year college education can make an excellent living and have opportunities to advance into management careers. The NADA has proudly espoused the benefits of local dealerships via our own national campaign: mydealership.org.

If you haven't already, I urge you to share a particular section called "my dealership creates jobs." Share this on your own websites and social media pages. The average dealership job pays $70,000 a year with benefits. And tech jobs are particularly vital to providing safe transportation to all Americans.

And we encourage all interested dealers to engage with the White House and consider joining the President's Workforce Initiative. If your dealership would like to make a pledge to increase career opportunities for students and workers, including apprenticeships, work-based learning programs, continuing education, on-the-job training or re-skilling, the NADA has the information you need to sign up.

The NADA, along with industry allies, must take action now to narrow the work gap at our dealerships and other American industries. We look forward to working with the White House in any way we can so that more people take advantage of the good-paying careers dealers offer and discover the benefits of employment at our new-car dealerships.

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ness.

According to Chris Willis, a partner for Atlanta-based Ballard Spahr's litigation and consumer financial services groups, Mulvaney said the Office of Equal Opportunity and Fairness "will continue to focus on advocacy, coordination, and education, while its current supervision and enforcement functions will remain in the Supervision, Enforcement, and Fair Lending Division."

In that same month, Mulvaney called for attorneys general to step up and take the lead in enforcement during a conference National Associate of Attorneys General. Hudson Cook's Covington referred to his public call as a "rallying cry" for attorneys general.

"Mulvaney saying so, very publicly, at the NAAG meeting calling for AG's to step up and take the lead in enforcement," Covington said. "It adds more fuel to the fire."

Although a sigh of relief may have been heard throughout the industry as regulations lightened up, Covington warned that with attorneys general stepping in and ramping up enforcement, that relief is "being dismantled" as stricter state regulations can be more dangerous because "there are more of them," she said.

Covington predicts dealers to be feeling the impact as they must be "very focused on compliance" especially in terms of F&I products during this time, she said.

As other loan delinquency categories drop, auto debts on the rise

Consumer loans more than 90 days past due have been flat or declining for nearly all loan categories, with the exception of auto debt, according to the New York Federal Reserve's second quarter Debt and Credit Report released in August.

"The flow of 90-plus-day delinquency for auto loan balances has been slowly trending upward since 2012," the Fed wrote in the report, noting that credit card delinquencies have started to rise in the past year as well.

A specific delinquency rate for auto is not stated in the report, but Fitch's U.S. Auto Index records subprime 60-plus-day delinquencies at 4.41 percent through June, while prime rates are at 0.3 percent. Both rates are down year over year by 8 basis points and 7 basis points, respectively.

Overall, consumer auto debt has ballooned, and industry players have noticed a shift since the 2008 financial crisis, said Damon Edmondson, chief of analytics at Flock Specialty Finance.

"If you go back to 2008, before the crisis, credit card debt was equal to the amount of outstanding auto loans, which makes sense because consumers were loading up their credit cards to maintain lifestyles and stave off the economic dislocation that was about to happen," Edmondson said. "When you look at the numbers now, auto loan debt is considerably higher than credit card debt.

"Auto loans at the end of the second quarter of 2018 stood at $1.24 trillion while credit card debt was only $830 billion. [Consumers] would have to increase their credit card debt by almost 50 percent — $400 billion — in order to equal the auto loan debt."

Comparing auto loan debt year over year, balances are up 4.2 percent, according to the report. Meanwhile, the industry originated its highest quarterly amount since 2005 with $151 billion in originations.

3-year-old used vehicles an enigmatic pool, new Edmunds report says

Three-year-old models constituted about one-fourth of the used cars sold at franchised dealerships from April through June this year, according to a new Edmunds report.

The average turn rate on used cars during Q2 was 38 days, which Edmunds said was the fastest quarterly turn rate in at least 13 years.

As one might expect, the leasing/off-lease market can often impact this slice of the used-car population. That was particularly evident when it came to the wide spectrum of differences when comparing new-car ATP to prices of the same 3-year-old used cars — both in terms of segment and model comparisons.

In fact, Edmunds found that the price gaps on the segment side were as low as 27 percent for midsize trucks, but as high as 48 percent for luxury midsize cars.

That in and of itself is another paradox, of sorts.

"With consumer preferences leaning more toward SUVs and trucks, you'd assume that the savings would be more clear-cut, and you could apply a general savings figure based upon overarching SUV, truck and car vehicle categories," Edmunds said in its report.

"That isn't the case. The dynamics of 3-year-old used vehicle values are primarily dictated by the supplies afforded to the market from leasing, and within each category, volumes differ," the report adds. "Specific models that might have been leased in higher volumes compared to their competitors are also a factor."

Speaking of which, Edmunds looked at the same price gap for the 20 best-selling used cars on the market. It found a similar gap, with the price difference of 48 percent for a BMW 3 Series at the top of the list and the 29 percent price difference for the Toyota RAV4 at the bottom.

Interestingly, the residuals of the RAV4 contributed greatly to the low price gap, despite the vehicle being a "heavily leased" model when new. But lower residuals led to the opposite happening with the 3 Series, another heavily leased vehicle.

"A vehicle such as the Toyota RAV4 was a best-seller when new, and even though it was heavily leased three years ago, the strong residual values of this vehicle combined with the healthy overall demand in the compact SUV segment don't allow for significant savings," Edmunds reported.

"On the other end," analysts added, "we see that BMW's 3 Series, a legend in the compact luxury car segment, faces weakened residual values because of high lease volumes in a segment that is no longer seen as the entry point into the luxury market. But those who regard the 3 Series as the luxury compact sedan to own can realize a wealth of savings.

"Going forward we could expect these new-versus-used dynamics to continue in a predictable manner. However, if tariffs are enacted against specific models, these savings figures are bound to change and are certain to test customer loyalty."

Tune in …

. . . to "Drive Chicago," the CATA's automotive radio show, 8-9 a.m. Saturdays on WLS-AM 890.