Volume 115, No. 16 August 13, 2018

2 factors may be behind rise in used-vehicle sales

The retail used-vehicle market likely is benefitting — at the moment, at least — from pulling over and pulling ahead.

That is to say, a value proposition that is pulling would-be buyers of traditional cars in the new market over to the used market; and the specter of proposed automotive tariffs that may be leading dealers to buy used inventory ahead of such measures going into effect.

Analysts with Cox Automotive posited those theories during an Aug. 1 conference call with reporters.

Used a better buy than new, for some

The conference call came right after a month in which used-car sales were expected to reach 3.4 million, according to a late July forecast from Edmunds, a sum that would beat June used-car sales of 3.2 million units. That also would translate to a used-car seasonally adjusted annualized rate of 39.5 million units, compared to the used-car SAAR of 39.2 million a month before.

The used-vehicle sales growth is amid what Cox Automotive senior economist Charlie Chesbrough described as a "huge reduction in the car segment" in the new-vehicle sales market during July.

"[Sales for traditional cars were] down quite a bit on a year-over-year basis, and certainly more than what we were initially expecting. And we think one of the things that might be going on is that car buyers are moving into the used-vehicle market," Chesbrough said.

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0% financing seen declining as interest rates rise

Financing deals in July with zero percent interest were at their lowest levels since 2005 and are down 439 basis points year over year, according to a new report from Edmunds.

Zero percent financing deals accounted for 6.95 percent of sales in July, down from 11.34 percent in July 2017. The summer typically is when these deals see an uptick, as manufacturers attempt to push out inventory and increase sales, according to Edmunds. However, with interest rates rising and the Federal Reserve planning for more two more hikes before yearend, zero percent financing is becoming more expensive for automakers.

"A lot of it really is contingent on the rising interest rates that we are seeing throughout the market," Jeremy Acevedo, Edmunds' manager of industry analysis, told Auto Finance News. "As the APR rises for new vehicles, it becomes a more expensive endeavor for automakers to roll out the 0% financing deals."

Sometimes when a customer is buying a car, they will have a 0% financing option. This means that they don't pay any interest on the loan and the consumer is es-

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Tech shortage brings meeting at White House

White House officials met Aug. 2 with National Automobile Dealers Association representatives to discuss promoting the value of careers at new-car dealerships — especially service technicians — in the retail automobile industry.

The meeting followed an executive order issued last month by President Donald Trump to establish the President's National Council for the American Worker and the American Workforce Policy Board. The council is developing a national strategy to address urgent workforce issues, including a national campaign to raise awareness of the urgency of the skills crisis.

"Our industry faces an acute shortage of service technicians, and we look forward to working with the White House in any way we can to address this issue," said Annette Sykora, a

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Manufacturer subscription programs are changing auto financing

Subscription programs that allow for more flexible vehicle ownership could wind up being a bust. But if investments from just about every major OEM on the market, a handful of startups, and numerous dealerships are any indication, this is a fad that will be around for some time to come.

What "flexible ownership" means differs drastically among programs. Some offer total flexibility to swap in and out of cars whenever the consumer wants, but at a hefty price. Others offer used vehicles and fewer amenities for a lower price. Some OEMs have traditional lease programs that include insurance and maintenance, while other dealerships are bypassing the manufacturers altogether.

It's hard to tell if this trend will grow to 30 percent or more of the market, as traditional leasing has, or if consumers will come to see it as a glorified rental.

Grayson Brulte, president of consulting firm Brulte & Co., said in January that these programs are largely going to serve as the testing grounds and starting point for a world in which fleets are 100 percent autonomous and the need for car ownership is largely diminished.

"On a traditional three-year lease, [the industry] knows how the system works, but if you're on a one-month, two-month, three-month lease or you're constantly swapping out vehicles, [the industry] has to learn," Brulte said. "You'll see interesting pilots pop up in cities around the country and you'll know it's working when they announce, 'We've added two more cities to the platform.' "

4 luxury OEM programs driving subscriptions

This is the top end of the market, where the trend started to take off beginning in 2017 with the introduction of General Motors' Book by Cadillac program.

All of these programs allow consumers to swap cars within the OEM's brand at will and to do so through a white-glove concierge service, which delivers the car to the consumer's home or desired location.

That level of service comes at a steep price. Services in this category such as Book by Cadillac, Porsche Passport, and Mercedes-Benz Collection all start at or near $1,600 a month and can range as high as $3,000 a month. Access by BMW recently cut monthly prices to $1,100 due to consumer demand.

Toyota's forthcoming Lexus program and Fiat Chrysler Automobiles' Jeep subscription program could fall into this category as well, but pricing details have not been revealed. The Lexus program is scheduled to launch during the 2018 holiday season, with Jeep coming in 2019. Carpe by Jaguar Land Rover also launched in June, but it's exclusive to the U.K. with no plans to expand into the U.S.

Edmunds found that consumers in these programs would pay on average a $27,124 premium for these subscriptions versus a traditional three-year lease. However, they also provide the greatest amenities and service for the price.

Finding a Fair price

The car subscription startup named Fair came onto the scene last year in a big way by adding $1 billion in capital from a group of investment banks in October 2017 and then buying Uber's Xchange Leasing program to become the ridesharing company's exclusive leasing partner.

Fair offers vehicles on its app from as low as $150 and $300 a month but can also get up to $1,000 or more depending on the vehicle.

Chief Executive Scott Painter said last year that the company is able to offer this lower price because it offers

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former NADA chairwoman and a dealer principal in Texas. "We need to come together to address this shortage and tell the story of the benefits of employment at new-car dealerships."

Sykora is the current chairwoman of the NADA Foundation, which was founded in 1975 to raise donations to support causes such as emergency assistance for dealership employees after natural disasters, scholarships for deserving students and trained assistance dogs for children and wounded veterans.

"Service technicians are among the last jobs in America where young adults without a four-year college education can make a living wage and have opportunities to advance into management careers," Sykora said. "These jobs are critical to providing safe transportation to all Americans and are available in communities across the country."

The NADA Foundation in March announced funding for a large-scale workforce initiative to address the shortage and educate America about the benefits of dealership jobs, especially service technicians. The initiative includes a unified marketing effort by dealerships and manufacturers, and aggressive outreach with policymakers and educators.

The CATA Bulletin is produced by the
Chicago Automobile Trade Association
18W200 Butterfield Rd. Oakbrook Terrace, IL 60181-4810

The CATA Bulletin is distributed via blast email every other Friday except during the Chicago Auto Show, when it is not produced.
Listings of items for sale are subject to the approval of the CATA. Candidates for employment must submit a full resume to the Editor.
Review past editions dating to 1998 or search by subject at www.cata.info/publication/bulletins.

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Cybersecurity is 'cornerstone' of autonomous, connected driving

The operation of self-driving vehicles will require an intense focus on cybersecurity, experts said Aug. 3 during a conference in Detroit organized by Billington Cybersecurity, which brought together representatives from the automobile and tech industries and the government.

Dan Ammann, the president of General Motors, told the conference that GM cybersecurity is one of "the key enablers" to achieving GM's vision of "zero crashes, zero emission and zero congestion."

"As we continue to develop our Autonomous Vehicle program, safety is paramount, just like it is in everything that we do," Ammann said. "For our customers, that means providing the safest products possible, including the strongest cybersecurity."

"In today's connected vehicles, safety and cybersecurity are one and the same," he added.

Ammann also said public and private sectors must collaborate to prevent security breaches and thwart bad actors. "The public and policymakers would view a major cybersecurity incident involving any one of us ... as an incident involving all of us," he said.

GM seeks to make the Bolt its first fully autonomous vehicle.

"At General Motors, we view cybersecurity as a shared concern with the rest of the industry," said Ammann, noting that any breach of cybersecurity could "cripple" the development of AVs.

"Our collective customers are best served by industry-wide collaboration and solutions," Ammann said.

"Cybersecurity is the cornerstone of autonomous and connected driving," Thomas Billington, the founder of Billington Cybersecurity, said as he opened the conference.

"There is no magic bullet," said Heidi King, deputy administrator of the National Highway Traffic Safety Administration. The challenge is to build a culture of strong risk management that searches for threats and vulnerabilities, she said.

"Public confidence is key to technology deployment," King said. Collaboration and cooperation between government, suppliers and manufacturers is one of the keys to a broad system of cybersecurity in an industry where it has been something of an afterthought up until recently.

Michael Chertoff, a former U.S. Secretary of Homeland Security and an expert on terrorism and cybersecurity, also told the conference that "security by design" is critical to protecting against cyberattacks. The threat of terrorists taking operational control of a vehicle without directly taking is critical in an era when the industry is moving closer to putting autonomous vehicles on the road.

There also are nation states, such as North Korea, Russia and China, to name three, that have used hacking to spy on the U.S. or to achieve specific objectives such as stealing trade secrets or technology.

In addition, the necessity for any industry or individual enterprise to safeguard the data gathered customers or users is also critical, Chertoff said. The recent experience of Facebook, which saw its stock value drop dramatically on Wall Street, underscored just how critical protecting data has become, Chertoff added.

FTC: Dealer group falsified consumers' information on financial documents

The Federal Trade Commission on July 31 charged a group of four auto dealerships operating in Arizona and New Mexico, near the border of the Navajo Nation, with a range of illegal activities, including falsifying consumers' income and down payment information on vehicle financing applications and misrepresenting important financial terms in vehicle advertisements.

The action marks the FTC's first action alleging income falsification by auto dealers. The complaint also names the dealerships' owners as defendants. Many of the affected consumers are members of the Navajo Nation.

The FTC files a complaint when it has "reason to believe" that the law has been or is being violated and it appears to the FTC that a proceeding is in the public interest. The case will be decided by the court.

"Buying a car is one of the biggest purchases consumers make. When consumers tell an auto dealer how much they make and how much they can pay upfront, the dealer can't turn those facts into fiction," said Andrew Smith, Director of the FTC's Bureau of Consumer Protection. "The FTC expects auto dealers to be honest with consumers from the first advertisement to the final purchase."

Corporate defendants

According to the complaint, since at least 2014, Tate's Auto sought to increase its sales by falsifying consumers' monthly income and down payments on financing applications and contracts submitted to third-party financing companies. The four dealerships named in the complaint are Tate's Auto Center of Winslow, Tate's Automotive, Tate Ford-Lincoln-Mercury, and Tate's Auto Center of Gallup.

The FTC charges that, during the sales process, Tate's Auto asked consumers to provide personal information, including their name, address, and monthly income. However, according to the complaint, instead of using consumers' actual information, in many cases Tate's Auto falsely inflated the numbers.

Used

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"One of the things that we saw in our recent data from our auction activity is that used-car prices are above their normal July levels. And so, we think that there's probably a number of folks that are looking for buying opportunities in the used-car market," he said.

"Buying that same 3-year-old version of that new car in the used market at a 30-,40-, 50-percent discount or getting that crossover vehicle — 3-year-old crossover vehicle — for essentially the same price they would pay for a new small car in the new market."

In a news release issued ahead of the conference call, Kelley Blue Book analyst Tim Fleming said the monthly new-vehicle market share for car segments was likely to be 31 percent, compared to 36 percent in July 2017.

"Consumers clearly are favoring utility vehicles over cars," Autotrader executive analyst Michelle Krebs said during the call.

"What we think is exacerbating the decline in [sales of traditional new cars] is the fact that there's this plethora of used cars, and more importantly, a richer mix of utility vehicles coming off lease and back on the market," she said. "And we do know that affordability is becoming more of an issue, so the used vehicles provide a value alternative to new vehicles. And there's the richer mix in terms of utility."

To that end, Krebs said that affordability is starting to be concerning even to luxury vehicle shoppers, according to recent survey data from the company. And if value in general is that important, it raises an interesting choice.

"To Charlie's point, if you've got $20,000 to spend and you can buy a new compact car or you can buy a 3-year-old compact sport utility, hmm, what are you going to choose?" Krebs said.

The recent quarterly results from public dealership groups "reinforces that notion," Krebs said, as they have shown "very heavy reliance on the used-car market for a lot of their growth."

String of used-car gains continues for publics

At Sonic Automotive, for instance, its EchoPark standalone used-car stores were a bright spot in the second quarter amid disappointing new-vehicle margin erosion at the dealership group's BMW and Honda dealerships.

Its same store, new-vehicle revenue in the quarter grew 1.6 percent, driven by higher average selling prices, but gross profits dropped 6.3 percent because of lower margins.

The EchoPark stores were "profitable as a group" in June, Sonic executive vice president of operations, Jeff Dyke, said during the company's second quarter earnings call on July 27. EchoPark's seven stores made more than $1 million in June.

0%

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sentially paying the same amount as a cash buyer but spreading payments over a longer term. In this way, automakers are making money on the car rather than the financing deal.

Despite the decline, Acevedo does not see it becoming a trend month over month.

"I think that we might see a little more toward the end of the year, but I don't think it'll be those rates that we saw in 2017, especially not close to 2016 or the years before that," Acevedo said. "As the year goes on, automakers are going to need to liquidate to their outgoing model year inventory. Otherwise, it is going to become very expensive for them to move them if they have a bunch of 2018 lots when December rolls around."

The average annual percentage rate for new vehicles in July was 5.74 percent, up from 4.77 percent during the same month last year. Used car interest rates were also up, increasing to 8.31 percent from 7.46 percent at the same time the year prior.

Sedgwick deflects Q2 2018 jobless claims

One hundred forty-four CATA dealer members reported a combined 505 unemployment claims during the second quarter of 2018 to Sedgwick Claims Management Services, Inc., which has been serving CATA dealers under various names since 1979. The company's efforts saved those dealers a total of $1.35 million in benefit charges by contesting the claims.

Sedgwick, Inc. monitors any unemployment claims against its clients and contests all unwarranted claims and charges. The company counts about 235 CATA dealers among its clients.

Claims that can be protested and subsequently denied help minimize an employer's unemployment tax rate. The rate can vary between 0.525 percent and 6.925 percent of each employee's first $12,960 in earnings.

The 2018 average unemployment tax rate & new employer rate for Illinois employers is 3.225 percent, or about $418 annually per employee ($447 in 2017). The rate continues to inch down from 2007, as the Illinois economy continues to improve.

"The unemployment tax is really the only controllable tax in business, in that it's experience-driven," said Bruce Kijewski of Sedgwick. An ex-employee's claim affects the employer's tax rate for three years.

For new enrollees, client fees amount to $2.85 per employee, per fiscal quarter. For the fee, Sedgwick monitors all unemployment claims; files any appeals; prepares employer witnesses for hearings, as necessary; represents the client at any hearings; verifies the benefit charge statements; and confirms the client's unemployment tax rate.

For more information and information on how to retain Sedgwick's unemployment services, contact Kijewski at (773) 824-4322 or Bruce.Kijewski@Sedgwick.com.