Volume 115, No. 14 July 16, 2018

Wages climb for workers in Chicago, portions of Cook

Remember that the minimum wage for workers in Chicago and parts of Cook County increased July 1, to $12 an hour in Chicago and to $11 an hour in Cook — depending on where they work. Stay up-to-date with the necessary workplace posters to display. They're at www.cata.info/resources/workplace_posters.

About two-thirds of Cook's 134 suburban municipalities opted out of the county's ordinance to raise the minimum wage and grant employees up to five sick days a year. For workers in such areas, Illinois's $8.25 hourly minimum wage rate applies. The state rate was last raised July 1, 2010.

Rising interest rates, transaction prices threaten new-vehicle sales

It's getting costlier to buy a new car or truck these days. Costlier, perhaps, than many consumers could be able to afford moving forward.

According to Kelley Blue Book, the estimated out-the-door cost of a new light-duty vehicle hit $35,635 in May, fueled in large part by rising sales of SUVs and, particularly, luxury-minded pickup trucks with sticker prices well above $50,000.

While the average traction price dropped about $145 versus April's average price, it is up by $1,187 over May 2017's average. Prices in both full-size and mid-size truck segments, meanwhile, jumped by 4 percent last month.

What's more, Edmunds reports the annual percent-

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'Serious unintended consequences' foretold of tariffs on imported cars

Higher prices and fewer choices for consumers would result if the Trump Administration imposes tariffs on imported automobiles and automotive parts, the president of the National Automobile Dealers Association warned July 9.

"New tariffs on imported autos and parts, if broadly implemented, would hurt the auto industry, and our customers and our economy as a whole," Peter Welch said. "Broad-based tariffs on autos and auto parts will result in serious unintended consequences.

"Ironically, some domestic brands could get hit harder than international brands. And ultimately American customers will be confused with fewer choices and pay higher prices."

Welch added that a 25 percent tariff on cars and light-duty trucks, which could result in average prices increasing by thousands of dollars, would be the worst-case scenario.

"At the NADA, our priority is preserving consumer choice and affordability," he said. "Our customers are already strapped to make car payments because of rising interest rates, rising commodity prices and other regulatory schemes, such as increased CAFE standards."

The NADA on June 29 filed written comments with the U.S. Department of Commerce concerning its investigation that will determine if the importation of automobiles and auto parts are a threat to U.S. national security.

"Our message has been clear: We support the president's goals, but the imposition of tariffs on imported autos and auto parts is not the right tool to achieve his goal and may in fact trigger a trade war of retribution that could be bad for our economy as a whole and even worse for our customers," Welch added.

Welch is scheduled to testify at a Department of Commerce hearing later this month. The NADA also has met

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Prices

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age rate on the average new-vehicle loan hit 5.75 percent last month, which is 0.71 percent steeper than in April and 1.58 percent higher than in May, 2017. Aside from the Fed recently raising rates, Edmunds says fewer zero-percent financing programs being offered by automakers' captive finance divisions — they reached their lowest level last month in seven years — is likewise contributing to the rise in APRs.

Not surprisingly, the average loan term now is about 69 months, with 72-month loans being the most common, according to Experian Automotive. A growing number of new-car loans now stretch from 85 to 96 months to keep payments affordable. That's as long as eight years before a buyer obtains clear title.

Ironically, perhaps, Edmunds said rising rates actually are helping spur sales rather than turn away shoppers. "Since interest rates have been creeping up all year, shoppers are likely thinking it's better to buy now before rates get any higher," said Jeremy Acevedo, Edmunds' manager of industry analysis. "However, this is likely a temporary pull-ahead effect, and could come back to bite automakers later in the year."

So how much deeper is the average new-vehicle buyer now having to dig into his or her bank account to cover the cost of a new car or truck? Based on the average transaction price, loan term and interest rate cited above, and an average $3,926 down payment, it's $535 a month. While that's only $25 higher than it was a year ago, it's $80 costlier than it was in May 2013 when the average model cost $26,909 and was financed for 65.6 months at 4.17 percent.

That means a buyer taking possession of a new car or truck last month will pay a total of $40,841 over the life of the average loan versus $33,255 five years ago — an 18.6 percent boost (compared to inflation then at about 7.5 percent.) And that's despite stagnant growth in the average worker's inflation-adjusted wages since 2008, according to the Bureau of Labor Statistics. Also, it doesn't count the added cost to operate a motor vehicle due to rising gas prices, which are up by about 25 percent over the past year.

New-vehicle leasing has helped bolster affordability in recent years. A full third of all new-car and -truck transactions in the first quarter of the year were leased, according to Experian, which is up from 29.9 percent in 2017 and is more than 10 percent higher than it was at the end of 2011. But that's likely to change as rising interest rates and falling residual values, especially among passenger cars that have fallen out of favor among consumers, drive up payments.

Automakers could subsidize leasing programs on certain slow-selling models with either cash subsidies or cut-rate interest, but the sense of urgency to do so may not be particularly strong, as dealers are already swimming in waves of off-lease models from the last two and three years that, as it is, are expected to undercut new-model sales.

One more proverbial arrow into the side of St. Sebastian is the fact that new-vehicle financing among buyers having less than stellar credit has dropped precipitously, with loans made to so-called subprime borrowers having credit scores of 670 or less decreasing by 8.4 percent during the first quarter of 2018.

According to Fair Issac Corporation, the creators and curators of the FICO credit scoring system, this group typically accounts for about 30 percent of all consumers. Those with worse credit are finding it even more difficult to buy a car or truck, with loans made to what's known as deep subprime individuals (FICO scores under 579) falling by 14.1 percent.

And when subprime car shoppers do qualify for financing, they usually pay substantially more in interest. Recent figures cited by FICO suggest those having credit scores of 660 to 689 are offered interest rates that are nearly twice as high as consumers in the 720 to 850 range.

Fortunately, the new-car market may be healthy enough to withstand these rising interest rates.

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with officials from the Department of Commerce and the White House, and is discussing the issue with members of Congress.

"The key to diffusing this issue is educating policymakers and the public that tariffs on imported autos and parts is a bad idea and has more down side than up," he said, urging dealerships to get involved. "Let your local city and county managers and your local and state elected officials know what kind of sales tax hit they could take if vehicle sales suddenly drop because of import tariffs. Likewise, the next time you visit with your member of Congress, let them know that auto tariffs are a bad idea."

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Review past editions dating to 1998 or search by subject at www.cata.info.

David E. Sloan President, Publisher
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Multi-borrower loans twice as likely to default, new study finds

Contrary to the notion that more borrowers on a loan might reduce risk, one study reveals that two-borrower loans defaulted at more than twice the rate as single-borrower loans with the same FICO score.

This trend was found primarily with FICO scores higher than 700, said Steve McCarthy, chief operating officer and co-founder of auto ABS data company Elicient.

"This is a somewhat counter-intuitive result, and investors would be wise to follow this statistic more closely," McCarthy said.

Especially in prime credit issuances, FICO score becomes a less important indicator for predicting default rates and paying more attention to factors such as multi-borrower trends could improve performance, he added.

The study attributes the trend to the way most issuers use the higher of the two scores when multi-borrowers apply for a loan.

"If two people go together to get a loan, and one FICO score is 700 and the second is 500 — even if the person with the 500 score is going to be the driver and responsible for it — they would say on the application that the primary applicant is going to be the 700," McCarthy said.

While there is no "obvious" reason as to why loans with co-obligors seem to be underperforming loans without, one factor that could provide more clarity is the way in which issuers compute a single FICO score for multi-borrower loans.

Elicient breaks down the issuers into three shelves based on the way issuers compute a single FICO score for multi-borrower loans: an average of the two scores, primary borrower's score, and the maximum of the two borrowers scores.

NADA Show 2019 registration opens July 23

Considered by many to be the automotive industry event of the year, NADA Show returns to the newly renovated Moscone Center in San Francisco Jan. 24-27, 2019.

The four-day show includes keynote speakers, educational workshops, franchise meetings, numerous networking opportunities and Expo. New for 2019: The show will offer the new NADA Professional Series, which includes training sessions exclusively for high-potential dealership managers working in sales, office, parts and service. Attendee registration and hotel selection open July 23.

For full details, see www.show.nada.org.

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Board members welcome any questions and comments from their fellow CATA members!

Franchised New-Car Dealers in the 8-county CATA area as of 1 July 2018

Car Line	Chicago only Ill.	Rest of Cook Cty. Ill.	Lake Cnty. Ill.	DuPage Cnty. Ill.	McHenry Cnty. Ill.	Kane Cnty. Ill.	Will Cnty. Ill.	Lake Cnty. Ind.	Porter Cnty. Ind.	Total [prior] 1/1/2018	Total [present] 7/1/2018
Acura	1	4	2	3	0	0	0	1	0	11	11
Alfa Romeo	1	3	0	1	0	0	0	1	0	6	6
Aston Martin	0	1	0	1	0	0	0	0	0	2	2
Audi	1	3	1	2	0	0	0	1	0	8	8
Bentley	1	1	0	1	0	0	0	0	0	3	3
BMW	1	4	1	3	1	0	0	1	0	11	11
Bugatti	1	0	0	0	0	0	0	0	0	1	1
Buick	2	9	1	4	4	1	3	2	3	29	29
Cadillac	1	8	2	2	1	0	1	1	0	16	16
Chevrolet	4	15	5	6	4	4	6	4	2	50	50
Chrysler	3	11	5	4	3	3	2	3	2	36	36
Dodge	4	11	5	4	3	3	2	3	2	37	37
Ferrari	0	0	1	1	0	0	0	0	0	2	2
Fiat	1	3	0	1	0	0	0	1	0	6	6
Ford	3	13	6	7	3	4	5	4	2	47	47
Genesis	2	10	4	3	1	1	1	2	0	24	24
GMC	1	9	1	4	3	1	2	2	2	25	25
Honda	4	9	3	2	1	3	1	2	0	25	25
Hyundai	2	10	4	3	1	1	1	2	0	24	24
Infiniti	1	4	1	2	0	0	0	1	0	9	9
Jaguar	1	3	1	2	0	0	0	1	0	8	8
Jeep	3	11	5	4	3	3	2	3	2	36	36
Kia	1	8	3	3	1	1	1	2	1	21	21
Lamborghini	1	0	0	1	0	0	0	0	0	2	2
Land Rover	1	3	1	2	0	0	0	0	0	7	7
Lexus	1	4	1	2	0	0	0	1	0	9	9
Lincoln	1	6	3	2	1	0	0	1	0	14	14
Lotus	1	0	0	0	0	0	0	0	0	2	1
Maserati	1	3	0	2	0	0	0	0	0	6	6
Mazda	1	7	1	3	1	0	1	1	1	16	16
McLaren	1	0	0	0	0	0	0	0	0	1	1
Mercedes-Benz	1	5	1	2	0	1	0	1	0	11	11
Mini	1	2	1	1	0	0	0	0	0	5	5
Mitsubishi	0	4	1	2	1	0	0	1	1	10	10
Nissan	2	12	2	4	1	1	1	2	1	26	26
Porsche	0	3	1	1	0	0	0	0	0	5	5
Ram	4	11	5	4	3	3	2	3	2	37	37
Rolls-Royce	1	1	0	0	0	0	0	0	0	2	2
smart	0	1	0	0	0	0	0	0	0	1	1
Sprinter	1	3	1	1	0	1	0	0	0	7	7
Subaru	1	5	2	2	1	2	1	1	1	16	16
Toyota	4	11	3	4	1	1	1	2	1	28	28
Volkswagen	2	7	3	4	1	1	1	2	0	21	21
Volvo	1	4	1	1	0	0	0	1	0	8	8
# of Car lines	65	242	78	101	39	35	34	53	23	671	670
# of Outlets	35	160	49	64	20	23	19	35	16	421	421

NOTE: The difference between car line and outlet figures is the result of outlets that handle more than one car line.