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Q1 auto sales 'extremely strong,' NADA reports

While 2020 sales were down 14.7% compared to 2019, sales in 2021's first quarter were extremely strong, the National Automobile Dealers Association reported April 8. The seasonally adjusted annual rate for March was 17.75 million units, the second-highest March ever, coming in slightly behind the SAAR in March 2000, with the 2021 first quarter SAAR at 16.8 million units, up significantly from the first quarter of 2020 SAAR of 14.8 million units.

"The coronavirus pandemic definitely had an impact on vehicle sales in 2020. While demand was strong, inventory was challenging given manufacturing facility closures and the chip shortage that began to heat up at the end of the year," said NADA Chief Economist Patrick Manzi. "New light-vehicle sales in 2020 came to a close with 14.46 million units."

The NADA now estimates new light-vehicle sales will reach 16.3 million units for the year, up from the original 2021 sales forecast of 15.5 million units and a 12.7% increase compared to 2020 sales.

Average incentive spending per unit totaled $3,452, a decrease of $963 and $336 relative to March of 2020 and March of 2019, respectively.

As demand remains high for new vehicles, vehicle production continues to be negatively impacted by the shortage of microchips. Inventory at the end of the first quarter of 2021 was 12.8% lower than at the beginning of the year, resulting in fewer choices on dealer lots. At the end of the first quarter of 2021, industrywide supply fell to 39 days from

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Bill to increase booked repair times awaits House vote

The Illinois General Assembly's House of Representatives has days to advance legislation that would increase the booked time of repairs of vehicles under manufacturer warranty.

Legislation that originates in the House must clear that chamber by April 23 and then move to the Senate. House Bill 3940 was placed on the calendar for a second reading on April 8. Legislation must pass three readings in each chamber.

Dealers and their technicians should contact their representatives and urge support of the bill.

The legislation would amend the Illinois Motor Vehicle Franchise Act to

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Supporters sought for bill to remove $10,000 trade-in allowance cap

Legislation to repeal the $10,000 cap on the value of traded-in vehicles passed out of the Illinois Senate on March 10 and awaits further consideration by the House.

Senate Bill 58 has added seven House co-sponsors but has not been called for a second vote. The deadline to pass a third reading in the House is May 28, days before the General Assembly is scheduled to adjourn its spring session. It then would have to be considered by the Senate.

Supporters of the measure should contact their state representatives to appeal for its passage.

Capping the trade-in credit increases the cost of new vehicles and used vehicles bought at retail. Votes thus far on SB 58 have been unanimous in support, and Gov. J.B. Pritzker has voiced his backing. The cap took effect in 2020 following moves to find funding for Pritzker's multibillion dollar state capital infrastructure plan.

Under SB 58, infrastructure projects would instead be funded, in part, by increasing the sales tax charged in private vehicle sales. For instance, the current $390 sales tax on a 1-year-old vehicle sold privately for less than $15,000 would increase

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5 area dealerships caught not paying minimum wage to employees

Zeigler Auto Group, which has a presence in Michigan, Indiana and Illinois, has been ordered to pay 214 employees a total of $85,111 in minimum wages and overtime back wages following an investigation by the U.S. Department of Labor.

Federal investigators determined that the dealer group failed to ensure that its commission-based sales consultants earned a $7.25 federal minimum wage at 13 stores in the three states, including five in Illinois.

Investigators noted violations involving 80 sales consultants specifically at 10 locations. The other 134 employees who did not receive wages for which they were entitled held different jobs than sales, the labor department said.

"Employees paid on commission basis must earn at least the federal minimum wage per hour of work completed. If they do not, employers must make up the difference," said Mary O'Rourke, Wage and Hour Division district director in Grand Rapids, Michigan.

"Our investigation ... (put money into the pockets of workers who were underpaid, and) levels the playing field for employers who play by the rules. Other employers in this industry should use this investigation as an opportunity to review their own pay practices and avoid similar violations," she said in a statement.

The federal agency found Zeigler violated the Fair Labor Standards Act when it:

- Failed to assure that sales consultants' commissions covered at least the federal minimum wage for all the hours that they worked.
- Wrongly classified some salaried employees in their business development centers as exempt from overtime requirements, and then failed to pay them overtime despite their duties not qualifying for exemption.
- Failed to maintain accurate payroll records.

The investigation period covered February 2018 through August 2020, he told the Detroit Free Press. The findings were made public March 31. Federal authorities have been working with Zeigler Auto Group and confirmed the company has repaid the back wages.

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48 days at the quarter's beginning. If sales remain strong in April without a significant boost of inventory, a decline in sales by late in the second quarter is expected due to low inventory levels.

In the first quarter of 2021, production also was impacted by a reduced supply of resins used in many automotive parts, as well as by severe winter storms that caused manufacturing closures. The chip shortage is extending into the second quarter and will cause further vehicle production losses; North American vehicle production is expected to total 15.8 million units in 2021.

"We expect that production shortages will continue to impact new-vehicle sales for at least the second quarter and likely spill over into the third quarter," Manzi said. "The longer these production disruptions linger, the longer it will take for automakers to rebuild inventories to levels necessary to meet demand, and the less likely it is that automakers will be able to make up sales lost to both retail and fleet customers."

Inventory shortages for new vehicles continue to support robust used-car sales and values alike. After moderating for the final months of 2020, used-vehicle prices began to climb in the first quarter of 2021. NADA anticipates used-vehicle market activity will remain elevated into the summer as the industry continues cope with new-vehicle production and inventory difficulties.

At the macro level, GDP was anticipated to grow at an annualized rate of 6% in the first quarter of 2021, according to the Federal Reserve Bank of Atlanta. The NADA anticipated that real GDP for the 2021 would reach 6% to 6.5%. In the labor market, initial jobless claims have fallen below 1 million per week, but remain at historically high levels. According to the Bureau of Labor and Statistics March jobs report, 916,000 jobs were added and revisions upward were made to January and February reports.

As vaccinations continue, jobs gains are expected in the second quarter of the year with more Americans returning to daily life. At franchised new-car dealerships, employment totaled 1,077,900 at the end of 2020, a strong improvement after bottoming out in April 2020 at 888,000. The NADA anticipates pent-up demand for travel and services spending as the economy reopens; the savings Americans have built during the pandemic will also play a role, but will not be a major driving factor of economic expansion.

"The economy continues to show strong signs of recovery from the coronavirus pandemic," said Manzi. "The widespread dissemination of the COVID-19 vaccine and the stellar new light-vehicle sales in March are reasons to be optimistic for the remainder of 2021."

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Car owners driving less, but dealership service seen as improving

Many vehicle owners drove fewer miles last year because of COVID-19 and stay-at-home orders. Nevertheless, overall customer satisfaction with auto dealer service departments still increased for a sixth consecutive year.

That is according to the J.D. Power 2021 Customer Service Index Study, which showed dealer service visits declining only by 6% from 2019. Overall satisfaction increased to 847 (on a 1,000-point scale) from 837 in the 2020 study.

Chris Sutton, J.D. Power's vice president of automotive retail, said completing work right the first time and focusing on customers' needs play an important role in satisfaction. "And dealers are nailing these key performance indicators nearly 100% of the time," Sutton said in a news release.

"By continuing to provide an exceptional service experience," Sutton added, "dealers have an opportunity to seize an even greater share of the market. It's notable, too, that while service was less frequent in 2020, customers responded very well to convenience services such as vehicle pick-up and drop-off at their home."

The study also measured customer satisfaction with dealer service among mass market and premium vehicle brands. One key finding is how remote or online payment options boost satisfaction. Only 6% of premium owners and 1% of mass market owners used those methods. But pick-up satisfaction is highest among those who used that option.

Among premium customers who pay remotely or online compared with handling payment via a cashier, satisfaction scores improved 44 points. Satisfaction improved 69 points among mass market customers.

"This is an example of a process some dealers may have put into place as a safety measure during the pandemic, but which they may want to keep in place, as customers find they like it more," Sutton said.

Another top finding is that using express service increases satisfaction. Satisfaction among customers who did not use express service for maintenance is flat compared with a year ago. But among those who used express service, satisfaction increased 10 points during the pandemic.

The 2021 Customer Service Index Study also shows that battery-electric vehicle owners are less satisfied with maintenance than repairs. During dealer service visits, nearly twice as much maintenance work takes place on average than repair work.

The maintenance-to-repair ratio for EV owners is nearly an even split, however.

More complex service repair work usually results in lower customer satisfaction than maintenance work.

Monthly auto loan payments surge to record highs: Experian

The average monthly loan payment for a new car is approaching $600, according to Experian, which analyzes millions of new- and used-vehicle loans.

"We went up higher amounts year over year in 2020 than we ever really have before and hit record highs in loan amounts and record highs in payments," said Melinda Zabritski, senior director for Experian's automotive financial solutions team.

Experian's latest auto financing report covers the fourth quarter of last year, when new-vehicle sales improved but were still well below the sales pace in 2019.

Nonetheless, those taking out loans to buy a new vehicle borrowed an average of $35,228, an increase of almost $2,000 from a year earlier. As a result, monthly loan payments jumped $13 to a record high of $576, according to Experian. Loans for used vehicles also hit all-time highs, with consumers borrowing an average of $24,467, up almost $1,700 year over year.

Experian said monthly payments for used auto loans jumped $18, to $413 — the first time the average topped $400.

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define and expand upon how vehicle manufacturers are required to compensate franchised dealers for labor and parts associated with warranty work. It also would make changes to manufacturer calculations for time allowances for repair work, and guarantee compensation for vehicles under warranty equal to work performed out of warranty.

Mechanics Local 701, the union representing area technicians at dealerships, is working with the CATA to advance the legislation. Technicians say many warranty jobs just can't be performed in the booked time allowance, meaning they sometimes work without compensation.

Under House Bill 3940: "Adequate and fair compensation requires the manufacturer to pay each dealer no less than the amount the retail customer pays for the same services with regard to rate and time. Any time guide previously agreed to by the manufacturer and the dealer for extended warranty repairs may be used in lieu of actual time expended. In the event that a time guide has not been agreed to for warranty repairs, or said time guide does not define time for an applicable warranty repair, the manufacturer's time guide shall be used, multiplied by 1.5."

Auto industry 'has to move' on electrification, Nissan CEO says

Sustainability has made its way onto the dashboard of many company executives, and the money is set to follow — particularly in the electric vehicle space, if investment trends and research and development commitments are anything to go by.

"ESG (environmental, social and corporate governance) has become a priority for our industry, not only for the long-term impact of the emissions but also ... quality of the governance issue," Nissan CEO Makoto Uchida said April 13.

"And ESG has a significant impact on how we, carmakers, do our business. Of course, for the past couple of decades, industry has come under considerable pressure from government and society to be more sustainable, but dealing with a more conscious consumer," Uchida said, has prompted "more emphasis on areas like electrification, autonomy and connectivity, which I think the industry has to move on."

Nissan recently announced its goal to be carbon-neutral by 2050, and plans to electrify 100% of its new vehicles on offer by the early 2030s. The fully electric Nissan Leaf, a car that the company has produced since 2010, hit 500,000 units in sales in 2020.

Investment into EVs and EV components appears to be on a runway. California-based investment firm Wedbush believes EV stocks could climb as high as 50% this year, stressing that there's room in the market for more than just Tesla. And in 2020, market research firm Fortune Business Insights valued the EV industry at around $250 billion.

EV components and materials also are set to gain. Goldman Sachs in a February note highlighted six EV battery specialists with significant potential upside.

'A business imperative'

For Zurich Insurance CEO Mario Greco, there really isn't any other option but to pursue ESG solutions in the face of climate change.

"There is a business imperative," Greco said. "The most important thing is to work on prevention. Insuring against the climate risk, it is expensive and it will become more expensive."

Zurich has set new climate targets for its investments and operations as it seeks to become a net zero emissions business by 2050.

"We need to transform the industrial sector and transform our societies," Greco said. "And insurance can support this transformation — the thing insurance cannot do is to pay just the damages of the climate transformation. But the transformation of the industrial sectors and the transformation of the way we live today is something that we will be living and we will be happy to continue pushing forward."

Insuring against climate risk will be a major challenge as weather events become more extreme. What's necessary in this context is "work on prevention and work on transforming these risks into different business models," Greco said.

But none of this means fossil fuels are going away anytime soon; in fact, demand for fossil fuels is set to rise significantly in the coming years as urban populations continue to boom.

To counter that, Greco said: "I think we need to embed the carbon cost into the pricing mechanism — today the pricing does not affect the final price of any good we buy. We have to fully embed that in the cost of the goods and that will speed up and facilitate the transformation of the oil industries."

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to $465. If the same vehicle sells for $15,001-$20,000, the sales tax would be increased from $750 to $850. The tax rates for private transactions haven't changed in more than 30 years, and the modest increases are much less impactful than a trade-in credit cap, which costs consumers hundreds of dollars and harms dealers statewide.

If the General Assembly passes the legislation, the change to restore the full trade-in allowance on First Division vehicles would take effect 120 days after the governor signs the bill. As currently written, the trade-in credit cap exempts Second Division vehicles.

Zurich to host free buy/sell webinar forum

Zurich, an allied member of the CATA, is excited to sponsor AutoTeam America's Buy/Sell Summit & Forum this month. Traditionally held in conjunction with the NADA Show, this year's event will be presented virtually through a series of four webinars. Join Alan Haig from Haig Partners and a lineup of industry experts.

Upcoming topics include:

• Leading Buyer Panel featuring Jamie Albertine from Mile-One; Franklin McLarty of McLarty Diversified Holdings; and Jeff Swickard, Swickard Auto Group

• New Strategies in Auto Retailing with Andrew Walser of Walser Automotive Group; Warren Zinn of Warren Henry Automotive Group; and Mark Boniol of Mark Dodge

Registration is free and sessions are 11 a.m.-12:15 p.m. CDT April 21 and 28. For more information, visit the AutoTeam America website.