Volume 115, No. 19 September 24, 2018

Used-vehicle values see ‘abnormal’ appreciation

Wholesale used-vehicle prices increased 6.4 percent despite an expected depreciation, bringing the Manheim Used Vehicle Value Index up to 139.7 — the highest index level seen in the series’ 20-plus-year history, Manheim announced Sept. 10.

Two main factors are contributing to the “abnormal” price appreciation, Manheim notes.

First, it is a function of a healthy economy at its peak that has consumers favoring affordability over the expense of new vehicles. Second is the fear of import tariffs causing prices to increase

See **Used,** Page 4

OSHA visits to area dealerships on the rise

Occupational Safety and Health Administration agents from the Des Plaines office have performed comprehensive inspections at more than 20 area new-car dealerships in less than 90 days, CATA allied member ComplyNet reported Sept. 14.

“This signifies a major uptick in car dealership inspections and the most we have seen since 2015,” said ComplyNet Founder Phil Troy. “We do not know the reason for the uptick, but we do know that most of these inspections are random, which means OSHA provides no notice before showing up at your door.”

Other visits followed referrals from emergency responders in the wake of accidents at the dealerships.

During either the random or scheduled inspections, Troy said the OSHA inspectors spent considerable time reviewing required training records, required OSHA written plans and programs, and required OSHA Forms 300 & 300a. After looking through all the required documentation, inspectors then performed physical inspections of each department.

Historically, Troy said most OSHA inspections in the Midwest follow employee complaints, although “we’re seeing a strategic focus in some quarters on the new-car dealer.” Unlike responses to complaints, OSHA does not give advance notice of random visits.

Majority of dealers agree: Import tariffs would be bad for business

Only 11 percent of dealers believe auto tariffs on imported vehicles and parts would have a positive impact on their business, while 38 percent anticipate a negative impact. Fifty-one percent of dealers believe tariffs would have no impact, a new study released Sept. 10 found.

The study, the Q3 2018 Cox Automotive Sentiment Index, also found that franchised auto dealers — new-car dealers — are more pessimistic about potential auto tariffs, with 56 percent suggesting new tariffs would impact their business negatively. Of the franchised dealers who feel negatively toward tariffs, 66 percent believe consumers will face higher prices on all new vehicles, not just imports, as the market adjusts.

Overall, U.S. automobile dealers are more positive than negative in describing the current market in the third quarter but are fearful that proposed auto tariffs could hurt profitability.

“Dealers continue to report strong market conditions in the third quarter, with few material changes in key performance indicators from the spring, when we reported record-high sentiment,” said Cox Automotive Chief Economist Jonathan Smoke. “While they are positive on today’s business, the new looming threat is the negative impact of proposed tariffs on imported autos and parts. And, for the first time, dealers indicate that limited inventory is the No. 1 obstacle holding back business.”

Derived from a quarterly survey Cox Automotive issues to a representative sample of franchised and

See **Tariffs,** Page 2

Data analytics helps, but dealers must do the selling: industry panel

The auto industry collects and crunches a growing amount of customer data to get prospects into showrooms. It's up to the dealers to take it from there.

So said participants in a panel discussion on using data to, among other things, personalize marketing and engage with customers online. The panelists spoke at an automotive analytics conference put on last summer by Thought Leadership Summits.

"After the shopper does all that research and lands on a car and a dealership, it's a matter of whether the dealership is going to sell a car or muck it up," said Robert Powell, chief investment officer for the California-based Cardinale Group of Companies, which includes 23 dealerships.

Mike Cooperman, a partner at creative services firm Ninedezine, and who formerly worked at Truecar.com, agreed. "A lot goes into technology, but then a human has to sell the car," Cooperman said. "A lot can happen there."

Joe Haley, manager of retail marketing for Mazda North American Operations, said: "Much has happened with personalization to get the customer to the dealership. At that point, they are buyers, not shoppers."

But, he said, keeping buyers in that mood depends on a smooth transition from oline to off-line and knowing who they are, based on their tracked research. "To start over again is frustrating to the customer. If the salesperson's attitude is, 'I know how to sell cars; let me take over now,' it's a disconnect."

Customers are more demanding today, said Powell. "When they want something, they want it now. That's where data and technology can come in."

Powell offered an Amazon analogy: "When Amazon doesn't have exactly what you want, it will show you something similar. That's what we want to do with cars." The auto industry has used customer data for years to sell vehicles. The difference now is the extent of the garnered information.

Drawing from an assortment of sources, data analytics creates customer profiles, predicts probable purchase intentions and more. "A lot more data needs to be analyzed," Haley said. "We're needing more analysts to ask the 'so-what?' question."

Technology also allows automakers and dealers to track consumers' online behavior and market to them accordingly, with personalized marketing that's in sync with their interests.

"A lot of the data is so we communicate with customers more effectively," said Michael Spadafore, Ford's Intelligent Customer Interactions Strategy manager. "If you are doing it right, you're likely to provide a good customer experience."

But there's the knowing when enough is enough.

"The stuff to get under control is avoiding sending a person 100 emails a month from different (dealership) departments," Spadafore said.

"When you get it right, dealers get excited," Haley said of the effective use of customer data. "They see a higher level of people going to their websites and the dealerships themselves."

Marketing differs depending on the type of customer, said Powell. "Someone is either a loyalist to our brand or they are cross-shopping dealers. You need two different marketing strategies for those two groups."

Tariffs

From Page 1

independent auto dealers, the CADSI measures U.S. dealer perceptions of current retail auto sales and sales expectations for the next three months as "strong," "average" or "weak."

The survey also asks dealers to rate new-car sales and used-car sales separately, with a variety of key drivers including consumer traffic and inventory levels. Responses are used to calculate an index where any number over 50 indicates that more dealers view conditions as strong rather than weak.

In the Q3 2018 survey, Cox Automotive also explored dealer expectations on the impact of proposed auto import tariffs on business profitability.

Congratulations!

Four **Howard Orloff Imports** employees — Nicholas Cowan, Kent Feldmann, Andrew Finnigan, and Luis Gonzalez — are winners of the Volvo International Service Training Award.

Tune in ...

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

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.

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

NAFTA? We Hafta

By Brad Strong
2018 AIADA Chairman

Contentious NAFTA negotiations are once again making headlines. U.S. and Mexican official have signed a tentative deal, meaning the official clock is ticking on a final NAFTA agreement. However, at this point Canada has not agreed to anything — a major roadblock to renegotiating this vital trilateral agreement.

The latest language in the agreement hasn't been released, but we're hearing reports of how our industry might be affected. For now, we can't know with certainty what impact a NAFTA agreement might have on the White House's plans to apply 232 National Security tariffs to imported vehicles. We DO know that without NAFTA, economists, mayors, and business leaders all agree that American economic growth and jobs will sustain a serious blow, and American businesses will be put at a global disadvantage.

So yes, when it comes to NAFTA, we HAFTA cut a deal.

Dealers understand that our industry hinges on a complicated and entrenched supply chain. Plants and suppliers are identified and developed over decades; there are no quick changes in this industry. And pennies matter. With the cost of cars and their technology and safety features on the rise, consumers are hard pressed to make the financials work. Margins are thinner than ever, and dealers rely upon fairly priced autos and auto parts to stay solvent.

Without a trilateral NAFTA our carefully balanced industry — sometimes precariously — will be put in jeopardy. Here's what has happened to the auto industry in the U.S. since NAFTA was signed in 1993:

- International nameplate automakers have doubled their number of direct employees in the U.S. to 130,000 Americans and tripled production.
- In 2016, automakers manufactured 12.2 million vehicles in the U.S., which is 1 million more than it did the year before NAFTA took effect.
- Worldwide exports of U.S.-built vehicles have more than doubled, and their value has more than tripled to $54 billion in 2016.
- International nameplate brands have increased their exports from the U.S. by five times since 1993, from 121,300 vehicles to 925,000 cars and trucks in 2016.

Does NAFTA need to be updated to reflect technological developments and improved labor standards over the past 20-plus years? Absolutely. Is it responsible for American manufacturing job losses and are we better off without it? Not at all.

According to MarketWatch, "Today, U.S. factories produce twice as much stuff as they did in 1984, but with one-third fewer workers." Pulling out of NAFTA won't change the facts that American factories and plants have figured out ways to be more efficient. It will just make goods more expensive for the American consumer.

NAFTA is crucial to dealers, as is establishing a NAFTA that works for all manufacturers and keeps cars affordable. That's why the American International Automobile Dealers Association is working with the Here For America coalition of concerned manufactures and parts suppliers.

But whatever you do, don't be complacent. And don't think your business won't be negatively impacted by a NAFTA collapse. For dealers, NAFTA isn't nice to have — it's a must-have — and our elected officials need to hear that message from us.

In Memoriam

Robert J. (Bob) Foley, who served nine years on the CATA board of directors, including as president in 1986, died Sept. 18 after a long bout with Alzheimer's disease. He was 89.

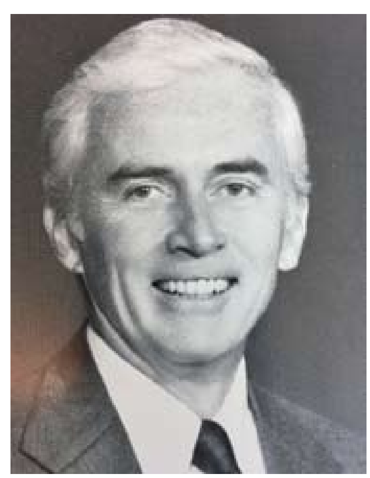
Mr. Foley operated Foley Motor Sales, a Buick dealership in Wilmette which was in business from 1933 to 1995. The dealership originally was owned by Bob's father, Robert M. Foley.

Both father and son were CATA directors — a first — the former 1966-1974, and the latter 1979-1987, and both were Chicago Auto Show chairman, in 1974 and 1987, respectively.

Mr. Foley also served as the 1955-1995 Treasurer of the Chicagoland Buick Dealers Association.

Survivors include his wife, Mary; sons Pat and Brian; a daughter, Kathy; son-in-law and longtime CATA General Counsel Dennis O'Keefe; and eight grandchildren.

Visitation is at 9:15 a.m. Sept. 29 at Our Lady of Perpetual Help Catholic Church, in Glenview, followed by mass there at 10:30 a.m.



Few carmakers said to have submitted self-driving car safety reports

The Trump administration asked automakers to voluntarily outline how they are developing and testing self-driving cars on public roads. So far, only three companies have complied.

And safety advocates contend that the reports submitted by General Motors, Ford, and the Google-affiliated Waymo, according to the National Highway Traffic Safety Administration, resemble slick marketing brochures instead of stringent regulatory filings.

Critics say the self-driving assessments should be mandatory to ensure compliance from all automakers. They also say the paperwork already voluntarily submitted does little to reassure the driving public that vigorous testing is being done, an answer to polls showing increasing unease about self-driving cars.

The Trump administration said the federal government does not have a mechanism to force automakers to submit safety assessments before they put self-driving cars on the road. They argue that automakers should feel compelled by public opinion polls showing drivers are hesitant to embrace self-driving cars to reassure the public about their products.

So far, the results have been mixed.

"As awareness around the development of autonomous technology increases, we're seeing some dramatic shifts in consumer sentiment," said Karl Brauer, executive publisher of Cox Automotive's Autotrader and Kelley Blue Book, in a statement accompanying a recent report on the evolution of autonomy.

"People now have a deeper understanding of the complexities involved when creating a self-driving car, and that has them reconsidering their comfort level when it comes to handing over control."

Automakers are keenly aware of the challenges. In its 33-page safety assessment filing, GM reported each of its current test self-driving vehicles has "human driver controls" and two humans in the driver and passenger seats.

"We will operate our self-driving vehicles with (autonomous vehicle testers) until they are capable of safe, fully driverless operation," a GM spokesman said. "We continue to maintain a rigorous focus on safety in the design and development of our self-driving technology and all our operations, including AVT training and operating procedures."

In a 44-page filing, Ford also reported using human "safety operators" in its self-driving test vehicles for now: "We currently have two-person teams — a safety driver and a 'co-pilot' — in all our test vehicles. Also, before we put anyone in the driver or passenger seat of our test vehicles, they go through rigorous training and certification."

Waymo said in a 43-page filing that it "conducts extensive testing on public roads, a closed course, and in simulated driving." The California-based company notes that its self-driving cars are designated to operate fully autonomously. The company has tested fully robotic cars in Arizona and it has requested permission to do so in California.

"Our fully self-driving system is designed to operate without a human driver, unlike technologies sold in cars today such as adaptive cruise-control or lane-keeping systems which require constant monitoring by the driver," Waymo said.

"Our system includes the software and hardware that, when integrated into the vehicle, perform all driving functions."

When asked whether it plans to submit a self-driving assessment, Fiat Chrysler Automobiles U.S. said in a statement: "Safety is paramount at FCA US. We will communicate with the NHTSA accordingly."

Used

From Page 1

in the future — combined with consumers' worry for interest rates that are set to continue to rise in the months ahead. These trends encourage buying sooner rather than later.

"The increase in demand has not been satisfied by flattening wholesale supply and has led to faster moving retail inventory, higher sales efficiency at auction, and higher prices," Manheim said.

Typically as summer comes to an end, used-vehicle values downturn, but the abnormal increase also has 3-year-old vehicles now worth 4.8 percent more than values should be during this time of year, said Manheim. Nissan Motor Acceptance Corporation is experiencing this firsthand, with NMAC's off-lease portfolio showing 3-year-old vehicles in high demand.

"Dealers are buying [off lease vehicles] and selling them through auction wholesale," NMAC President Kevin Cullum said.

"They're holding their values — well within the plans that [NMAC] had set three years ago, and in particular crossovers, they've been stronger. So the demand is there, and the residuals have been supported."

As for August used-vehicle sales, Cox Automotive estimates show volume was flat year-over-year. Moreover, the SAAR is expected to be 39.6 million, which is also flat versus last year. Since sales are flat despite high demand, it is up to the captives to help enhance sales through the dealer.

"We are right smack in an era of market disruption," said Erick Gonzalez, national sales director of Hyundai Motor Finance at Hyundai Capital America. "As a captive, we have a responsibility to make sure that our pricing is aligned with the market to drive that dealer engagement."