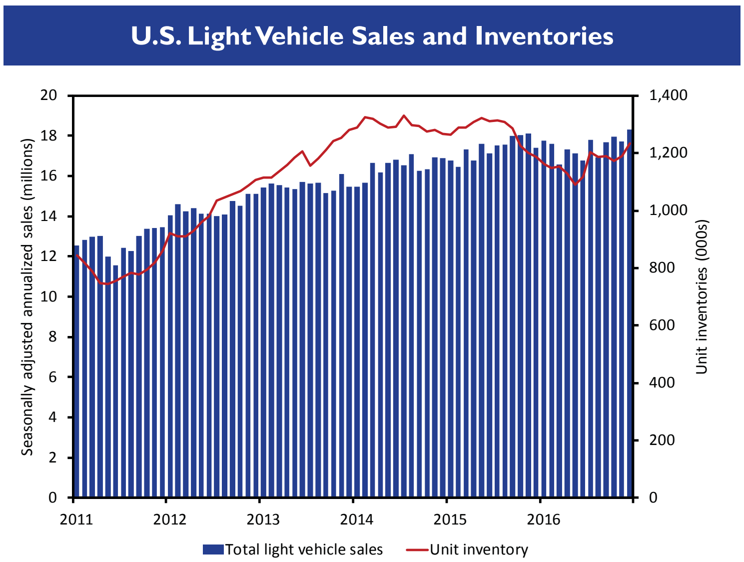
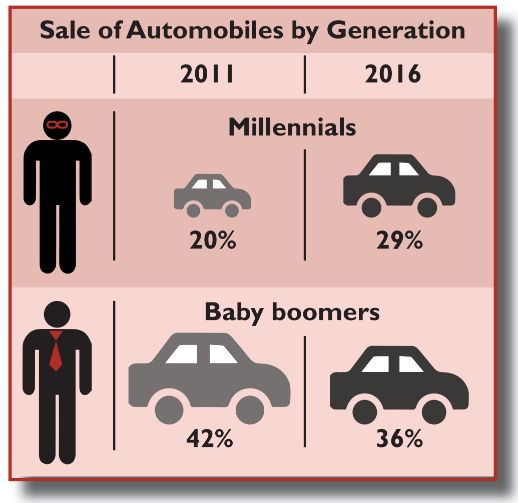
AUTO INDUSTRY UPDATE

Although forecasts for light vehicle sales from the University of Michigan's forecasting unit trend downward for both 2017 and 2018 at 17.4 and 17.3 million units, respectively, demand remained strong at the end of last year, hitting 17.5 million units for the year. Inventories continued to be a concern coming into 2017, with dealer stock at its highest level since 2009, according to *Automotive News*. Inventories are now at about 85 days of stock, which is eight days more than for the same period in 2016. As a means to deal with bloated inventories, manufacturers have been increasing incentives, which are up 22 percent: incentives averaged $2,990 in January 2016, and they increased to an average of $3,635 for January of this year.





The product mix between 2015 and 2016 changed slightly, with light trucks continuing to capture a larger share of the market. In 2015, production of light vehicles totaled 16.7 million units, of which 60.1 percent were made up of trucks and 39.9 percent consisted of cars. That total rose to slightly more than 18 million units produced in 2016—61.7 percent trucks and 38.3 percent cars.

The election of a new president has changed the outlook for two aspects of the regulatory environment. The first could be favorable for the industry, as the new administration is expected to relax mileage regulations set forth in the previous administration. On the less favorable side is the stated intention of the administration to implement a border tax on parts and vehicles imported into the United States. But to actually monitor and collect the tax may prove difficult, as it could disrupt a well-established supply chain. Parts may move back and forth across the border a number of times before becoming part of a car or truck. An example of this "back and forth" might be a transmission control module made in this country that becomes part of a subassembly in Mexico, which then becomes part of a transmission built in the United States, which goes into a car in Mexico that gets sold in the United States. An unresolved question is whether it would be taxed each time it crossed the border, or only in its final form as part of a completed car or truck. According to *Automotive News*, the average price increase needed to offset a border adjustment tax would range from $282 for Ford (largely based in the United States) to $6,779 for Volkswagen (heavy production in Mexico and Europe).

Finally, the millennials seem to be entering the automobile market in greater numbers, at least according to a series of articles in *Automotive News*. Their percentage of the market increased from 20 percent in 2011 to 29 percent in 2016 and accounted for sales of 4.1 million units last year. By contrast, baby boomers' share of the market dropped from 42 percent in 2011 to 36 percent in 2016, or 5.1 million units. According to *Automotive News*, the millennials' entry into the market was delayed by the recession and finding a first job, and is now prompted by changing needs as they commute to work and consume household goods.