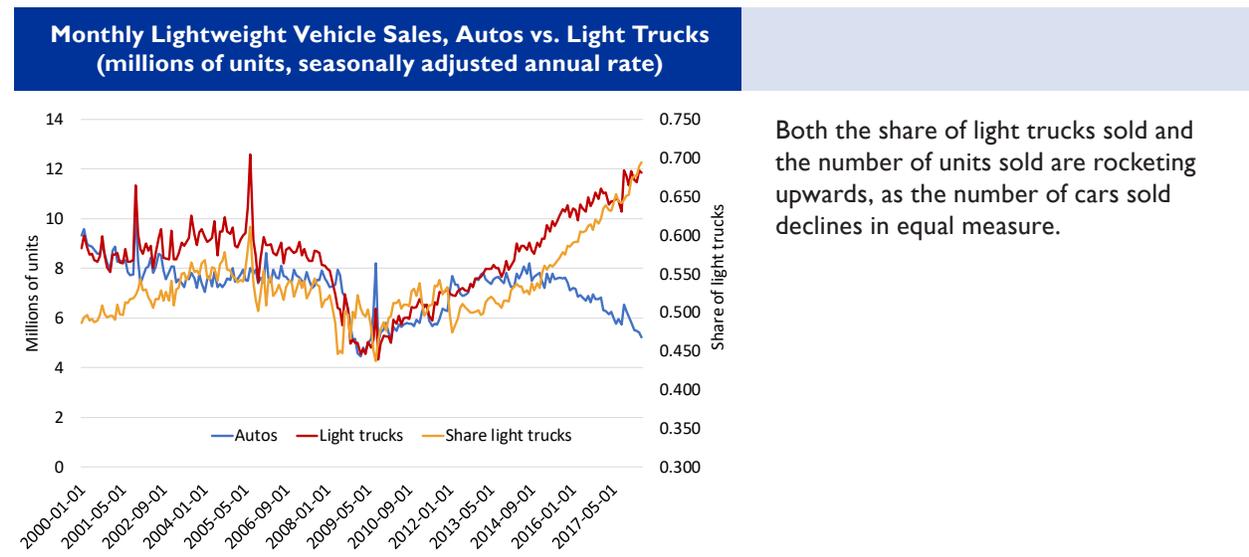


# AUTO INDUSTRY UPDATE

Light trucks, which include pickups, CRVs, and SUVs, have overtaken traditional automobiles in the industry. As light truck production has been climbing above 11 million units (the annual rate in recent years has ranged from 11.2 to 11.9 million), light trucks' share of total sales shot up from 63 percent in September 2017 to 68 percent in the first quarter of this year (figure below). The strength of the light truck market, which includes not only full- and mid-sized pickups but also crossovers and sport utility vehicles, was underscored in late April when Ford Motor Company announced that it would cease production in this country of all current-model cars for the North American market with the exception of the Mustang. The move to nearly an all-light truck portfolio of vehicles was based on a number of factors, including market preferences, increased fuel efficiency in the sector, expected stability in the price of gasoline, as well as better returns per unit from light truck sales versus sedans.



As for vehicle sales overall, are total sales experiencing a regression to the mean? We know that over time, trends will settle back to an average. Using a prerecession average from 2000 to 2007 of about 16.8 million units, we've been expecting a return to that level. And we're not alone in our thinking. The Research Seminar in Quantitative Economics (RSQE) at the University of Michigan is forecasting a similar trend, at 17.0 million units for 2018 and 16.9 million units for 2019. But the end of the first quarter provided a surprise at 17.5 million annualized units, up from 17.1 million for February, and well above the Moody's Analytics estimate of 16.8 million annualized units.

RSQE estimates that about 7.1 million units, or about 42 percent of all sales in both 2018 and 2019, will come from domestic producers. This is consistent with its findings for 2017, but the domestics are losing a little market share, down from 42.7 percent in 2016. Only the Big Three do final assembly in Michigan, and Ford's announcement idled the Michigan Assembly Plant and its 2,000 workers in Wayne in early May, before the plant retools and starts back up again in October to produce the Ranger, a mid-sized pickup being reintroduced after a several-year hiatus. (In 2020 it will also produce a redesigned version of the Bronco, an SUV.) Through the end of the first quarter, the plant produced 60,118 Focus sedans and 2,656 C-Max hybrids.

Across all nameplates through the end of the first quarter, Michigan producers rolled out 146,311 cars and 373,222 trucks from the assembly line. Total Michigan production of vehicles year-over-year was down just over 9 percent. The largest loser was—not surprisingly—autos, which dropped almost 21 percent, while truck production was down nearly 4 percent. When the final numbers for Michigan for 2018 are in, it is expected that total production will be down, even if only from idling the Michigan Assembly Plant from May to October. However, analysts at the Center for Automotive Research (CAR) predict that this shift to producing light trucks at the plant will be a good thing for the state, as demand for this sector continues to rise.