MARKET RESEARCH

SEMA FUTURE TRENDS

JANUARY 2022

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SEMA MARKET RESEARCH

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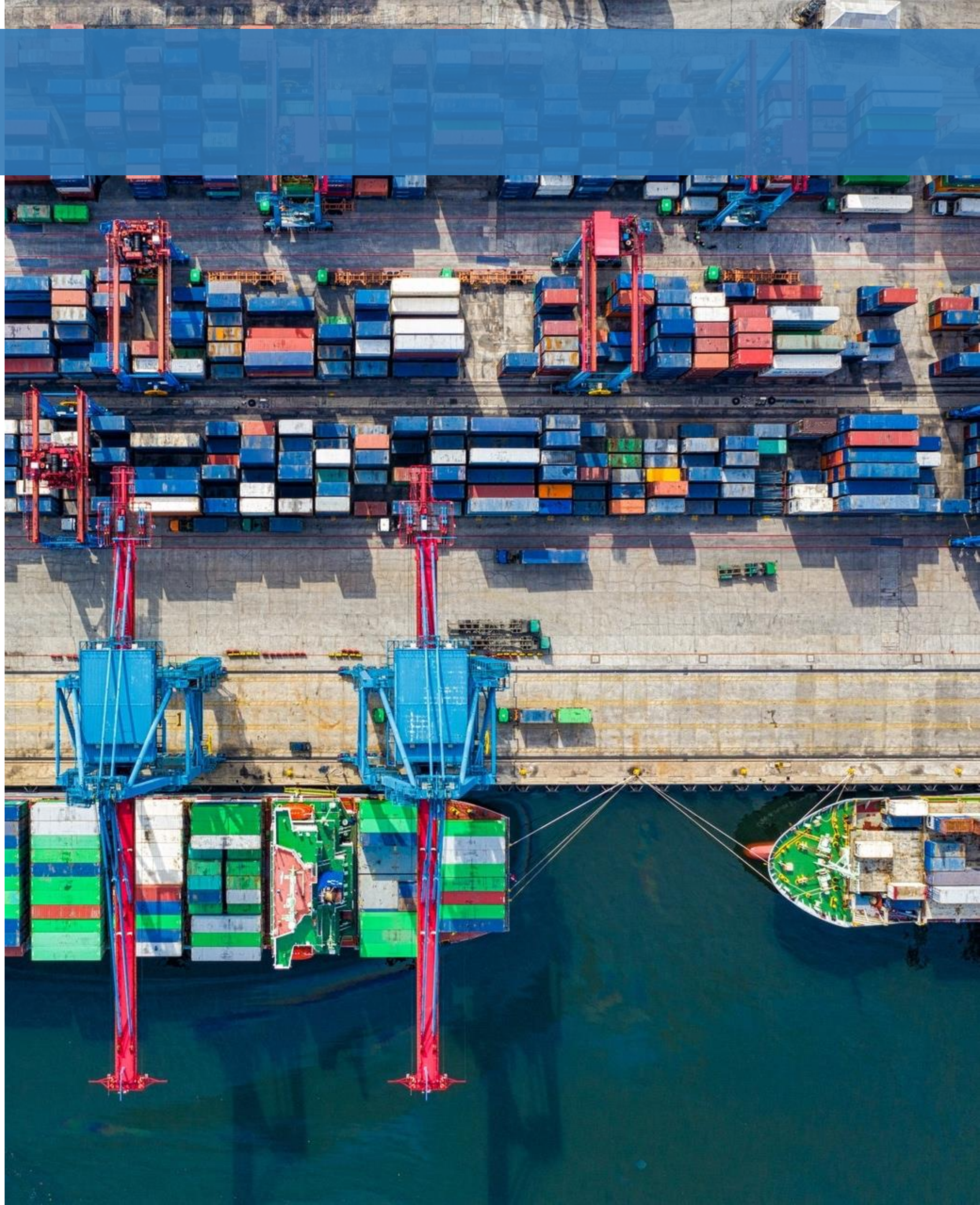

WELCOME TO SEMA FUTURE TRENDS

In the 2020 version of SEMA Future Trends, we focused a lot on the short-term impacts of the COVID-19 pandemic and different paths it could take. Some of our projections undershot and some overshot the mark. But, overall, it was a good year for the industry!

Last year we talked about these key driving forces:

- **The pandemic**: Despite the rapid roll-out of vaccines, we haven't reached herd immunity and it seems likely that we won't. Most safety mandates were rolled back, only to see them return in some areas. We may be living with COVID, like we do the yearly flu, going forward. However, in-person events and businesses have returned in most areas and strong crowds at the SEMA Show and PRI Show indicate people are ready to get out and move past this disruption.
- **The economy**: Even though certain sectors are still feeling the pain, the overall economy has been booming. A tight labor market, inflationary pressure, and supply issues are looming from 2021 to keep the economy in check. However, the signs point to 2022 being a year of growth again (although slower).
- **The consumer**: Consumer spending has shot up to a new high this year. Consumer confidence is still low and there may be more spending options fighting for fewer dollars without government stimulus this year, but people keep spending.
- **The auto industry**: Sales of new and used autos have been down over the last 2 years, but that has been strictly a supply issue. Consumer demand for vehicles is so strong that dealer lots are empty, and prices have skyrocketed. Supply issues should ease throughout 2022 and sale figures should start to climb back toward previous levels.
- **The aftermarket**: We expect 2021 sales to beat our projections. Even with the disruptions, 80% of companies reported positive results in 2021, often seeing double digit growth. We will likely see some slowing of that growth as other spending options return, but overall, we expect 2022 to be a good one for the industry.

In 2021, another round of buzz words popped to the tip of everyone's tongues—chip shortage, supply chain, Port of Los Angeles, and inflation among them. This report will dive deep into these issues and look at how raw materials, shipping, and pricing hold the keys to growth for our industry this year and beyond.

As we look further down the road for our industry, we should be aware of the changing demographics of our population and our customer base. In this issue, we will explore the different ways people interact with automobiles and our industry at different stages of life. Spoiler: young people are important, and they are still supporting our industry!

We can't truly predict your future. There are going to be a slew of happenings none of us expect this year that will help drive the industry's results. But this report will help you understand the trends and forecasts around some of the industry's important drivers, so you can better plan your business efforts for the next year and beyond.

Gavin Knapp
Director, Market Research
SEMA

OUTLOOK FOR THE FUTURE

SPECIALTY-EQUIPMENT INDUSTRY

Overall, 2021 was a strong year for this industry amid high demand, with many companies reporting record growth. **The specialty-equipment market should continue to grow in 2022, but at more muted levels, before returning to more normal (pre-pandemic) growth for 2023 and beyond.**

Key Impacts to Monitor: Consumer demand, industry optimism, supply chain disruption, higher costs, automotive sales

U.S. ECONOMY

Despite ongoing uncertainty, 2021 was a strong year for the U.S. economy amid record demand and consumer spending. **The U.S. economy will continue to grow in 2022, but at lower levels than in 2021 due to significant headwinds. By 2023, however, the economy should be back to pre-pandemic growth levels.**

Key Impacts to Monitor: Consumer spending, consumer confidence, inflation and supply chain disruption, labor shortages

SUPPLY CHAIN DISRUPTION

Supply chain disruption will continue to be an issue in 2022, but the worst is likely behind us. SEMA Market Research projects that **most issues should improve to more normal levels by the end of 2022. Prices are likely to remain somewhat elevated for longer however—likely into 2023.**

Key Impacts to Monitor: Industry product shortages, shipping/transport delays and higher rates, higher input and commodity prices

CHANGING CONSUMER DEMOGRAPHICS

Consumers interact with our industry differently depending on their stage of life. **Even as the population changes, consumers under 40 will continue to make up the majority of specialty-equipment spending over the next decade.** Despite popular misconceptions, many young people do care about their vehicles and are accessorizing.

Key Statistic: Nearly 70% of specialty-equipment sales in 2020 came from consumers under the age of 40

CONTINUED PATH TOWARDS RECOVERY

<table>
<tr><th></th><th>2021</th><th colspan="4">2022</th><th colspan="2">2023</th><th colspan="2">2024</th></tr>
<tr><th></th><th>End of Year</th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th><th>Q1–Q2</th><th>Q3–Q4</th><th>Q1–Q2</th><th>Q3–Q4</th></tr>
<tr><td>Vaccine Rollout</td><td>Around 74% of population received 1 dose, with 62% fully vaccinated. Continued rollout of boosters and doses for children.</td><td colspan="4">Vaccine hesitancy remains an issue, and the people that want the vaccine probably have already received it. Mandates may drive some more people to get it. A push for booster shots likely to continue through 2022.</td><td colspan="4">The COVID virus may never disappear fully, leading to a routine annual or seasonal shots like the flu vaccine.</td></tr>
<tr><td>Vaccine Effectiveness</td><td colspan="3">Vaccines appear to be highly effective at preventing severe infection and death. Transmission, especially with new variants, is still possible. Herd immunity not achieved.</td><td colspan="6">Vaccines will likely continue to prevent severe diseasee and death. Two possible endings to the pandemic: elimination of the virus (not likely given low vaccination rates globally and breakthrough transmissions) or the virus becomes endemic (seasonal like the flu). Herd immunity will likely not be reached in the traditional sense and the virus may not fully go away (but it won't always be a pandemic). Seasonal vaccinations are likely.</td></tr>
<tr><td>Mandates & Restrictions</td><td colspan="2">Mask mandates and other restrictions returned with the Omicron variant, to avoid hospital overloading. Vaccination and/or testing requirements continue. No lockdown, but some remote learning used.</td><td colspan="3">Mask mandates likely to remain in some places, but restrictions should start to ease as the virus surge improves. Vaccination requirements may not go away in some instances.</td><td colspan="4">Mask usage and other indoor rules may remain commonplace in some areas, but life will move on and adapt to the virus.</td></tr>
<tr><td>Government Stimulus</td><td>Most stimulus has ended, including extended unemployment and additional assistance programs.</td><td colspan="4">Barring any major disruption, additional consumer stimulus unlikely. Federal reserve likely to cut back economic asset buying and raise interest rates (potentially as early as March), in order to cool off the economy somewhat and reduce inflation.</td><td colspan="4">Barring any major disruptions or economic setback, further stimulus unlikely.</td></tr>
<tr><td>Economic Activity</td><td>Economy was hot in 2021. Strong economic growth, as consumers spent money and demand was high even amid uncertainty.</td><td colspan="4">Economic growth expected in 2022, but likely not as high as 2021. Inflation and higher prices, increased interest rates, and ongoing supply disruption likely to slow down economy.</td><td colspan="4">Return to more normal levels of economic activity, like pre-pandemic.</td></tr>
<tr><td>Employment</td><td>Tight labor market. Unemployment rates have dropped considerably, but labor shortages remain in key sectors.</td><td colspan="2">End of pandemic assistance should push more people back to work, but labor market to remain tight in the short term.</td><td colspan="2">Labor market likely to ease. Full employment (or close to it) likely by the end of 2022.</td><td colspan="4">Return to full employment, like that seen in 2019.</td></tr>
<tr><td>Consumer Spending</td><td>Despite uncertainty, consumers continue to spend money. Consumers have excess savings and want to spend.</td><td colspan="4">Consumer spending expected to continue to grow, especially as supply chain issues resolve. However, high prices, increased interest rates, and diminishing extra savings likely mean it will grow at a lower rate.</td><td colspan="4">Return to pre-pandemic growth levels.</td></tr>
<tr><td>Retail Sales</td><td>Retail spending hit record highs for the holidays, blasting estimates. Overall, 2021 was a strong year for retail.</td><td colspan="4">While retail sales are predicted to grow, the services sector of the economy (i.e. travel) will likely compete with consumers for spending. Prices may continue to be elevated in 2022 but should start to normalize as supply issues resolve towards the end of the year.</td><td colspan="4">Return to pre-pandemic growth levels.</td></tr>
<tr><td>Consumer Confidence</td><td>Lower confidence, due to uncertainty around rising prices and Omicron variant. No effect on consumer spending as of yet, however.</td><td colspan="4">Will remain constrained by elevated prices and ongoing pandemic. However, this should improve as supply chain issues resolve and there is more clarity on virus. Despite depressed confidence levels, no effect on spending yet—but something to keep an eye on.</td><td colspan="4">Consumer confidence will continue to improve. May not reach pre-pandemic levels for a while (it took six years after the Great Recession for confidence to get back to previous high levels).</td></tr>
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INDUSTRY OUTLOOK

SPECIALTY-EQUIPMENT INDUSTRY OUTLOOK

FORECAST

The specialty-equipment industry will continue to see growth in 2022. However, growth will likely be at a lower pace than the record growth seen last year. By 2023, sales should return to more normal (pre-pandemic) growth levels.

Momentum for Future

- **Consumer demand** in 2021 was extremely high. Many companies reported record sales, and auto parts production today is higher than at any point in U.S. history. This demand will likely continue into 2022, but consumers will continue to have more options outside of this industry to spend money.
- **Industry optimism** is extremely high. Nearly three-quarters (74%) of industry companies expect sales growth in 2022.

Potential Challenges

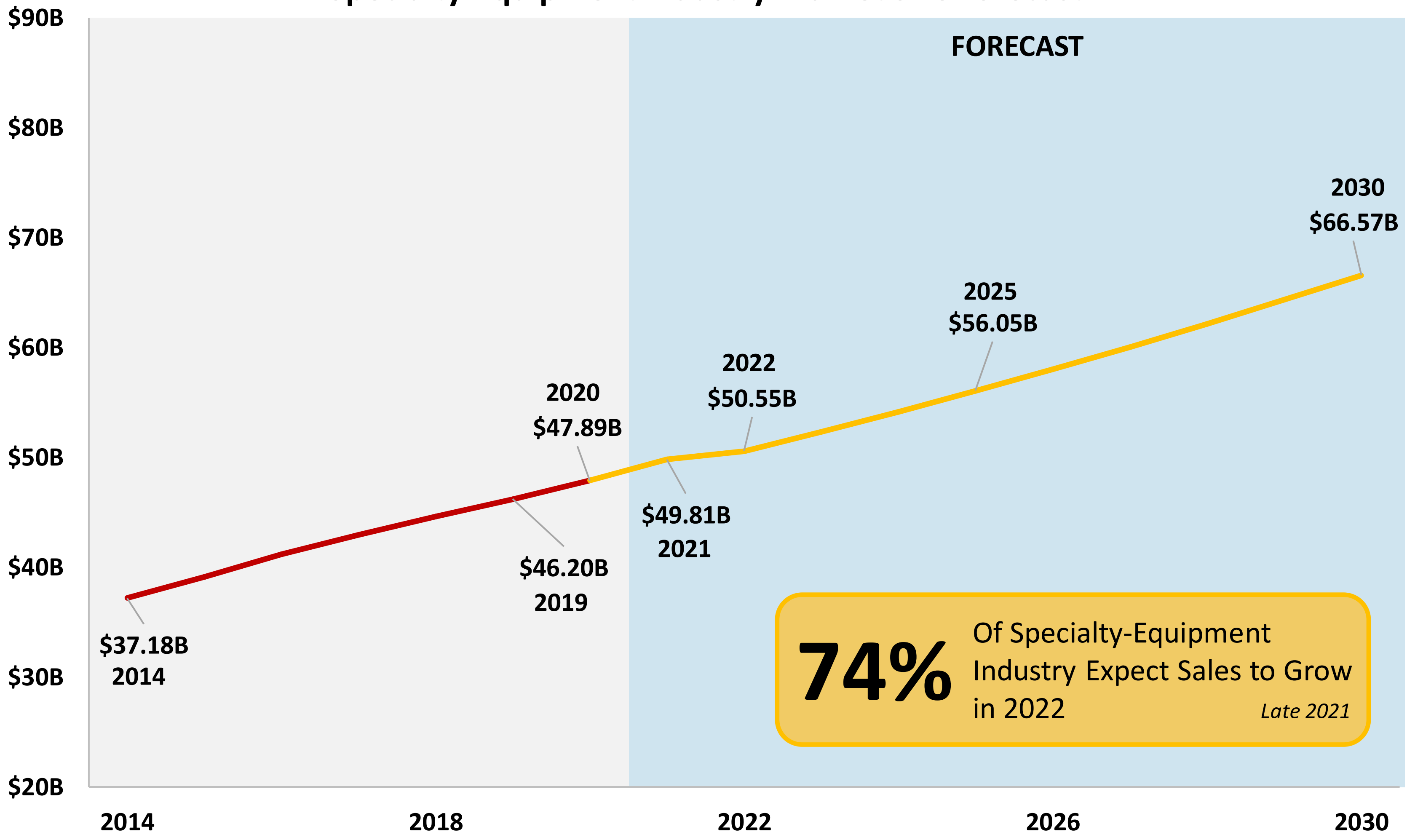
- **Supply chain disruption** remains a pressing issue, driving up costs and leading to product and production shortages.
- **Higher costs** (both production inputs and transportation) have already started to pass to consumers and will likely continue to.
- **Vehicle sales (both new and used)** remain below pre-pandemic levels. Has not affected industry sales yet but does reduce the number of new vehicles for accessorization.

HOW MUCH WILL THE INDUSTRY GROW OVER THE NEXT DECADE?

After a turbulent first half of 2020, the specialty-equipment industry was not only starting to recover, but many businesses were booming. Consumers settled in at home and spent money on things they could, including auto parts. The influx of extra money from savings and stimulus boosted spending within the specialty-equipment industry. High demand for specialty-equipment products continued into 2021, with retail sales hitting record highs and some companies reporting their best sales ever. Amid these tailwinds, SEMA Market Research anticipates the specialty-equipment industry grew 4% in 2021.

Overall, our industry is optimistic for the future. Nearly three-quarters of companies expect their sales to continue to grow in 2022. The strong demand for aftermarket products will continue in 2022. However, challenges loom on the horizon. Ongoing supply issues will likely constrain available supply and increase prices. Consumers will continue to have more options to spend their money on, particularly in the services sector of the economy which has been restricted over the last year. All of this depends on how the virus plays out in 2022. SEMA Market Research anticipates that these challenges will slow down industry growth in 2022 to below 2% before returning to pre-pandemic levels of growth in 2023 and beyond.

Specialty-Equipment Industry Market Size Forecast

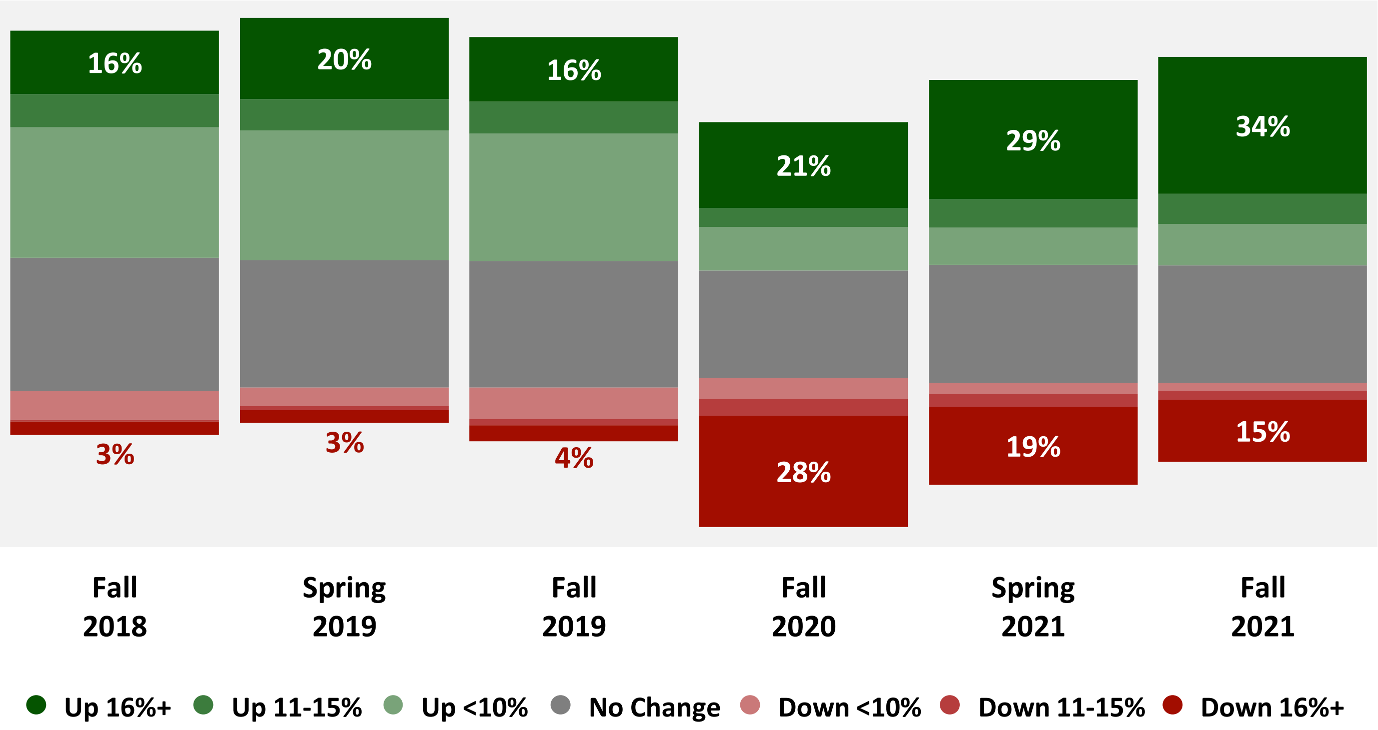


74% Of Specialty-Equipment Industry Expect Sales to Grow in 2022 *Late 2021*

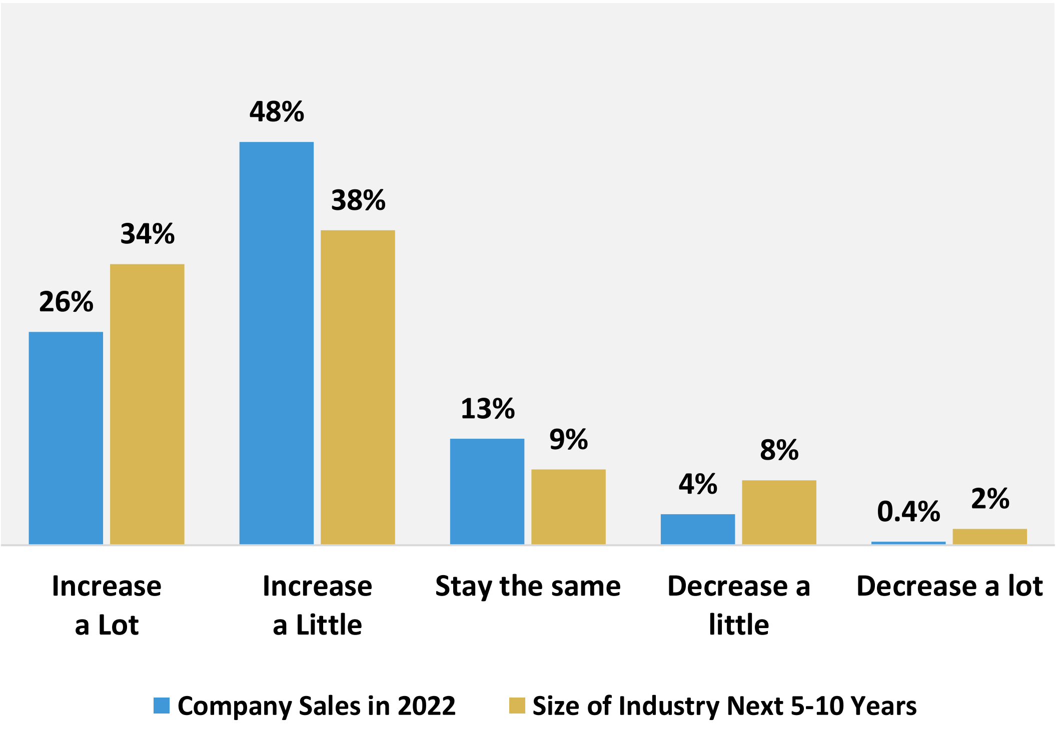
Source: SEMA Market Research Forecasts / 2020 SEMA U.S. Market Data.
Source: SEMA Survey Conducted in Late 2021 Among SEMA Show Attendees and Exhibitors.

DESPITE OPTIMISM, RECORD LEVELS OF GROWTH FOR THE INDUSTRY IS UNLIKELY IN 2022

How Company Sales Have Changed Over Past 12 Months



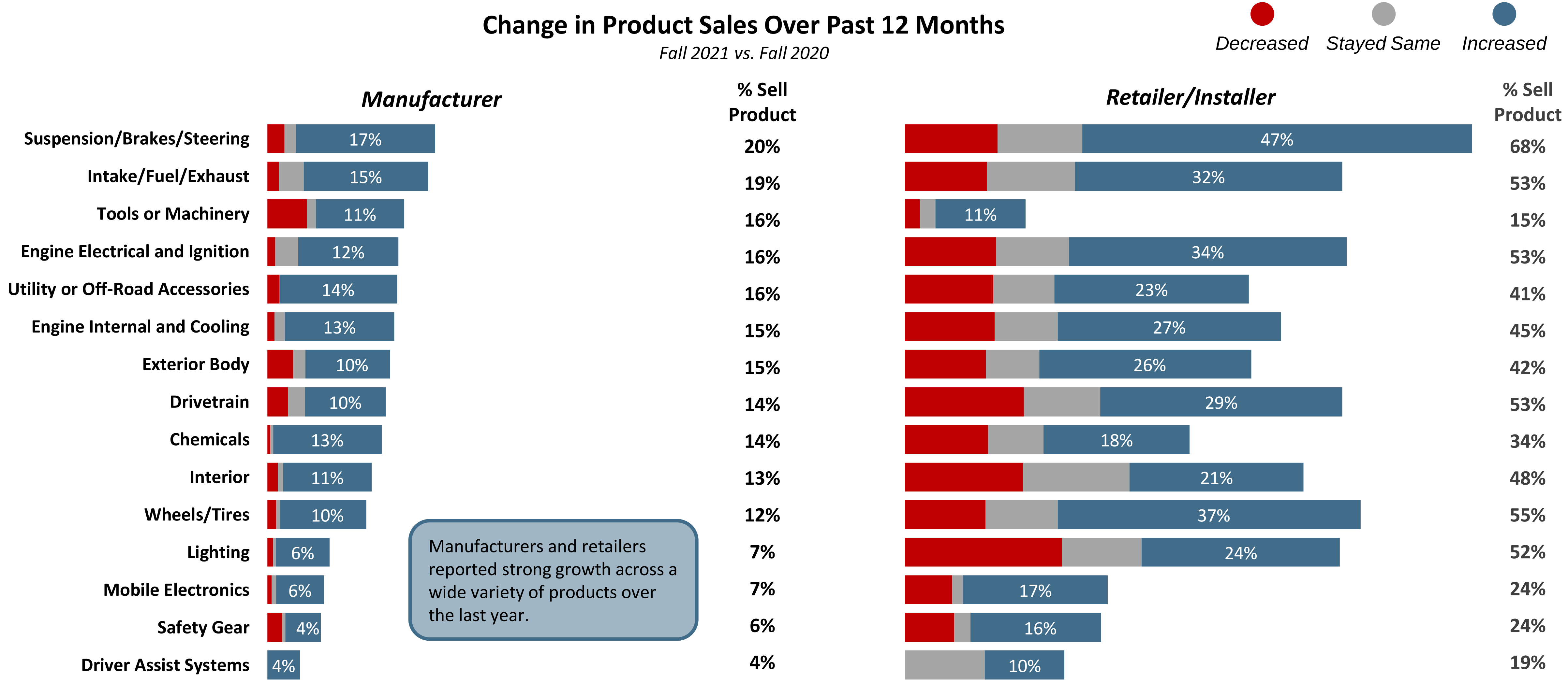
Short-Term and Long-Term Industry Expectations



Many companies within the industry reported sales growth in 2020 and 2021. Some companies even said they had record sales and double-digit growth during the pandemic. Will this continue in 2022? While SEMA Market Research anticipates sales to grow, levels will likely be closer to what they were prior to the pandemic. Supply chains and increased prices will put upward pressure on sales in 2022. Likewise, while the specialty-equipment industry continues to see high demand, the industry will have more competition. Will consumers continue to spend their money on their vehicles, or will they spend more money on services unavailable during the pandemic? Has our industry maxed out potential new customers? These will be important things to monitor as this industry enters 2022. Growth at record levels is just not sustainable in the current climate. Despite industry optimism, companies should anticipate more muted growth for 2022.

Note: "Don't Know" responses not shown, so may not add to 100%.

COMPANIES HAVE SEEN GROWTH ACROSS A VARIETY OF PRODUCT CATEGORIES



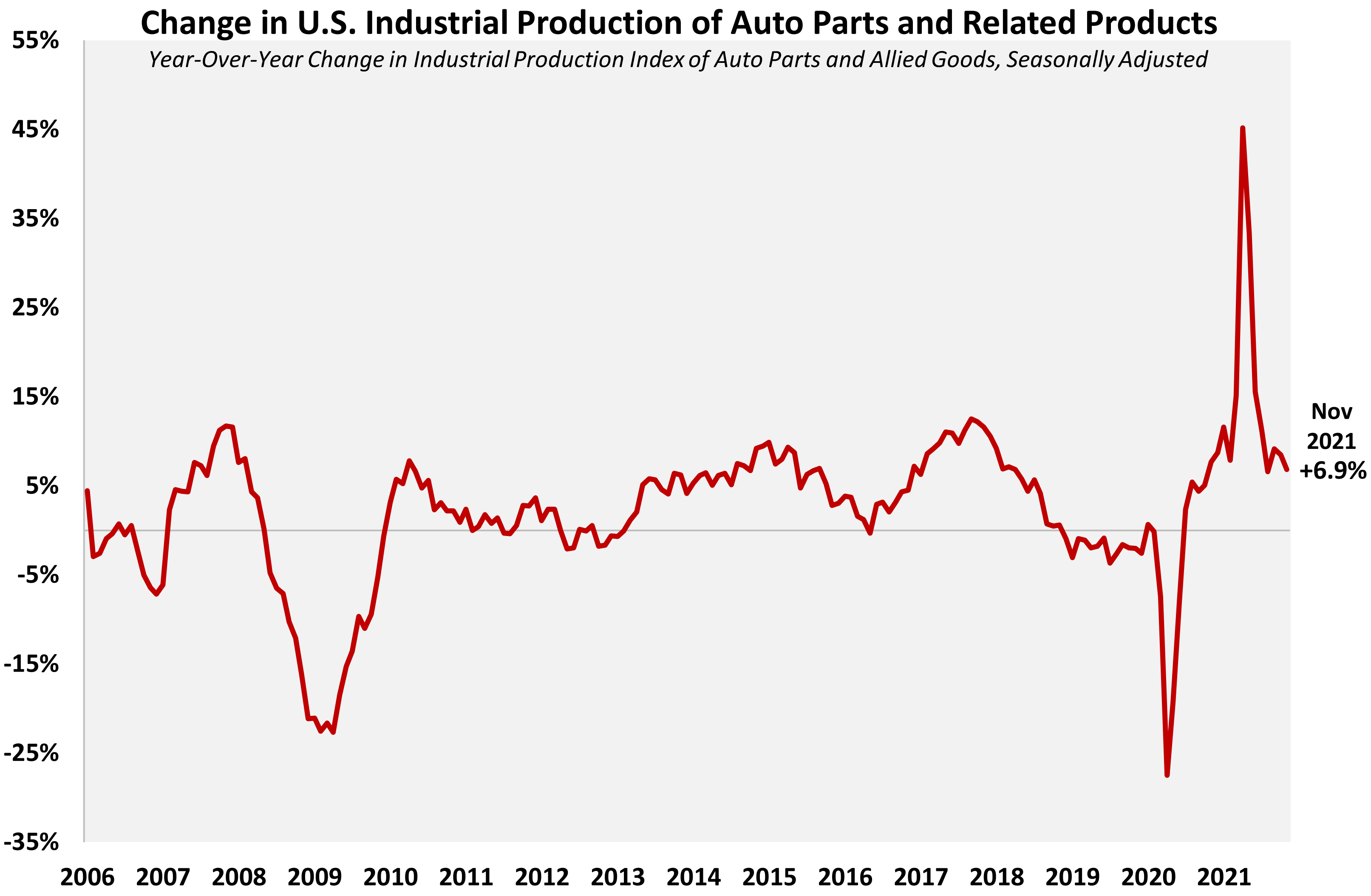
Manufacturers and retailers reported strong growth across a wide variety of products over the last year.

AUTO PARTS PRODUCTION IS HIGHER TODAY THAN AT ANY POINT IN HISTORY

Auto parts production and demand declined in the early months of the pandemic, as the country and global economy shut down. Imports of auto parts fell 32% in April 2020 and another 34% in May. This changed quickly, as consumers looked for more things to do while at home. For many, this included modifying or upgrading their vehicle. By December 2020, auto parts imports were up 39% from 2019 levels. Through the first nine months of 2021, total auto parts imports increased another 34%. This significant jump in auto-parts imports shows how much demand jumped during the pandemic.

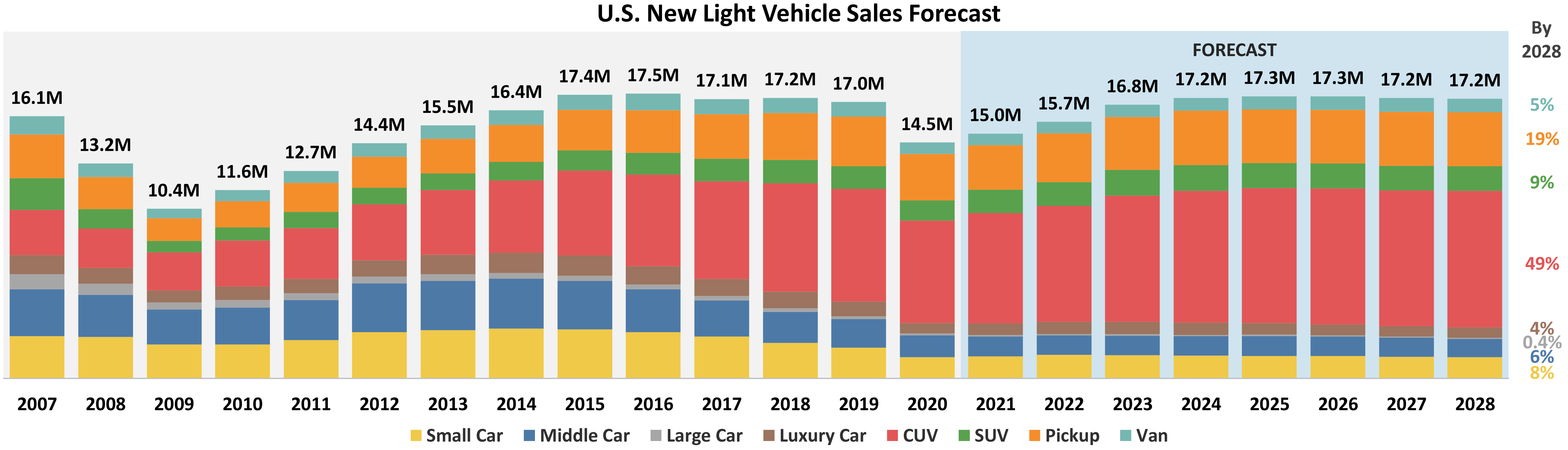
Domestic production of auto parts followed a similar pattern. Production in April 2020 was down nearly 28% from pre-pandemic levels. Currently, it is 14.6% higher than pre-pandemic levels. As of November 2021, three of the last four months have set new records for high-production output. **Right now, parts production is higher than at any point in U.S. history.**

Demand continues to outpace supply and production, especially amid ongoing input and supply chain disruption. This demand for auto parts will continue to outpace supply into 2022, before normalizing by 2023.



Source: Avrio Institute / Board of Governors of the Federal Reserve System (US), "Industrial Production: Durable Consumer Goods: Auto Parts and Allied Goods." Data as of December 15, 2021.

NEW VEHICLE SALES DISRUPTION TO LAST UNTIL 2023



New vehicle sales continue to be limited by availability due to the ongoing chip and input shortage, which should keep prices high. Sales for 2021 are likely to finish at least 1.7–2.0 million vehicles below where they would have been without the production issues. While chip supply should improve in 2022, it's likely that new vehicle sales will remain below pre-pandemic levels until 2023, when supply and demand for new vehicles should return to more of an equilibrium.

According to *Kelly Blue Book*, average transaction prices for new vehicles increased in November for the eighth straight month. Prices hit $46,329, which is 13.2% higher than November 2020. It's not just supply driving this, however. Increased sales of light trucks (SUVs, CUVs, Pickups and Vans) as well as luxury vehicles is driving up costs as well. Bottom line: It's a difficult and expensive time for consumers in the market for new vehicles.

$46,329
Average New Car Sale Price
November 2021
+13.2% vs. November 2020

74%
of Consumers
Think it's a bad time to buy a car.
November 2021

Source: ©2021 Wards Intelligence, a division of Informa. Data as of December 2021.
Source: *Kelly Blue Book's* average monthly transaction price for November 2021.
Source: University of Michigan, "Survey of Consumers," November 2021.

THERE ARE NOT ENOUGH NEW VEHICLES TO MEET CONSUMER DEMAND

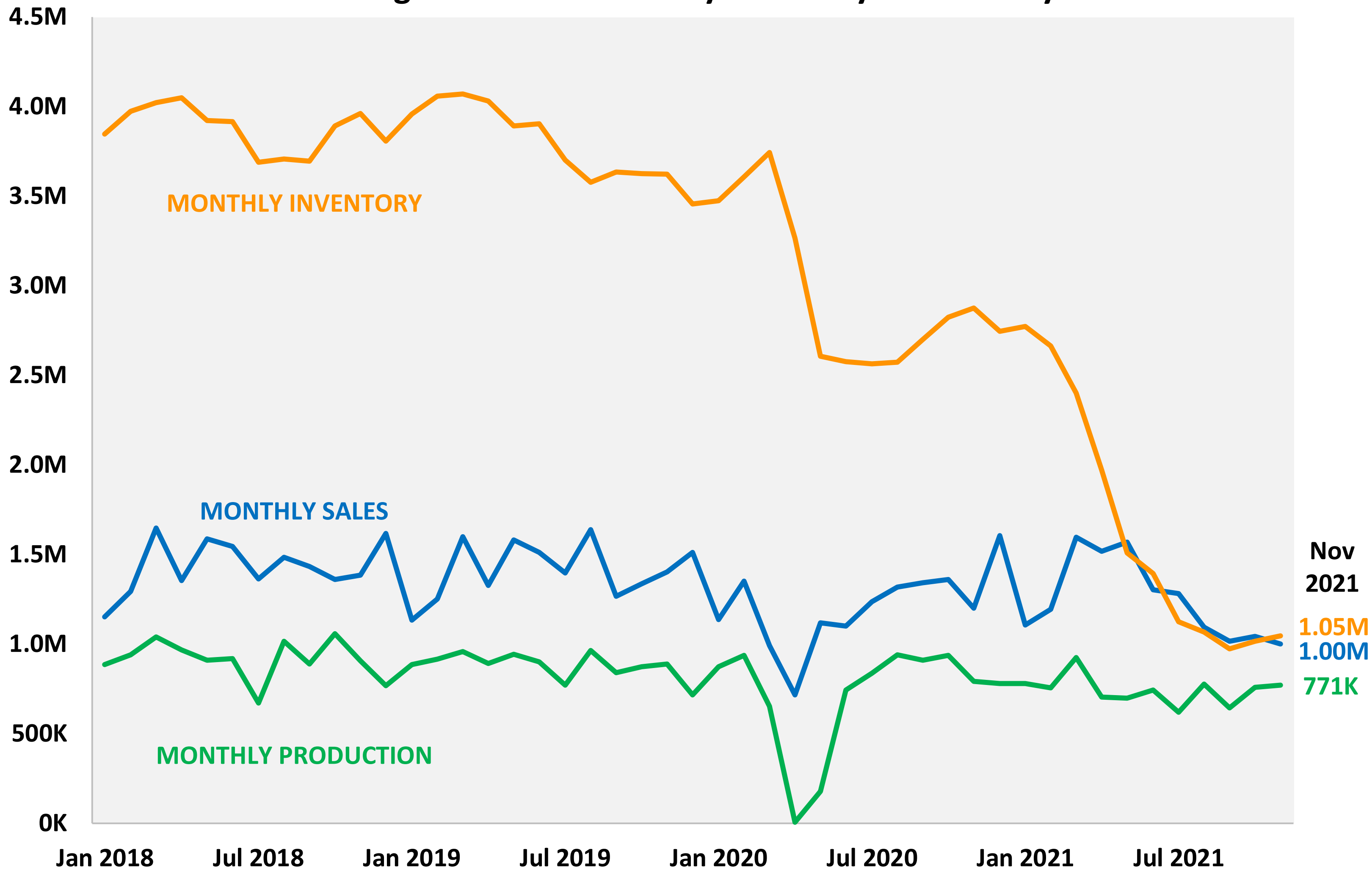
Domestic production of new motor vehicles in the United States was down 16.5% from 2019 levels through the first 10 months of 2021. Vehicle sales over the same period were down 9.6%. This has led to historically low inventory. The inventory-to-sales ratio for new vehicles dropped to a record 0.388 in October 2021. This dropped further to 0.242 in November. Historically, this ratio hovers around 2.4. A ratio of 2.4 means inventory levels can cover roughly two and a half months of sales. November's ratio of 0.242 means inventory levels can cover just over a week's worth of sales. Low inventory levels likely mean demand for new vehicles will remain strong over the next year, as auto manufacturers work to repair supply chains and produce more vehicles.

Days of Remaining New Vehicle Supply

Select Brands

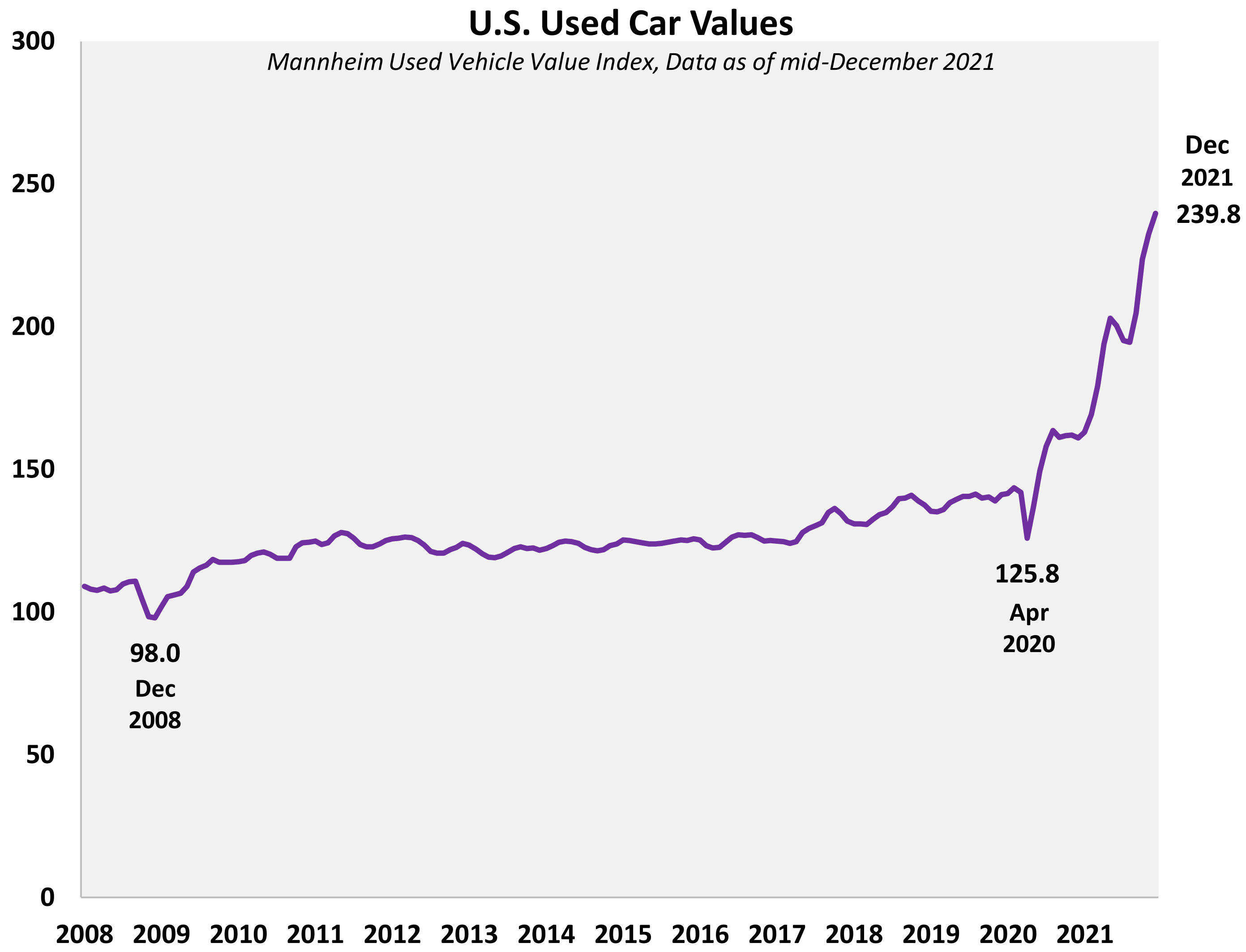
	Nov 2021
Ford	**39**
GMC	**35**
Chevrolet	**32**
Volkswagen	**26**
Honda	**19**

U.S. New Light Vehicles: Monthly Inventory vs. Monthly Sales



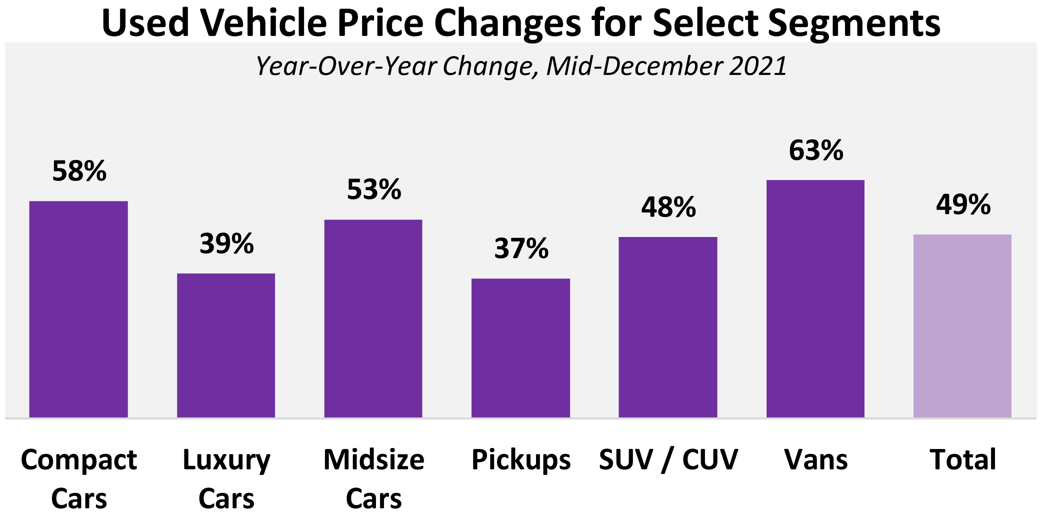
Source: Cox Automotive, Data as of December 15, 2021.
Source: ©2021 Wards InfoBank, a division of Informa. Data as of December 20, 2021.

USED CAR VALUES REMAIN EXTREMELY HIGH

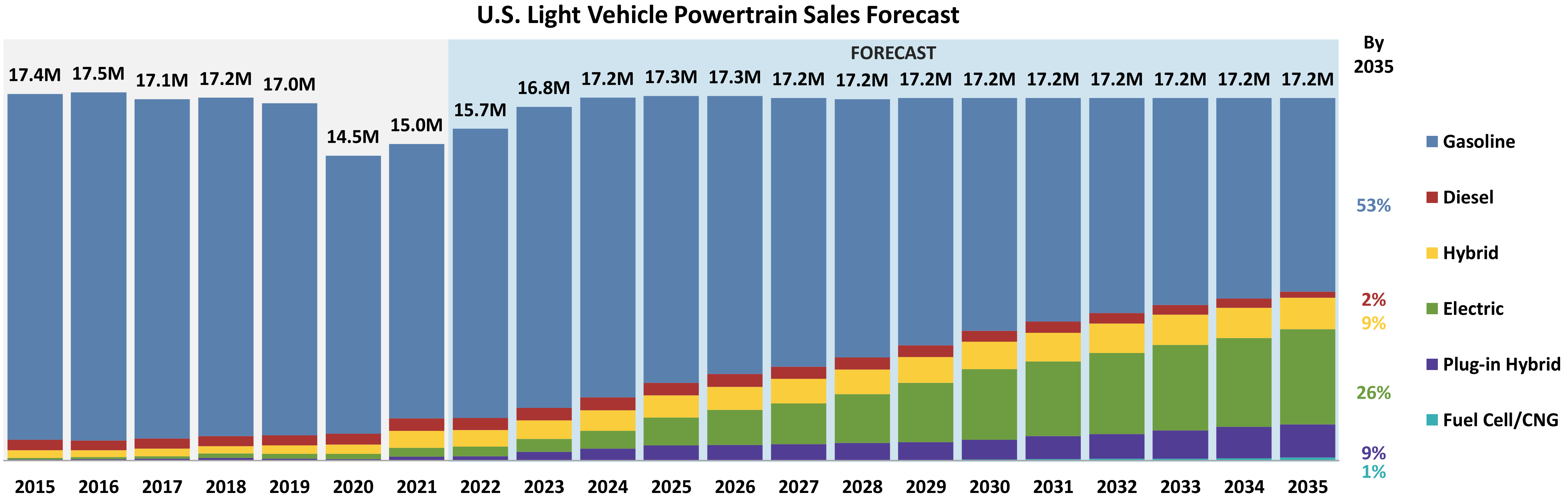


Like the market for new vehicles, used vehicle sales are also down. Consumers are selling back their used cars less because there are less new cars available, which means less used inventory and higher prices. This will continue to dampen sales volume through the early part of 2022.

In August 2020, according to Cox Automotive, the average listing price for used vehicles surpassed the $20,000 mark for the first time. The average price hit $25,890 a year later. Wholesale used vehicle prices (adjusted for mix, mileage, and seasonality) in the first 15 days of December 2021 increased 3.1% from November. The Mannheim Used Vehicle Value Index rose to 239.8 in December, which is a 49% increase from 2020. Used segments are more expensive across the board compared to last year, but especially vans (+63%), compact cars (+58%), midsize cars (53%), and SUVs/CUVs (48%)



ELECTRIC VEHICLE SALES RISING GRADUALLY



Electric vehicles are expected to make up a larger percentage of new vehicles sales in the next decade. However, they are not taking over anytime soon. Significant barriers to their widespread adoption exist in the United States, including infrastructure issues, charging concerns, and cost. The ongoing chip shortage has likely set back electrification plans. Many models, including the Ford F-150 Lightening and the Hummer EV, have been pushed back due to production issues. However, SEMA still projects that alternative power will make up 45% of new vehicles sold by 2035—of which 26% will be fully electric.

> *"There is no way we can transfer 50% of additional costs to the final consumers because most parts of the middle class will not be able to pay. What has been decided is to impose on the automotive industry electrification that brings 50% additional costs against a conventional vehicle. The future will tell us who is going to be able to digest this and who will fail."*
>
> ***Stellantis CEO Carlos Tavares**, December 6, 2021.*

Source: SEMA Market Research Forecasts and Estimates
Source: ©2021 Wards InfoBank, a division of Informa. Data as of December 20, 2021.

ECONOMIC OUTLOOK

U.S. ECONOMIC OUTLOOK

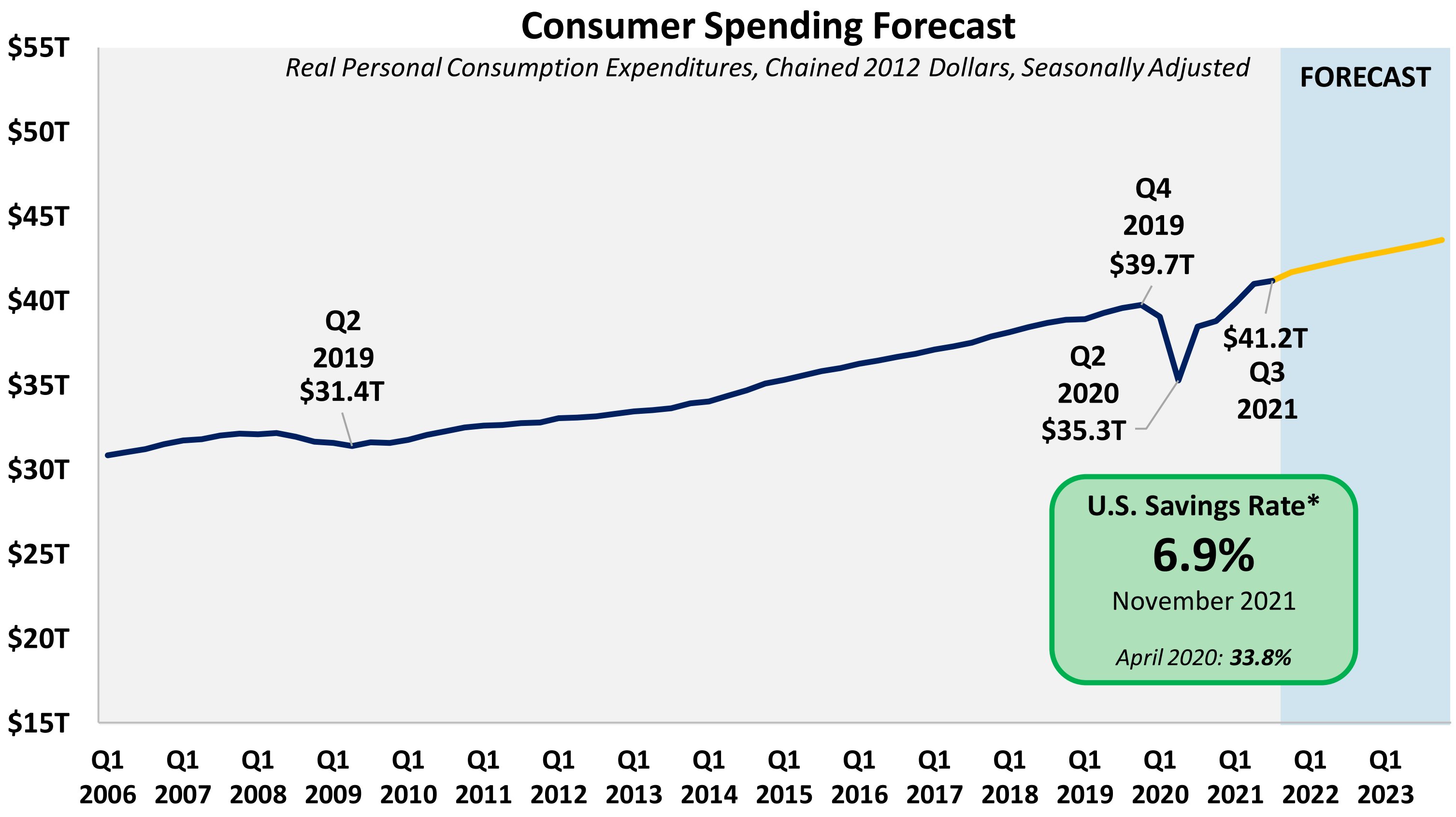
FORECAST

Despite ongoing uncertainty, 2021 was a strong year for the U.S. economy and consumers. **The economy will continue to grow in 2022, but not as quickly as 2021. Issues putting negative pressure on the economy will ease by the end of 2022, allowing the economy to return to pre-pandemic growth by 2023.**

Things to Keep an Eye On

- **Consumer spending** in 2021 was at record highs, especially for the automotive parts. Consumers have excess savings, but that may drain in 2022. Wages should also increase. Demand may shift away from goods to services as pandemic improves.
- **Consumer confidence** remains at its pandemic low, given uncertainty around COVID and inflation. However, so far, this isn't affecting the economy or spending, but time will tell.
- **Inflation** is currently pushing prices upward and is at a 39-year high. Yet, this is not stopping consumers from spending money, and should improve as supply issues resolve.
- **Unemployment rates** are improving, but shortages remain for key sectors, including manufacturing—compounding supply shortages. End of extended unemployment benefits should push more workforce participation and allow for full employment levels by the end of 2022.

CONSUMER SPENDING WILL CONTINUE TO GROW, BUT AT LEVELS CLOSER TO PRE-PANDEMIC



	Total Retail Sales	E-Commerce Sales	Motor Vehicle and Parts Spending	Real Discretionary Income
Q3 2021 vs. Q4 2020	+12%	+7%	+11%	+1%
Q3 2021 vs. Q4 2019	+24%	+58%	+27%	+5%

Consumer spending has helped drive the U.S. economic recovery. After a sharp decline in Q2 2020, consumers adjusted and spent money on things they could buy, including parts and upgrades for their vehicles. Government stimulus and extended unemployment benefits helped to drive this increase in spending, which surpassed pre-pandemic levels by mid-2021.

Indicators suggest consumers having saved up considerable sums of cash that they can spend. Consumer spending is expected to continue to grow. Helping to generate consumer spending in 2022 will be growing employment, lingering demand and rising wages. A tight labor market is likely to spark wage hikes that will put more money in shopper's wallets and improve consumer confidence.

However, 2022 will be more challenging. Consumers may shift a greater portion of their disposable income to services that weren't available because of COVID-19, including restaurants, theaters, and travel. This will likely draw away some spending from the specialty-equipment industry. Additionally, serious headwinds are also on the horizon: the continuing pandemic, labor shortages, supply chain issues, and growing inflation. All these things could weigh negatively on consumer minds and dampen spending but haven't yet. Additionally, the Fed is likely to increase interest rates. Nevertheless, economists still maintain a positive outlook for consumer spending.

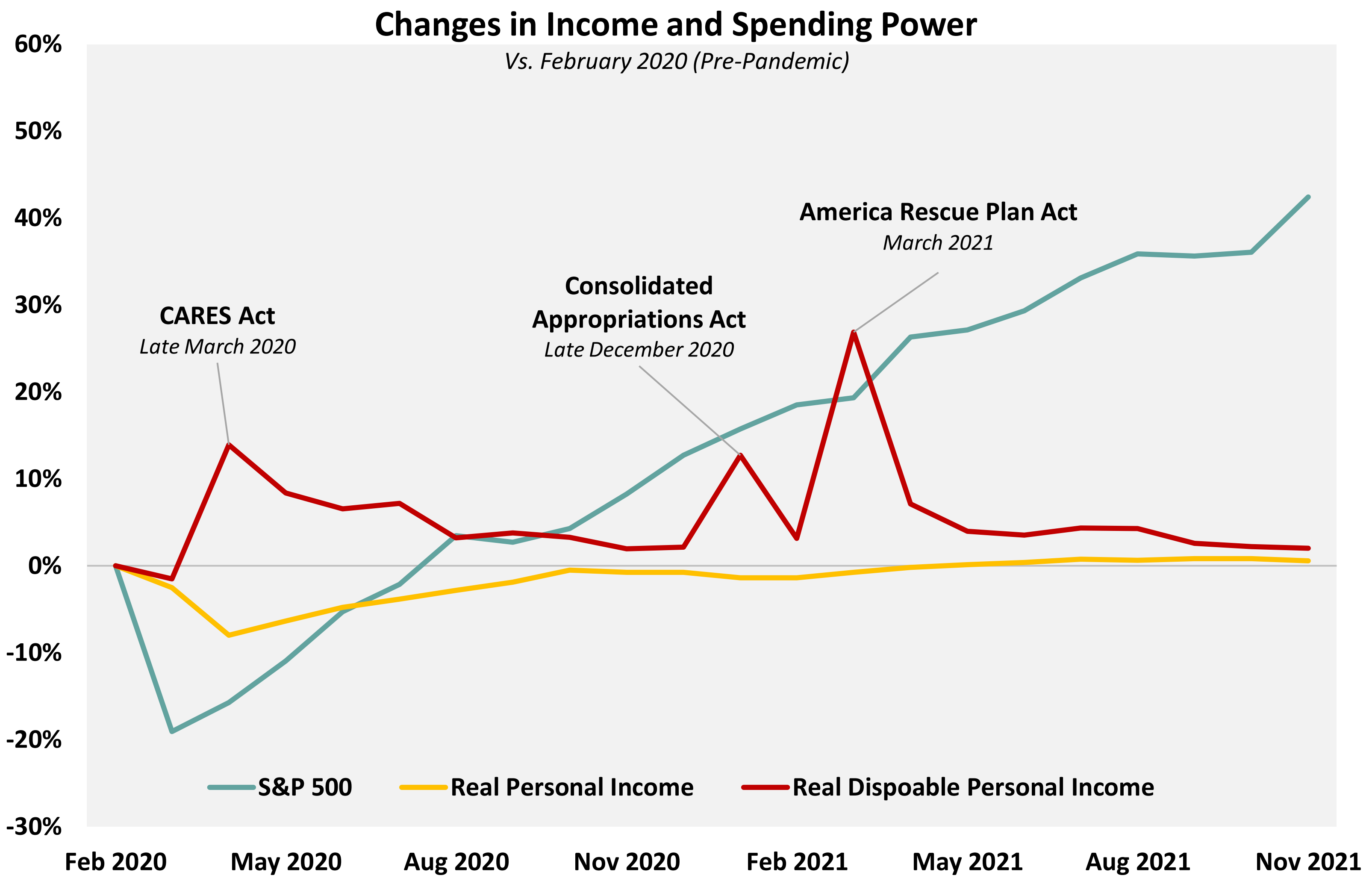
Note: SEMA Market Research forecasts, based on latest projections by Wells Fargo, TD Bank, Bank of the West, McKinsey and Company as of December 2021.
Source: U.S. Bureau of Economic Analysis (BEA), "Personal Income and Outlays." Data as of December 23, 2021
Source: U.S. Census Bureau, "Quarterly E-Commerce Report." Data through Q3 2021.

WHAT HAS DRIVEN THE EXTRA SPENDING?

Over the course of the pandemic, increased fiscal stimulus, enhanced unemployment payments and child tax credits put more money in consumer's hands. Many pandemic-era federal aid programs, including enhanced unemployment, ended in September 2021. Though economic growth will decelerate in 2022 due to fading effects from business re-openings and past fiscal stimulus, the economy should remain robust.

By March 2021, real personal income was significantly higher than pre-pandemic levels, driven by the government stimulus. Today, income remains higher than pre-pandemic levels, but at a much lower rate now that many of the federal aid programs have expired.

Restrictions and closures limited services like eating out or going to amusement parks during the pandemic. Spending on these remained below pre-pandemic levels until June 2021. Reduced spending on services coupled with increased disposable income because of government stimulus left consumers with more money to spend on durable goods like electronics and auto parts. As of Q3 2021, retail sales were up 24%, motor vehicle and parts spending was up 27%, and discretionary spending was up 5% all versus pre-pandemic.



MARKET RESEARCH

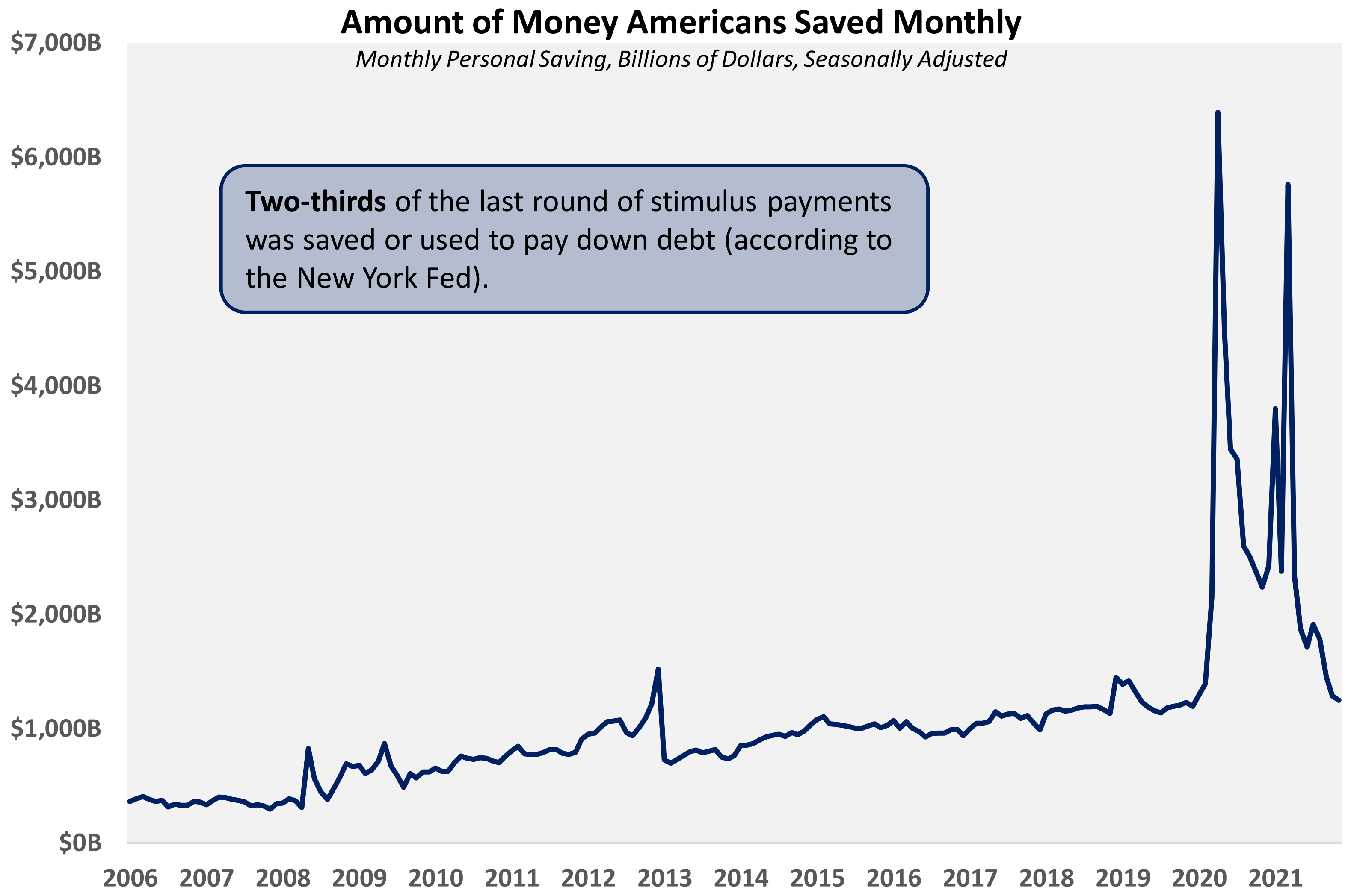
Note: S&P 500 reflects average closing price for each month. Real personal income excludes current transfer receipts.
Source: Avrio Institute
Source: U.S. Bureau of Economic Analysis (BEA), "Personal Income and Outlays." Data as of December 23, 2021

CONSUMERS HAVE A LOT OF MONEY TO SPEND

All indicators suggest consumers saved up considerable sums of cash during the pandemic and will continue to spend. The chart to the right shows just how much money Americans saved each month during the pandemic.

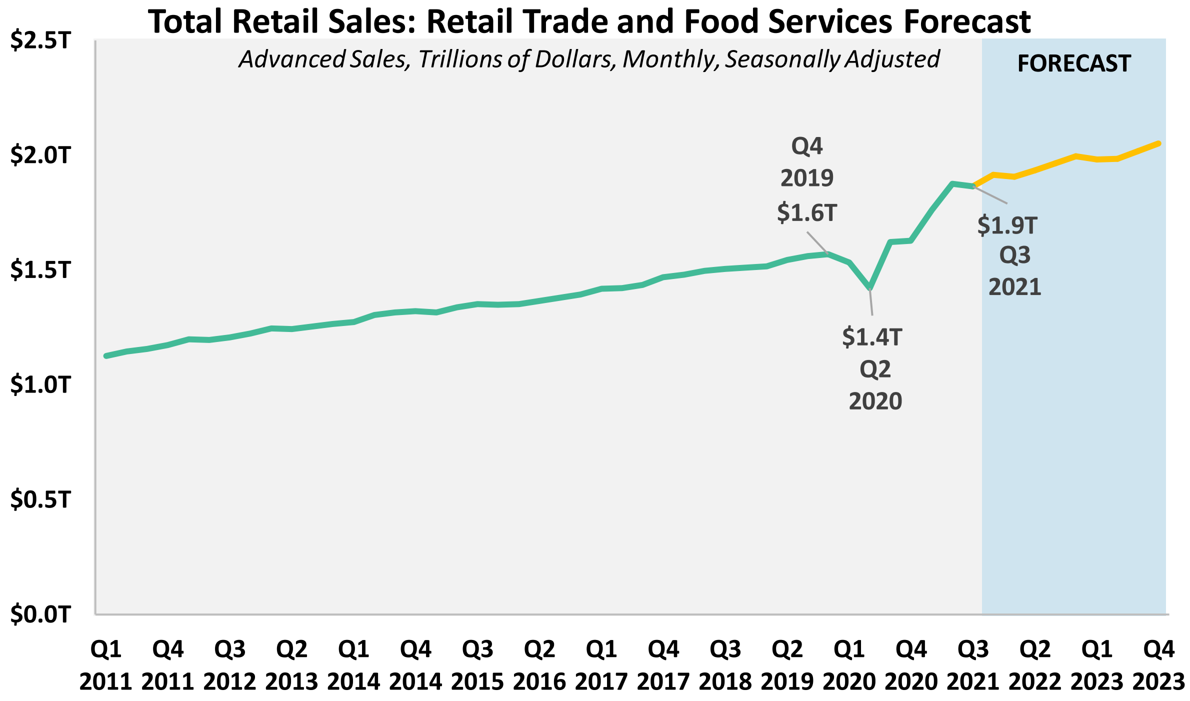
Throughout 2020 and early 2021, after-tax income rose faster than anticipated. Fiscal stimulus was a critical part of that. According to the Federal Reserve Bank of New York, two-thirds of the last round of stimulus payments was saved or used to pay down debt. At the same time, consumers couldn't really spend on many things during the pandemic. While the monthly savings rate dropped from 33.8% in April 2020 (thanks to stimulus) to a more normal 6.9% in November 2021, consumers accrued a significant amount of savings. Additionally, consumer credit card borrowing has been weak, leaving consumers with more flexibility moving forward to spend money.

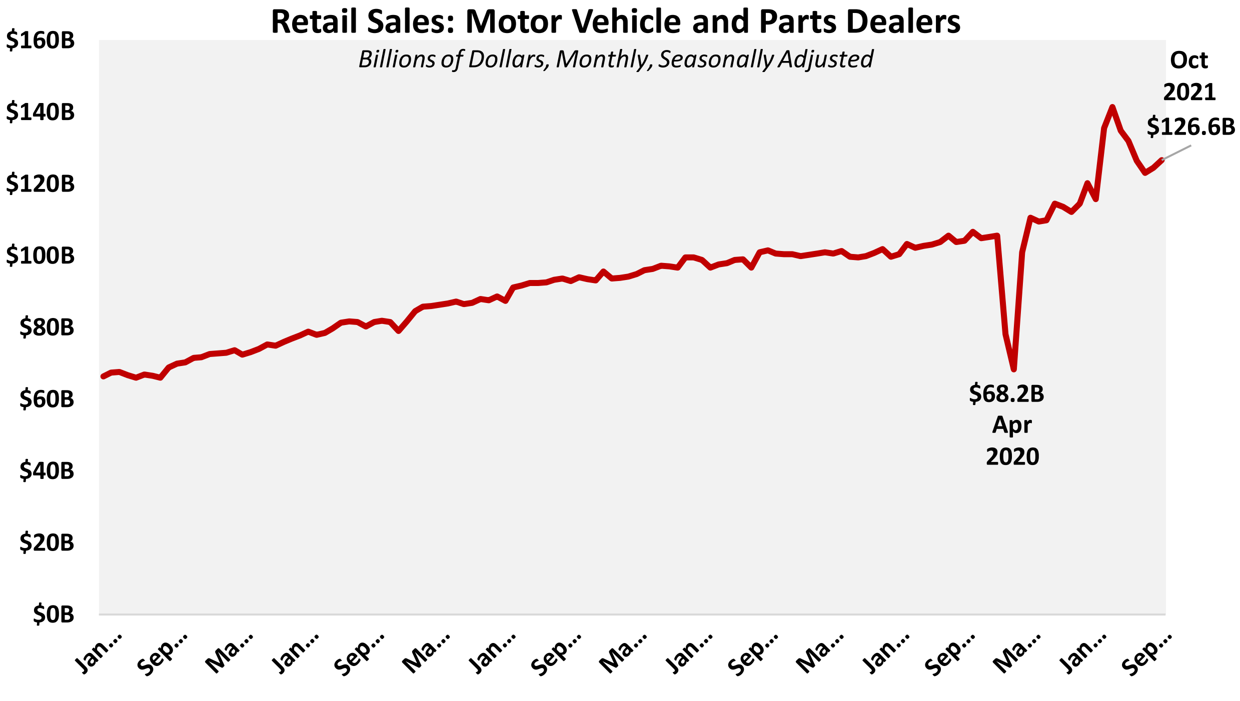
This is a good sign for all discretional categories, including the specialty-equipment industry. This savings won't last forever, but it does suggest purchasing and demand will continue into 2022.



Source: Avrio Institute / New York Federal Reserve Bank.
Source: U.S. Bureau of Economic Analysis (BEA), "Personal Income and Outlays." Data as of December 23, 2021

CONTINUED RETAIL GROWTH EXPECTED, INCLUDING AT AUTO PARTS RETAILERS





Spending at retail stores and for food services (restaurants, groceries, etc.) saw significant disruption because of the pandemic. However, driven by financial stimulus and limited spending options, retail spending jumped back up quickly. Retail sales are expected to continue to grow gradually over the next two years. However, the shift of discretionary income towards more services and away from goods may have a somewhat chilling effect on retail.

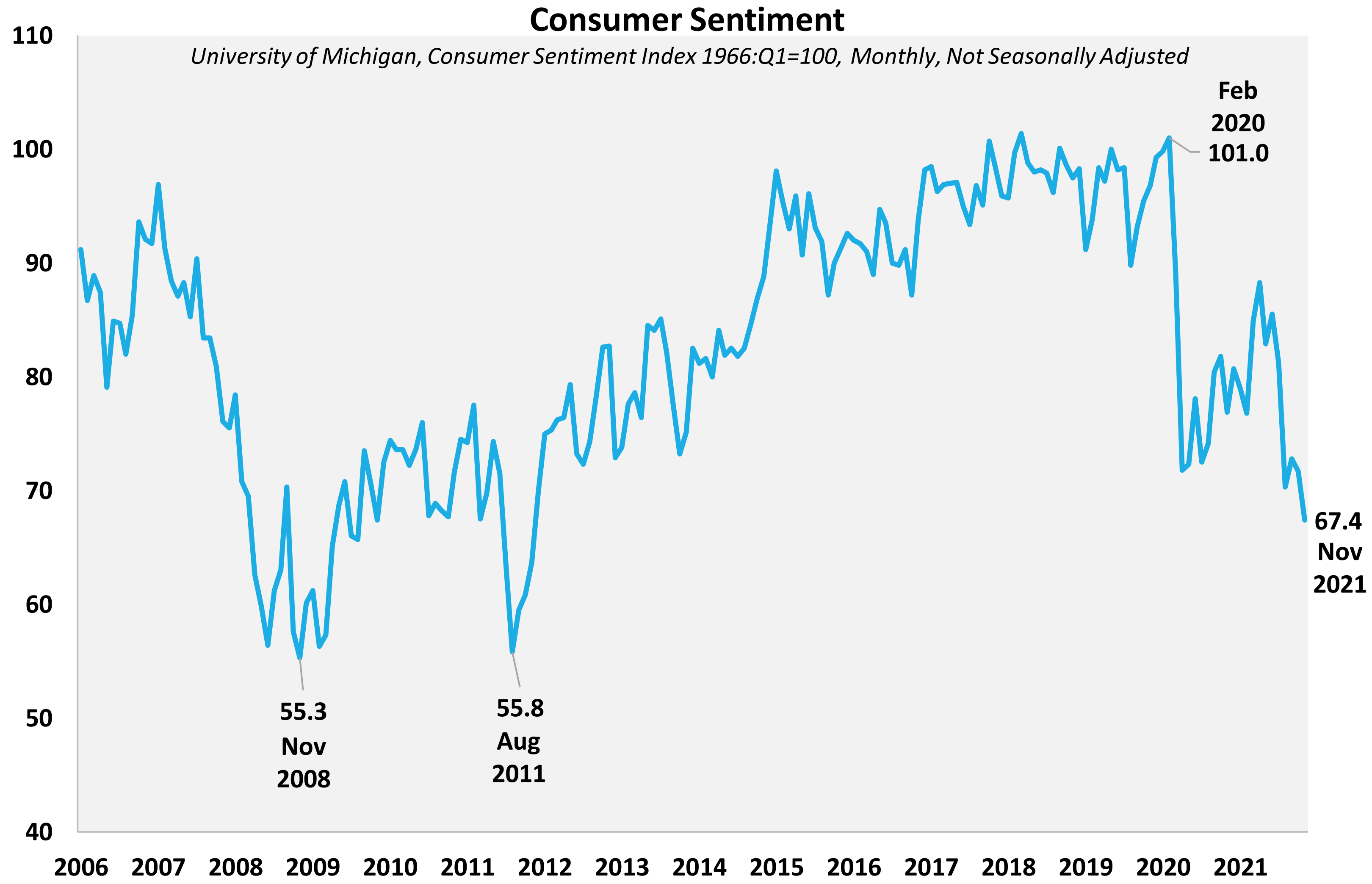
Retail sales at motor vehicle and parts dealers dropped to recent lows due to the pandemic, but quickly bounced back as consumers continued to work on their cars. Retail sales at these dealers, as of October 2021, are almost double what they were in April 2020 and 26% above where they were in February 2020. However, it did drop some from the highs seen in May 2021. While continued growth is expected for auto parts retail, it's likely to grow less aggressively—especially as consumers shift what they use their disposable income for.

Source: Wells Fargo / SEMA Market Research Forecasts
Source: U.S. Census Bureau, "Advanced Monthly Sales for Retail and Food Services." Data as of December 15, 2021.

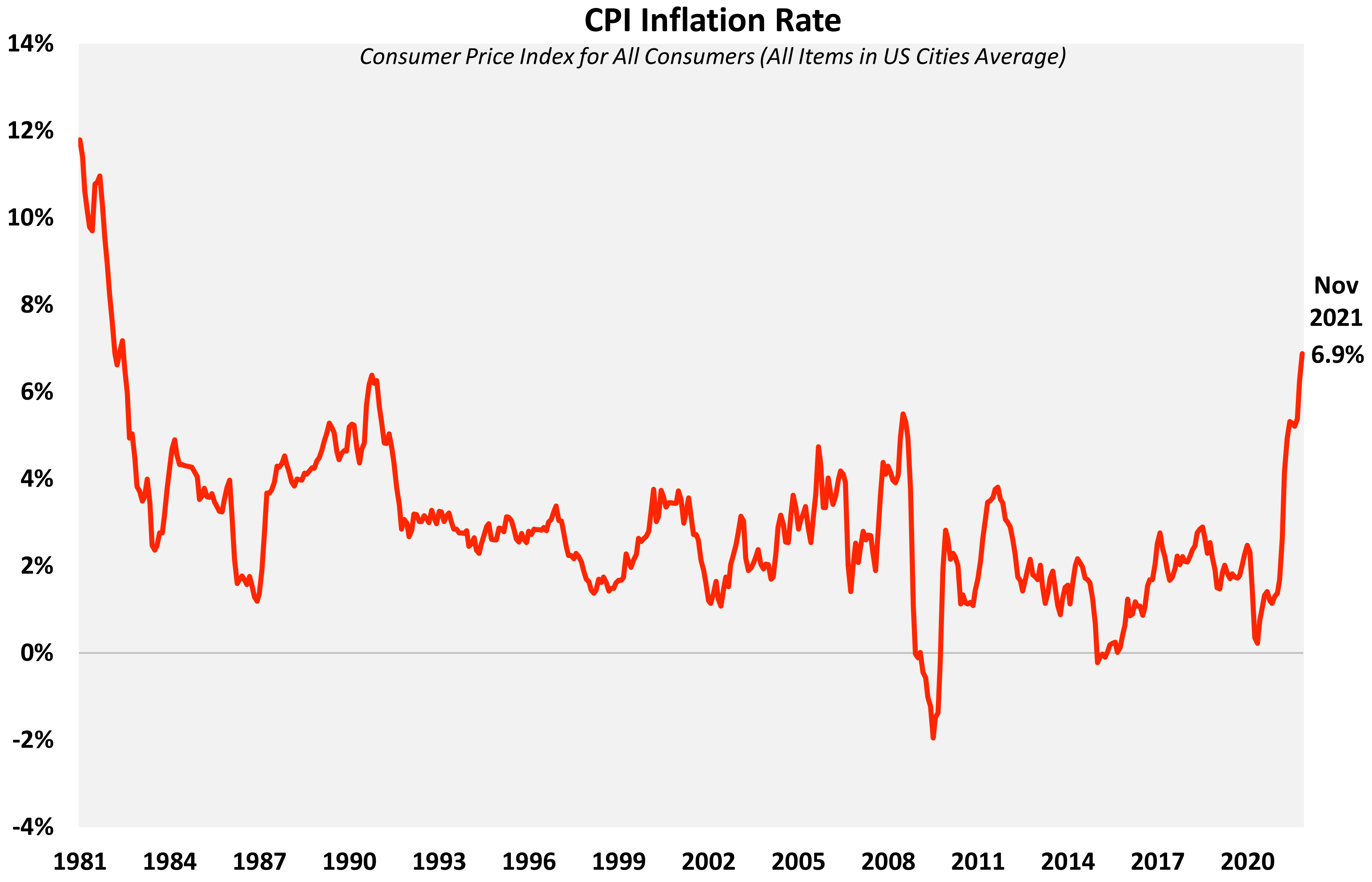
UNCERTAINTY IS WEIGHING ON CONSUMER MINDS

Given consumer importance to the overall economic picture, consumer confidence is a leading indicator for the overall health of the economy and what the U.S. should expect in the future. Given current wages, income trends, and savings, one might expect to hear consumers are happy about where things are. In the closing months of 2021 though, consumer confidence has dropped to pandemic and decade lows after starting to improve again in the first half of 2021 as vaccines rolled out. While current sentiment remains higher than the Great Recession in November 2008, uncertainty is weighing on consumers minds, particularly around the Omicron variant and rising prices.

How the public feels about their situation will be more apparent in early 2022 as more about the Omicron variant becomes available, political uncertainty continues to play out, and changes in purchasing power due to inflation are revealed. Each will be key for how consumers view their own situation and the economy in 2022.



INFLATION IS ACCELERATING AND HIT A 39-YEAR HIGH IN NOVEMBER 2021



Prices are rising. The consumer price index (CPI), or the measure of inflation in the United States, rose sharply in November 2021 to push the increase in the cost of living to its fastest rate in 39 years. Big picture: inflation isn't going away soon. A combination of labor shortages and trouble obtaining supply has forced companies to raise prices. Companies can't get enough of either to produce all the goods and services customers want right now. Economists now agree that inflation has lingered longer than expected and is not transitory, thanks to ongoing supply issues and the virus.

Even if you strip out the more volatile components of the CPI, the rate still shows worsening inflation—although at a lower rate. The wholesale cost of many goods rose in November, reflecting how much inflation has spread throughout the economy.

Supply chain shortages are expected to ease in 2022, especially if the pandemic finally begins to fade. Since a lot of the price increases are tied to supply shortages, as these issues ease inflation should lower. Yet, how much and when inflation slows is still to be determined.

To combat inflation, the Federal Reserve has moved to cut back more quickly on their pandemic-era stimulus of the economy and will increase interest rates in the coming year. This will slow the economy down somewhat and reduce inflation.

Source: Bureau of Labor Statistic, "Consumer Price Index." Data as of December 10, 2021.

GASOLINE AND AUTOMOTIVE PRICES ARE BIG CONTRIBUTORS TO OVERALL INFLATION

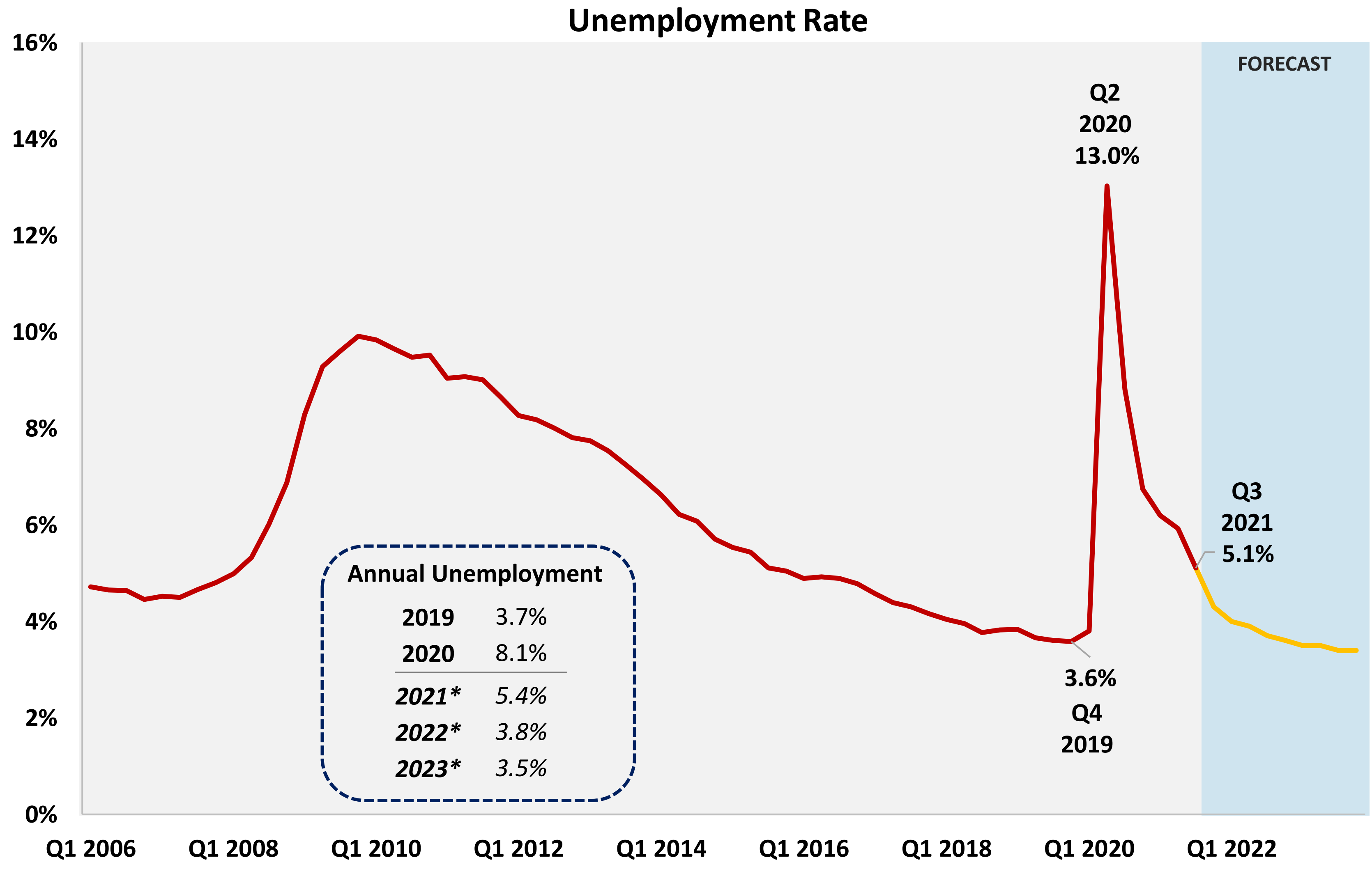
Biggest Price Shifts in the Consumer Price Index (CPI)

Rank	Product Type	12-Month Change in Price (Nov 2021)
1	Fuel oil	+59.3%
2	**Gasoline (all types)**	+58.1%
3	Energy commodities	+57.5%
4	Energy	+33.3%
5	**Used cars and trucks**	+31.4%
6	Natural gas (piped)	+25.1%
7	Meats, poultry, fish, and eggs	+12.8%
8	**New vehicles**	+11.1%
14	Electricity	+6.5%
16	Food	+6.1%
29	Transportation services	+3.9%
38	Airline fare	-3.7%

Where have the biggest swings in inflation come from? Energy prices have risen 33.3% since November 2020, including a 3.5% surge in November. Gasoline alone is up 58.1%. Food prices have jumped 6.1% over the year. Used car and truck prices, a major contributor to the current inflation wave, are up 31.4% compared to 2020. New car prices are also up 11.1% from last year as well. Supply problems are affecting inventory for both new and used cars.

Consumers have especially felt the price jump at the gas pump. The national average gas price hit $3.41 in December 2021. This is a 29% increase from December 2019 and a 49% increase from December 2020. Prices for gasoline vary by region, however, with some states experiencing steeper increases. In California, for instance, average gas was $4.60, over a dollar above the national average. Meat, poultry, fish and eggs are also up a significant amount. All these things are weighing heavily on consumers minds as we enter 2022.

UNEMPLOYMENT IS DROPPING, BUT LABOR SHORTAGES REMAIN FOR SOME SECTORS



The unemployment rate in the United States has fallen significantly from its highest levels in the early part of the pandemic. By the end of 2022, the country should be close to full employment conditions of the pre-pandemic economy—assuming the Omicron variant does not cause severe economic disruption.

A low unemployment rate usually indicates favorable economic conditions. However, it does not paint a full picture of what is going on right now. Although the rate is shrinking, its sector specific. As many retailers have seen, trying to hire has met with a scarcity of candidates. For one reason or another, many people are also no longer looking for a job and are being excluded from unemployment calculations. A lack of sufficient workers is is also contributing to supply chain disruption. For example, a shortage of truck drivers has meant inefficient transportation of products and goods across the country.

A few factors will likely help ease the labor crisis in 2022. The end of bonus unemployment, diminishing stimulus payments, easing of COVID-19 infections and return to primarily in-person schooling will all encourage more people to re-enter the workforce.

People getting back to work will be a good indicator for how 2022 will be economically. Are companies able to get the workers they need? Are people earning money to spend? A tight labor market will likely drive higher wages which will increase spending and improve consumer confidence.

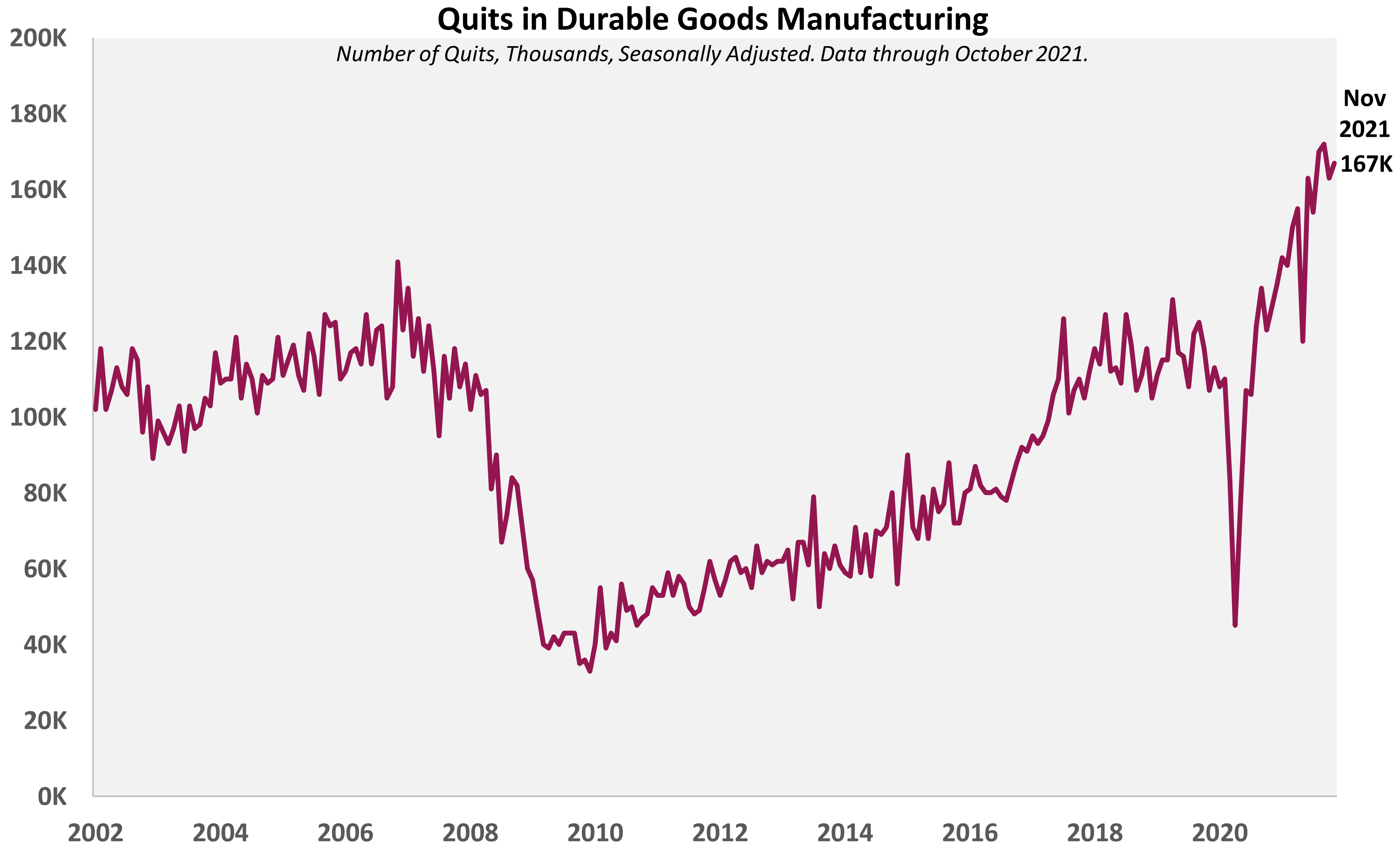
DEMAND FOR WORKERS IN MANUFACTURING IS HIGH

Nationwide, job openings recently topped 11 million jobs—a huge increase over the 7 million pre-pandemic. Durable goods manufacturing has also seen dramatic shifts. In September 2021, manufacturers had a record 568,000 job openings. The number of openings has since declined a little bit to 522,000 jobs as of November 2021. Much of this surge has been the result of a high consumer demand for products and a high quit rate among employees.

The number one concern of businesses going forward will be finding qualified labor. There have never been so many open positions across every industry and sector, but the need for more workers is especially acute in manufacturing, transportation, education, healthcare, and leisure/hospitality. Right now, the average time to hire has doubled from what it was prior to the pandemic, due to a shortage of qualified workers.

Employment is a key driver of retail sales, positive consumer sentiment and business health. Many companies are attempting to hire aggressively to meet needs and keep up with demand, but the labor shortage persists. SEMA Market Research projects that labor shortages will ease as the domestic and global economies increasingly learn how to live in a new pandemic normal and supply issues ease.

WHY IS THERE A LABOR SHORTAGE?



Given the number of available jobs, why is there a shortage of workers? The reasons for this are diverse.

As a result of the virus, there has been a significant drop-off in labor force participation rates. Some were forced into retirement or are staying at home to deal with childcare or other dependent care that was difficult during the pandemic. Some were afraid of getting the virus and were fearful of workplace infections. Others are not finding exactly the job they want or are looking for higher wages. Many are just reassessing and pursing new ventures.

The extra unemployment support helped workers in these situations stay out longer from the labor force. It has also caused employees be costlier. As seen in some sectors, like restaurants, it has become difficult to hire at the lower wages that worked prior to the pandemic. However, this may start to change now that extra unemployment and stimulus has been pulled back.

Record 39% of business owners planned to raise compensation in June 2021. Record 28% plan to increase hiring.

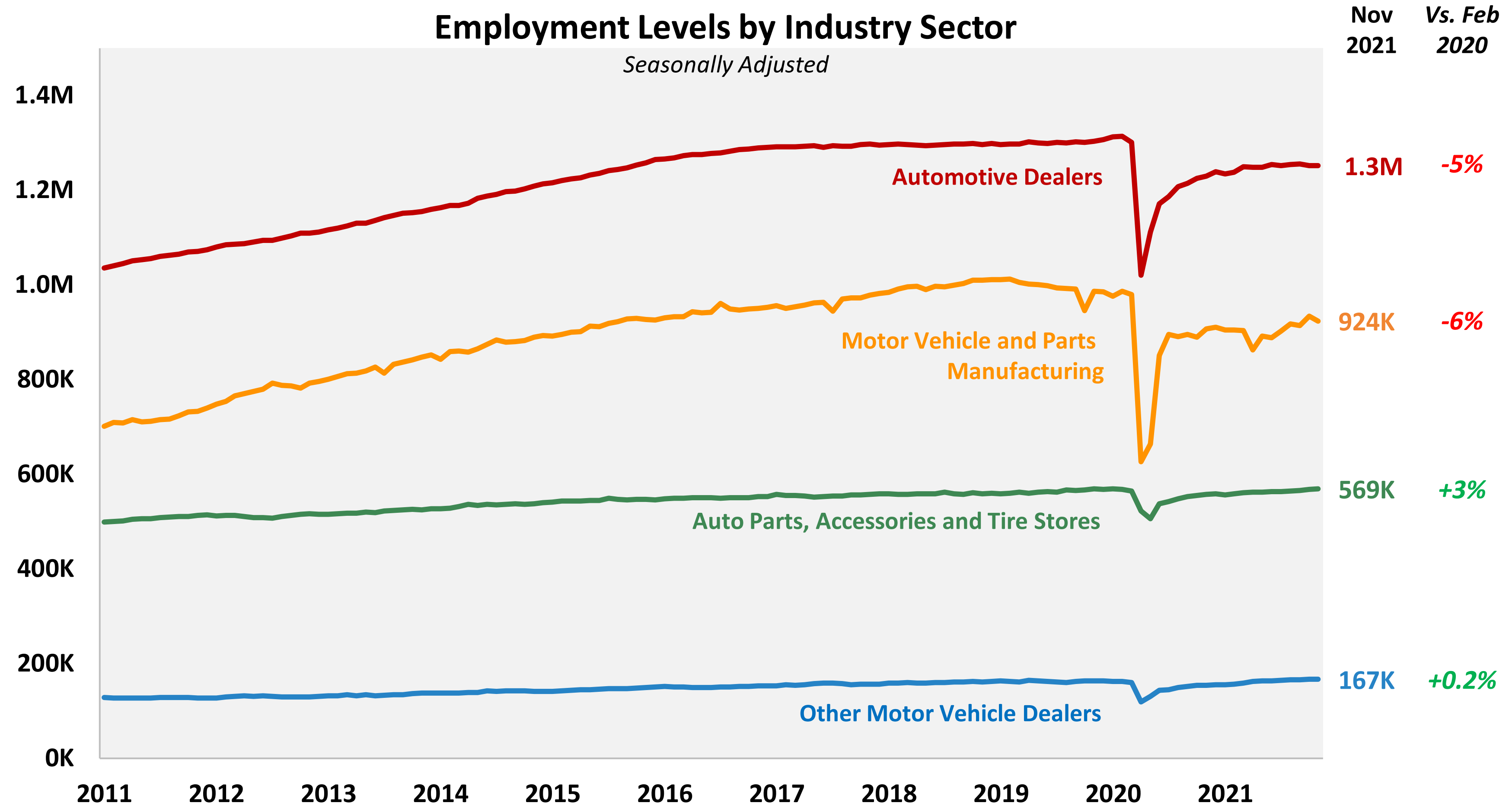
Source: Bureau of Labor Statistics, "Job Openings and Labor Turnover Survey." Data as of January 4, 2022.

THE AUTOMOTIVE INDUSTRY RECOVERED JOBS FASTER THAN MOST SECTORS

The automotive industry has had one of the best recoveries of any sector in the economy during the pandemic. After being hit especially hard with 765,000 jobs lost, the industry had already recovered more than 80% of those jobs by the end of 2020. By the end of 2021, total employment levels for the industry were only down 4% from February 2020.

The biggest staffing disruptions for our industry early on were seen at automotive dealers and manufacturers due to closures and lockdowns. At the end of 2021, these companies remain below their pre-pandemic labor levels by 5% and 6% respectively. This has largely been a result of supply chain issues, which has limited production of products and vehicles despite high demand. This should improve as supply issues resolve. For some companies, finding qualified workers has been difficult as well. Parts stores and other dealers have largely weathered the pandemic and, due to high demand for auto parts, have larger payrolls now than they did before the pandemic hit.

Overall, the specialty-equipment industry has largely grown or maintained their payrolls over the last year. Additionally, most companies plan to grow their staff levels in 2022, including 86% of manufacturers, 77% of distributors, and 68% of retailers/installers.



2.91 Million Total industry employees as of November 2021 *(-4% vs. Feb 2020)*

ECONOMIC SNAPSHOT: RETAIL

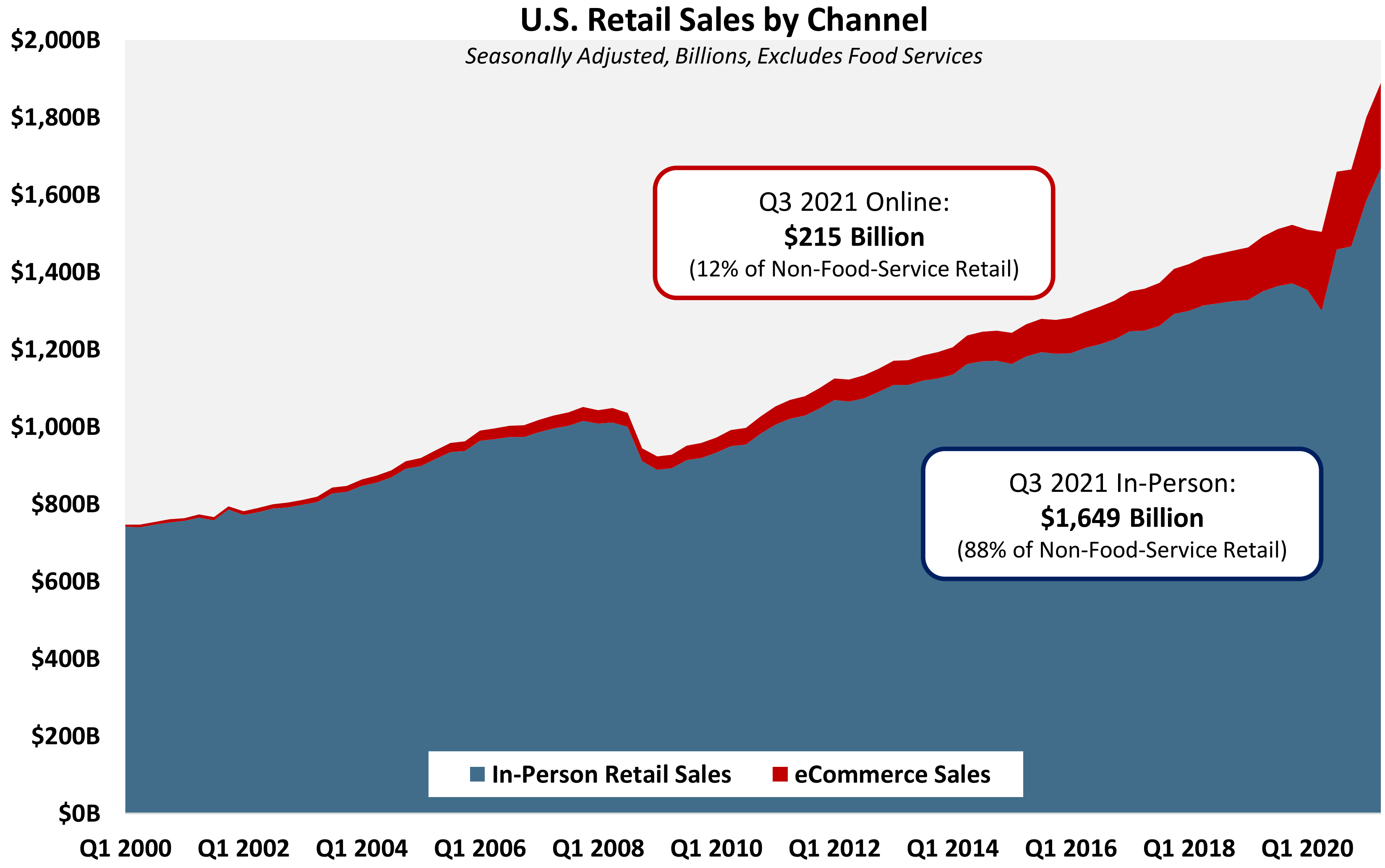
To find out more about the current state of retail, especially in the specialty-equipment space, check out the 2021 SEMA Retail Trends repot.

IN-PERSON RETAIL SALES REMAIN DOMINANT

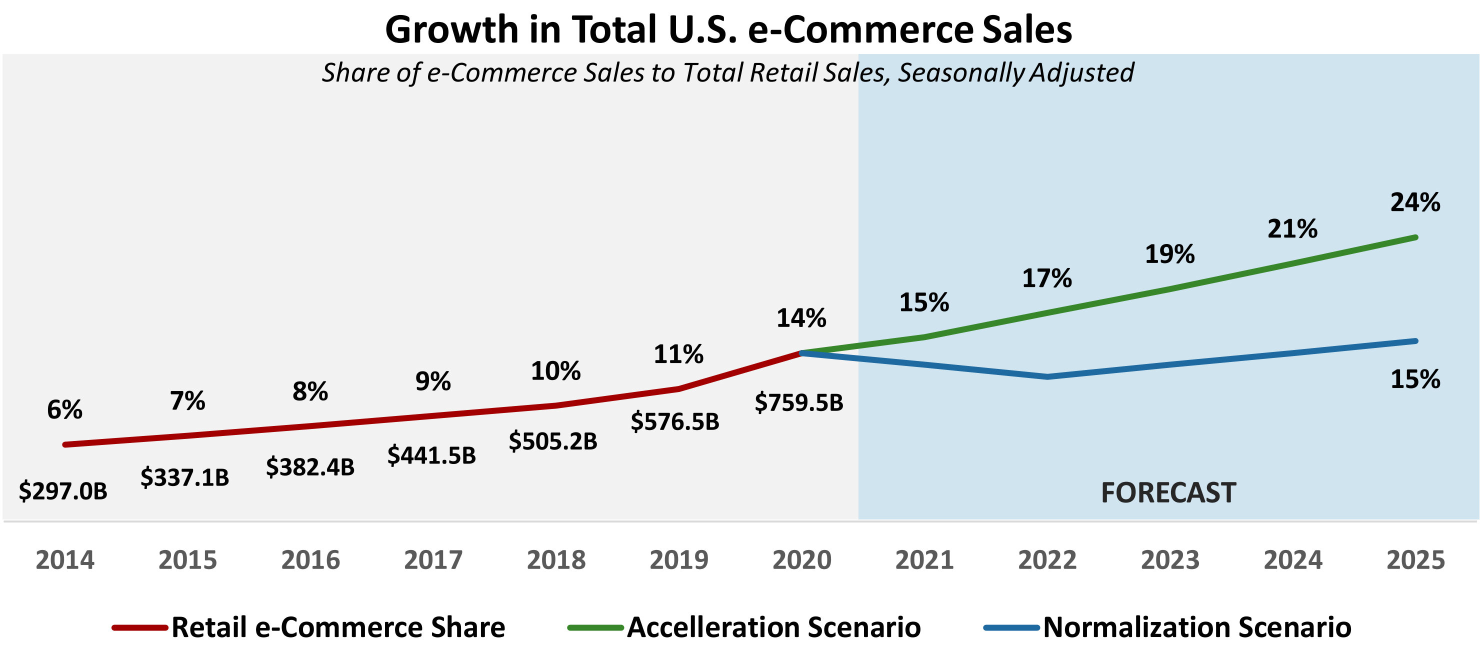
Buying things on the web is a relatively recent phenomenon, virtually unheard of prior to the 2000s. But over the past 20 years, advances in computers, smartphones and internet infrastructure have enabled consumers to shop for and buy products wherever they happen to be.

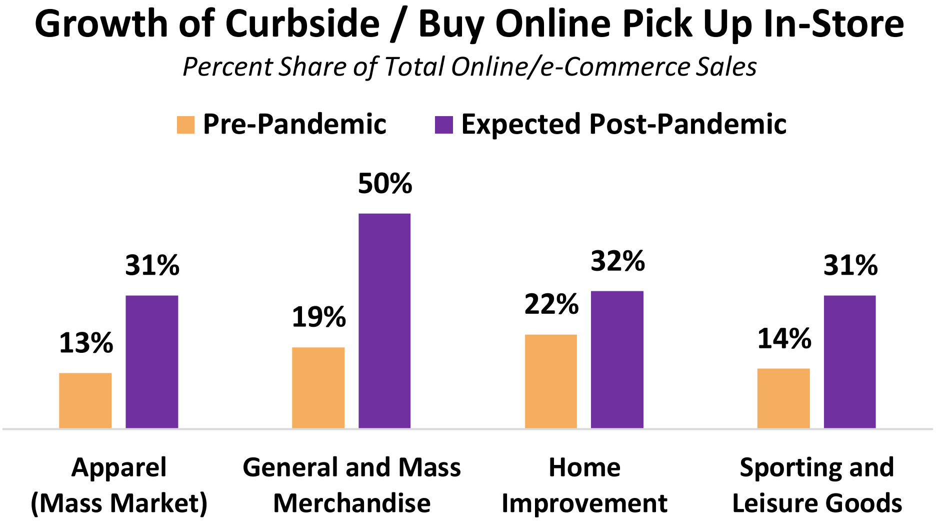
Of course, that doesn't mean people have stopped going into stores. Far from it. Even at the height of the pandemic, government data shows that the overwhelming majority of retail purchasing was in person, and as restrictions began to ease, people were eager to get back to into physical stores.

The reality is that technology changes a lot faster than consumer preferences. While there are more ways than ever to buy online, people still often prefer seeing products up close, and having the option to talk face-to-face with salespeople about any questions or concerns they may have. The pandemic has not changed this: in-person retail remains dominant.



ONLINE SALES SET TO NORMALIZE IN 2022, BUT BUY ONLINE / PICK UP IN-STORE BECOMING POPULAR





In 2020, **26%** of online specialty-equipment purchases were picked up in-store or curbside. This accounts for **15%** of total purchases.

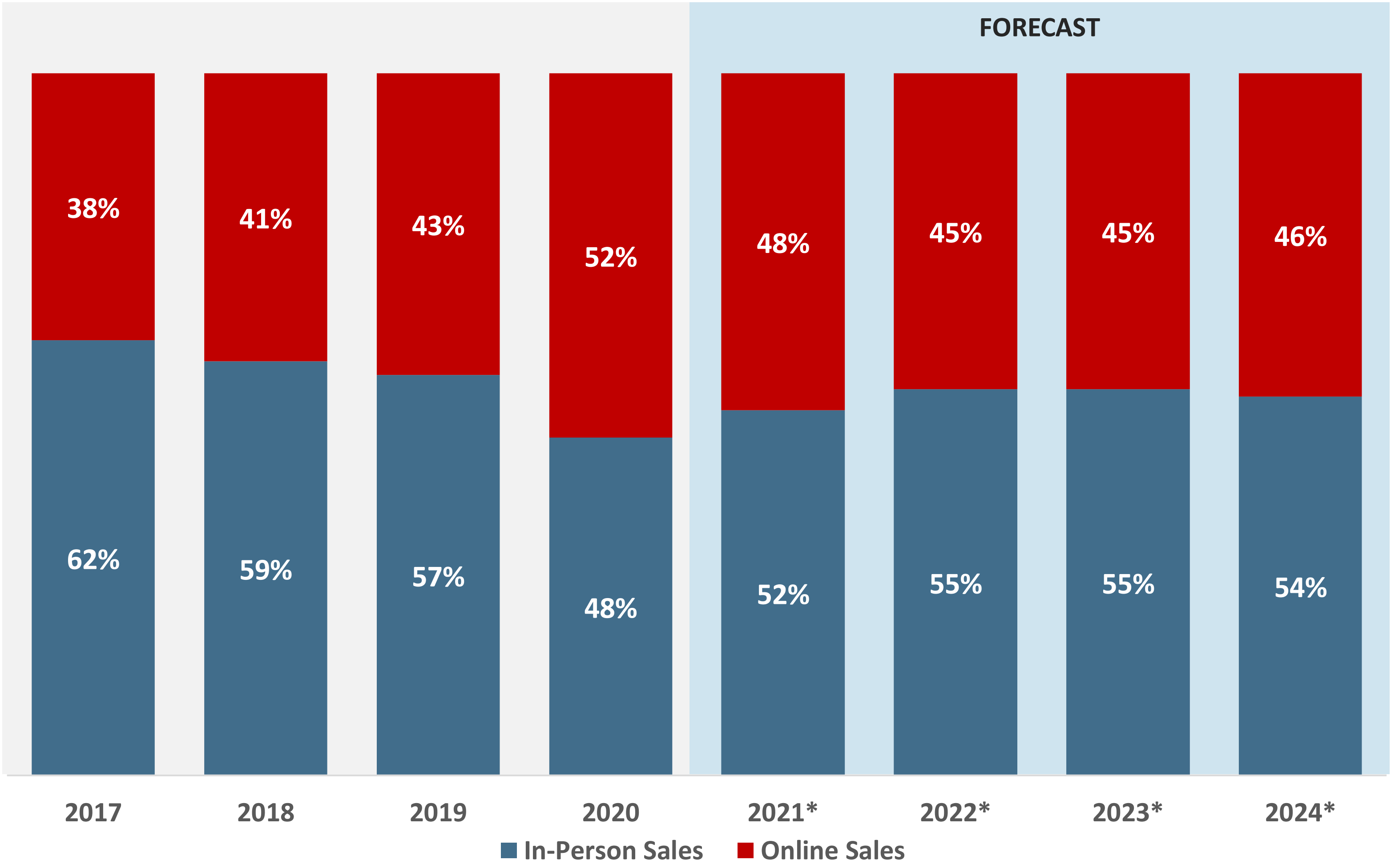
While online sales rose due to the pandemic, data from the Census Bureau suggest that this is most likely a temporary shift. Some agencies, notably eMarketer, expect that e-Commerce will continue to take an increasing share of total retail at an accelerated rate for the time being. However, it is likely that things will normalize over the next couple years as consumer behavior returns to something closer to pre-pandemic norms with a more gradual increase in e- Commerce's market share.

That said, one change that is likely to stick around as a result of the pandemic is the growth of curbside or buy online, pick up in-store (BOPIS). While this method of shopping blends both online and in-store shopping, it is still considered a form of e-commerce. McKinsey estimates that curbside/BOPIS has grown significantly because of the pandemic and likely to stay that way. For some retailers, like General and Mass Merchandise Retailers (i.e. Target, etc.), this method is expected to grow to 50% of all e-Commerce sales. The specialty-equipment industry is no different. While our industry is largely in-store, approximately 15% of all product purchases in 2020 came from BOPIS. This is a slight bump from the 13% seen prior to the pandemic in 2019. While industry online sales are expected to normalize in the coming year, its likely this method will stay popular—particularly as supply chain issues linger in 2022.

Source: "2021 SEMA Retail Retail Trends Report" / SEMA Market Research Estimates and Forecasts
Source: "Retail E-Commerce Sales Report." Data as of August 19, 2021/eMarketer. "U.S. Ecommerce Forecast 2021" Data as of Jul. 8, 2021.
Source: McKinsey and Company, "Retail's need for speed: Unlocking value in omnichannel delivery." September 2021.

ONLINE SPECIALTY-EQUIPMENT SALES SHOULD NORMALIZE AS THE DISRUPTION IMPROVES

Specialty-Equipment Retail Sales Forecast: In-Person vs. Online



The specialty-equipment market is ahead of the curve relative to the overall economy in terms of online sales. Vehicle accessorizers often may find that the products they need are not available locally, or they may be comfortable hunting online for the best products and prices.

Online specialty-equipment sales have been growing over the past few years, as more and more businesses get the hang of selling on the web. But the unique circumstances the pandemic created pushed more sales online than normal.

Still, it was a slim majority rather than a massive paradigm shift. And SEMA expects that over the next couple years, as the pandemic eases, things will normalize.

"The specialty-equipment market has built on its tradition of catalog sales to embrace e-commerce. Our industry has always been ahead of other sectors in share of online consumer purchases. So, we don't expect the pandemic bump to signal additional growth in that channel, as consumers in our market tend to shop both online and in-store."

Gavin Knapp
SEMA Director of Market Research

SUPPLY CHAIN DISRUPTION

SUPPLY CHAIN AND PRICING OUTLOOK

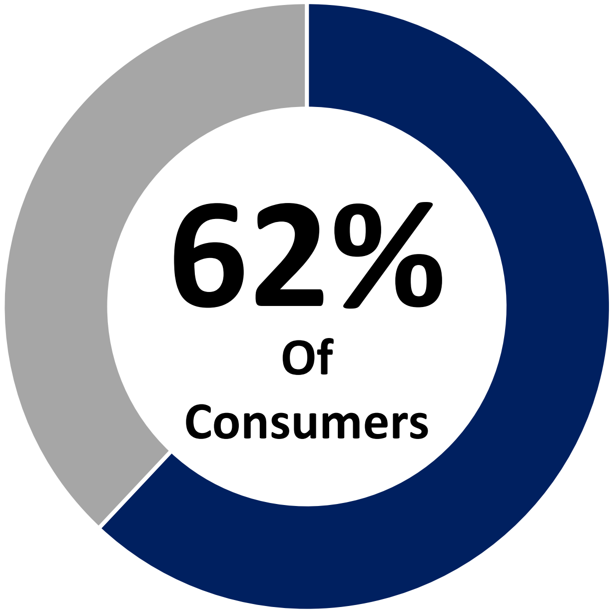
FORECAST

Supply chain issues to continue in 2022, but the worst has likely already passed. **Most issues, including transportation delays and supply shortages, should improve through the year and return to more normal levels by the end of 2022.** Some lingering issues however, including elevated prices, likely to last into 2023.

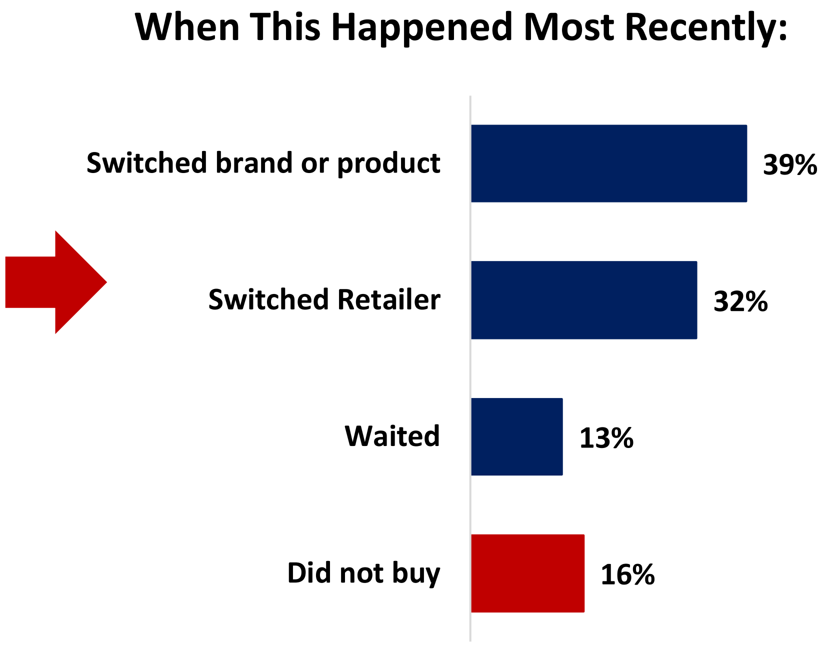
Things to Keep an Eye On

- **Over 80% of industry companies** have been severely or moderately impacted by supply chain disruption. In the short term, issues are expected to stay the same or improve but not get worse.
- Demand for **semiconductors / chips** are outpacing demand. Increased production capacities will likely meet demand by Q2 or Q3 2022. Auto industry likely won't fully recover until 2023.
- **Shipping and transportation delays, high rates** and **labor shortages** mean it's taking longer and more money to get supply. Logistic problems should be solved by the end of 2022, but elevated prices likely to remain into 2023.
- **Input and commodity prices** are extremely high. While some prices will decrease in 2022, they will remain elevated for some time. This will put upward pricing pressure on auto parts and accessories.

SUPPLY CHAIN ISSUES ARE AFFECTING CONSUMERS



Wanted to Buy Something That Wasn't Available or Out-of-Stock

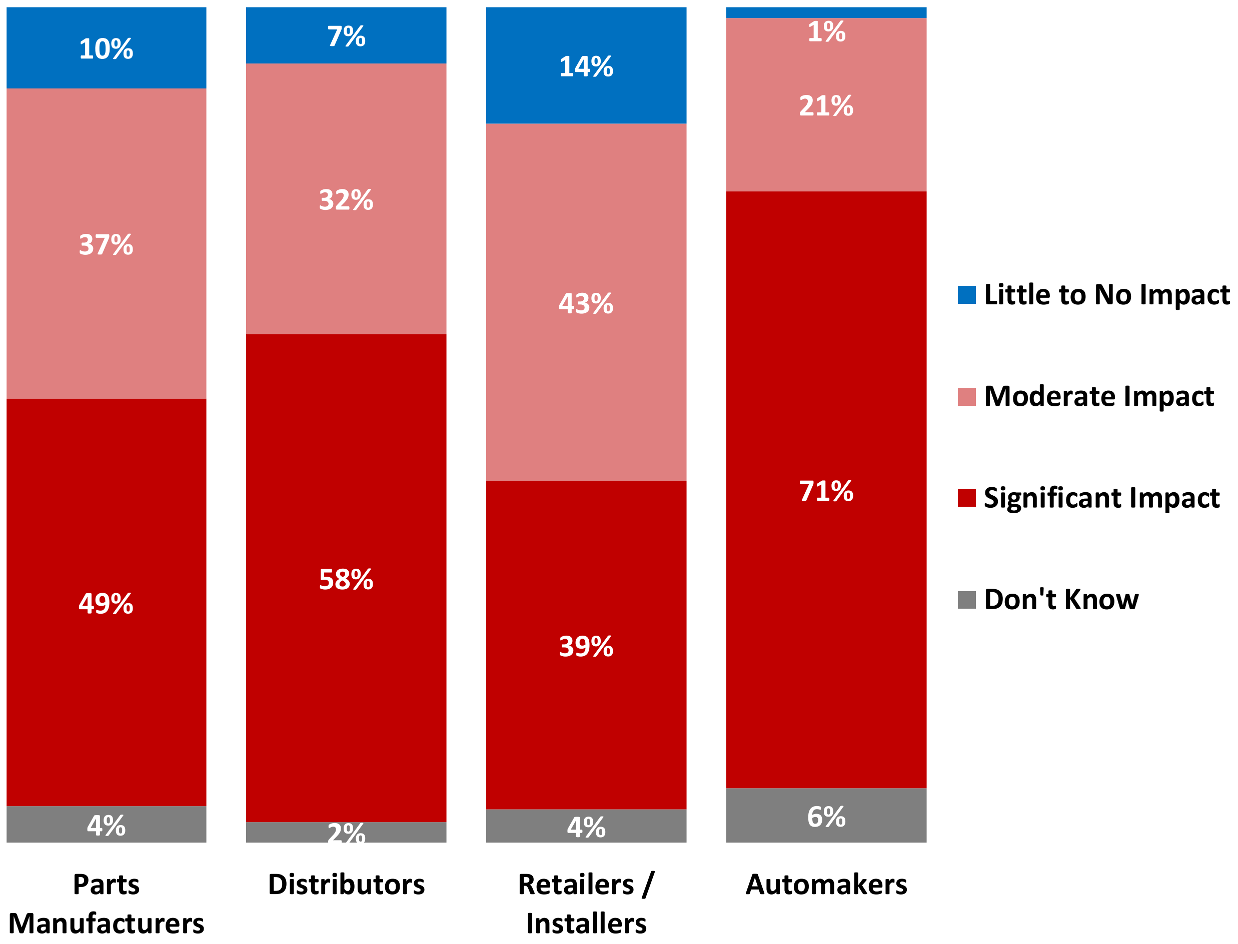


In a recent study conducted by McKinsey at the end of 2021, nearly two-thirds of consumers (62%) said they've wanted to buy something that wasn't available or was out-of-stock. This, however, hasn't stopped consumers. Instead, over 70% said that when it happened most recently, they switched brands, products or retailers to get what they needed. This means companies are not only losing sales because they don't have the product, but also potentially losing it to their competitors who can provide it.

Over the last year, the supply chain disruption has affected industry in many ways: shipping delays, production issues, inability to find suppliers, and increased costs are just a few. However, as this data on consumers shows, another important consideration is the effect on a company's consumer base. Consumers are looking to find product. If they can't find it, few are waiting for it to get back in stock or not buying it. Rather, they are going to other places to get it, including online and through competitors who can source it.

OVER 80% OF INDUSTRY HAS BEEN IMPACTED BY SUPPLY CHAIN ISSUES

Impact of Supply Chain Disruption on Specialty-Equipment Industry



Nearly all companies within the specialty-equipment industry say they have been affected significantly or moderately by the supply chain disruption in 2021. Unsurprisingly, vehicle manufacturers have been hit the hardest by the disruption, with 92% reporting a severe or moderate impact on their business because of it. Part and product manufacturers (86%) are also feeling this as well. Distributors are likely feeling double the impact of it in terms of both sourcing product and getting it to retailers.

Smaller companies that lack buying clout are finding it especially difficult to get product. Retailers are finding it difficult to find product to sell. Manufacturers are finding it difficult or expensive to get inputs for their production lines or are finding that they are incredibly expensive. For some companies, the prices for components or shipping them have gone up so much that it is no longer profitable to keep making some products (for at least the time being).

Nearly all companies within the specialty-equipment industry said they were impacted by the supply-chain disruption in 2021.

Source: SEMA Survey Conducted in Late 2021 Among SEMA Show Attendees and Exhibitors.
Over the last six months, have supply chain challenges impacted your company's operations?

WHAT ISSUES HAVE INDUSTRY COMPANIES FACED?

The specialty-equipment industry faces different challenges when it comes to the supply chain disruption. Manufacturers and distributors face a wide variety of shipping and production delays, both foreign and domestic. While retailers face more domestic supplier issues.

To get around these challenges, some companies have looked for sourcing things from alternative suppliers. This is a lot easier said than done. Many businesses looking to source domestically have had difficulty finding vendors—particularly ones that can match prices from Asia. Another factor driving companies to find other suppliers: tariffs. Existing tariffs set in place prior to the pandemic continue to impact international shipping, compounding already high prices for inputs and products.

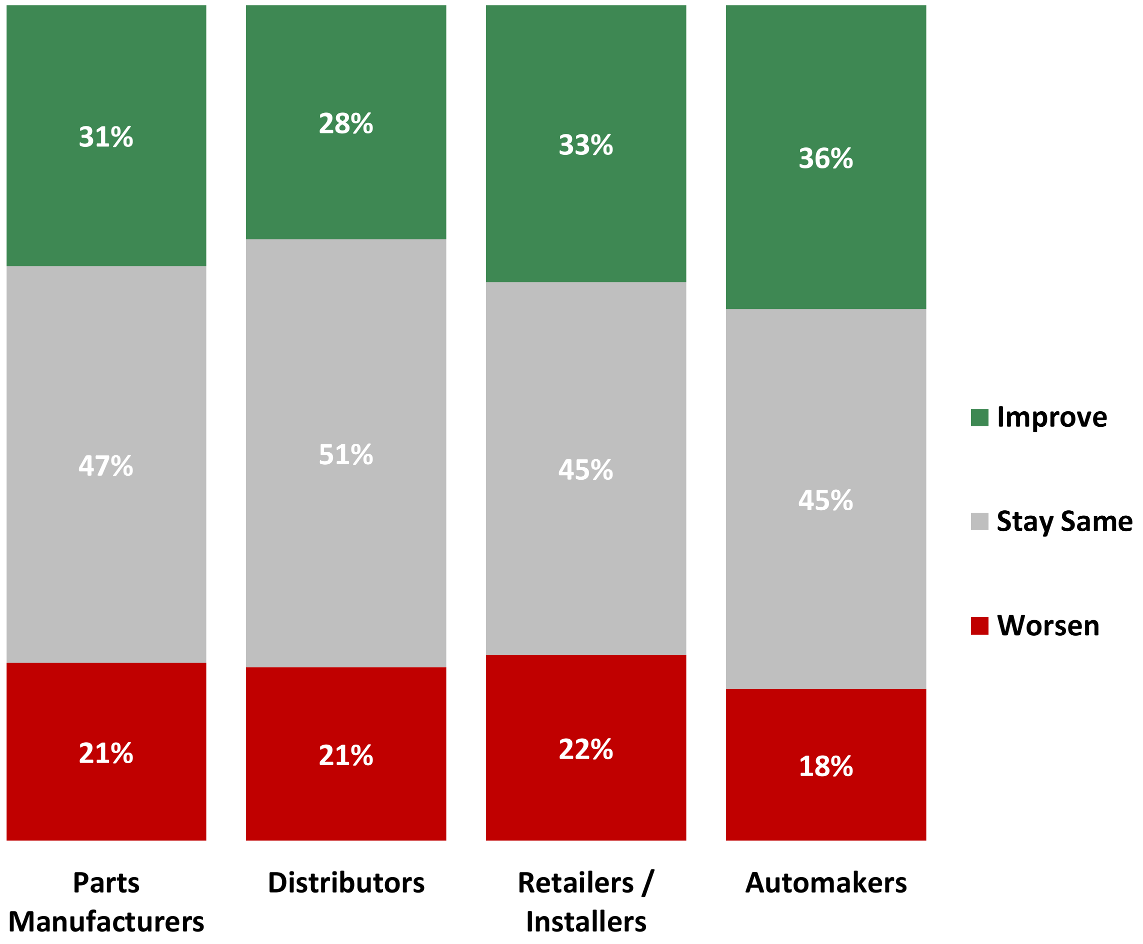
Types of Supply Chain Issues Experienced

		Parts Manufacturers	Distributors	Retailers / Installers	Automakers
Shipping Disruptions	Foreign Suppliers	61%	68%	45%	73%
	Domestic Suppliers	52%	55%	61%	64%
Production Disruptions	Own Factories	55%	57%	40%	74%
	Foreign Suppliers	52%	66%	40%	73%
	Domestic Suppliers	52%	60%	60%	66%
Difficulty Finding	Domestic Suppliers	37%	37%	38%	51%
	Foreign Suppliers	31%	38%	20%	43%
	Issues Shipping to Consumers	42%	46%	27%	40%

Source: SEMA Survey Conducted in Late 2021 Among SEMA Show Attendees and Exhibitors.
Has your company experienced any of the following in the past 6 months?

INDUSTRY COMPANIES DON'T EXPECT SUPPLY ISSUES TO WORSEN

Industry Expectations for Supply Chain Disruption in 2022



In the short term, over the next few months, most companies within the industry don't anticipate the supply chain disruption to get worse. Most think it will stay the same or get better. All signs suggest that the worst of the supply chain disruption has already passed, and things should be in a better place by the end of 2022. Some things, including price, may take longer and bleed into 2023.

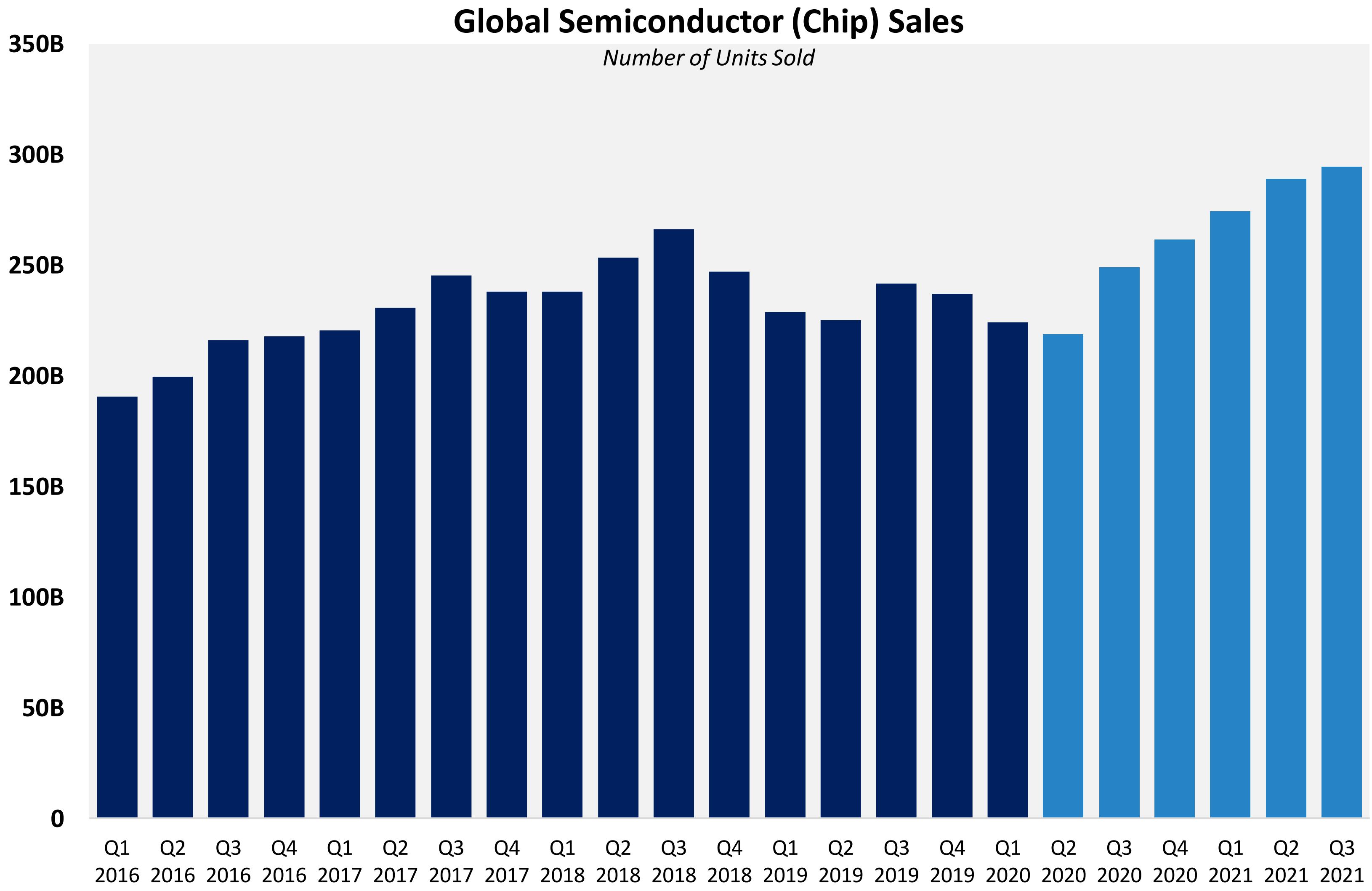
Chip inventory levels should improve by Q2 or Q3 2022, as production capacity increases to meet demand. Despite this, it's not likely the auto industry will be back to pre-pandemic sales until 2023.

A lot of the supply issues with shipping, including the port delays, should ease in the later half of 2022. Costs related to freight transport and commodities, however, may continue to stay elevated for some time.

Companies are optimistic that the worst of the disruption has already passed, and things should be in a better place by the end of 2022.

Source: SEMA Survey Conducted in Late 2021 Among SEMA Show Attendees and Exhibitors.
Over the next few months, how do you think the supply chain disruption will change?

THE GLOBAL CHIP SHORTAGE STARTED BEFORE THE PANDEMIC



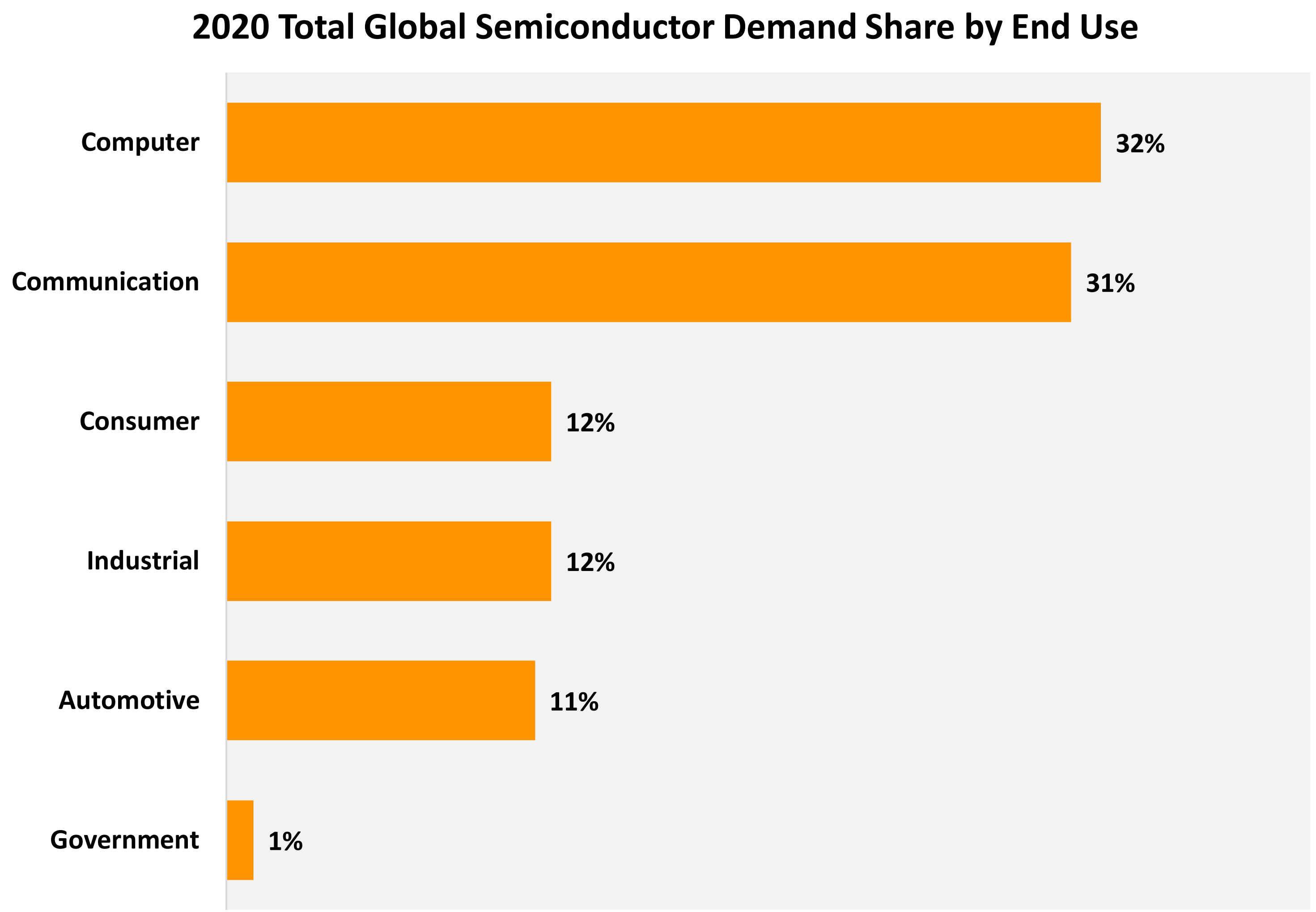
In 2020 and 2021, robust consumer demand for technology products pushed almost all major product categories that purchase semiconductors to double-digit growth rates. As of Q3 2021, global semiconductor sales have grown for five quarters in a row. This surge in demand has led to supply shortages and strained production capabilities.

To meet these growing needs, semiconductor factories worldwide have been running at beyond their full capacities for months. Firms have been investing to increase their production capacities, but inventory is still in tight supply. **Things could start to ease in Q2 or Q3 2022, as new production capabilities come online, and the industry gradually gets back to its normal cycle.**

To build a new semiconductor fabrication plant takes 18-24 months on average. To increase chip production in the short term, capacity utilization needed to increase, and that is what the industry has been doing to keep up with demand.

However, signs that semiconductor production was already strained showed up well before the pandemic started. Since the first quarter of 2019, fabrication capacity has run well above what is considered their ”full” production rate utilization (which is around 80%). In recent quarters, it has been over 95%. Since January 2020, the average number of chips produced per month increased by 2 million. By October 2021, production increased by 3 million more than in January 2020. The signs were there that there was an issue prior to the pandemic. The surge in demand because of the pandemic just set production over the edge.

AMID THE SHORTAGE, THE AUTOMOTIVE SPACE IS COMPETITING WITH MANY OTHER SECTORS



Semiconductors are a vital component of modern electronics and infrastructure. Everything from computers to phones to automobiles to missiles and anything electronic in between use microchips to run. When there is a shortage, it affects a lot of different products and industries. Automobiles have been the most notable instance, but even they only accounted for 11% of semiconductor demand in 2020.

There are many different factors that led to the current shortage. Signs that there was an impeding shortage were already showing prior to the pandemic. There was just not enough capacity to meet growing consumer demand. Other factors include the shift towards widespread remote work (and needed technology), the unexpected growth in automotive demand that started in the second half of 2020, the automotive industry's procurement model, extreme weather events, such as the Texas freeze and the Taiwan drought, that hit several semiconductor manufacturing hubs, and the time needed to put together new manufacturing lines.

The automotive sector was hit especially hard by the shortage because of how they anticipated demand would change at the beginning of the pandemic, as we'll explore next.

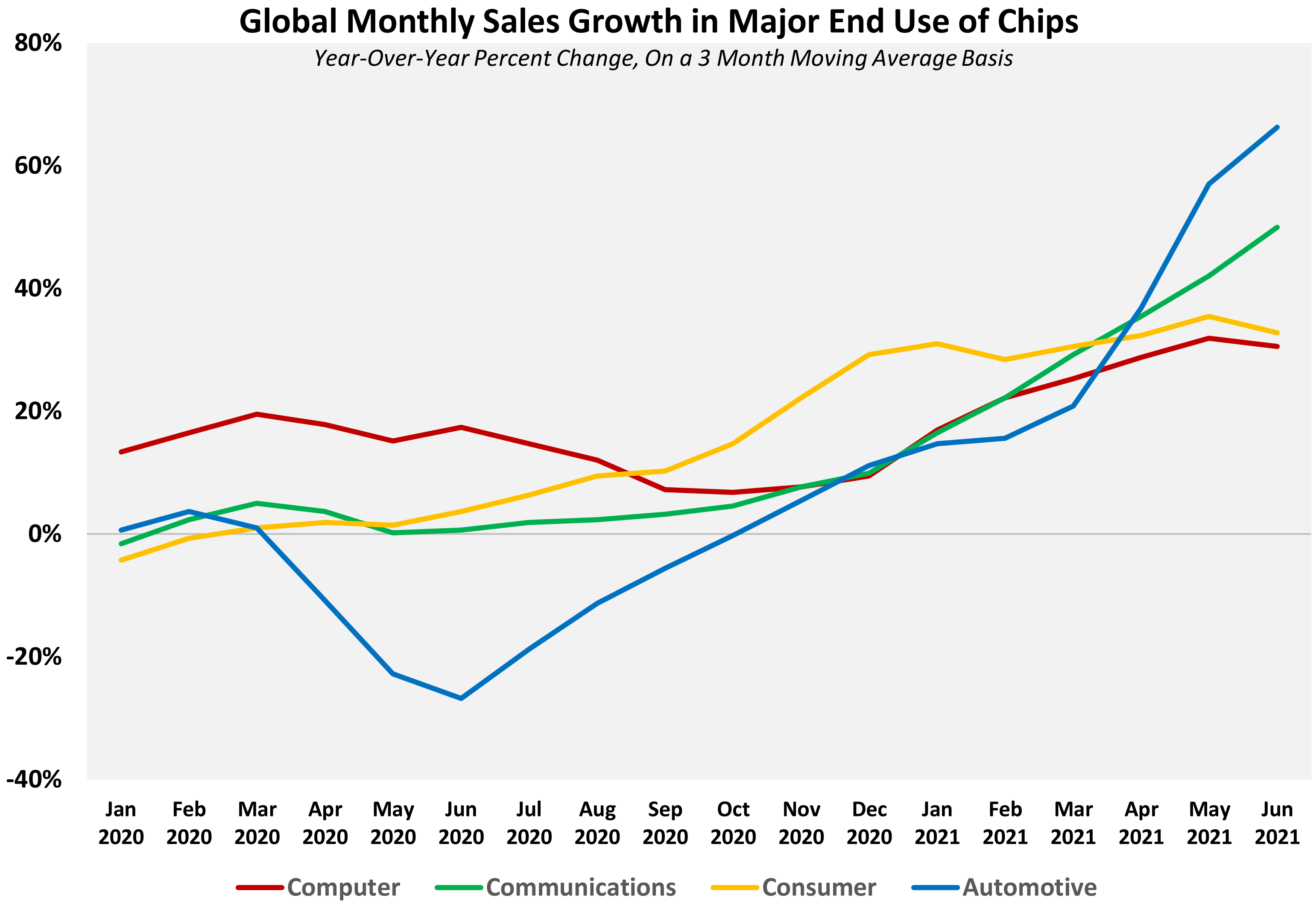
Source: Semiconductor Industry Association, "2021 State of the Industry Report."

EXPECTED REDUCED DEMAND FOR CARS LED TO THE CURRENT SHORTAGE

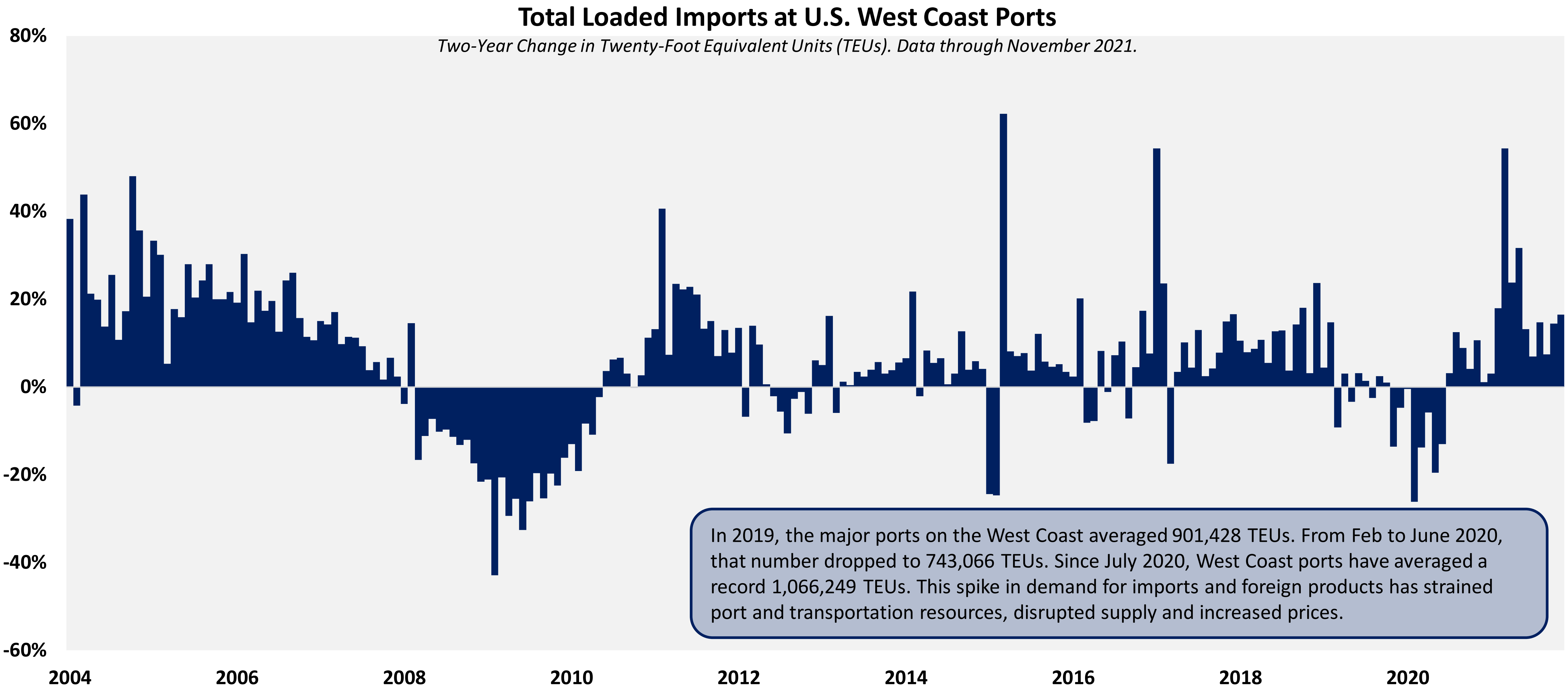
In the early half of 2020, as vehicles sales slumped in the early part of the pandemic as the virus spread, most automakers cut back on their future chip orders, anticipating reduced demand for an extended time—which is usual during a typical recession.

However, when demand quickly returned and car sales soared in the later half of 2020, the automakers were unable to restore their chip orders because the tech industry had snatched up their supply. While monthly sales for the automotive industry slumped in mid-2020, other sectors increased. This put the automotive industry behind other sectors for the available supply. This, on top of ongoing production issues for chips because of the pandemic or weather, put the auto industry in the situation it currently finds itself.

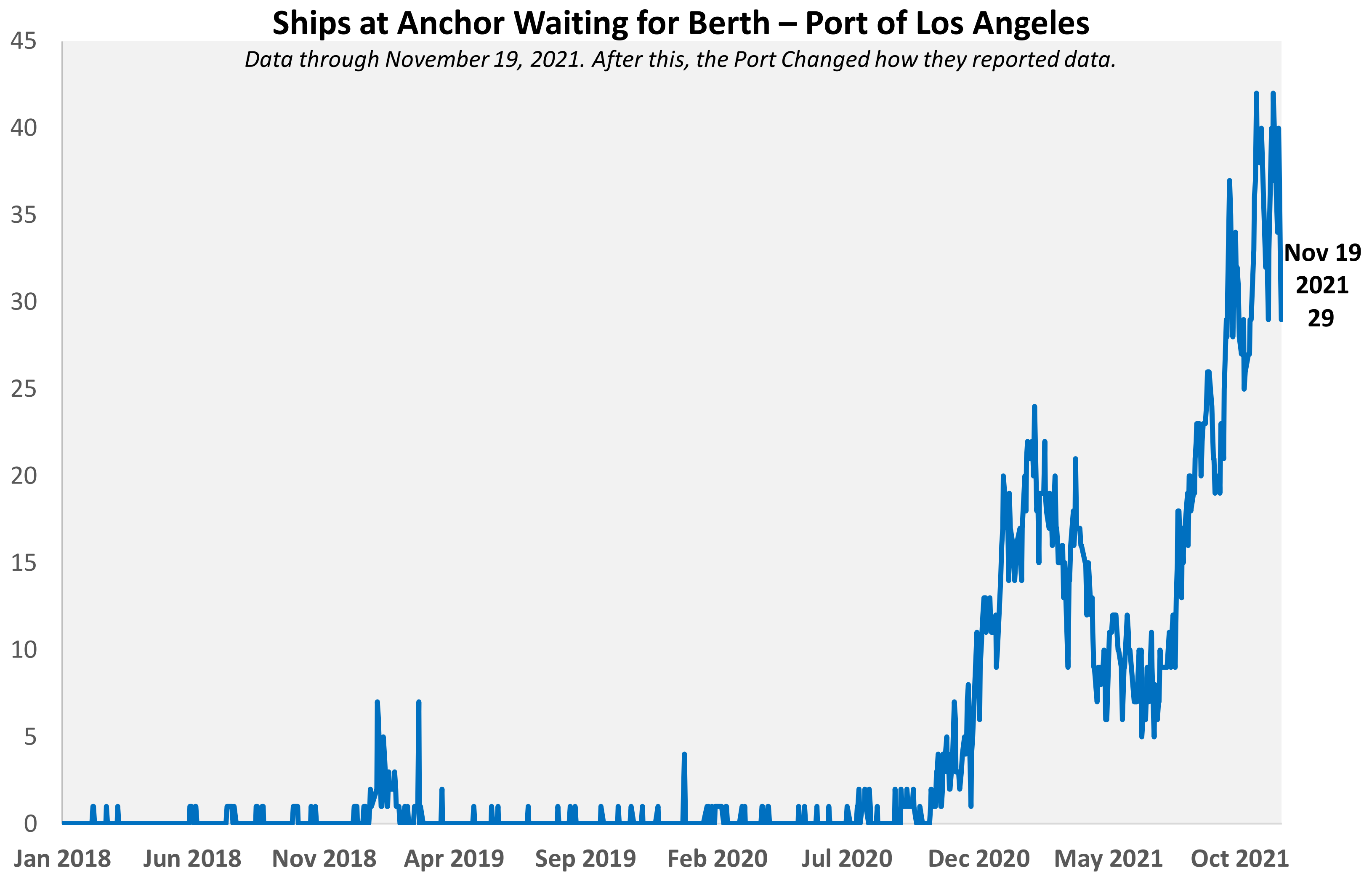
While chips are one of the most high-profile supply issues, it's not the only one the automotive industry is facing. Everything from resin, to steel, to available truck drivers, and even to labor shortages have contributed to reduced production and low inventories. Auto sales will likely not fully recover until 2023, but chip inventory should get back to normal levels in 2022.



IMPORTS ACCELERATED IN THE AFTERMATH OF THE PANDEMIC, AND THEN EXPLODED DUE TO DEMAND



BACKLOG AT WEST COAST PORTS CONTINUES

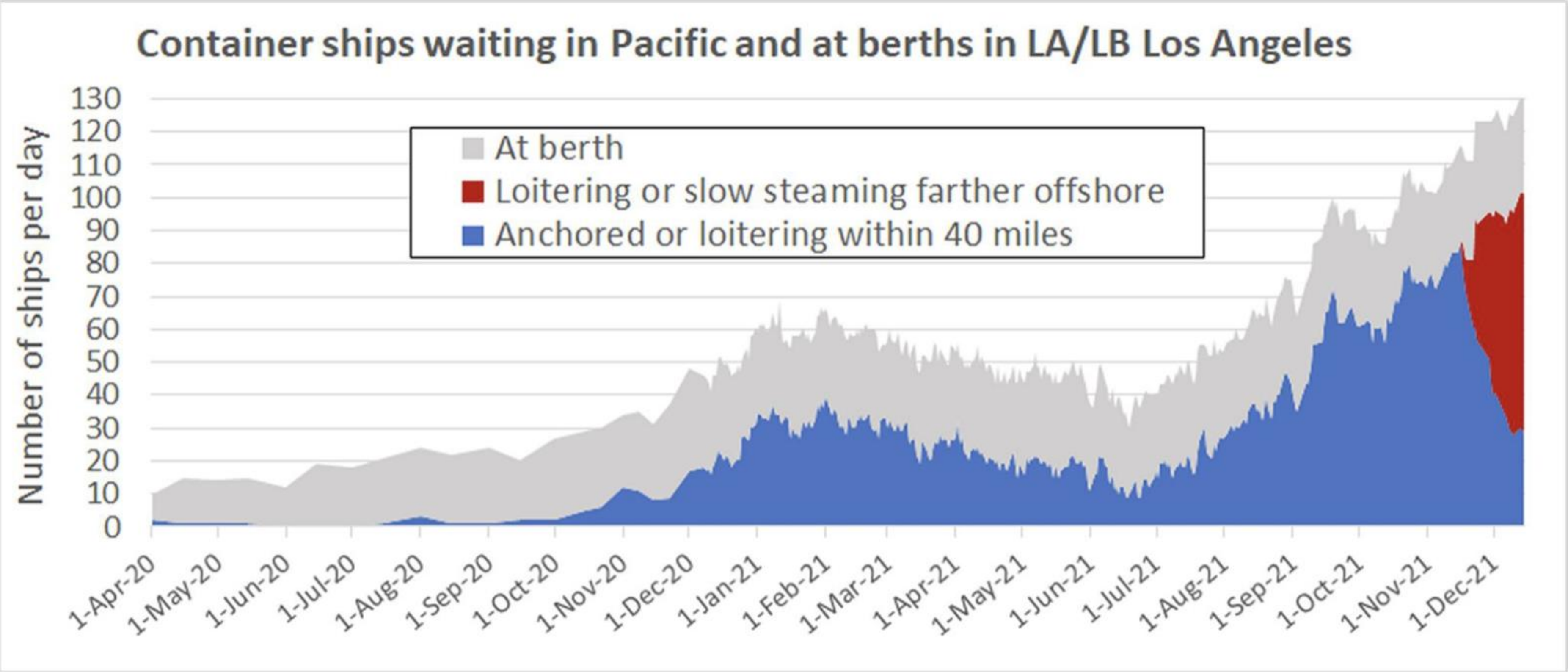


Much of current media attention on the supply chain disruption in 2021 has been on the shipping congestions at West Coast ports. Many ships are waiting to get a berth at the ports to unload their cargo.

The biggest and most widely covered backup is currently at the Port of Los Angeles. As of November 19, the latest in which there was trended data from the port, there were 29 ships waiting at anchor. That number is deceptive, however, as there are more ships farther off at sea. Beginning November 16th, both the Port of Long Beach and the Port of Los Angeles began having ships wait further out which decreases the number of ships waiting at anchor.

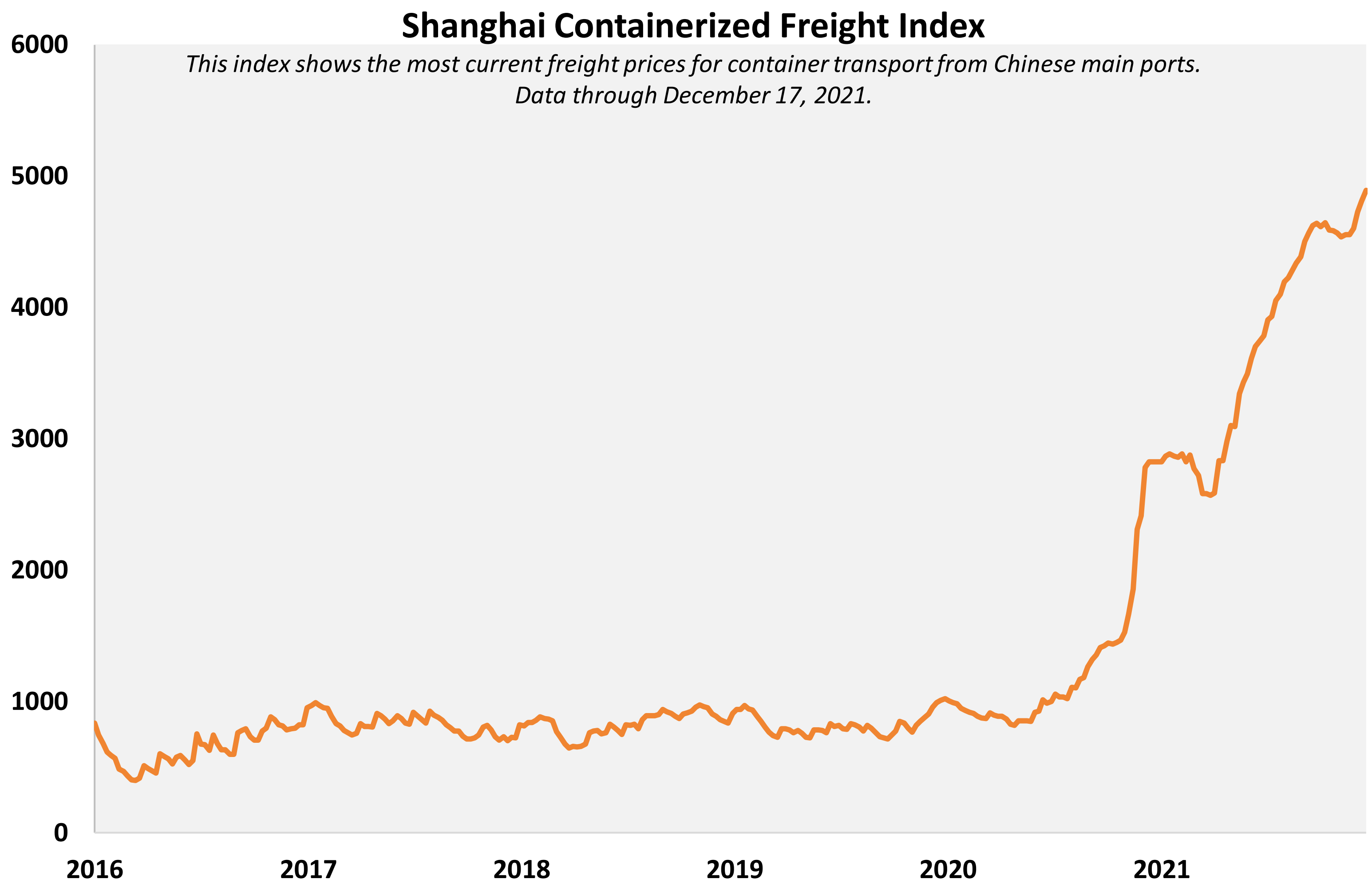
Companies are hurt when cargo ships pile up at ports, causing delivery delays and leading to widespread price increases for supplies. And its not just getting the products into the port. It's also having enough truck drivers to take the cargo from the ports to their destinations across the country. **Delivery disruptions may persist for some time, but SEMA Market Research forecasts that the backup at the port should resolve or return to more normal levels in the later half of 2022.**

IS THE PORT BACKLOG GETTING BETTER?



An important question for the ports is whether the backlog is getting better, particularly around those in Los Angeles. While the absolute number of ships anchored or loitering within 40 miles of the ports has decreased, a significant number of ships are still loitering or slow steaming farther offshore. When the Port of Los Angeles says ships anchored have dropped 40%, it's because they've held them back farther offshore. The absolute number of ships docked or trying to enter western ports was at its highest level in the last two years at the end of 2021. Being delayed entry at port disrupts the global trade system, as it affects subsequent deliveries and the overall flow of ship traffic across the ocean. While bad now, the backups should resolve in the later half of 2022—particularly as demand starts to normalize.

RATES FOR SHIPPING CONTAINERS REMAIN HIGH, BUT EXPECTED TO DECLINE IN 2022

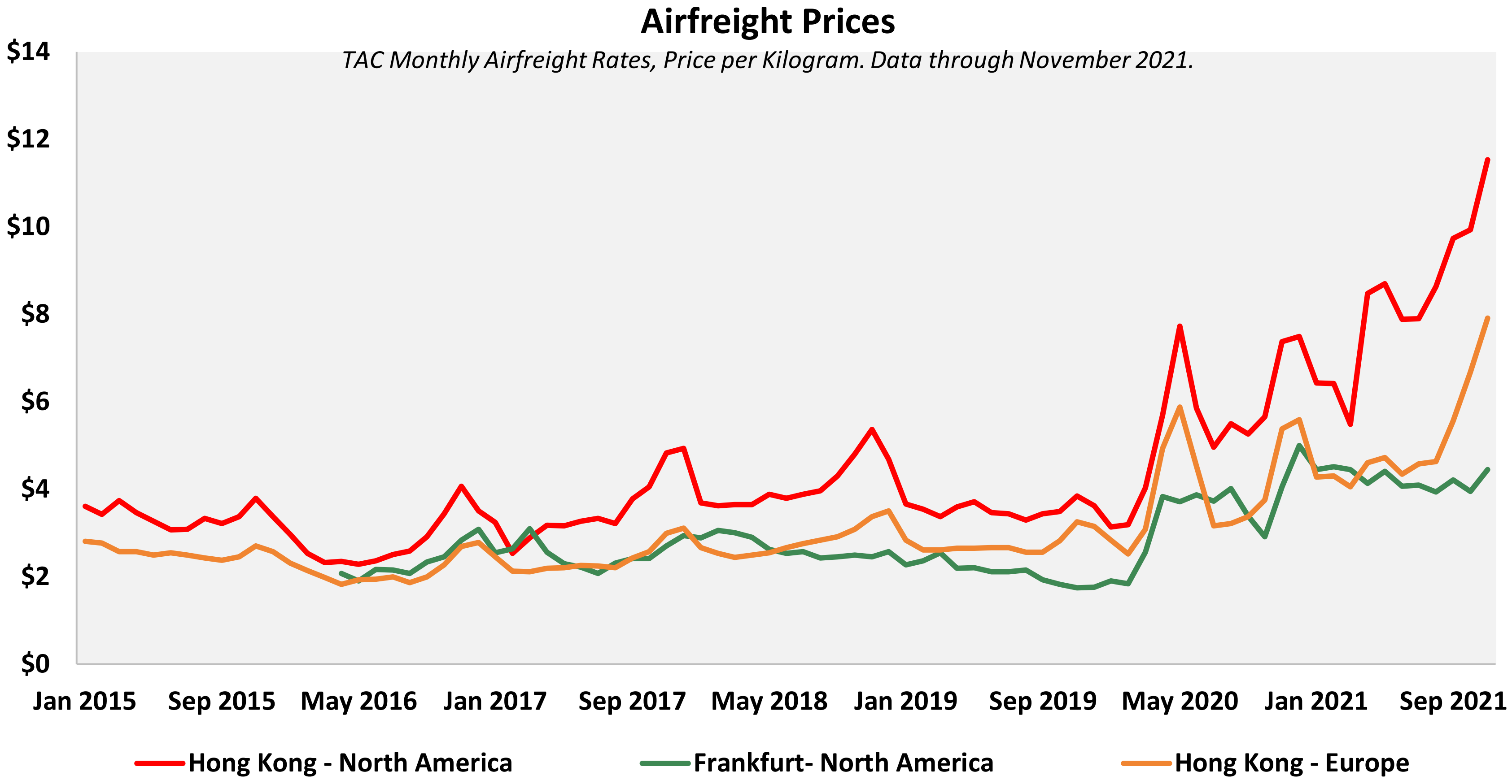


As a result of shipping delays and container shortages, container rates have skyrocketed. As of mid-December 2021, freight shipping prices from Chinese main ports have reached record highs. Prices are 73% higher than they were in December 2020, and up nearly 400% compared to December 2019. SEMA Market Research does not expect prices to move much higher but instead remain at very elevated levels for the short term. Container prices are expected to decline somewhat in the first half of 2022, before falling in the second half of the year. However, prices are unlikely to return to 2019 levels before 2023.

Prices are very expensive right now. Some industry companies have reported that what would have cost $5,000 to ship across the ocean before the pandemic are now costing almost $25,000. Sometimes the cost to ship at times is almost as valuable as the product on board. This is not sustainable, without at least passing costs onto the consumer. **SEMA Market Research anticipates 2022 will be a better year for shipping as delays resolve but expect prices to remain elevated for some time.**

As of mid-December 2021, rates for shipping containers are 73% higher than 2020, and up nearly 400% compared to 2019.

AIRFREIGHT RATES ARE UP SIGNIFICANTLY, DUE TO REDUCED CAPACITY



Region	Available Seats/Capacity (Nov 2021 v. Nov 2019)
Africa	-25%
Asia	-34%
Europe	-26%
Latin America	-17%
Middle East	-32%
North America	-13%
Southwest Pacific	-64%
Global	-27%

Prices for other forms of cargo transportation are also up, including airfreight. Airfreight rates are up 30% to 80%, depending on the route. Much of this rate increase can be attributed in part because capacity is down. Roughly half of airfreight capacity is in the belly hold of commercial airlines. Globally, airline seat capacity is down 27% in November 2021 compared to November 2019. Less capacity, as well as increased demand, has led to competition for available space and driven up costs—much like sea shipping.

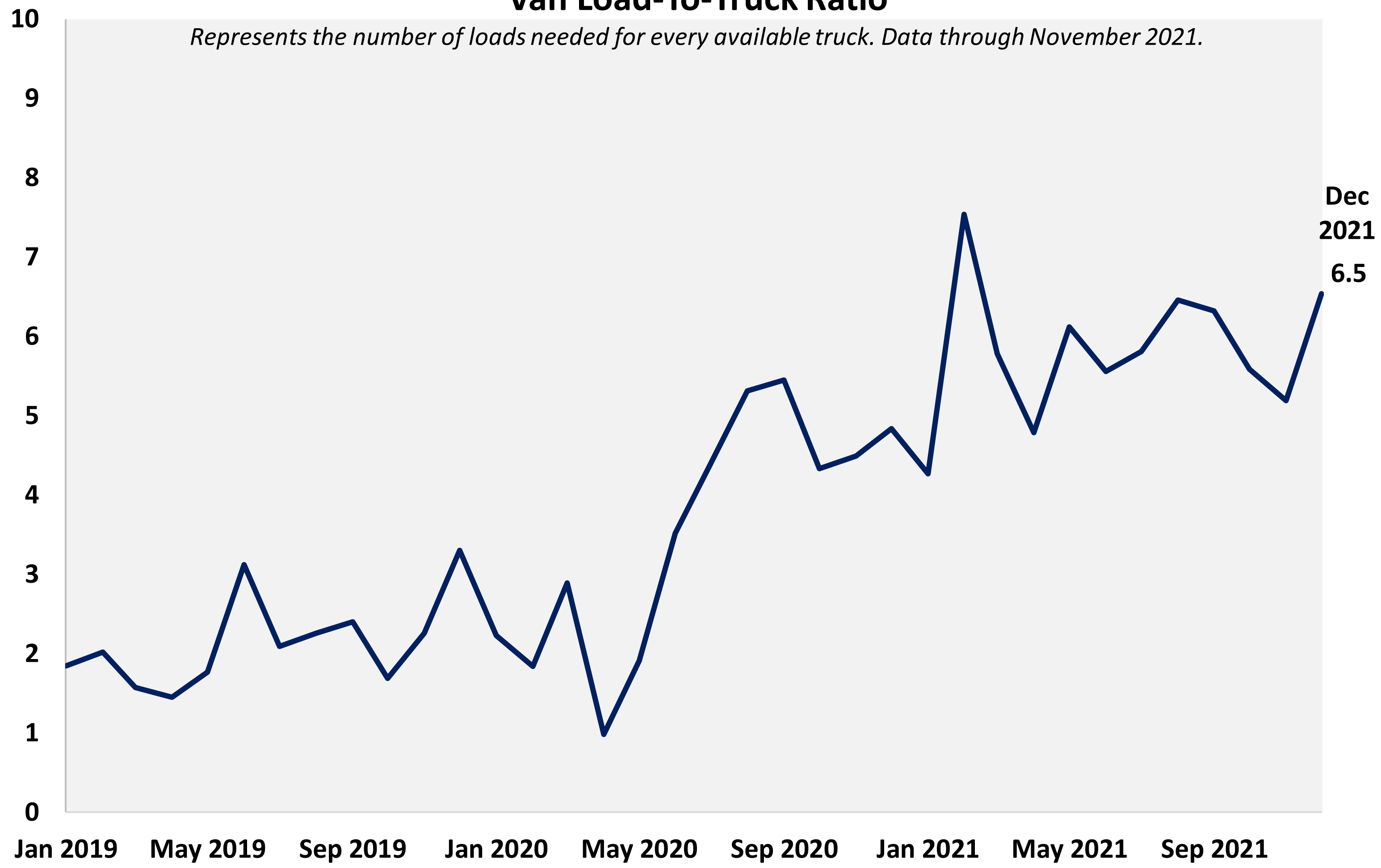
THERE ARE NOT ENOUGH TRUCKS TO MEET SHIPPING DEMANDS

Trucking prices are also up. Getting product from the ports to factories or to retailers is an important part of the supply chain. Unfortunately, the United States is experiencing a shortage of more than 80,000 truck drivers, according to an estimate form the American Trucking Associations (ATA). Roughly 72% of America's freight transport moves by trucks. This shortage is affecting many industries, including those that ship meat to stores or gas to pumps. This is not a new problem—there has been a shortage for years. However, supply chain disruptions and surges in demand over the last 2 years in the U.S. has made the issue much worse.

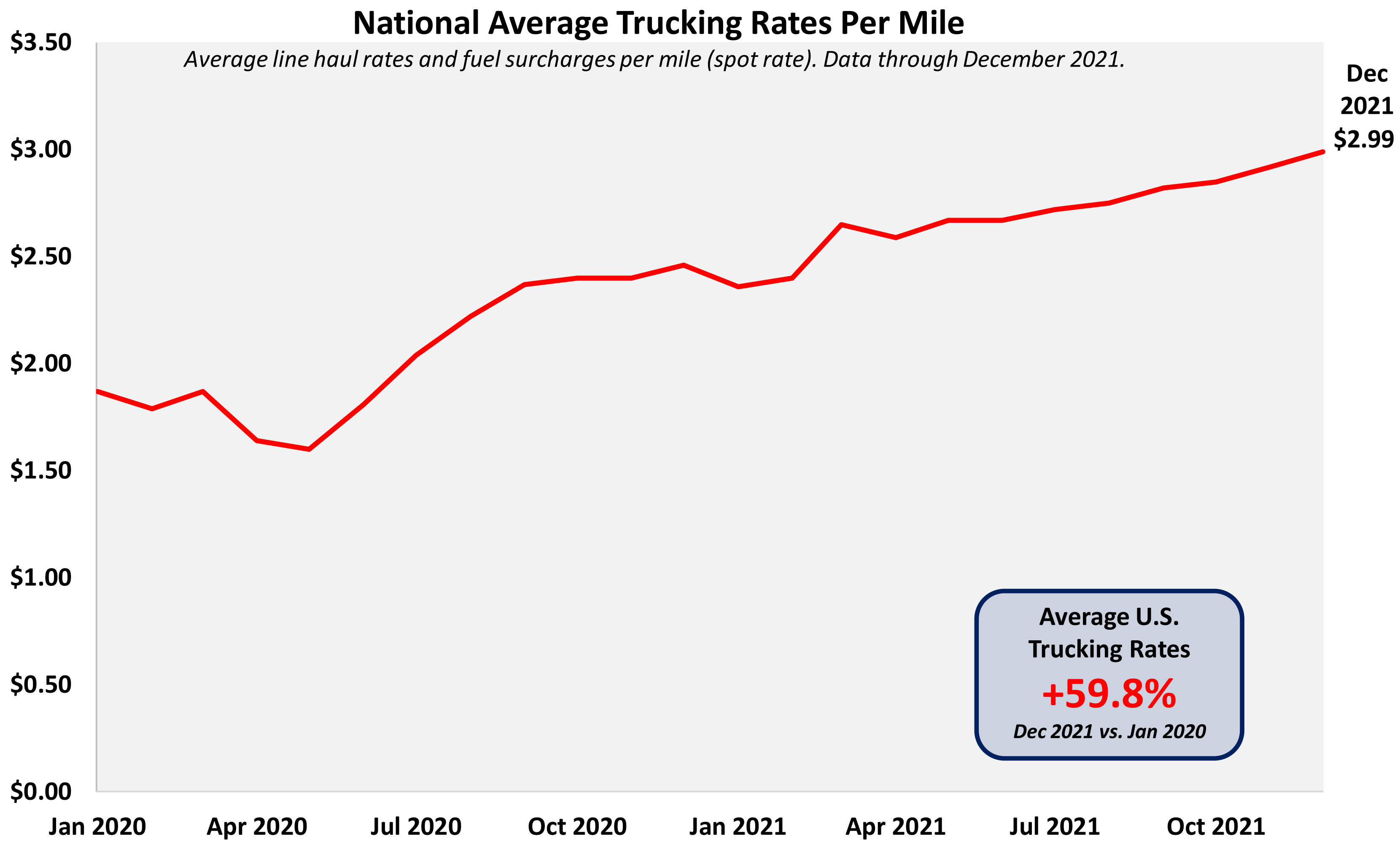
Transportation demand is up significantly, which has reduced the available capacity and increased costs significantly. The demand for trucking is over three times its pre-pandemic level. Prior to the pandemic, there were two loads for every truck available (van load-to-truck ratio of 2). However, as of December 2021, that ratio was 6.5. That means there is currently more than 6 loads for every truck available. This is affecting the prices of everything from groceries to gasoline to aftermarket parts and everything in between.

Trucking demand is less than what it was in February 2021, when adverse weather likely exacerbated existing constraints, but it rose again due to the holidays. **SEMA Market Research anticipates that it will take until Q3 2022 for trucking demand to return to more normal levels.**

Van Load-To-Truck Ratio



TRUCKING RATES ARE UP 60% FROM PRE-PANDEMIC LEVELS; WILL REMAIN ELEVATED THROUGH 2022



Because of the increased demand for transportation services and limited capacity, trucking rates in the United states have gone up significantly. Rates are up nearly 60% versus pre-pandemic levels in January 2020. Average national line haul rate and fuel surcharges for trucks have risen from $1.87 per mile in January 2020 to $2.99 in December 2021—more than a dollar more on average.

The rapid rise in prices has likely ended, but given higher fuel costs, rates are likely to remain elevated through the first half of 2022. We anticipate rates will be around $2.60 by the end of 2022, before dropping further in 2023 as demand and supply chain issues resolve themselves.

COMMODITY PRICES ARE EXPECTED TO REMAIN HIGH IN 2022, PUTTING PRICE PRESSURE ON AUTO PARTS

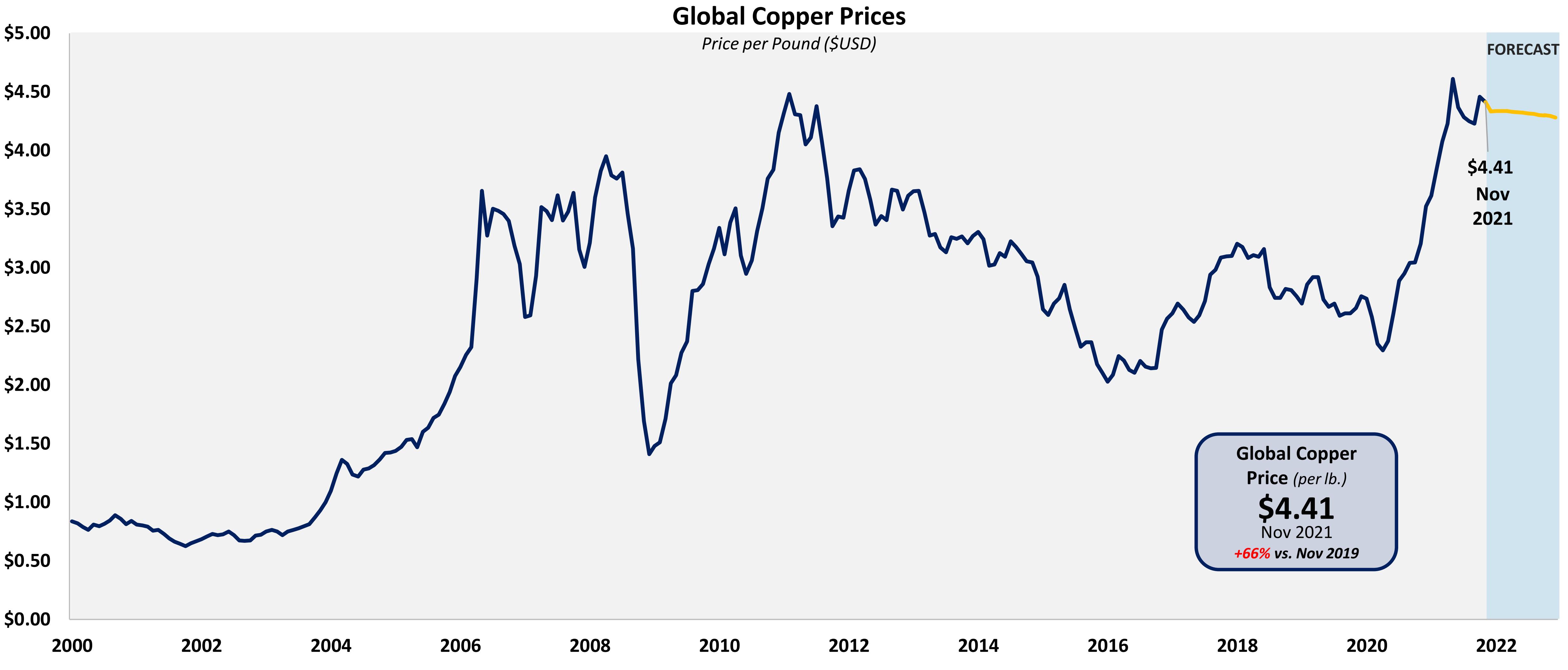
Prior to the pandemic, commodity prices had been holding relatively steady. In February 2020, oil prices were around $64/barrel, copper was steady around $2.74/pound, and aluminum was slightly above $0.81/pound.

Acute uncertainty in the earliest months of the pandemic drove prices down significantly over a very short time. Oil averaged just $17/barrel in April 2020, the lowest level in over 20 years. Copper and aluminum were down 16.1% and 17.7% from where they started the year. As demand rose, prices followed. Today, oil is just over $70 per barrel. This is below the $81/barrel we saw in October—the highest levels we've seen in seven years. Aluminum and cooper are both near all-time highs. Steel prices are up 262% from 2019 levels, but this is coming off its peak in the later half of 2021.

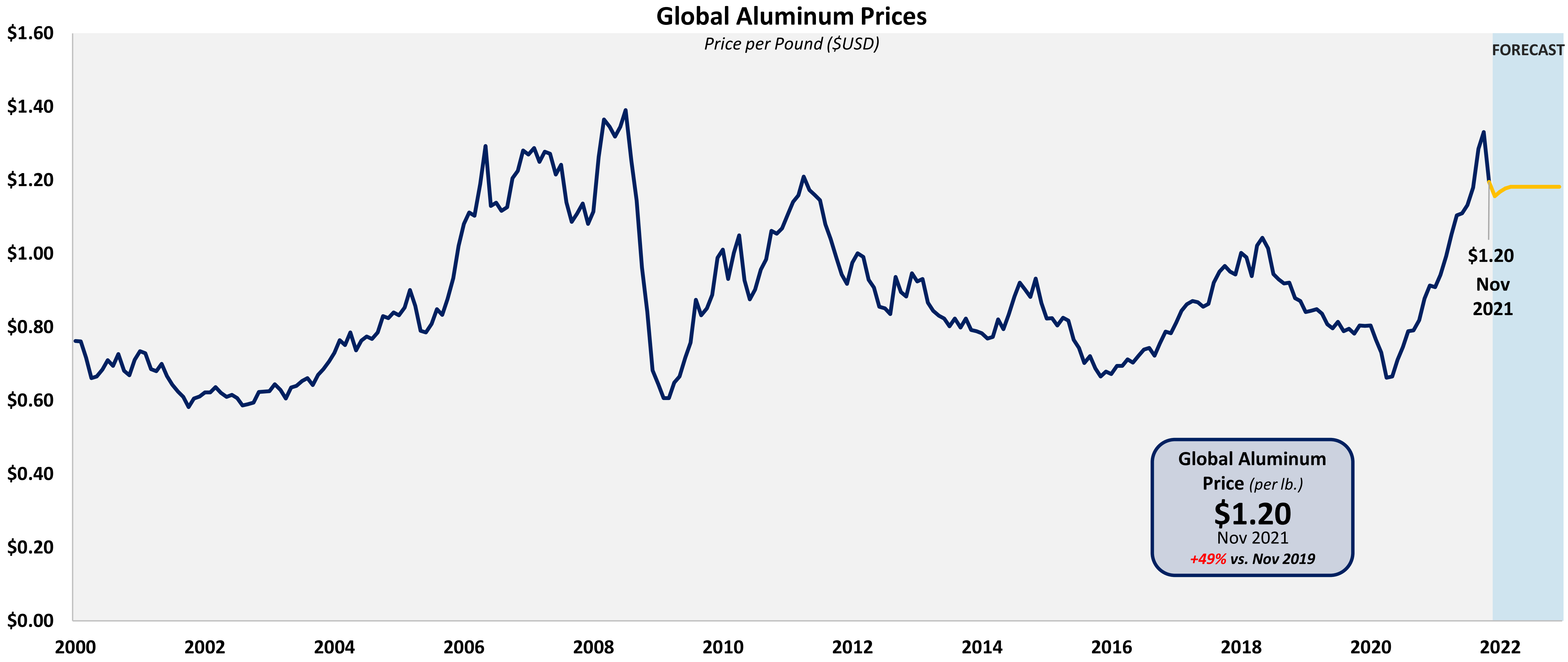
High commodity prices will put upward pressure on auto parts and accessories. Most manufacturers increasing prices because of higher costs appear to be issuing one or two step increases of 7%-15% to their customers, as opposed to smaller increases in consecutive months. Retailers and consumers will likely continue to feel an increase in the cost of auto parts for the time being, if they haven't already. This will be something to monitor in 2022. For now, demand remains very high.

Commodity	Current Price/Index	December 2022 Forecast
Copper ($/pound)	$4.41	$4.28
Aluminum ($/pound)	$1.20	$1.18
Steel (CRU Index)	1803	885
WTI Crude Oil ($/barrel)	$70.72	$66.19

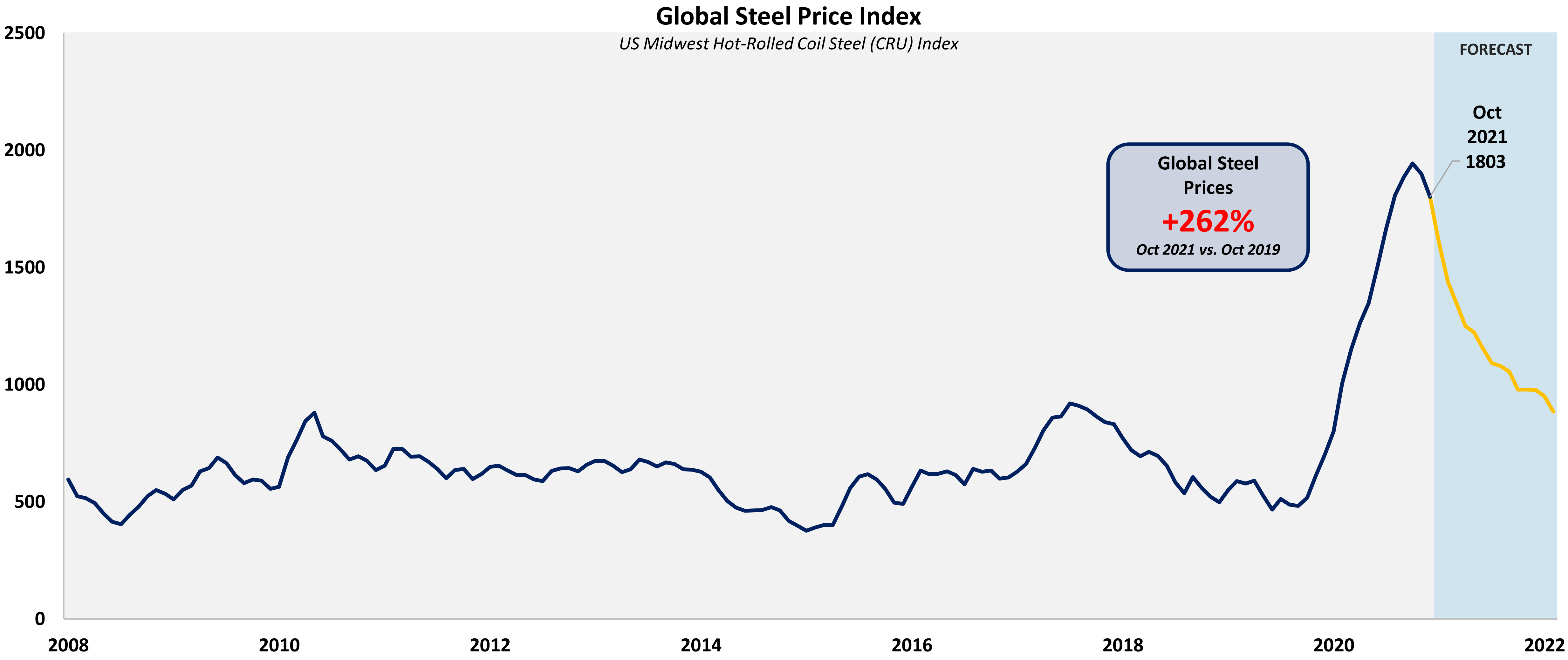
COPPER PRICES ARE UP 66% FROM 2019 AND WILL REMAIN ELEVATED IN 2022



ALUMINUM PRICES ARE UP 49% FROM 2019 AND WILL REMAIN ELEVATED IN 2022

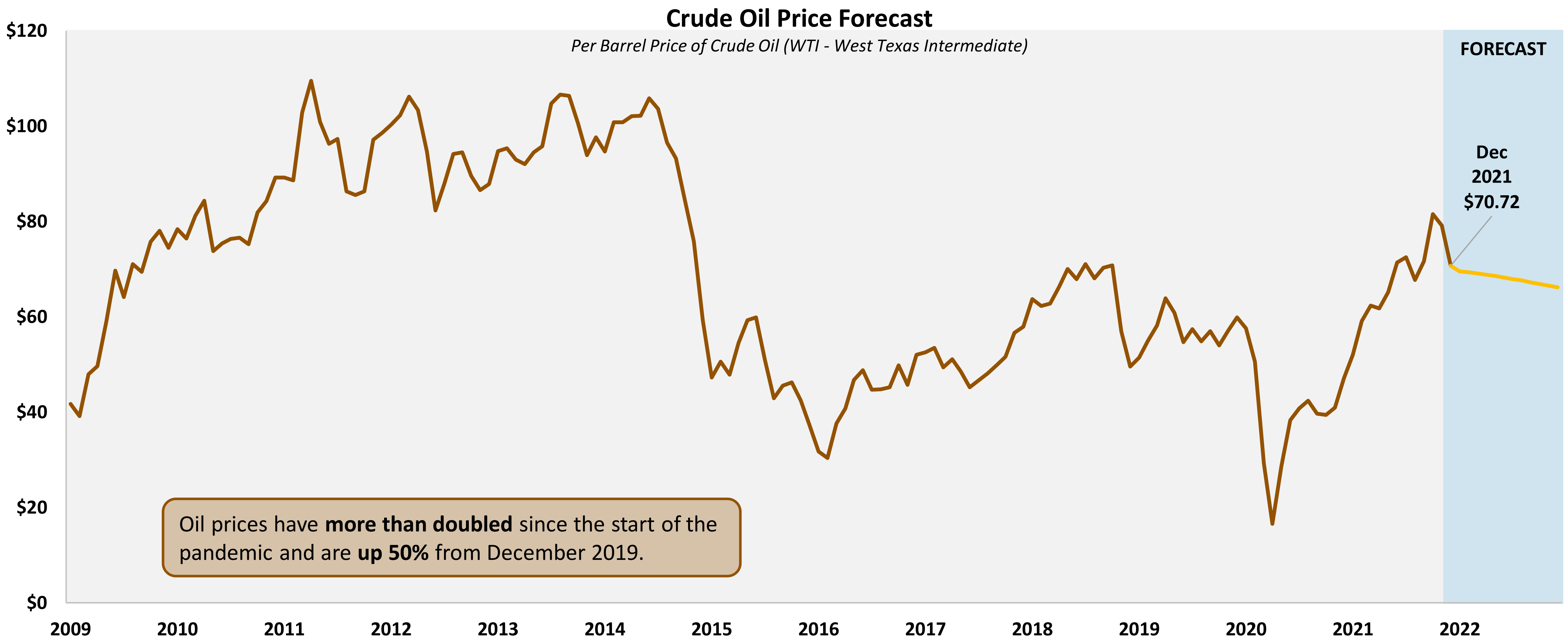


STEEL PRICES ARE UP 262% FROM OCTOBER 2019, BUT EXPECTED TO DECLINE IN 2022



Source: Aviro Institute / CME Group. Index data available through October 2021.

OIL PRICES SHOULD DECLINE, BUT WILL REMAIN ABOVE PRE-PANDEMIC LEVELS THROUGH 2022



CHANGING CONSUMER DEMOGRAPHICS

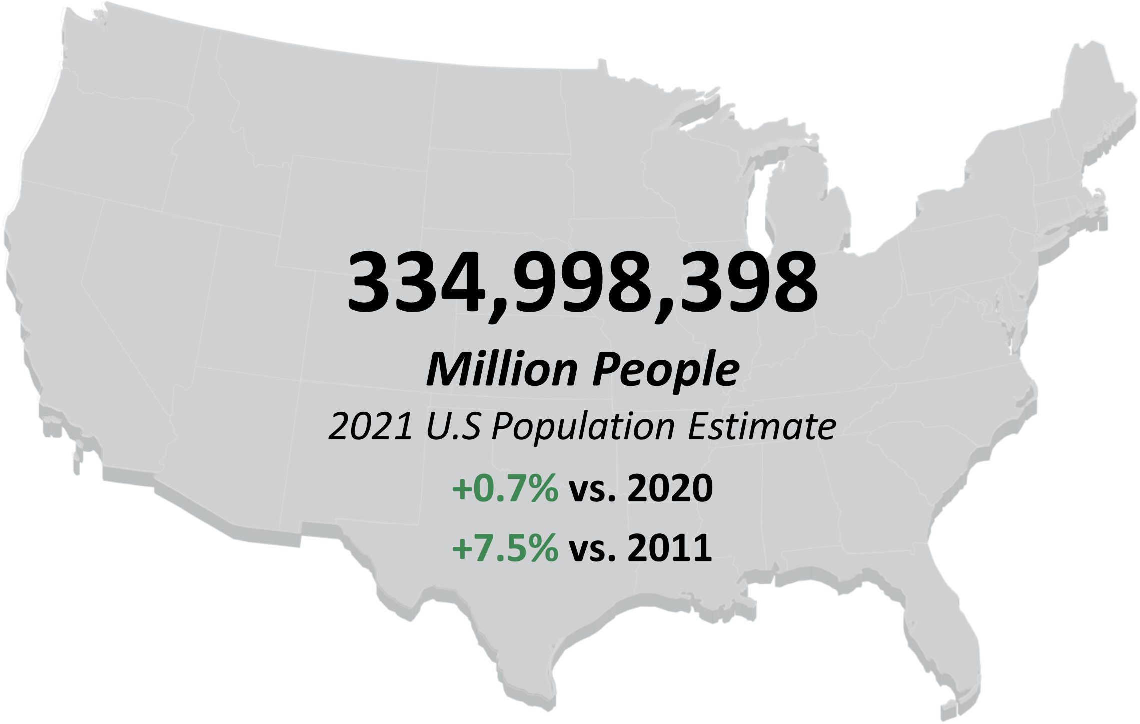
THE INDUSTRY'S CONSUMER BASE IS CHANGING

KEY TAKEAWAYS

The U.S. population is shifting. **Consumers connection to vehicles and accessorizing changes with life stage.** However, there are more young drivers today than ever before and younger buyers continue to be biggest market for specialty-equipment parts.

- **America is aging**. The number of Americans aged 65 or older are expected to grow by nearly 30 million in the next 30 years. Conversely, the number of Americans under age 35 is expected to grow by 6 million. Although outpaced by aging consumers, new young customers continue to age into driving.
- There are **more licensed drivers under the age of 25 today** than there were two decades ago. Although drivers license rates have slipped somewhat lower over that time.
- **Nearly 70% of specialty-equipment sales came from accessorizers under the age of 40.** Young people are an important part of the market. As America ages and older consumers stop accessorizing, young people replace them.
- **Younger consumers** tend to be more enthusiast-oriented with their modifications and live more enthusiast lifestyles than **older consumers**.

HOW MANY PEOPLE ARE IN THE UNITED STATES?



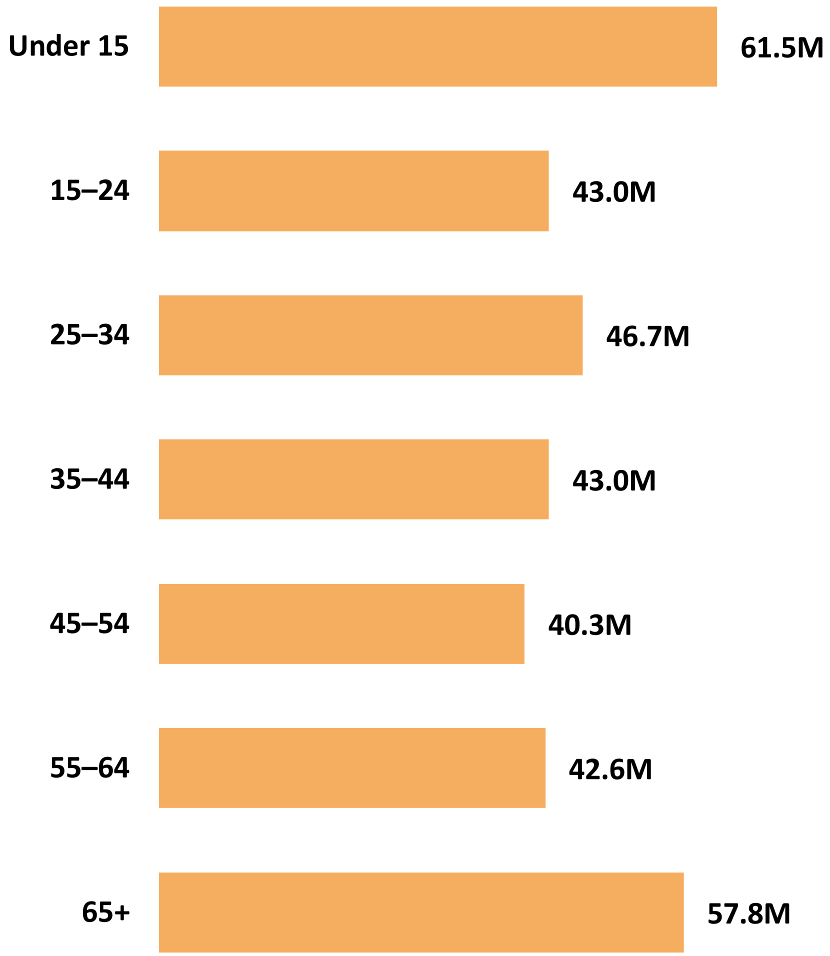
334,998,398

Million People

2021 U.S Population Estimate

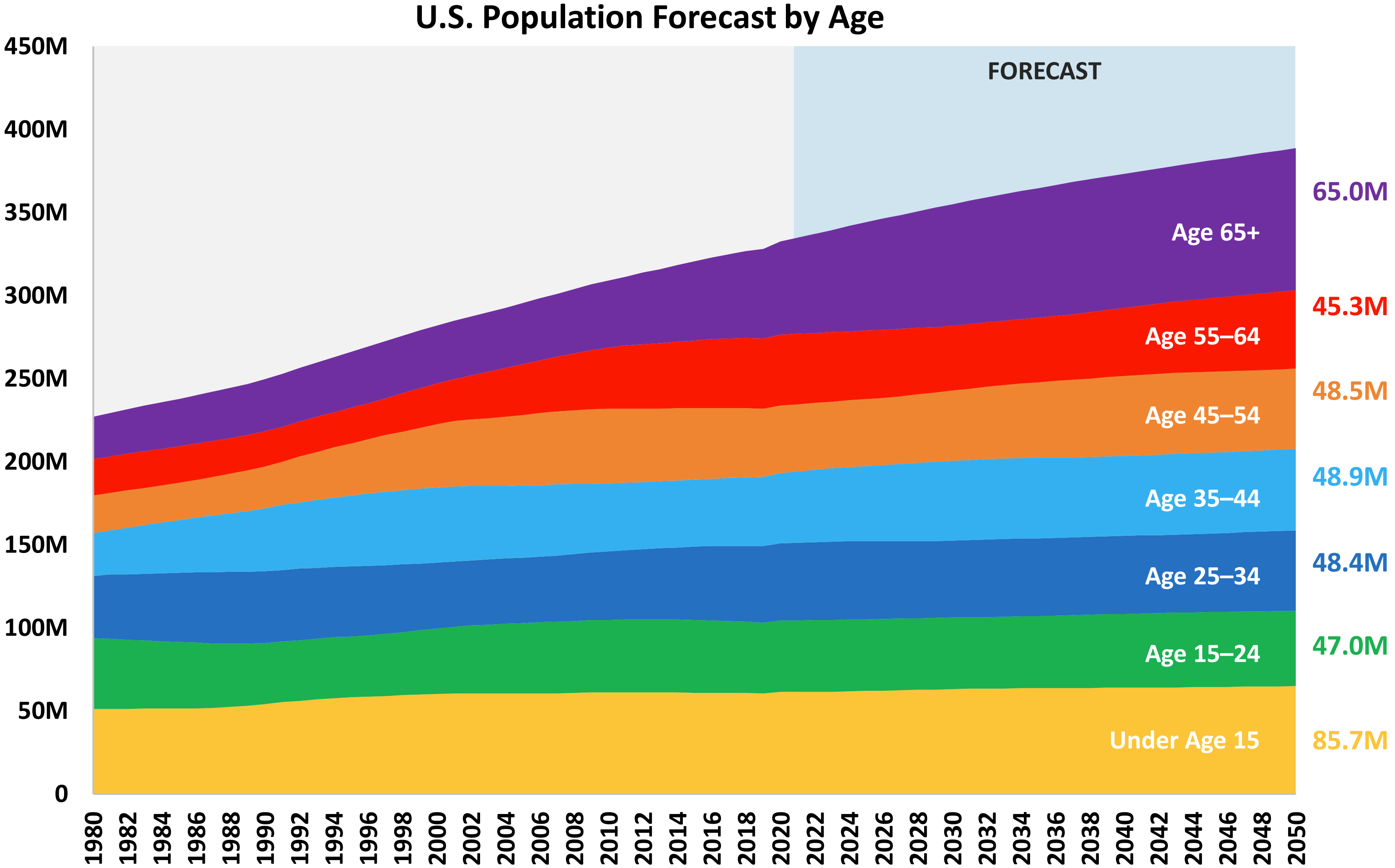
+0.7% vs. 2020

+7.5% vs. 2011



Official population figures from the 2020 U.S. Census have yet to be released but estimates for 2021 from the Organization for Economic Cooperation and Development (OECD) estimate the population to be just under 335 million people. This is among the slowest yearly growths in recent history, due to the pandemic, declining birth rates, and foreign migration.

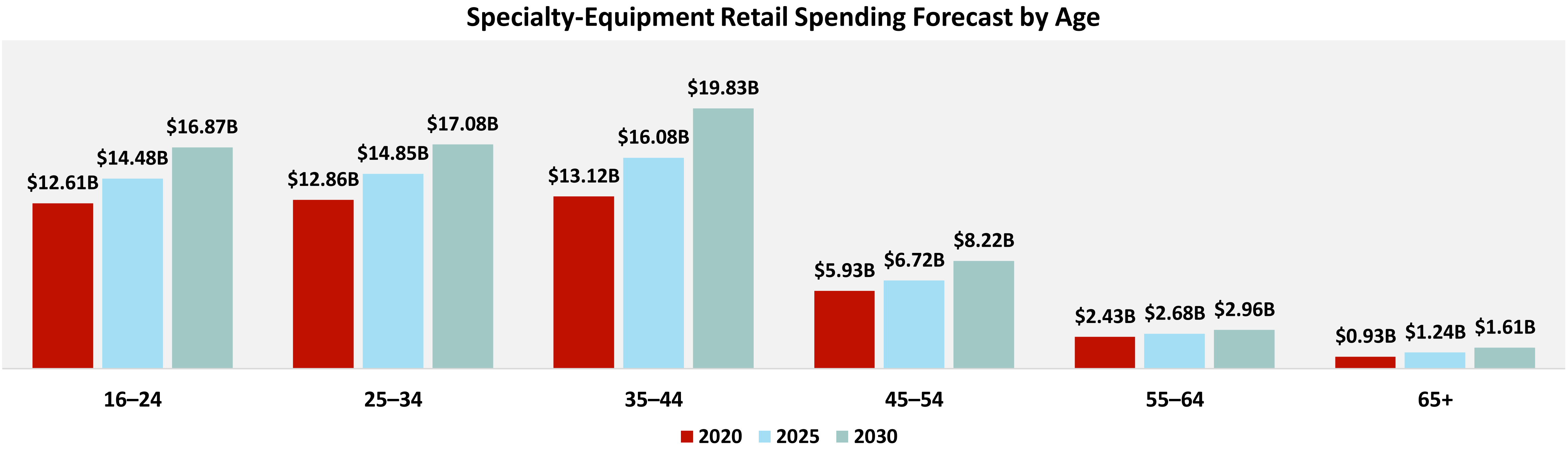
AMERICANS ARE GETTING OLDER



Because of continued low birth rate projections for the United States, America is getting significantly older. In 2020, it's estimated that there were 98 million Americans over the age of 55. By 2050, that number is expected to jump to 132 million. At the same time, the number of Americans aged 15–44 is expected to grow from 131.8 million in 2020 to 142.8 million by 2050.

What does this mean for the specialty-equipment industry? As people get older, they are less likely to accessorize. By the time drivers are 65, only 8% accessorize and only account for 2% of retail spend (as of 2020). There's a popular misconception that young people don't care about cars or accessorization. This couldn't be farther from the truth. Around 69% of specialty-equipment retail dollars comes from accessorizers under the age of 40. Even as population growth has slowed, new young people will continue to get their drivers licenses each year.

YOUNGER ACCESSORIZERS DRIVE RETAIL SPENDING IN THE SPECIALTY-EQUIPMENT INDUSTRY

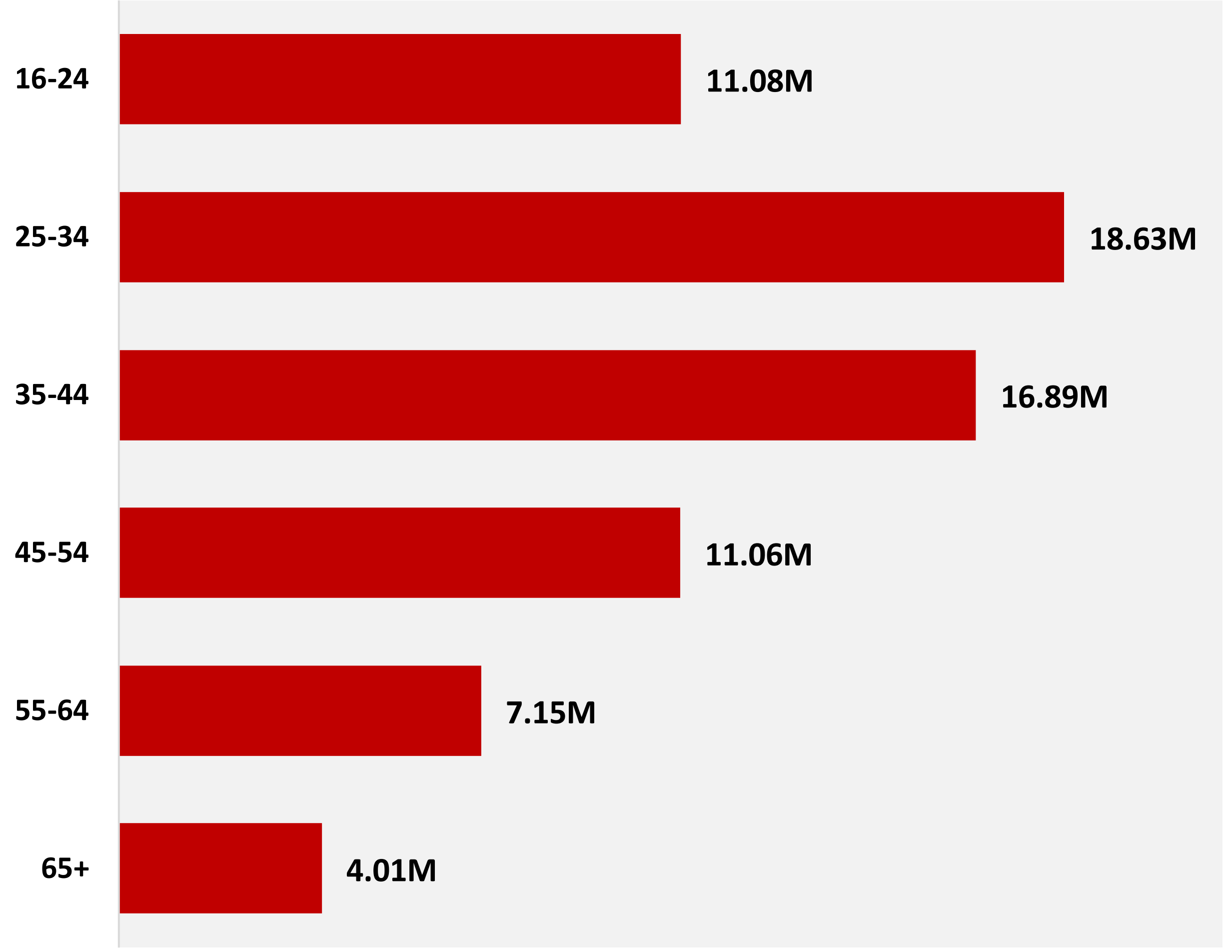


Young accessorizers, especially under the age of 40, make up the bulk of the specialty-equipment industry. In 2020, accessorizers under the age of 40 made up 69% of all retail dollars. Looking towards the future, SEMA Market Research expects retail sales to grow based on population shifts. The biggest jump in retail dollars will be among accessorizers age 35–44 (+$6.7 billion) by 2030, followed by 16–24-year-olds (+$4.25 billion) and 25–34-year-olds (+$4.22 billion). In 2030, accessorizers under the age of 45 will still make up 81% of retail sales. Even though older accessorizers are aging out, younger customers are coming into the industry, buying a lot of enthusiast parts, and spending a lot of money. This likely won't change in the next few decades or beyond.

69% **Of Retail Spending in In 2020 Came From Buyers Under 40.**

HOW MANY AFTERMARKET CUSTOMERS ARE THERE?

Total Number of Accessorizers in 2020 by Age



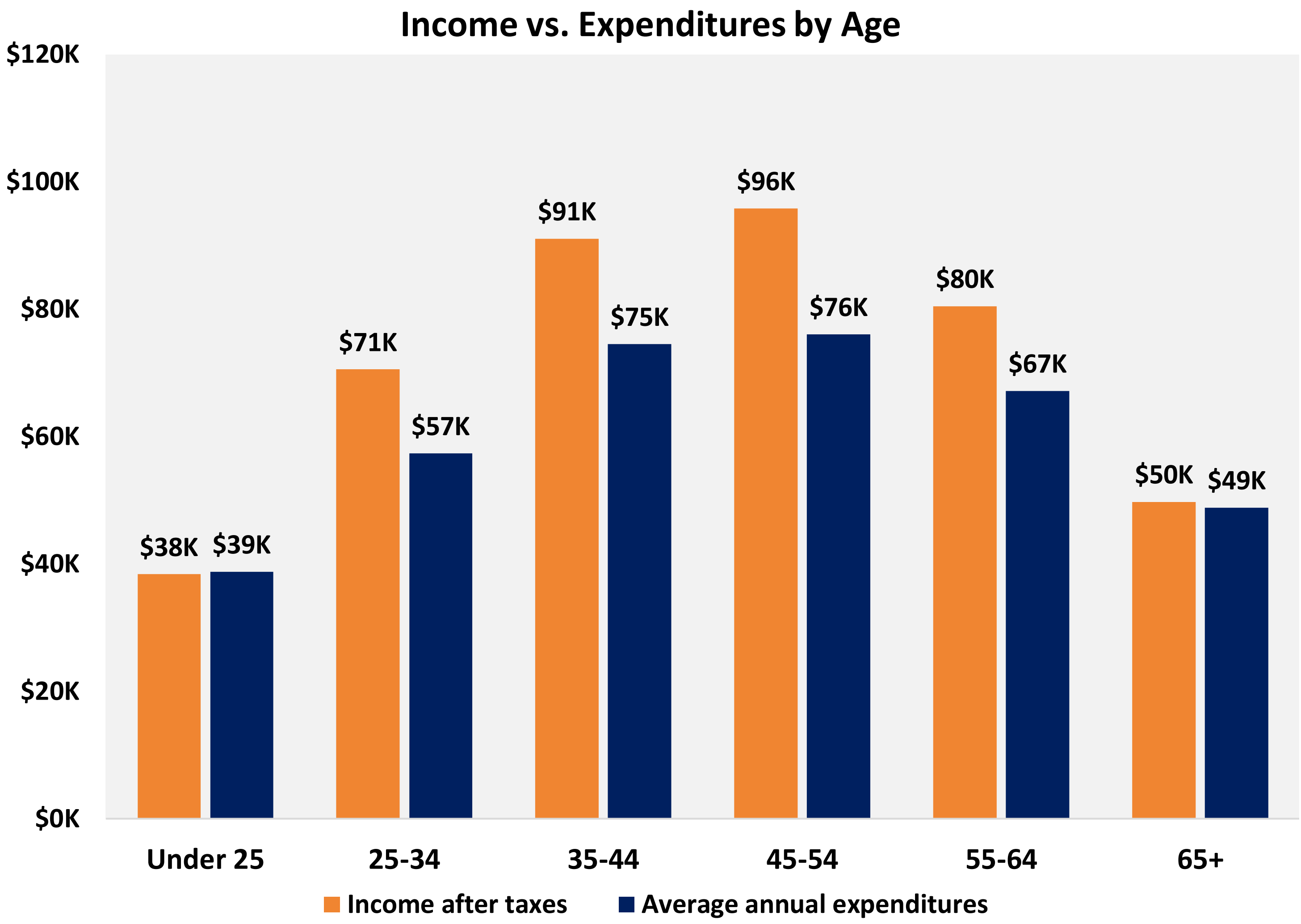
We anticipate the growth in the total number of customers will closely align with population shifts. Younger customers (under 45) tend to spend a lot more money on specialty-equipment parts than older customers (45+). This is why older accessorizers, despite having a large customer base, don't account for a more significant share of the specialty-equipment market. Younger customers are the key for the specialty-equipment industry now and as it continues to grow in the future.

68.8 Million

People Accessorized Their Vehicle in 2020

30% of All Drivers in the U.S.

HOW SPENDING VARIES BY GENERATION



As consumers get older, the share of income they spend on shopping, retail and other expenditures decreases—at least until they hit retirement age. These consumers have more responsibilities as they get holder, meaning they devote less of their total spend to discretionary items, such as on aftermarket parts.

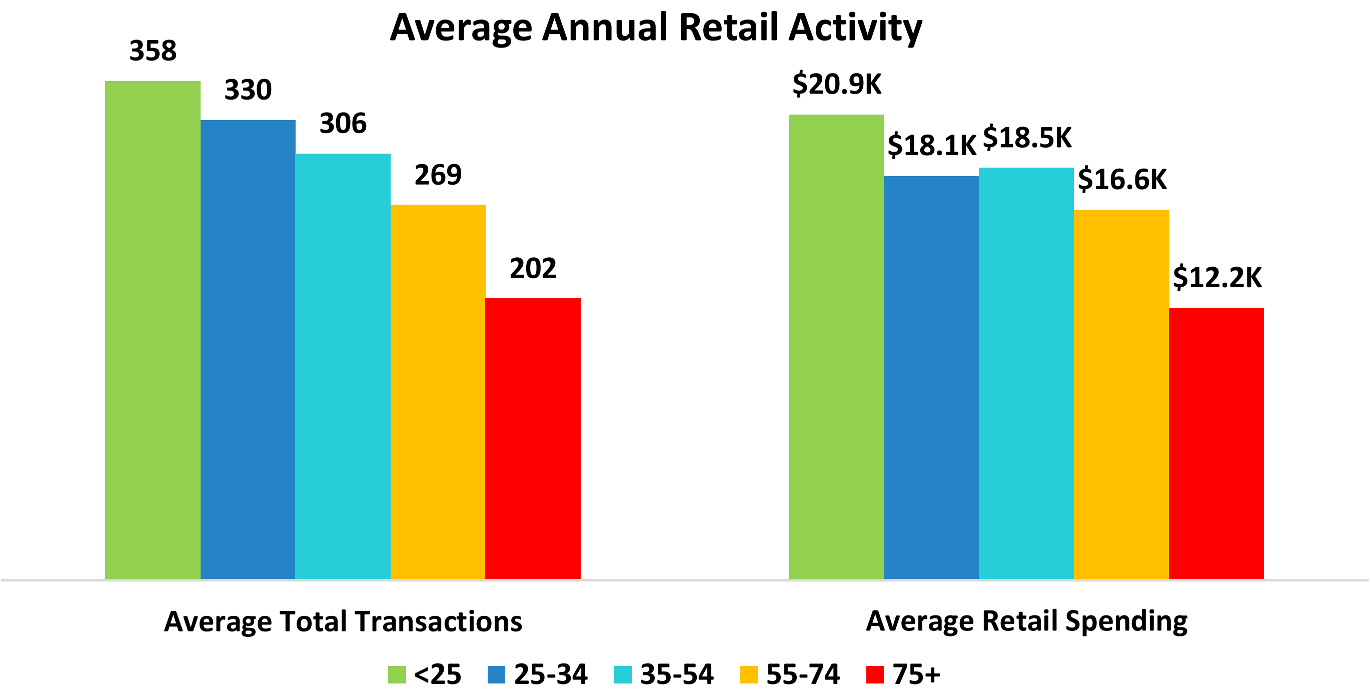
When it comes to young consumers, they tend to spend whatever money they have on the things they want now. While the absolute buying power in terms of dollar values is less than other groups, young people maximize their potential spending.

Source: Bureau of Labor Statistics, "Consumer Expenditure Surveys 2019-2020."

BUYING POWER BY AGE

When it comes to retail spending, on average, consumers under the age of 25 make more transactions and spend more money per year at retailers than any other age group. They also spend more on automotive retail, general retail and travel. When it comes to retail spending, young people have the most buying power and leverage of any consumer group in the United States.

Consumers under the age of 25 make more retail transactions and spend more retail dollars than any other age group.



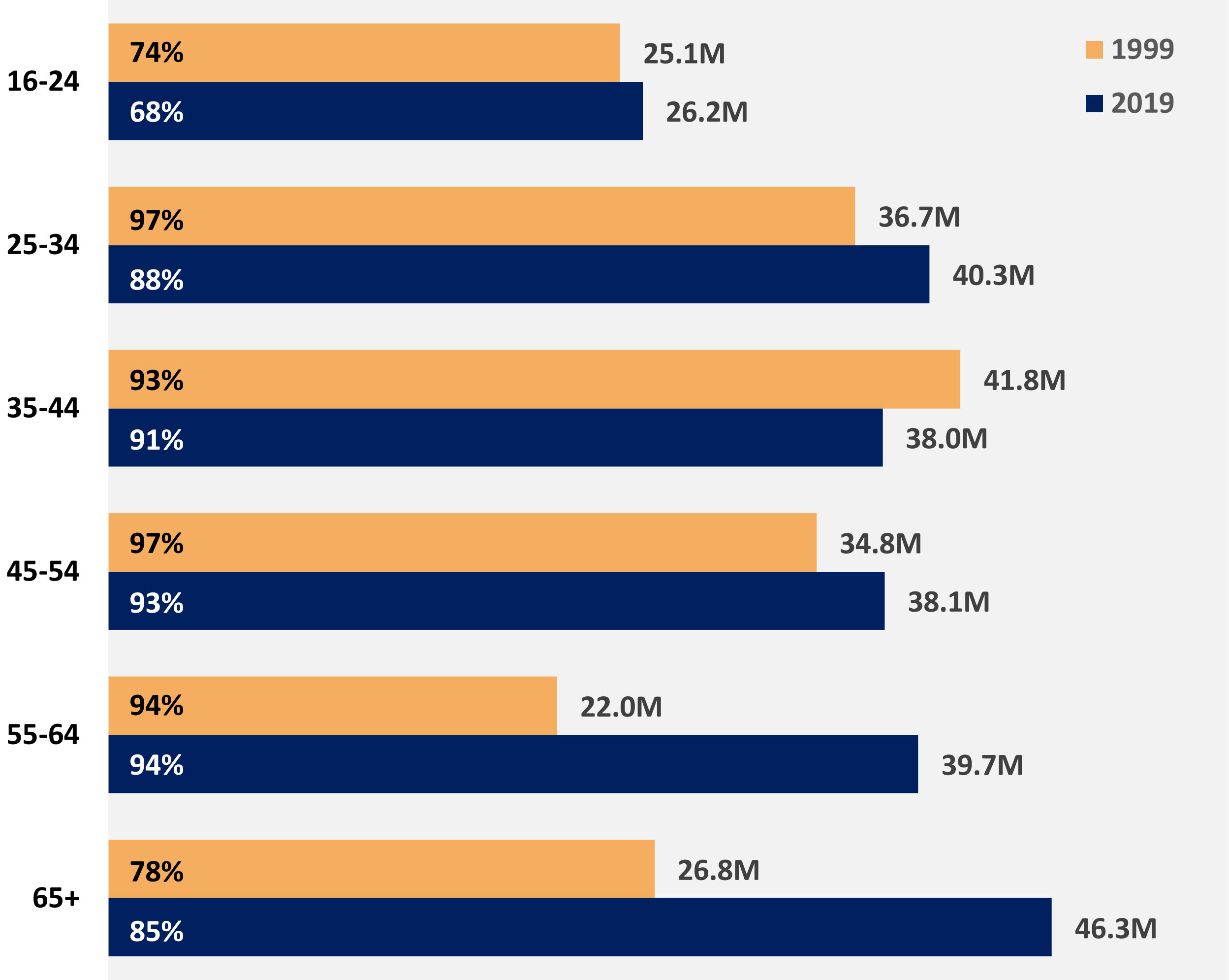
Average Retail Spending by Age and Category

	<25	25-34	35-54	55-74	75+
Automotive	$1,176	$978	$1,034	$950	$735
General Retail	$6,768	$5,928	$6,137	$5,562	$4,137
Travel	$3,827	$3,112	$3,414	$3,431	$3,000

Source: Epsilon, "Age Matters: A Guide to Cross Generational Marketing." Pre-Pandemic retail data from 2019.

LICENSE RATES BY AGE

Licensed Drivers by Age Group



There's another misconception that young people no longer drive. While license rates are certainly down for those under age 25, there are over one million more drivers in this age group than there were in 1999. There are many factors that contribute to this, including higher costs for insurance and vehicles. However, the fact of the matter is that license rates are down across the board for every age group except for those 55–64 or 65+.

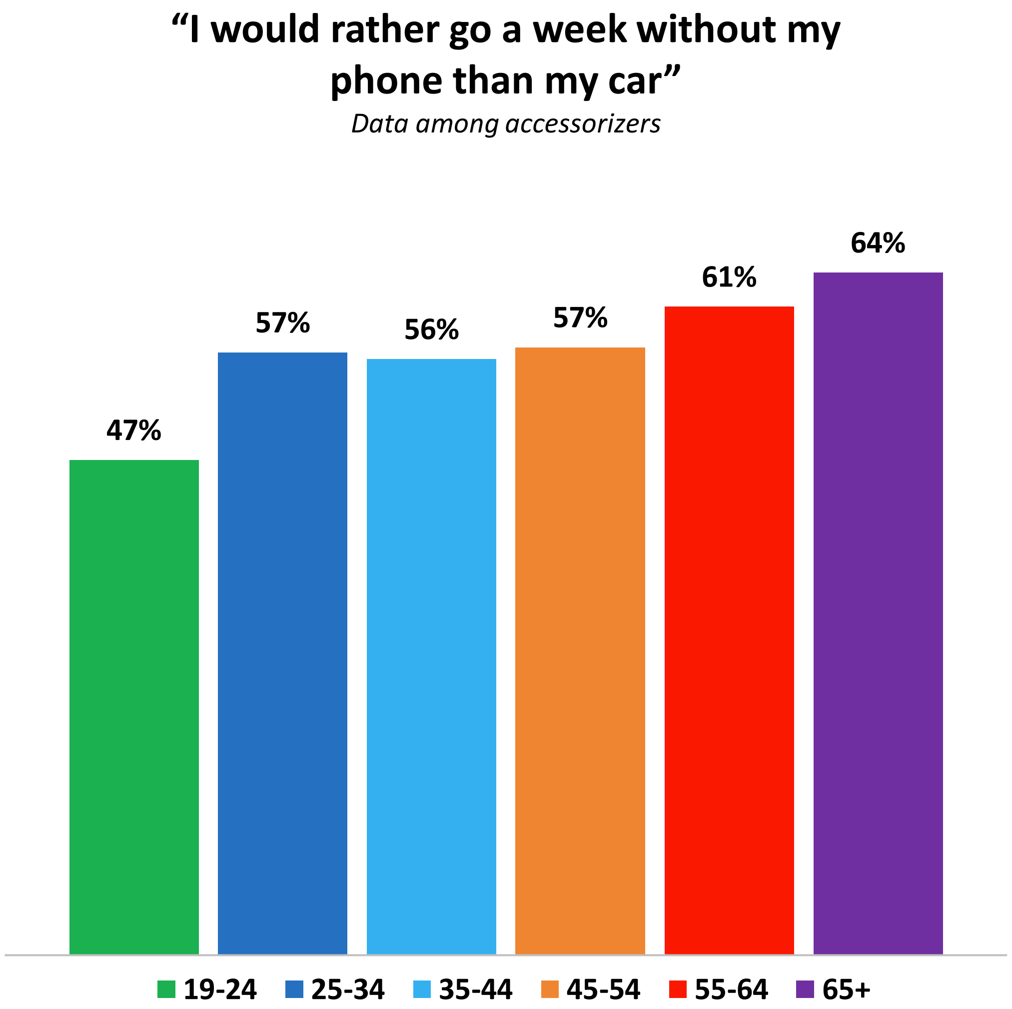
One shift that has happened is that there are more older drivers today than there were back in 1999. This is a natural byproduct of an aging population. Despite this growth of older drivers, it is not translating to more accessorization—underscoring that young people do care about cars and are critical to the specialty-equipment industry.

Total Licensed Drivers

2019: 228,679,719 (**+22%**)

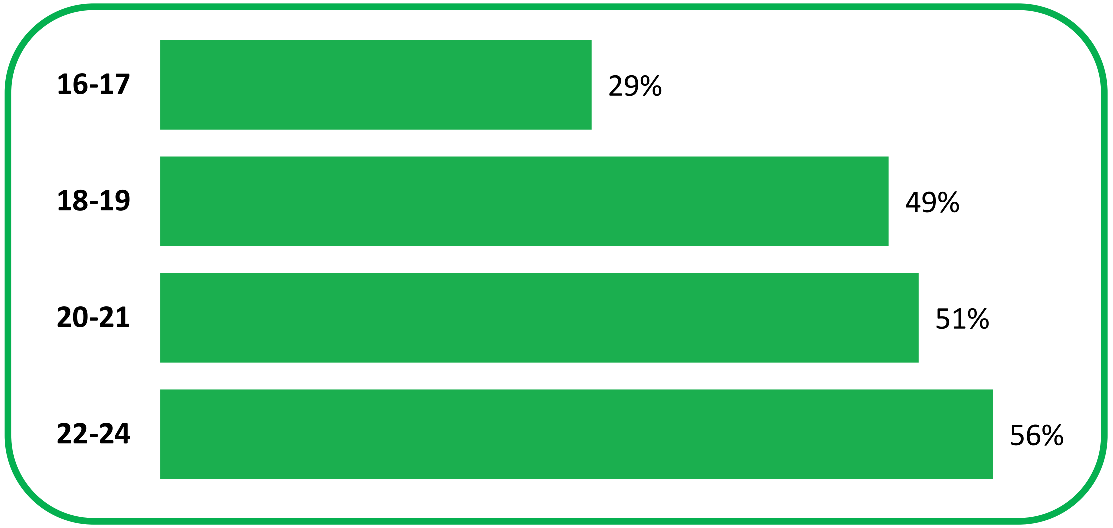
1999: 187,170,420

PHONES ARE LESS IMPORTANT THAN A CAR AS CONSUMERS GET OLDER

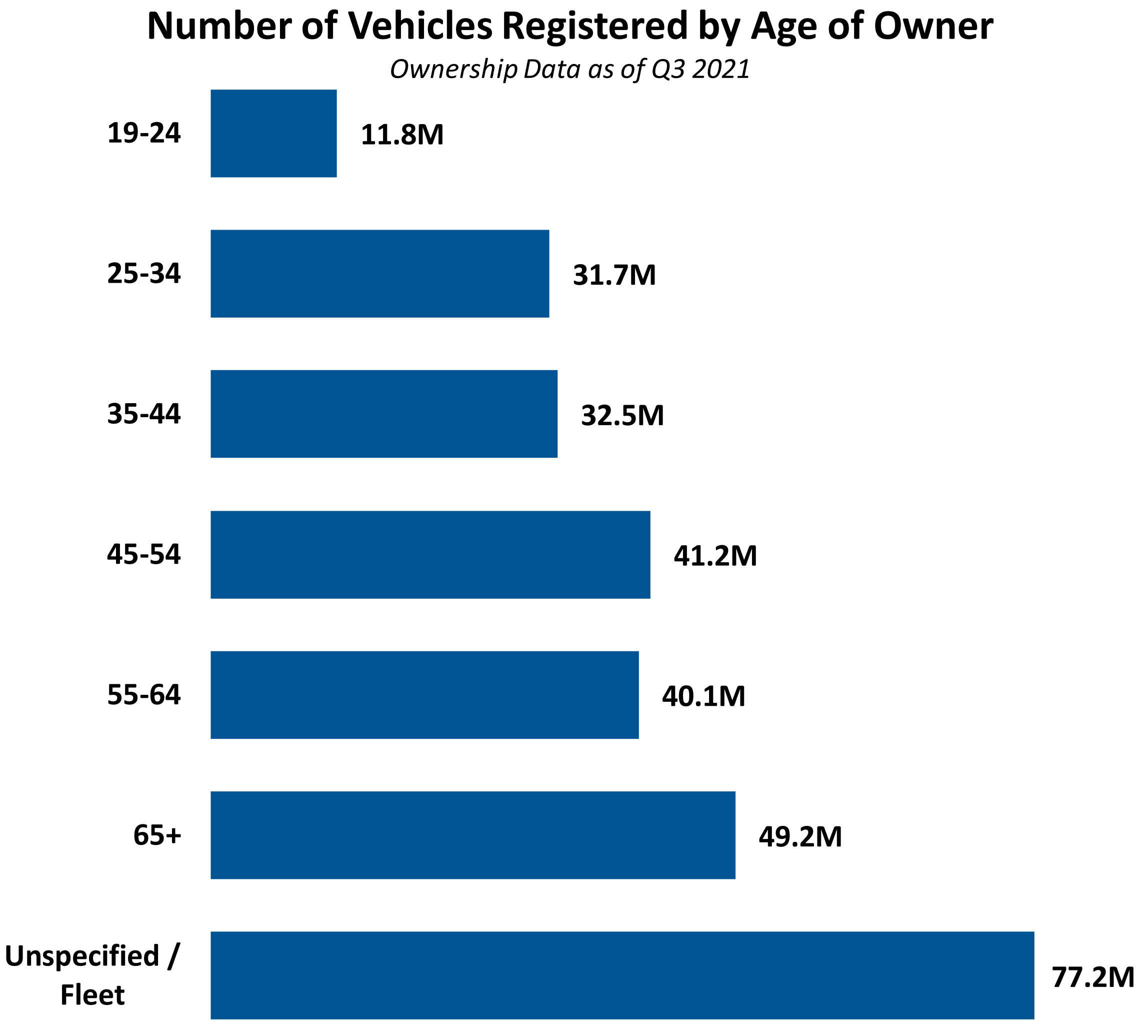


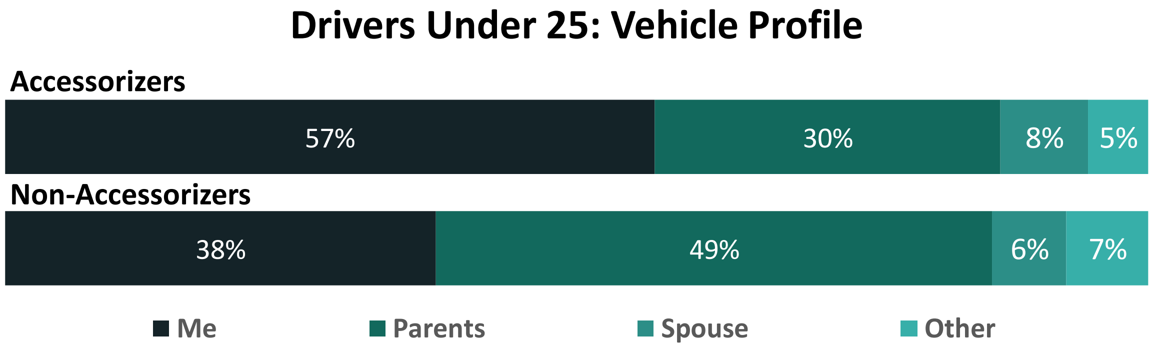
Americans tend to age into their vehicles, as priorities shift in life. As a teenager, the car can seem less important than the phone they have relied on for years. However, that quickly changes by the time someone enters their 20s. As people age and take on new responsibilities and commute to a job or school, their car becomes more important.

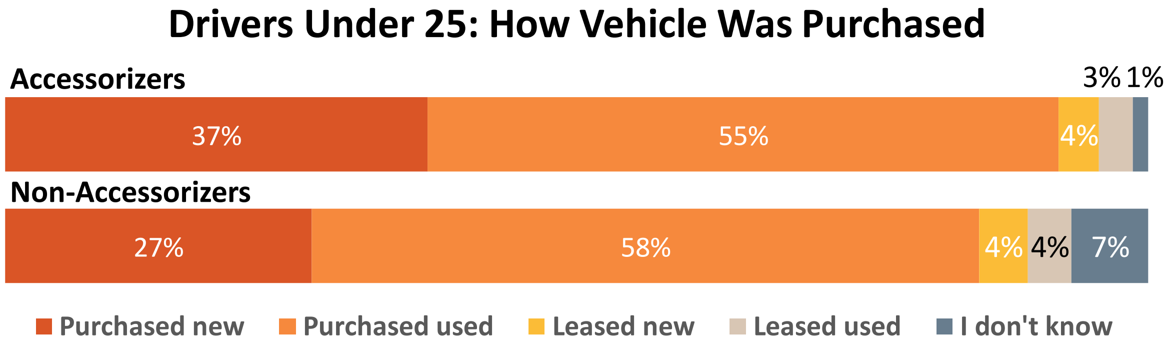
It's not that young people don't care about their car, its just that they have different habits and priorities—which quickly change as they get a little older.



CAR OWNERSHIP BY AGE



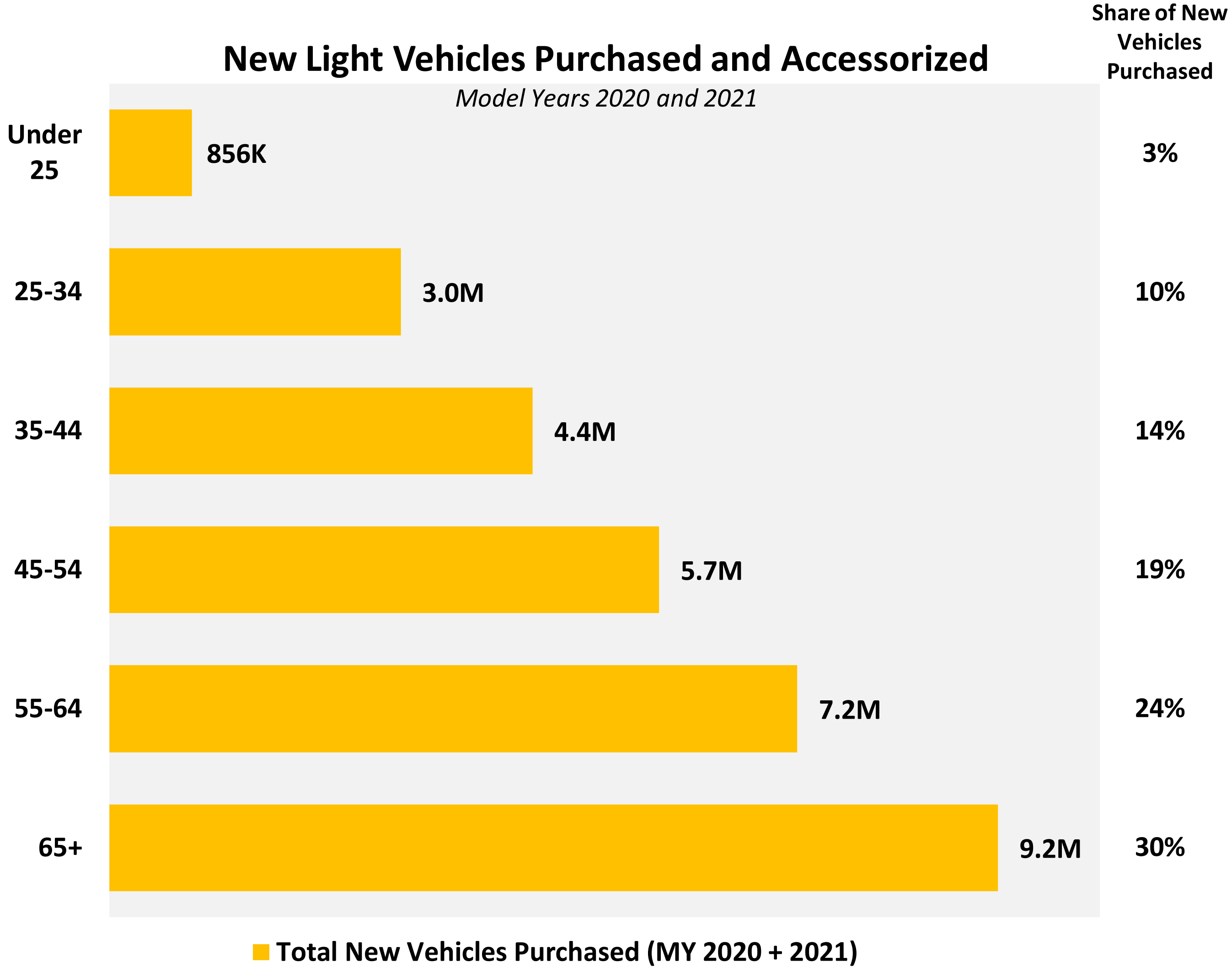




When it comes to car ownership, it's a complicated story. Younger people own fewer vehicles themselves than other age groups. Both new and used car prices have jumped up over the last decade and young people can be priced out of the market to buy on their own. That said, young people often have more access to vehicles than other age groups, including vehicles technically owned by their parents or family. As such, ownership is just one factor in how young people interact with the industry.

Source: Experian Automotive. Data as of Q3 2021.
Source: "SEMA Young Accessorizers Report"

NEW VEHICLE PURCHASING BY AGE



Number of New Vehicles Purchased by Age

	Passenger Cars	Pickups/Vans	CUV/SUV
Under 25	487,500	97,000	271,700
25-34	939,600	621,200	1,469,200
35-44	979,000	1,195,900	2,227,100
45-54	1,262,500	1,526,300	2,927,600
55-64	1,452,500	1,878,700	3,823,000
65+	2,049,200	1,864,500	5,324,900

Estimates of total MY 2020 and MY 2021 purchases.

The average new car price in January 2020 was $37,871, according to *Kelly Blue Book*. By November 2021, this price jumped to $46,329. While a lot of this growth can be contributed to supply chain issues, the shift in vehicle mix to more light trucks is also driving up prices.

Because of the prices, the youngest buyers often gravitate towards more passenger cars when buying, while older buyers gravitate more towards light trucks. For those under 25, pickups/vans (11%) and CUVs/SUVs (32%) made up a smaller share of purchases. By ages 35–44, those numbers jump to 27% and 51% respectively.

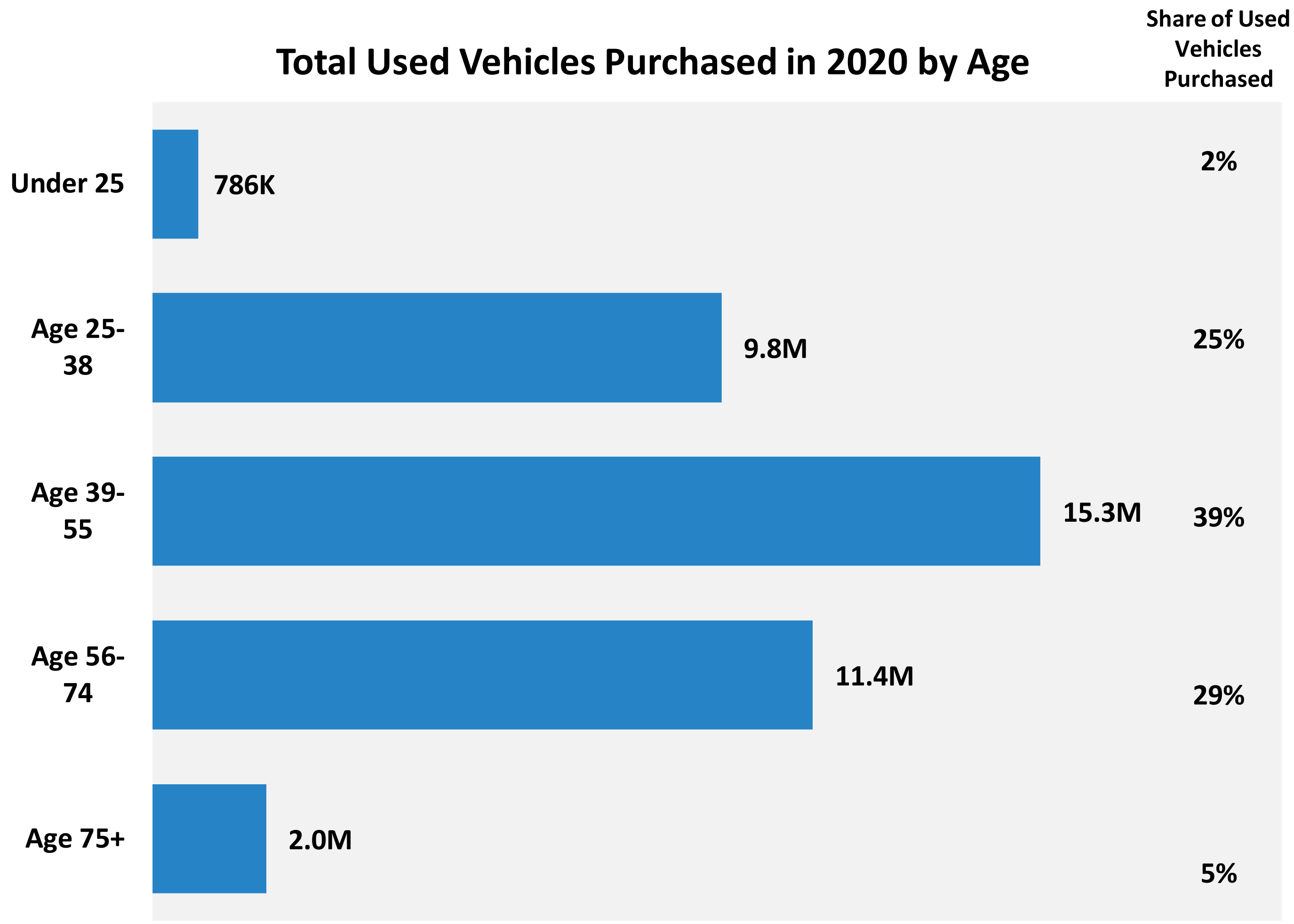
USED VEHICLE PURCHASING BY AGE

Like the new car market, the used car market is also hot. In August 2020, the average listing price for used vehicles surpassed the $20,000 mark for the first time. The average price hit $25,890 a year later. While they are expensive, they tend to be a lot cheaper than new cars, so younger and middle-aged buyers tend to purchase more of these vehicles. With fewer new vehicles sold this year, there has also been a slowdown in used car transactions.

Younger drivers may have a difficult time buying in the used market as well, due to costs. Instead, they likely rely on older vehicles, hand-me-downs, or vehicles that they act as "owners" of that were purchased by their parents or someone else.

39.3 Million Used Vehicles

Total sales estimates for 2020



YOUNGER DRIVERS DO MORE ENTHUSIAST DRIVING WITH THEIR VEHICLE

Everyday Driving by Age (2020)

	16-24	25-34	35-44	45-54	55-64	65+
Commuting	65%	71%	68%	63%	52%	30%
Running Errands	73%	74%	71%	78%	81%	86%
Pleasure Driving	62%	62%	61%	61%	63%	65%
Work Use	58%	52%	47%	35%	26%	16%

Enthusiast Driving by Age (2020)

	16-24	25-34	35-44	45-54	55-64	65+
Collector Vehicle	8%	6%	9%	4%	4%	4%
Dedicated Racing Vehicle	6%	4%	5%	1%	<1%	<1%
Track Days	6%	6%	7%	2%	1%	<1%
Off-Road	14%	13%	13%	6%	4%	2%
Car Shows	6%	4%	6%	2%	2%	2%

When it comes to driving, there are also some key differences between age groups. Nearly everyone uses their vehicle for day-to-day tasks like running errands and commuting. Younger people tend to use their vehicle more for work.

Diving deeper, however, the younger a driver is, the more likely they are to engage in more enthusiast activities within our industry. Drivers under the age of 45 are more likely to have a dedicated racing vehicle, do track days, have a collector vehicle, go off-roading, and take their vehicle to car shows.

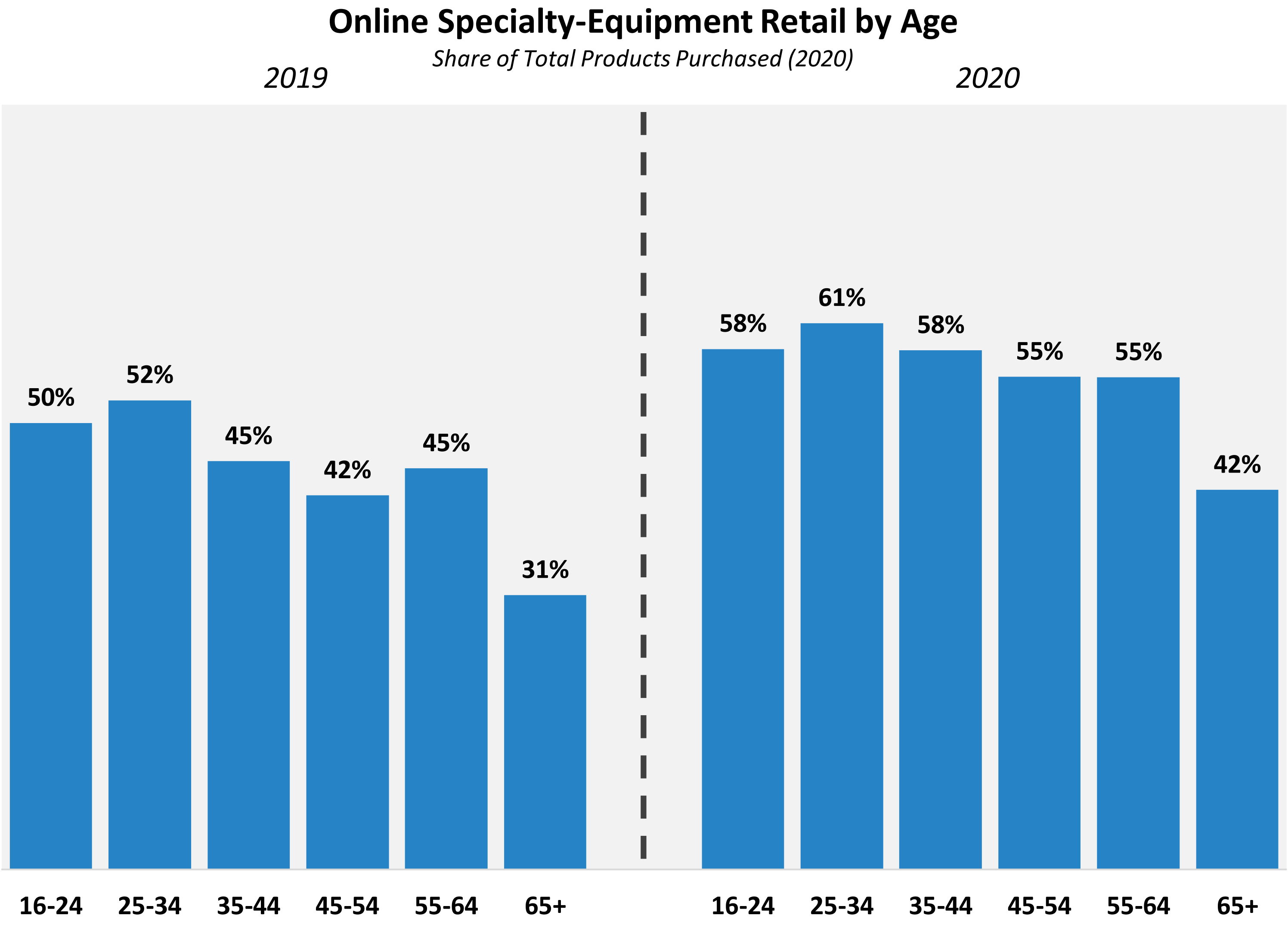
YOUNGER DRIVERS ARE MORE LIKELY TO WORK ON THEIR CARS

What Consumers Do Regularly (2020)

	16-24	25-34	35-44	45-54	55-64	65+
Working on your car or truck	30.6%	32.0%	25.7%	23.7%	20.4%	12.0%
Reading automotive enthusiast magazines	11.4%	19.3%	21.2%	14.6%	11.7%	7.8%
Posting about cars and trucks on social	15.0%	17.7%	15.7%	8.6%	4.2%	2.1%
Online automotive discussions, boards or blogs	13.5%	17.2%	18.6%	10.5%	7.1%	2.4%
Car club gatherings or other club events	9.6%	8.2%	7.1%	5.4%	3.2%	1.7%
Going to car shows	20.1%	22.5%	23.1%	20.6%	17.2%	12.2%
Watching or attending auto racing events	15.4%	19.8%	23.1%	19.2%	18.0%	13.1%

Younger consumers also have more enthusiast lifestyles. They are more likely to work on their car or truck themselves, post on social media about their car, go to car club events or gatherings, use online automotive discussion boards or blogs, and race. Things like reading enthusiast magazines and watching or attending races is popular among all age groups.

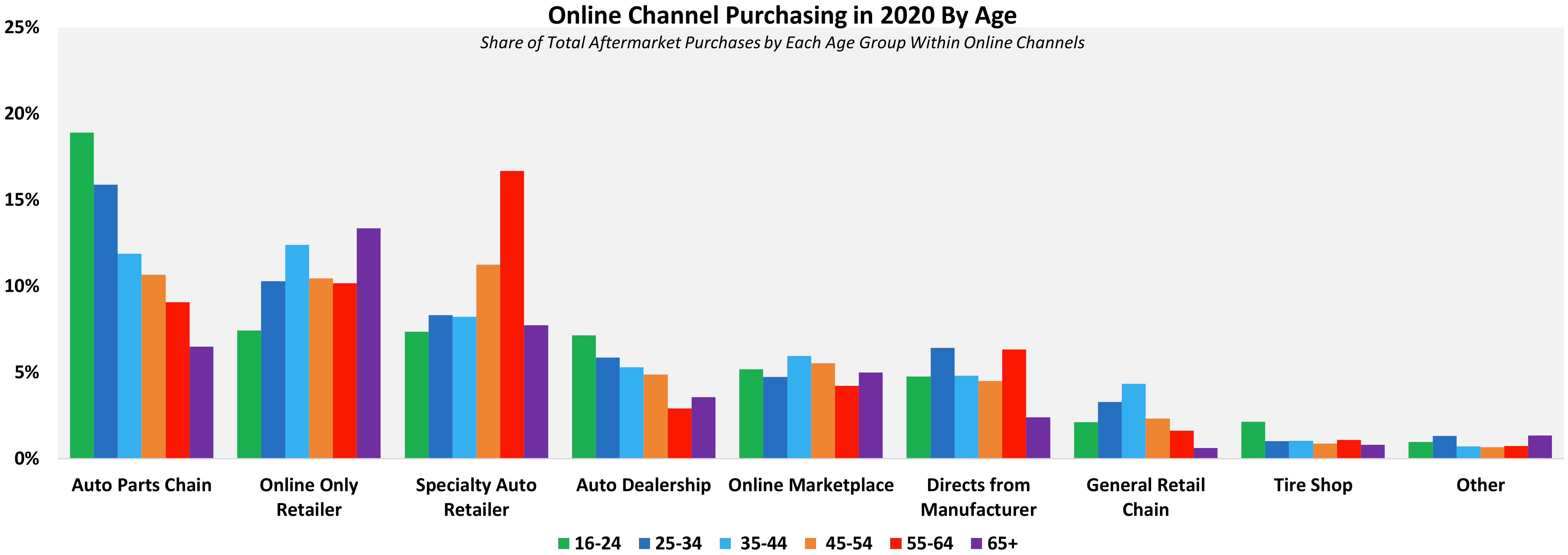
EVERYONE IS ONLINE, BUT IN-PERSON SHOPPING STILL A MAJOR CHANNEL FOR ALL



While there are some slight differences, online purchasing rates for specialty-equipment parts doesn't vary too much by age. The only exception being accessorizers over the age 65 or older, who shop mostly in-store. The pandemic did shift online purchasing up across all age groups, but we anticipate this should normalize when the virus situation gets better and supply issues ease.

What does this mean for the industry? Companies are at a disadvantage for most customers when they don't have an online presence. That said, regardless of age, in person shopping remains dominant and will remain so once the United States moves past the pandemic.

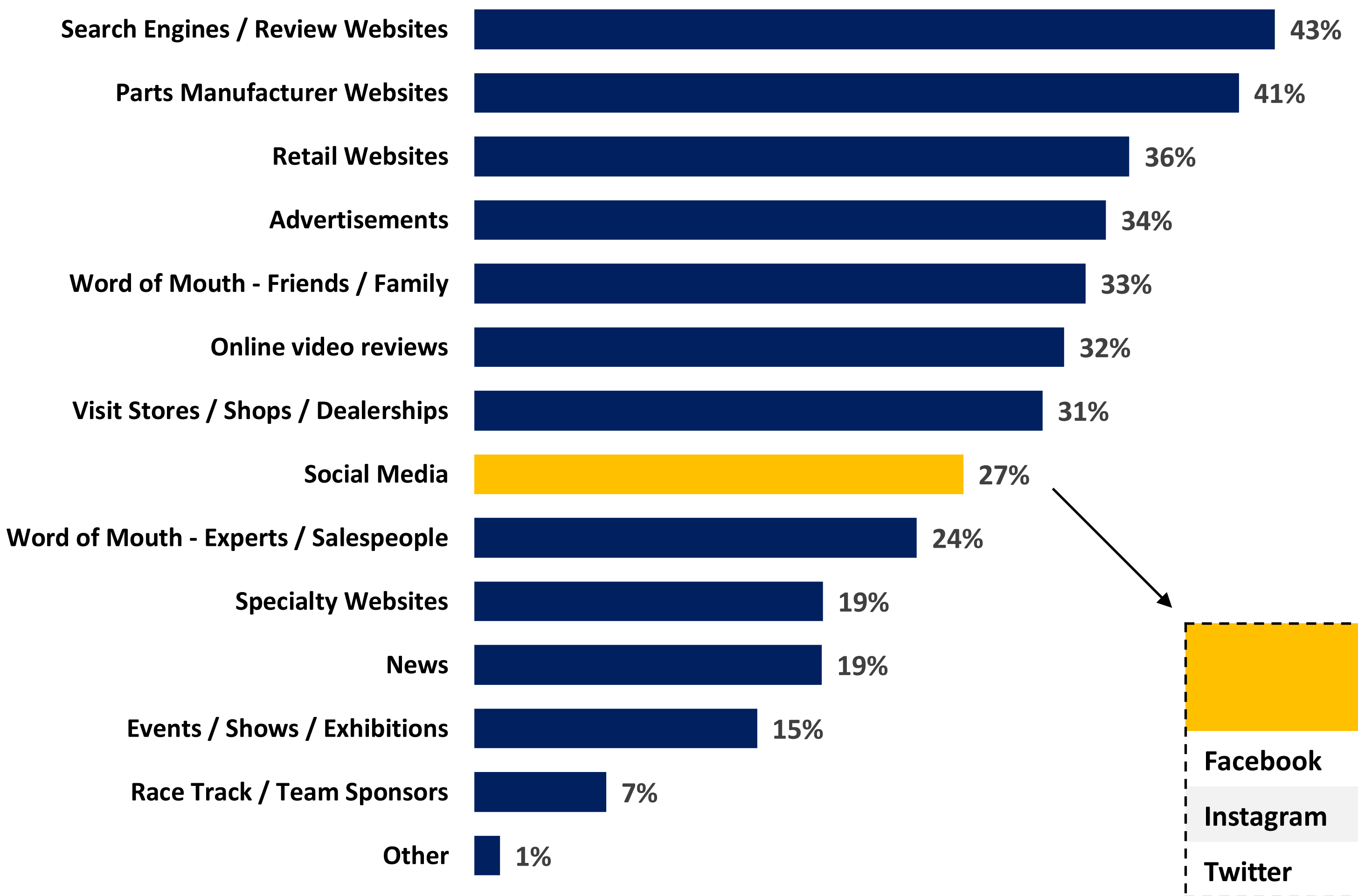
AGE DIFFERENCES IN ONLINE SHOPPING



There aren't many significant differences with how different customer groups shop, in terms of purchase channel. However, when looking closer at where customers shop online, it is clear younger people gravitate more towards auto parts chain websites, while older customers use more specialty automotive retail websites. This may be tied to older accessorizers having more experience with the car and knowing exactly what they are looking for.

HOW TO REACH DIFFERENT CUSTOMER AGE GROUPS

Where Customers Look for Parts Information (2020)



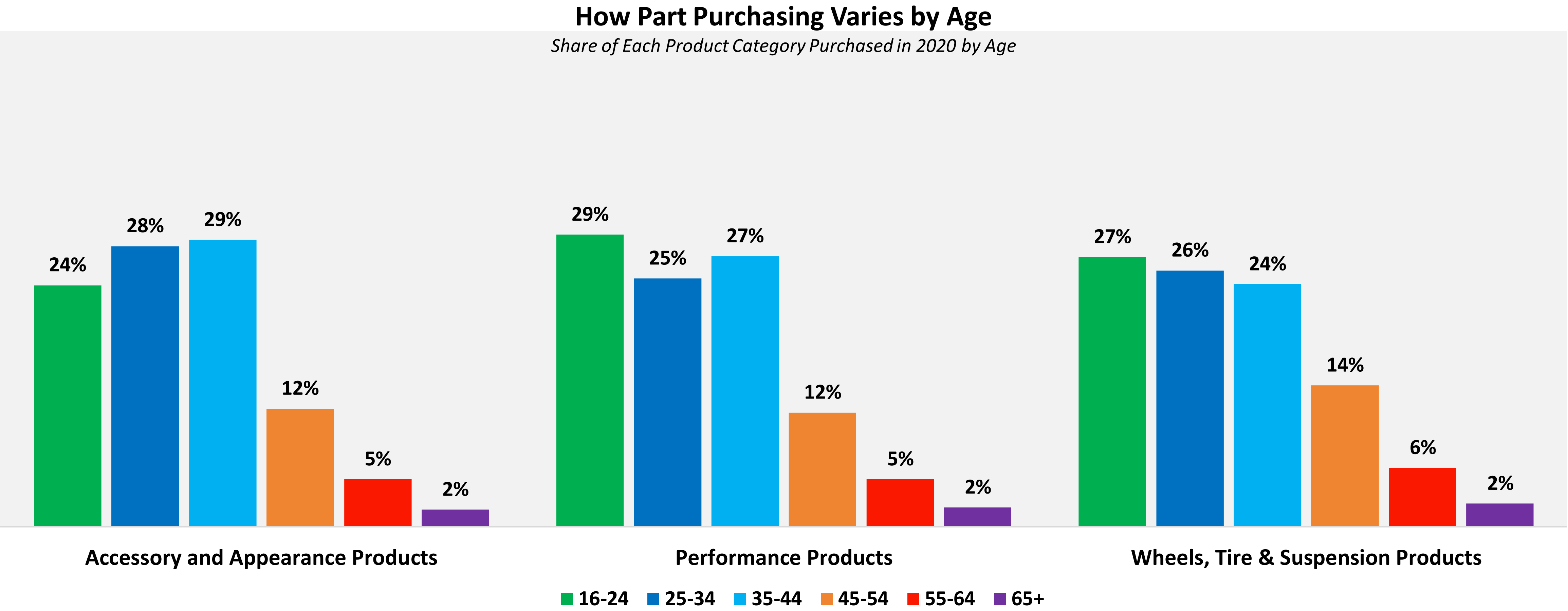
Young or old, accessorizers use a wide variety of information sources when searching for information on what parts to buy. What is clear, however, is that online websites are an important source across all customers. This includes review websites, search engines, and company websites. Therefore, not having an online presence or website is a detriment.

However, social media (Instagram, Twitter, Facebook, etc.) is a younger customer's game. Leveraging these platforms will help expand the reach of industry companies to the biggest emerging source of aftermarket revenue.

	16-24	25-34	35-44	45-54	55-64	65+	Total
Facebook	15%	26%	30%	18%	10%	4%	21%
Instagram	20%	17%	15%	10%	2%	1%	14%
Twitter	10%	10%	12%	8%	2%	1%	9%

Source: 2020 SEMA U.S. Market Data.

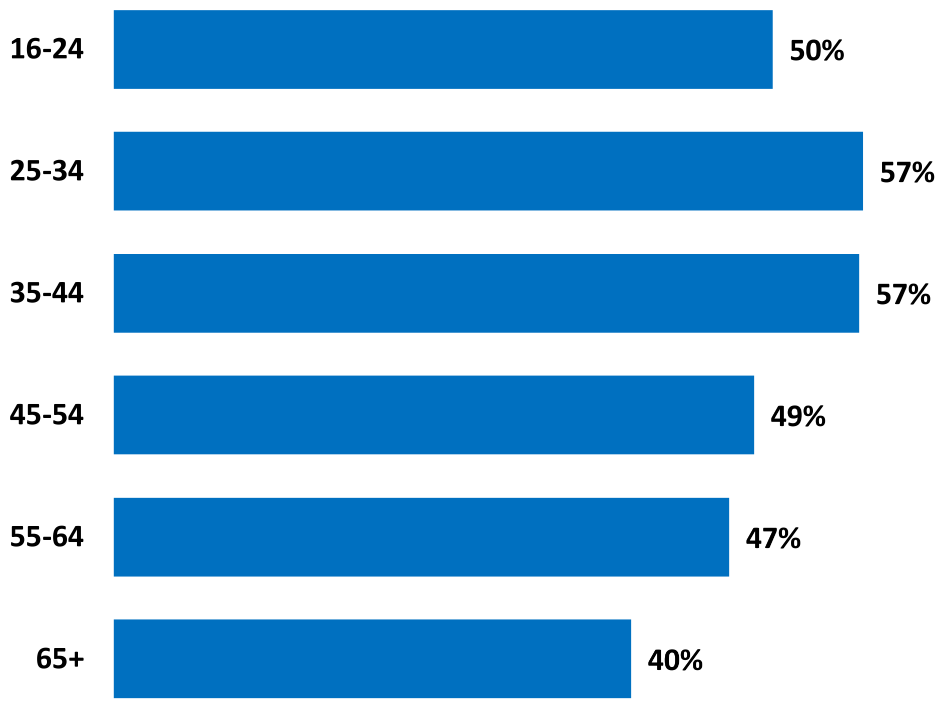
HOW DOES PART PURCHASING DIFFER?



When it comes to specialty-equipment parts, younger customers tend to buy more performance, enthusiast or appearance-related products in our industry. These are the customers that want their car to be faster, louder, and stick out.

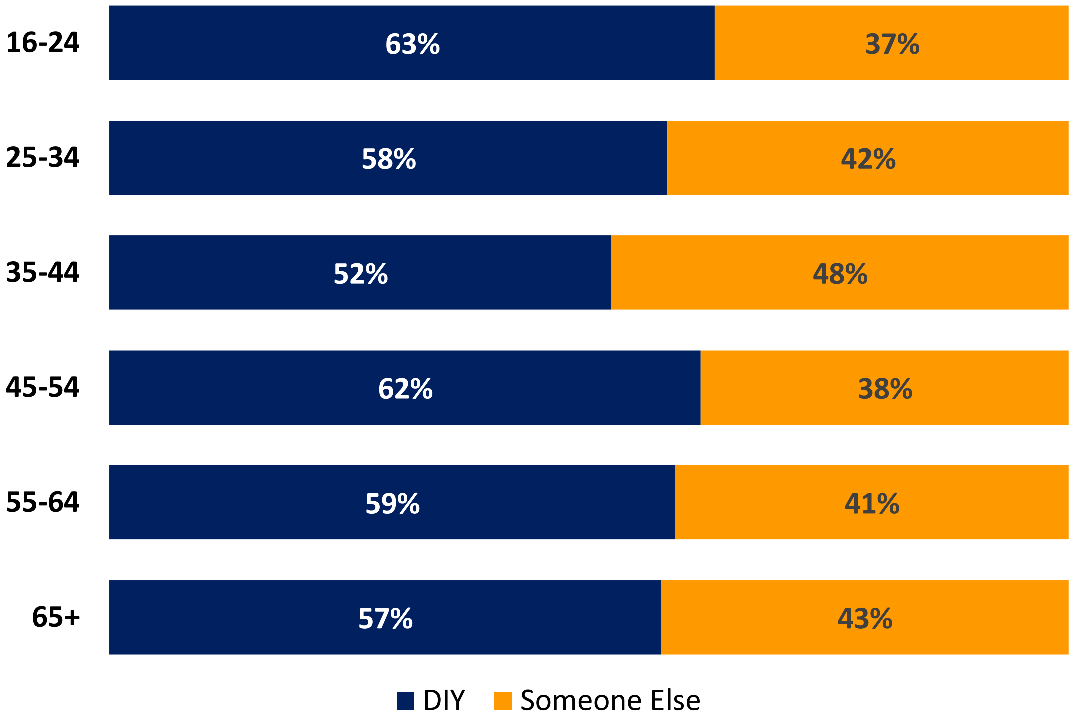
YOUNGER ACCESSORIZERS ARE NOT AFRAID TO MAKE DIY UPGRADES THEMSELVES

"I enjoy doing my own upgrades and modifications"



Installation Method

Share of Parts Purchased



Younger accessorizers are just as likely, if not more so, than their older counterparts to enjoy working on their vehicle. It's not only a perception. Over 60% of parts purchased by young accessorizers in 2020 were installed by the accessorizers themselves

ADDITIONAL INFORMATION

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QUESTIONS?

Comments and suggestions appreciated. Happy to provide clarifications. SEMA Market Research is here to help.

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