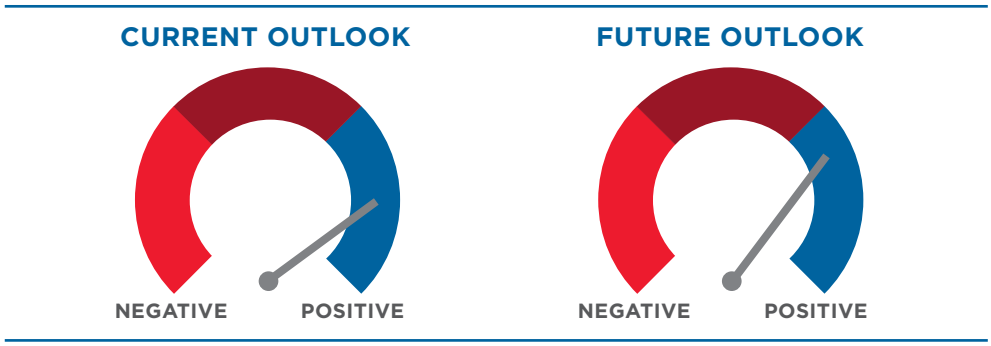
SEMA INDUSTRY INDICATORS

JULY 2021

There are four key economic themes we are tracking closely this month: supply chain constraints, inflationary prices, a tight labor market and the rising risk of a COVID resurgence.

Supply chain constraints continue to exert significant force on the recovery. This is especially true for the auto sector. Auto production fell in June, as shortages limited key inputs. New vehicle sales are down sharply, prices are up and inventory levels remain extremely tight. The inventory-to-sales ratio, which typically hovers around 2.5, fell below 0.8 in June.



Consumer prices increased 0.9 percent in June, after increasing 0.8 percent in April and 0.6 percent in May, producing a three-month increase of 9.7 percent annualized. The six-month increase in prices of 7.3 percent is the fastest since the early 1980s. Used car and truck prices were up 10.5 percent in June, accounting for about one-third of the aggregate price increase in June. New vehicles were up 2 percent in June, the largest monthly increase since 1981. Other areas that saw price increases include hotels (up 7.9 percent), car and truck rentals (up 5.2 percent) and airfare (up 2.7 percent). Some of these price increases are being driven by a mismatch of supply and demand as the economy reopens and consumers demand services they have avoided over the last 18 months. And it isn't just consumer prices. Producer prices rose 1 percent in June and are up 7.3 percent over the last year. While some of these price increases will moderate as supply and demand move into equilibrium, we're likely to see prices remain elevated in some areas for sometime. The M2 measure of money supply is up 32 percent since the start of the pandemic and will likely provide upward pressure on pricing well into 2022.

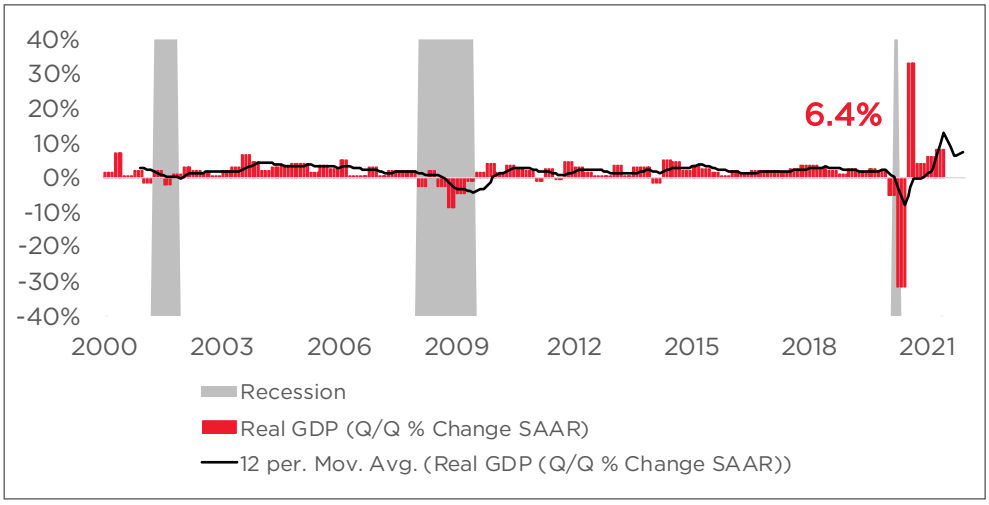
While unemployment remains elevated, there are currently 9.2 million nonfarm job openings in the economy, a figure far above any level seen previously. Over 940,000 people quit their last job and are still looking for a new one. This is the highest level since 2016 and suggests employees are feeling confident about job prospects. Employers are having to offer bonuses and higher wages to attract workers. Compared to before the pandemic, average hourly earnings are up 6.6 percent.

Finally, rising cases of COVID-19 are extremely troubling. While the vast majority of new hospitalizations are currently being driven by just three states, broader outbreaks can and will stymie economic activity.

ECONOMICS

U.S. ECONOMIC GROWTH

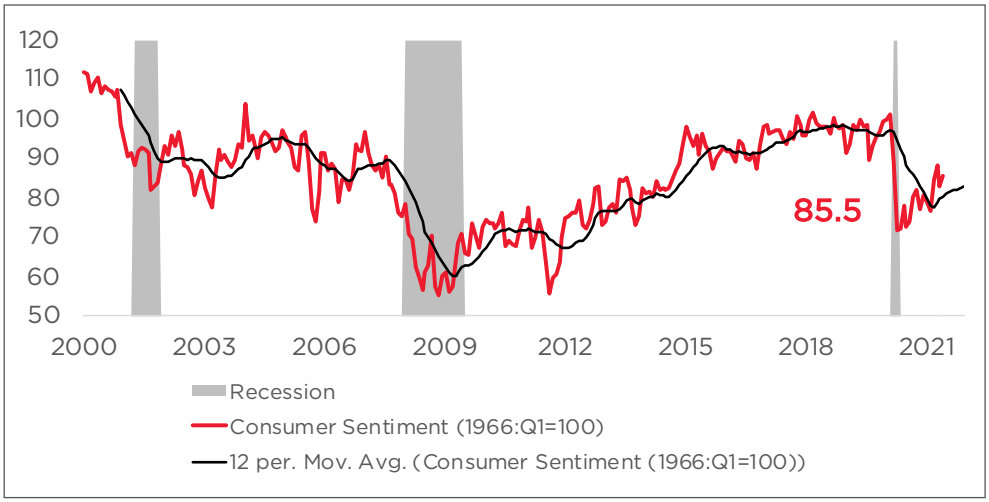
The federal government will release the initial estimate for second quarter GDP growth on July 29, and we expect the report will show an acceleration of growth over the first quarter's 6.4 percent (annualized) growth. The Federal Reserve Bank of Atlanta's GDPNow is currently projecting 7.6 percent (annualized) growth for the quarter, while the Blue Chip consensus is suggesting (annualized) growth of around 9 percent. This will be one of the fastest growing quarters since the early 1980s, thanks to massive stimulus payments, accomodative monetary policy and a reopening economy. Consumer spending likely grew close to 10 percent during the quarter, accounting for about 6.8 percentage points of aggregate growth.



Bureau of Economic Analysis, Avrio Institute

CONSUMER SENTIMENT

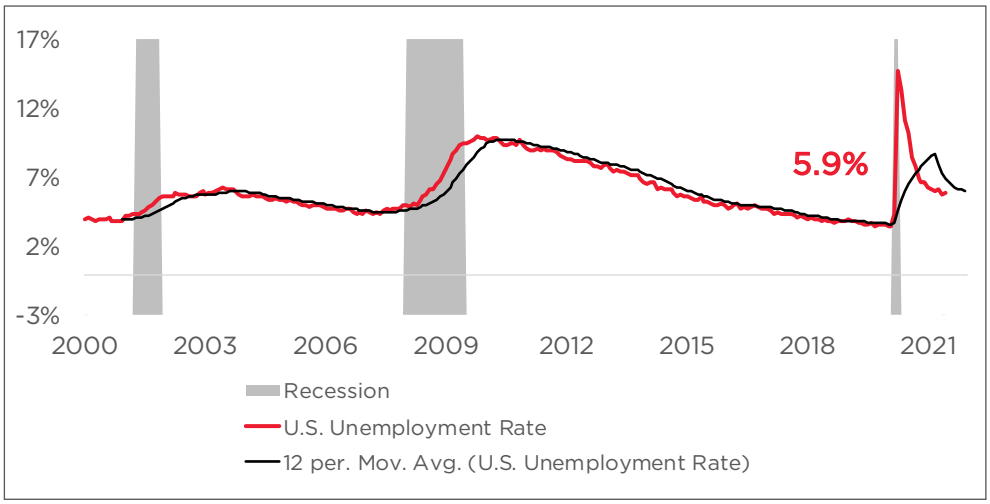
Consumer sentiment improved in June but retreated in the first weeks of July. The Consumer Sentiment Index increased to 85.5 in June, up from May's 82.9 reading. This is the second-highest level since the pandemic began. The rise was driven by improving sentiment among households with incomes above $100,000 and primarily from improving expectations for future economic activity. Sentiment stepped back down in early July as expectations for both current conditions and future economic prosperity declined. Consumers appear most concerned about rising prices. Complaints about rising prices on homes, vehicles and household durables reached an all-time record in early July.



University of Michigan, Avrio Institute

UNEMPLOYMENT RATE

The economy added 850,000 jobs in June. While the headline suggests solid gains, the underlying details are not quite as robust. Civilian employment, an alternative measure that includes small businesses, declined 18,000 during the month and helped push the unemployment rate up to 5.9 percent. Leisure and hospitality added 343,000 jobs during the month, a sign that one of the hardest hit sectors of the economy continues to improve. Manufacturing increased 15,000. Total hours worked rose 0.2 percent while total pay for workers rose 0.5 percent. Compared to February 2020, average hourly earnings are up 6.6 percent while total hours worked are down 3.7 percent, a sign employees are having to pay more to attract workers.

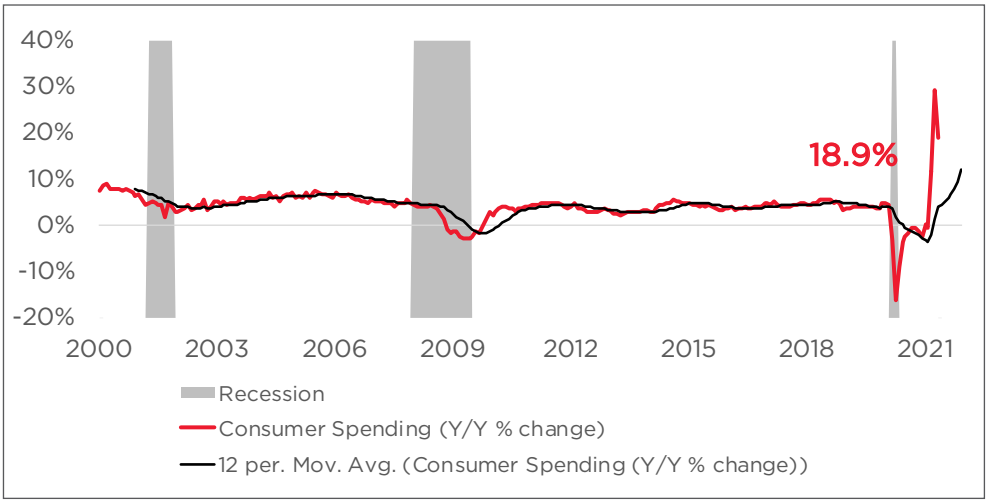


Bureau of Labor Statistics, Avrio Institute

ECONOMICS

CONSUMER SPENDING

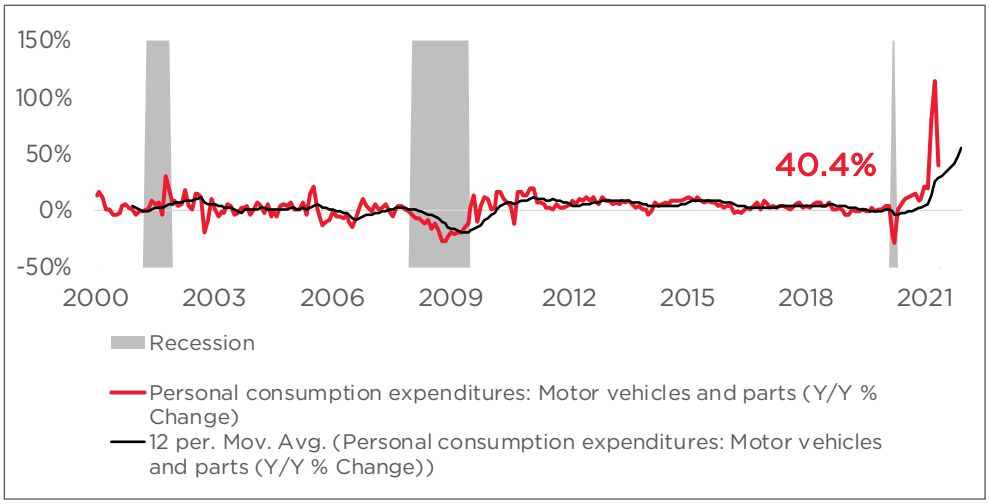
Wages grew strongly in May, up 0.8 percent from April. But a decline in government transfer payments due to waning stimulus checks led to a decline in total income growth. Overall, personal income fell two percent during the month and disposable personal income fell 2.3 percent. Overall spending during the month of May was relatively flat, increasing just 0.1 percent. Spending on services was up 0.7 percent in the month, after expanding 1.7 percent in March and April. But spending on goods was flat, after solid growth in the prior two months.



Bureau of Economic Analysis, Avrio Institute

CONSUMER SPENDING ON MOTOR VEHICLES & PARTS

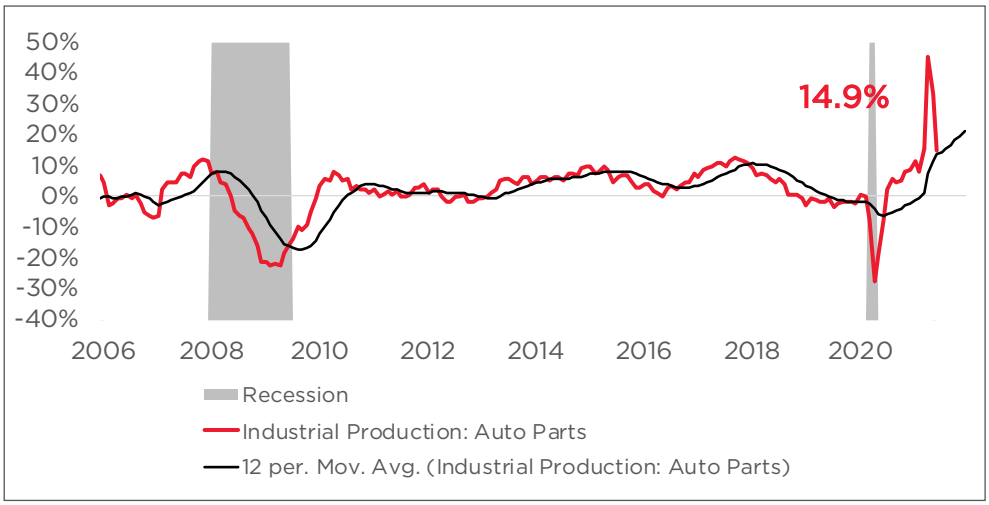
Spending on new vehicles fell 4 percent in May, likely the result of tight supply due to supply chain shortages. Production has improved somewhat over the last month but remains constrained. In 2018, the industry averaged 914,000 motor vehicle assemblies a month. Assemblies have averaged less than 750,000 over the last four months. At the same time, new vehicle sales have been strong. In turn, this has driven the inventory-to-sales ratio to an historic low of 0.8 percent in May. Spending on used vehicles also declined during the month but remains up 47.4 percent over the last year and 41.4 percent over the last two years.



Bureau of Economic Analysis, Avrio Institute

INDUSTRIAL PRODUCTION: AUTO PARTS

Industrial production rose in June, increasing for the fourth consecutive month. Supply chain constraints continue to hamper manufacturing output. Manufacturing production fell 0.1 percent during the month, driven in large part by a 6.6 percent decline in auto production. Manufacturing outside of the auto sector rose 0.4 percent in June and is now above pre-pandemic levels. Auto parts production fell 1.2 percent during June. However, this understates the v-shaped recovery in auto parts production. Auto parts production is up 14.9 percent over the last year and 6.6 percent from the start of the pandemic.

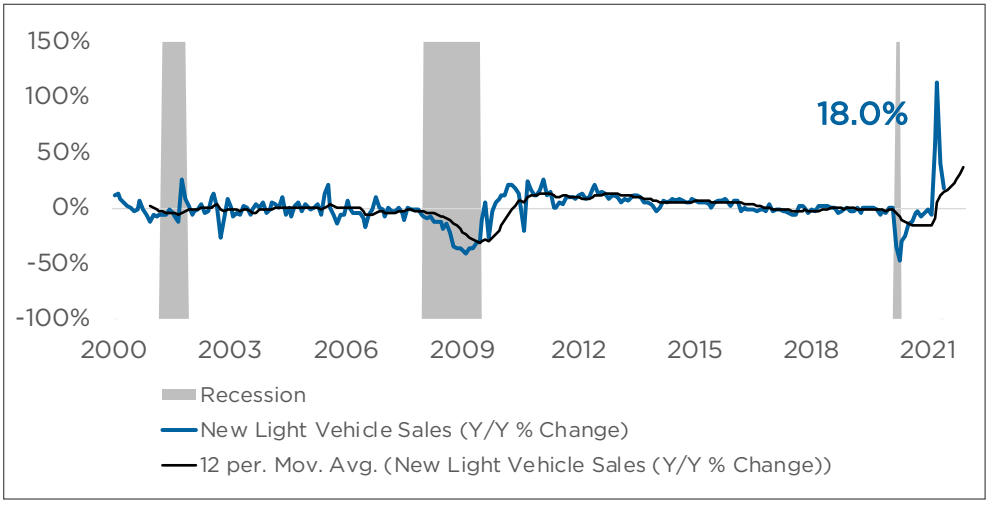


Federal Reserve, Avrio Institute

AUTOMOTIVE

MONTHLY NEW LIGHT VEHICLE SALES

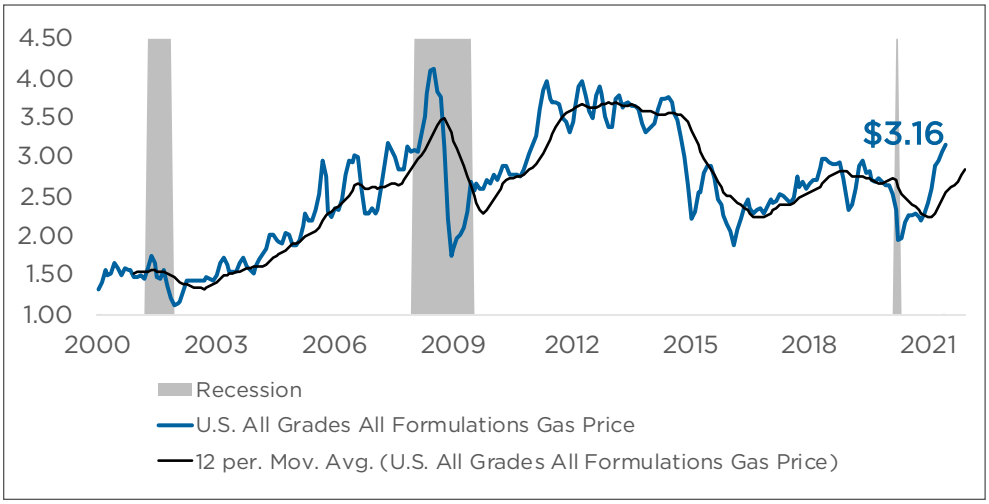
Supply constraints continue to hamper new vehicle sales. New vehicle sales dropped sharply in June, falling 9.8 percent to a seasonally adjusted annual rate of 15.37 million. Truck and SUV sales were off 9.8 percent during the month, while new cars fell 10.6 percent. In a further sign of constrained supply, Kelly Blue Book reports Americans paid a new light vehicle record high in June of $42,258. Buyers were paying, on average, 99.9 percent of sticker price. Every vehicle manufacturer except Tesla reported higher average transaction prices in June 2021, compared with a year ago.



Bureau of Economic Analysis, Avrio Institute

GAS PRICES

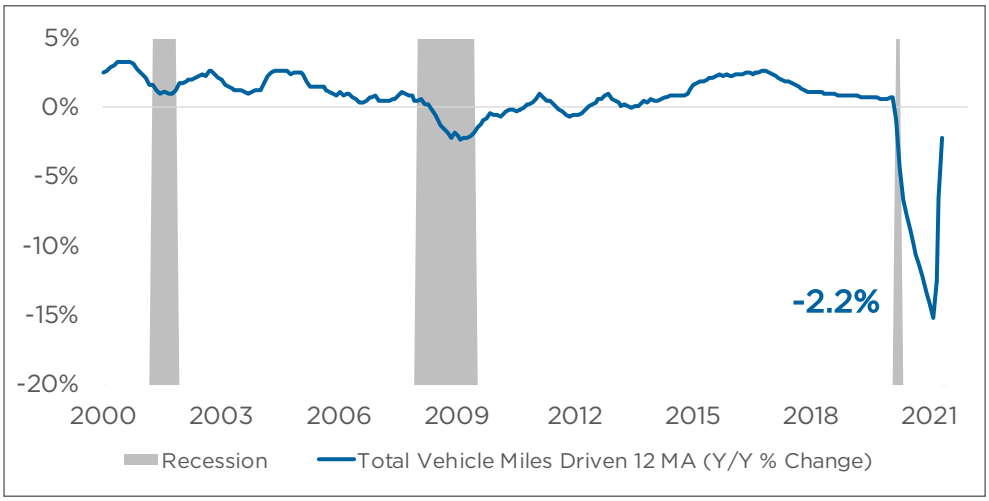
National gas prices continued to creep higher in June. Gasoline rose $0.07/gallon to $3.23. Prices are up 2.3 over the last month and 42 percent over the last year. Prices are up $0.96 over June 2020. Some states are reporting their highest gas prices since 2014. OPEC+ has agreed to a deal to boost oil supply by 400,000 barrels per day through December, but demand for oil is expected to remain high throughout the remainder of the year. Demand will likely continue to outstrip supply, which should keep prices elevated.



U.S. Energy Information Administration, Avrio Institute

VEHICLE MILES TRAVELED

Vehicle miles traveled continues to improve as the economy reopens. Travel on all roads and streets increased 28.7 percent (61.2 billion vehicle miles) in May 2021, compared to May 2020. Seasonally adjusted vehicle miles traveled during the month increased 3.2 percent from the prior month and are up 31.1 over the last year. The Northeast saw the biggest increase, rising 38.7 percent over the last year. The South Gulf saw the smallest increase but remains up 21.7 percent over last year.

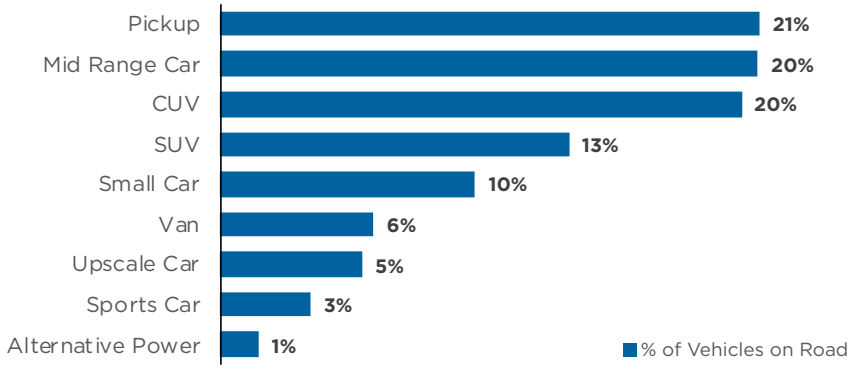


U.S. Federal Highway Administration, Avrio Institute

INSIGHTS FROM SEMA

VEHICLES IN OPERATION (VIO) DATA

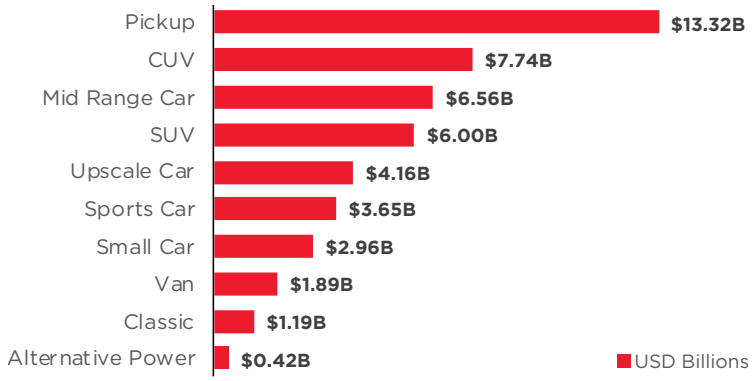
There are over 280 million light vehicles in operation in the United States today, of which approximately 113 million are passenger cars and over 167 million are light trucks. Together, mid range cars and pickup trucks represent 41% of the vehicles on the road.



Source: ©2021 Experian, Data as of March 31, 2021

SPECIALTY EQUIPMENT MARKET SIZE BY VEHICLE SEGMENT

The specialty-equipment market is a $47.9 billion dollar industry. Customers spend the most money on pickup upgrades.

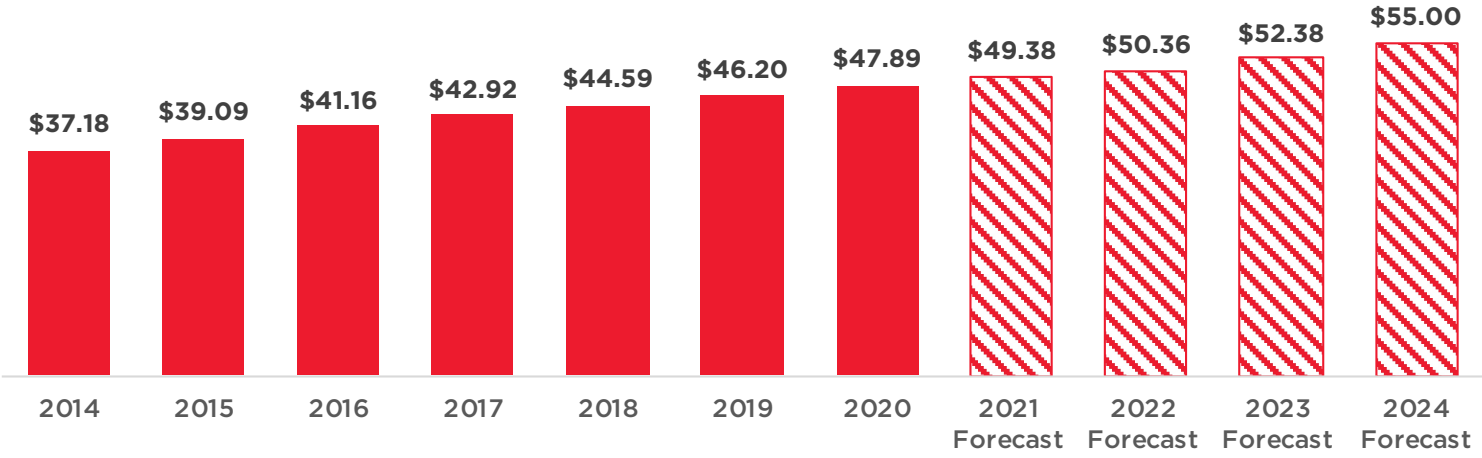


Source: 2020 SEMA US Market Data

INSIGHTS FROM THE 2021 SEMA MARKET REPORT

The year 2020 was a roller coaster, but the specialty-equipment industry showed resilience with industry retail sales climbing from $46.2 billion to new high of $47.89 billion in the United States.

ANNUAL RETAIL SALES OF AUTOMOTIVE SPECILAITY-EQUIPMENT PRODUCTS (US BILLIONS)



To learn more, download the new 2021 SEMA Market Report today at: **sema.org/research**

APPENDIX

U.S. ECONOMIC GROWTH: Gross Domestic Product, or GDP, is a measure of a country's total economic activity. It represents the value of all goods and services produced within a country. More simply, it's the sum of a country's consumption, government expenditures, investments, and net exports. This graph shows the percent change per quarter at a seasonally adjusted annualized rate.

CONSUMER SENTIMENT: The "Index of Consumer Sentiment" comes from the University of Michigan's "Survey of Consumers." The index captures consumers opinions on a variety of factors, such as how their current financial situation compares to a year ago, how they expect their financial situation to change and whether the next 12 months are a good time to buy a new vehicle.

CONSUMER SPENDING: Personal consumption expenditures (PCE) is the primary measure of consumer spending on goods and services in the U.S. economy. The index is adjusted for inflation and seasonality.

CIVILIAN UNEMPLOYMENT RATE: The unemployment rate is the number of unemployed individuals as a percent of the total labor force. The Labor force includes all individuals 16 years of age and older who reside in 1 of the 50 states or the District of Columbia. Unemployed individuals are individuals who have actively sought work within the past four weeks.

TRADE-WEIGHTED U.S. DOLLAR INDEX: The trade-weighted U.S. dollar index provides a measure of the foreign exchange value of the U.S. dollar against the currencies of a broad group of major U.S. trading partners. It provides a gauge for how the U.S. dollar is performing against global currencies. A weaker dollar vis-à-vis other world currencies will make U.S. produced goods more attractive to foreign buyers. It can also mean a higher relative price for imported goods.

INDUSTRIAL PRODUCTION - AUTO PARTS: Industrial production of auto parts is a measure of real output for all facilities located in the United States manufacturing auto parts and allied goods. Growth in the production index from month to month is an indicator of growth in the industry.

TOTAL LIGHT VEHICLE SALES (THOUSANDS OF UNITS): Total U.S. cars and light trucks sold per month, including both domestic and foreign brands.

AVERAGE U.S. GAS PRICE (PER GALLON): Weekly average U.S. retail gasoline prices per gallon. This includes all grades and formulations.

VEHICLE MILES TRAVELED: The Federal Highway Administration's Traffic Volume Trends is a monthly report based on traffic count data. These data are collected at approximately 4,000 continuous traffic counting locations nationwide. Estimates are re-adjusted annually to match the vehicle miles of travel from the Highway Performance Monitoring System and are continually updated with additional data.

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