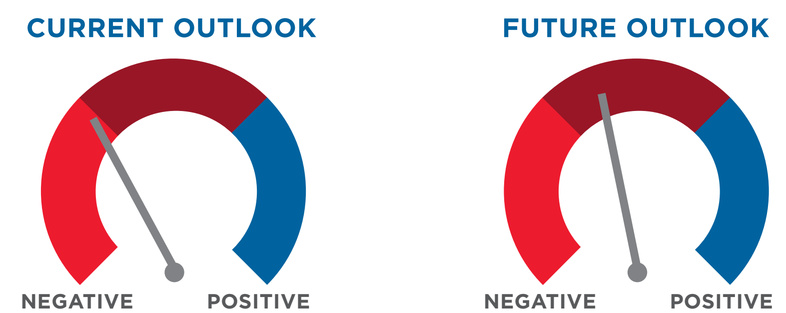
SEMA INDUSTRY INDICATORS

NOVEMBER 2020

MARKET RESEARCH | AVRIO INSTITUTE

It is, as Charles Dickens might say, the best of times and the worst of times. Skyrocketing COVID-19 cases have pushed several states back into lockdown. While these measures are not as severe as they were early in the year, they will still curtail economic activity in the coming months and risk hindering the recovery. At the same time, the last month has brought positive news of high efficacy rates for several COVID-19 vaccine trials. It appears vaccine distribution should start at the beginning of 2021 and move us closer to the end of the pandemic. While things are likely to get worse before they get better, the next phase of the recovery is coming into focus.



The economy does continue to recover, but as we noted last month, growth is moderating. In Europe, where fiscal stimulus was less than in the United States, rising COVID-19 cases are also driving a fresh series of national lockdowns. The economy there will see another retraction in the fourth quarter — the proverbial double-dip recession. The probability of a double-dip recession in the United States has inched higher and is probably around 25 percent now. Improbable but not impossible.

The auto industry continues to do relatively well. Production slowed somewhat in September but remains above September 2019 levels. Likewise, sales of new vehicles during the month of October were down slightly from the prior month, but spending on vehicles continues to be strong. In fact, consumer spending on vehicles and parts hit an all-time high in October.

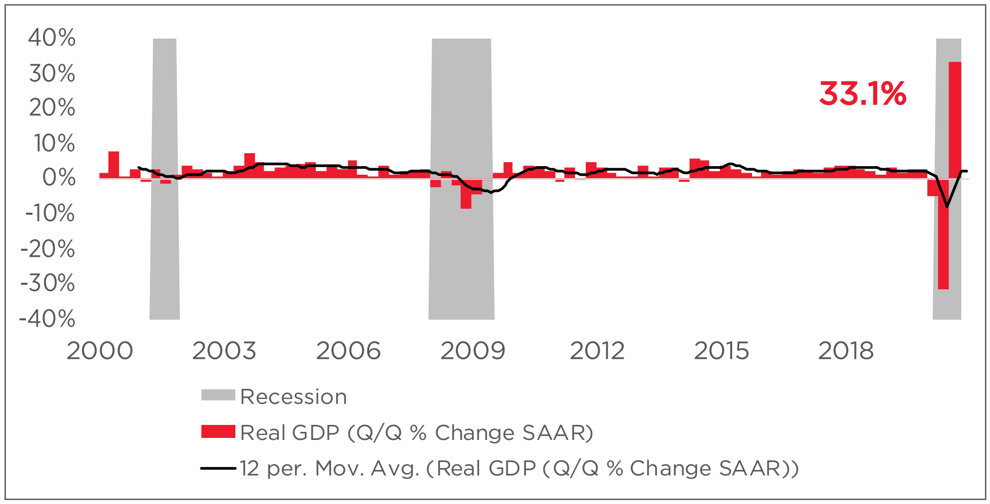
Much of the strength in spending on vehicles is the result of strong spending on used cars. Incoming data does suggest that the used car market is showing some signs of weakness while the new market is gaining some momentum. Spending on motor vehicle parts and accessories has also been strong, growing 8.4 percent over last year.

The consumer is doing ok. Personal income is up and spending continues to recover. Jobs are slowly coming back. The next few months could see economic activity slow down, but the extent will be dictated by how COVID-19 rates behave in the coming months and how we, in turn, respond.

ECONOMICS

U.S. ECONOMIC GROWTH

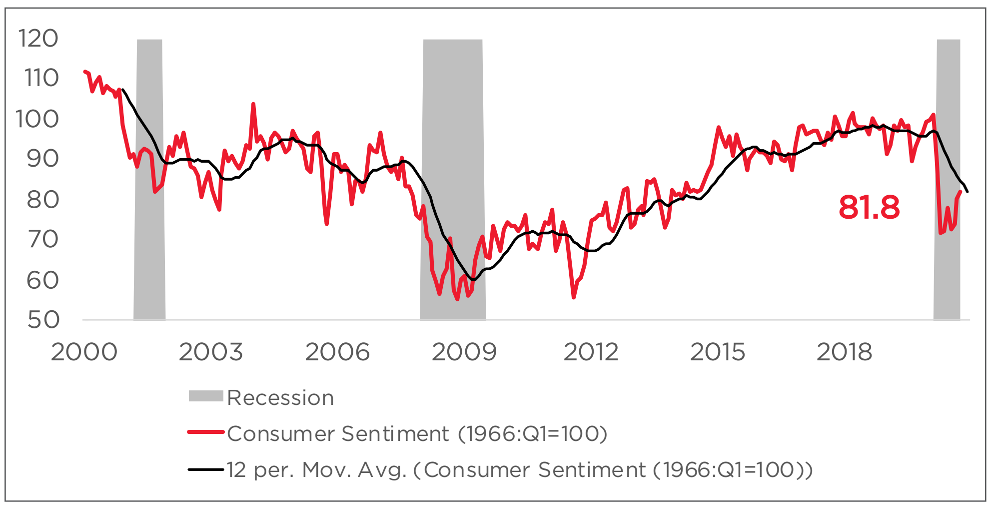
As expected, the economy grew strongly in the third quarter of 2020, rising 33.1 percent at an annual rate. This is the fastest quarterly growth in history as the economy tries to regain its pre-pandemic trajectory. Consumer spending led the decline in the second quarter (-33.2%) and the recovery in the third quarter (+40.7%). Despite the strong growth in the quarter, real GDP is still down 2.9 percent from a year ago. Expect the economy to expand 4 percent in the current quarter and not regain pre-pandemic levels until the second half of 2021.



Bureau of Economic Analysis, Avrio Institute

CONSUMER SENTIMENT

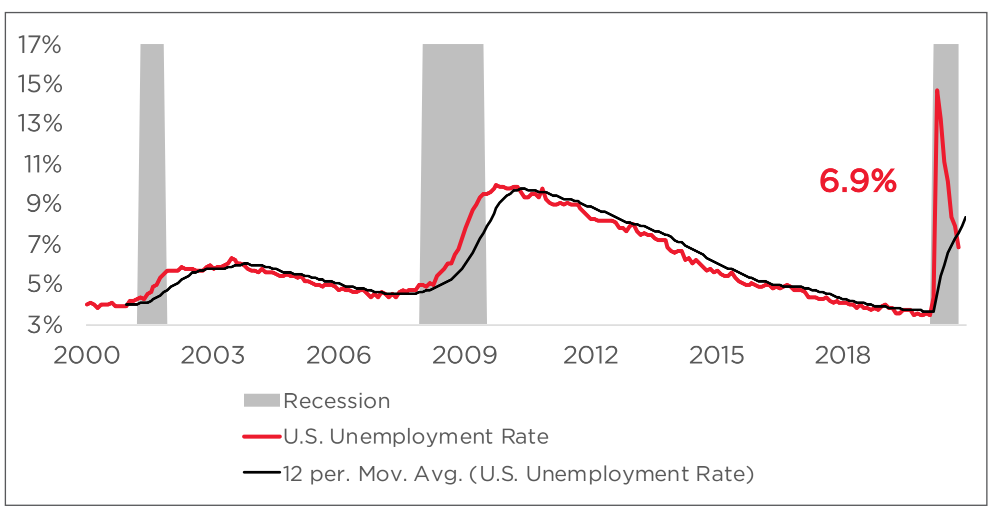
Consumer sentiment moved marginally higher in October, rising 1.7 points from 80.4 to 81.8. It is down 14.3 percent from a year ago and is 15.8 percent below the 2018/2019 average. The current economic conditions component slipped lower, while the expectations component improved somewhat. Despite marginal gains in October, sentiment has slipped lower through the first few weeks of November. Following the presidential election outcome, Republicans reported weaker economic expectations, while Democrats reported no offsetting gains in expectations. Rising COVID-19 infections are also weighing heavily on the outlook.



University of Michigan, Avrio Institute

UNEMPLOYMENT RATE

Nonfarm payrolls rose 638,000 in October, just shy of the total added in September. Private sector jobs increased by 906,000. The largest increases were in leisure and hospitality (271,000 jobs), professional and business services (208,000 jobs including temps) and retail (104,000 jobs). Manufacturing added 38,000 jobs during the month, and auto manufacturing added 1,400 jobs. Manufacturing has regained nearly 60 percent of the jobs lost in April and May, while auto manufacturing has regained 76 percent. The unemployment rate dropped from 7.9 percent in September to 6.9 percent in October.

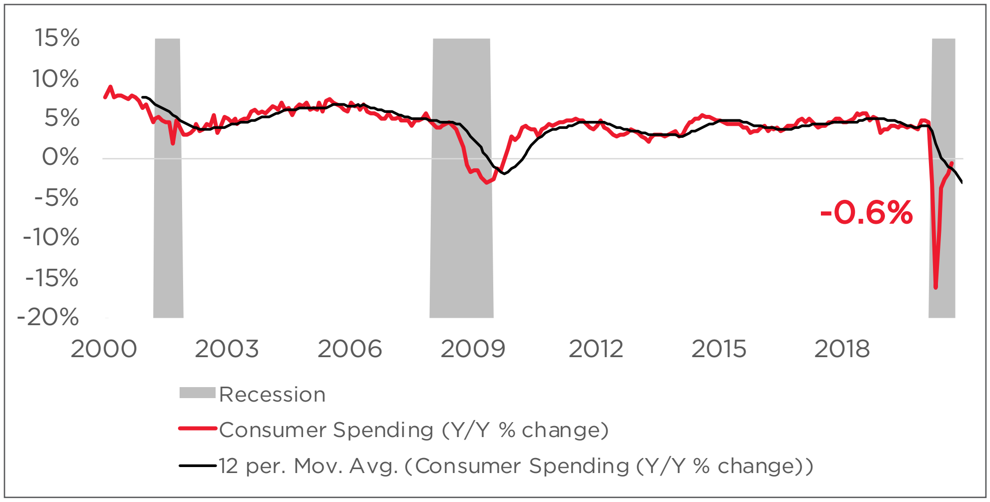


Bureau of Labor Statistics, Avrio Institute

ECONOMICS

CONSUMER SPENDING

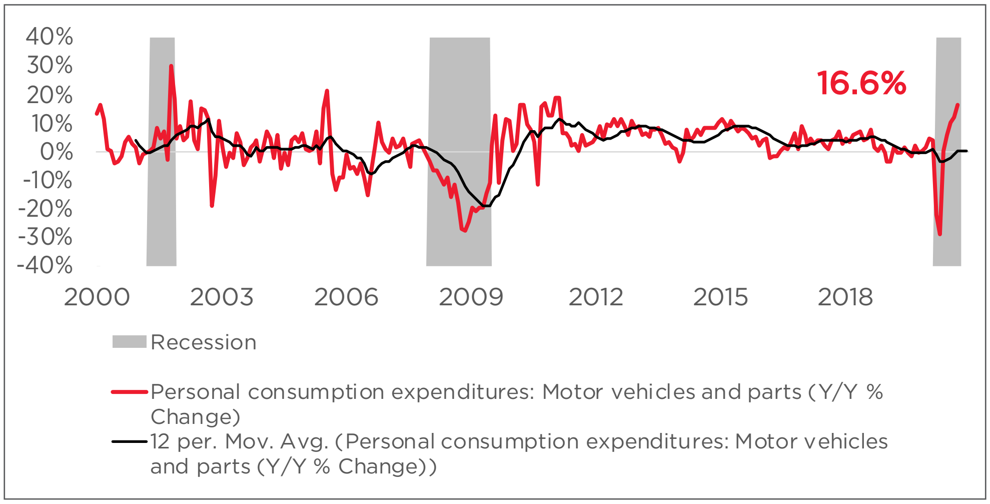
Personal income rose 0.9 percent in September and is up 6.2 percent in the last year. Importantly, growth in income is coming from wages and salaries and not government transfers, which continue to fall. Personal consumption rose 1.4 percent in September. Spending is 2 percent below February 2020 levels and down just 0.6 percent from last year. Spending comparisons might grow more difficult in November and December — the traditional holiday shopping season. Retailers have been working to pull sales forward and online. While Black Friday has been waning in importance in recent years, stores have cut opening hours and in-store promotions in 2020, which will be a headwind for holiday shopping.



Bureau of Economic Analysis, Avrio Institute

CONSUMER SPENDING ON MOTOR VEHICLES & PARTS

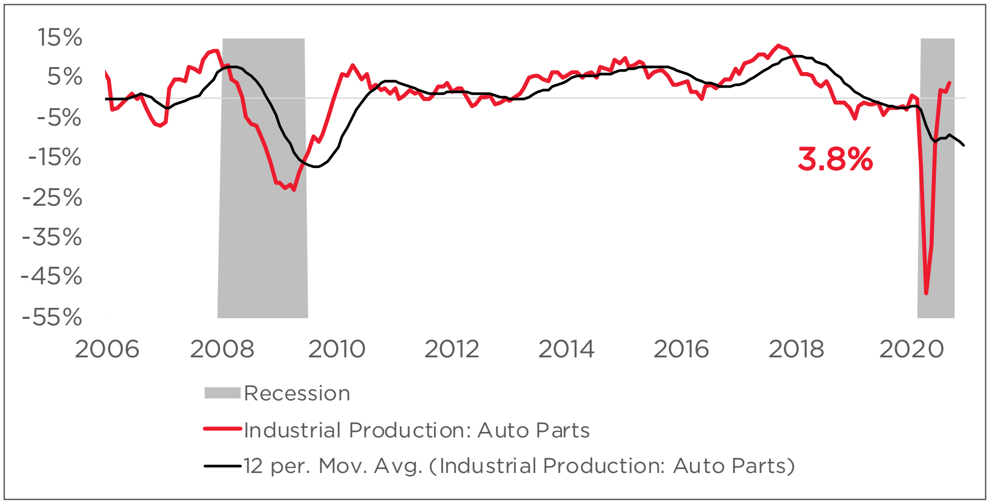
Consumer spending on vehicles and parts increased strongly again in September. Spending was up 6 percent over the prior month and 16.6 percent over last year. September was the fourth consecutive month that spending on vehicles and parts was above January 2020 levels, as consumers continue to show a strong propensity to spend on vehicles and make up for lost spending in March and April. Spending on new vehicles was up 13.5 percent during the month compared to last year, while net purchases of used vehicles was up 30.3 percent. Monthly spending on vehicles averaged roughly 43.487 billion in 2019 and has averaged 43.413 billion through September in 2020, so consumers have very nearly closed the gap.



Bureau of Economic Analysis, Avrio Institute

INDUSTRIAL PRODUCTION: AUTO PARTS

September brought another solid month of auto parts production, which increased 1.4 percent during the month. For the first time since the start of the pandemic, production is up above last year's levels, rising 3.8 percent since September 2019. Auto parts production is still down 9.5 percent over the last year and down 11.9 percent year-to-date. Production in September was twice as large as it was in April.

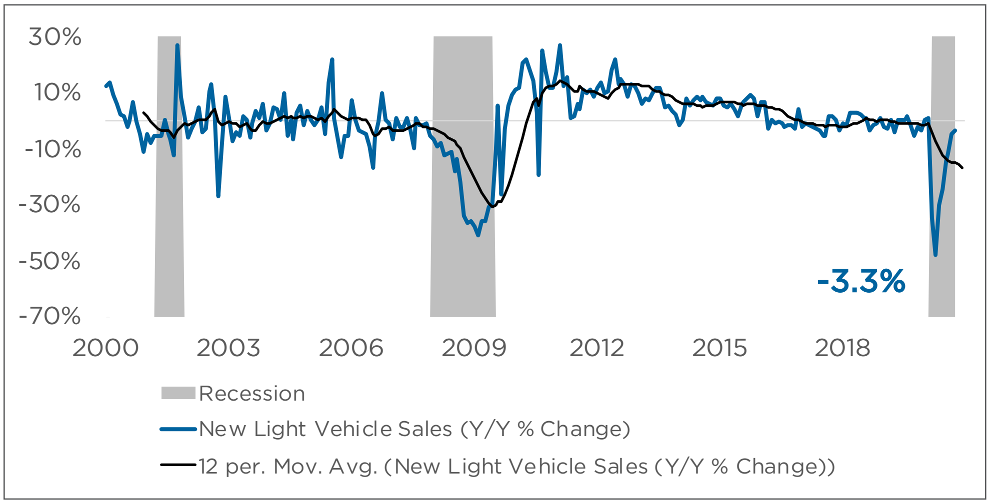


Federal Reserve, Avrio Institute

AUTOMOTIVE

MONTHLY NEW LIGHT VEHICLE SALES

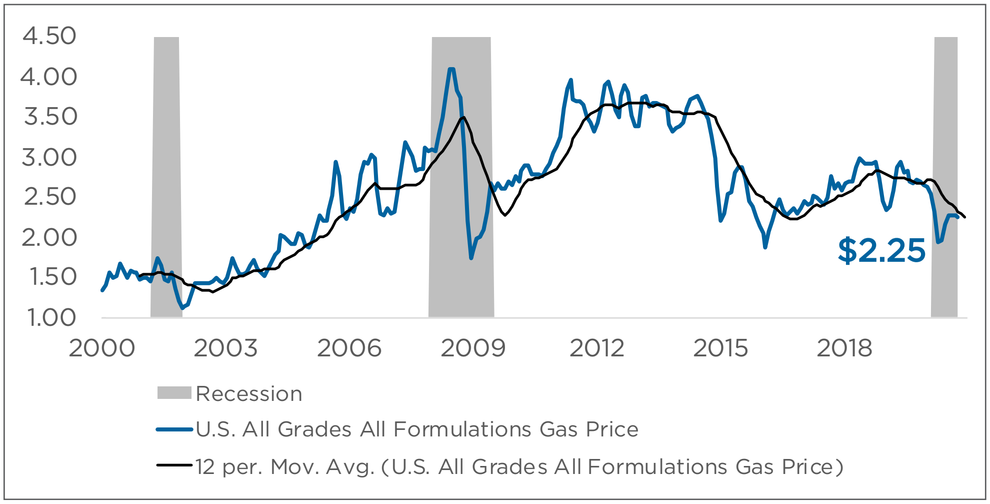
New vehicle sales slipped slightly in October, after rising for four straight months. New vehicle sales fell 0.5 percent from the prior month and are down 3.3 percent from last year. For the month, 1.35 million vehicles sold (16.21 millon on an annual basis). New car sales were up 1.7 percent during the month, while truck and SUV sales fell 1.2 percent. Compared to a year ago, car sales are off 13.9 percent, while truck and SUV sales are up 0.6 percent. Sales are on track to finish the year just under 14.5 million, nearly 15 percent below last year's total.



Bureau of Economic Analysis, Avrio Institute

GAS PRICES

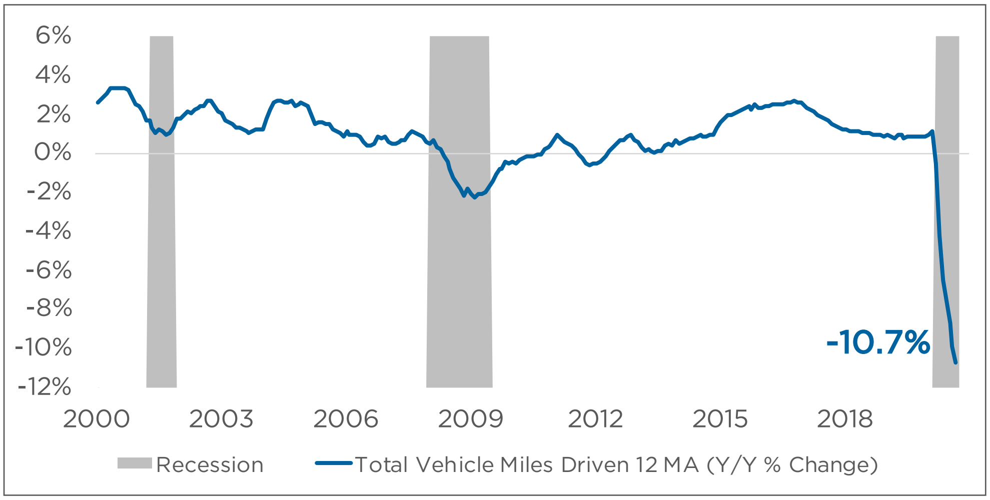
Gas prices have done nothing interesting in recent months. Gas averaged $2.25/gallon for the month of October, down two cents from the prior month. Gas prices had averaged $2.27/gallon for the previous three months and $2.18/gallon since the pandemic began. Gas prices during the last month were $0.48/gallon, or 17.5 percent, lower than a year ago. Gasoline production has been down, while U.S. gasoline inventories have been building, pointing to falling gasoline demand. Demand for gas will likely remain subdued, and additional lockdown measures will further limit demand.



U.S. Energy Information Administration, Avrio Institute

VEHICLE MILES TRAVELED

Vehicle miles traveled on all roads and streets continued to improve somewhat but remain at levels well below normal travel — a trend that will likely persist well into 2021. Seasonally adjusted vehicle miles traveled for September came in at 247.2 billion miles, which is a 2.8 percent increase over August, but vehicle miles traveled remains down 9.7 percent from September 2019. Cumulative travel for 2020 is down 14.5 percent, and travel was down in all regions of the country. The Northeast continues to show the steepest decline, now at 10.6 percent from last year, while the South Gulf showed the smallest decline at -7.8 percent.

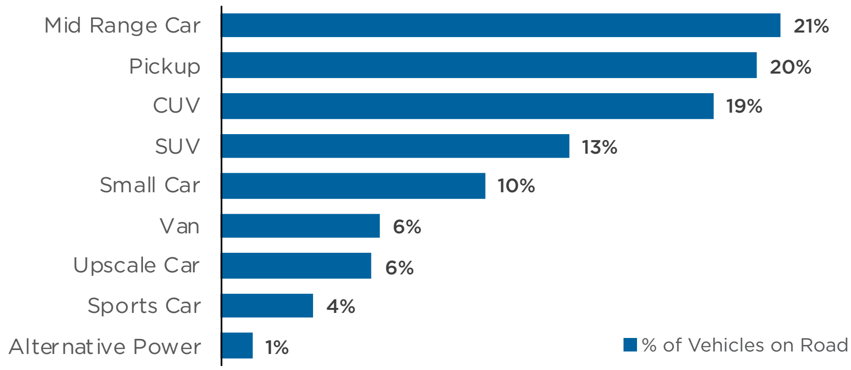


U.S. Federal Highway Administration, Avrio Institute

INSIGHTS FROM SEMA

VEHICLES IN OPERATION (VIO) DATA

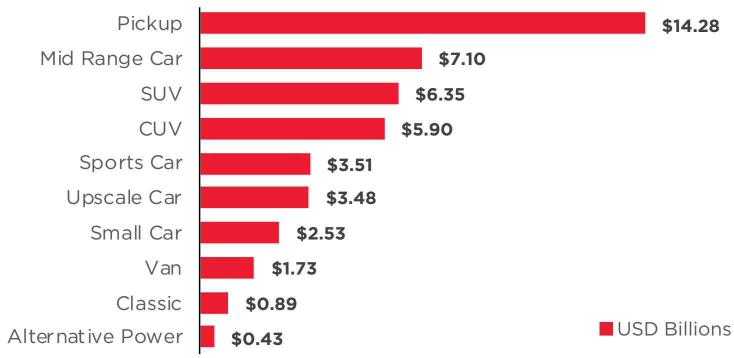
There are approximately 280 million light vehicles in operation in the United States today, of which over 116 million are passenger cars and nearly 164 million are light trucks. Together, mid range cars and pickup trucks represent nearly 42% of the vehicles on the road.



Source: ©2020 Experian, Data as of June 30, 2020

SPECIALTY EQUIPMENT MARKET SIZE BY VEHICLE SEGMENT

The specialty-equipment market is a $46.2 billion dollar industry. Customers spend the most money on pickup upgrades.



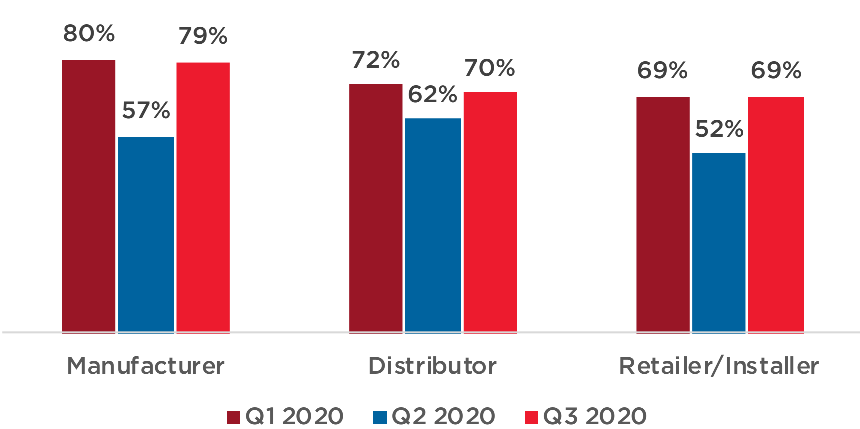
Source: 2019 SEMA US Market Data

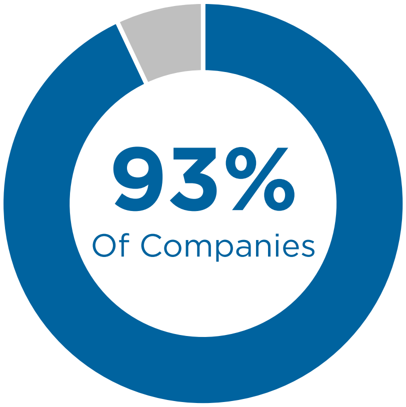
INSIGHTS FROM THE UPCOMING STATE OF THE INDUSTRY REPORT

Our industry saw the biggest sales disruption from the pandemic in Q2, but sales bounced back in Q3. Today, most companies continue to report only being impacted short-term or that things are mostly business as usual.

COMPANY SALES PERFORMANCE DURING PANDEMIC

% Met or Exceeded Sales Goals from Beginning of Year





MOSTLY BUSINESS AS USUAL OR ONLY IMPACTED SHORT TERM

Get the latest reports, information and data from SEMA Market Research 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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