

SEMA INDUSTRY INDICATORS

FEBRUARY
2019

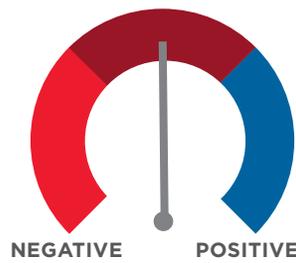


MARKET
RESEARCH

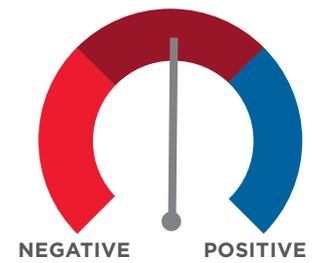
AVRIO
—INSTITUTE—

Where is the economy heading? We are at a crossroads where the answer to that question isn't clearly discernible. On some fronts, we continue to see tremendous strength. The economy added over 300,000 new jobs in January, despite a prolonged government shutdown. January marked the 100th consecutive month of job gains — the longest streak on record. Manufacturing reports over the last months surprised to the upside. Industrial production suggests we produced more in December than in any month in our history.

CURRENT OUTLOOK



FUTURE OUTLOOK



In other areas, we see continued growth but at a slower pace. For example, the ISM non-manufacturing index suggests the pace of service sector growth slowed in January. Vehicle sales were down 5.1 percent in January from the prior month and 3 percent from a year ago. And consumer sentiment declined notably in January.

With increased uncertainty comes increased volatility. In January, the S&P 500 posted its best performance since 1987 (7.87%), following its worst December performance since 1931 (-9.18%).

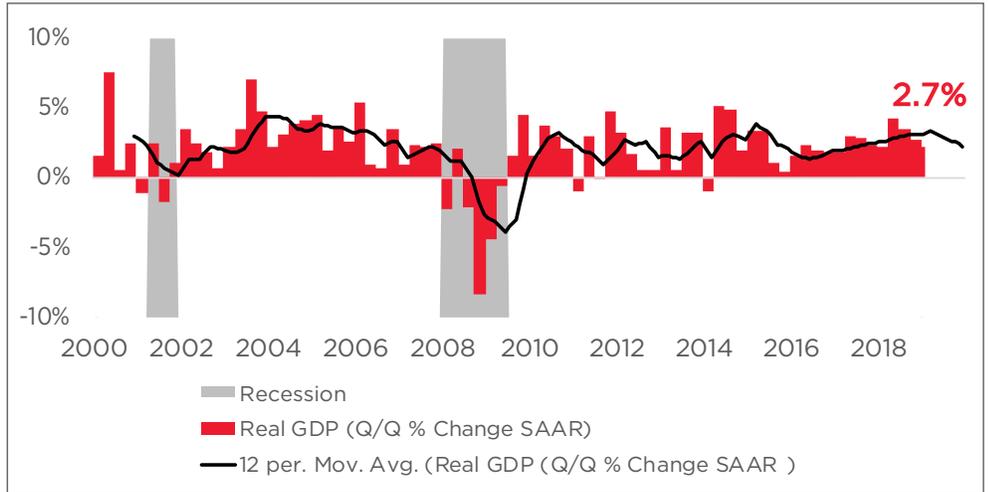
The outlook for the next few months remains solid, but uncertainties intensify after that. Observers are watching for any signs that suggest a decline is imminent. Economic expansions tend to end abruptly, and everyone is looking for what might undo the current expansion as it moves forward to become the longest in history.

The partial government shutdown intensified uncertainties. The 35-day shutdown was the longest in U.S. history — surpassing the 21-day shutdown of 1995-1996. And we aren't out of the woods just yet. The current resolution didn't finalize a budget but rather bought the government additional time.

The government shutdown also delayed economic reports, which will start posting in the coming weeks. They are dated but will likely carry heavy weight. For example, the December retail sales report, originally scheduled for January 16, will now be published on February 14. While we anticipate solid holiday results, we are still awaiting confirmation. Anything suggesting that consumers are holding back could spook consumers and investors alike.

We continue to await delayed reports on economic growth for the fourth quarter of 2018. When we receive these at the end of February, we expect they will show that growth edged slightly lower in the final months of the year. After increasing 3.4 percent in the third quarter, economic growth likely dipped to 2.7 percent in the fourth quarter. For all of 2018, the economy grew at approximately 2.9 percent. Looking forward, economic growth is expected to moderate to 2.4 percent in 2019.

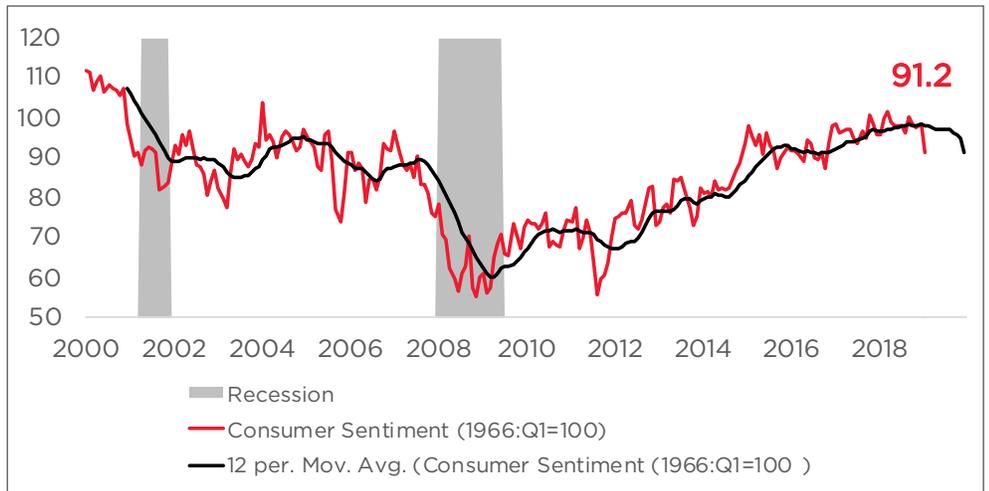
U.S. ECONOMIC GROWTH



Bureau of Economic Analysis, Avrio Institute

Consumer sentiment dropped in January, as the partial government shutdown dragged on. It often rebounds quickly after short-term events, but continued uncertainty around the resolution of budget impasses and other political dynamics will likely dampen sentiment over the coming month, which, in turn, could drag further into 2019. As economic growth moderates, greater significance is assigned to any and all growth. For example, consumer spending becomes more important as growth in the rest of the world slows and the U.S. economy has to rely on domestic factors of growth.

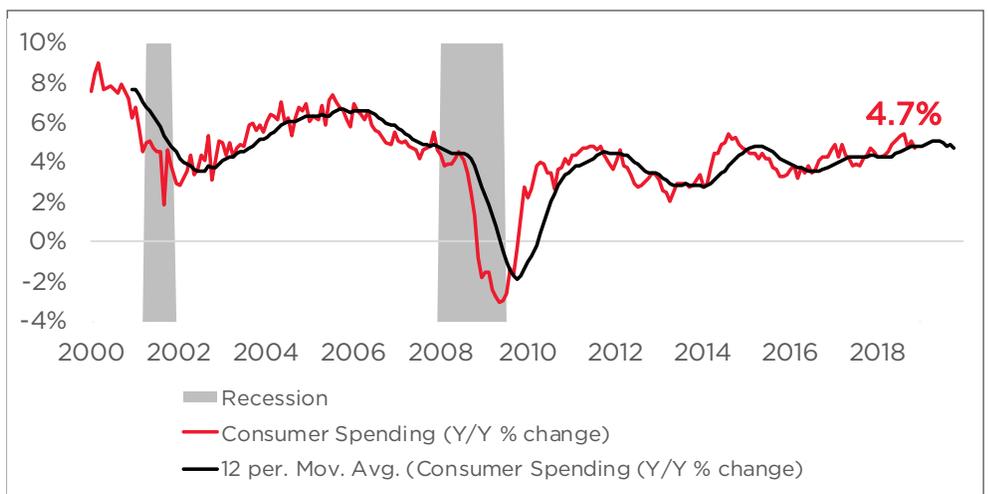
CONSUMER SENTIMENT



University of Michigan, Avrio Institute

Delayed economic reports on consumer spending and personal income for December 2018 have been rescheduled for the end of February. Spending in October and November were both strong and centered on durable goods. Increase in disposable income and a small decline in the savings rate helped fuel some of this growth in spending. Despite declining sentiment and volatile equity prices in the final months of 2018, consumers showed a propensity to spend. That momentum likely carried through to the end of the year. Looking forward, spending growth is expected to moderate in 2019.

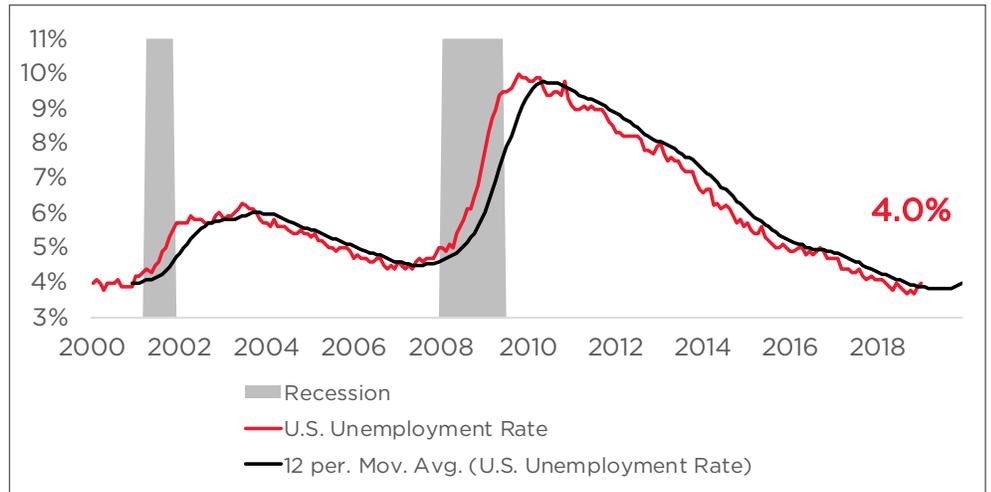
CONSUMER SPENDING



Bureau of Economic Analysis, Avrio Institute

Despite the partial government shutdown, January delivered another strong month of job growth. Nonfarm payrolls increased 304,000 in January — the biggest monthly gain since February 2018. Monthly employment gains have averaged 234,000 over the last 12 months, and average hourly earnings are up 3.2 percent over last year. Furloughed workers were temporarily counted as unemployed, pushing the unemployment rate up 0.1 percentage points to 4 percent. This statistical increase in the unemployment rate will correct itself next month.

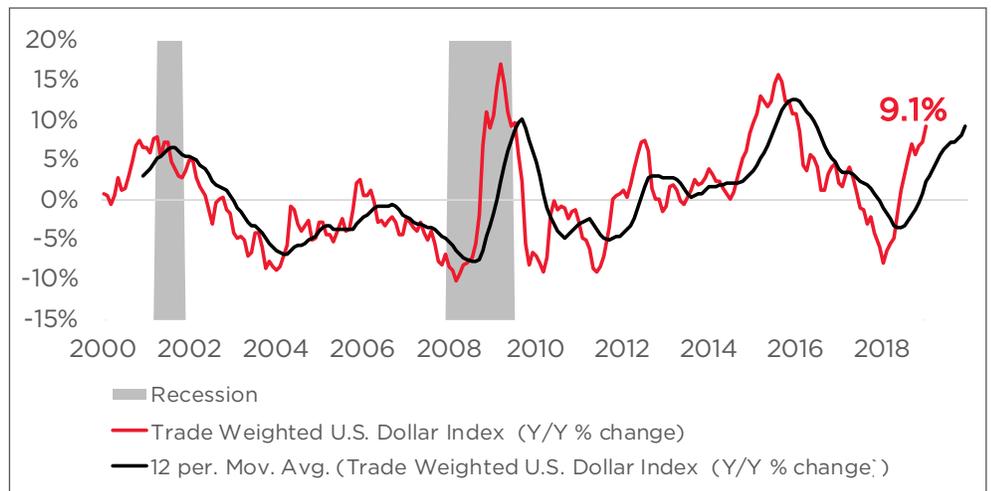
U.S. UNEMPLOYMENT



Bureau of Labor Statistics, Avrio Institute

The dollar weakened modestly in January. The trade-weighted dollar index is down 0.5 percent over the last month, though it is up 9.1 percent over the last year. Several factors are likely pushing against the dollar as we roll into 2019. Political uncertainties in the United States are likely making global investors hesitant to be long the dollar. Moreover, inflation risk continues to look tame and the Federal Reserve appears more patient in 2019. As a result, modest domestic interest rates will hinder further upside for the dollar.

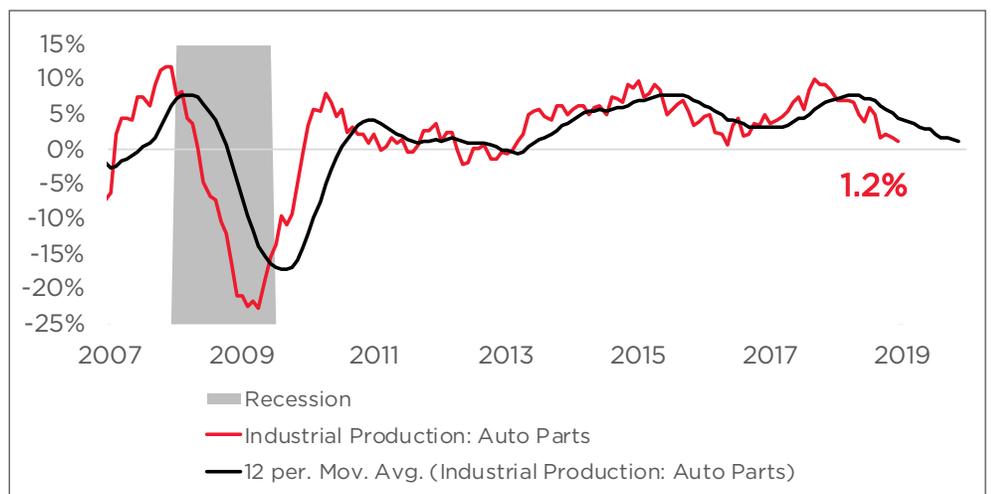
TRADE WEIGHTED U.S. DOLLAR INDEX



Federal Reserve, Avrio Institute

Auto parts production in the United States increased in January. Production was up 0.5 percent from the prior month and 1.2 percent from January 2018. Year-over-year growth moderated to the slowest year-over-year growth since May 2016. Year-over-year industry growth has averaged 3.3 percent during the current economic expansion. While growth is slowing, momentum remains positive. Moreover, the value of manufacturers' unfilled orders for motor vehicles and parts continues to show year-over-year growth, suggesting a pipeline of orders is outpacing production. Overall industrial production increased 4 percent in January 2019.

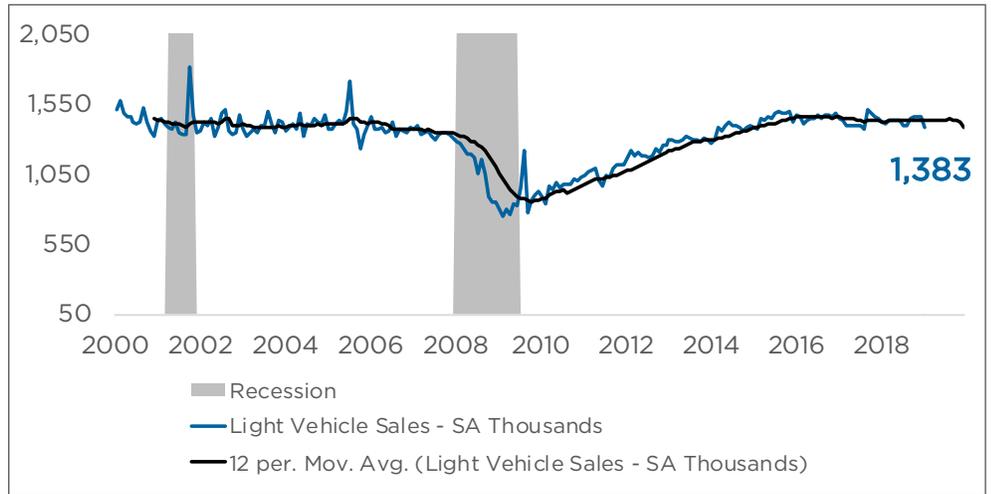
INDUSTRIAL PRODUCTION: AUTO PARTS



Federal Reserve, Avrio Institute

New vehicle sales started the year off on a weak note — a trend likely to continue throughout the year. New vehicle sales declined in January to a seasonally adjusted total of 1.383 million, which is a seasonally adjusted annual rate of 16.6 million. This is roughly 74,000 less than December 2018 on a seasonally adjusted basis, or 5.1 percent. New vehicle sales started the year 3 percent lower than in January 2018. We expect new vehicle sales of 16.8 million in 2019, which would make it the first year that sales totals have been below 17 million units since 2014.

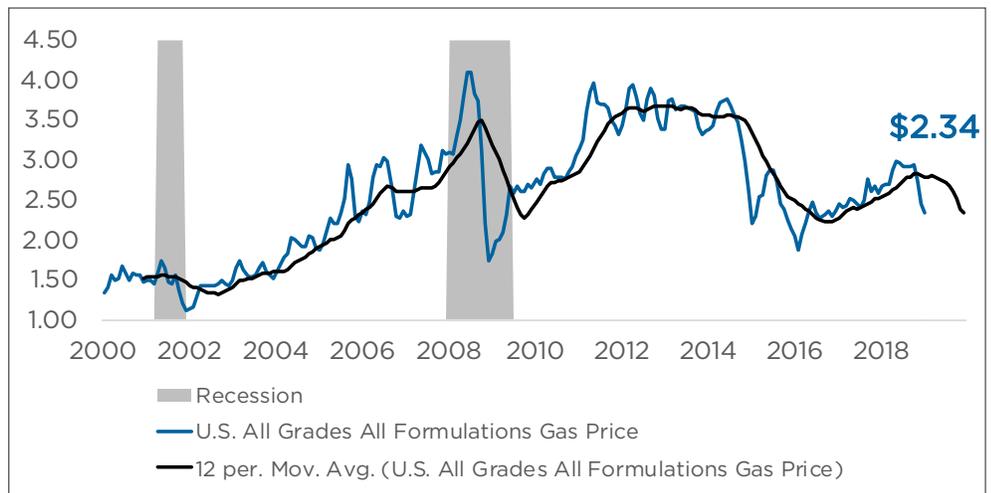
MONTHLY NEW LIGHT VEHICLE SALES



Bureau of Economic Analysis, Avrio Institute

The average national gas price continues to decline. Gas averaged \$2.34/gallon in January, down from \$2.46/gallon in December. Over the last month, gas prices have fallen nearly 5 percent and are down 10.2 percent from January 2018. Since peaking at \$2.94/gallon in October 2018, gas prices have fallen nearly 21 percent. Greater oil supply and weaker global demand will keep oil prices below 2018 levels and, in turn, keep gas prices lower. Gas prices are expected to average \$2.50/gallon in 2019 and \$2.60/gallon in 2020.

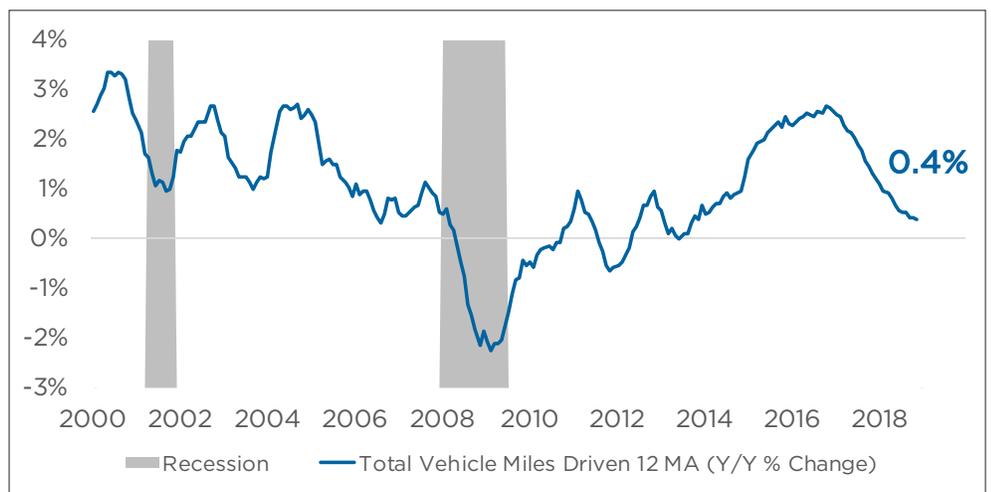
GAS PRICES



U.S. Energy Information Administration, Avrio Institute

Travel on all roads and streets in the United States increased by 0.3 percent in November 2018, compared to a year ago. The 12-month moving average increased by 0.4 percent. Seasonally adjusted travel for November 2018 was estimated at 268.2 billion vehicle miles, down 1.4 billion vehicle miles from October 2018 and up 14 million vehicle miles from November 2017. Cumulative travel for 2018 is up 0.3 percent.

VEHICLE MILES TRAVELED

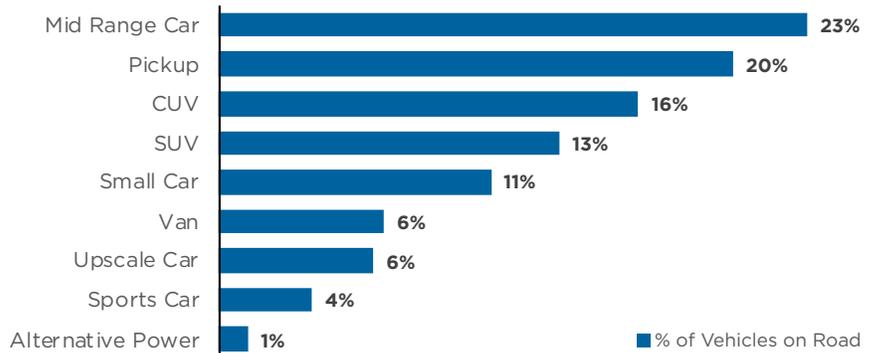


U.S. Federal Highway Administration, Avrio Institute

INSIGHTS FROM SEMA

VEHICLES IN OPERATION (VIO) DATA

There are approximately 275 million light vehicles in operation in the United States today, of which over 121 million are passenger cars and nearly 154 million are light trucks. Together, mid range cars and pickup trucks represent almost half of the vehicles on the road.



Source: © 2018 Experian, Data as of September 30, 2018

SPECIALTY EQUIPMENT MARKET SIZE BY VEHICLE SEGMENT

The specialty-equipment market is a \$43 billion dollar industry. Customers spend the most money on pickup upgrades, followed by mid range car and SUV upgrades.

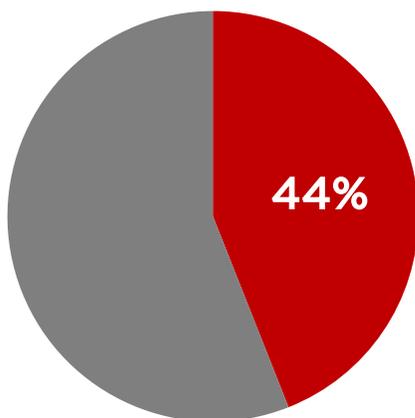


Source: 2017 SEMA Market Data

INSIGHTS FROM THE MODERN MUSCLE CAR ACCESSORIZER REPORT

Drivers of modern muscle cars (2010 and newer Mustangs, Camaros, and Challengers) are passionate about their cars and accessorizing, and represent a huge opportunity for our industry.

PERCENT OF MODERN MUSCLE CAR OWNERS THAT MODIFIED THEIR VEHICLE



814,000
MODERN MUSCLE CARS
HAVE BEEN MODIFIED
OR UPGRADED

58%
OF ACCESSORIZERS
PREFER TO BUY THEIR
AFTERMARKET PARTS
IN PERSON

Want to learn more? Download the "Modern Muscle Car Accessorizer 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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