

SEMA INDUSTRY INDICATORS

JANUARY
2019



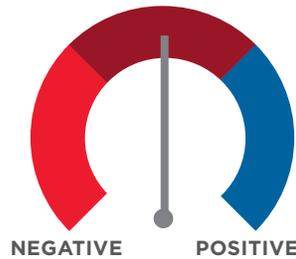
MARKET
RESEARCH

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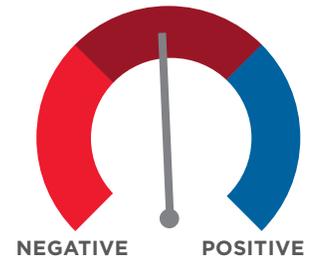
Risks to the downside have intensified as a mixed economic picture has started to form in recent months.

The economy continues to add jobs at a robust clip, and the labor market continues to be a place of strength. There were 312,000 new jobs added in December — far above the consensus expectations. In 2018, the economy added an average of 220,000 new jobs per month, which is nearly 40,000 more per month than we added in 2017. Over the last year, we've added

CURRENT OUTLOOK



FUTURE OUTLOOK



an average of 16,000 new manufacturing jobs per month. Wage growth has accelerated in recent months, suggesting a tightness in the labor market that should make working Americans better off financially.

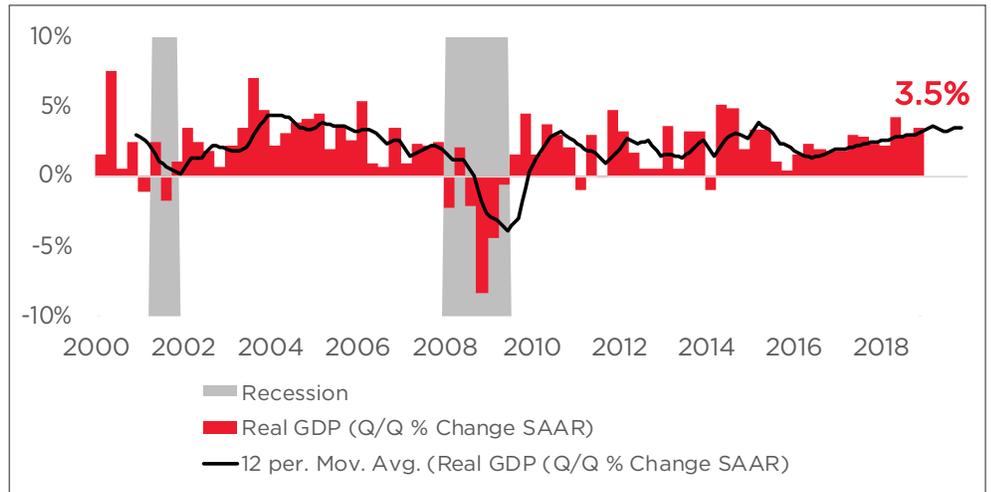
But myriad indicators, including those in the SEMA Industry Indicators report, suggest economic momentum is slowing. One example is the slowdown in auto parts production. While overall growth remains positive, year-over-year growth was half as fast in the last six months of 2018. Likewise, new vehicles sales, while remaining positive, slowed as the year progressed.

Incoming data, while not as rosy as the first half of 2018, still suggests the current expansion will extend at least through mid-2019, making it the longest economic expansion ever recorded. At the same time, Google queries for information on “recession” spiked in December, hitting a seven-year high. While economic data suggests 2019 will be a year of growth, projections of that growth, including our own, are becoming more modest. Everyone, it seems, is bracing for an economic downturn.

While downside risks are plenty, some of these risks might not be as daunting as have been presupposed, and some might not actually materialize in the ways feared. Moreover, as already noted, a number of favorable fundamentals — such as strength in the labor market and accelerating wage growth — offer support for more promising outcomes. Furthermore, while many are pointing to 2019 as a year of moderating growth and 2020 as a challenging year that could bring recession, there remains tremendous uncertainty regarding the magnitude of any economic decline.

After growing 3.5 percent in the third quarter, economic growth dipped below 3 percent in the fourth quarter. Economic growth in the first half of 2019 should track close to 2.5 percent before declining further in the back half of 2019, while economic growth should decline to under 2 percent for all of 2019 as the economy continues to lose the tailwinds of tax cuts and greater financial liquidity and begins to face more headwinds. Trade conflicts or other uncertainties represent further downside risk to economic growth in 2019.

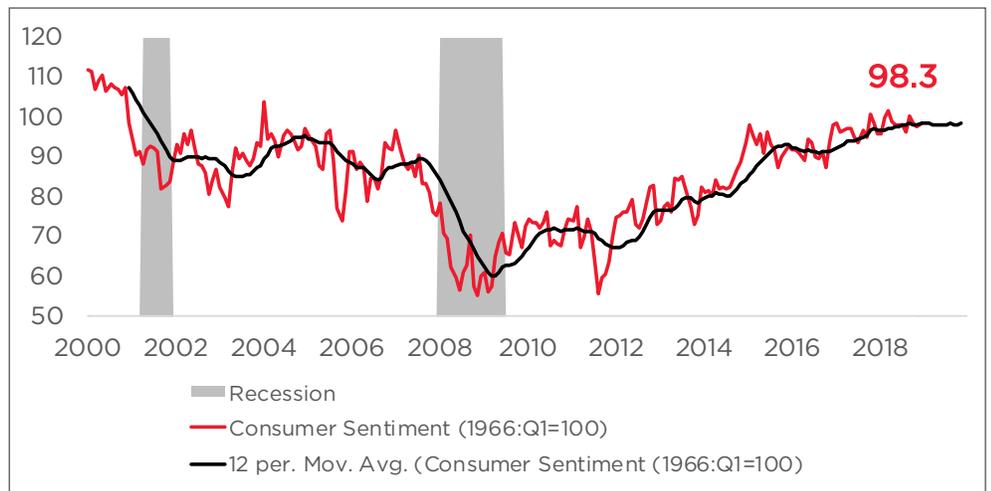
U.S. ECONOMIC GROWTH



Bureau of Economic Analysis, Avrio Institute

The Index of Consumer Sentiment edged slightly higher in December to 98.3. The Index averaged 98.4 last year, the best year since 2000. While recent stock price volatility garnered media attention, consumers appear more concerned about job and income prospects than stock market prices. The number of individuals expecting increases in the unemployment rate increased from 22 percent in November to 30 percent in December — the highest level in two years. In December, consumers reported more negative news than positive news about job prospects for the first time in two years.

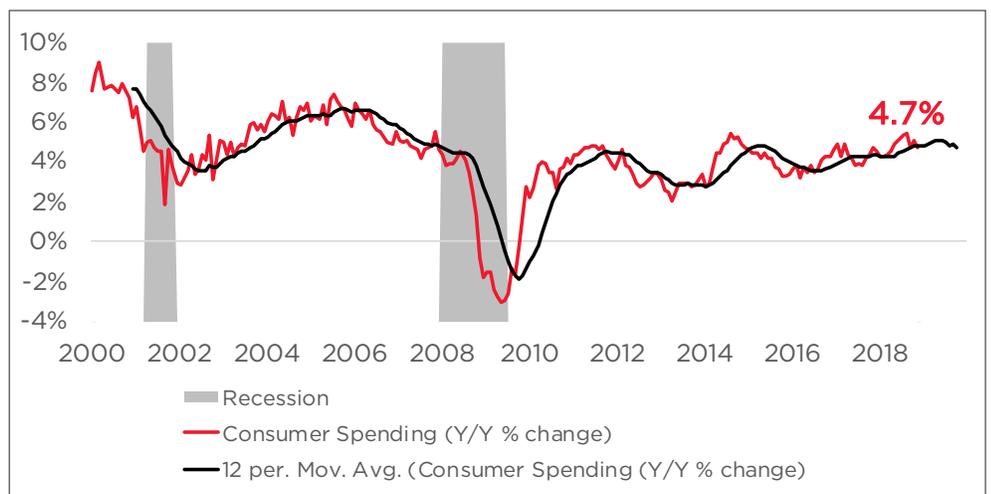
CONSUMER SENTIMENT



University of Michigan, Avrio Institute

Personal income and consumer spending both increased in November but at slower rates than in the prior month. Personal income is up 4.2 percent over the last year, and income after taxes is up 4.7 percent. Consumer spending is up 4.7 percent over the same period. Retail sales were extremely strong in November, and equally strong growth is expected for December. The consumer continues to look generally healthy with a propensity to spend, but expect spending to moderate further in 2019.

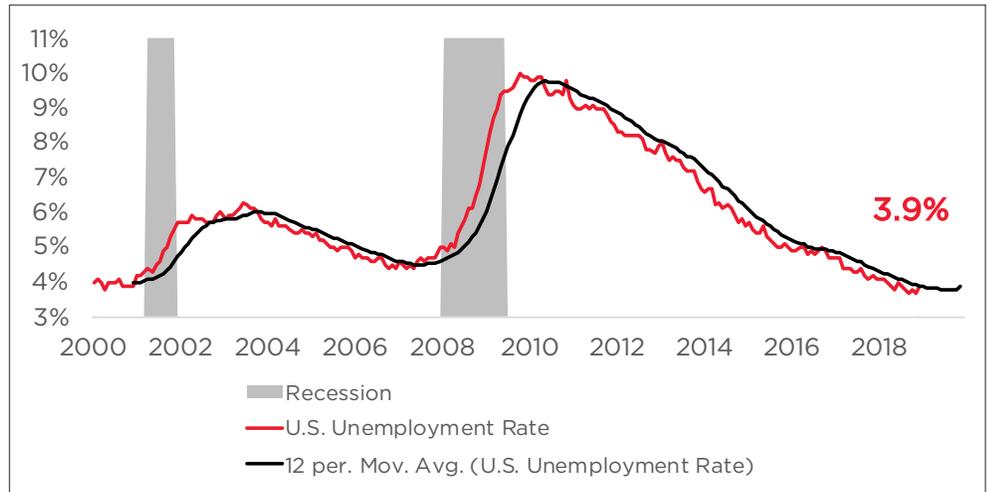
CONSUMER SPENDING



Bureau of Economic Analysis, Avrio Institute

The unemployment rate rose to 3.9 percent in December, driven by a healthy gain in the labor force. But the narrative for December showed significant job growth on the heels of a tepid employment report in October. The economy added 312,000 new jobs in December, far above expectations. Moreover, revisions to prior months added another 58,000 jobs. Nonfarm payrolls grew an average of 220,000 over the last 12 months. Wages continue to accelerate — up 3.2 percent over the last year.

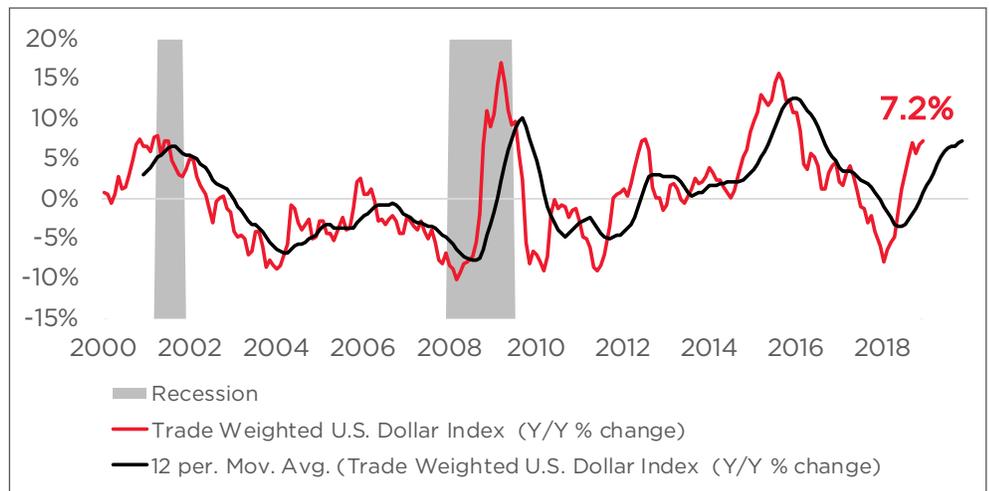
U.S. UNEMPLOYMENT



Bureau of Labor Statistics, Avrio Institute

The dollar strengthened again in December. The trade-weighted dollar index is up 0.2 percent over the last month and 7.2 percent over the last year. The dollar was buoyed by two forces over the past year: first, rising U.S. domestic interest rates, which draw investable funds into the United States, and secondly, continued concern of a global economic slowdown, which lends support to the U.S. dollar as a historically safe haven for investors. A more patient Fed could reverse some of the gains from the past year.

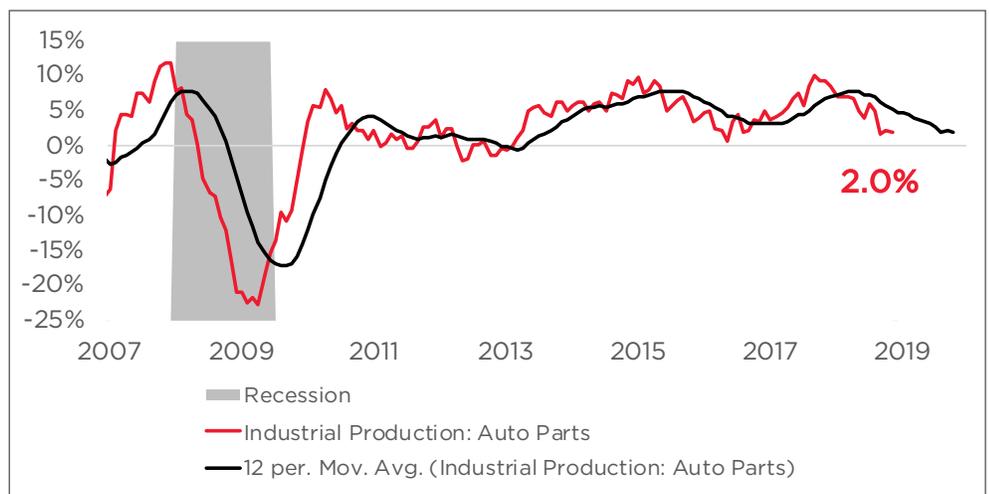
TRADE WEIGHTED U.S. DOLLAR INDEX



Federal Reserve, Avrio Institute

The manufacturing industry has been a catalyst for economic growth during the current expansion. Overall manufacturing added nearly 200,000 new jobs in 2018, but average monthly gains slowed by roughly 25 percent in the second half. The industry continues to add new jobs but at a slower rate. Likewise, incoming data suggests output growth is beginning to slow in certain sectors. As noted earlier, growth in auto parts production was half as fast in the last six months of 2018.

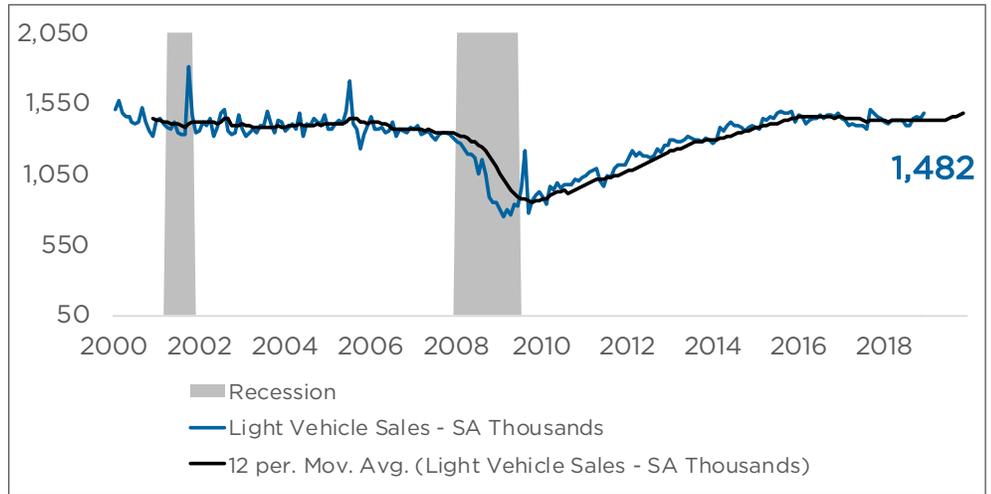
INDUSTRIAL PRODUCTION: AUTO PARTS



Federal Reserve, Avrio Institute

New vehicle sales improved in the final month of 2018, increasing 2.2 percent in December. Americans bought roughly 17.2 million new vehicles in all of 2018 — a 0.4 percent increase over 2017. Expect new vehicle sales of 16.8 million in 2019, which would mark the first year that sales totals have been below 17 million units since 2014. Higher interest rates and a weakening economy will be headwinds, but a higher mix of SUVs and trucks could strengthen overall pricing.

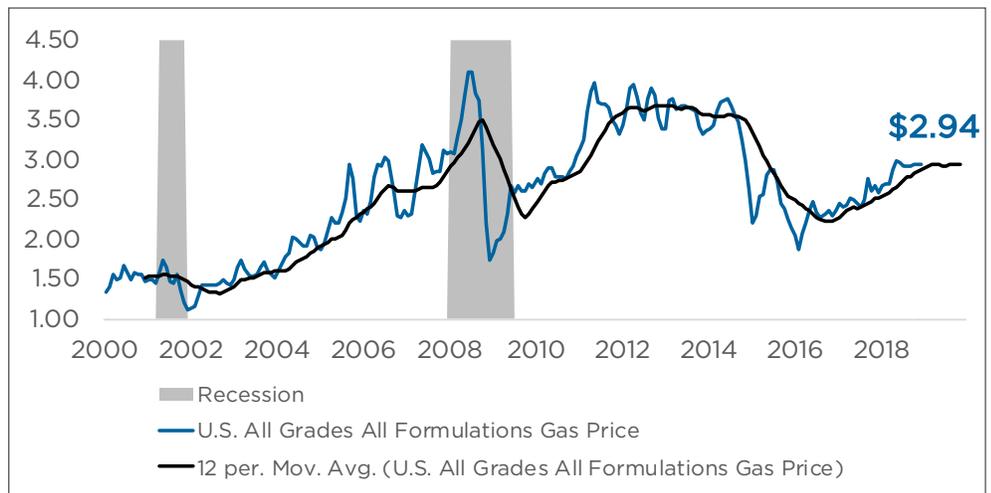
MONTHLY NEW LIGHT VEHICLE SALES



Bureau of Economic Analysis, Avrio Institute

The average national gas price was again unchanged over the last month, averaging \$2.94/gallon in December and over the entire fourth quarter. National gas prices are up 13.3 percent over last December. For the year, the average national gas price increased from \$2.53/gallon in 2017 to \$2.87/gallon in 2018.

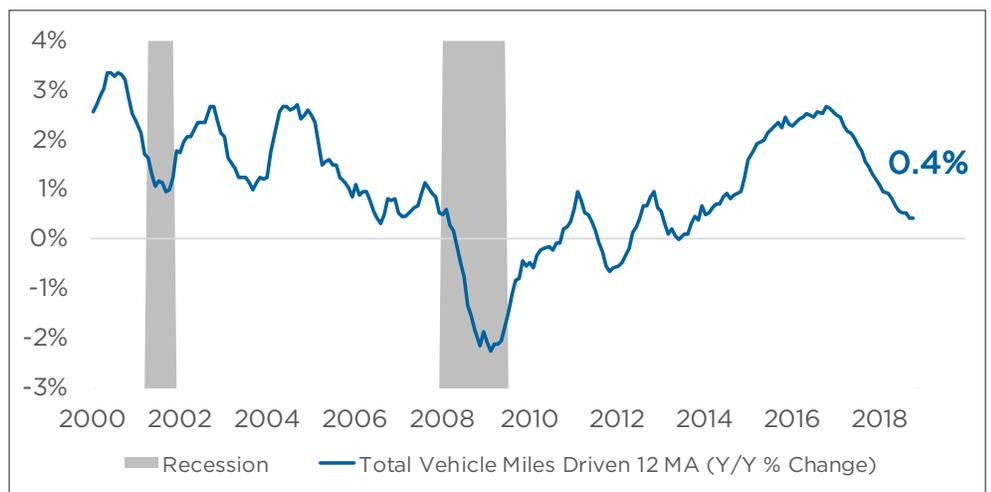
GAS PRICES



U.S. Energy Information Administration, Avrio Institute

Travel on all roads and streets in the United States increased by 1.2 percent in October 2018, compared to a year ago. The 12-month moving average increased by 0.4 percent. Seasonally adjusted travel for October 2018 was estimated at 269.8 billion vehicle miles, up 1.7 billion vehicle miles from September 2018. Cumulative travel for 2018 is up 0.4 percent.

VEHICLE MILES TRAVELED

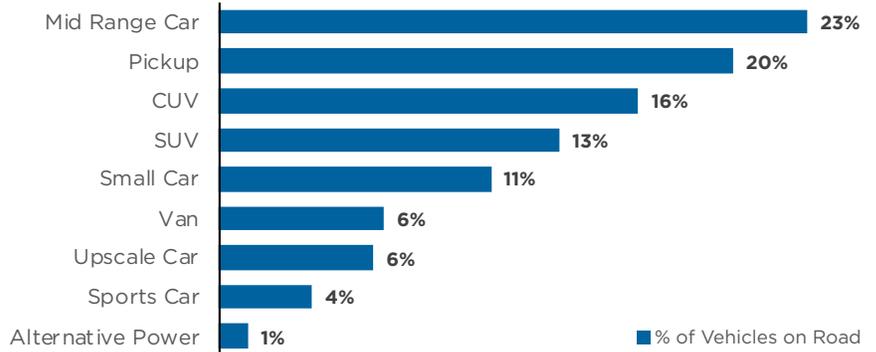


U.S. Federal Highway Administration, Avrio Institute

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.

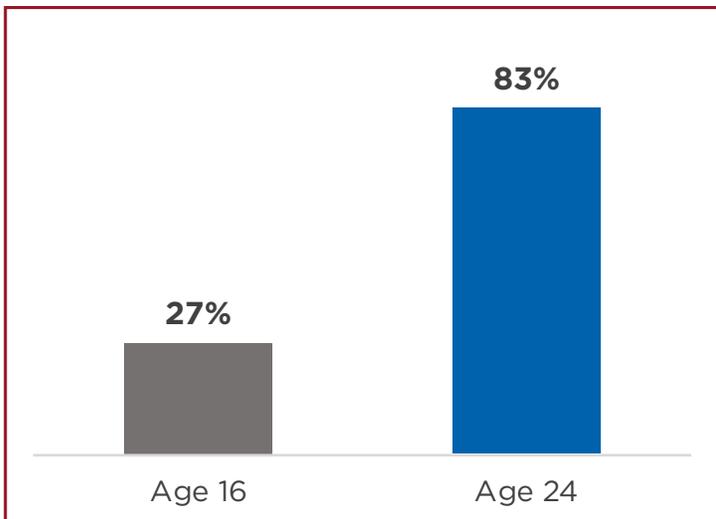


Source: 2017 SEMA Market Data

DID YOU KNOW?

Despite media reports to the contrary, young people (age 16-24) do care about cars and still drive. In fact, signs everywhere say they age into cars and customization.

DRIVER'S LICENSE RATES



155 BILLION
MILES DRIVEN BY YOUNG PEOPLE IN 2017

71%
OF YOUNG ACCESSORIZERS SAY
THEY WOULDN'T SURVIVE A WEEK
WITHOUT THEIR CAR

Want to learn more? Download the "SEMA Young Accessorizers Report" and other reports for free 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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