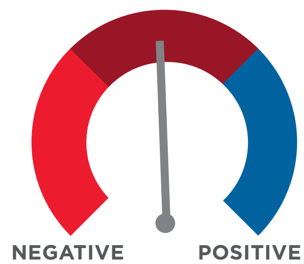
SEMA INDUSTRY INDICATORS

MARCH 2019

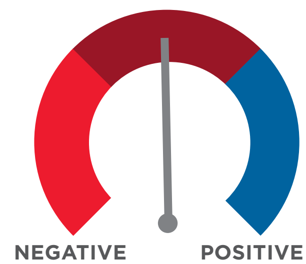
MARKET RESEARCH | AVRIO INSTITUTE

Delayed economic data continues to flow in and, combined with other incoming data, is painting a very mixed picture of the economy. Retail sales in December had the biggest monthly drop since 9/11. Consumer spending in December saw the biggest monthly drop since the 2009 recession. February job gains were a feeble 20,000 new jobs, after averaging 226,000 new jobs a month over the last year. The Institute for Supply Management (ISM) manufacturing index declined to the lowest level in two years. Auto sales sunk lower in February, and existing home sales hit the slowest pace since 2015 as tight inventories and rising interest rates weighted against sales. Negative economic reports are piling up.

CURRENT OUTLOOK



FUTURE OUTLOOK



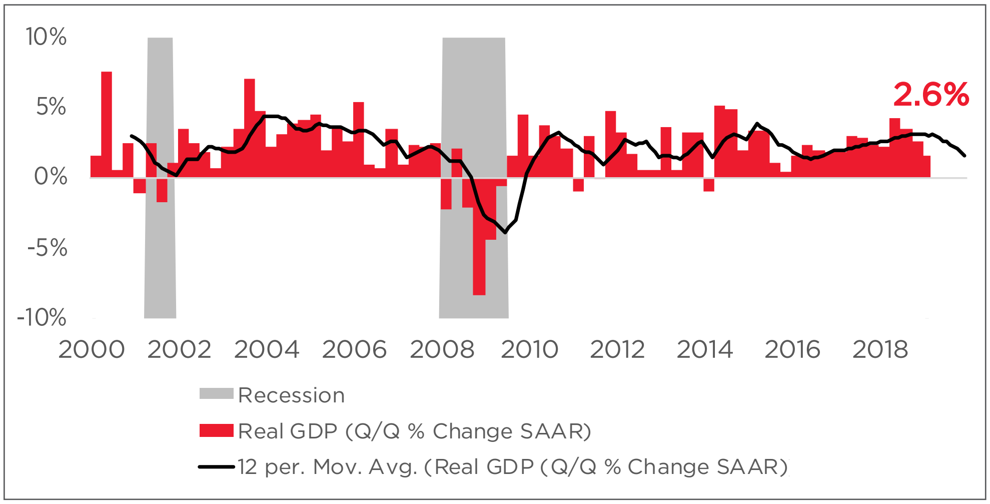
On the flip side, wage growth continues to accelerate. At 3.4 percent year-over-year growth, wages are growing faster than they have in a decade. Job openings are at a record high, which should provide support for both hiring and wage growth in the coming months. The service sector is showing strong fundamentals. The ISM nonmanufacturing index rebounded in February. Business activity and new orders components are at the highest levels since 2005, suggesting the service market continues to perform well and see strong demand. Consumer sentiment bounced back and remains favorable. Despite a very weak report on consumer spending, year-over-year metrics remain strong.

On a fourth-quarter-over-fourth-quarter (Q4/Q4) basis, the economy grew 3.1 percent in 2018 — the fastest clip over the last 10 years. Economic growth will moderate over the next two years, and there continues to be much debate about how quickly growth will deteriorate and how quickly it might return. Much of the growth in the coming year hinges on a strong household sector with a willingness to spend and a business sector with a strong willingness to invest. Both of these groups will be negatively influenced by uncertainties in the outlook.

ECONOMICS

U.S. ECONOMIC GROWTH

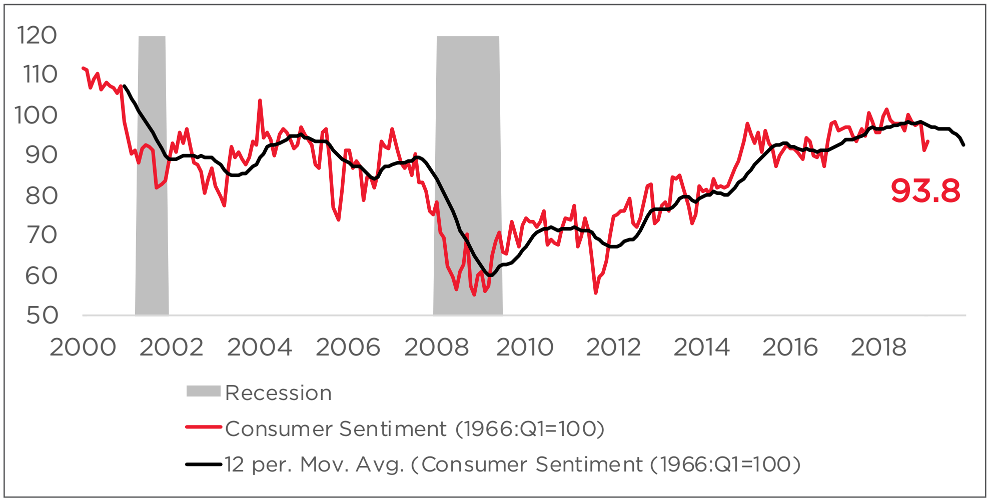
The economy grew 2.6 percent in the final quarter of 2018 and 2.9 percent for all of 2018 — the fastest growth since calendar year 2015 and 2006 before that. The growth in the fourth quarter was slower than in the second and third quarters of 2018 but still a good showing, with some potential for upward revisions in the coming months. Business investment grew 7.2 percent in 2018, the fastest growth since 2011. Looking forward, economic growth is now expected to moderate to 2.2 percent in 2019.



Bureau of Economic Analysis, Avrio Institute

CONSUMER SENTIMENT

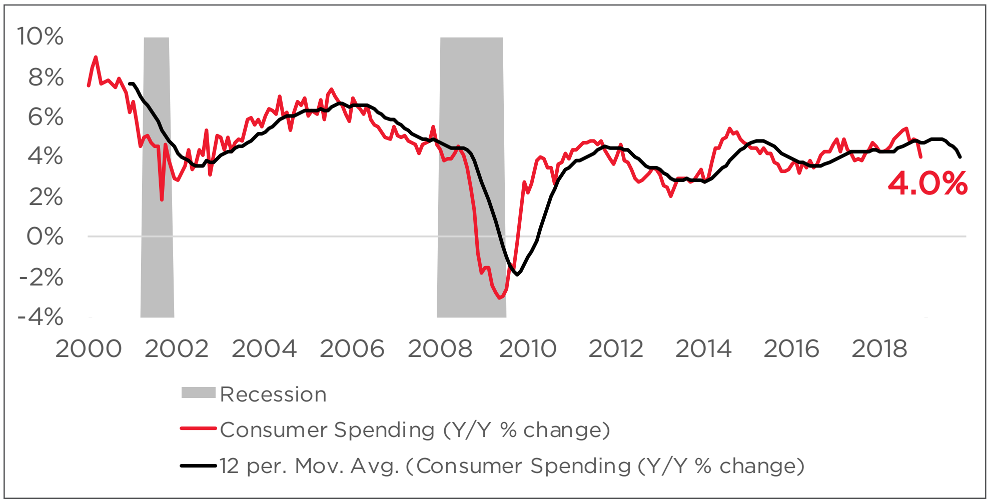
Consumer sentiment remains somewhat subdued. Although it bounced back from last month's shutdown-induced lull, overall confidence is below December's reading. At the same time, sentiment still remains relatively high. Continued strength in the labor market and strong wage growth should lift sentiment in the coming months, especially if uncertainty around trade wars and other lingering concerns diminishes. Consumers are holding onto generally positive expectations for long inflation, strong wage growth and the continuation of a strong labor market.



University of Michigan, Avrio Institute

CONSUMER SPENDING

Delayed economic reports are providing mixed messages and creating further uncertainty about the health of the consumer. Personal income increased a sharp 1 percent in December — driven by both strong wage growth and special factors that included large one-time dividends and Department of Agriculture trade aid payments to farmers. Both of these special factors reversed in the January report, which was released on the same day as the December report. December personal spending was down 0.5 percent, the biggest monthly decline since 2009. Despite the weakness in December, however, consumer spending is up 4 percent over last year.

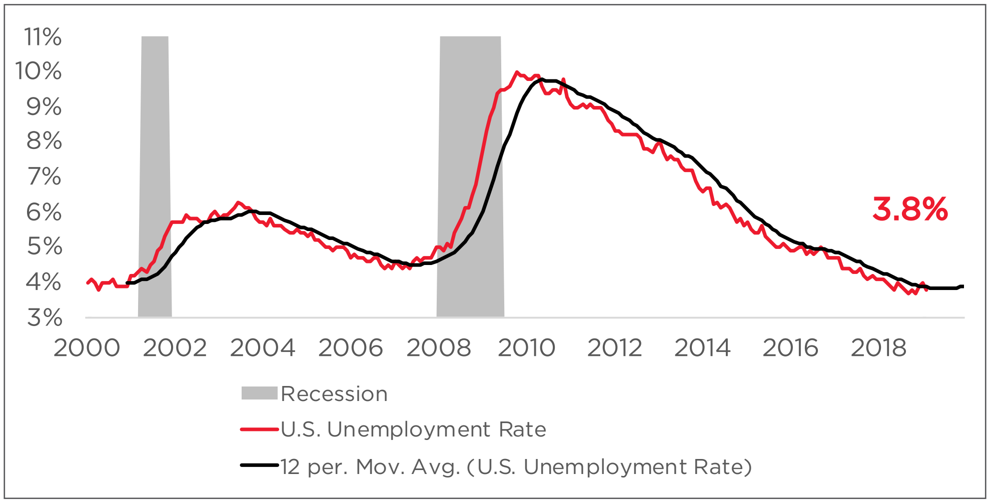


Bureau of Economic Analysis, Avrio Institute

ECONOMICS

Random volatility and adverse weather over the last month combined to produce the worst jobs report since September 2017. Some of the weakness in February is likely payback following several months of unusually strong growth. The underlying labor market continues to look very strong. Despite weak job gains over the last month, the unemployment rate dropped to 3.8 percent. The number of Americans working part time for economic reasons, such as being unable to find full-time work, fell by a large 837,000 in February. Average hourly earnings jumped 0.4 percent in February, pushing the year-over-year change to 3.4 percent, the fastest rate of growth in a decade.

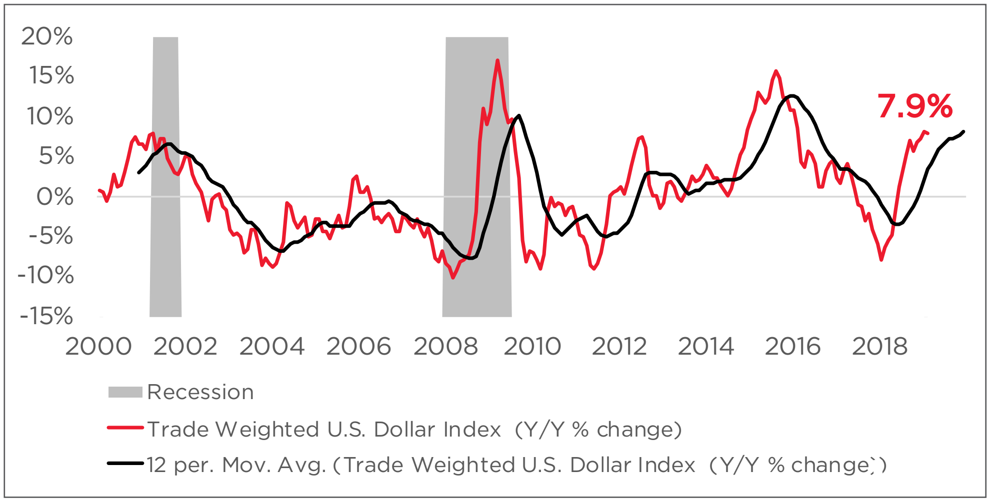
U.S. UNEMPLOYMENT



Bureau of Labor Statistics, Avrio Institute

The trade-weighted dollar index remained flat over the last month. The index was up 0.1 percent in February and is up 7.9 percent over the last year. The dollar's value remains very strong. Inflation risks have abated significantly and pressure on the Federal Reserve has eased. While further upside for the dollar appears limited, exchange rate values in 2019 will be driven more by relative value than absolute value. While the U.S. economy is slowing, the dollar remains the premier reserve currency in times of global uncertainty.

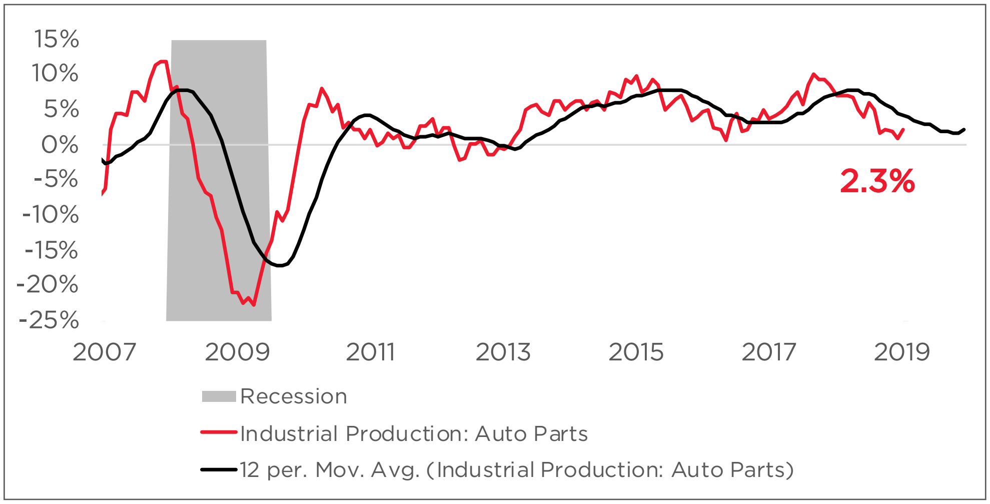
TRADE WEIGHTED U.S. DOLLAR INDEX



Federal Reserve, Avrio Institute

Auto parts production in the United States was essentially flat in February while overall industrial production was down 0.6 percent. This is the first decline in industrial production in eight months. The decline was largely driven by a decline in auto production, which fell 8.8 percent. Non-auto manufacturing was down 0.3 percent during the month. Manufacturing growth is weakening. Auto parts production is up 2.3 percent over last February, while overall industrial production is up 3.8 percent. The value of manufacturers' unfilled orders for motor vehicles and parts is up 3.8 percent year-over-year, suggesting a pipeline of orders continues to outpace production.

INDUSTRIAL PRODUCTION: AUTO PARTS

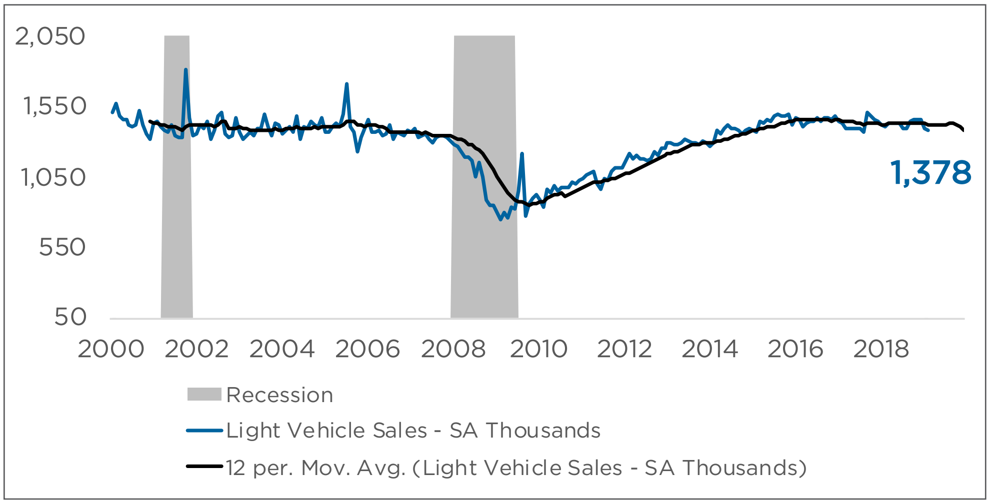


Federal Reserve, Avrio Institute

AUTOMOTIVE

MONTHLY NEW LIGHT VEHICLE SALES

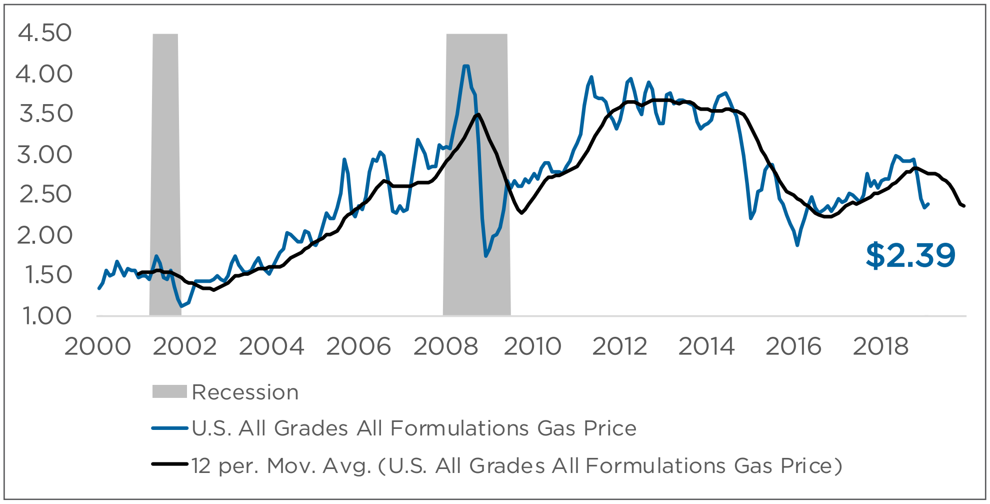
New vehicle sales continue to show weakness. Sales in February were down a seasonally adjusted 0.9 percent from last month and are down 2.3 percent over the last year. The decline in new vehicle sales was largely driven by a decline in passenger cars, which fell 11.9 percent from last February. As a result, the share of trucks and SUVs increased to 71 percent, the highest share ever recorded. We now expect new vehicle sales of 16.5 million in 2019, which would make it the first year that sales have been below 17 million units since 2014.



Bureau of Economic Analysis, Avrio Institute

GAS PRICES

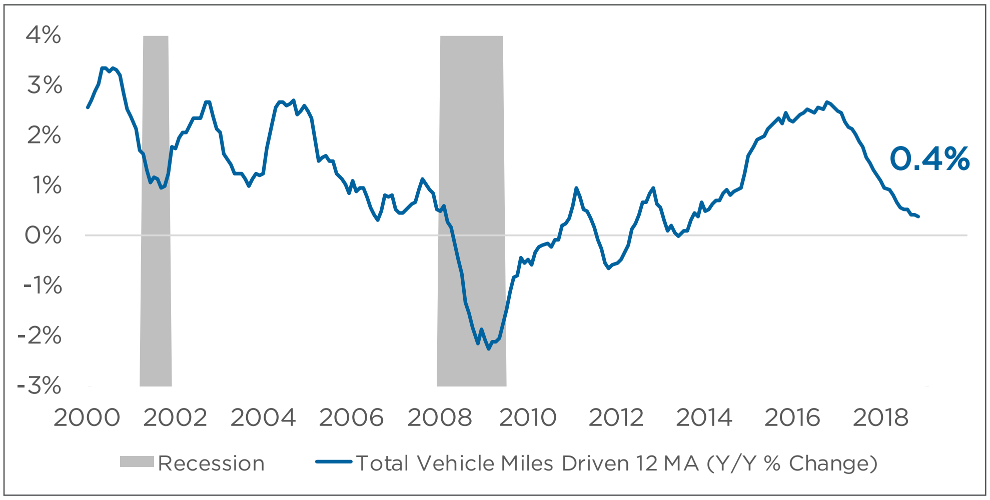
The average national gas price increased slightly over the last month. Gas averaged $2.39/gallon in February, up five cents from last month. Gas prices are down 11.5 percent over the last year. While there are some supply uncertainties, weaker global demand should keep oil prices below 2018 levels and, in turn, keep gas prices lower. Gas prices are expected to average $2.50/gallon in 2019 and $2.60/gallon in 2020.



U.S. Energy Information Administration, Avrio Institute

VEHICLE MILES TRAVELED

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.

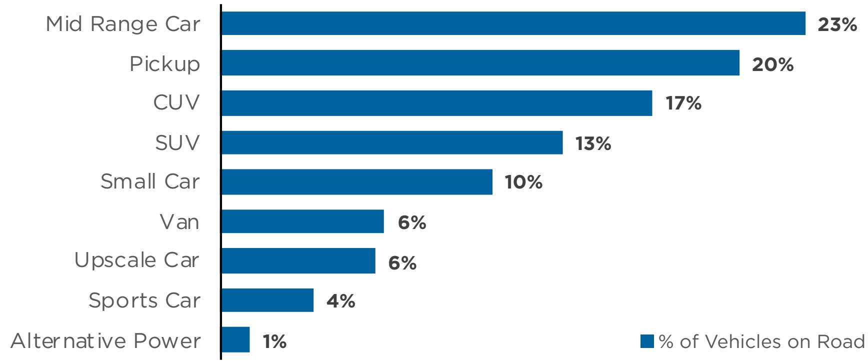


U.S. Federal Highway Administration, Avrio Institute

INSIGHTS FROM SEMA

There are approximately 275 million light vehicles in operation in the United States today, of which 120 million are passenger cars and 155 million are light trucks. Together, mid range cars and pickup trucks represent almost half of the vehicles on the road.

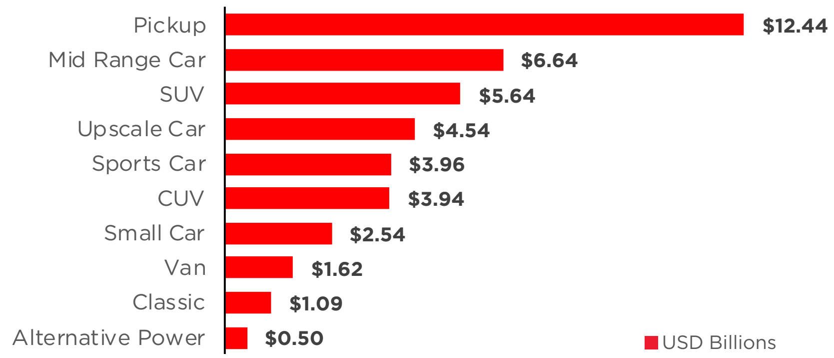
VEHICLES IN OPERATION (VIO) DATA



Source: © 2018 Experian, Data as of December 31, 2018

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.

SPECIALTY EQUIPMENT MARKET SIZE BY VEHICLE SEGMENT

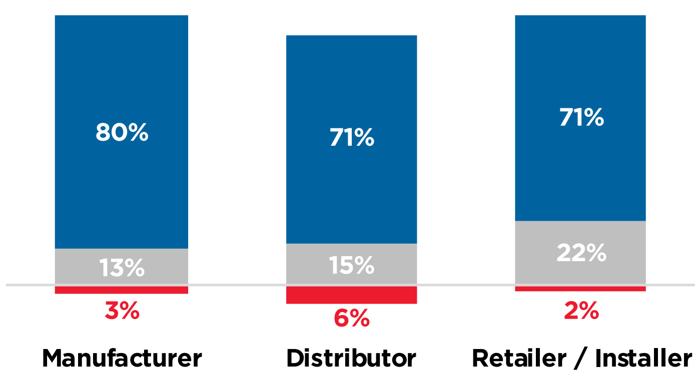


Source: 2017 SEMA Market Data

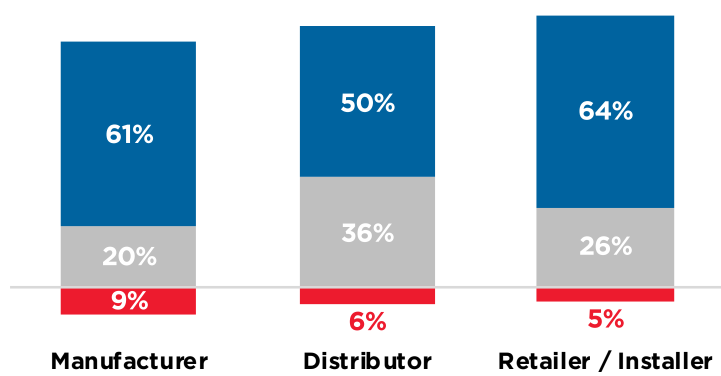
INSIGHTS FROM THE SEMA INDUSTRY PERSPECTIVES REPORT 2019

Businesses within the aftermarket specialty-equipment industry remain optimistic about their company's and the industry's prospects, expecting sales to grow.

EXPECTED CHANGE IN COMPANY SALES OVER NEXT 12 MONTHS



EXPECTED CHANGE IN INDUSTRY-WIDE SALES OVER NEXT 12 MONTHS



Want to learn more? Download the "SEMA Industry Perspectives Report 2019" 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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