

# SEMA INDUSTRY INDICATORS

## MARCH 2020



MARKET  
RESEARCH

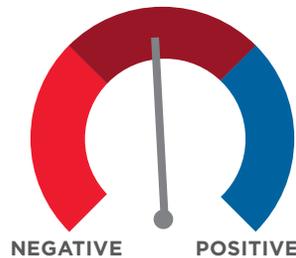
AVRIO  
—INSTITUTE—

“It was the best of times, it was the worst of times...” - Charles Dickens

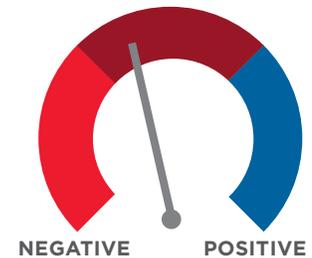
Economic data through February looks pretty good. If only it were still February.

A lot has happened in the last 30 days. And there is more to come over the next 30 days. Last month in this report, we spelled out the economic risks of coronavirus, and those risks are now materializing in real time. The risk of a recession in 2020 has risen significantly, likely doubling from 25 percent to 50 percent.

### CURRENT OUTLOOK



### FUTURE OUTLOOK



But recession isn't guaranteed. The economy was on pretty good footing as the coronavirus swept in. Employment was strong across a number of sectors. The country was enjoying a 50-year low in unemployment. Manufacturing was accelerating somewhat. But some of this positive economic news might feel like watching an idyllic world in your rearview mirror as you speed toward a cliff.

The ISM Manufacturing index fell to 50.1 in February, just barely suggesting growth in U.S. factory output during the month. The China Purchasing Manager Index collapsed to a record low in February, and the general consensus is that the U.S. economy will experience similar pain with a month's lag.

But things in China appear to be recovering quickly. Much of China's manufacturing has recovered to 80 percent capacity, and most expect full recovery by the end of March. Some 9 percent of global container shipping was idle in February, but leading container shipping companies likewise expect to be back to full capacity by the end of March.

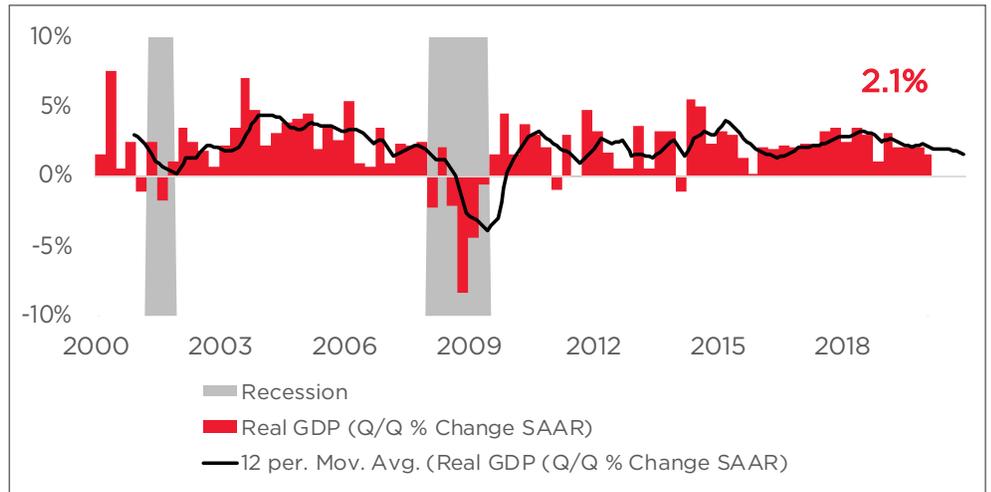
Significant wealth has been destroyed with the decline in equity market valuations, and that will translate into less consumer spending. Consumer spending and business investment, both already under some pressure, will likely see weakness in the coming months as consumers take a wait-and-see approach and businesses delay investment plans in the absence of additional fiscal incentives.

With individuals traveling less, auto sales are likely to be impacted through the first half of the year and will be much weaker for all of 2020. But while there remains significant concern about traveling, low gas prices headed into spring break, together with schools and universities closing for extended periods due to the coronavirus, could actually accelerate driving in a period when individuals might prefer to drive in place of flying.

What started as a supply disruption quickly became a demand disruption. The depth of the demand falloff remains uncertain. But this will directly dictate how quickly the U.S. economy bounces back later in 2020.

Real GDP for 4Q19 was unrevised at 2.1 percent annual growth. The underlying data changed modestly. Upward revisions to inventories and net exports were offset by declines in consumer spending and business investment. While the headline number didn't change, the data are less positive. The most notable revision put business investment down 2.3 percent, compared to the early estimate of a decline of 1.5 percent. This is the third consecutive quarterly decline. Expect slow growth in the first half of 2020, followed by slightly better growth in the second half.

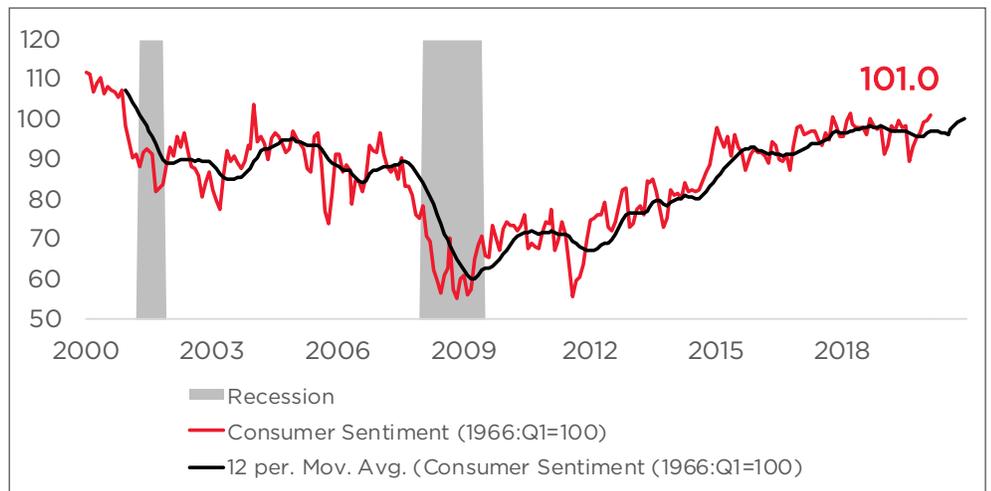
## U.S. ECONOMIC GROWTH



Bureau of Economic Analysis, Avrio Institute

The Index of Consumer Sentiment increased to 101.0 in February, just below the cyclical peak of 101.4. Through February, consumers were looking very optimistic. Expect a pullback in sentiment in the coming months driven by coronavirus-induced equity declines and the quick rise of related uncertainties. Other measures of sentiment appear to be deteriorating as news worsens. At the same time, sentiment is starting at an elevated level, so even a sizeable step down could leave U.S. consumers relatively optimistic in historical terms.

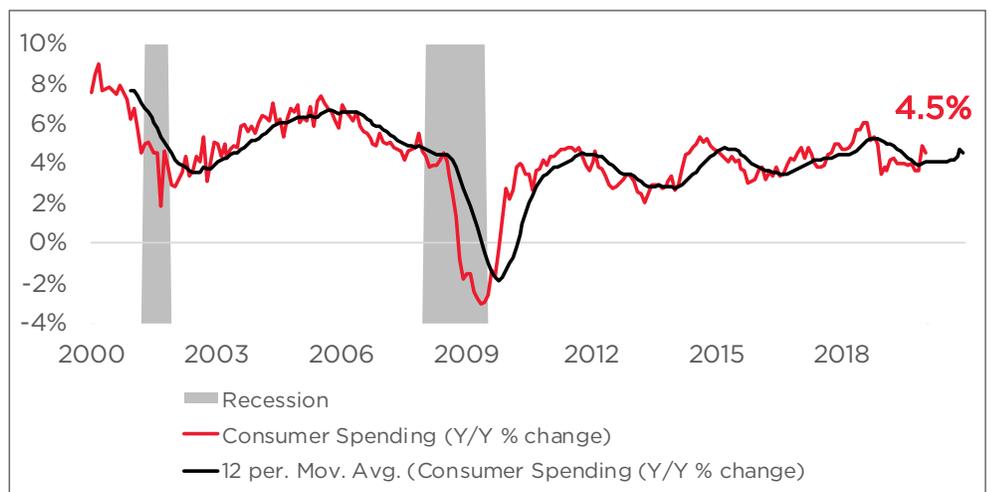
## CONSUMER SENTIMENT



University of Michigan, Avrio Institute

Personal income rose 0.6 percent in January and is up 4 percent over the last year. Personal consumption increased 0.2 percent in January and is up 4.5 percent over the last year. Spending was already slowing prior to the impact of coronavirus. Real outlays are on track to grow 1.7 percent in the first quarter after growing 1.8 percent in the fourth quarter of last year and 2.9 percent through the first three quarters of 2019. Declines in equity markets and heightened uncertainty will undoubtedly dampen spending, as consumers become more trepidatious.

## CONSUMER SPENDING



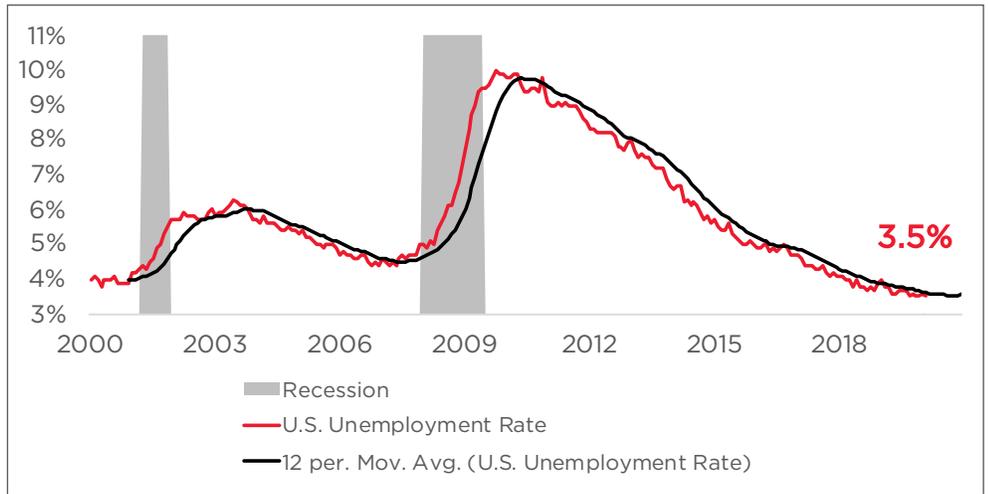
Bureau of Economic Analysis, Avrio Institute

The labor market was on extremely strong footing in February, with little sign of an impact from coronavirus showing up in the data through the first half of the month. This is very good as we head into some hard months. Nonfarm payrolls increased 273,000 in February, and revisions to prior months added another 85,000 new jobs. The unemployment rate declined to 3.5 percent, matching a 50-year low. The biggest gains came from health care and social assistance (+57,000), restaurants and bars (+53,000), government (+45,000), construction (+42,000) and manufacturing (+15,000).

The trade-weighted dollar index increased 1.2 percent in February and was up 2.1 percent over the last year. But at the start of March, the Federal Reserve cut the target federal funds rate, which pushed the trade-weighted U.S. dollar index down 1 percent. Equity market declines and the emergency Fed rate cut pushed yields lower and undermined dollar demand. As the coronavirus outbreak has intensified in the United States, defensive currencies such as the Japanese Yen and Swiss Franc have appreciated.

Auto parts production rose 0.5 percent in January. Parts production was up a solid 2.8 percent year-over-year in January, the strongest year-over-year rise since July 2018. January also ended 16 consecutive months of year-over-year declines for U.S. auto parts production. February brought 6,800 new jobs in motor vehicles and parts manufacturing, after a decline in January. Auto sector output has been volatile lately as production resumed following the GM strike. Manufacturing output had been accelerating heading into the coronavirus outbreak, which will stymie output in the coming months.

## U.S. UNEMPLOYMENT



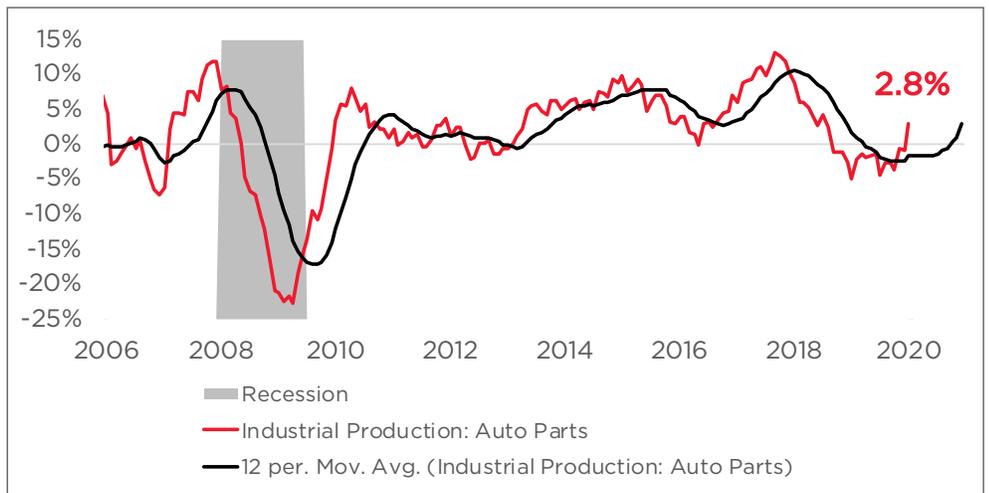
Bureau of Labor Statistics, Avrio Institute

## TRADE WEIGHTED U.S. DOLLAR INDEX



Federal Reserve, Avrio Institute

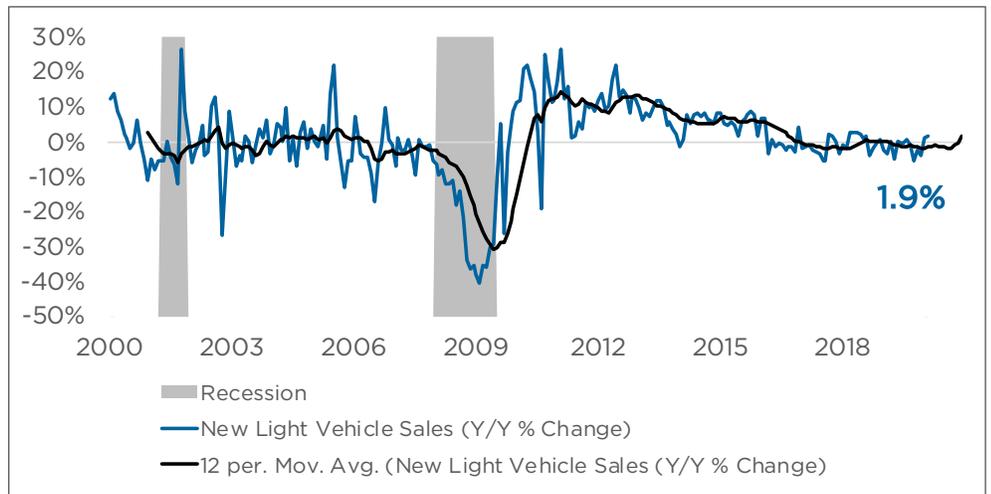
## INDUSTRIAL PRODUCTION: AUTO PARTS



Federal Reserve, Avrio Institute

New vehicle sales declined 0.5 percent in February to 16.8 million light vehicle sales at annual rate. Car sales declined 1 percent from the prior month and are down 10.4 percent from a year ago. Truck and SUV sales were down 0.4 percent from January and are up 6.9 percent from a year ago. The coronavirus outbreak in the United States will significantly impact vehicle sales in the near-term as individuals significantly curtail travel, employment becomes uncertain for some and other negative wealth effects lower the propensity to buy a new vehicle. The impact of coronavirus will likely cut some 400,000 new vehicles from estimated 2020 sales.

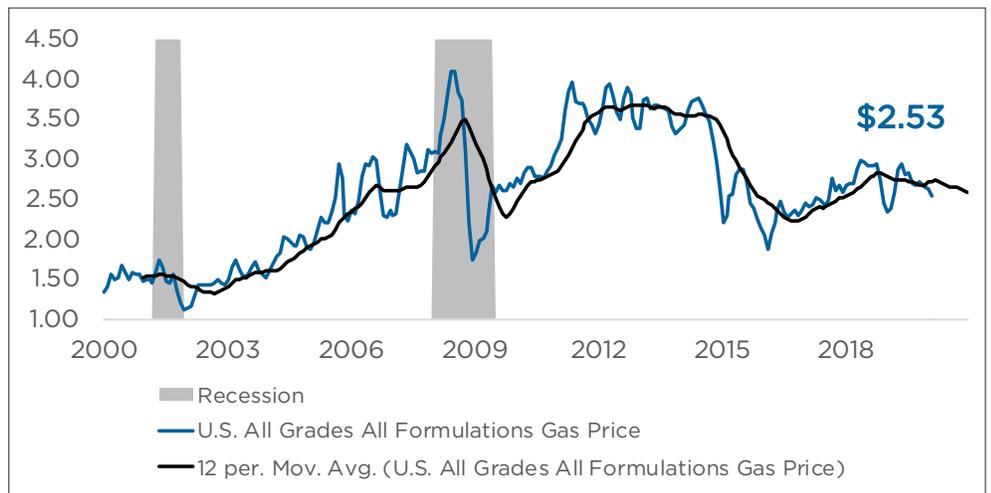
## MONTHLY NEW LIGHT VEHICLE SALES



Bureau of Economic Analysis, Avrio Institute

The average national price of gasoline was down \$0.11 in February, declining to \$2.53/gallon in January. Gas prices are likely to decline significantly in the coming months due, in part, to coronavirus. Oil prices were down on reduced demand and then fell substantially in early March after Saudi Arabia announced its largest price drop in 30 years. Oil prices are half of what they were at the start of the year. Gas prices will likely move below \$2.00/gallon.

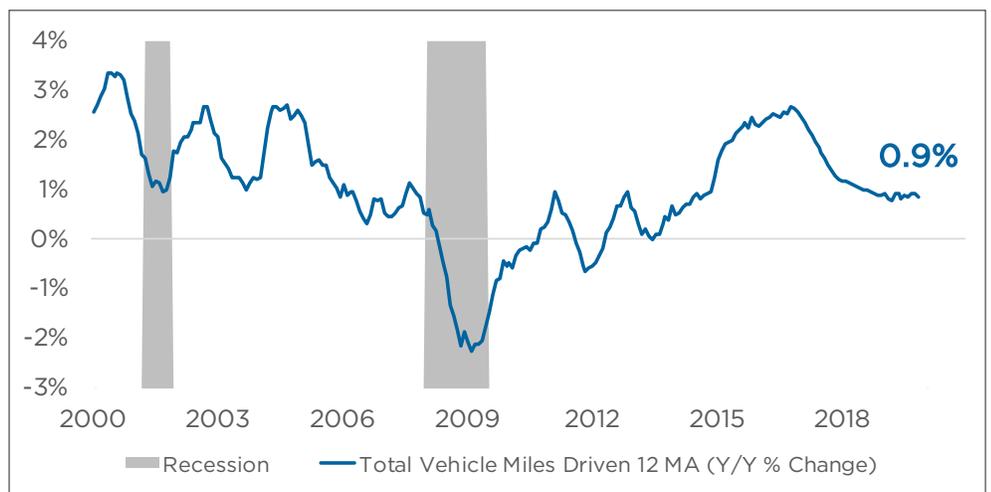
## GAS PRICES



U.S. Energy Information Administration, Avrio Institute

Seasonally adjusted travel on all roads and streets decreased by 0.1 percent in November 2019, compared to a year ago. Seasonally adjusted vehicle miles traveled was estimated at 272.8 billion, up 2.4 billion vehicle miles (0.9 percent) from November 2018. Cumulative travel for 2019 increased 0.9 percent (25.3 billion vehicle miles). The West, North-Central and South Gulf all saw declines during the month. The Northeast and South Atlantic saw increases of 1.7 percent and 0.2 percent, respectively.

## VEHICLE MILES TRAVELED

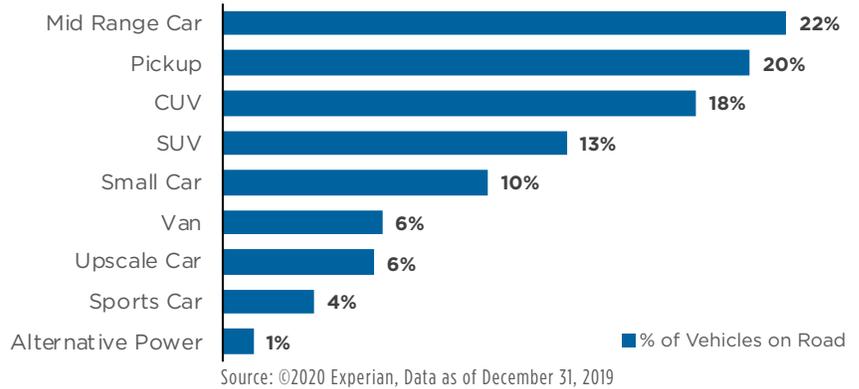


U.S. Federal Highway Administration, Avrio Institute

# INSIGHTS FROM SEMA

## VEHICLES IN OPERATION (VIO) DATA

There are approximately 279 million light vehicles in operation in the United States today, of which nearly 118 million are passenger cars and over 161 million are light trucks. Together, mid range cars and pickup trucks represent almost half of the vehicles on the road.



## SPECIALTY EQUIPMENT MARKET SIZE BY VEHICLE SEGMENT

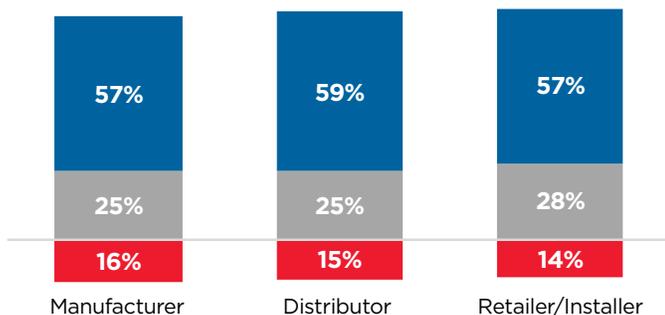
The specialty-equipment market is a \$44.6 billion dollar industry. Customers spend the most money on pickup upgrades, followed by mid range car and SUV upgrades.



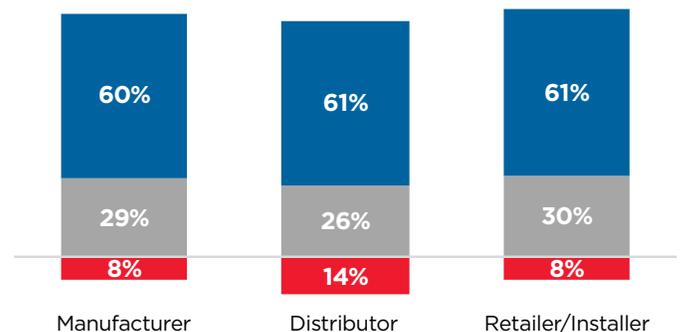
## INSIGHTS FROM THE SEMA INDUSTRY PERSPECTIVES REPORT — SPRING 2020

Businesses within the specialty-equipment industry are optimistic about their prospects. Nearly all of the companies surveyed also report a stable or growing customer base.

### CHANGE IN COMPANY SALES OVER PAST 12 MONTHS



### CHANGE IN CUSTOMER BASE OVER PAST 12 MONTHS



■ Increased
 ■ Stayed Same
 ■ Decreased

Note: "Don't Know" responses not shown

Want to learn more? Download the "SEMA Industry Perspectives Report Spring 2020" today at: [sema.org/research](https://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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