

SEMA INDUSTRY INDICATORS

SEPTEMBER 2020

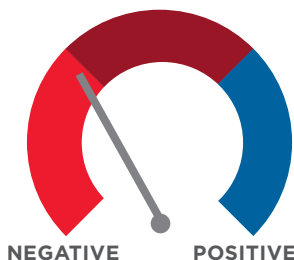


MARKET
RESEARCH

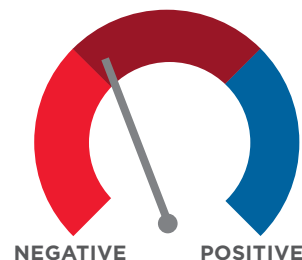
AVRIO
—INSTITUTE—

The economic narrative from last month continues into September. Momentum is slowing, but the recovery appears to remain largely intact. Much of the pent-up demand from April and May has likely been satisfied, and now the economy settles into a period of smaller month-over-month growth rates as it works to regain what was lost in the early months of the pandemic. In some ways, the last few months of growth have been the easy part of the recovery. Fully regaining all lost output and sales will prove more difficult, and the coming months will likely reveal a picture of uneven, unsteady growth.

CURRENT OUTLOOK



FUTURE OUTLOOK



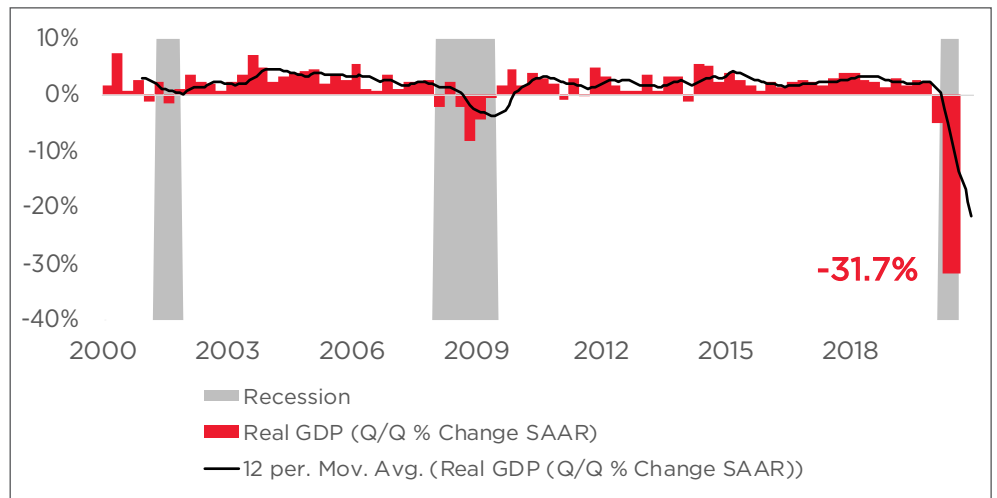
The auto sector, one of the hardest hit in the early months of the pandemic, has experienced one of the better recoveries thus far. The auto sector has now recovered 74 percent of jobs lost during April and May, compared to just 47 percent for overall manufacturing. Motor vehicle assemblies of autos and light trucks improved to 974,000 in July, though output did take a small step down in August to roughly 914,000. New vehicle assemblies averaged roughly 880,000 a month last year but fell to roughly 6,000 in April and only 188,000 in May. New vehicle sales are on track to reach just over 14 million units in 2020 – 18 percent below 2019 but 60 percent higher than April.

Consumer sentiment remains depressed but at levels that are higher than the lows we saw during the last recession. The number of daily new COVID-19 cases in the United States has fallen from July but remains elevated above levels from April and May. At the same time, the number of daily new deaths has come down significantly, suggesting perhaps that treatment regimens have improved or fewer at-risk individuals are contracting COVID-19. Either way, downward trend lines should support confidence, which, in turn, will help consumer spending.

The end of CARES Act cash payments and pandemic unemployment payments is a headwind against consumer spending, and still high unemployment will likely keep consumers in check. While average hourly earnings is up in recent months, total earnings (hours worked times average hourly earnings) is still down, suggesting consumers have less purchasing power than they did. Expect slow, uneven growth in the months ahead.

Economic growth in the second quarter was revised marginally higher, but the depth of the decline remains shocking. The economy sank 31.7 percent in the second quarter, far outpacing the previous record of a 10 percent decline set in 1958, and nearly four times the worst quarterly downturn during the Great Recession. After-tax profits fell 11.8 percent during the second quarter and are down 20.1 percent over the last year. The third quarter will bring the strongest growth recorded in more than 40 years. However, we are still a full year away from a complete recovery and longer for certain sectors of the economy.

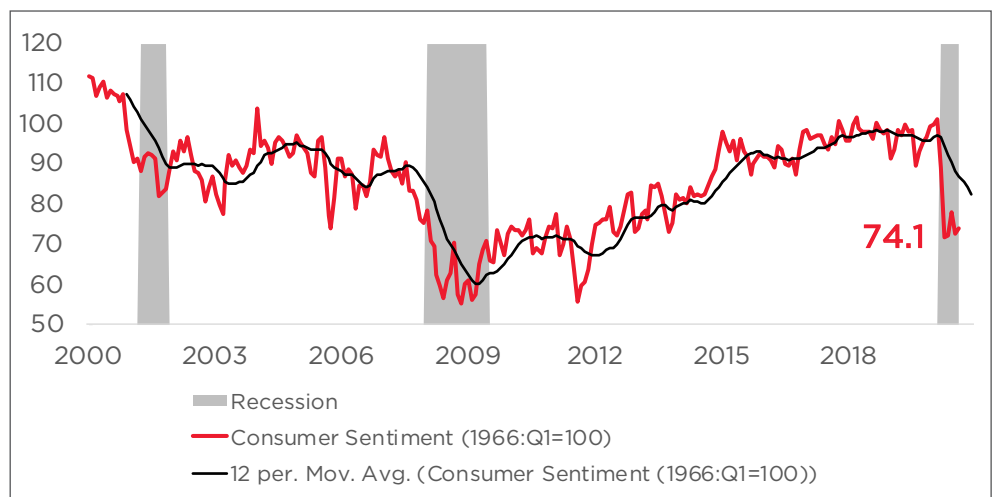
U.S. ECONOMIC GROWTH



Bureau of Economic Analysis, Avrio Institute

Consumer sentiment inched higher in August as concerns for the year-ahead outlook diminished somewhat, though expectations remain half as favorable as they did at the start of the year. Consumer sentiment has ebbed around April's lull for the last five months but remains above the lows experienced during the last recession. This could suggest that consumers are a bit more optimistic about this economic recovery compared to the last, or it could suggest that further declines in sentiment are possible. Overall, workers have less purchasing power than last year, and events like the upcoming election could create uncertainty that may temporarily halt consumers.

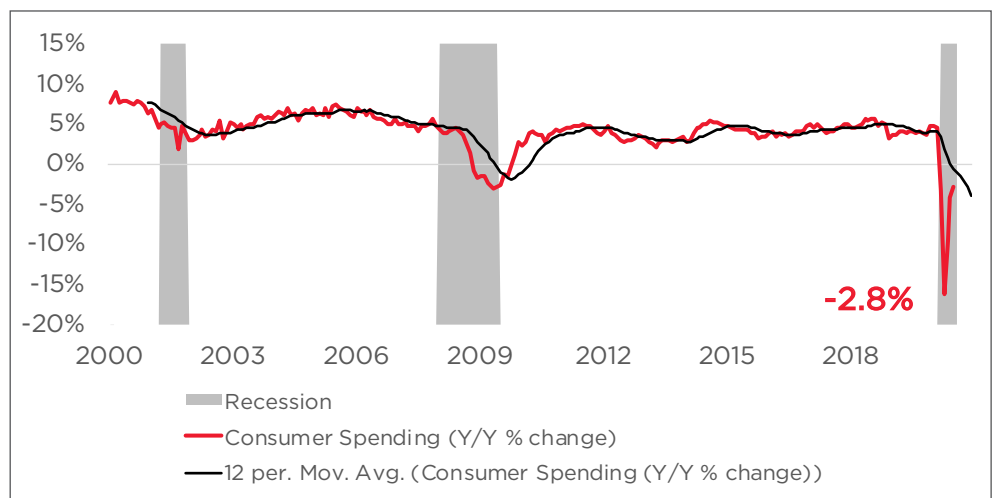
CONSUMER SENTIMENT



University of Michigan, Avrio Institute

Consumer spending rose 1.9 percent in July but is still down 2.8 percent over the last year. Spending on goods was led by motor vehicle sales, which have rebounded strongly since April. Personal income rose 0.4 percent in July and is up 8.2 percent in the last year. Rising wages and salaries outpaced a decline in government transfers. However, excluding government transfers, spending was up a stronger 0.9 percent in July. With spending up more than income, the savings rate declined to 17.8 percent but remains at elevated levels. This is likely a sign of continued uncertainty among consumers.

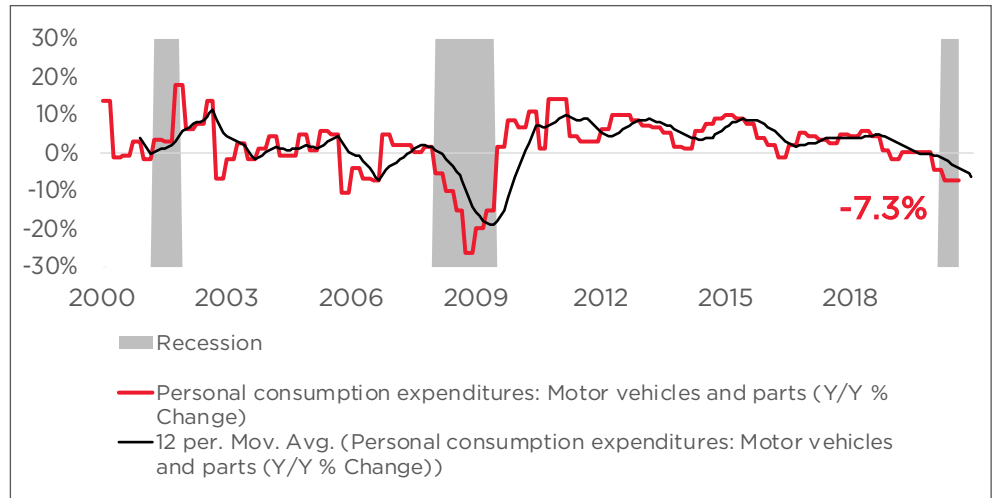
CONSUMER SPENDING



Bureau of Economic Analysis, Avrio Institute

Consumer spending on vehicles and parts declined precipitously in March and April. Spending increased in the second quarter by 0.4 percent after falling 8.3 percent in the first quarter, driven by steep declines in March. Spending in the second quarter is down 7.3 percent from last year, driven by declines in April. But this overlooks the nearly 60 percent improvement in spending that has occurred since April. Consumer spending on motor vehicles and parts in July was up 12.4 percent from last year (after increasing 6.2 percent in June).

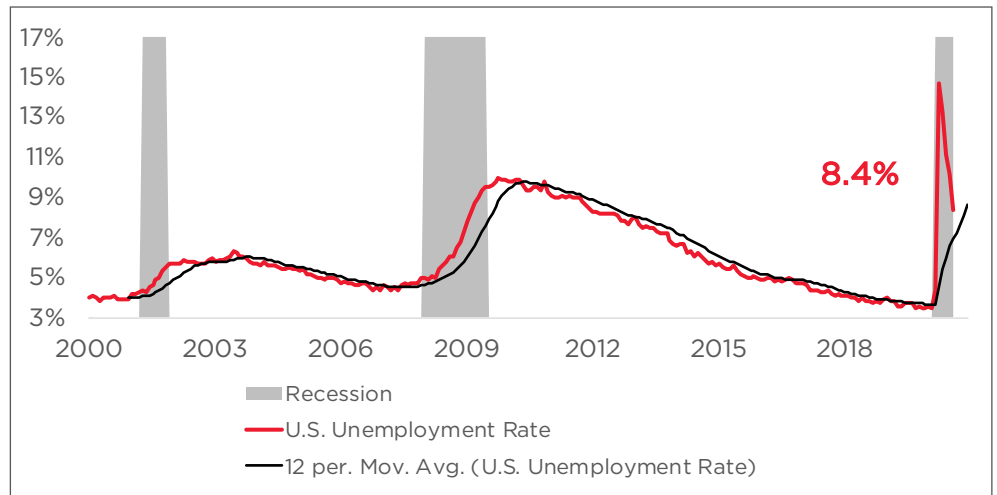
CONSUMER SPENDING ON MOTOR VEHICLES & PARTS



Bureau of Economic Analysis, Avrio Institute

The unemployment rate continued to decline in August, falling to 8.4 percent. While still high, it has fallen quickly from the peak of 14.7 percent in April. Nonfarm payrolls added another 1.371 million jobs in August. Over the last four months, payrolls have grown by roughly 10.6 million jobs, recovering nearly 48 percent of the jobs lost in the early months of the pandemic. The economy added 29,000 manufacturing jobs and 249,000 retail jobs in August. Manufacturing has recovered just over 47 percent of the jobs lost to the pandemic, while retail has recovered roughly 73 percent.

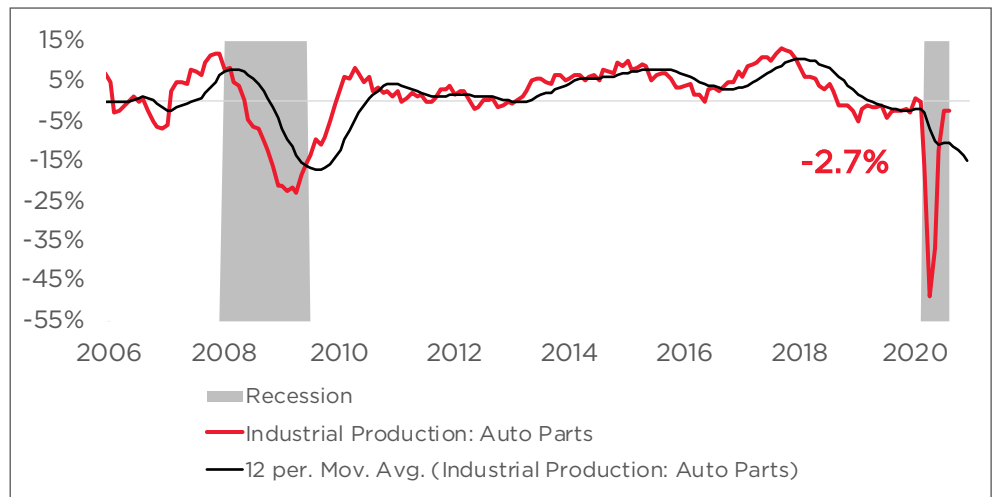
UNEMPLOYMENT RATE



Bureau of Labor Statistics, Avrio Institute

We saw another solid increase in auto parts production in August. Auto parts production increased 2.6 percent during the month, after increasing 9.1 percent in July. Auto parts production is now just 2.6 percent below last year's levels and nearly 92 percent above April 2020 production levels. Auto parts production levels are likely to remain below output peaks from prior to the pandemic, but the industry has regained significant ground. A small step down in auto production in August suggests growth rates for parts will likely slow in the coming months.

INDUSTRIAL PRODUCTION: AUTO PARTS

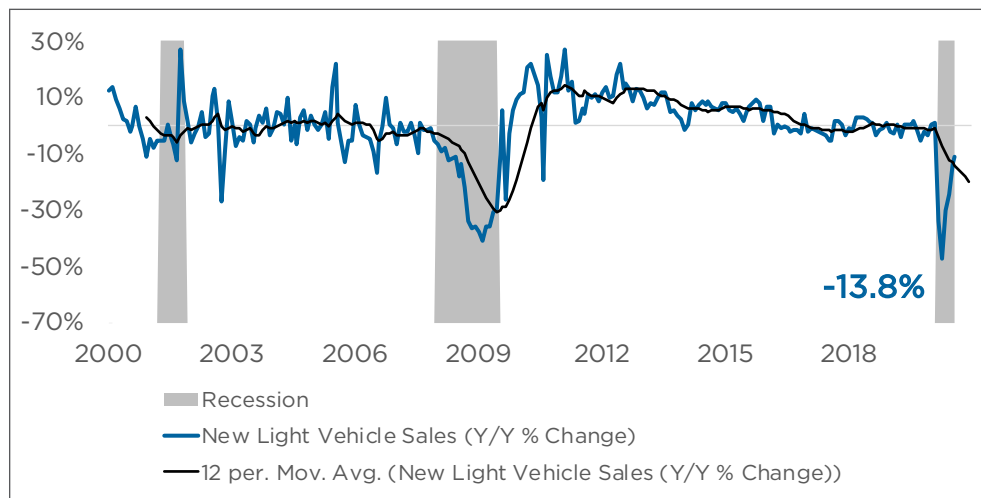


Federal Reserve, Avrio Institute

AUTOMOTIVE

New vehicle sales moved higher again in August, marking the fourth consecutive month of increased sales since April when fewer than 730,000 vehicles were sold. In August, 1.266 million new vehicles were sold (15.19 million on a seasonally adjusted annual rate). New vehicle sales increased 3.9 percent from July, but the rate of growth is slowing (July sales increased 12.4 percent from May). New vehicle sales are still down 11 percent from August 2019. Monthly new car sales are up 80.5 percent from April, and new truck and SUV sales are up nearly 72 percent over the same time.

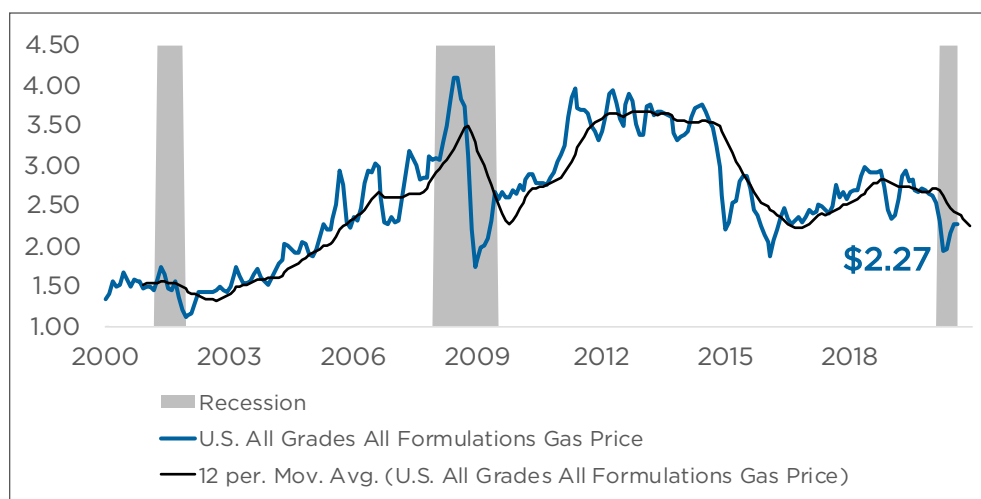
MONTHLY NEW LIGHT VEHICLE SALES



Bureau of Economic Analysis, Avrio Institute

Gas prices were unchanged in August. At \$2.27/gallon, gas prices remain 16 percent below 2019 prices. Gas prices typically fall as summer ends and we move to less expensive winter formulas. Incoming data suggests prices will come down following Labor Day weekend. Combine that with the fact that many jurisdictions are moving in-person school to virtual formats and many offices are continuing to practice remote work, driving will likely remain subdued through the remainder of the year. Gas prices will likely hold where they are now or fall a few cents/gallon over the final months of the year.

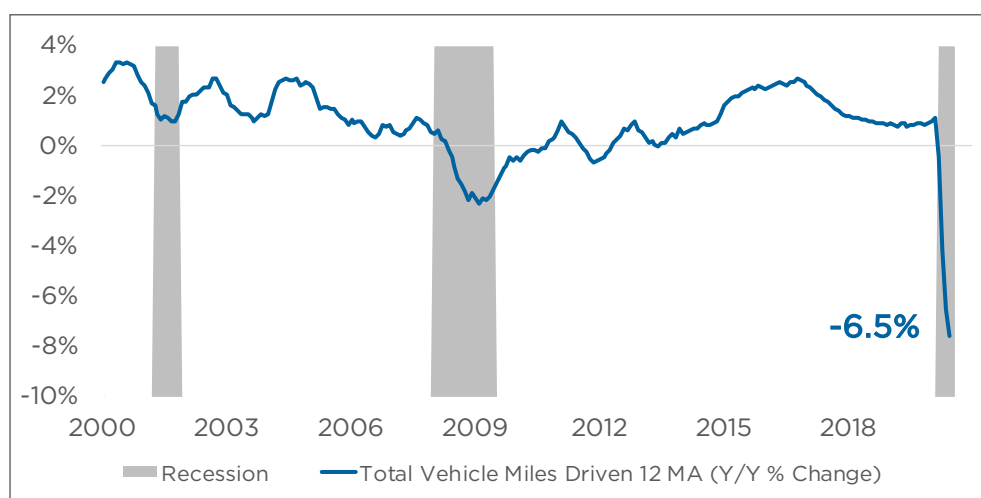
GAS PRICES



U.S. Energy Information Administration, Avrio Institute

Vehicle miles traveled on all roads and streets have improved somewhat but remain at depressed levels due to less travel nationally. Travel on all roads and streets was down 36.5 billion vehicle miles in June 2020 — a 13 percent decline from June 2019. On a seasonally adjusted basis, vehicle miles traveled is down 14.5 percent from June 2019 but is up 15.6 percent (31.3 billion miles) from May 2020. Cumulative travel for 2020 is down 16.6 percent, and travel was down in all regions of the country in June. The Northeast had the steepest decline at 19.2 percent from last year, while the South Gulf showed the smallest decline at -9.9 percent.

VEHICLE MILES TRAVELED

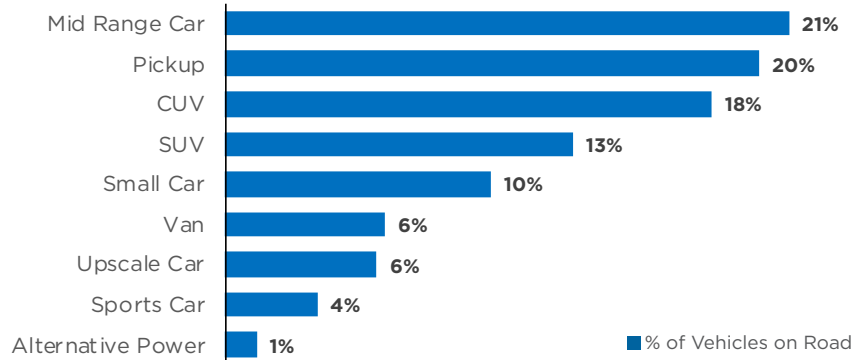


U.S. Federal Highway Administration, Avrio Institute

INSIGHTS FROM SEMA

VEHICLES IN OPERATION (VIO) DATA

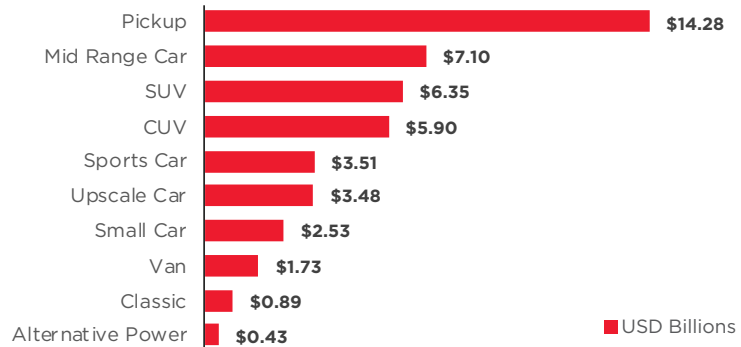
There are approximately 279 million light vehicles in operation in the United States today, of which nearly 117 million are passenger cars and over 162 million are light trucks. Together, mid range cars and pickup trucks represent nearly 42% of the vehicles on the road.



Source: ©2020 Experian, Data as of March 31, 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.

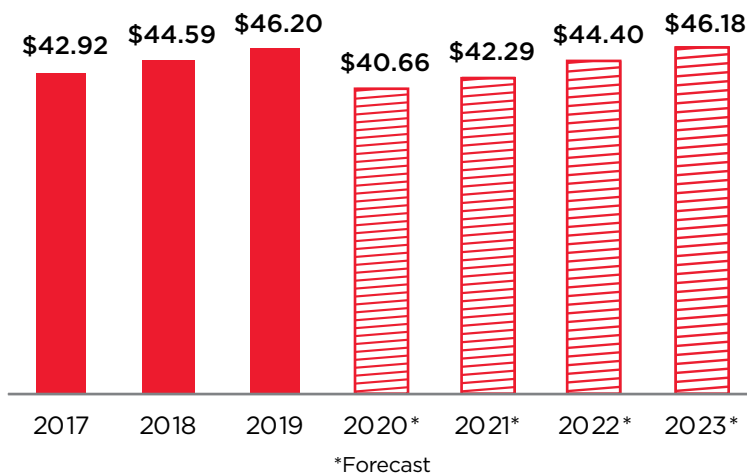


Source: 2019 SEMA US Market Data

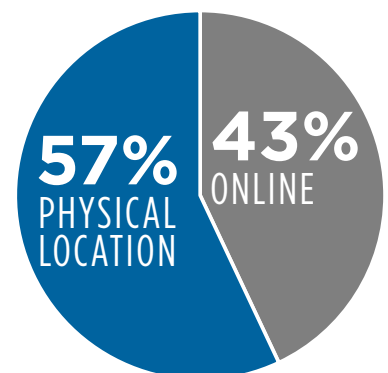
HIGHLIGHTS FROM THE 2020 SEMA MARKET REPORT

On the whole, 2019 was a year of continued growth for the specialty-equipment industry—growing 3.6% to \$44.6 billion. Due to the negative impact of COVID-19, SEMA estimates sales will drop in 2020 but start rebounding in 2021.

SPECIALTY-EQUIPMENT RETAIL SALES (\$ BILLIONS)



PURCHASE ESTIMATES BY SALES CHANNEL (% OF SALES)



Want to find out more? Download the 2020 SEMA Market Report. Available now 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.

Copyright ©2020 SEMA and Avrio Institute. All Rights Reserved.

CONTACT INFO

sema.org

Kyle Cheng

kylec@sema.org

909.378.4861

AvrioInstitute.com

Shawn DuBravac, PhD, CFA

Shawn@AvrioInstitute.org

703.980.8892