



Monthly Automotive Outlook

NORTHWOOD UNIVERSITY



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Introduction

The U.S. economy continues to hover in the grey area between recovery and regression, leaving it vulnerable to an economic fluctuation that could tilt the scales either for the better or for the worse. With current economic data that points in the direction of each of these outcomes, it becomes difficult to predict in which direction it will tilt in the coming months. In the Bureau of Economic Analysis's most recent release they announced a third estimate of U.S. GDP for the 3rd Quarter of just 1.8 percent. The BEA's estimation for Q3 GDP was downwardly revised from the advance estimate to the second estimate, and again from the second estimate to the third estimate, falling in total from 2.5 percent to 1.8 percent. This follows a weak 2nd Quarter GDP which settled at a lowly 1.3 percent. While inflation slid slightly in November, it still remains above 3 percent as it has since April.

Key October/November Data

Positive Signs

U.S. productivity remains among the highest in the world while U.S. non-financial corporations' cash reserves remain at nearly \$2 trillion. The October Conference Board Global Leading Economic Indicators Report shows the U.S. increased .5 percent while Europe remained unchanged and China decreased .1 percent. The U.S. savings rate settled at 3.5 percent in October, compared to 3.3 percent in September. Despite this month-to-month increase the October 2011 rate is still well below the October 2010 rate of 5.3 percent. Automobile, SUV and light truck sales were up 13.9 percent in November relative to the same month last year, even as vehicle sales began to taper off in the winter months. Housing starts have slid from the high summer months, but the November 2011

level of 51.8 is still 25.6 percent higher than the November 2010 level. Similarly, the pending homes sales index surged 10.4 percent in October relative to September, and is 9.2 percent higher than the October 2010 level. The unemployment rate settled at 8.6 percent in November, falling below 9 percent for the first time since March 2009. Finally, consumer confidence surged in November reaching 56.0, which is a 15.1 point increase from October.

Negative Signs

The U.S. remains one of the highest corporate tax rate countries in the world at an average rate of 39.27 percent with U.S. companies holding more than \$1.2 trillion overseas as a result. Oil, gold and silver prices continue to remain relatively high, signaling the potential for a future inflationary period. According to the latest manufacturing ISM Report on Business, the manufacturing sector of the U.S. economy increased to 52.1 in November from 50.8 in October, but is still very close to falling below 50 which signals trouble for the manufacturing sector. The Dow Jones Industrial Average fell roughly 389 points (3.3 percent) in November and showed hope in December. Construction spending in October was down relative to both the previous month and October 2010. Durable goods orders and shipments were both down in October relative to September. Personal disposable income continues to trend upward and is now up 1.5 percent from the beginning of the year. However, when compared to an inflation rate which has remained north of 3 percent since April, this shows a general decrease in overall wealth.

Current Issues

These days it's not too difficult to tell who is talking or texting on a cell phone while driving because the driver of that vehicle is usually drifting from lane to lane and sometimes even drifts onto the shoulder of the road. I've gotten behind numerous drivers who suddenly begin to reduce their driving speed for no apparent reason, and when you get up alongside them to pass you suddenly realize they too are on the phone and don't realize they aren't paying attention to their driving speed.

I frequently equate the daily operations of a dealership to those of someone trying to text or talk on a cell phone while driving. When management is not focusing on the daily operations within the dealership, processes begin to "drift from lane to lane". This is perhaps one of the reasons we make a bold declaration at the beginning of each new year, "It's time for us to get back to basics". Wouldn't it be more prudent to ask, "Why did we ever leave the basics in the first place?" What happened? Well just like that distracted driver, when the dealer and the management team of a dealership fail to keep their eye on "the road", they tend to drift away from their ultimate goals of arriving at a profitable, customer focused, growth oriented business.

Ironically, while we are very much aware texting and talking on the cell while driving can be rather hazardous to our health but we continue to do so anyway. Drivers weigh the consequences of driving while texting (a possible moving violation or even an accident) against the rewards of being on the cell. Well, one advantage of talking on the cell and driving is that frequently you can tell when you're drifting from the lane you're supposed to be in because you hear those rumble strips and then have an opportunity to correct your driving. Unfortunately, in the auto industry if you drift from your "lane", there are not rumble strips to wake you up and tell you to get back on track. All too frequently the only time you find out you and your business plan has drifted is when you fail to achieve your ultimate business goals.

Don't wait for "legislation" to be imposed to tell you it's time to get back to basics and focus on your business. The "legislation" imposed on you might just be a lack of sufficient sales, gross profits and ultimately net profits. This year make a different statement, "we are not going to leave the basics this year". Make up your mind to focus on your drive to be more profitable, enjoy more of what life has to offer, to offer world class customer service each and every day, to be more conscientious about the training you offer your staff, and to turn your vehicle inventory faster. Driving your business to success in 2012 means keeping your eye on the road each and every day you are behind the wheel. Remember, if you don't like the direction in which you find yourself headed, check to see who is doing the driving.

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