



A Level Playing Field

Industry Overview

Anthony Pratt
Polk



Automotive by the numbers: A growing industry with many challenges

37%

Anticipated growth rate
for **global market**
between 2010 and 2016

74%

Anticipated **emerging
market** contribution to
growth 2010 vs.2016

19%

Anticipated growth
rate for **mature
markets** between 2010
and 2016

54%

Anticipated growth
rate for **emerging
markets** between 2010
and 2016

Drivers of Polk's U.S. Light Vehicle Industry Model



Real GDP

We expect annual avg growth of 1.9% in 2012 and then begin trending toward 3% by the year 2014.



Unemployment

Remains persistently high, 6 million jobs shy of the pre-recession level. The unemployment rate will likely not fall below 6.0% before 2015.



Home Prices

While prices have likely "troughed", we do not expect real HH net worth to reach pre-crisis levels until 2014.



Interest Rates

Generational lows are a positive for cost of ownership.



Gas Prices

Should remain flat through 2012 but trending up to \$4.11 annual average range in 2014.



Vehicle Prices

The Average price of a new light vehicle continues to rise as more safety, infotainment and regulatory content are added.

Other Key Market Drivers for the U.S. Light Vehicle Market



Average Age

At highest readings on record, 11.1 years for Car and 10.4 years for Light Truck. High residuals are helping to fuel leasing trends, which above pre-crisis levels of 19.6% for the industry and 45% for luxury segment..



Scrappage Rates

Rates at 4.9%, below last decade's average of 5.4%. Low scrappage rates a product of extended used vehicle life.



Vehicles per HH

The average number of vehicles per household has fallen 2.0% from the peak of 2.2 vehicles per HH in 2008, as households shed their second or third vehicle until balance sheets improve.



Vehicle Launches

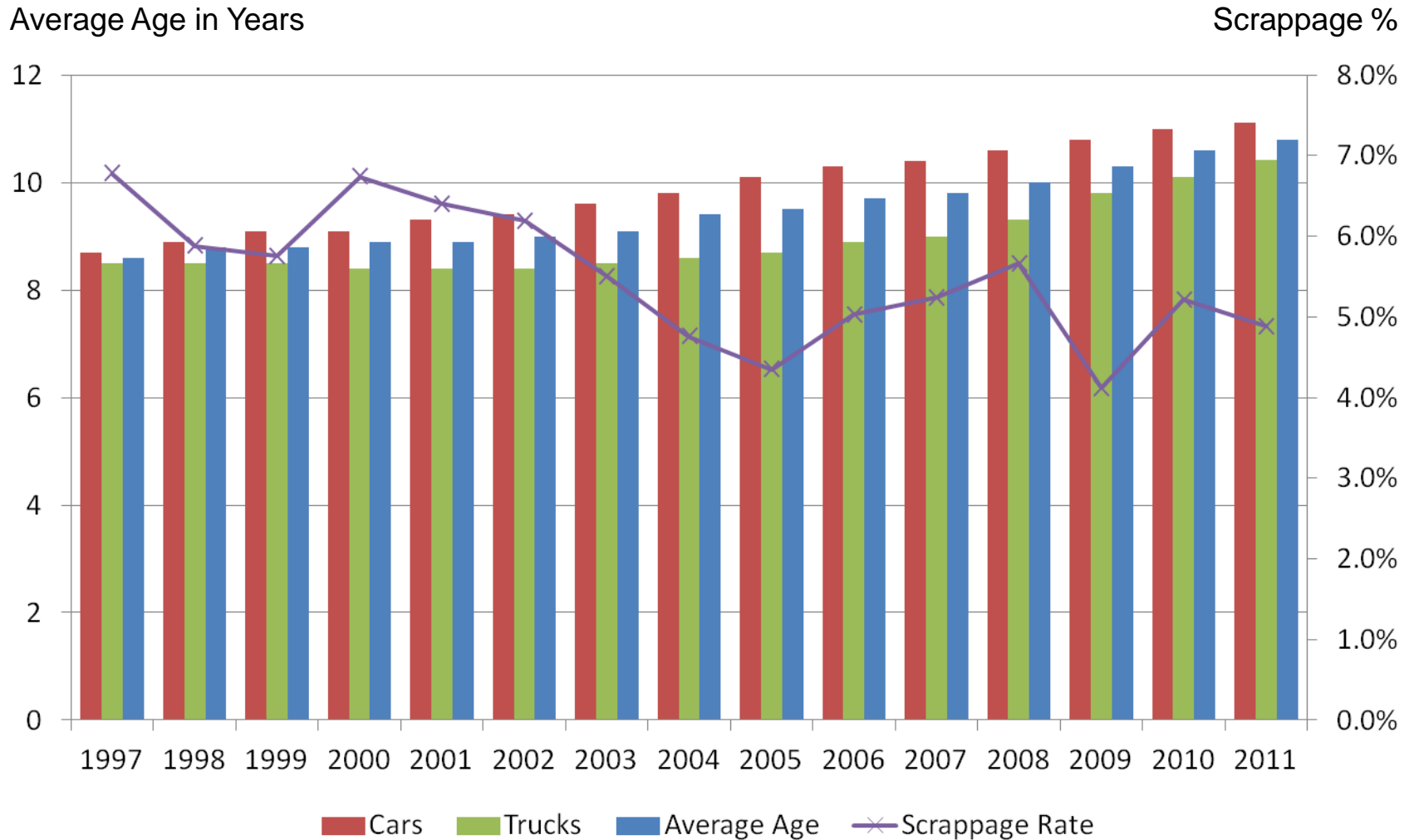
In 2012 there will be 94 new model generations and introductions released compared to 73 in 2011. For 2013 the number of events will increase to 101.



Loyalty

Delayed new car purchases continue to challenge consumer loyalty to brands. Polk research has found that consumer loyalty reduces if the consumer delays the purchase of new vehicles.

Average Age of U.S. Light Vehicles in Operation – Car vs. Light Truck



Source: Polk

Market Share at Risk: Loyalty will be challenged

Purchase Cycle

Brand loyalty rates dip to 40% for owners who delay purchase until 8 years after initial registration.

Launch Cadence

Product launches and the associate buzz influence consumer purchase decisions. Manufacturers are expected to increase product launches in 2012 and 2013 as compared to 2011

Orphan Owners

Orphaned brands made up 5.1% of the US market in 2007. Owners of orphaned brands are more likely to defect from the manufacturer.

Japanese Trouble

Toyota and Honda loyalty has dipped in recent months as a result of warranty and supply issues. This indicates that consumers are not willing to delay their purchase decision and will cross-shop.

“Peter Pan” Gen

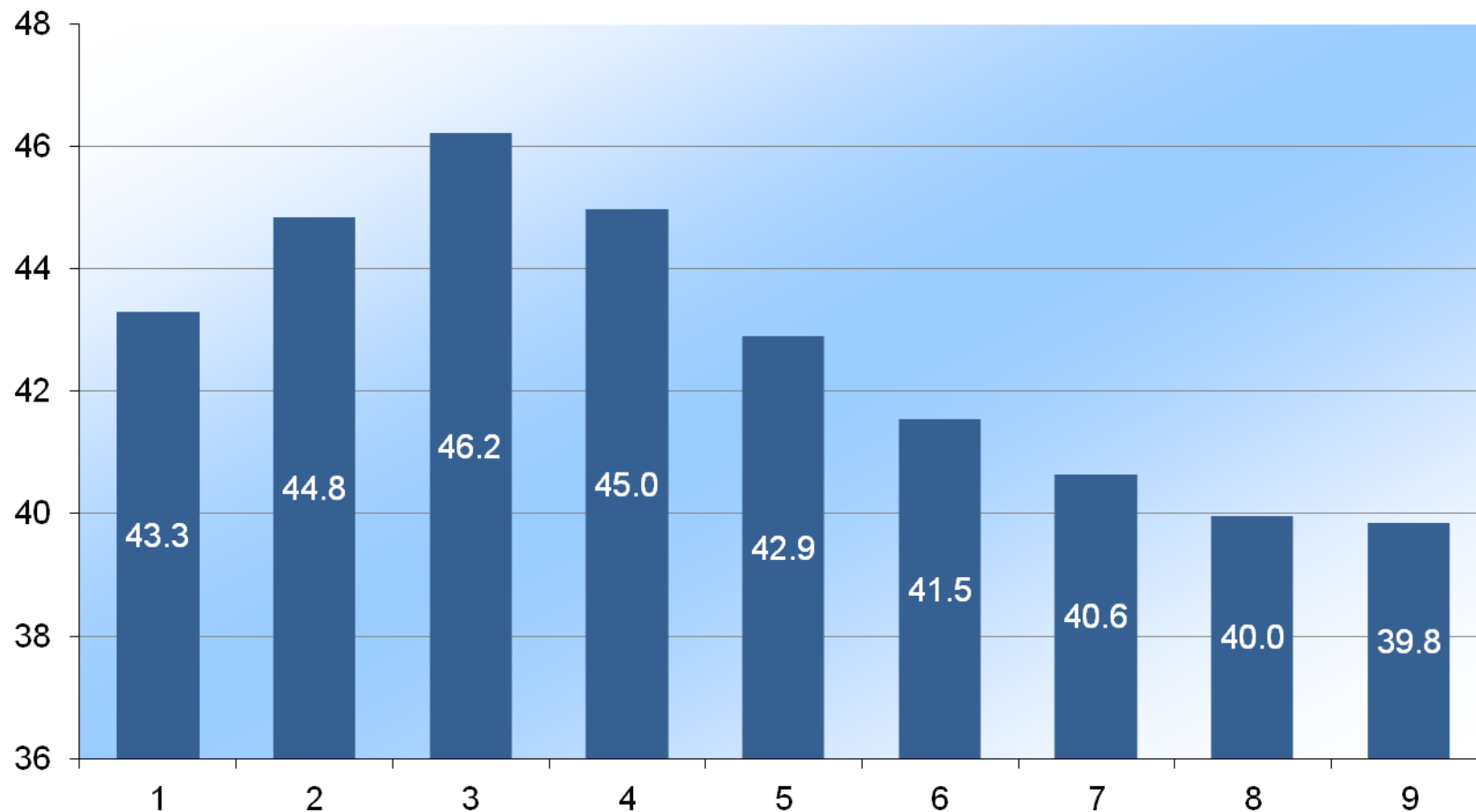
Many young adults are forced to delay their “natural” purchase cycle as they remain unemployed or underemployed.

New Competitors

New competitors will gain N.A. market share as a result of consumers defecting from their brand of choice.

Timing is Everything: Vehicle buyers are less loyal after 4 yrs.

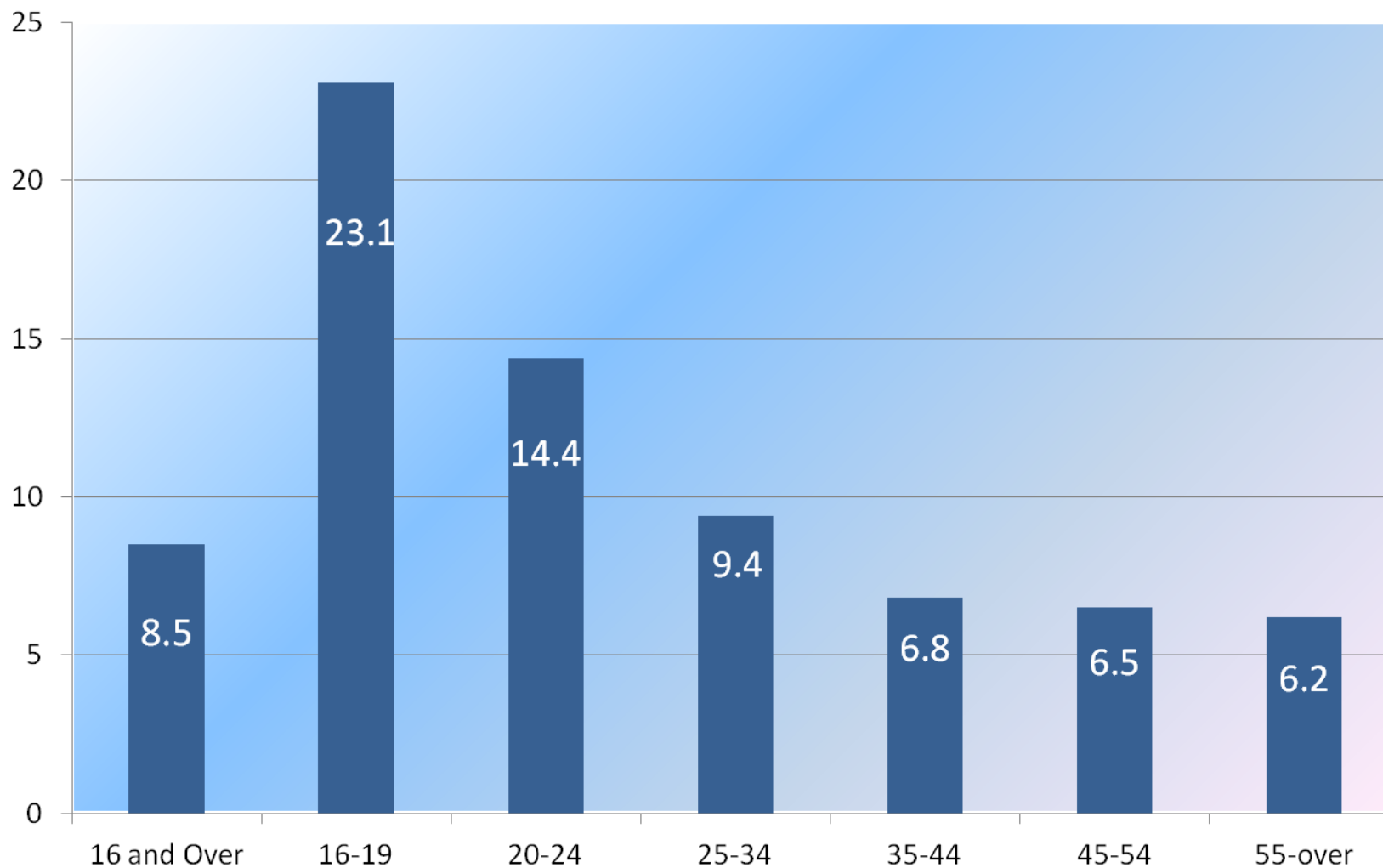
Loyalty Rate Over Time (%)



Source: Polk

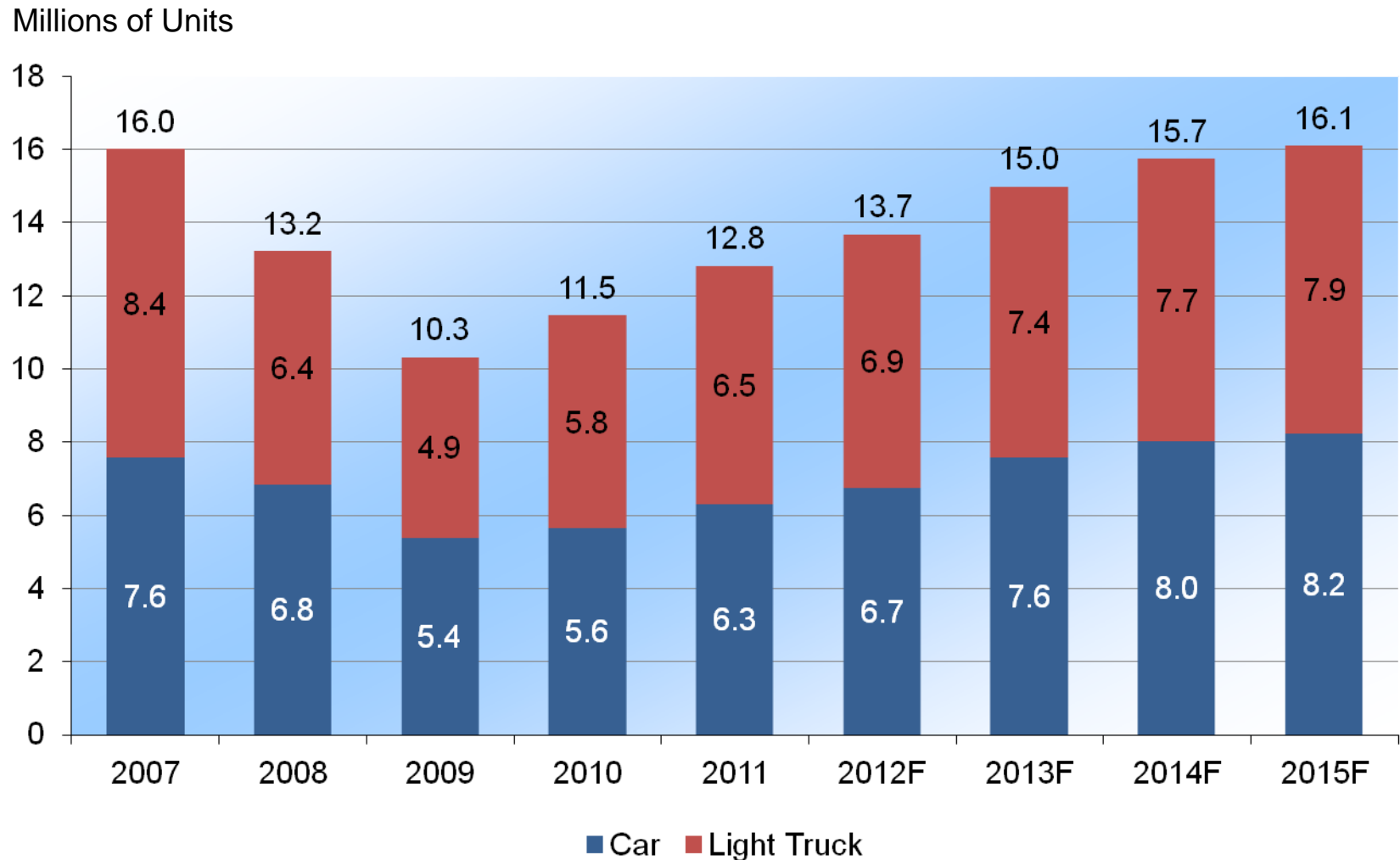
Delaying Adulthood – Younger buyers realize high unemployment

U.S. Unemployment Rate by Age Group (%)



Source: BLS December 2011

U.S. New Light Vehicle Registrations – Car vs. Light Truck



Source: Polk

Conclusion

- Opportunities
 - Growing pent up demand
 - Leasing penetration increasing
 - Increasing competition may lead to slightly higher incentives
 - Moderate improvement in economy
 - Inventory replenishment
 - OEMs increasingly dependant on suppliers

- Threats:
 - European debt crisis
 - Impact of globalization
 - Market share “in play” as buyers return to market
 - Legislation: Fuel efficiency and safety

Thank you!

Anthony Pratt
Director of Forecasting, Americas
anthony_pratt@polk.com

For more information please visit:
www.polk.com

Any use of this material including reproduction, modification, distribution or republication without the prior written consent of R. L. Polk & Co. is strictly prohibited.



© 2011 R. L. Polk & Co. All rights reserved.