



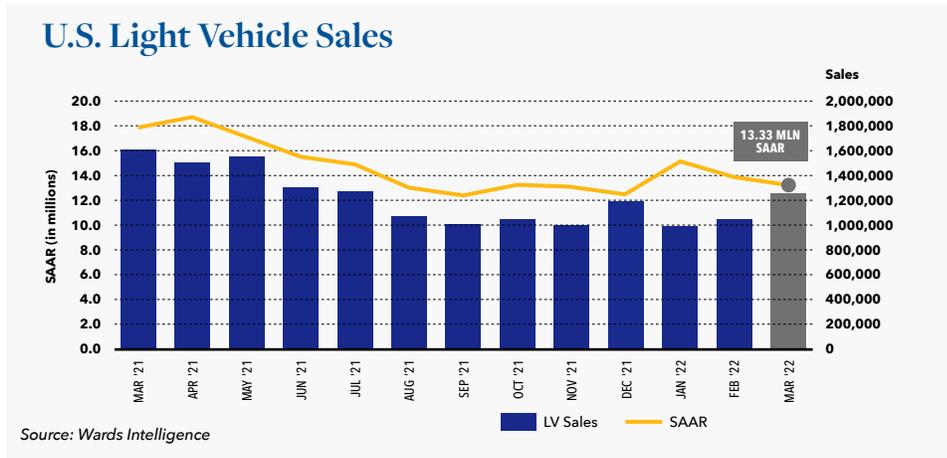
SMARTER PERSPECTIVE: AUTOMOTIVE

Over Promising and Underdelivering

By Keith Spacapan

April 27, 2022 First quarter U.S. sales of new light-duty vehicles totaled 3.29 million, one of the worst single quarter tallies in a decade. The only quarter to post a worse result was the second quarter of 2020 at the height of the pandemic. In terms of units sold (volume), month-to-month cadence improved throughout the quarter. U.S. new vehicle sales went from just under 1.0 million units in January to 1.25 million in March. However, in terms of a seasonally adjusted annualized rate of sales (SAAR), the opposite is true. In a month like January, when industry expectations are at their lowest for the year, the 1.0 million units sold in January translates into a SAAR of 15.2 million vehicles. In contrast, March is one of the stronger months on the calendar for U.S. sales of new vehicles. As a result, the 1.25 million units sold in March translates into a SAAR of only 13.3 million vehicles. March 2022 is a classic case of "over promising and underdelivering."

With the industry struggling to rebuild dealer inventories from historic lows, it should be no surprise that sales have languished. Retail inventories have been below one million units for nine consecutive months. If the ideal inventory level to support long-term industry growth is 60 days, then a retail inventory of one million units can not be expected to support much more sales than 500 thousand units long-term. From that perspective, the ability of the industry to continue to generate 1.0 million - 1.2 million units monthly is quite



remarkable, but is it sustainable? Without a meaningful lift in the industry's retail inventory, Hilco does not see monthly industry volume climbing much beyond current levels.

At the outset of the first quarter, there were some industry insiders that were projecting 2022 sales approaching 16.0 million units, but the consensus was closer to 15.5 million. Based on first quarter performance, the new consensus is gravitating toward 15.1 million, the sales total for 2021. At the time, the only speed bump slowing sales was the global chip shortage. Since then, China has reported more COVID-19 cases so far this year than all of 2021, prompting a lock down in the city of Shenzhen and Jilin province. A skirmish broke out on the Ambassador Bridge that connects Windsor, Ontario with Detroit resulting in additional plant shutdowns. And the war in the Ukraine is now risking the lives

of millions and the economies of more. Oh, and don't forget the chip shortage. AutoForecast Solutions (AFS) estimates that the industry has already cut 1.25 million vehicles from 2021 global automotive production. Nearly 100,000 of the vehicles were cut from production in the last week, not surprisingly, mostly in Europe. AFS is currently forecasting the global chip shortage to cost the industry 2 million units for all of 2022. That probably does not seem like much compared to the 10 million units cut in 2021, but it is only April and the number is likely to keep increasing for some time. Hilco believes the market conditions could lead many to "over promise and underdeliver."

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<p>Finance Cost 4.4% APR +20 bps QOQ -10 bps YOY</p>	<p>Fuel Cost \$4.22 per gallon +\$0.63 MOM +\$1.35 YOY</p>	<p>Inventory 35 days No Change -24 days YOY</p>	<p>Incentives \$1,581 per vehicle -\$76 MOM -\$1,843 YOY</p>
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