SPRING 2021

AUTO FOCUS

Quarterly Industry Newsletter

Spring has Sprung...

And so have our newsletters. Read for more info!

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Executive Summary

The industry is highly cyclical in nature and vulnerable to economic shifts, such as fluctuations in employment, overall consumer spending and financing rates. Over the five years to 2021, industry revenue has trended slightly upward. Industry revenue is expected to increase an annualized 0.4% to $978.7 billion over the five years to 2021, including an increase of 4.9% in 2021 alone as consumer confidence is poised to improve. This slight increase in revenue throughout the period comes despite the negative impact that the COVID-19 (coronavirus) pandemic had on the industry. Due to the coronavirus pandemic and associated economic uncertainty, revenue for this industry declined 3.5% in 2020.

Many consumers choose to finance new and used vehicle purchases. Thus, the industry is sensitive to fluctuations in interest rates. Interest rates have remained historically low, and are expected to remain low for the foreseeable future due to the coronavirus pandemic. When interest rates are low, the cost of financing vehicles is lower, and therefore, seems like a more attractive option for consumers. Moreover, low interest rates improve profitability for industry operators as floorplan financing, or the expense to finance new vehicle inventory, becomes less costly. Low interest will likely help subside some of the effects the pandemic has had on the industry. New car sales are expected to increase in 2021, which will likely help lead to growth in industry revenue.

Over the five years to 2026, industry revenue is projected to continue increasing. Gains in disposable income and an aging vehicle fleet are expected to fuel industry revenue growth throughout the period.

Consumer confidence is forecast to increase over the next five years, recovering from lows that came as a result of the coronavirus pandemic. Therefore, demand for industry products will likely increase as the economy recovers. IBISWorld anticipates industry revenue will increase, rising at an annualized rate of 2.3% to $1.1 trillion over the five years to 2026.

Over the five years to 2026, revenue for the New Car Dealers industry is projected to grow.

TAX DAY TRIVIA

Tax Day is Finally Here! *Test out your knowledge of tax history...*

With the IRS moving tax day back for all U.S. filers for the second time in as many years, it's time once again for a fun diversion by looking back at tax history! Test your tax knowledge using these questions to stump your friends and family.

- In 1861, President Abraham Lincoln enacted a flat tax on wages above $800 to help pay for the Civil War. What was the tax rate?
  - 3%
  - 5%
  - 12%
  - 17%
- In what year did taxes start being withheld from paychecks?
  - 1924
  - 1937
  - 1943
  - 1951
- The estate tax, which may apply to your assets after you pass away, was originally enacted in 1797 to fund which branch of the U.S. Military?
  - Army
  - Navy
  - Air Force
  - Marines
- In 1921, which state was the first to enact a sales tax?
  - Connecticut
  - Maryland
  - Pennsylvania
  - West Virginia
- The United States has a progressive income tax system, with your first dollar of earnings being tax-free and your last dollar earned being taxed as high as 37%. What was the highest tax rate when this progressive income tax system was first introduced in 1913?
  - 5%
  - 7%
  - 12%
  - 24%
- Tax day this year is May 17, pushed back one month from the traditional April 15 deadline. But the deadline wasn't always April 15. Tax day moved to April 15 in 1954. What day were taxes due prior to 1954?
  - March 15
  - February 15
  - April 1
  - May 15
- How many pages of instructions were needed for the first Form 1040 in 1913?
  - 5
  - 21
  - 13
  - 1

The answers are in...

1. **3%**. Even though Lincoln enacted this 3% tax, the Federal government didn't have an effective way to collect the tax at the time. The result? The tax fell far short of its projected revenue goals. Thankfully, the government now makes tax law changes with plenty of time to implement the change...oh, maybe not so much has changed after all!

2. **1943**. In a need to drum up some cash for a war, the government started requiring taxes to be withheld directly from paychecks rather than waiting for quarterly or annual payments.

3. **Navy**. It was repealed in 1802, but later returned to help fund the Civil War.

4. **West Virginia**. As of today, all but 5 states (Alaska, Delaware, Montana, New Hampshire and Oregon) have a sales tax. And it is as complicated as the imagination of the respective state legislatures.

5. **7%**. Hard to believe the federal government didn't seem to need more taxes than this. The top tax rate did jump, however, to 77% five years later during World War I. The top individual income tax rate for 2021 is 37%.

6. **March 15**. The deadline was moved from March 15 to April 15 in 1954 to give taxpayers more time to deal with the additional complexities being built into the tax law.

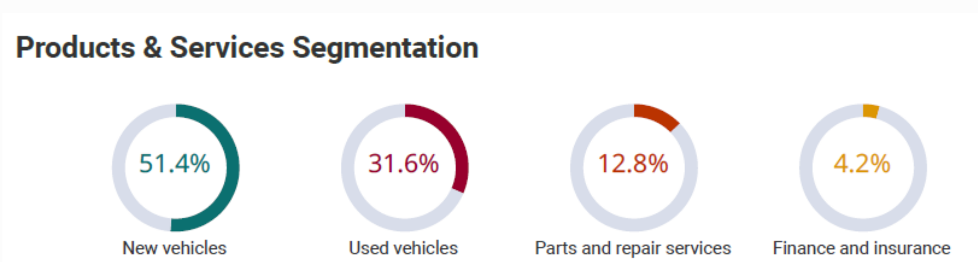
7. **1**. Speaking of added complexity, the basic Form 1040 instructions for the 2020 tax year has 111 pages.

INDUSTRY AT A *glance*

Rising disposable income and new vehicle introductions are expected to bring consumer traffic to car dealers over the next five years, helping drive revenue growth.

Additionally, consumers are more likely to spend on discretionary items, such as cars, once the pandemic has been contained. Consumers who did not lose their jobs during the pandemic are expected to have saved a significant amount of their income in 2020 due to increased frugality during periods of economic uncertainty. Major vehicle manufacturers are expected to continue introducing fuel-efficient models, including electric and hybrid vehicles, which are popular with many consumers. However, it is the used vehicles segment that is expected to buoy revenue the most. Over the five years to 2021, used vehicles have not been as readily available. Thus, the price of the average used vehicle has increased in recent years.

As used vehicle prices have increased, operators have been able to mark up selling prices and reap higher returns on their sales. The increase in prices, however, has also had an adverse effect for the product segment. Higher prices for used cars have caused a narrower price margin that has caused consumers to opted for new vehicles instead, which are less profitable for industry operators.



NEW RIDES

Volatile gasoline prices and automaker mergers are expected to lead to a surge of vehicle introductions over the next five years.

The current period has experienced several high-profile mergers and acquisitions, including Fiat Chrysler Automobiles NV (FCA) and Peugeot SA (Peugeot) merging in 2019. Fiat's high-efficiency powertrains, developed for the expensive fuel prices of the European market, replaced many of the less advanced components in Chrysler, Dodge and Jeep vehicles. Now, through FCA's luxury brand Maserati, the company has announced plans to introduce four all-electric vehicles by 2022, attempting to directly compete with Tesla Inc (Tesla). The new merger will likely operate as a 50-50 merger. Fiat has sought a partner to pivot away from relying on gas-guzzling brands, such as Jeep SUVs and the RAM trucks. For Peugeot, this deal gave them more access to the US market.

Industry Structure

POSITIVE IMPACT

Capital Intensity Low	Concentration Low
Technology Change Low	Globalization Low

MIXED IMPACT

Life Cycle Mature	Revenue Volatility Medium
Industry Assistance Medium	Barriers to Entry Medium

NEGATIVE IMPACT

Regulation Heavy	Competition High

Additionally, manufacturers will likely respond to the growing popularity of compact and subcompact vehicles by introducing new models. Crossover SUVs have gained popularity over traditional SUVs due to their improved fuel economy and smoother handling.

New models with advanced technology, such as adaptive cruise control, traffic jam assistance that automatically slows or applies the brakes for a vehicle and fully automated driving functions, will also likely boost demand. For example, Tesla has announced that all new vehicles come standard with the hardware that will be required for fully autonomous driving in the future. Tesla has stated that it expects to release fully autonomous vehicles during the outlook period. While the company already unveiled the option of self-driving capability in its vehicles during the current period, this was deemed to be a partial self-driving feature. However, over the five years to 2026, Tesla and its competitors are expected to unveil a series of fully automated vehicles. As disposable incomes rise, these new technologies may compel consumers to trade in older vehicles for newer models, encouraging growth in industry revenue.

Improving economic conditions after the coronavirus pandemic are expected to benefit industry operators.

Larger industry players such as AutoNation Inc. and Penske Automotive Group Inc. are projected to continue pursuing acquisitions of smaller dealerships. However, as during the current period, it is unlikely that such companies will keep all the facilities of acquired operators open and will likely seek to close underperforming locations. Overall, however, the industry is expected to rebound along with the economy. Thus, the number of industry establishments is expected to grow at an annualized rate of 1.3% to 23,383 locations over the five years to 2026. Industry players that participate in merger and acquisition activity will likely be better situated to take advantage of low-margin, high-volume sales practices that enable them to spread fixed costs over a large revenue base. Moreover, though the number of industry establishments is expected to increase, larger operators are expected to expand their existing locations with a focus on offering more repair and maintenance services, as these are highly profitable areas. As a result, industry employment is expected to increase at an annualized rate of 2.0% to 1.3 million people over the five years to 2026 as existing players hire more personnel to outfit their expanding locations.

The coronavirus pandemic is expected to have had a negative impact on industry revenue in 2020, but as the economy recovers, industry revenue is expected to increase in 2021. Industry revenue is expected in increase at an annualized rate of 1.4% over the 10 years to 2026.

2021 INDUSTRY REVENUE

$978.7B