



Monthly Automotive Outlook

NORTHWOOD UNIVERSITY



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Introduction

The U.S. economy shows signs of hope in early 2012 with 4th quarter 2011 GDP coming in at an impressive percentage growth rate. Current economic data points to confusing economic activity and is becoming difficult to predict which direction the economy will tilt in the coming months. The Bureau of Economic Analysis' most recent release announced its first estimate of U.S. GDP for the 4th quarter of 2011 to be 2.8 percent growth. The BEA's estimation for Q4 GDP was strong given that the final estimate the 3rd quarter GDP showed only 1.8 percent growth. This follows a weak 2nd Quarter GDP which settled at a lowly growth rate of just 1.3 percent. While inflation slid slightly in December, it still remains above 3 percent as it has since April.

Key December/January 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 December Conference Board Global Leading Economic Indicators Report shows the United States increased .4 percent while Europe increased .1 percent and China increased .7 percent. The U.S. savings rate settled at 4.0 percent in December, compared to 3.5 percent in November. Despite this month-to-month increase the December 2011 rate is still well below the December 2010 rate of 5.2 percent. Automobile, SUV and light truck sales were up 8.1 percent in December relative to the same month in 2010. Vehicle sales finished high in the winter months. Housing starts have slid from the high summer months, but the December

2011 level was up 2.2% from November and 7.3% higher than the December 2010 level. The unemployment rate settled at 8.5 percent in December, falling below 9 percent for the second time since March 2009. Finally, consumer confidence surged in December reaching 64.5, which is a 9 point increase from November.

Negative Signs

The U.S. remains one of the highest corporate tax rate countries in the world at an average rate of 39.3 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 sector of the ISM Report on Business, the manufacturing sector of the U.S. economy increased to 52.6 in December from 52.3 in November, but is still very close to falling below 50 which signals a recession for the manufacturing sector. The Dow Jones Industrial Average increased roughly 500 points in January, up 3% so far in 2012. Construction spending in December was down relative to both the previous month and December 2010. Durable goods orders and shipments were both down in December relative to both the previous month and December 2010. Durable goods orders and shipments were both down in November relative to October. Personal disposable income continues to trend upward and is now up 2.0 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

With today's technology dealers have a tremendous amount of information right at their fingertips. The trick is being able to interpret that information and being able to decide which information is nice to know, which information is important to know and which information is absolutely essential to know. Do you know if the gross profit you're making is good enough based on the price you paid for the vehicle you sold? Do you know how many seen contacts or walk-in's your dealership had this past month or how many telephone sales inquiries you had? If you do know, do you know what happened to them? Don't fool yourself. Sometimes things aren't always as they appear.

I was once invited to observe a science experiment at a major university. It was very interesting and the results quite surprising. The experiment consisted of one scientist and one very healthy and rather athletic looking frog and a rather impressive sound system. It started out with the scientist placing the frog on a mat marked with numerous measured lines (much like a football field). The scientist spoke into the sound system and commanded the frog to jump. Low and behold, the frog made a rather impressive leap forward. The scientist recorded the measured jump into a log book. Surprisingly the next step involved the scientist actually severing one leg of the frog and returning it to the mat. Once again, the scientist spoke into the sound system and commanded the frog to jump. To my surprise, the frog made a rather impressive jump with his three remaining legs. After recording this distance the scientist removed yet another of the frog's legs and once again placed the frog on the mat commanding it to jump. Not so surprisingly the frog did manage to jump although only a fraction of the distance of the previous jump. After recording this incredible jump by the two legged frog the scientist yet again removed a third leg and with an amazing demonstration of will power the frog once again managed to jump at the scientist's command. What an amazing demonstration of will power. My eyes opened wide in amazement as I witnessed yet again the scientist removing the fourth and final leg of the frog. Carefully

placing the frog on the mat and speaking clearly into the sound system the scientist commanded the frog to jump. Alas, nothing. Upon increasing the volume of the sound system the scientist once again spoke loudly into the sound system commanding the frog to jump. Nothing. The frog simply did not move. Out of frustration the scientist warned me to protect my ears as he once again cranked up the volume of the sound system and with all the authority and clarity his voice would speak he commanded the frog to jump. The poor hapless frog remained motionless. Satisfied the experiment was complete the scientist reviewed his data and scientifically concluded; "frog becomes deaf when all four legs are removed".

How are you interpreting your dealership's data?

Contact Us

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