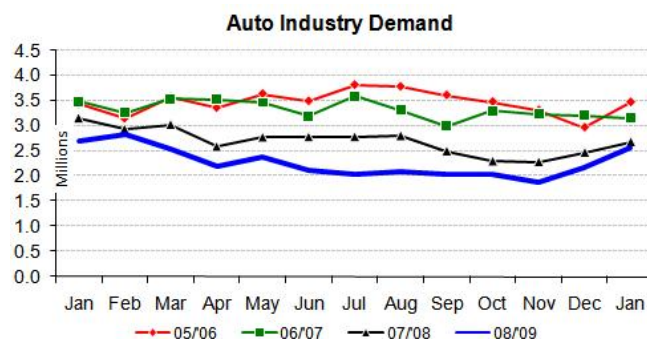


AUTOINTELLIGENCE™

Monthly automotive competitive insights from Compete

Is the Auto Industry Showing Signs of a Recovery?

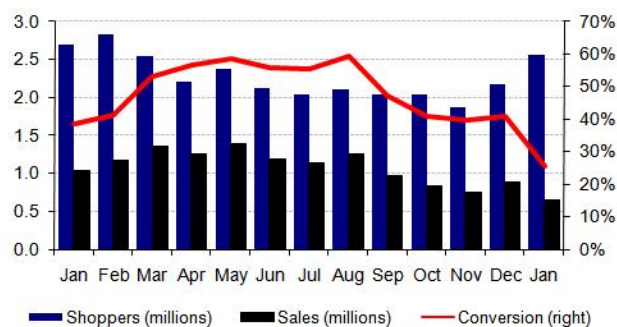
As auto sales continue to track near historic lows the days of 16 million unit selling rates are but distant memories. Estimates of annual sales of 10 to 11 million units are the new thinking in a market (and economy) where flat is the new up. Compete measures auto shopping behavior across the internet and uses a subset of that (visits to third-party automotive sites) to develop its proprietary measure of in-market vehicle demand. Sales are a function of generating demand and converting that demand into purchases. Using this data we have seen what may be the very first signs of a recovery.



The chart above shows market-wide new vehicle demand and reveals an uptick from November's all-time low. January 2009 demand of 2.56 million in-market shoppers was the highest in 11 months and down only 5% from January 2008 when new mid-size car launches drove industry demand higher. The y-o-y decline in January 2009 was the lowest in 11 months. But if this is the first sign of a demand recovery it is in its very early stages given that this was the lowest January demand level on record. In any case, a slowing of y-o-y declines may at least suggest we're near the bottom.

So if demand has bottomed or even started to creep back up, why are sales still soft? Sales are a function of demand and conversion. Demand, while showing some signs of life, is still off-pace and conversion is still very weak. Conversion of demand to sales in January 2009 was its worst in years. Conversion is calculated using consumer demand and total sales (retail plus fleet). That means conversion will worsen if OEMs cut back on fleet sales since that results in lower total sales. However, even if OEMs have cut back on fleet there is no denying the correlation between worse conversion and the weak economy, both of which collapsed beginning in September.

What does all mean for 2009? Just as the 2008 demand decline preceded the sales implosion does the modest resurgence in demand we're seeing now mean relief is on the way? It may be. We're confident in saying that because we correlated our demand measure with monthly industry sales (lagged two months) over the past four years with a resulting correlation of 0.66. That means that—if the demand trend continues AND automakers find the right tools to drive conversion—it is quite possible that vehicle sales will begin to recover in Q2.



But even with a recovery, don't expect sales to return to the days of 16 million units anytime soon. Demand, currently running over 1 million shoppers below historic highs, needs to fully recover before sales can really take off. If demand holds stable at January 2009's 2.5 million shoppers, the industry would have to convert nearly 45% of those shoppers into buyers each month to reach 13 million unit sales for the year, the same as 2008. That's an ambitious target, one that would likely require a continued reliance

on incentives to entice prospects. Industry conversion averaged closer to 39% in the 4th quarter of 2008. That translates into a 2009 market of fewer than 12 million units for the year using the current demand trend. In any scenario, even with a recovery, 2009 will remain a difficult year for automakers.

Accurately measuring in-market demand and retail conversion are the two crucial elements to cost-effectively driving sales anytime, but even more so in a highly volatile automotive environment. Demand reveals advertising cost-effectiveness when correlated with ad spend and conversion reveals incentive cost-effectiveness when correlated with incentives. With all eyes on efficiency these days, these are the must-have metrics.

And knowing when to expect the light at the end of the tunnel means the best opportunity to plan for success as the market comes back, not chasing after it once it has.

Compete provides automakers with the most detailed and immediate insights into vehicle demand generation and conversion, as well as vehicle and brand competitiveness. Our services help automakers optimize marketing and incentive decisions and benchmark performance against rival actions.

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