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S&P Global

U.S. Light-Duty Aftermarket Forecast Review

June 2022

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Project Background

Joint Channel Forecast Model Overview

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Automotive Light-Duty Aftermarket Joint Channel Forecast Model Overview

- The Channel Forecast Model (CFM) quantifies the present (nominal) dollar value of sales at end user prices for each of the automotive aftermarket's channels of distribution and totals the channels to provide a complete U.S. light duty market overview.
- This model was first developed in 2002 by the AASA and the Auto Care Association. It has been updated annually since 2007.
- There are three main sources of data used as inputs in the model are
  - IHS Markit Inc. proprietary data and forecasts, including economic and Polk automotive data
  - U.S. Economic Census data
  - Industrial Marketing Research Inc.
- The automotive aftermarket, as it is defined for this project, consists of all non-warranty, retail sales of parts, accessories, and services for light vehicles.
  - Channel definitions are from North American Industry Classification System (NAICS) codes
  - The model accounts for the potential double-counting of revenue by including only those sales that are classified as sales made to the general public.
- Due to the release schedule of the 5-year economic census, the 2021 update was still based on the 2012 economic census.
- With the final data elements from the 2017 5-year Economic Census released during 2021, the model was rebased to 2017 (including addressing changes in product and industry classifications) prior to this forecast update.

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2022 US Light Duty Aftermarket Forecast

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US aftermarket forecast overview

- The US light-duty aftermarket will produce nearly $357B in 2022 retail sales
  - Excludes roughly $24B in additional warranty work
  - Projected to reach $401B by 2025
- The aftermarket weathered the pandemic very well
  - Driving patterns have changed, but miles driven have rebounded
  - A sharp rise in prices did not dent demand
  - Continued high prices will support nominal revenue growth, but how long can that last
  - Limited inventory continues to constrain new vehicle sales, but sales are improving
  - Vehicle mix turning more favorable for the aftermarket
- High gas prices and inflation may eventually take a toll on miles driven and spending

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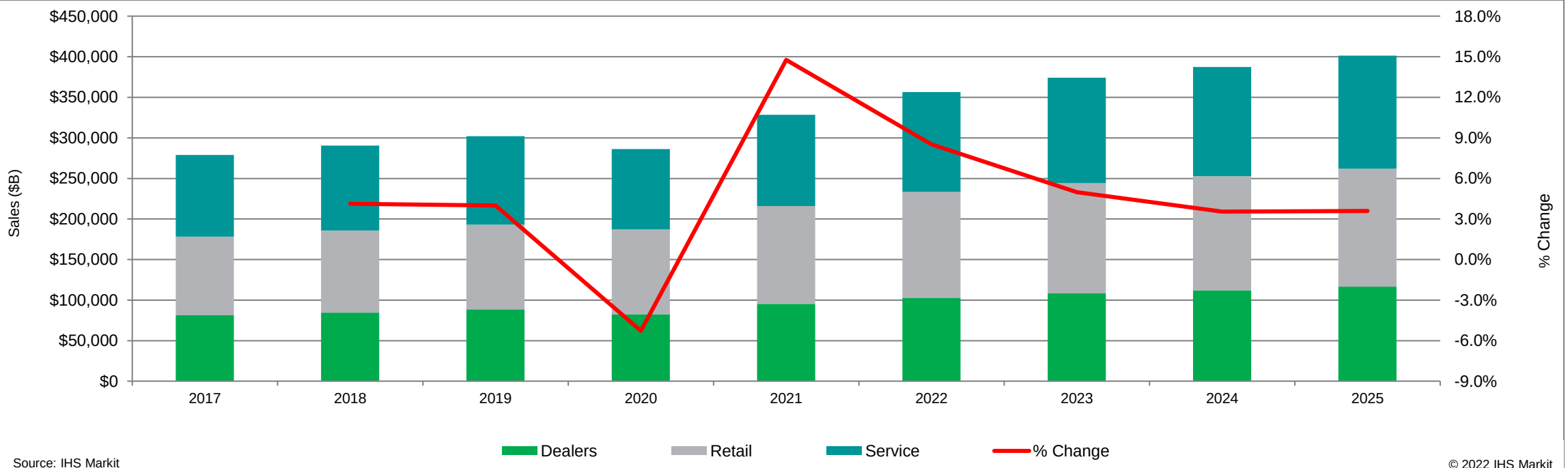
US light-duty aftermarket sales forecast summary

- High prices and resilient demand boosted the US light-duty aftermarket by nearly 15% in 2021
- Both trends will continue into 2022 with a forecast of 8.5% growth
- Average annual growth from 2022 through 2025 is forecast to be 4% as demand cools and inflation retreats

2022 U.S. Light Duty Aftermarket Forecast



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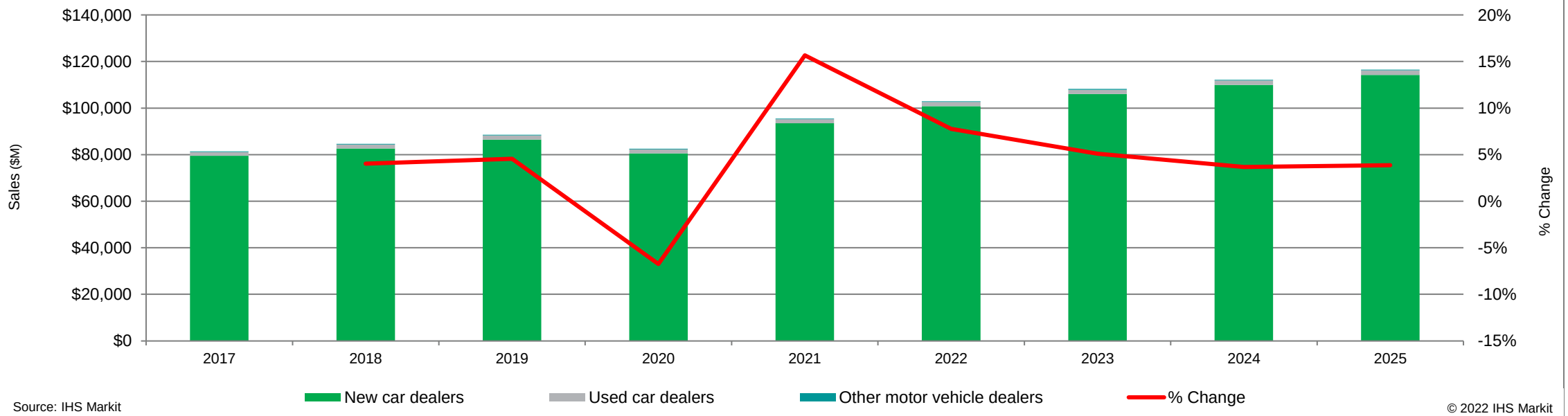
US aftermarket sales through vehicle dealers

- New car dealer aftermarket sales outperformed last year's forecast with 16% growth. Revenue will trail the overall market in 2022 though at just under 8%.
  - Inventories remain challenged as new car sales are forecast to increase just 1.1% this year
- Vehicle dealers expected to see 4.3% annual aftermarket growth through 2025
- The 2017 census identified that used car and other vehicle dealers make up a much smaller share of the market

Aftermarket Sales Through Dealer Channels



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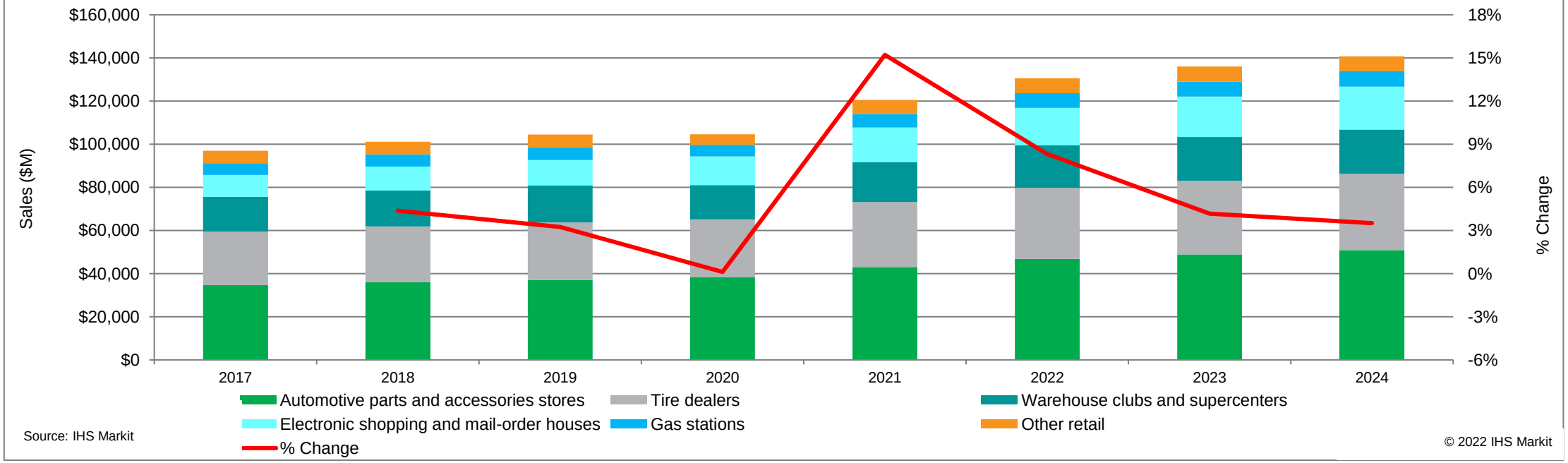
US aftermarket retail sales

- Aftermarket retail sales outperformed the overall market in 2021, growing 15.2%.
- Both general auto parts stores and tire dealers should outperform the market in 2022, rising 8.8% and 9.2% respectively
- Sector will see average annual growth of 3.7% from 2022 to 2025

Aftermarket Sales Through Retail Channels



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* - The 'electronic shopping' channel includes only those retailers who consider themselves as pure play e-commerce. Online sales from brick-and-mortar entities are captured in the respective sales channels

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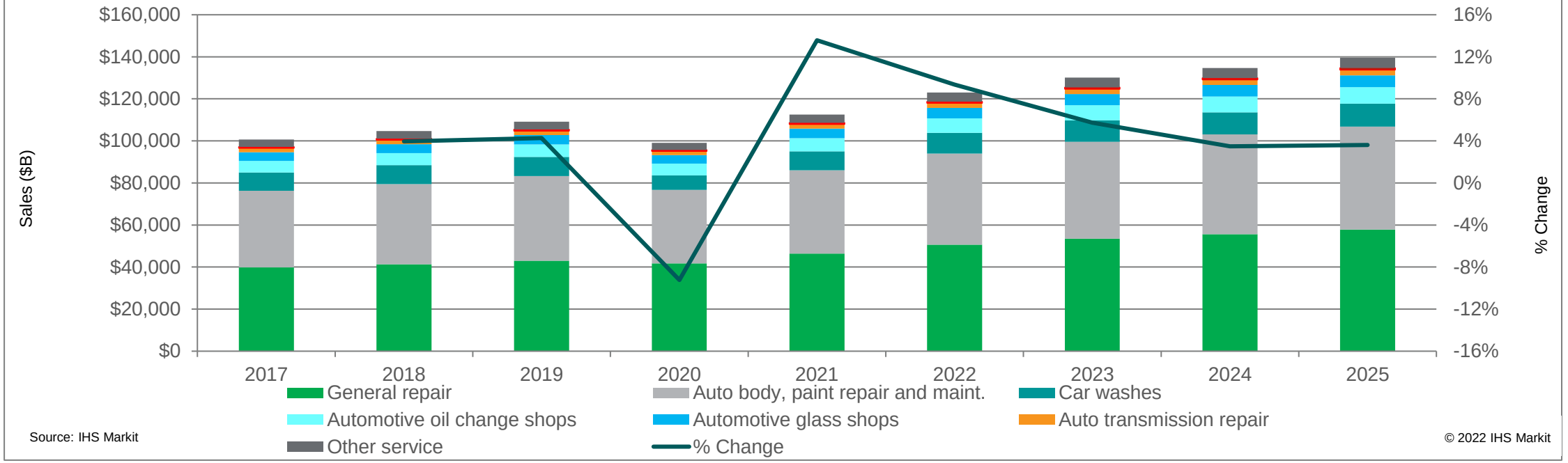
US aftermarket sales through service channels

- Service sector revenue increased 13.6% in 2021, slightly trailing the overall market
- General repair, body and oil change shops saw below market growth as drivers slowly worked their way back to pre-pandemic levels of driving
- Revenue in this sector will grow 4.3% annually through 2025, just above the overall market

Aftermarket Sales Through Service Channels



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Industry Outlook: Macro Drivers

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GDP growth in 2022 revised down on weaker first half; Fed turns hawkish, raising recession risks

- Real GDP contracted 1.4% in the first quarter. Growth was restrained by declines in federal spending and inventory investment, and by a surge in imports. Sales to private domestic purchasers—a better indicator of aggregate demand—grew a strong 3.7%, but monthly data suggest weakening growth of demand entering the second quarter.
- We revised down our forecast for real GDP growth in 2022 from 3.0% to 2.4%. Roughly 0.5 percentage point of that revision reflects incorporation of the first-quarter contraction of GDP into the calculation and the weak “hand off” to the second quarter. However, subsequent growth is revised down in response to the recent tightening of financial conditions. GDP growth in 2023 is revised down from 2.8% to 2.4%, and in 2024 from 2.7% to 2.3%.
- Nominal GDP is expected to rise 8.7% in 2022, 5.5% in 2023 and roughly 4.5% in 2024-2025
- As expected, the Federal Reserve raised its policy rate by 50 basis points at the May meeting of the Federal Open Market Committee (FOMC).
- We project the CPI to rise 6.8% this year and then, as commodity prices decline and shortages of materials and labor improve, 2.8% next year and 1.9% in 2024.

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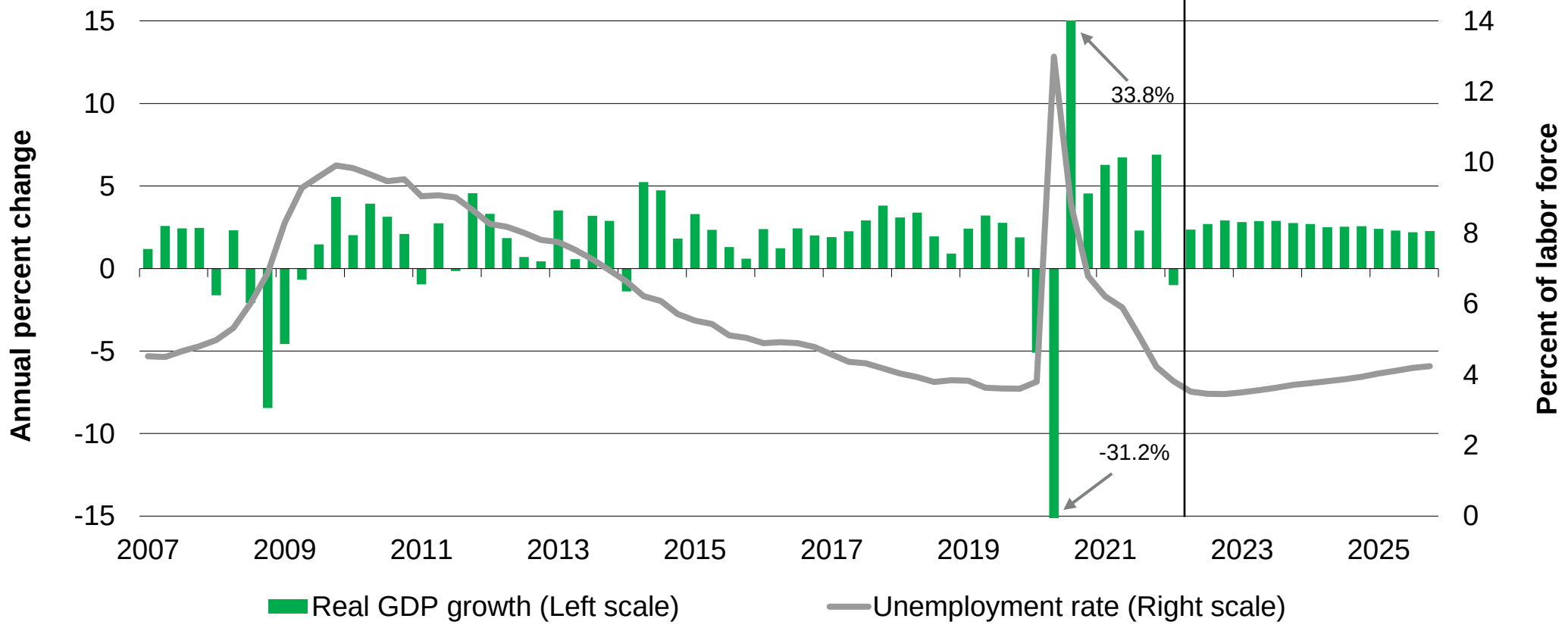
With labor markets tighter than implied by the conventional unemployment rate, and recognizing the recent sharp tightening of financial conditions, we now show a more pronounced growth recession that pushes up the unemployment rate temporarily to 5.0% by 2025.

Real GDP and unemployment



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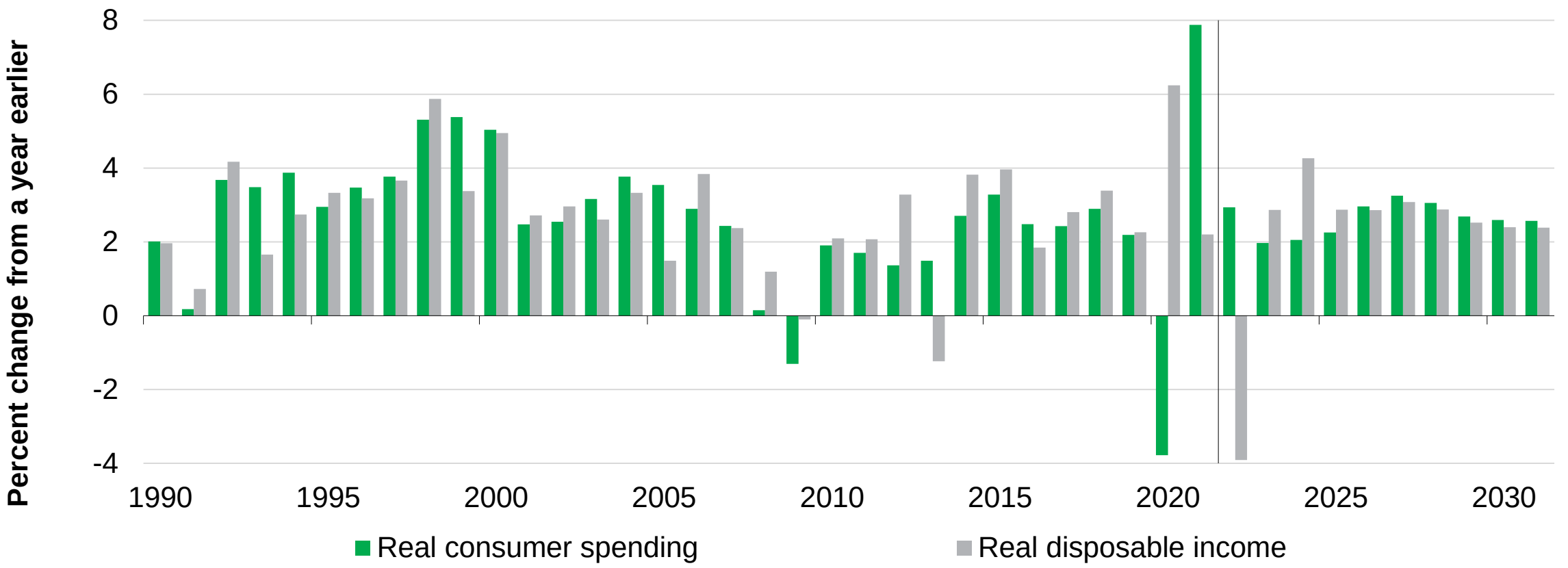
Real incomes hit by end to stimulus support and restrained by rising prices

Real consumer spending and disposable income



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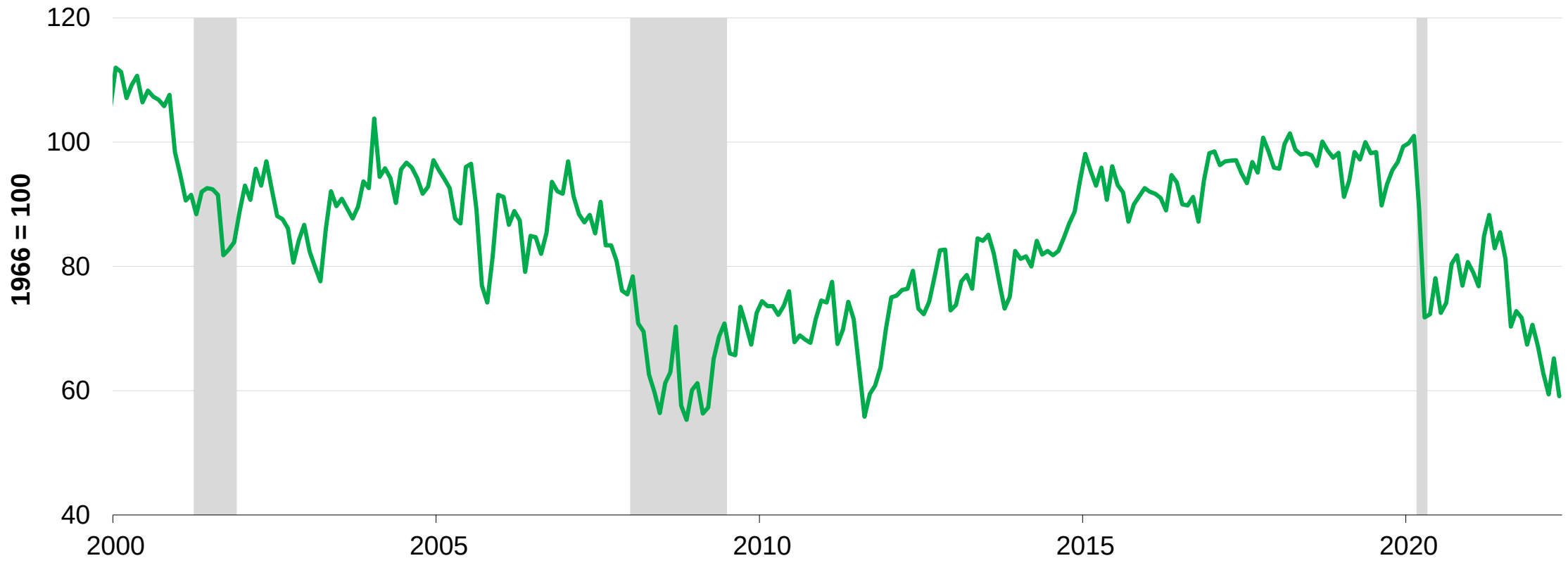
Consumer sentiment sinks amid Russia's invasion of Ukraine; elevated inflation has weighed on consumer sentiment, but not spending

University of Michigan Index of Consumer Sentiment



Source: University of Michigan

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US economic outlook by key sectors and indicators

Percent change	2021	2022	2023	2024
Real GDP	5.7	2.4	2.4	2.3
Final sales	5.3	1.7	2.5	2.4
Consumption	7.9	2.9	2.0	2.1
Light vehicle sales (Millions)	15.0	15.1	16.6	17.1
Business fixed investment	7.4	6.0	3.0	2.0
Payroll employment	2.8	3.9	0.9	0.1
Consumer Price Index	4.7	6.8	2.8	1.9
Core CPI	3.6	5.3	3.2	2.2
Brent crude oil price (USD/barrel)	70.7	105.7	94.9	87.4
Federal funds rate (%)	0.1	1.2	3.0	2.9

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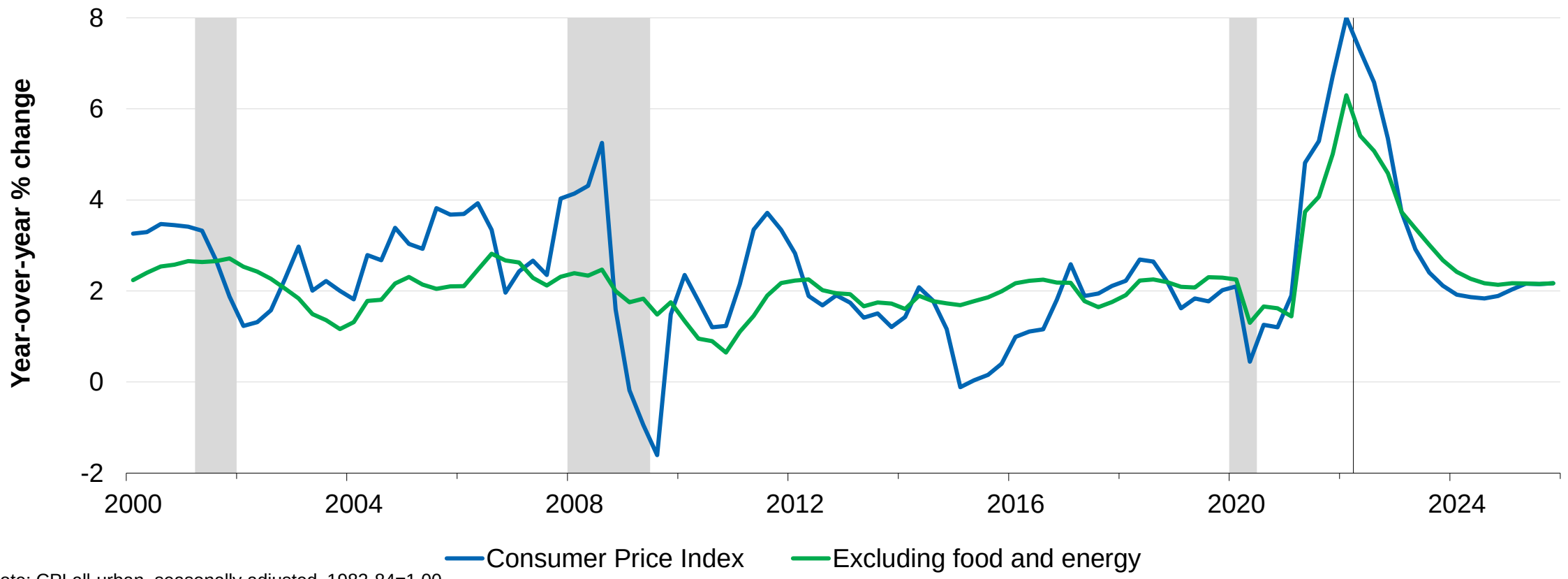
Higher food and energy prices are driving up the Consumer Price Index, but core prices are also rising rapidly

Consumer Price Indexes



Note: CPI all-urban, seasonally adjusted. 1982-84=1.00
Source: IHS Markit

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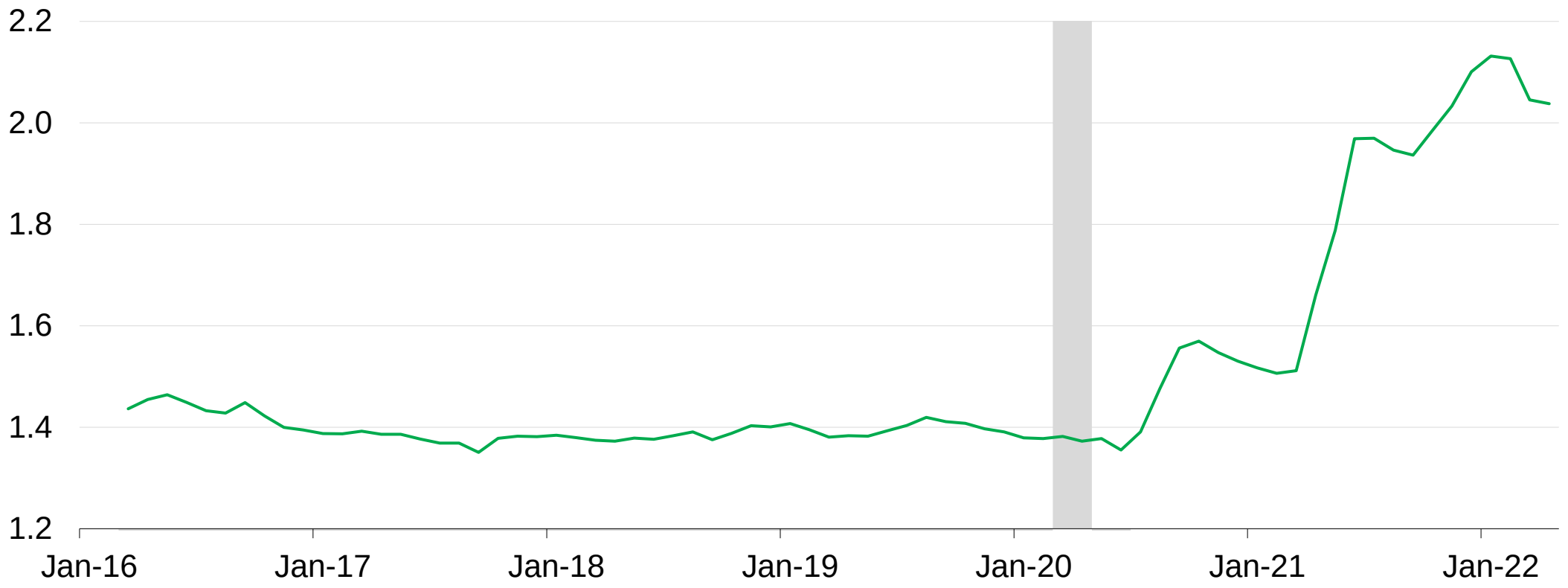
Prices for used cars and trucks are up 35.0% since March 2021, but have turned down as new production edges higher

Consumer Price Index, used cars and trucks



Note: CPI all-urban, seasonally adjusted, 1982-84=1.00
Source: BLS

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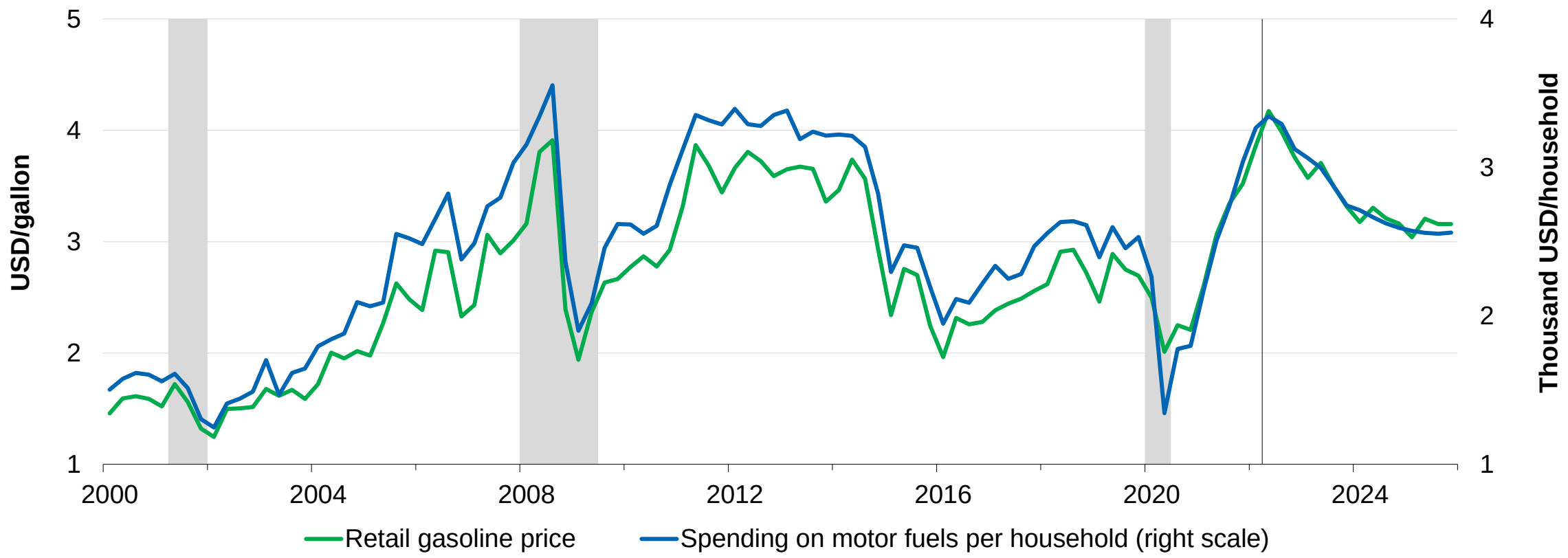
Retail gasoline prices reflect changes in crude oil prices

Retail gasoline price and annualized spending on motor fuels



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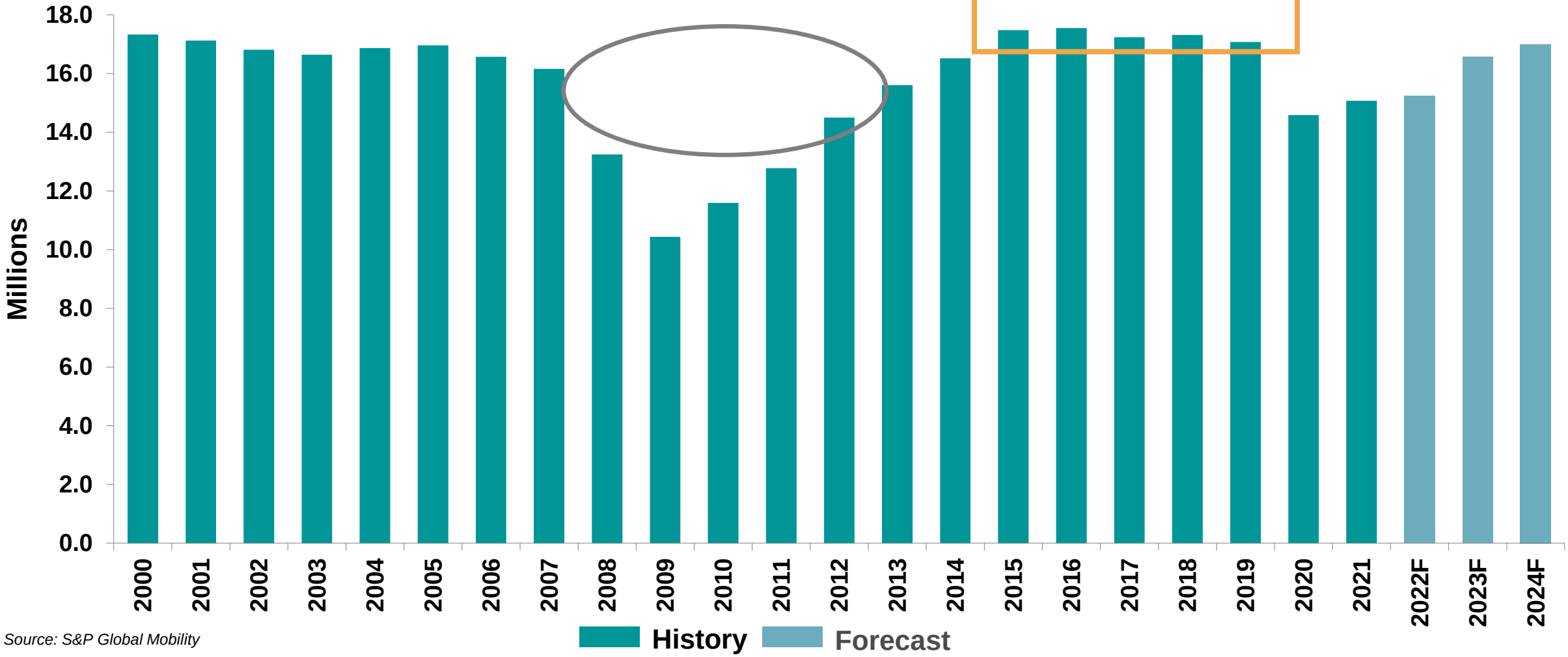
While limited inventories weigh on new vehicle sales, 5 years of 17+M new vehicles now entering the aftermarket sweet-spot while soft new vehicle registration years exiting sweet-spot



Source: S&P Global Mobility

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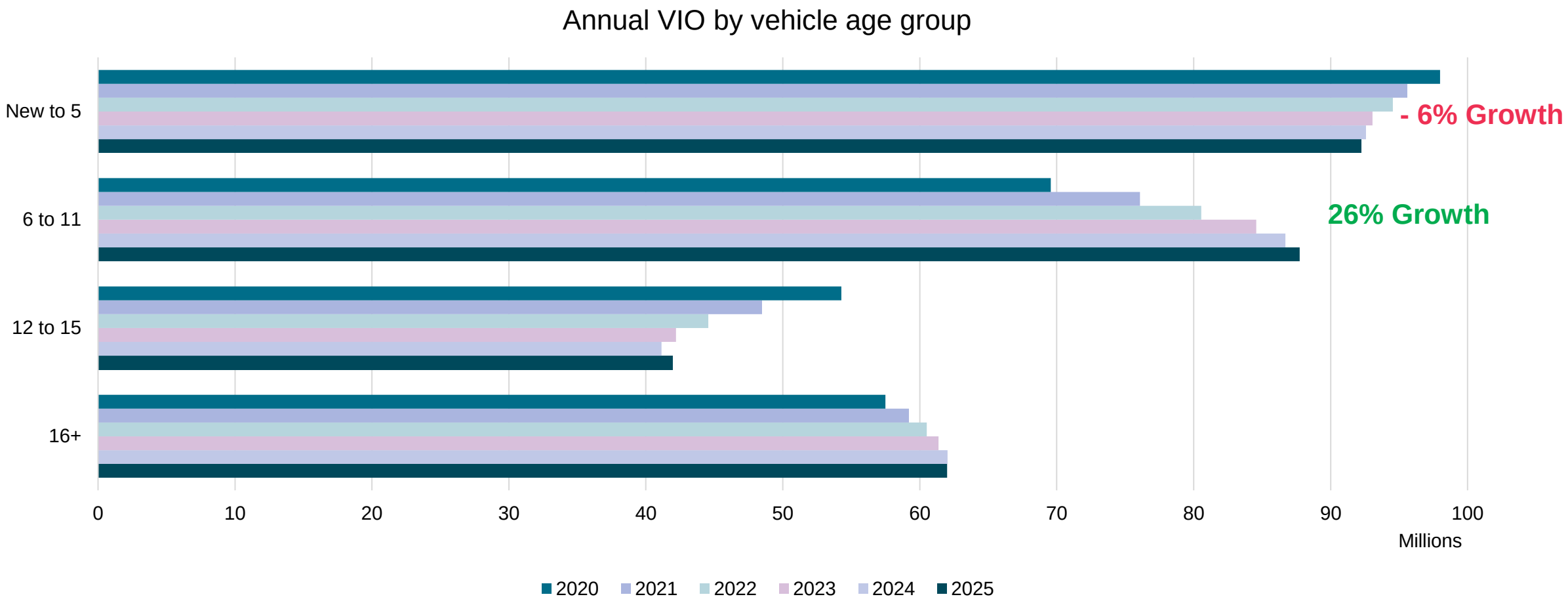
Favorable age mix coming for the aftermarket through first half of 2020's



Passenger Cars and Light Trucks Combined
Source: S&P Global Mobility

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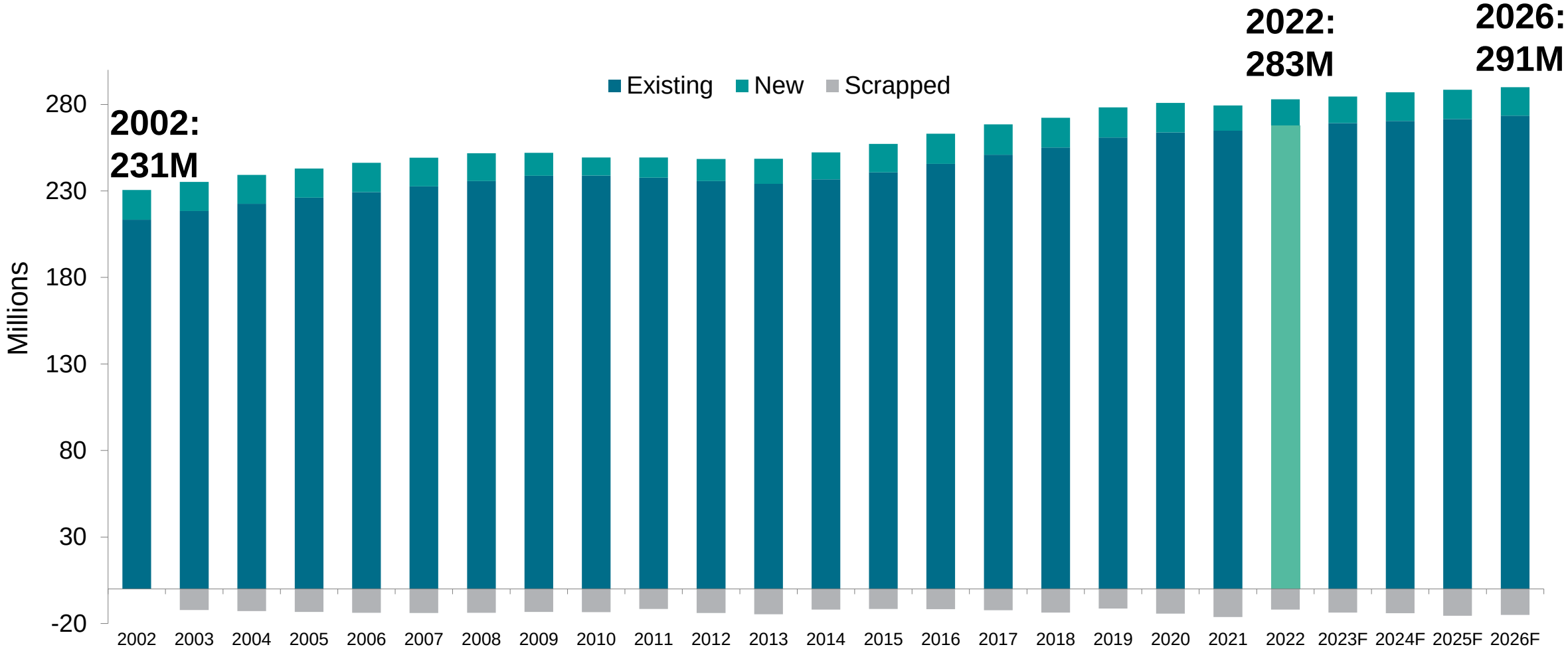
Vehicles returning to the fleet are a catalyst to move VIO higher



Passenger Cars and Light Trucks Combined
Source: S&P Global Mobility, VIO Dated January 2022

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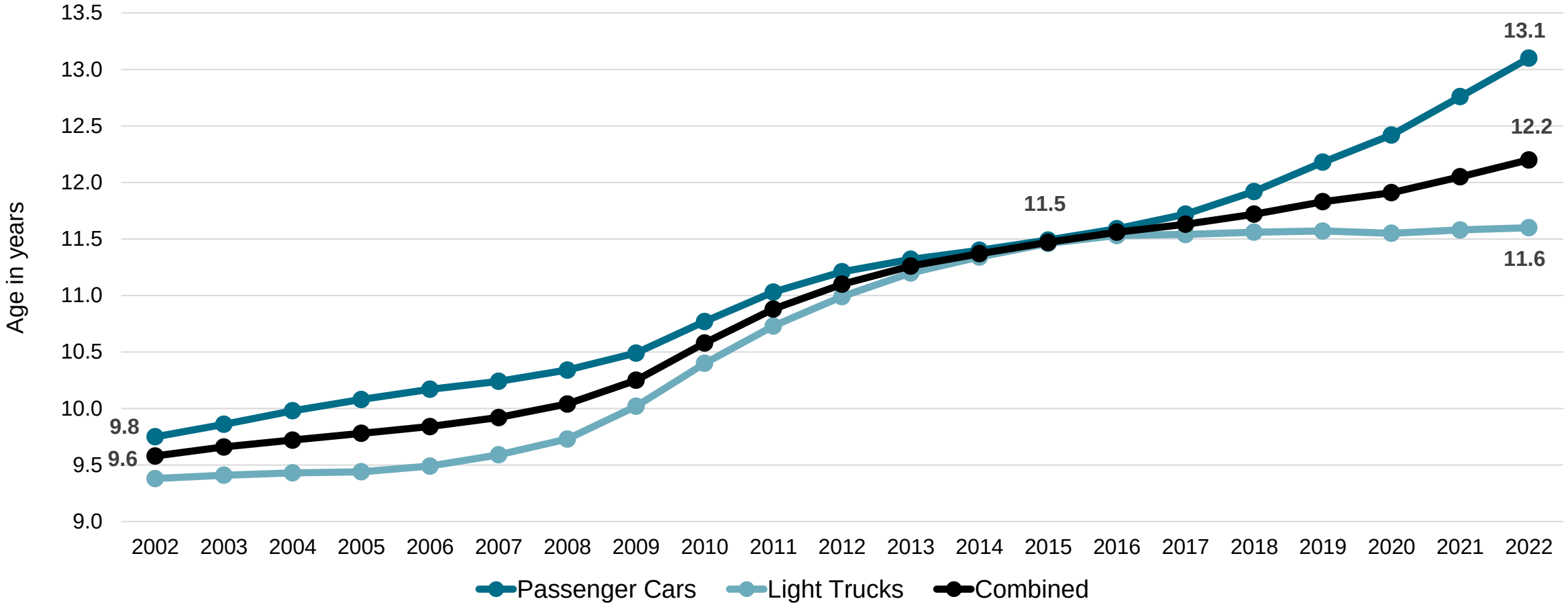
Average Age by vehicle type continue to diverge



Source: S&P Global Mobility

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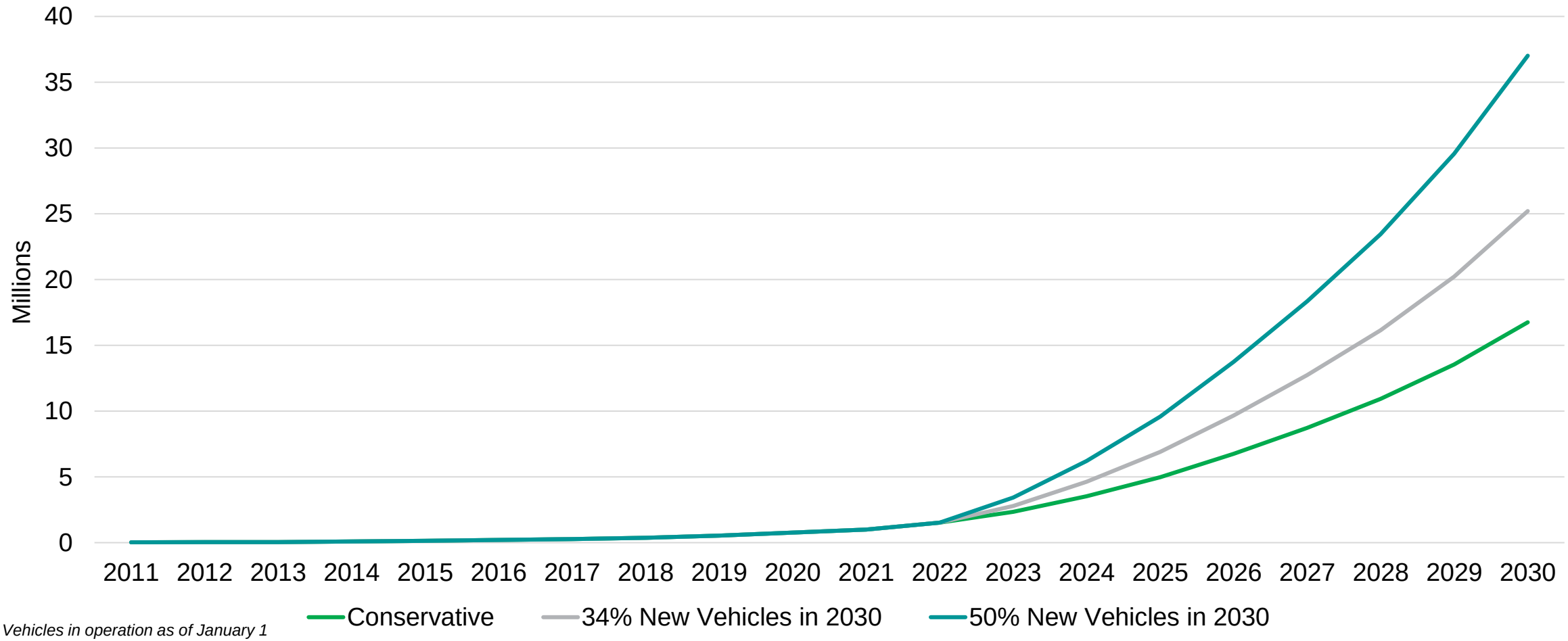
EV volume in VIO outlook



Vehicles in operation as of January 1
Source: S&P Global Mobility

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Light-duty aftermarket summary

- High prices and resilient demand result in another year of industry over-performance
- 3-year average growth from 2019-2022 is 5.7%, well above pre-pandemic trend
- By 2025 industry sales should top $400B; ~$100B above 2019
- Market trends through 2022 and beyond
  - VMT will rise slightly in 2022, but sustained high gas prices will depress driving
  - Prices and labor costs increases should begin to moderate through 2023
  - VIO size and fleet age will continue to steadily accelerate
  - Inventory constraints on new vehicle sales should clear in 2023, which will help cool used-car market
  - Shift to trucks, increased electrification will continue

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