



PEAK OR PLATEAU – U.S. AUTO INDUSTRY BEYOND 2015

DABE

G. Mustafa Mohatarem

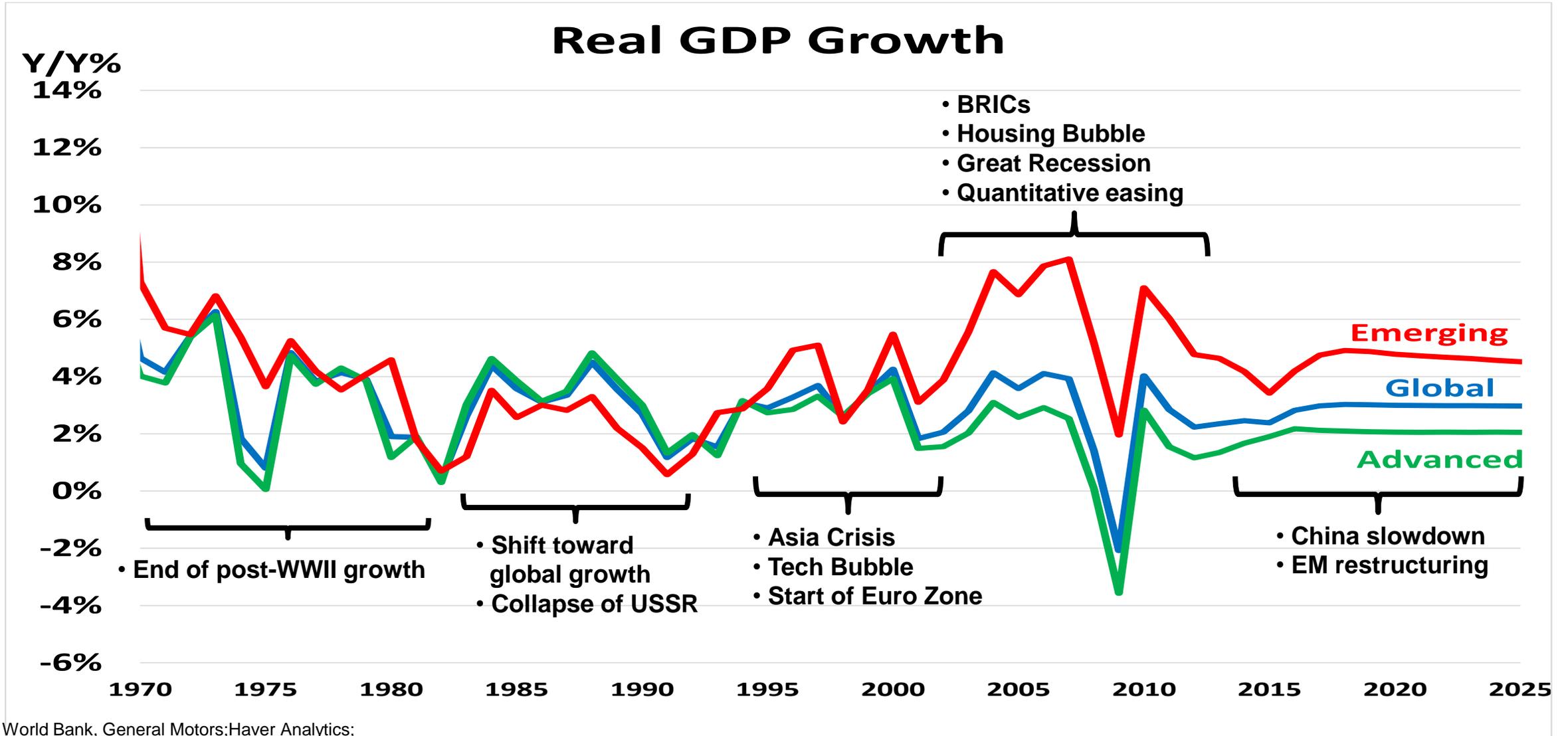
Chief Economist

January 14, 2016

INTRODUCTION

- **The U.S. economy will grow at a slow and steady pace**
- The current recovery is one of the slowest in the post-WWII U.S. history. Consequently, we have not yet seen the excesses and imbalances build up as much as we witnessed around the peak in previous cycles. This leads us to forecast continuing recovery
- Job market is improving strongly. Household balance sheets are strong. Gasoline prices dropped 28% in 2015 from 2014 and averaged slightly above \$2.40 in 2015. Interest rates are at historical lows. These developments have created a perfect environment for auto sales, leading to record high vehicle sales
- Housing recovery has been weaker than expected, but improving household formation will lead to continued improvement
- Strong dollar is hurting domestic manufacturers' competitiveness, but it is positive for the U.S. consumers
- **U.S. auto sales reached a record high of 17.9M, including medium and heavy duty trucks, in 2015. We expect another new record in 2016**

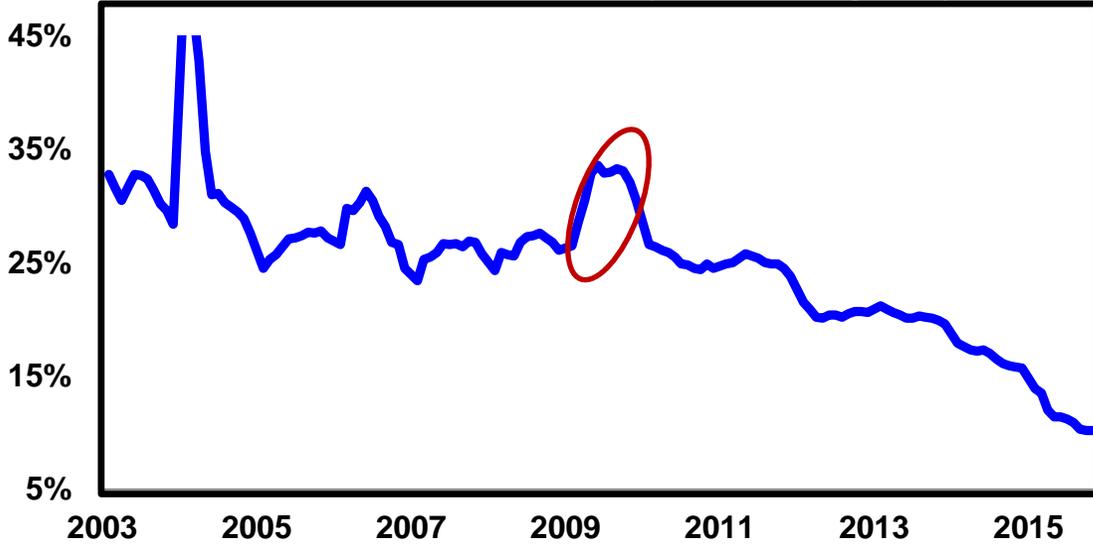
GLOBAL GROWTH OUTLOOK REFLECTS REDUCED CONTRIBUTION FROM EMERGING ECONOMIES WHILE ADVANCED ECONOMIES ARE ASSUMED TO ACHIEVE MODEST, ALBEIT SUSTAINABLE, GROWTH



Source: World Bank, General Motors; Haver Analytics;
Calculations: General Motors

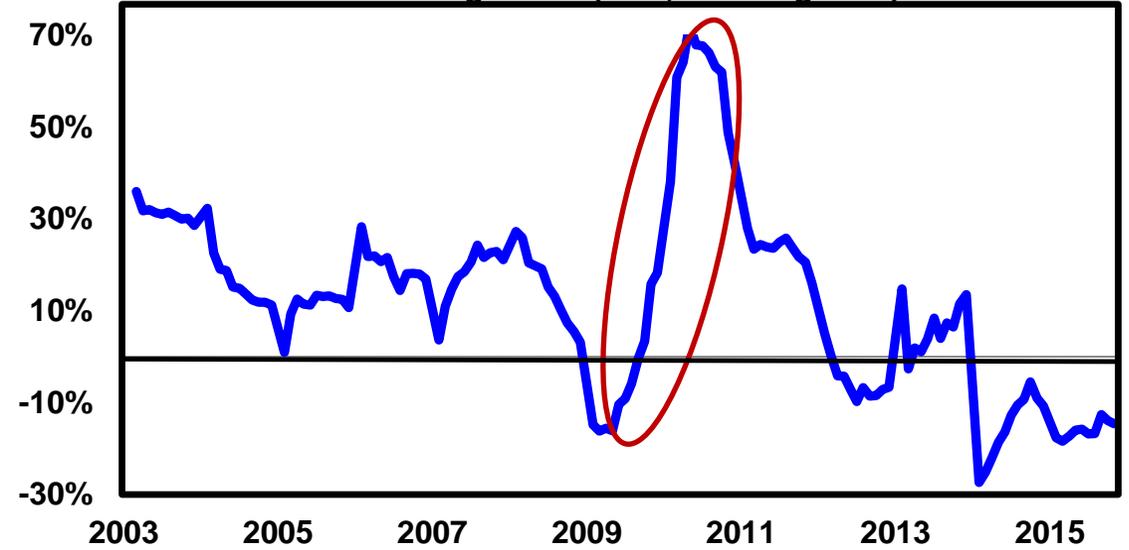
CHINA – HAVING BOOSTED GROWTH BY IMPLEMENTING HUGE STIMULUS DURING THE CRISIS – IS NOW EXHIBITING SIGNS OF ACUTE STRESS

Fixed Assets Investment (YTD, Pct. Chg. YoY)



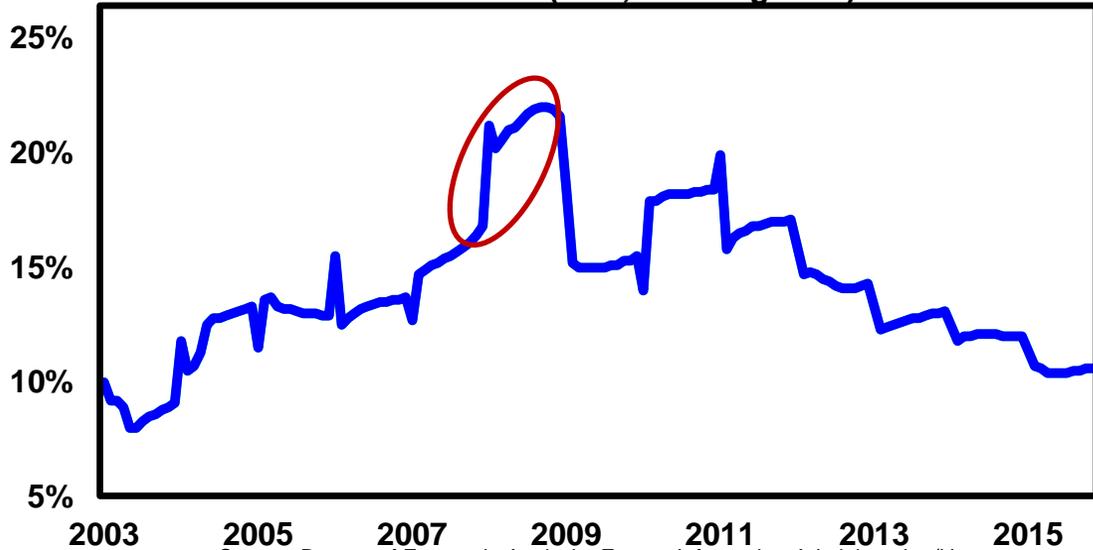
Source: Bureau of Economic Analysis/Haver

Housing Starts (YTD, Pct. Chg. YoY)



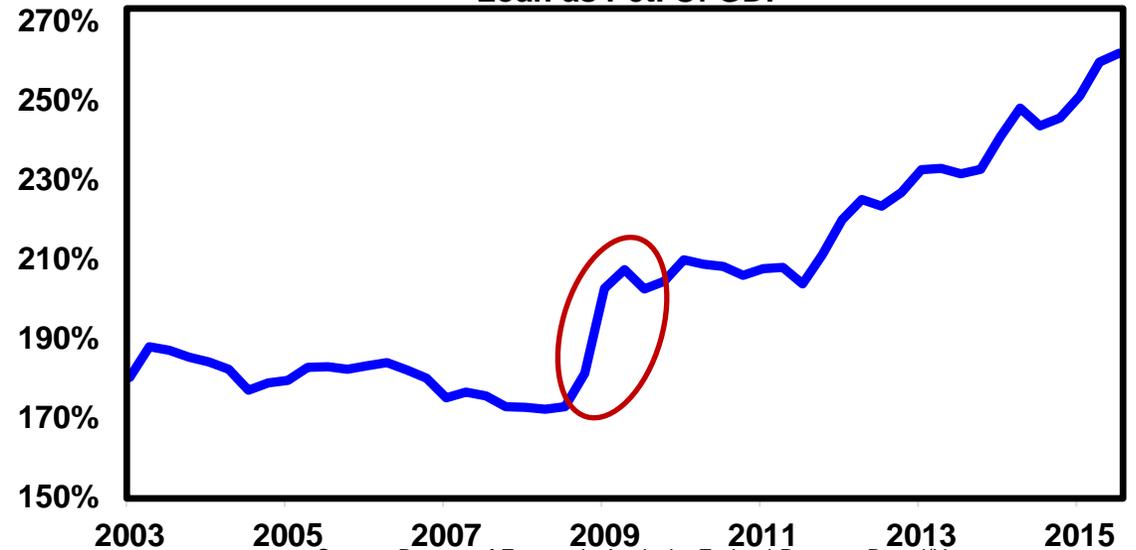
Source: Bureau of Economic Analysis, Bureau of Labor Statistics/Haver

Retail Sales (YTD, Pct. Chg. YoY)



Source: Bureau of Economic Analysis, Energy Information Administration/Haver

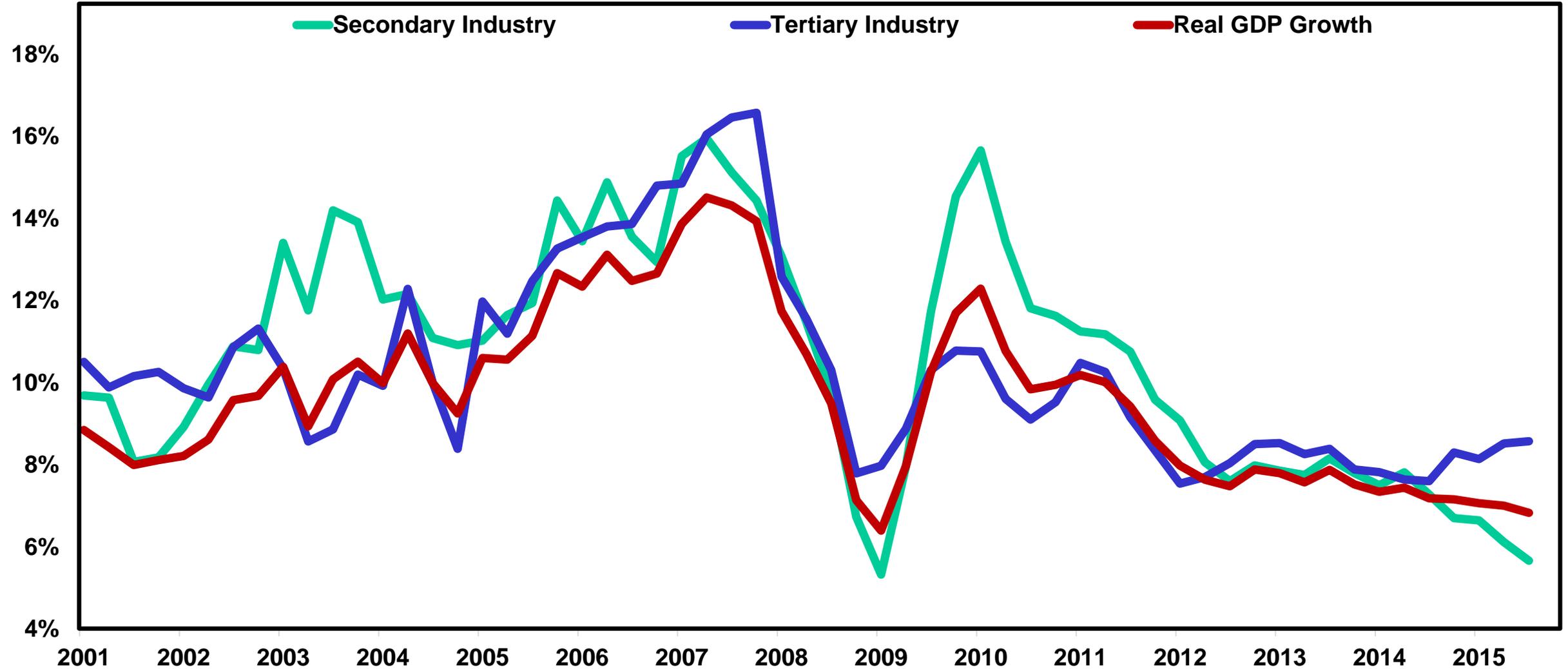
Loan as Pct. Of GDP



Source: Bureau of Economic Analysis, Federal Reserve Board/Haver

DRAG FROM MANUFACTURING INDUSTRY CAN NOT BE OFFSET BY GROWTH IN SERVICE INDUSTRY. AS A RESULT, THE CHINESE REAL GDP GROWTH CONTINUES TO SLIDE

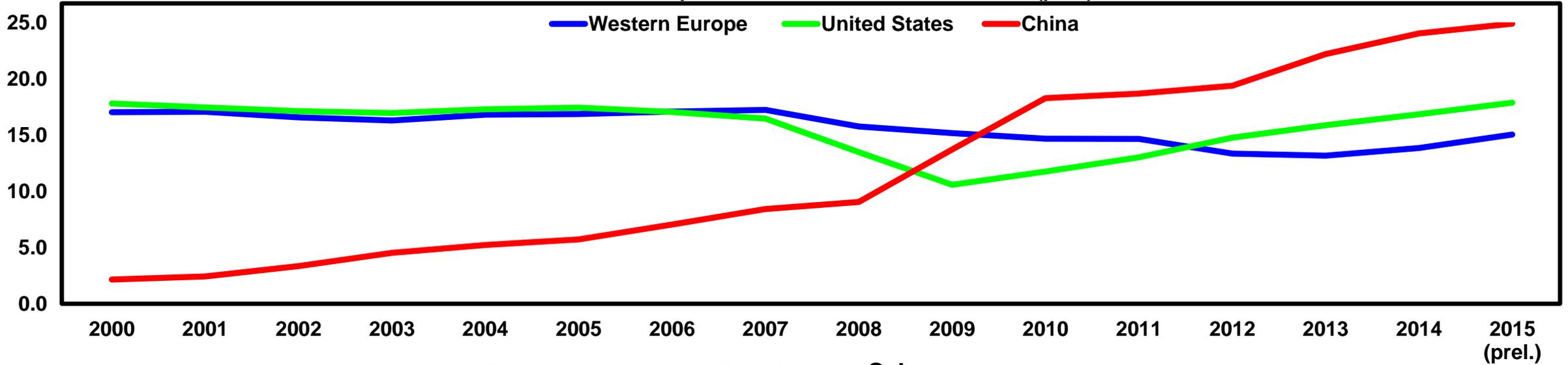
China Growth (Pct. Chg. YoY)



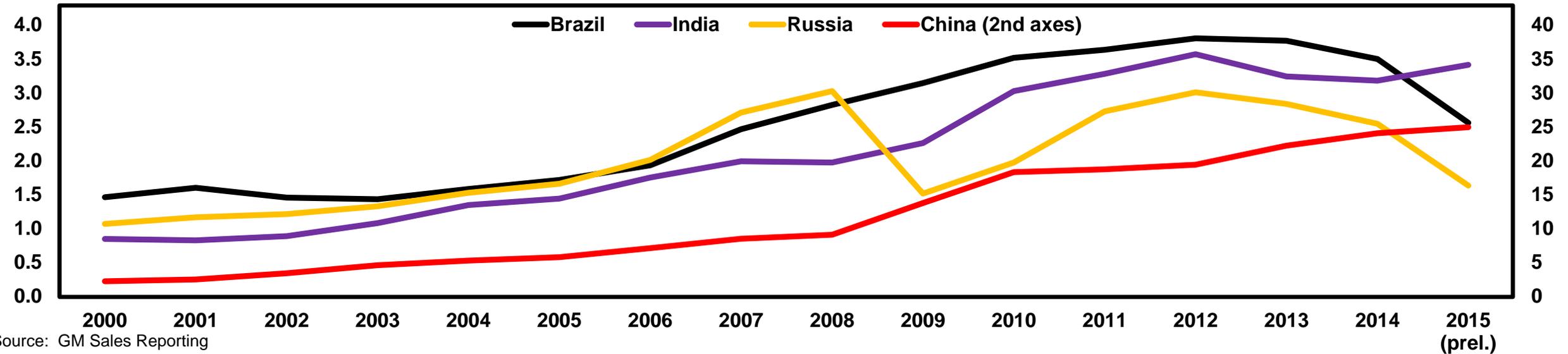
Source: China National Bureau of Statistics; Calculations: General Motors

PERFORMANCE OF VEHICLE SALES CLOSELY TRACKING ECONOMIC FUNDAMENTALS

China, Western Europe, U.S. Vehicle Sales; 2000 – 2015 (prel.) Mills.



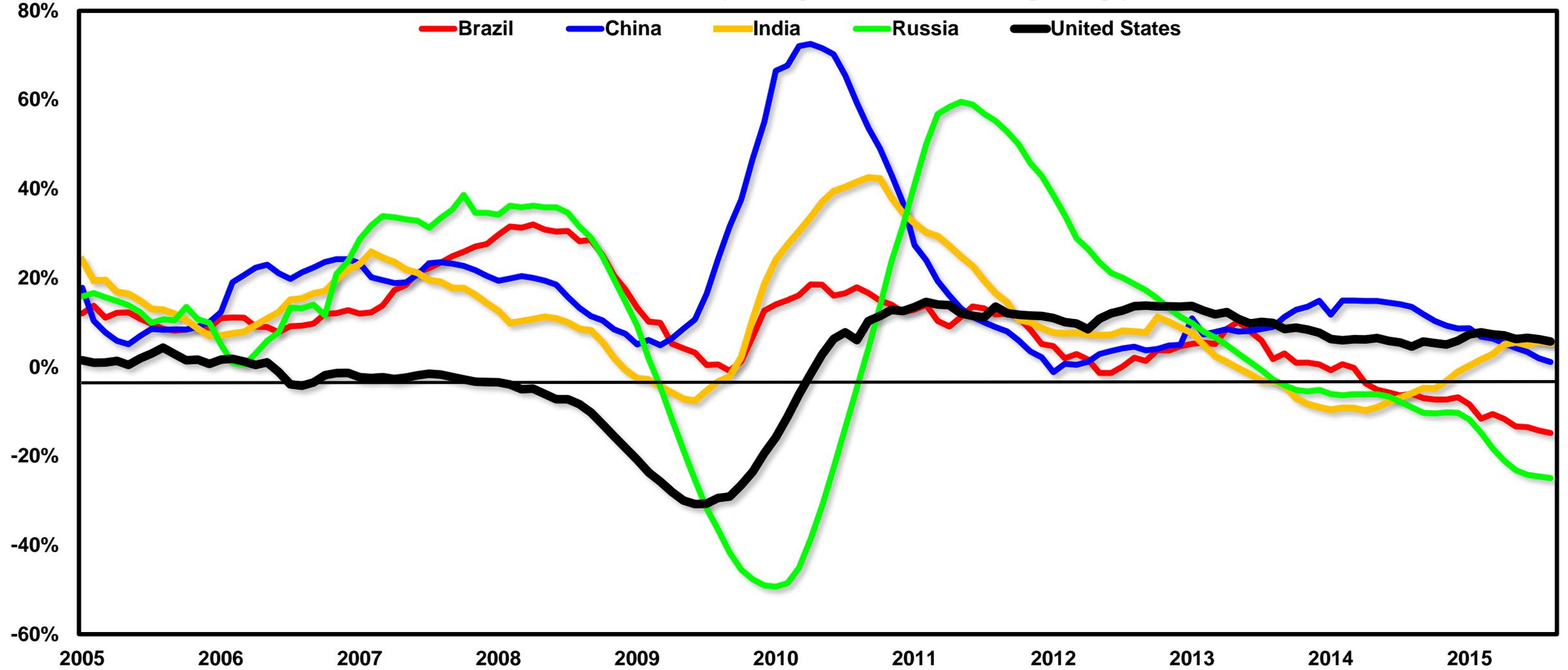
BRIC (Brazil, Russia, India, China) Vehicle Sales; 2000 – 2015 (prel.) Mills.



Source: GM Sales Reporting

AUTO SALES IN THE BRIC COUNTRIES ARE STRUGGLING AFTER THEIR STIMULUS-FUELED BOOMS

Vehicle Sales Growth (Pct. Chg. YoY, 12-month moving average)

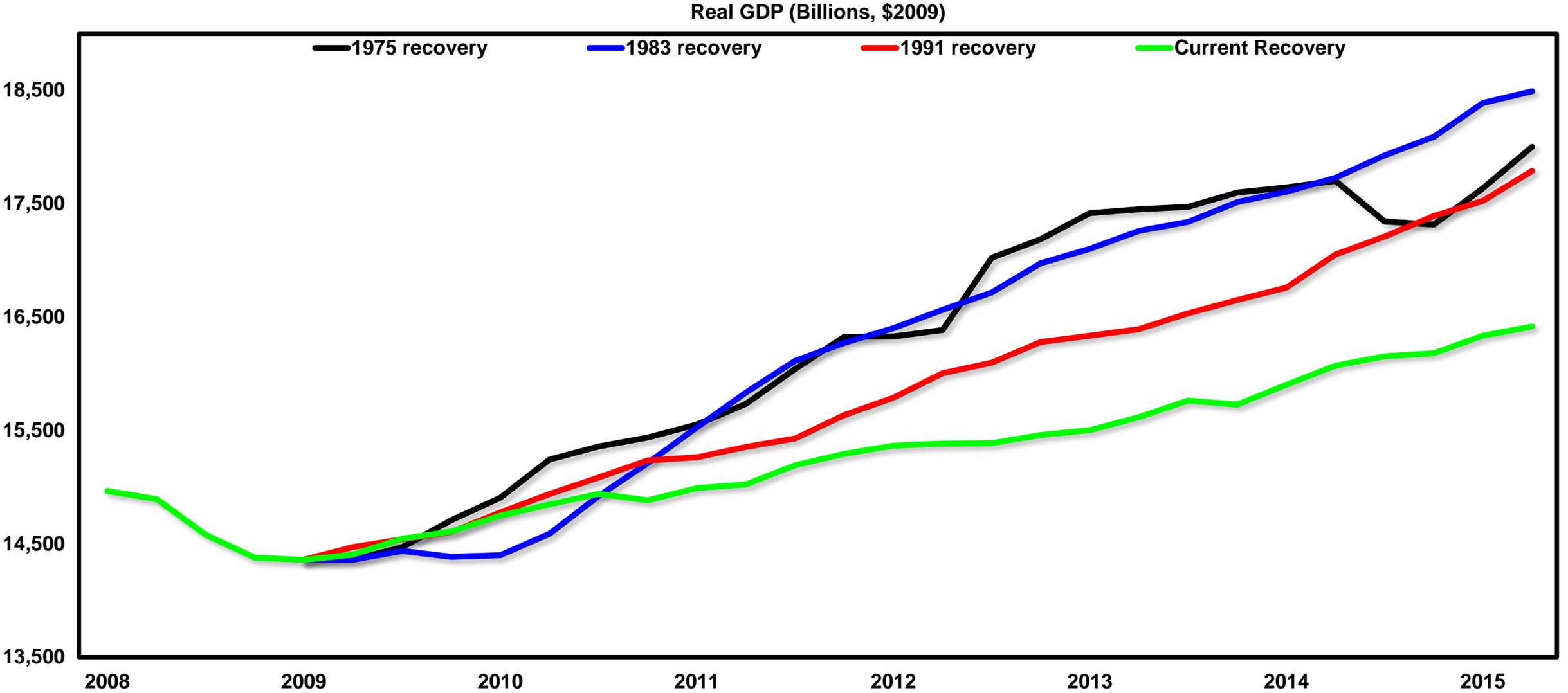


Source: GM Sales Reporting
Calculations: General Motors



U.S.
STEADY GROWTH

THIS IS A SLOW ECONOMIC RECOVERY

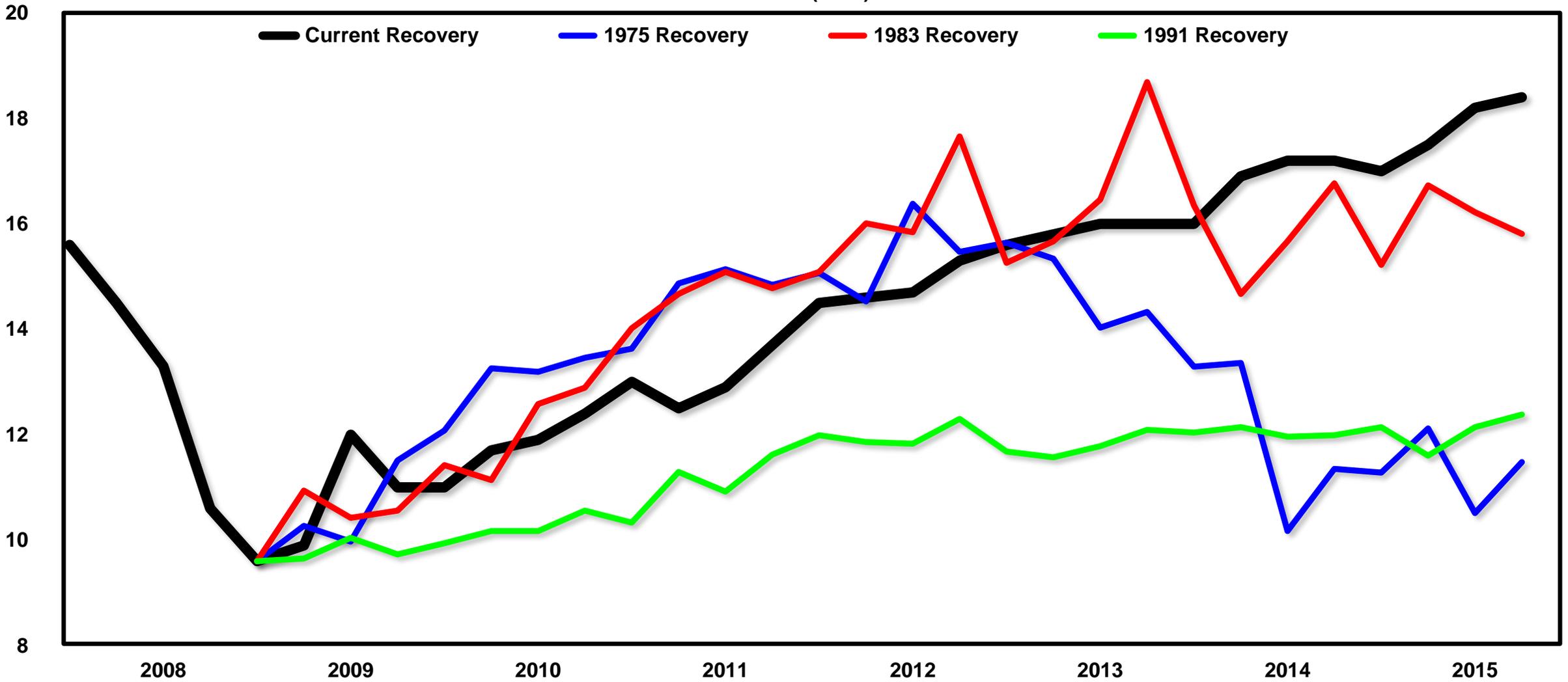


Source: Bureau of Economic Analysis
Calculations: General Motors



AUTO SALES HAVE TRACKED PREVIOUS RECOVERIES

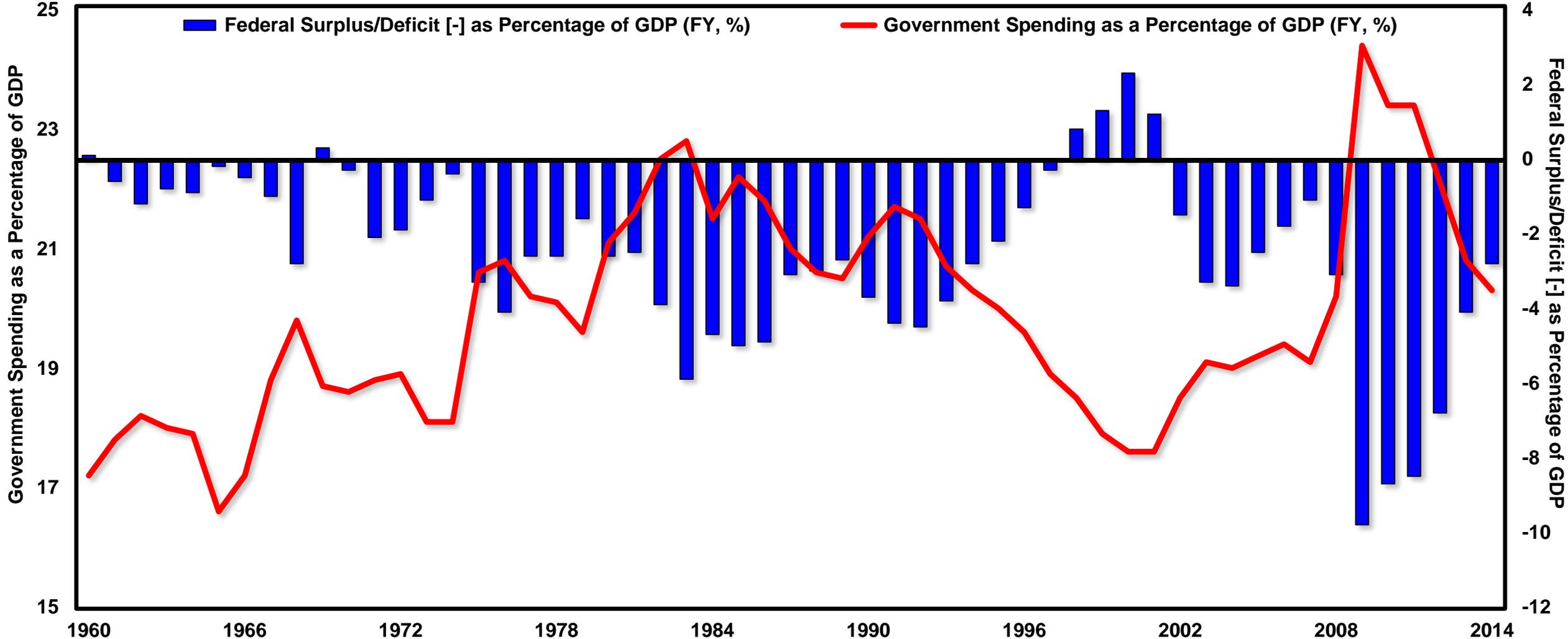
Units (Mils.)



Source: Bureau of Economic Analysis
Calculations: General Motors



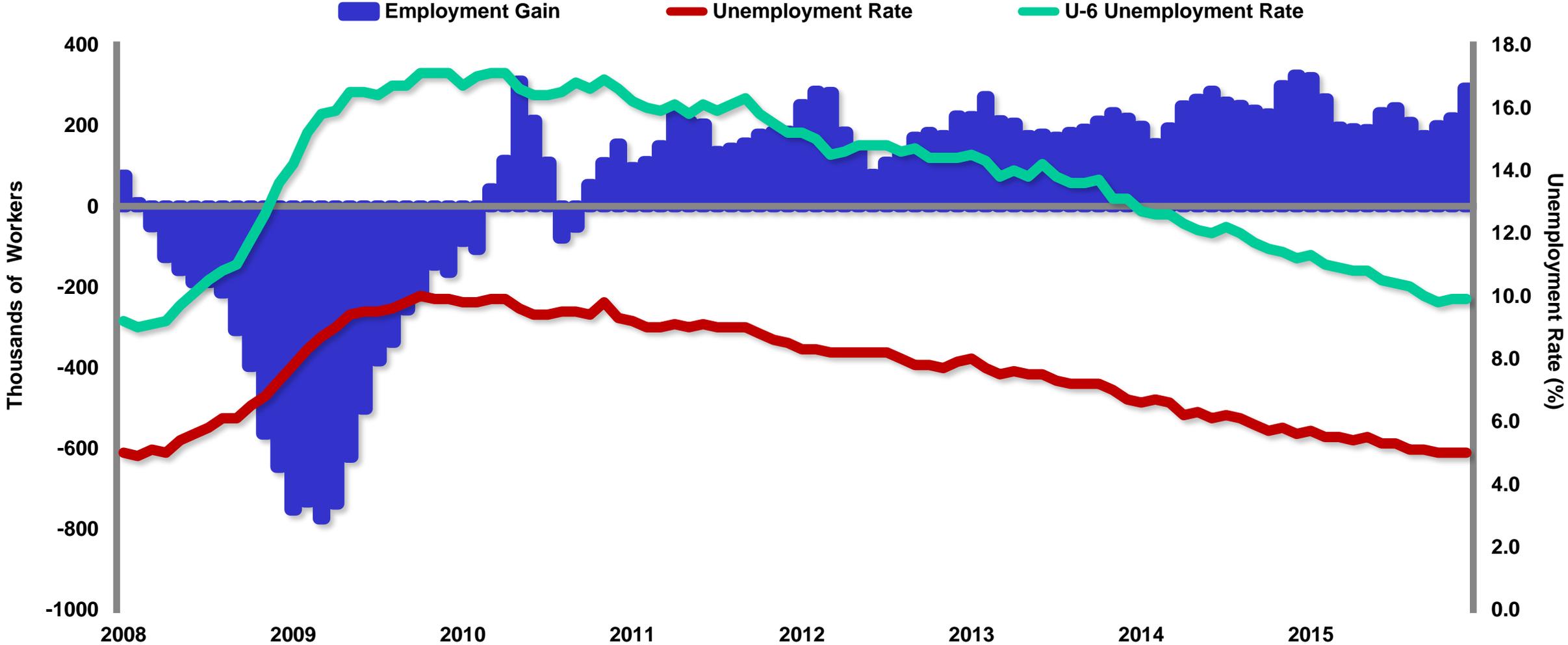
FISCAL POLICY HAS BEEN A SIGNIFICANT DRAG IN THIS RECOVERY



Source: Office of Management and Budget
Calculations: General Motors

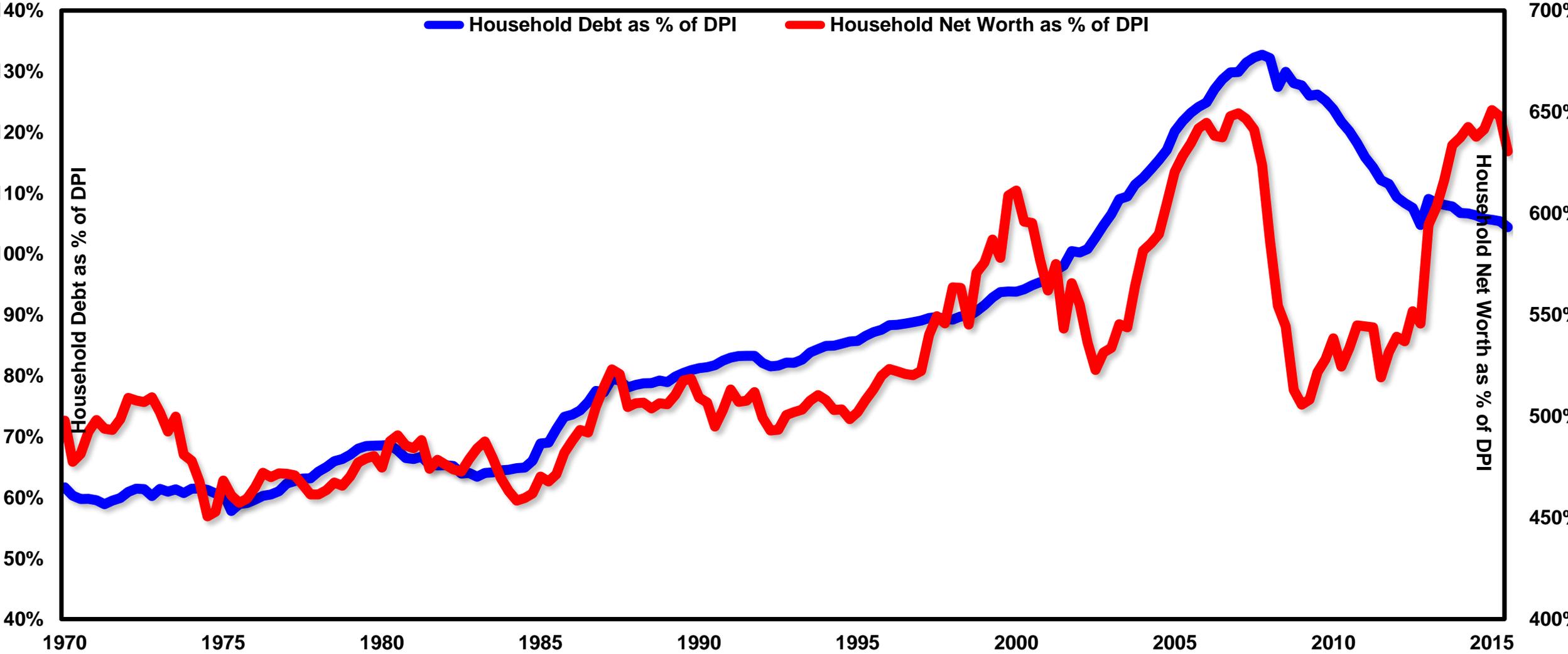


LABOR MARKET HAS AN ESPECIALLY SLOW RECOVERY



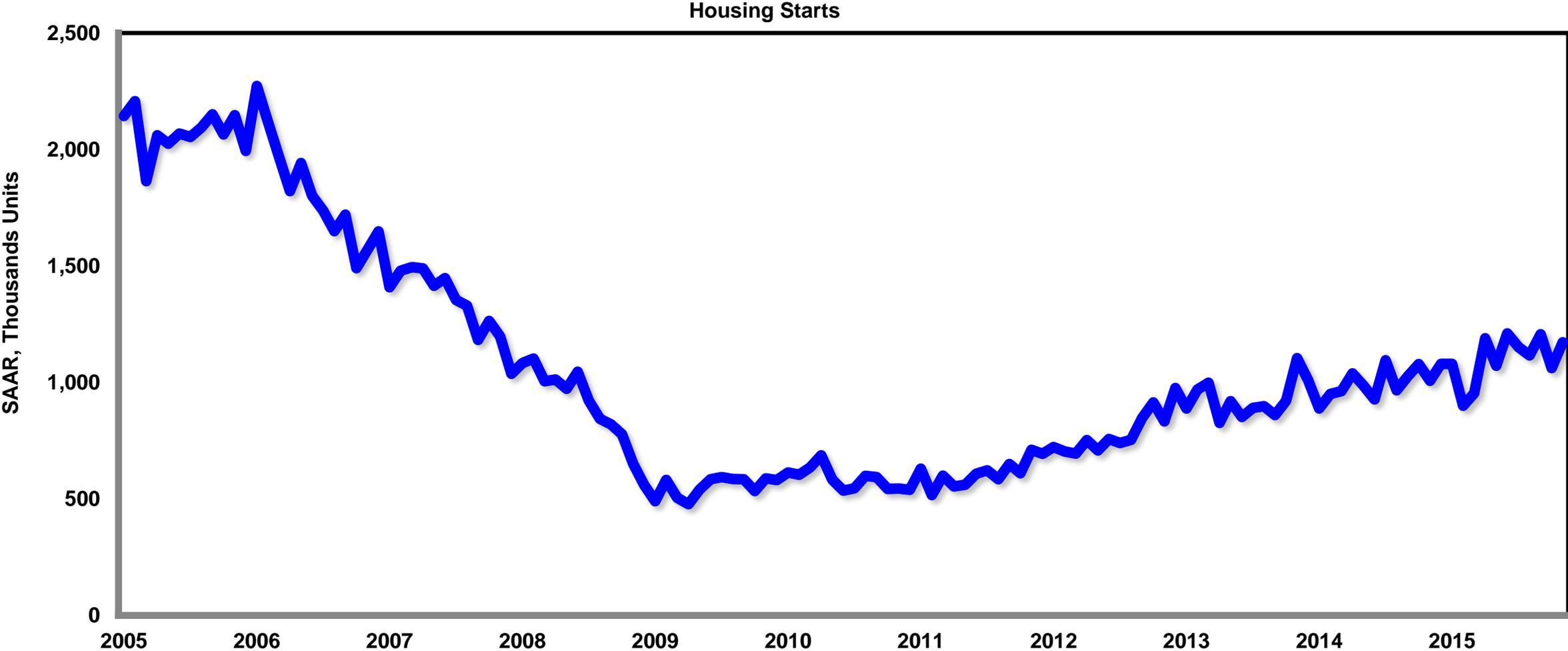
Source: Bureau of Labor Statistics

HOUSEHOLD BALANCE SHEETS IMPROVED SIGNIFICANTLY



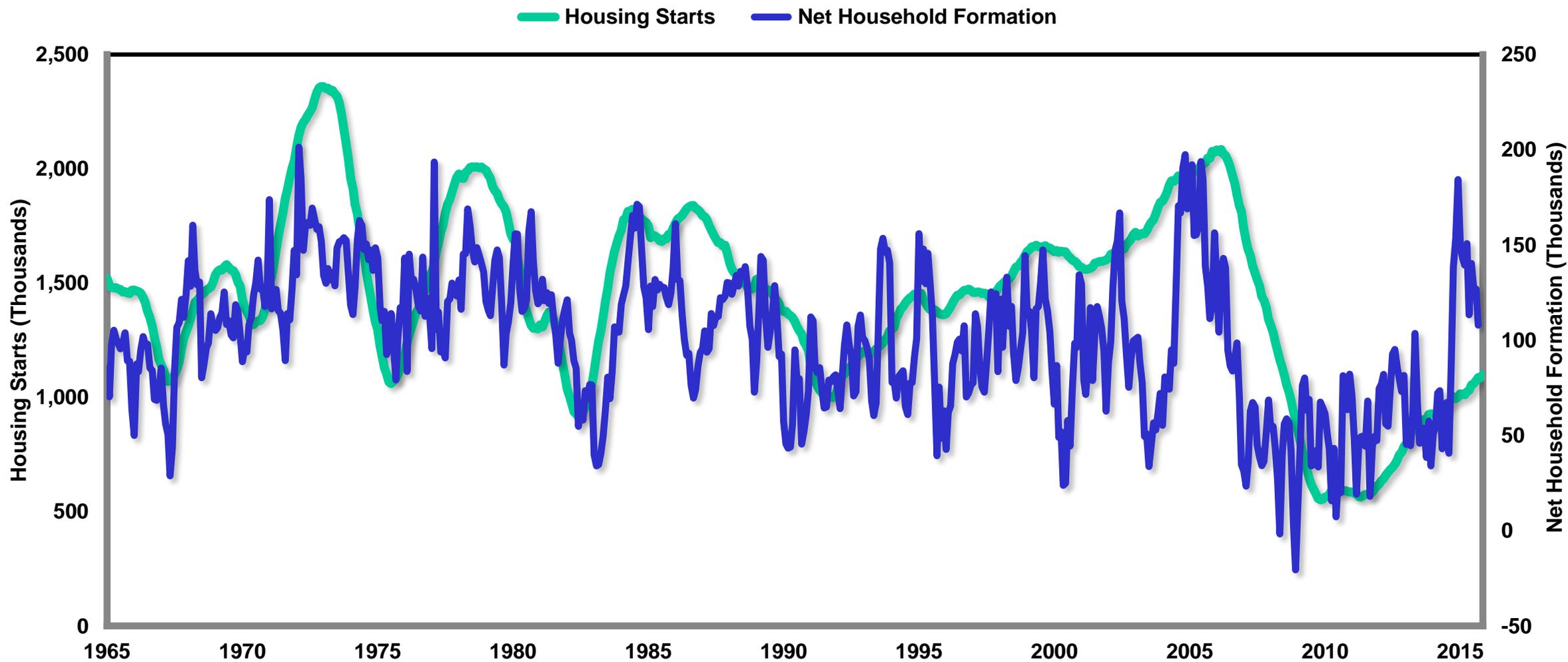
Source: Federal Reserve Board

HOUSING RECOVERY IS MISSING IN THIS CYCLE



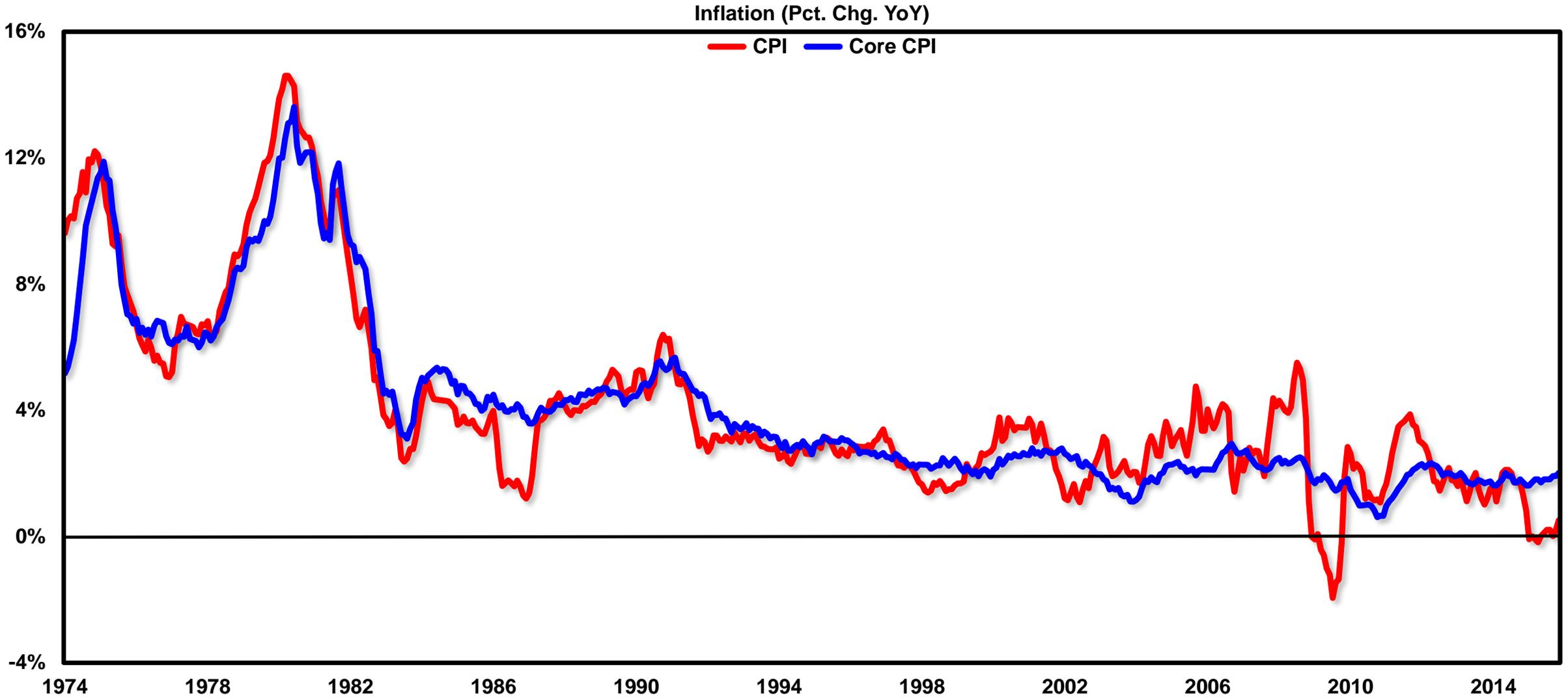
Source: Census Bureau / Haver Analytics

IMPROVING HOUSEHOLD FORMATION BODES WELL FOR FUTURE HOUSING MARKET ACTIVITIES



Source: Census Bureau / Haver Analytics

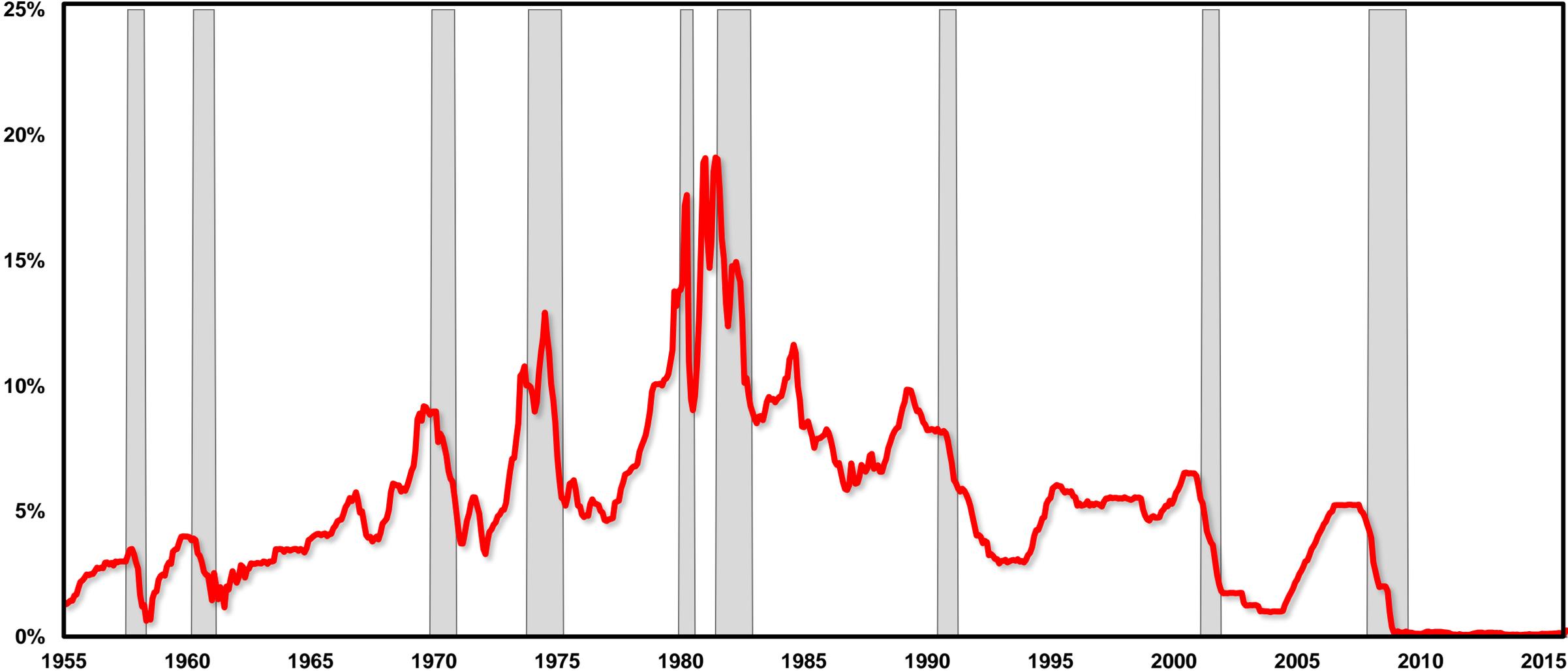
INFLATION REMAINS LOW



Source: Bureau of Labor Statistics

POLICY NORMALIZATION BY THE U.S. FED HAS JUST STARTED

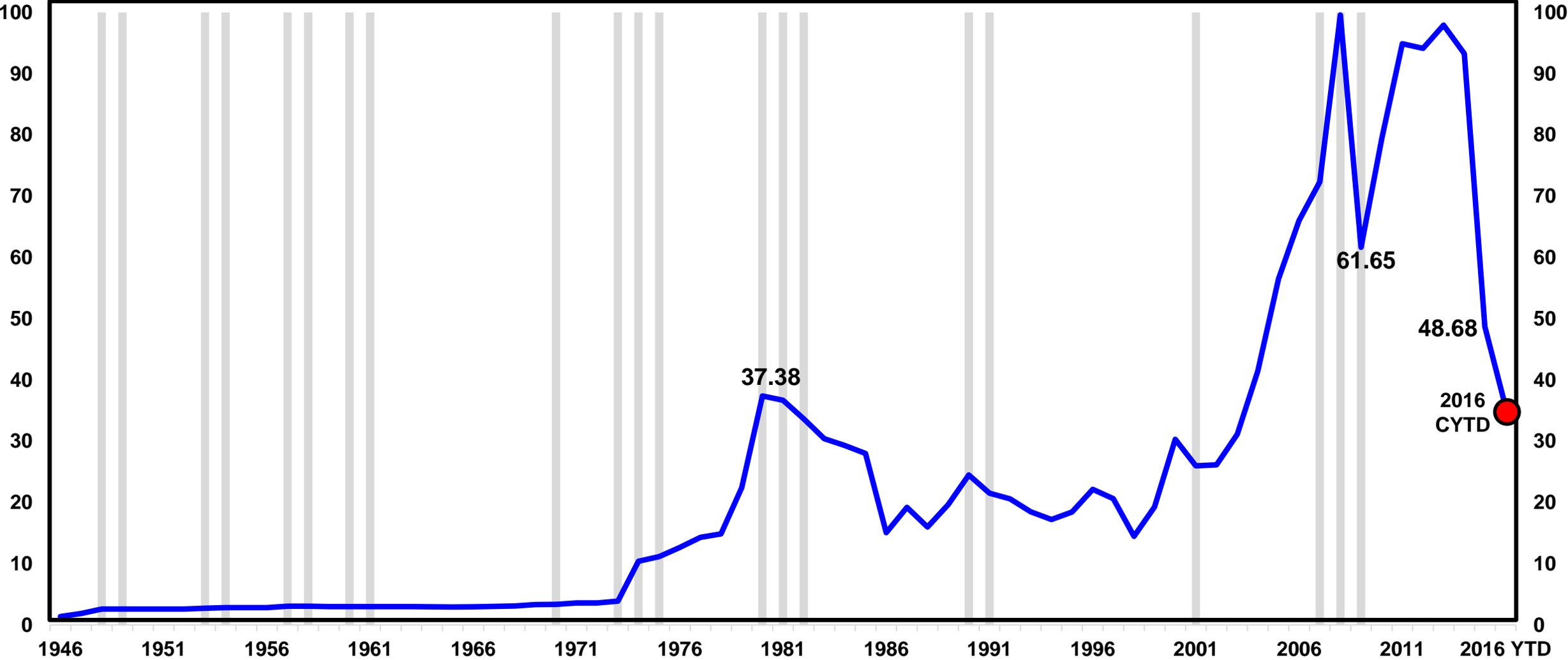
Effective Fed Funds Rate (Pct.)



Source: Federal Reserve Board;
Note: Shading Indicates Recession

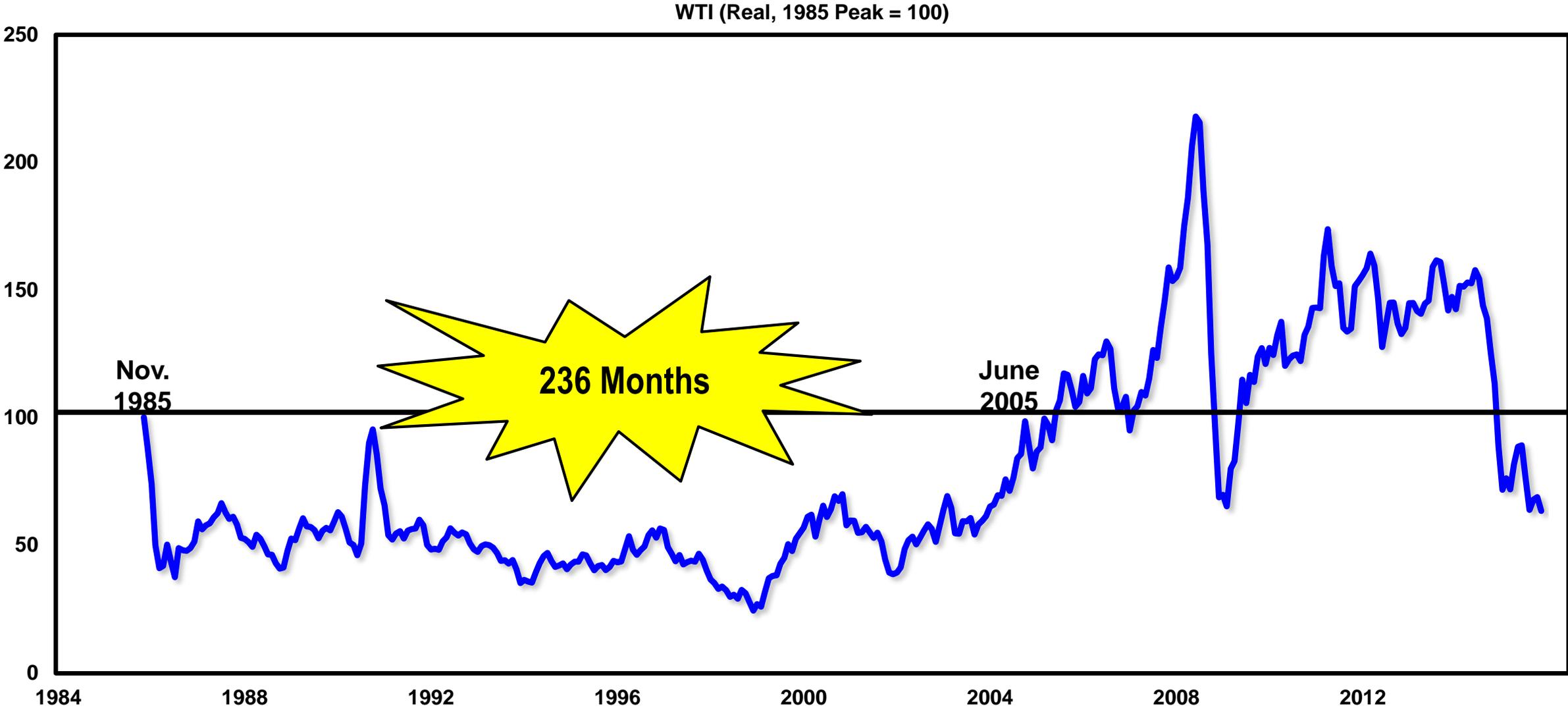
OIL PRICES HAVE BEEN TRENDING LOWER ...

West Texas Intermediate (USD Per Barrel) – Annual Data



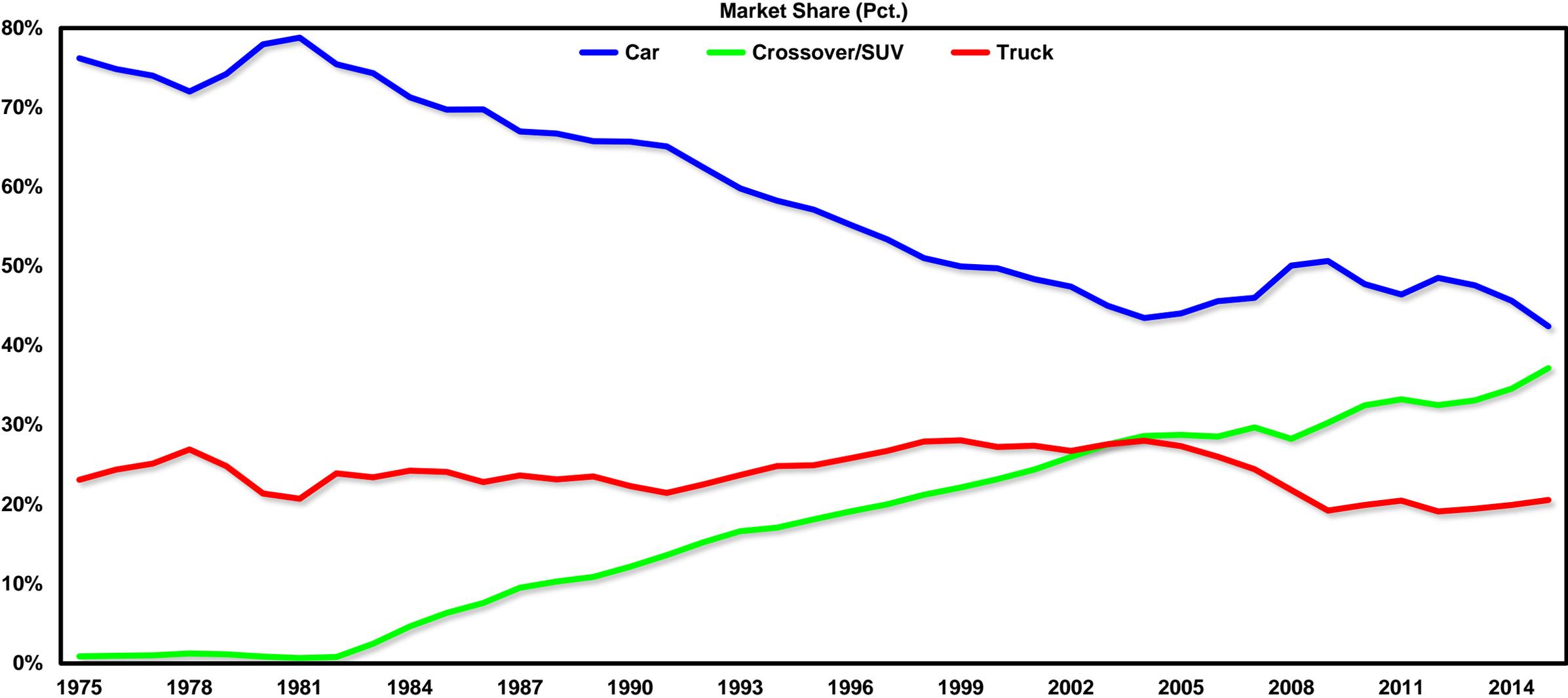
Source: Energy Information Administration
Note: Shading Indicates Recession, Annual Data excluding 2016 which is calendar year to date

... AND ARE LIKELY TO REMAIN LOW FOR LONGER



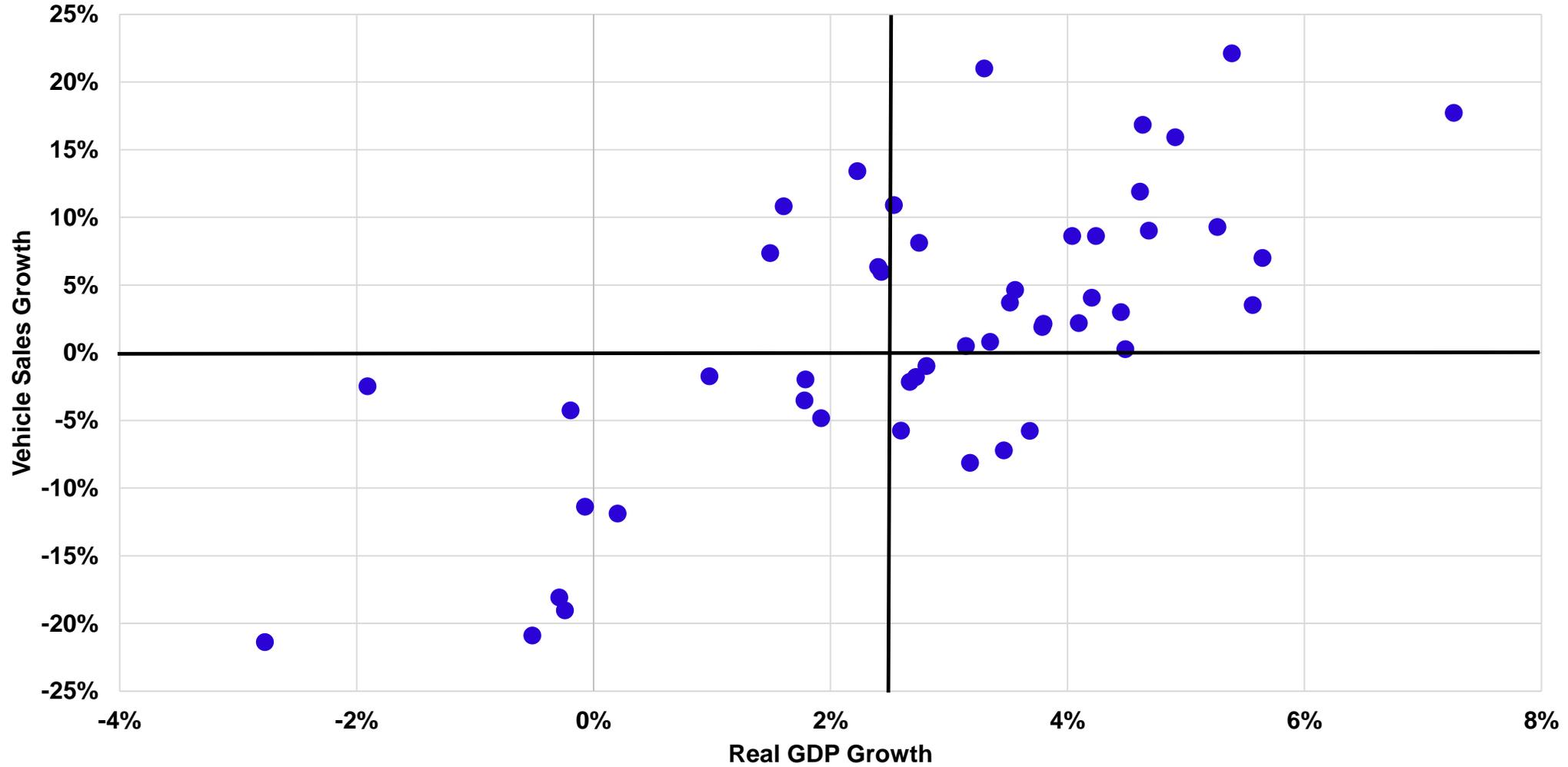
Source: Energy Information Administration

LARGE VEHICLES ARE OUTPERFORMING



Source: GM Sales Reporting

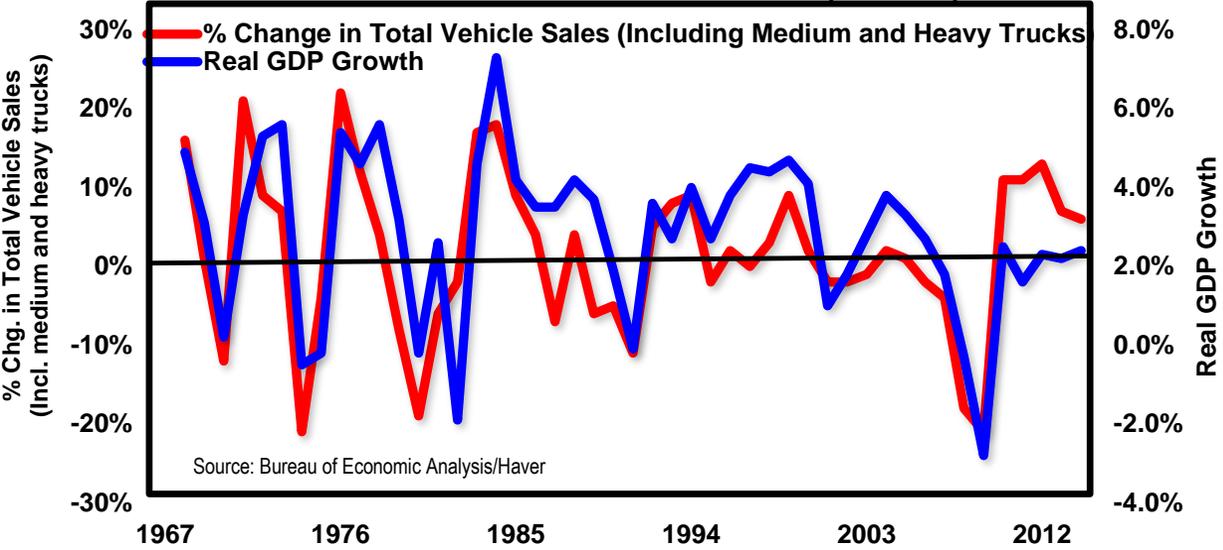
GROWTH IN VEHICLE SALES VS. GROWTH IN REAL GDP



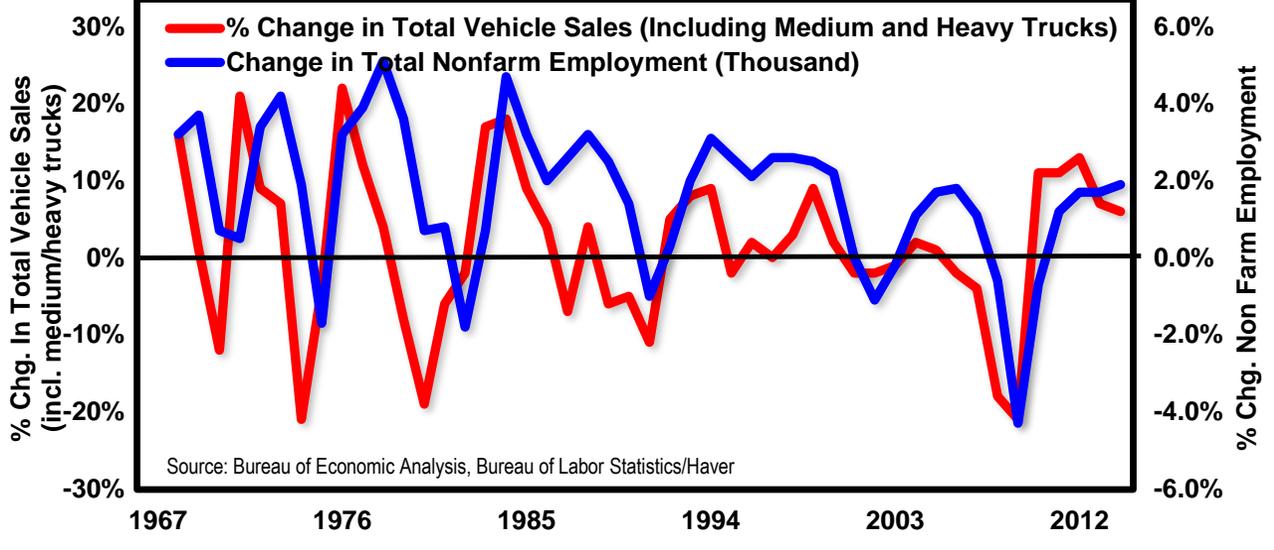
Source: Bureau of Economic Analysis
Calculations: General Motors

KEY ECONOMIC VARIABLES THAT DRIVE AUTO SALES

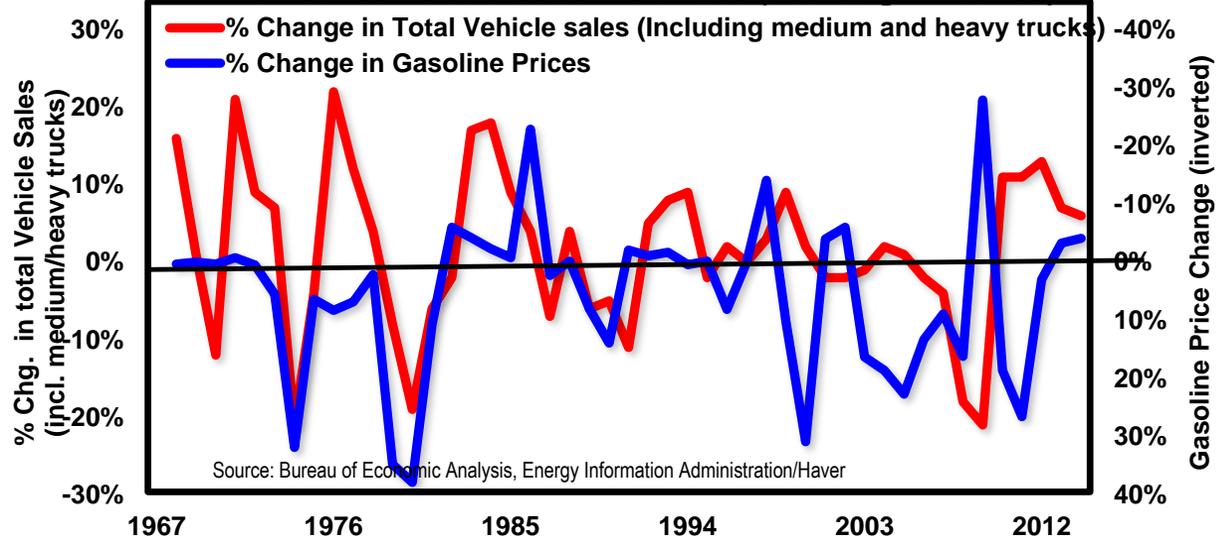
Vehicle Sales and GDP Growth (Rt. Axis)



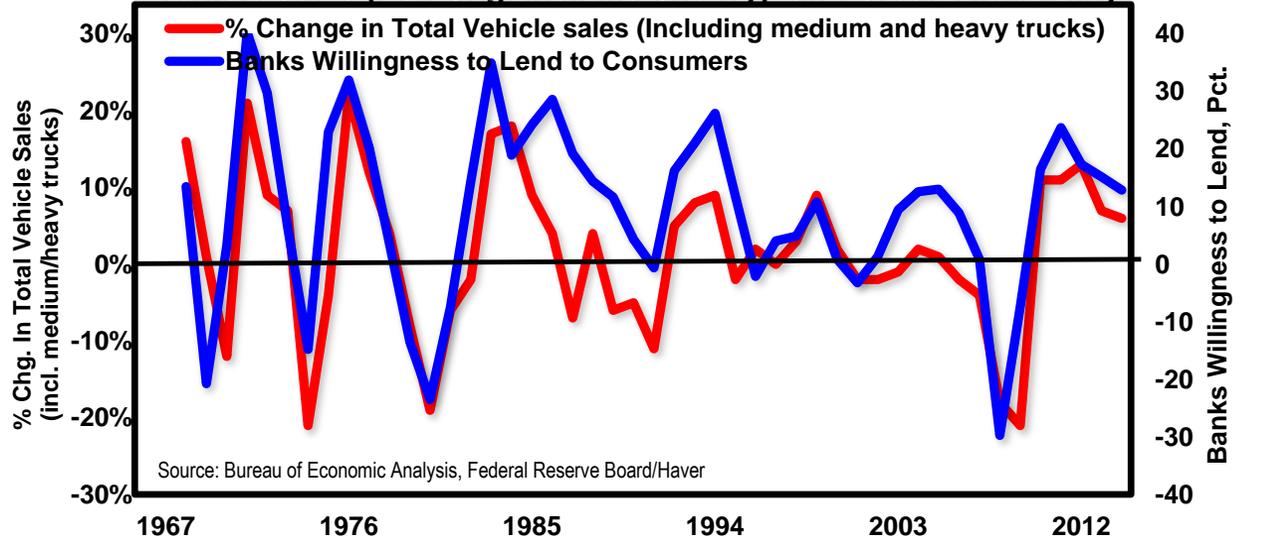
Vehicle Sales (and Employment (Rt. Axis)



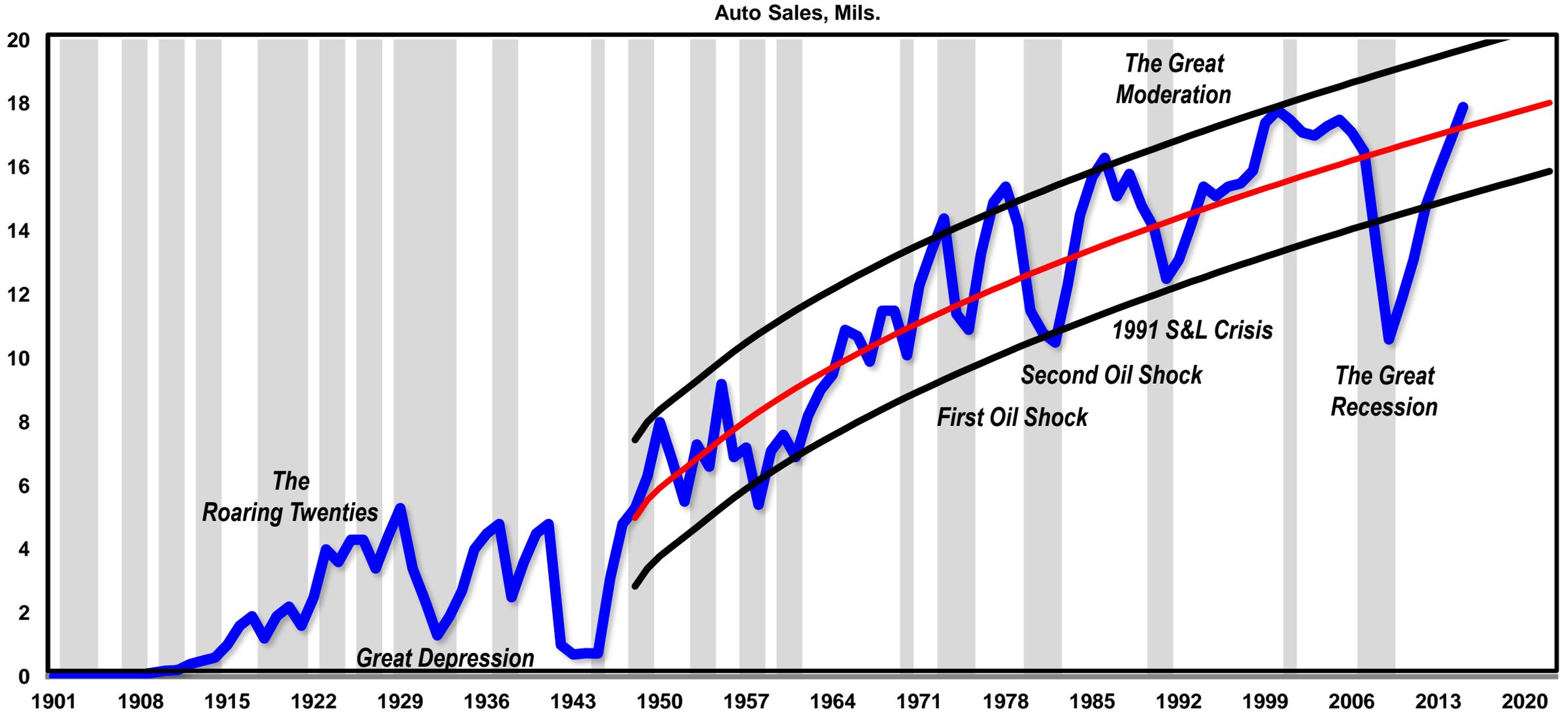
Vehicle Sales and Gasoline Prices (Pct. Chg., Inverted)



Vehicle Sales (Pct. Chg. Incl. med/heavy) and Credit Availability



AUTO SALES REACHED AN ALL-TIME HIGH IN 2015. WE EXPECT A NEW RECORD IN 2016



Source: Bureau of Economic Analysis

Note: Shading Indicates Recession



Global Economics
and Trade

SUMMARY

- **2016 to be more or less a repeat of 2015**
- **The North American economies will grow at a slow and steady pace, with auto sales hitting new record highs**
- **The modest recovery in Western Europe will continue along with a modest growth in new vehicle sales**
- **Slowing economic growth in China will be a source of global economic uncertainty as China makes the difficult transition from export/investment-led growth to growth in services and domestic demand**
- **The end of the commodity boom will impart significant downward pressure on many emerging and commodity dependent economies**