WARDS INTELLIGENCE U.S. OUTLOOK

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U.S. New Light-Vehicle Demand: More Downside than Upside to 2019 Outlook

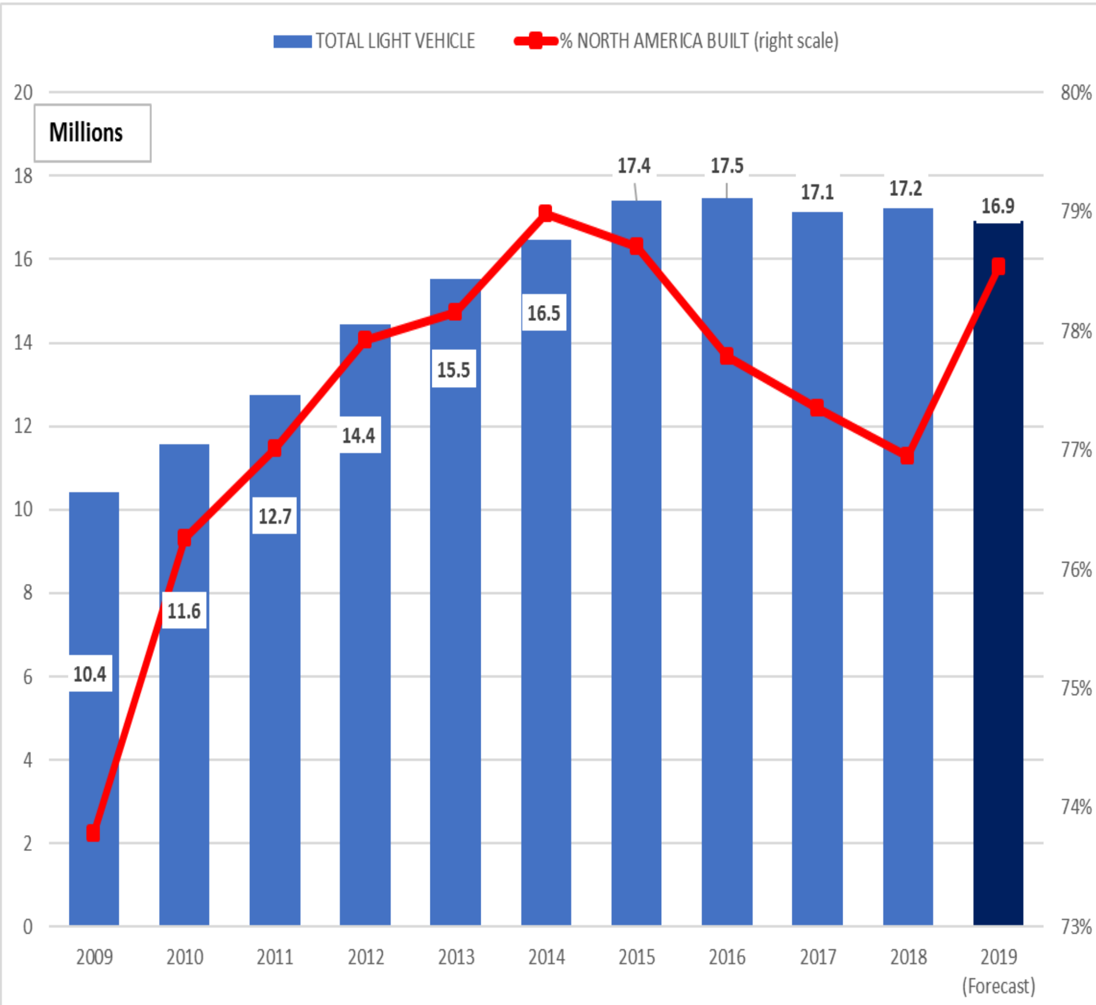
Pluses:

- Economic fundamentals still a positive for healthy demand
  - 2019 forecast assumes RGDP growth above 2%
- Robust inventory for trucks (CUVs, SUVs, pickups) – the vehicles consumers want
- Fuel-price levels not an impediment to demand
  - Forecast assumes gasoline prices remain on a par with 2018
- Several high-profile new and redesigned trucks available in 2019, creating market buzz

Potential Downside Risks to Outlook:

- Coming off an unprecedented four straight years of 17-plus million-unit sales; has to balance out at some point
- Higher interest rates, combined with continued probable slowdown in incentive spending, push more consumers out of the market
- Used-vehicle prices, a positive in 2018, might become a negative to new-vehicle demand
- Myriad domestic and global issues directly or indirectly weigh on U.S. economy:
  - Government shutdown, volatile stock markets, tariffs, trade
  - Economic slowdowns in Europe and China
  - Global politics worldwide in general

U.S. Light-Vehicle Sales



Sales in 2018 were stronger than forecast, finishing slightly above 2017, and are expected to remain in the high 16-million range in 2019

- Expect first-half sales to run at a 17.0 million annual rate; 16.8 million in the second half
- Penetration of domestically built vehicles should improve in 2019, which will be a plus for the North America - and U.S. - production outlook

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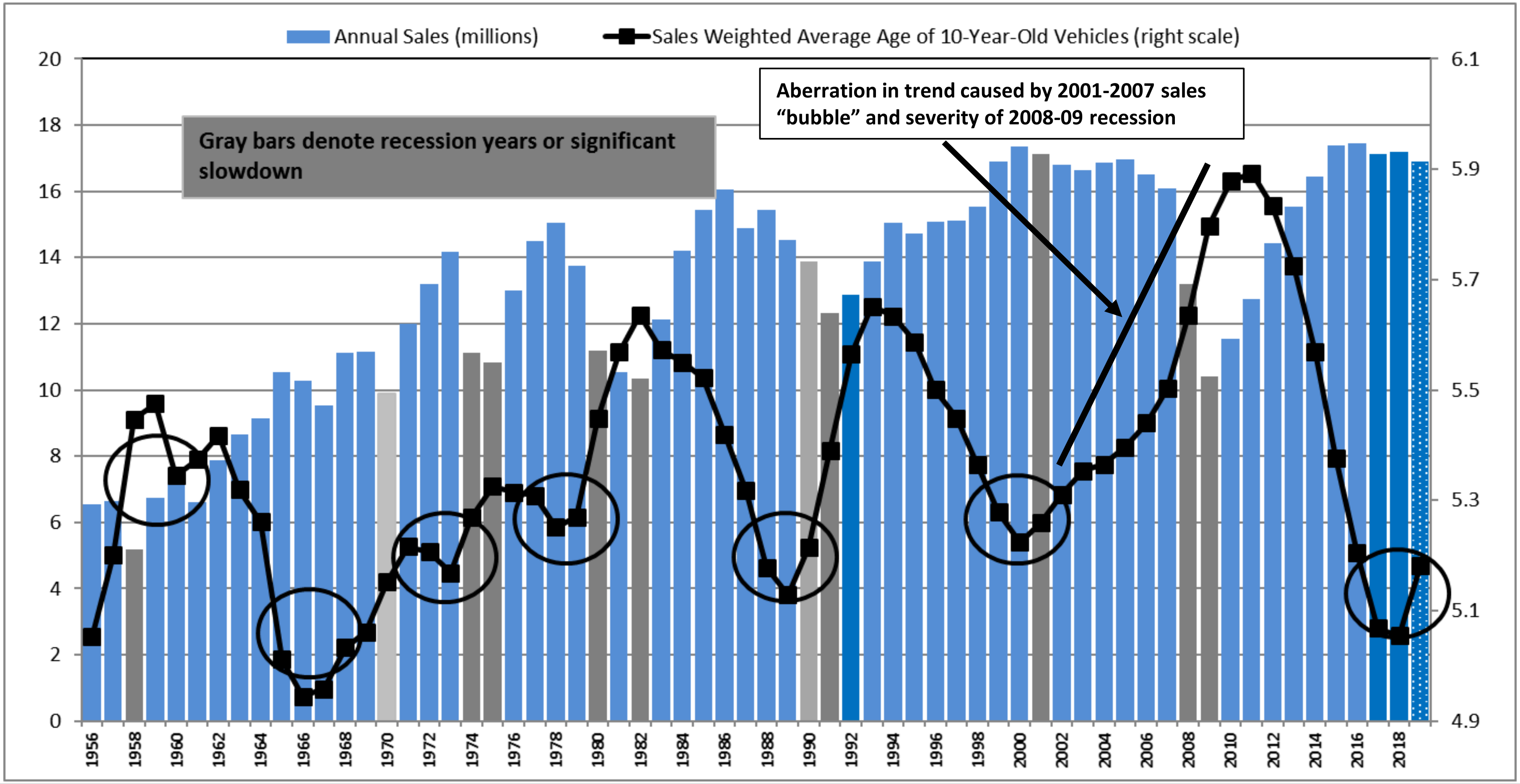
Estimated Annual Average Age of 10-Year-Old Vehicles

(The lower the age, the less replacement, or pent-up, demand)

Excess replacement demand has dried up, and not expected to significantly build up for three to four years from 2018



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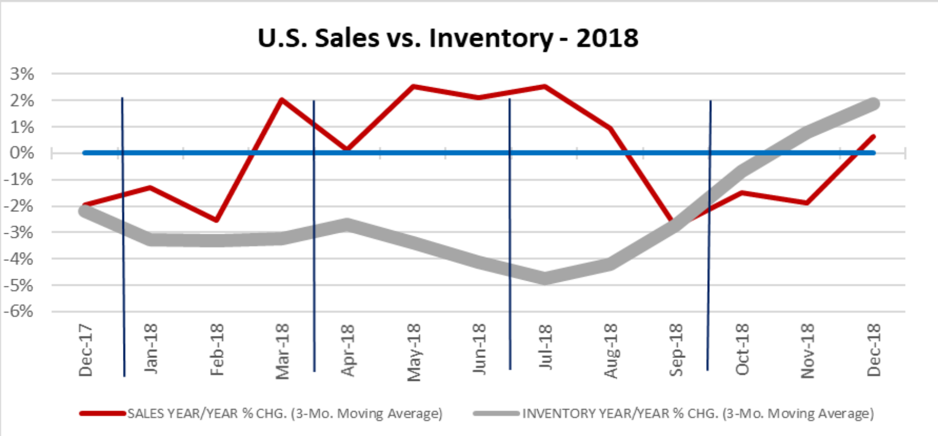
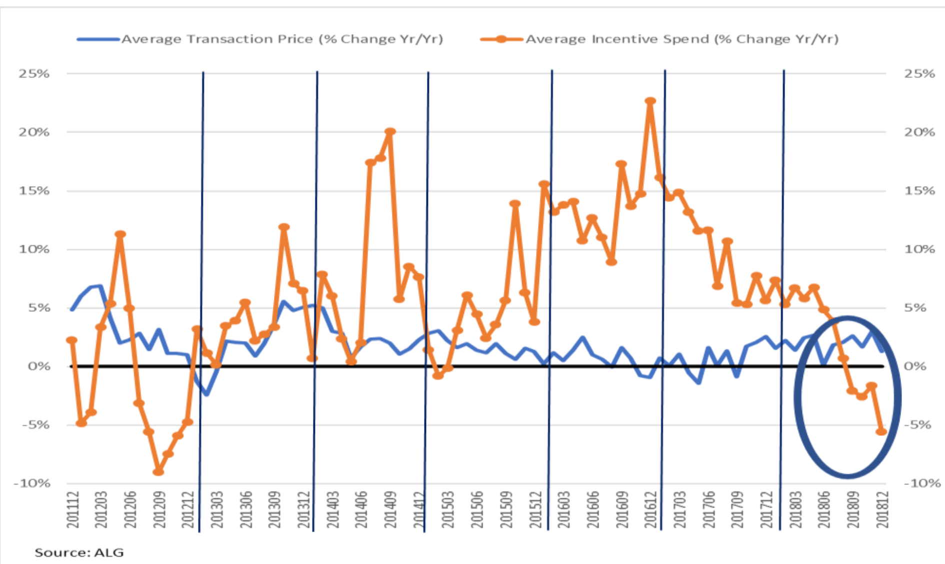
Robust Inventory Heading into 2019



Average Incentives and Final Transaction Prices

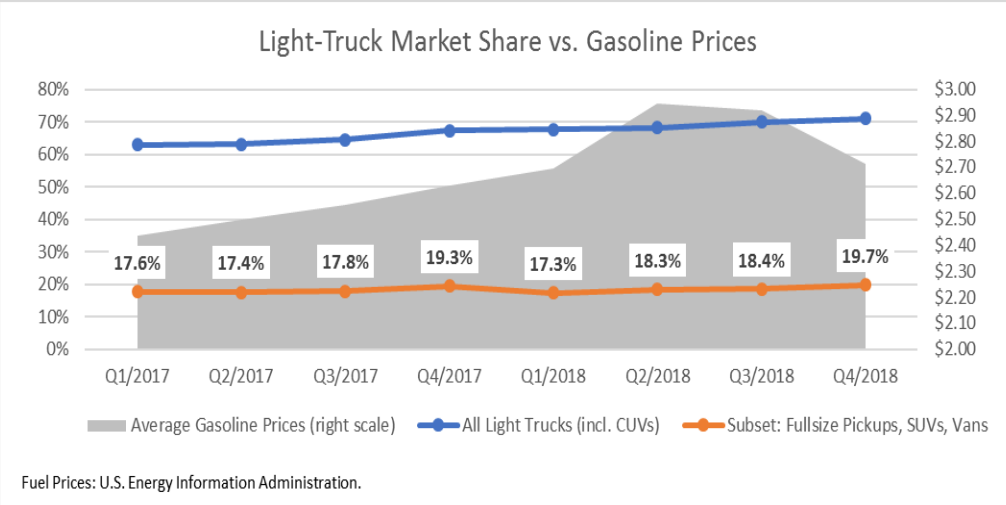


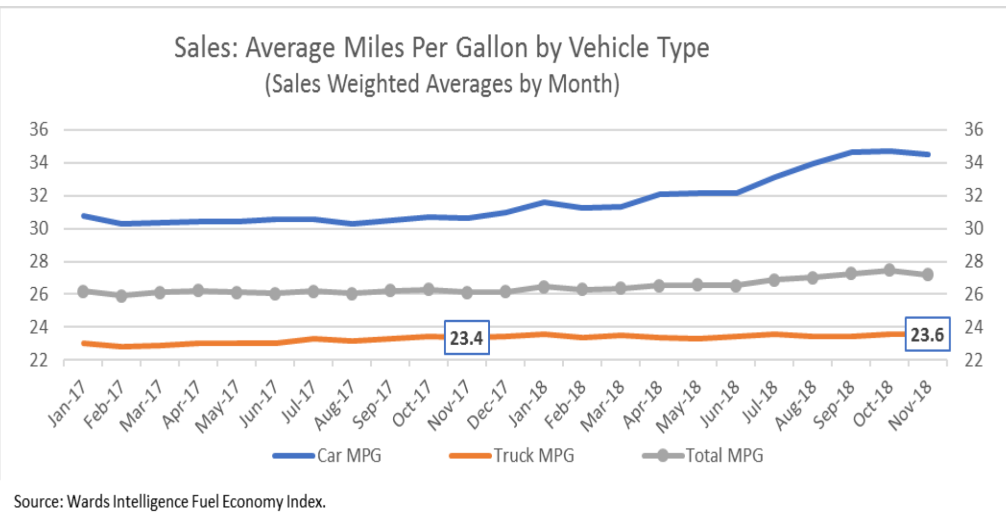
Inventory is bordering on excessive but is at a manageable level as long as sales remain at least at a 17-million annual rate

- ➢ Dealer inventory entering 2019 was up 2% year/year - light trucks were up 12%; cars down 17%
- Automakers began pulling back on incentives, or price discounting in several forms, in Q3-2018, but production levels for the U.S. market remained strong
- Fleet (commercial, government, rental) demand offset losses in the retail portion, especially in Q4-2018, when incentive spending was in decline

❑ The takeaway: keeping in mind that continued robust light-vehicle inventory totals won't predict a sharp permanent downturn, as long as inventory remains close to 2018 levels, sales likely continue running close to a 17-million annual rate

Fuel Prices Still a Positive for New-Vehicle Demand





Rising fuel prices in 2018 appeared to have no impact on vehicle mix or even hurt total sales volume and, compared with the $3.57 averaged during 2011-2014, can be considered at a positive level – at worst, neutral – for demand in 2019

- The sharp increase in pump prices last year didn't even discourage consumers from buying the least fuel-efficient (and high-priced) models – fullsize pickups, SUVs and vans

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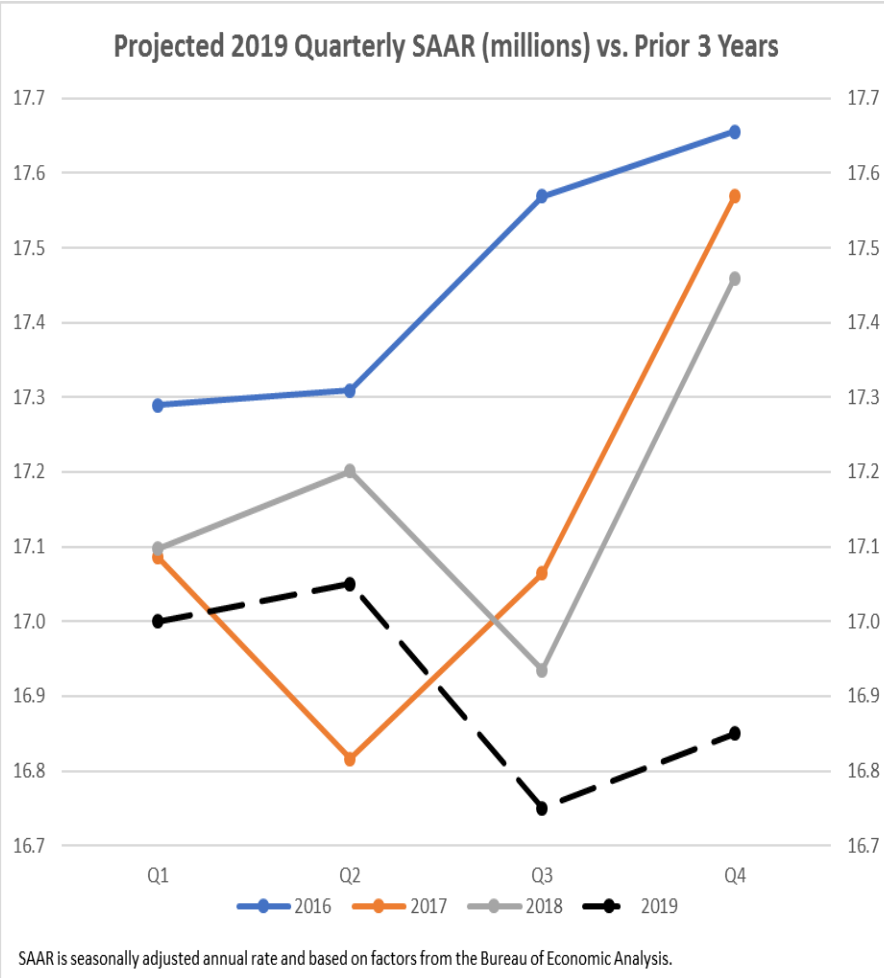
2019 Demand: What to Watch for



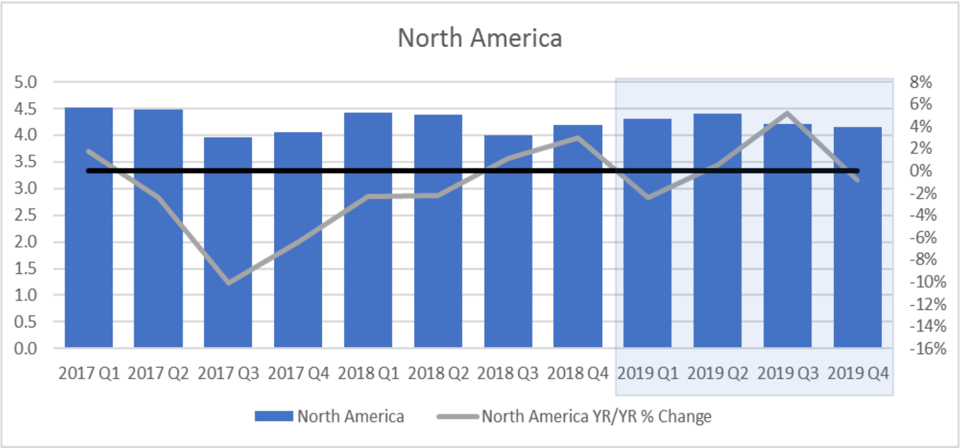
Basic Expectations: Primarily, demand weakens in second half

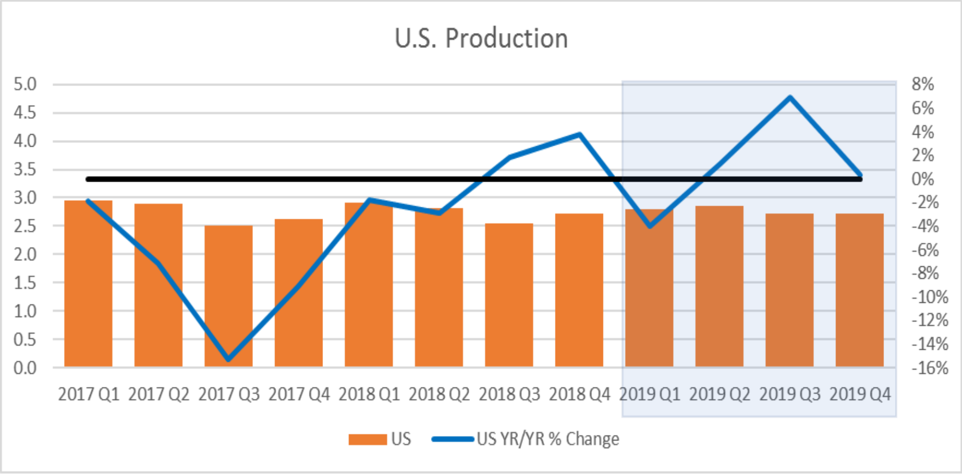
- The quarterly sales pattern – based on SAAR – follows 2018
- Volume in the second half roughly equal with the first half - has risen every year since 2013. Why flat this year:
  - ➢ Boost from tax reform played out (particularly affecting the cadence for fleet demand)
  - ➢ Market saturation after four "17-million" years kicks in harder
  - ➢ Interest rates (likely) a little higher, plus 2018 hikes fully filter into economy

Signs and events that could cause demand to deviate from expectations:

- Continued solid employment and wage gains gooses demand
- How long, and how much, automakers continue reducing incentive spending (year/year basis) – and what is the reaction if demand takes hard downward turn
- Used-vehicle pricing remains strong (year/year), lifting trade-in value
- Inventory remains close to year-ago levels entire year, meaning sales (by hook or by crook) probably remain at 17-million or more
  - ➢ If inventory in August/September is near year-ago levels, the Q3-to-Q4 change in SAAR probably more similar to past two years
- Increase in moves to reduce inventory, i.e., production slowdowns and short-term plant closures, particularly for CUVs and pickups – indicating market softness
  - ➢ Particularly watch market leader General Motors

Wards-LMC Short-Term Production Outlook

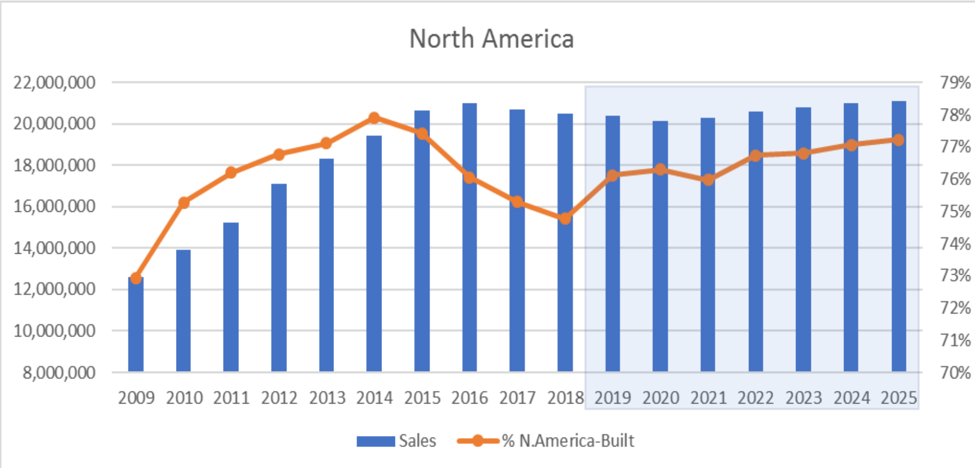


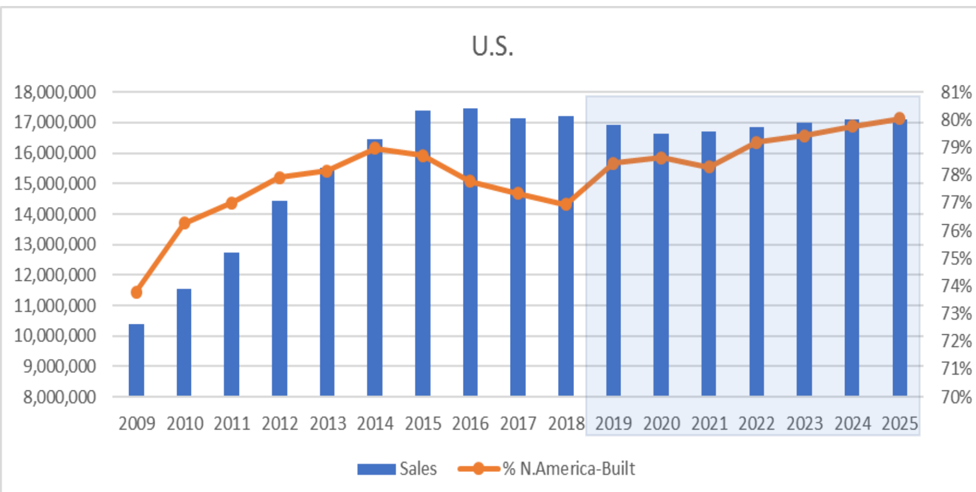


Production for the entire year will rise from 2018, largely due to increased capacity for several new vehicles

- Inventory control moves will partly hurt Q1 output
- Increased capacity, especially for several new vehicles, will lift production above year-ago levels in Q2 and Q3
- Production remains nearly flat year/year in Q4 largely because demand is expected to be falling and Q4-2018 output was a little higher than necessary, making for a tougher year-ago comparison
  - ➢ Production gains in the U.S. will outpace the entire region mainly because more trucks (including CUVs) will be added to the manufacturing footprint, and a lot them will be all-new vehicles
  - ➢ U.S. share of the North American footprint will be mostly at the expense of Canada
  - ➢ Mexico continues to record stronger growth, but dampened by demand for pickups and SUVs (which favors U.S. plants)

Wards-LMC Long-Term Sales Outlook



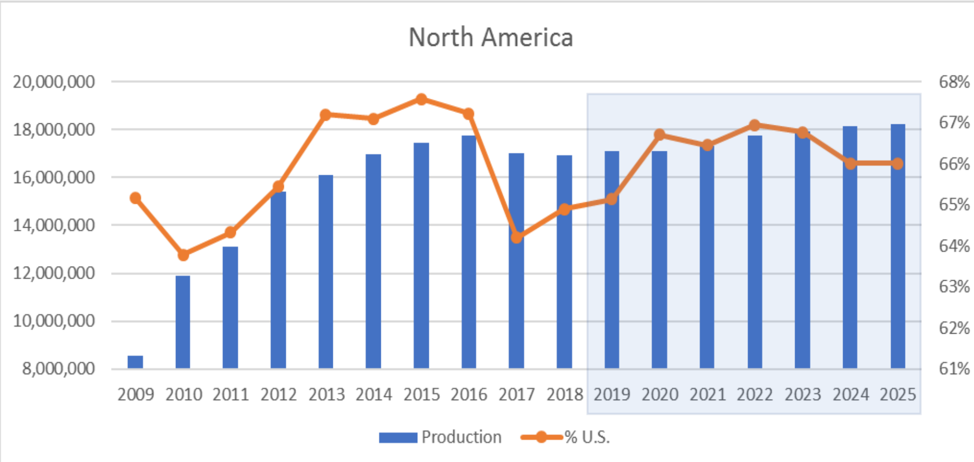


Sales forecasted to decline in 2019 and 2020, resuming growth in 2021

- U.S. volume, which accounts for over 80% of the region's demand, is forecast to resume growth in 2021 but with no new record highs – mature market
- Canada expected to remain relatively stable throughout forecast period
- Mexico resumes strong growth in 2021; nearly catch Canada by 2025
- Increased North America capacity for new products, especially for trucks, will spur penetration of domestically built vehicles

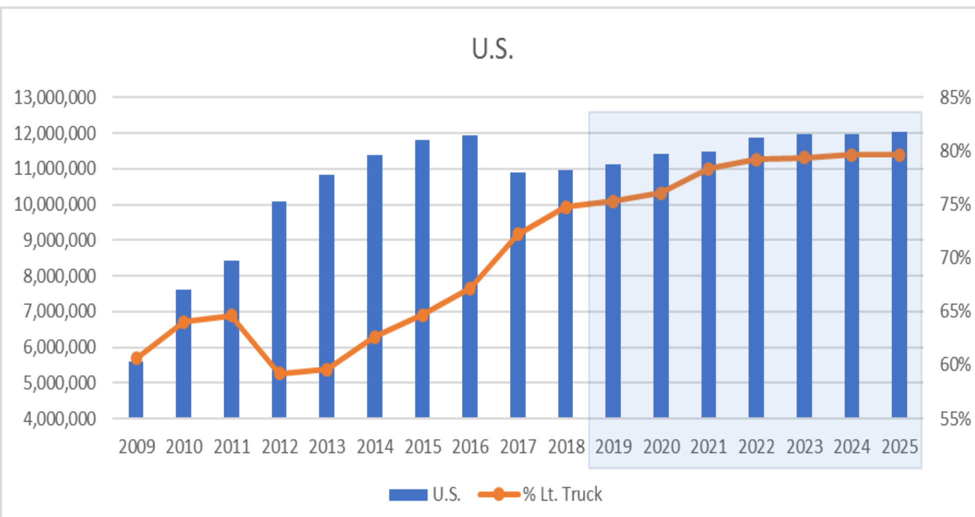
❑ Forecast assumes no recession-based or other major disrupting force. Even a mild slowdown – a couple consecutive quarters with slightly negative or flat growth – could cut well over one million units from a given 12-month period

Wards-LMC Long-Term Production Outlook



Production rebounds slightly from 2018 and continues with mild growth, boosted by more capacity for trucks (including CUVs) and local sourcing of products previously shipped from overseas.

- U.S. output rises during the forecast period, including taking a bigger share of the North American footprint
- The North American market's trend from cars to trucks (including CUVs) will lift truck output from 75% of U.S. output in 2018 to 80% in 2025, with a good chance it goes higher
- The U.S. manufacturing footprint for just fullsize CUVs, pickups, SUVS and vans will increase, too



❑ A downside to the U.S. truck footprint: In a recession or oil shock, the vehicles that get hardest hit are the biggest and least fuel-efficient – fullsize pickups, SUVs and vans

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