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Press Release

J.D. Power and Associates Reports:
As U.S. New Light-Vehicle Sales Climb,
The Types of Vehicles Purchased and Profile of Vehicle Buyers Are Changing Rapidly

<u>Higher Gas Prices and Easier Credit for Less-Qualified Buyers Means Shift to Smaller Vehicles</u>

WESTLAKE VILLAGE, Calif., 3 April 2012 — While sales of new light vehicles in the United States continued at a brisk pace in March 2012, the types of vehicles being purchased, as well as the types of buyers and the average transaction price are rapidly changing, according J.D. Power and Associates' Power Information Network® (PIN), which collects transaction data on hundreds of thousands of new retail vehicle purchases and leases each month.

U.S. new light-vehicle sales in March are expected to total approximately 1.4 million units, according to LMC Automotive. This would be the highest monthly total since 2008.

While light-vehicle sales have been strong in the first quarter of 2012, rising gasoline prices—which averaged $3.92 nationwide at the end of March (according to AAA's Daily Fuel Gauge Report)—have convinced many consumers to purchase smaller, more fuel-efficient vehicles. Through the first two months of the year, sales of sub-compact and compact passenger cars have accounted for approximately 25 percent of all retail sales. Sales of sub-compact vehicles have increased the most, up more than 35 percent in the first two months of 2012, compared to the same period in 2011.

"Higher vehicle sales are obviously welcome news for the U.S. automotive industry and general economy," said John Humphrey, senior vice president of global automotive operations at J.D. Power and Associates. "However, automakers are going to have to closely monitor shifts in segment demand and build accordingly."

While higher fuel prices have helped steer consumers into smaller vehicles, easing restrictions on financial credit—including an increase in 72-month loans—has resulted in a new segment of buyers in the new-vehicle market. According to PIN data for the first two months of 2012, new-vehicle buyers with FICO scores in the "C" tier (scores ranging from 625-649) grew by 19 percent, compared with the same period in 2011, while buyers with FICO scores in the D tier (ranging from 0-624) grew by 23 percent during the same period. Due to this increase in C/D-tier buyers, the two segments combined accounted for 15 percent of all retail sales in the first two months of 2012.

By comparison, the proportions of consumers with credit ratings in the A+-tier (720-999), A-tier (680-719) and B-tier (650-679) grew by rates of 7 percent, 11 percent, and 15 percent, respectively, during the same period. As a result, the average national FICO score of new-vehicle buyers has declined from a peak of 737 at the end of 2009 to 725 in the first two months of 2012.

One result of the recent increase in fuel prices and subsequent shift to smaller vehicles—in addition to the increase in financially less-qualified new–vehicle buyers, who tend to be younger and with less money to spend—is that the average transaction price for new vehicles has dropped substantially in the recent quarter. According to

PIN data, the average retail transaction price of a new vehicle in the fourth quarter of 2011 was $29,223, an all-time high. However, through the first two months of 2012, the average transaction price fell to $27,953, which was still well above historical levels, but lower than the peak at the end of 2009.

"Lower average transaction prices can clearly cut into vehicle profit margins," said Humphrey. "But given the production rationalization the industry underwent during the recent financial crisis, most automakers and dealers are much more flexible and better prepared to adapt to quick changes in market demand."

Use of Turbochargers to Double in Next Five Years

Higher fuel prices and less discretionary spending due to consumers who became unemployed or underemployed are two outcomes of the U.S. financial crisis that began in 2008. As a result, not only are consumers buying smaller vehicles, but also the types of engines fitted to these vehicles are changing.

According to PIN data, while large 8-cylinder engines were fitted in 18.3 percent of new light vehicles sold in 2008, these engines were fitted in only 14.6 percent of new light vehicles sold in 2011 and in only 12.7 percent of new light vehicles sold in the first quarter of 2012. Conversely, 4-cylinder engines were fitted in 42.7 percent of new light vehicles sold in 2008, but increased to 49.7 percent in 2011 and to nearly 54 percent of all light vehicles sold in the first quarter of 2012.

In conjunction with the shift to 4-cylinder engines, there has been a pronounced increase in the United States in the use of turbochargers in engines as automakers try to deliver more horsepower from smaller engines. According to LMC Automotive, turbochargers were fitted in only 2 percent of gasoline or flex-fuel vehicles produced in the United States in 2008, which increased to 9.5 percent in 2011 and is expected to more than double to 23.5 percent in 2017. Moreover, turbochargers are also being fitted to larger (6- and 8-cylinder) engines as well. As a result, while turbochargers were fitted in nearly 1 percent of all new light vehicles powered by gasoline or flex fuel produced in the United States in 2008, they were fitted in 7 percent of these new light vehicles in 2011 and are forecast to be fitted in approximately 19 percent of these vehicles sold in 2017.

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