

Real estate reaches record highs

Highest annual price increases on record

Consumer confidence remains high

Highest level since 2008

Unemployment reaches record low

7.3%, lowest since December 2008

The battle for self-driving cars

Tesla promises cars within 3 years

Renaissance for GM

Debt as investment grade first since 2005

Market Environment *(see page 3-5 – Economy in Brief, Market Summary)*

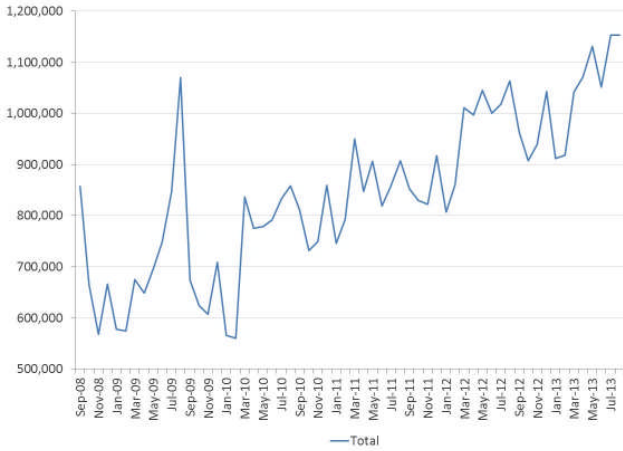
- **The fundamentals are still positive:**
 - The U.S. GDP increased by 2.5% in the second quarter of 2013.
 - Unemployment decreased slightly for the second consecutive month in August 2013, at its lowest since December 2008.
 - Inflation remained low.
 - Consumer confidence, while down slightly in September 2013, was in prior months at record levels since 2008.
 - Real estate continued to perform strongly: existing home sales in August 2013 reached their highest level in over 6 years. Home prices in July 2013 had their highest annual increase since 2006.
- **Politics are threatening to destabilize the economy**
 - A government shut down in early October drove the stock markets down to below 15,000. Renewed optimism for a political deal was enough for markets to rise in mid October 2013.

Automotive Overview *(see page 6 – Other Auto News)*

- **The light vehicle industry was up 10.8%** in August '13 vs. August '12 and up 10.1% YTD in '13 vs. '12 *(see charts on page 2)*.¹¹
 - Top 8 OEMs (vol.) in August '13: Honda +24%, GM +11%, Toyota+11%, Ford +10%, VW +7%, Nissan +4%, Hyundai -5%, Chrysler -13%.
 - Top Make volume gains in % (August '13): Subaru, Honda, Mazda (non luxury). Jaguar, Cadillac, Land Rover (luxury).
- **Auto brands (make) share trends from February to March 2013:** Toyota's share in August '13 (14.5%) was at its highest since September '10, and above Ford's for the 4th consecutive month. Honda's share crossed the 12% mark for the first time since April '11 and was above Chevrolet's.¹¹
- **Polk's 2013 U.S. light vehicle sales forecast:** 15.3 million light vehicles.¹¹
- **Who will win the battle for self-driving cars?** Nissan and Mercedes promised self-driving cars by 2020. Google predicted that a fully automated car could be rolled out within the next five years. BMW, Mercedes introduced incremental steps in that direction with "traffic jam assist" features in selected 2014 vehicles. But Tesla's CEO, Elon Musk, recently planned a self-driving car within the next three years.
- **The battle for connected vehicle is heating up:** Several OEMs are fast advancing to lay claims in this field. Nissan announced it would be the first OEM to offer the Apple iTunes Radio in its Rogue, Versa and Leaf vehicles in 2014. Ford acquired software company Livio for under \$10 million to enhance its future connected car offerings for younger buyers.
- **A renaissance for GM:** Moody's upgraded GM's debt to investment-grade rating (Baa3) for the first time since 2005. Standard & Poor's and Fitch still rate GM's corporate debt as junk-status. The U.S. Treasury decreased its GM stake to 7.3%, selling over 110 million shares worth \$3.82 billion.

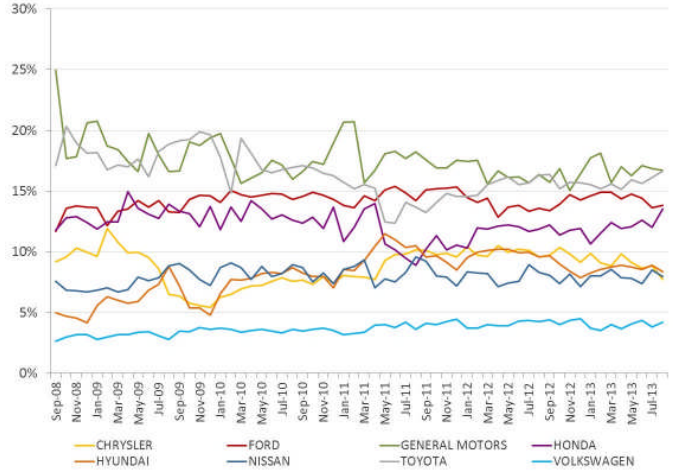
New Light Vehicle Retail Registrations

Total Industry Volume – August 2013



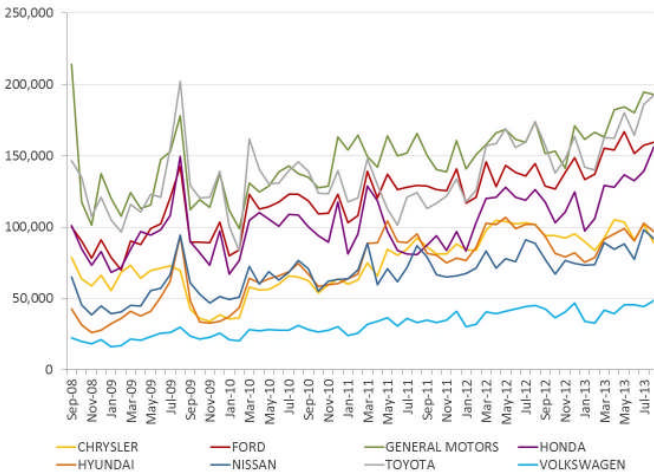
Source: Polk

Top 8 OEMs by Share – August 2013



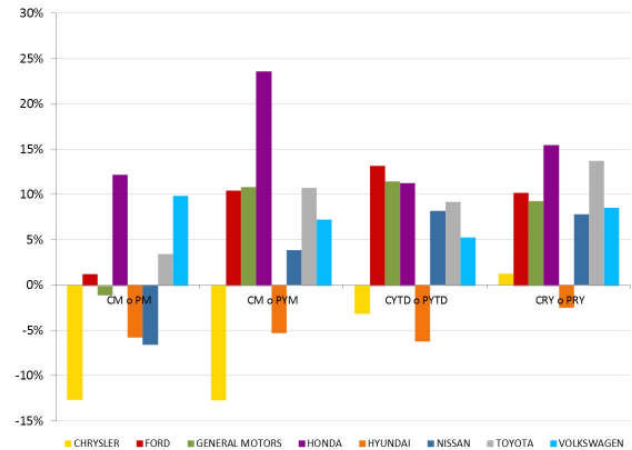
Source: Polk

Top 8 OEMs by Volume – August 2013



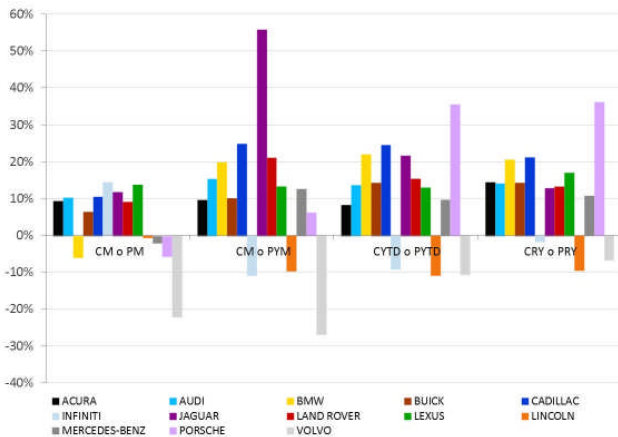
Source: Polk

Top 8 OEMs Volume Changes – August 2013



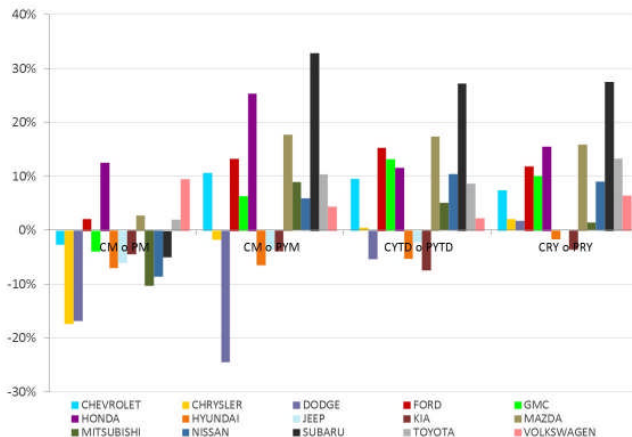
Source: Polk

Top Luxury Brand Volume Changes – August 2013



Source: Polk

Top Non Luxury Brand Volume Changes – August 2013



Source: Polk

The Economy in Brief – October 2013

Retail Sales

- August '13 retail sales were up by 0.2% from July and up by 4.7% from August '12. Vehicle and parts sales were up 0.9%. Electronic store (+0.8%) sales also increased. Building (-0.9%) and clothing store sales decreased (-0.8%).⁴
- August '13 new home sales were up 7.9% from July and up 12.6% from August '12. Existing home sales increased by 1.7% in August from July '13 and increased by 13.2% from August '12. Existing home sales in August reached their highest levels in over 6 years.⁵

Inflation

- The Consumer Price Index (CPI) increased 0.1% in August from July '13. Excluding food and energy, the index was also up 0.1%. The gasoline index was down 0.1%, after 3 consecutive monthly increases. New vehicle prices were unchanged while used vehicle prices had their fourth consecutive monthly decrease (-0.1%).⁶
- The Producer Price Index (PPI) increased 0.3% in August '13. Excluding food and energy, the index was unchanged in August from July 2013.⁶

Employment

- The unemployment rate dropped to 7.3% in August 2013. There were 169,000 jobs added in August, 44,000 of which in retail trade.
- The Employment Trend Index increased in August 2013 to 113.54, up from 112.8 in July, signaling moderate job growth through Fall 2013.³

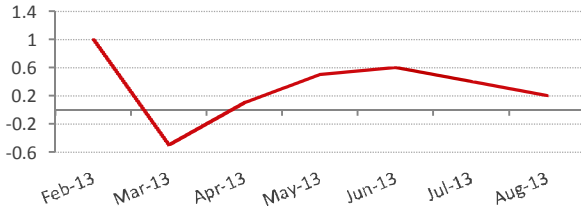
Consumer Confidence

- The Consumer Confidence decreased slightly to 79.7 in September after reaching its highest level in June 2013 since January '08.³

Stock Market

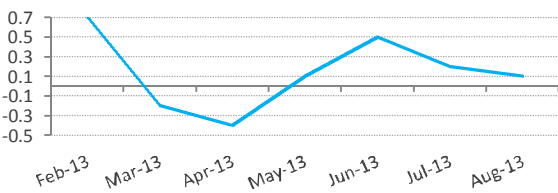
- The Dow Jones stayed around the 15,500 mark between mid-July and mid-August, then dropped below 15,000 at the end of August. It rebounded to new highs in mid-September, but once again dropped to the 15,000 level end of September.⁷

Retail Sales from Preceding Month



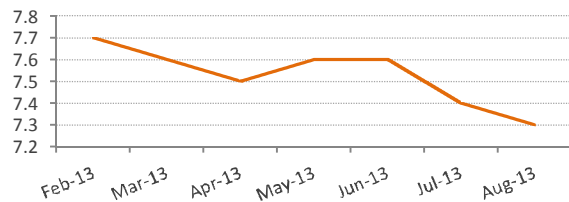
Source: U.S. Census Bureau – Economic Indicators

CPI Changes from Preceding Month



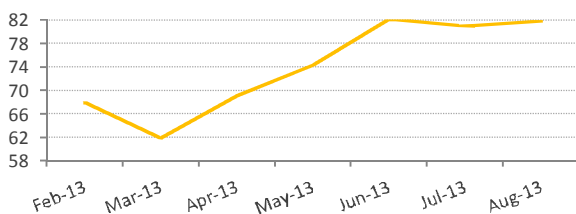
Source: U.S. Department of Labor – Bureau of Labor Statistics

Unemployment Rate



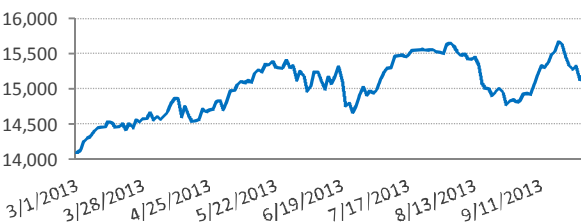
Source: U.S. Department of Labor – Bureau of Labor Statistics

Consumer Confidence Index



Source: The Conference Board

Dow Jones Industrial Average



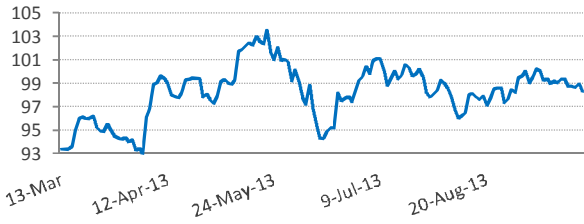
Source: Google Finance

The Economy in Brief – October 2013 *(continued)*

Oil & Currencies

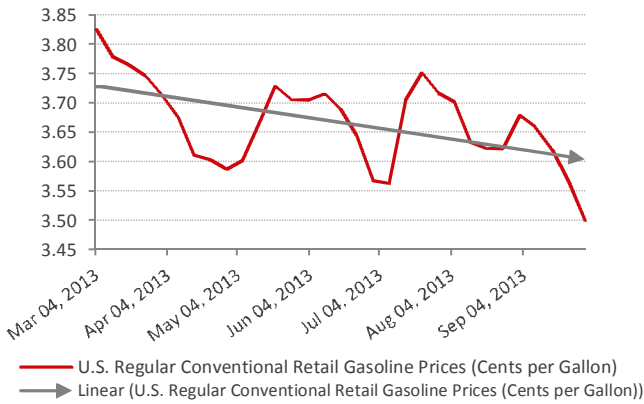
- The Dollar remained steady against the Japanese Yen (around 99 Yen/\$) for most of the month of September '13.⁷
- Retail gas prices largely decreased from the end of July to the end of September '13, reaching their lowest level in the past 6 months.

Japanese Yen/U.S. \$



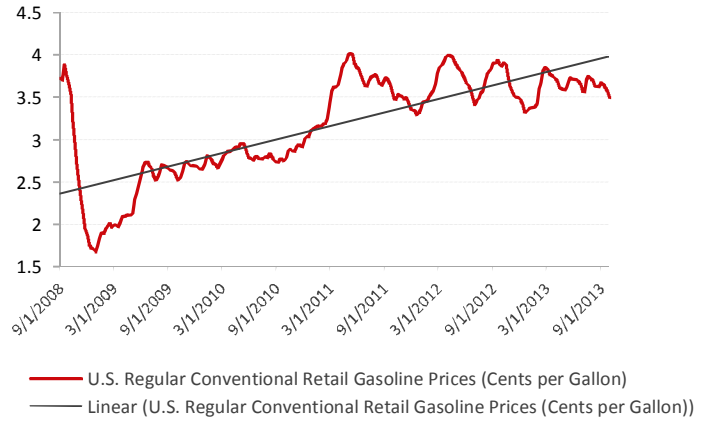
Source: Federal Reserve

Retail Gas Prices Down 8.5% vs. Last High in March '13 and at their lowest point in the past 6 months



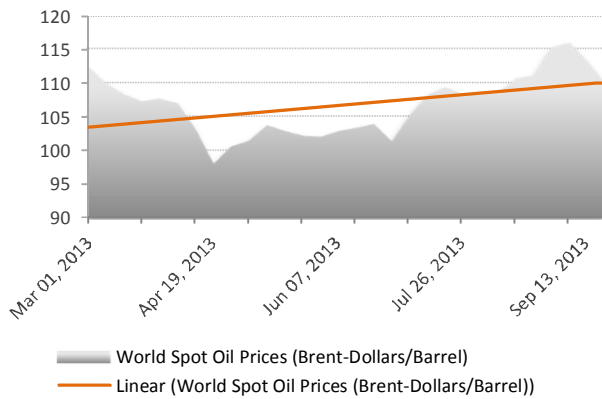
Source: U.S. Energy Information Administration (EIA)

Gas Prices 5-Year Trend



Source: U.S. Energy Information Administration (EIA)

Spot Oil Prices Down 5.2% from Highs (past 6 months) in September '13 but Up 12.1% Since Recent Lows in April '13

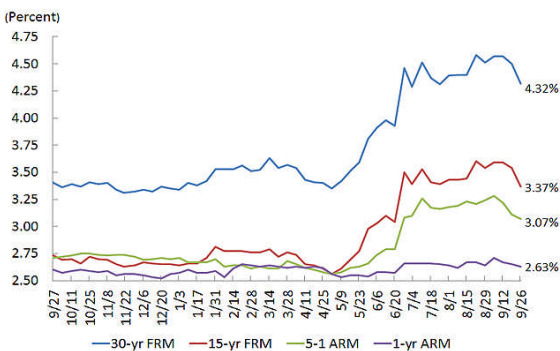


Source: Energy Information Administration (EIA)

GDP up 2.5% in Q2 2013

The ISM Manufacturing Index increased for 4th consecutive month

Home prices had their highest annual growth rates since 2006



Source: Freddie Mac

As of September 26, 2013

Market Summary – October 2013

Other Market News

- **The GDP increased by 0.6ppt to 2.5%** in the second quarter of 2012 (3rd estimate) due to an increase in personal consumption expenditures, exports, and investment, offsetting lower government spending.²
- **The international trade deficit decreased to \$39.1 billion** in July '13 from \$40.1 billion in June. Exports (-\$1.1 billion) dropped but imports (+\$3.5 billion) rose.²
- **The Leading Economic Index (LEI) increased 0.7%** in August '13 to 96.6 following a 0.5% increase in July and no change in June '13.³
- **The ISM Manufacturing Index increased 0.5ppt in September '13 to 56.2** from 55.7 in August '13, reflecting the 4th consecutive monthly increase. The ISM non-manufacturing index decreased to 54.4% in August '13 from 55.5 in July, but still represented growth for the 45th month.⁸
- **New orders for durable manufactured goods** (advance report) **rose 0.1%** in August '13, up four of the last five months and followed a 8.1% July decrease. Transportation equipment led the increase (+0.7%).
- **Construction spending in July '13 was up 0.56%** from June and up 5.2% from July 2012.⁴
 - Private housing starts were up 0.9% in August from July '13 and were up 19.0% from August '12.⁴
 - Private housing building permits were down 3.8% in August from July '13 but were up 11.0% from August '12.⁴
- **Real estate:**
 - August '13 new homes for sale represented a 5 months' supply. New home sales were up 8.8% in the Northeast, 19.6% in the Midwest, 15.3% in the South but were down 14.6% in the West.⁴
 - Total existing home inventory in August '13 increased 0.4% from July but was 6.3% below August '12 (6.0 months). It represented a 4.9 months' supply. Distressed homes (foreclosures and short sales) accounted for 12% of existing sales in August '13, the lowest level yet since monthly tracking in October '08 (23% in August '12). Existing home sales increased by 3.1% in the Midwest and 3.8% in the South, were unchanged in in the Northeast and declined by 2.3% in the West.⁵
 - The Case Shiller index indicated that home prices increased by 12.3% (10-city composite) and 12.4% (20-city composite) in July 2013 compared with July 2012, the highest annual growth rates since 2006. Prices increased 1.9% and 1.8%, respectively, from June 2013. All 20 cities have experienced a monthly gain for the past 4 months. The Southwest leads the housing recovery, with Las Vegas home prices up 27.5% year-over-year (+24.8% in San Francisco, +20.8% in LA, +20.4% in San Diego).⁹
 - Mortgage rates increased substantially through August '13 with a 30-year fixed mortgage averaging 4.46%, the highest since July '11, and high compared to August '12 (3.6%). However, they trended down in September, reaching an average of 4.32% the last week.¹³
- **Labor productivity increased by 2.3%** in the second quarter of 2013 with increases of 3.7% in output and 1.4% in hours worked.⁶

Market Summary – October 2013 *(continued)*

Other Auto News

- **Domestic Auto News**¹
 - GM announced it would buy back 120 million shares from the UAW's retiree health care trust (VEBA) for \$3.2 billion.
 - Fiat CEO, Marchionne, indicated it would move forward with its Chrysler IPO plans for the stakes it does not control (the UAW's).
 - Alpha Romeo's return to the U.S. market was delayed until the second quarter of 2014 with the 4C model.
 - ALG cut the residual value for most electric vehicles, and to a lesser extent hybrids, because of high incentives and high supply.
 - Ford announced that it would compensate C-Max owners \$500 for the mileage restatement (47/47 to 45/40).
- **International Auto News**¹
 - GM's Opel factory in Spain announced it would build subcompact minivans for PSA Peugeot-Citroen by 2016.
 - Chery's Qoros 3 compact car became the first car built in China to earn a five-star safety rating in Europe.
 - Toyota announced it would start exporting the U.S.-built Corolla to Latin America and the Caribbean in 2014.
 - Kia reached a wage agreement with union workers in South Korea to end a three-week strike that cost \$381 million.

For additional information,

or to clarify information contained in this report, please contact Stephan Gallon at stephan_gallon@polk.com.

For more information on Polk, please visit www.polk.com.

Polk, recently acquired by IHS, is the premier provider of automotive information and marketing solutions. Polk collects and interprets global data, and provides extensive automotive business expertise to help customers understand their market position, identify trends, build brand loyalty, conquest new business and gain a competitive advantage. Polk helps automotive manufacturers and dealers, automotive aftermarket companies, finance and insurance companies, advertising agencies, media companies, consulting organizations, government agencies and market research firms make good business decisions. A privately held global firm, Polk is based in Southfield, Michigan with operations in Australia, Canada, China, France, Germany, Italy, Japan, South Korea, Spain, the United Kingdom and the United States.

Sources:

- ¹ Automotive News
- ² U.S. Department of Commerce – Bureau of Economic Analysis
- ³ The Conference Board
- ⁴ U.S. Census Bureau – Economic Indicators
- ⁵ NAR – National Association of Realtors
- ⁶ U.S. Department of Labor – Bureau of Labor Statistics
- ⁷ MSN Money
- ⁸ ISM – Institute for Supply Management
- ⁹ Standard & Poor's – Case-Shiller Home Price Indices
- ¹⁰ EIA – U.S. Energy Information Administration
- ¹¹ Polk
- ¹² Federal Reserve Board
- ¹³ Freddie Mac Mortgage Market Survey
- ¹⁴ Federal Reserve Bank of New York