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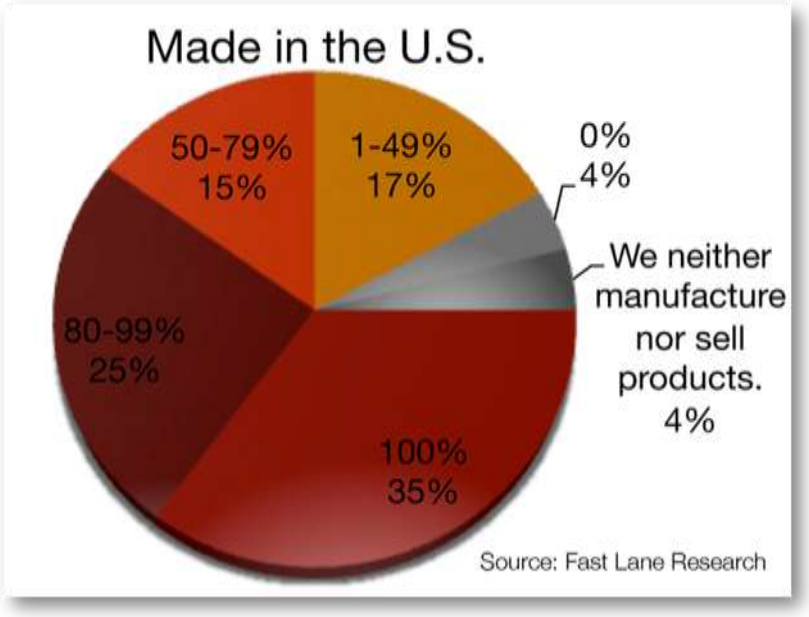
Where Was That Made?

The subject of where products are manufactured has usually been a secondary concern for enthusiasts and manufacturers, but during the economic downturn many people on both sides of the isle have become much more cognizant of the situation. Furthermore, from our research, enthusiasts are becoming irritated with substandard product quality. The topic of manufacturing location has begun moving from the backburner to the forefront.



When asked about the location of product manufacturing, 35% of companies indicated that all of their products are produced in the US, 25% produced the majority of their products here (80-99%), 15% made more than half to three-quarters (50-79%), 17% made less than half (1-49%) and just 4% rely entirely on manufacturing in other countries.

For three-out-of-four companies in the industry at least 50% of their products are manufactured in the US.

Percentage of Products That Are Made in the USA

Response	Percent
100%	35%
80-99%	25%
50-79%	15%
1-49%	17%
0%	4%
We neither manufacture nor sell products.	4%

From “where are your products made,” we shift to “where are your products sold.”

Even as the automotive hobby extends throughout the world, sales of products to US-based consumers are significant to industry businesses. Nearly all (98%) of companies rely on more than half of their sales to come from domestic clients, with 12% staying within the country completely. The next largest market is Canada where almost quarter (22%) of company’s place 11-25% of their sales there.

These numbers aren’t really very surprising considering that for the most part the US automotive performance parts and accessories industry targets Detroit iron. For these companies, exports are largely driven by the existence of US made vehicles in other countries in sufficient numbers to make the process worthwhile.

One of the issues the industry has yet to resolve is identifying vehicles sold in other countries that are nearly the same as US products but badged with a different name. For instance, a Ford vehicle is sold under the name Falcon in Australia that looks very much like the Mustang sold in the US. Having reliable data about such vehicles and the extent to which they are different from their US produced counterparts, could help industry manufacturers realize where the exporting opportunities really are.

International Sales

Area	0%	1-10%	11-25%	26-50%	51-75%	76-99%	100%
United States	0%	2%	0%	0%	29%	56%	12%
Canada	7%	71%	22%	0%	0%	0%	0%
Mexico	53%	44%	3%	0%	0%	0%	0%
Europe	19%	72%	9%	0%	0%	0%	0%
Asia	77%	19%	0%	4%	0%	0%	0%
Australia & New Zealand	29%	65%	6%	0%	0%	0%	0%
Other	36%	59%	5%	0%	0%	0%	0%

The whole issue of exports is far larger than just the automotive performance parts and accessories industry. The most current government data on exports and imports details just how far out of balance the two are. Recently the U.S. Bureau of Economic Analysis announced that December exports totaled $142.7 billion and imports were $182.9 billion. That resulted in a goods and services deficit of $40.2 billion, up from $36.4 billion in November.

In December, the exports of goods increased $4.6 billion to $99.1 billion, and imports of goods increased $8.1 billion to $150.9 billion, increasing the goods trade deficit $3.4 billion from November to $51.8 billion.

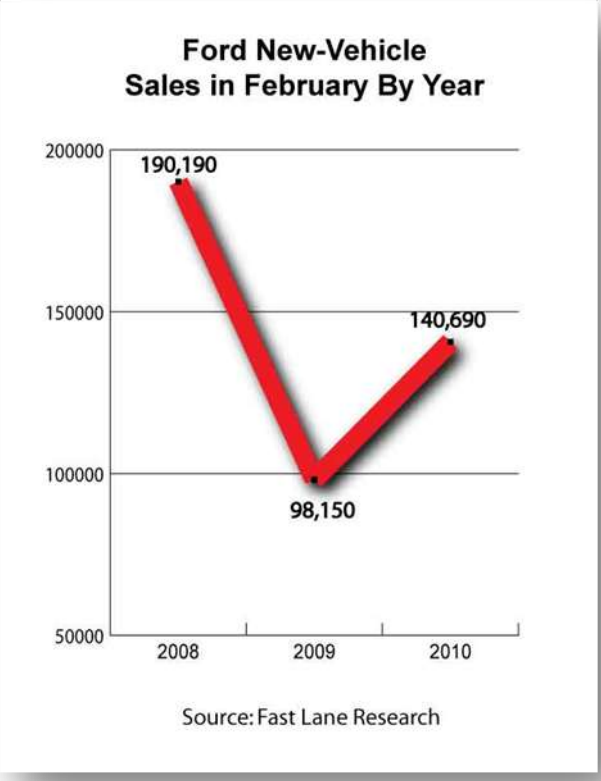
The November to December increase in exports of goods reflected increases in capital goods ($1.8 billion); industrial supplies and materials ($1.6 billion); automotive vehicles, parts, and engines ($0.9 billion); other goods ($0.3 billion); and consumer goods ($0.3 billion).

The continuing imbalance in trade leads to more jobs being lost in the US.

Source: Fast Lane Research

Ford Sales UP 43.4%-SO?

For the month of February Ford Motor Company's sales were up 43.4% over February 2009. Not bad, but wait. Did you realize that Ford's sales were down 48.4% in February 2009 compared to February 2008? Even with the huge increase this year, Ford's sales are still 26% behind 2008 for the month of February. It's a real good news/bad news scenario—sales are up this year, but not enough to gain back the ground that was lost in 2009. In February 2010 Ford sold 140,690 new vehicles, in February 2008 Ford sold 190,190.



In the month of February 2010 passenger car sales came in 15.1% over what they were in February 2009, and light-truck sales were up 11.2%. Of course, in 2009 passenger car sales were down 31.3% compared to 2008 and light truck sales were down 35.9%.

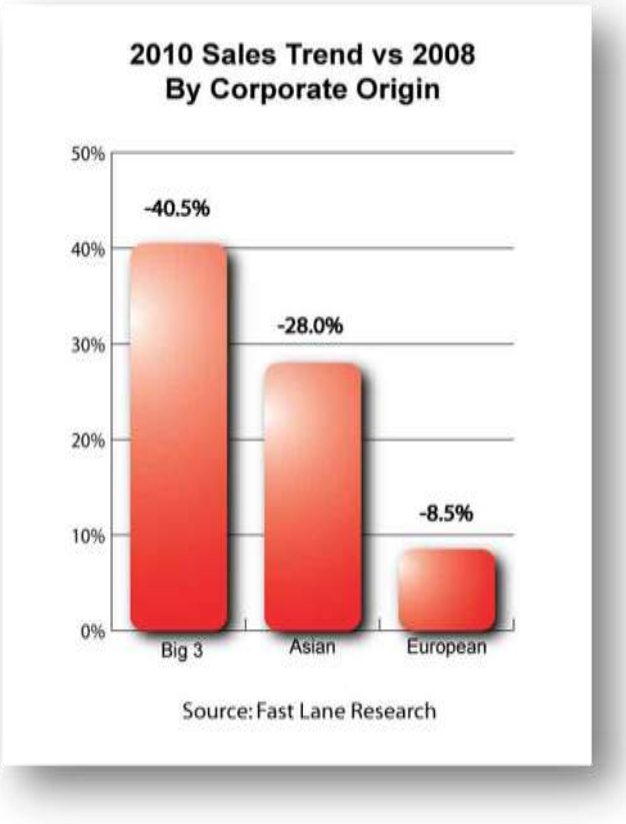
The year-to-date numbers aren't much different. When you combine January and February sales Ford is up 34.5% over 2009. But when you compare the combined two months to 2008 Ford is down 25.7%.

Overall year-to-date new-vehicle sales are up 9.9% compared to 2009, but 2009 was down 33.4% compared to 2008. New-vehicle sales in the US for January and February 2010 totaled

1.476 million units, where as in 2008 the total came to 2.216 million units.

Don't misunderstand, it is great that so far this year new-vehicle sales are up 9.9% over 2009. You just have to keep in mind that new-vehicle sales in 2009 were so horrible that if they weren't up this year we would really be in trouble.

The automotive performance parts and accessories industry has long targeted domestic vehicles as their canvas for customization. So far in 2010, Chrysler, GM and Ford are accounting for a little more than half the new vehicles sold in the US and are running 40.5% behind 2008. For the same period, Asian nameplates are running 28.0% behind 2008, and European nameplates are down 8.5%.



There are some makes that are successfully swimming upstream. For instance, at the end of two months in 2010 Hyundai is up 15.4% over 2008. This year they have sold 110,682 new vehicles in the US compared to 95,885 in 2008. Granted that is less than half the number of units that Ford sold, but they are gaining ground fast. Another is Volkswagen with year-to-date sales that are 8.8% ahead of 2008.

Maybe, it's time to start looking at the possibility of producing product for the "import" brands. Or maybe it's time to follow their lead. Both Hyundai and Volkswagen appear to be making concerted efforts to move up-scale. They are trying to leave the marketplaces that are driven exclusively by price and trying to enter markets where competition is based on features and brand image.

Another interesting story in the new-vehicle sales numbers centers on light trucks. In February 2010, light-truck sales were up 11.2% over last year, but down 35.9% compared to 2008. Year-to-date light-truck sales in the US are up 5.4% over last year, while being down 36.0% against 2008. Within the makes the numbers aren't near as consistent--GM is down 45.6%, Chrysler is down 44.7%, and Ford is down 32.3%.

At the same time light trucks are moving back toward their position of dominance. In 2004 light trucks reached their peak accounting for 54.6% of all new vehicles sold in the US. By 2008 the trend had reversed itself and light trucks represented 47.0%. So far this year, light-truck sales

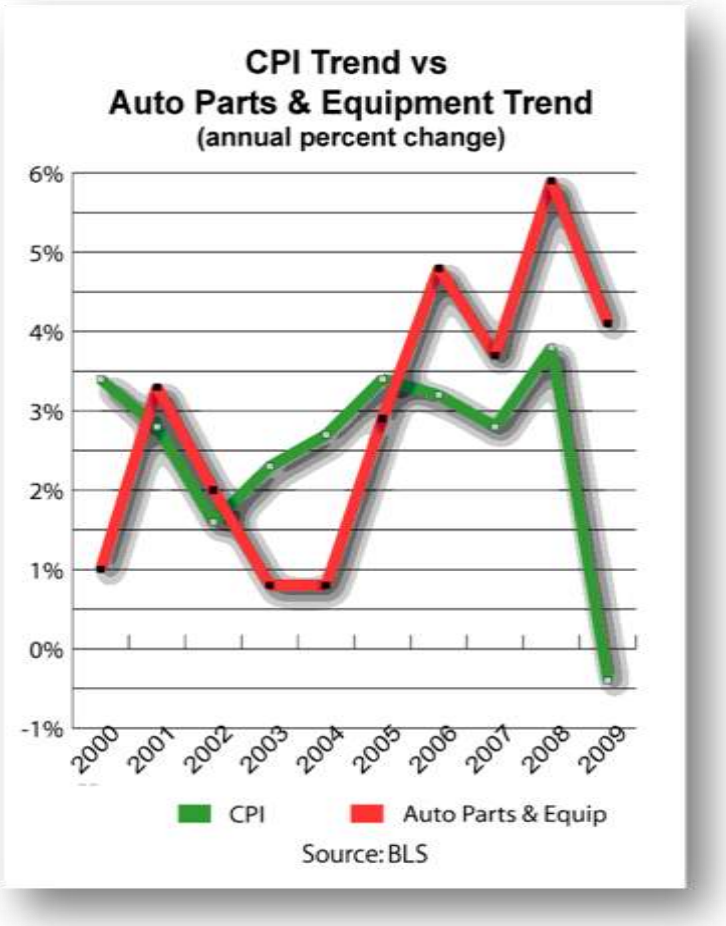
are accounting for 48.7% of the new vehicles sold in the US, and that's after gaining 0.4% in 2009.

The message here is, don't always take statistics at face value. You need to ask about the context, and have a sense of how the trends got to where they are. If we only consider the fact that Ford's sales are up 43.4% in February of this year, we could come to some very erroneous conclusions.

Source: Fast Lane Research

Inflation-Hysteria or Reality?

One of the best recognized barometers of inflation is the Consumer Price Index (CPI). It gives us the data to plot the impact of inflation on the economy and the markets we serve. For instance, if you bought goods and services in 1980 that cost $1,000, those same goods and services would now cost $2,629.70 just because of the effects of inflation.



CPI tells us a great deal if we are willing to dig into the data. Because there are a number of categories of products and services included in the CPI data we can actually track a particular group of products against the overall trend. If we compare the CPI annual percent change to the auto parts and equipment annual percent change we find that the two are not necessarily related.

As you look at the chart, you realize that in 2003 and 2004 there was very little inflationary price impact on auto parts and equipment. That cannot be said for 2005, 2006 and 2008.

But does anyone really know what is behind the CPI? Should you care? What does all that jargon mean to the automotive performance parts and accessories industry?

You've probably read the Bureau of Labor Statistics (BLS) press releases like the following one from February 19, 2010, and just scratched your head.

> On a seasonally adjusted basis, the January Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2 percent, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the index increased 2.6 percent before seasonal adjustment.
>
> The seasonally adjusted increase in the all items index was due to a rise in the energy index. An increase in the gasoline index was the main factor, and the indexes for fuel oil and natural gas rose as well, though the electricity index declined.
>
> The index for all items less food and energy fell 0.1 percent in January. This decline was largely the result of decreases in the indexes for shelter, new vehicles, and airline fares. In contrast, the medical care index posted its largest increase since January 2008, and the index for used cars and trucks increased significantly for the sixth month in a row.

The CPI is built on a shopping cart of goods that is a representative group (sample) of products in each classification included in the index. The data are gathered from a group (sample) of sales outlets and aggregated after weighting the data to account for the impact of the sampled products on the classification as a whole.

Each month, the shift in prices is shown as a percent of change from the previous month. So the press release is telling us that consumer prices (CPI) went up 0.2% in January 2010, and when you factor out food and energy price changes the CPI actually fell0.1%.

Annually, the CPI increased 2.6% from January 2009 to January 2010. So, prices of stuff in the US inflated 2.6% over the past year. That ain't bad at all. If things continue at the same pace we won't have to worry about inflation.

There are concerns about the impact of the deficit, balance of trade, and the value of the dollar that could quickly change the trend.

Source: Fast Lane Research

Diesel Meets Ozone Clean Air Standards

Clean diesel - the combination of cleaner diesel fuel along with advanced clean-burning diesel engines and emissions control technology - is already at work in key sectors reducing emissions of both particulate matter (PM) and nitrogen oxides (NOx), an ozone precursor. From 2007 to 2009, new heavy-duty commercial trucks reduced PM levels by more than 98%, and NOx by about 50%. New commercial trucks sold in 2010 are at near-zero emissions for PM and NOx (0.02 grams per brake-horsepower-hour); an additional 50% reduction from 2007 levels.

Recently The Diesel Technology Forum (DTF) issued a statement in response to the U.S. Environmental Protection Agency's first public hearing on proposed revisions to the National Ambient Air Quality Standards for Ozone, held in Arlington, VA.

“While the merits of reducing the allowable levels of ozone in the atmosphere are now under considerable debate, there is no debate about the progress and importance of clean diesel technology in meeting the nation’s clean air goals,” said Allen Schaeffer, executive director of DTF, a non-profit group which represents diesel engine, vehicle and equipment makers, fuel refiners and suppliers of engine and emissions control technology.

“Low-emissions clean diesel technology is not limited to just new commercial highway trucks,” said Schaeffer. “Today’s clean diesel cars now meet the same emission certification standards as gasoline vehicles while getting 20 to 40 percent better fuel economy.” New construction and farm equipment and marine boats and locomotives are on a pathway to reduce emissions levels of NOx and PM to levels nearly the same as highway vehicles between now and 2014. An important first step occurs June 1, 2010 when off-road machines and equipment begin using ultra-low sulfur diesel fuel; a change first made for highway vehicles in 2006.

Progress in reducing ozone precursors (NOx) is not just limited to new technology. The leaders in clean diesel industry are also attacking the emissions challenge on the other end by demonstrating the ability to modernize and upgrade existing diesel engines and equipment to yield lower NOx and PM. Through replacing some engines with newer models and upgrading existing diesel engine components or adding emissions control devices, everything from school buses to marine work boats and construction equipment can achieve lower emissions; in some cases by as much as 90% from original performance levels.

For more information, visit www.dieselforum.org.

Source: Diesel Technology Forum

Performance Ford Focus = World Car

During the Geneva auto show Ford announced that it will produce a performance version of the Focus. Not only will it be a performance car but also a global car.

You probably know of the Focus SVT in the US or the Focus ST and RS in Europe. Now Ford is making one more attempt at a global car and they are making it a performance version of the Focus. Ford is targeting the market currently occupied by Mitsubishi Lancer Evo, Subaru WRX and Mazdaspeed3.

Ford also confirmed that it will be powered by a version of the 4-cylinder Ford EcoBoost engine family.

"We want to reassure enthusiasts of Focus performance models that we have a plan for them as well," Derrick Kuzak, Ford's group vice president for Product Development added. "Our commitment is to deliver an exciting performance model of the new Focus on a global basis and using a version of our advanced new Ford EcoBoost petrol direct-injection turbo engine. We're not ready to reveal more details yet, but we recognize how important this model will be in the Focus line-up, particularly for customers in Europe."

Under Ford Motor Company's global ONE Ford initiative, the next-generation Focus has been developed by an international team led from Ford's European small and medium vehicle centre of excellence in Merkenich near Cologne, Germany, with powertrain development led by a similar team at Ford's Dunton Technical Centre in England.

"The scale, level of commonality and global reach of Ford's new C-segment strategy, plus our global development and sourcing strategy have made it possible to provide a level of refinement and feature content that we believe will be unrivalled in this vehicle segment," said Kuzak. "The breadth of the technology and feature content plus the sophistication of the powertrain and safety strategy will be surprising, even to drivers of larger or more premium vehicles."

If Ford succeeds with the performance focus as a world car there could be interesting exporting opportunities for industry companies. That could make possible performance parts and accessories production runs that allow manufacturers to maintain costs and see appropriate profit margins.

Source: Ford, Fast Lane Research