

U.S. Structured Finance Newsletter

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CONFIDENCE DRIVING AUTO SALES

The Consumer Confidence Index (CCI), prepared by The Conference Board on a monthly basis, is derived from a survey that measures consumer sentiment regarding the state of the U.S. economy as reflected in spending and saving behaviors. We have found that the CCI is a highly predictive tool to better understand how the auto industry will fair over the coming months and assess the direction of vehicle sales.

In Chart 1 below, we compare the CCI to the seasonally adjusted annual rate (SAAR) for auto and truck sales, as reported by the U.S. Department of Commerce. Although it may sound obvious that increased consumer confidence should lead to strong vehicle sales and vice versa, comparing the historical relationship between these two metrics provides a more substantive basis for making such a prediction.

Chart 1: Consumer Confidence Index versus Vehicle Sales

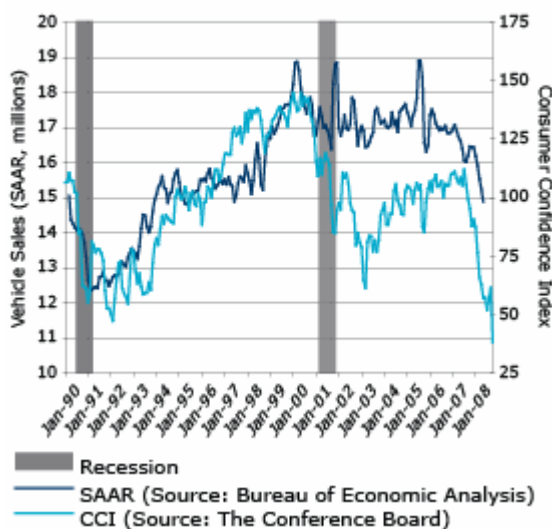


Chart 2: Vehicle Sales and Estimated Sales Based on Consumer Confidence



Without adjustment, the CCI was a very good predictor of vehicle sales between 1990 and 1999, when the CCI lagged three months behind a simple regression of SAAR sales. This provides an adjusted R^2 of almost 64%, which indicates a high correlation and predictive value.

A similar simple regression for the period from January 2000 tells a different story. The adjusted R^2 for this period is less than 15%. However, this result dramatically increases to almost 52% with the identification of “excessive sales” of more than 18 million vehicles, which can be attributed to the pervasion of manufacturer incentive programs that erupted in 2001. (The excessive sales variable may stand in place of one or more external factors. The improved model fit due to the excessive sales indicator suggests that, in the presence of another external factor(s), consumers may be persuaded to purchase a vehicle despite their current CCI measure.) As a result, combined over the full period from 1990 through 2008, consumer confidence explains 77% of the variation in vehicle sales.

In conclusion, given the most recently reported measure of declining CCI as displayed in Chart 1 above, DBRS predicts that vehicle sales will stabilize at these levels or continue to decline over the next six months (see Chart 2 above). This short-term forecast is based on the CCI, the relationship between the CCI and SAAR sales and the overall utility of vehicles, which helps to provide a floor for the number of vehicles sold.

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