

Business prospects for the Auto Parts Industry are mixed. There has been somewhat of a slow-down in recent months, after good gains in recent years. However, we still believe that overall industry fundamentals remain in solid shape. Some of the favorable factors for the sector include the average vehicle age (over 11 years), the number of vehicles in operation, and miles driven, which remain high. We think these factors should help to support decent demand for both replacement parts and new vehicles in the coming quarters.

There are some headwinds facing the industry, as well. Commercial vehicle markets have slowed somewhat, hurting prospects for many auto parts companies. Global auto production volumes will probably grow slightly for the year, although Class 8 heavy-duty truck volumes in North America will likely remain under pressure. This should be partially offset by solid performances from medium- and light-trucks. Unfavorable foreign exchange rates continue to hurt reported results for many U.S.-based companies, as the dollar has appreciated versus most foreign currencies. Too, demand in South America, particularly Brazil, remains weak. But we look for European demand to continue to rebound in the coming months.

As mentioned in our prior reports, our discussion on the Auto Parts Industry is generally centered around automotive sales and production levels, as they are directly correlated with the Auto Parts Industry's fundamentals. These market conditions vary greatly on a geographic basis. As such, results can diverge vastly for companies with different core geographies, so investors should take note.

North America

The outlook for North America remains in decent shape. However, August's reported sales numbers were worse than expected. The industry's seasonally adjusted annual rate (SAAR) of light-vehicle sales for August was 16.9 million units in the U.S., below the year-earlier SAAR of 17.7 million units. This may indicate that sales are flattening for the full year. We note that there is a good amount of volatility from month to month, as July's figures were better than expected. Unit sales of the Detroit Three vehicle manufacturers were modestly below expectations. General Motors posted a 5% year-over-year decline in August, while Ford reported a 9% drop. Fiat Chrysler's volumes increased 3%.

Our 2016 and 2017 total light-vehicle sales projections are 17.5 million and 17.9 million units, respectively. This represents a decrease of 200,000 units for the 2016 figure and 300,000 units for the 2017 tally compared to our prior estimates. While credit availability remains favorable, and interest rates and fuel prices are positive, overall softening of demand is a concern. But industry trends, including the average vehicle age, the number of vehicles in operation, and miles driven, remain a positive.

Rest Of World

The automotive environment in the rest of the world

INDUSTRY TIMELINESS: 89 (of 97)

remains varied. We look for global industry volumes to rise in the 2% to 4% range for the year. China, the world's largest market for automobiles, will likely remain the leader in volumes, where we think sales may rise up to 10%, to nearly 26 million units. However, the expiration of certain tax breaks on smaller-engined cars in the country could soften the advance that we anticipate. European demand will likely continue to rebound, particularly in Western Europe. However, the recent Brexit vote may alter our expectations. We still look for a modest increase on the Continent for the year, to around 19.5 million units. The environment in South America will likely remain poor, as we expect volumes to be down considerably.

Top Pick

One of the top picks in our Auto Parts Industry is *Dorman Products*, a supplier of original equipment dealer automotive replacement systems, hardware, brake products, and household hardware to the automotive aftermarket and mass merchandise markets. The company posted good second-quarter results, with sales rising 5% from a year earlier, driven by good demand from several of its large customers. Management has been working to improve operating efficiency and lower freight costs, which allowed share net for the period to come in a nickel ahead of our estimate. Management looks for mid-to-high single-digit sales growth this year, driven by robust demand for new products.

Conclusion

On the whole, the business outlook for the Auto Parts Industry remains mixed, depending on the region. While industry fundamentals are generally favorable, particularly in the core U.S. market, thanks to low fuel prices and growth in miles driven, there are some areas of weakness, including slowing commercial vehicle markets. The Timeliness rank of the industry has fallen since our June report, coming in at 89 out of 97. Overall, we believe there are some opportunities in the industry, so investors are advised to review the following individual reports before making any commitments.

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