

ANNUAL NEW YORK CONFERENCE
2024 OUTLOOK

US Consumer Outlook: Eat the Rich or Eat the Risk?

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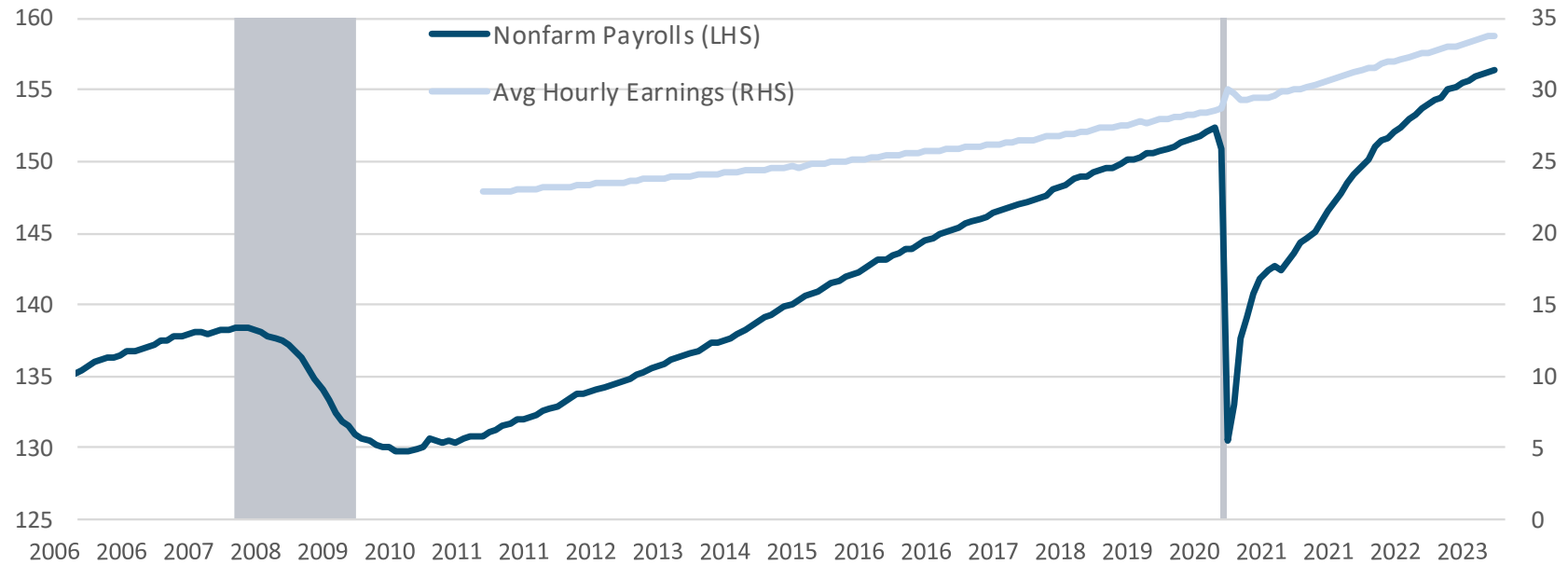
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CreditSights
a FitchSolutions Company

Research
CovenantReview
LevFinInsights

Healthy Employment Is at the Core of Resilient Consumer Spending

US Nonfarm Payroll Employment (Mn) & Average Hourly Earnings (\$/hr)



Source: BLS, CreditSights. Millions of workers.

Holiday Check-In

Not an Omen



Broad expectations for 3-4% holiday season spending growth, with early read showing a solid start towards that goal...

Consumer confidence/sentiment at or above levels entering Holiday '22...

But consumers are exhibiting increasingly cost-conscious and selective buying behaviors for discretionary goods.

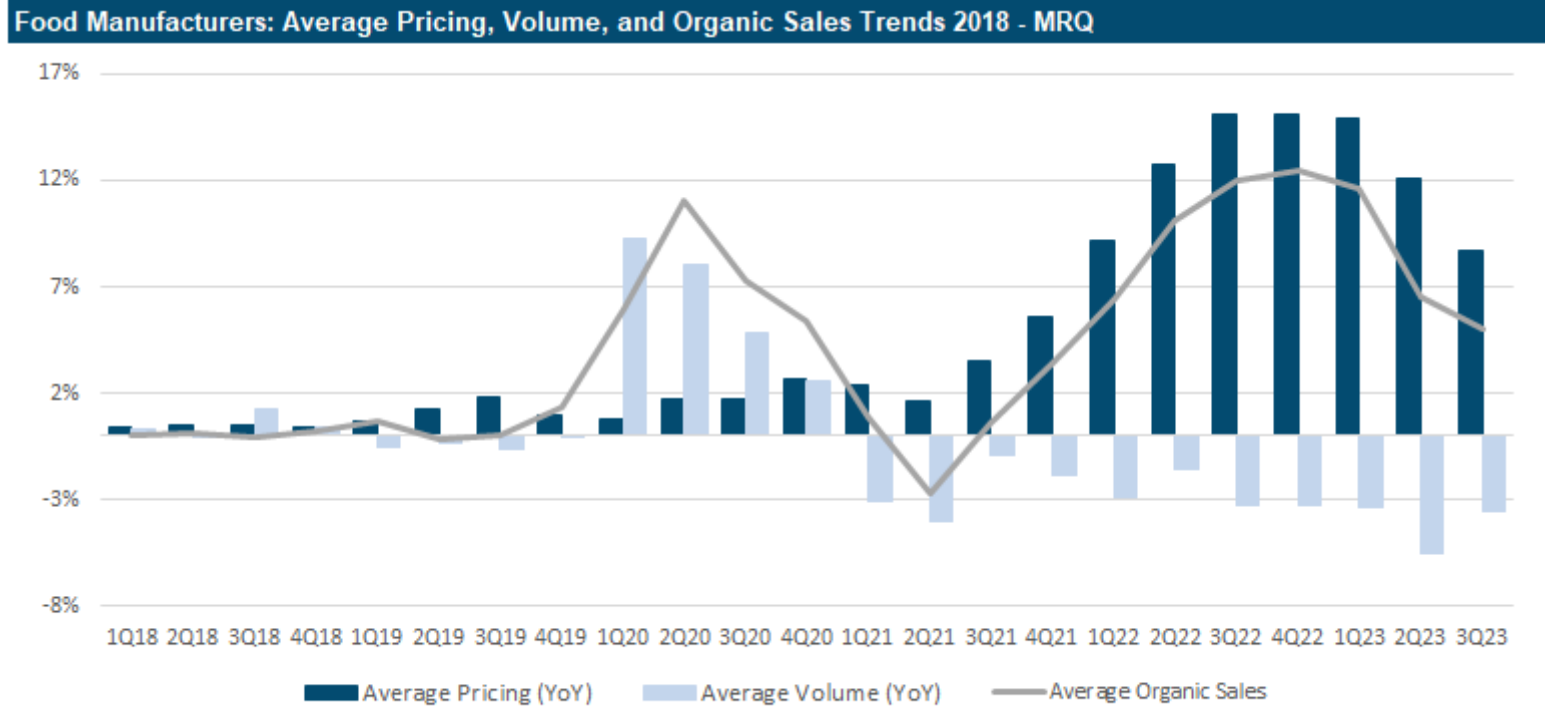
Retail Category Demand Still Hit or Miss

Retail Sales Relative to January 2020 Heat Map (% Ch.)													
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
	2022	2022	2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023
Internet/Catalogue	66.9%	64.0%	67.7%	67.6%	69.0%	69.0%	71.1%	73.1%	74.4%	77.4%	77.1%	79.6%	80.0%
Restaurants	24.6%	24.4%	23.9%	30.1%	27.1%	27.3%	27.9%	29.9%	30.8%	32.0%	32.8%	34.9%	35.3%
Autos/Auto parts	26.5%	23.7%	21.6%	29.9%	28.4%	26.8%	27.9%	30.0%	30.7%	30.4%	30.8%	32.3%	31.1%
Gasoline stations	42.3%	39.0%	31.3%	30.8%	28.5%	27.3%	26.0%	22.3%	21.6%	21.9%	30.1%	31.4%	31.0%
Miscellaneous	30.3%	26.5%	27.0%	34.6%	31.9%	31.8%	33.6%	32.3%	34.0%	32.2%	27.9%	34.1%	31.8%
Build Mat./Garden	37.2%	32.6%	33.7%	34.2%	34.4%	29.6%	29.5%	31.3%	29.6%	29.8%	30.4%	30.1%	29.7%
Food/Bev/Grocers	27.2%	27.7%	27.1%	26.5%	27.0%	26.6%	26.5%	26.5%	26.0%	26.8%	27.3%	27.5%	28.3%
Sport/Hobby/Books	29.4%	28.2%	28.6%	29.7%	27.9%	27.9%	27.5%	27.7%	26.8%	28.9%	26.2%	26.3%	25.3%
Health/Personal Care	16.3%	17.0%	13.1%	18.3%	20.2%	20.6%	21.6%	22.9%	23.2%	23.3%	25.1%	25.7%	27.1%
General Merch.	19.2%	19.2%	19.3%	21.6%	21.5%	18.4%	19.3%	19.9%	19.7%	20.9%	21.3%	21.8%	21.5%
Apparel/Accessory	13.7%	13.2%	12.6%	16.6%	13.7%	12.3%	12.4%	12.6%	12.8%	14.2%	15.3%	14.4%	14.4%
Furniture/Home Furn.	14.4%	11.7%	9.6%	20.7%	12.9%	10.0%	7.6%	6.8%	8.5%	6.7%	5.1%	4.4%	2.3%
Electronics/Appliance	5.9%	-6.6%	-7.1%	4.4%	4.2%	3.7%	2.7%	4.3%	4.6%	3.6%	5.0%	5.5%	6.1%
Total	29.7%	29.6%	31.0%	29.2%	28.3%	31.9%	31.0%	29.8%	30.4%	31.3%	31.5%	32.3%	33.2%

Note: Shows % change per category from Jan 2020 level. Sorted by most recent monthly trends.

Source: Census Bureau, CreditSights

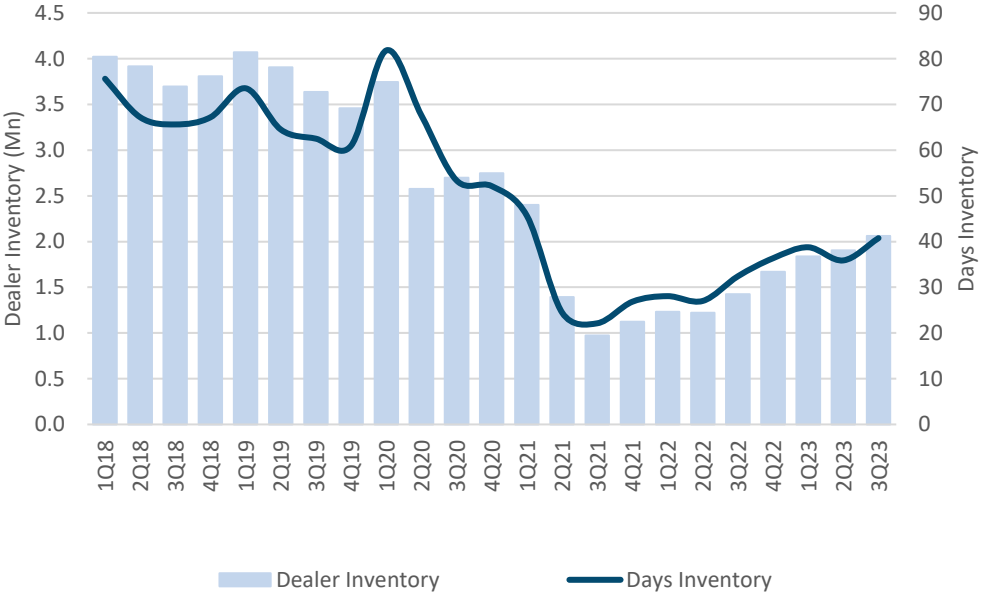
Food Price Hikes Outweigh Volume Loss



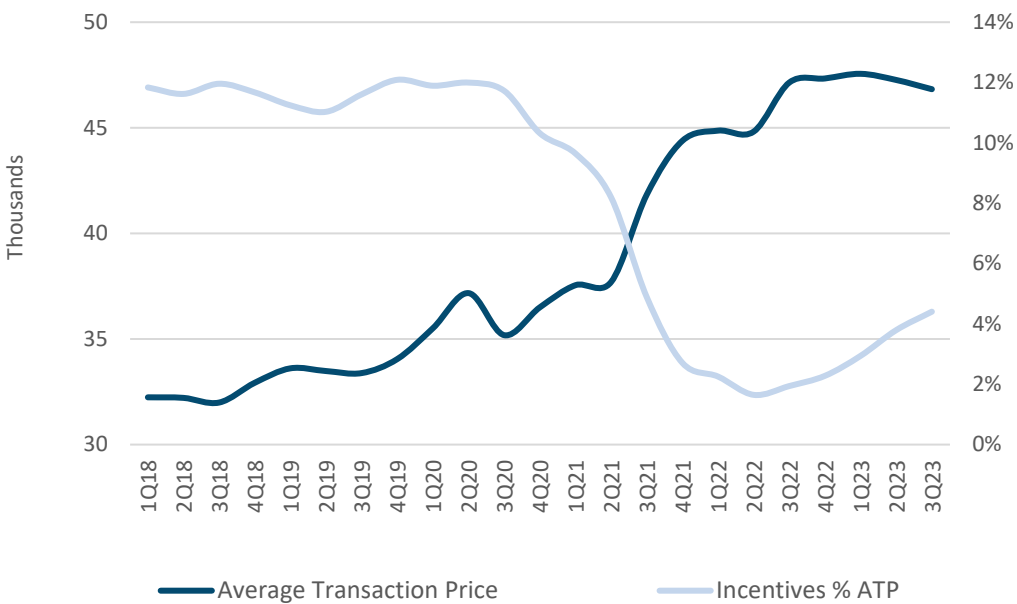
Note: Reflects average pricing and volume result of CAG, CPB, GIS, K, KHC, and MDLZ. Results calendarized for CAG, CPB, and GIS. Source: Company reports, CreditSights.

Autos: Dealer Restocking Is Softening Vehicle Prices

US Light Vehicle Dealer Inventories

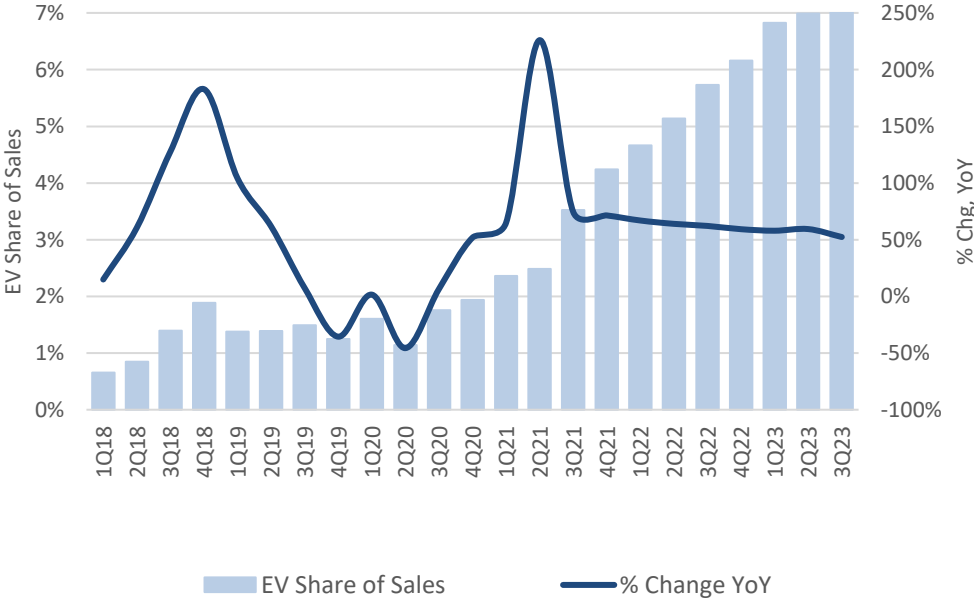


US Light Vehicle Prices and Sales Incentives



Autos: EV Sales Growth is Slowing

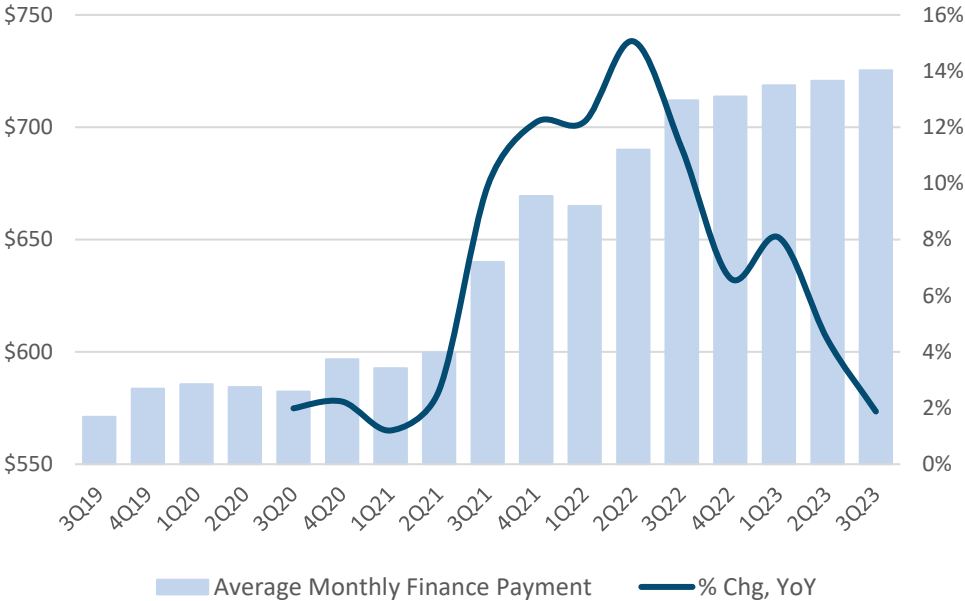
US Electric Vehicle (EV) Sales



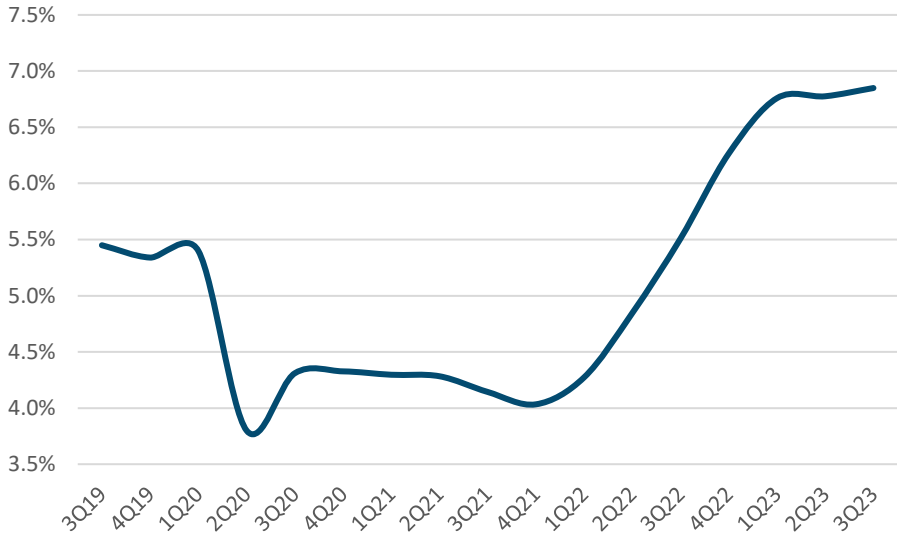
- EV sales are still growing at a healthy 50% clip in the US.
- EVs still account for only 7% of US vehicle sales.
- High EV prices are constraining USEV sales growth.
- The underdeveloped and unreliable EV charging infrastructure in the US is an impediment to near-term growth.

Autos: Vehicle Affordability Remains a Concern

Average New Vehicle Monthly Finance Payment

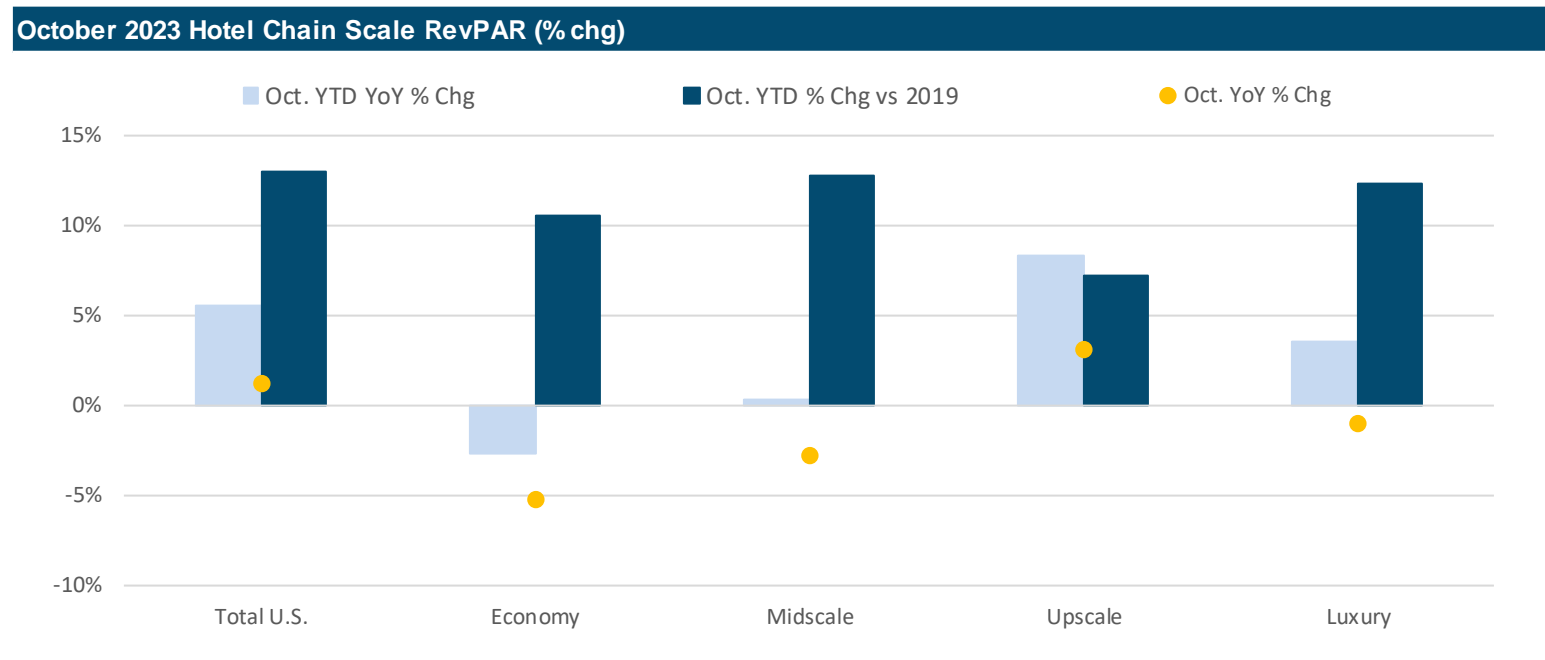


Average Interest Rate - New Vehicles



US Lodging Demand: Normalizing Yet Resilient

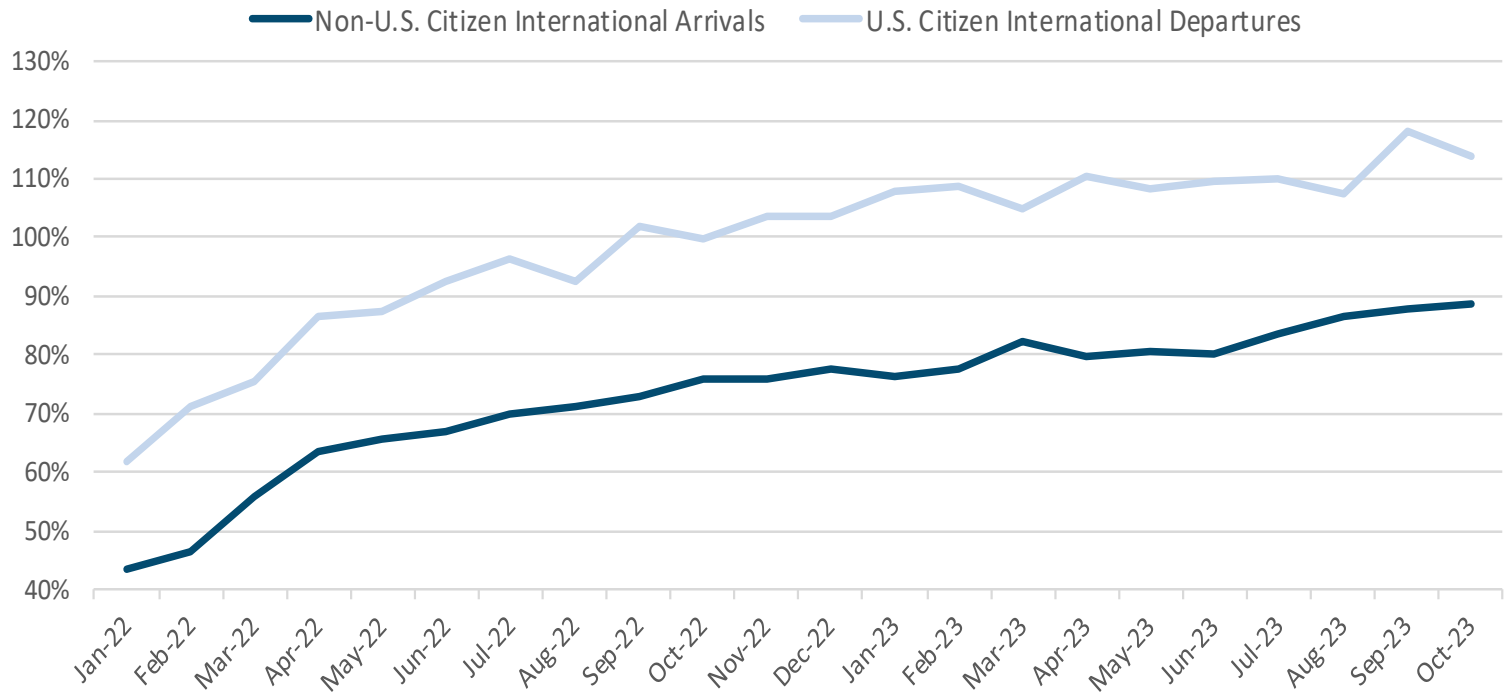
- Flattening YoY RevPAR growth, but still elevated vs. 2019
- Lower-end hotels struggle to outpace difficult YoY comp
- Upscale hotels continue to benefit from business / group travel recovery



Source: Smith Travel Research, CreditSights

Surge in US Travelers Heading Overseas

International U.S. Citizen Outbound vs Non-U.S. Citizen Inbound Travel (% of 2019)



Source: U.S. Department of Commerce, CreditSights

Input Costs: Wage Growth Remains a Major/Ongoing Headwind



Major Wage Wins in '23 & Beyond

- United Auto Workers
- Rail Union
- UPS/Teamsters
- West Coast Longshore/Warehouse
- Vegas Culinary Union
- CPI-Based Minimum Wage Resets
- California Fast Food Workers
- NYC App-Based Delivery Workers

US IG Autos Recommendations

US IG Autos Company Recommendations		
Outperform	Market Perform	Underperform
Ford (F)	Aptiv (APTV)	Toyota (TOYOTA)
General Motors (GM)	BorgWarner (BWA)	Honda (HNDA)
Lear (LEA)	Hyundai (HYNMTR)	Harley-Davidson (HOG)
Nissan (NSANY)	Kia (KIA)	Magna (MGCN)

Source: CreditSights

- **Ford (F):** We expect Ford automotive profit margins to be stable in 2024 as higher labor costs and softening vehicle prices are offset by structural cost reduction initiatives, resilient Ford Pro segment performance, and a sharply lower operating loss in its Model e (EV) segment. We expect Ford Credit metrics to continue to normalize (deteriorate), although it maintains one of the highest quality earning asset portfolios among captive lenders.
- **General Motors (GM):** The company targets maintaining HSD automotive profit margins by reducing structural costs to offset higher labor costs and managing dealer inventories to 50-60 days, while increasing its mix of more affordable vehicle offerings. GM Financial has a higher proportion of subprime borrowers (mid-teens), which makes it more susceptible to deteriorating delinquency and net charge-offs in a worsening economy. High EV prices are constraining U.S. EV sales growth
- **Honda (HNDA):** Honda's automotive wholesales are expected to sustain positive momentum into 2024, while the outlook for its motorcycle segment is less robust owing to an uncertain economic outlook in several Asian markets such as China and Vietnam. Our Underperform recommendation on Honda notes is based primarily on relative value as we expect its industrial profit to improve in 2024, it maintains a fortress industrial balance sheet, and its captive credit metrics remain strong.
- **Harley-Davidson (HOG):** The high interest rate environment is expected to continue weighing on consumer discretionary purchase decisions and dampen Harley's motorcycle sales in the near term. While we believe Harley's investment grade rating is secure, we expect the weak near-term sales outlook and waning pricing power to weigh on revenue and profit growth and the company's credit metrics through 1H24.

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