AASA Industry Analysis: Don't Discount Miles Driven In Long Term Forecasts

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AASA Thought Leadership:
Don't Discount Miles Driven in Long Term Forecasts

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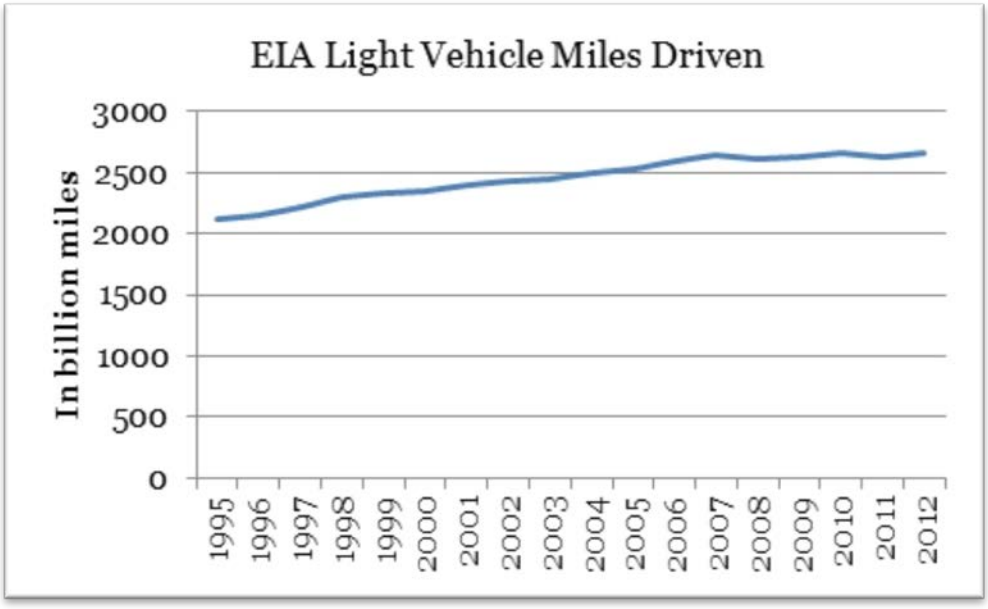
"What is the outlook for miles driven?"

That is one of the most common questions that AASA's industry analysis team is asked.

It is a very good question, since miles driven have been one of the most-watched statistics in the aftermarket for decades. A key market driver, the growth rate in miles driven typically mirrors the growth rate of the aftermarket.

But in recent years, there has been a huge disconnect between miles driven and aftermarket growth in recent years. While the United States has experienced five years of stagnant miles driven, the aftermarket has continued to grow.



This disconnect is a testament to the resiliency of the aftermarket. The industry has been able to find new sources of growth, such as aging vehicles and more complex vehicle technology (which result in increased dollars per part).

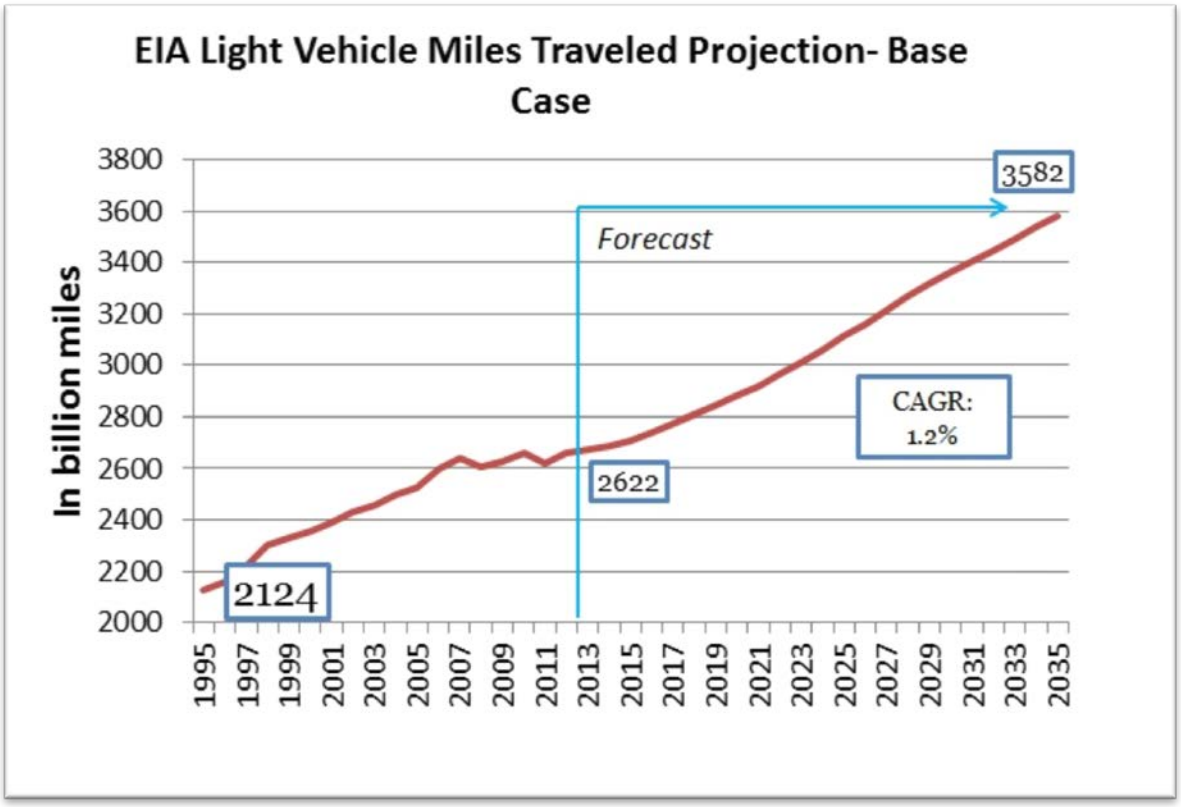
However, miles driven remain a huge market driver, especially for wear or consumable parts. The miles driven outlook still has an enormous impact on the growth potential of the aftermarket.

EIA Miles Driven Forecast

The good news is that there is a well-respected forecast available that provides future miles driven. The US Energy Information Administration (EIA) conducts an extensive and well-respected econometric model that predicts all U.S. energy usage. This forecast is widely used by other industry sectors.

The EIA uses predictive analytics to create a multifaceted forecast of miles driven as part of this forecast, as it is the single largest driver of U.S. oil usage. Its model for light vehicle miles driven incorporates more than 30 variables and robust historical data to predict future trends.

Here are some key takeaways from the EIA's "Light Vehicle Miles Traveled Projection:"



The EIA forecasts an addition trillion light vehicle miles driven between now and 2035 -- increasing from 2.6 trillion in 2011 to 3.6 trillion in 2035, a compound annual growth rate (CAGR) of 1.2 percent. This is an enormous increase and turnaround from what the United States has experienced over the last five years of recession, weak recovery and high unemployment.

Admittedly, it's slower than the growth rate of the 1995 - 2007 period (CAGR of 1.7 percent) due to the much-publicized factors driving lower per-capita automotive use:

- aging population
- high unemployment
- increasing cost of owning a car
- increasing urbanization
- rising fuel costs
- less interest in cars from younger drivers
- virtual socialization
- telecommuting

However, this is still substantial future growth for miles driven, which means a positive growth driver for the aftermarket.

Baseline Forecast: Context and Caveats

There are two big drivers of the EIA's positive outlook: demographics and lack of substitutes for personal vehicles.

U.S. demographics are positive: population, income and employment are all growing. Certainly, income and employment growth are not as strong as in the past – but even the most negative projections expect tens of millions of new jobs over the next three decades.

The second driver is that there is no real substitute for personal vehicles in the U.S. Despite increased focus, public transport is not a significant option in most parts of America, and tight government budgets restrict expansion of transit systems. Fundamentally, the U.S. infrastructure is based around the car.

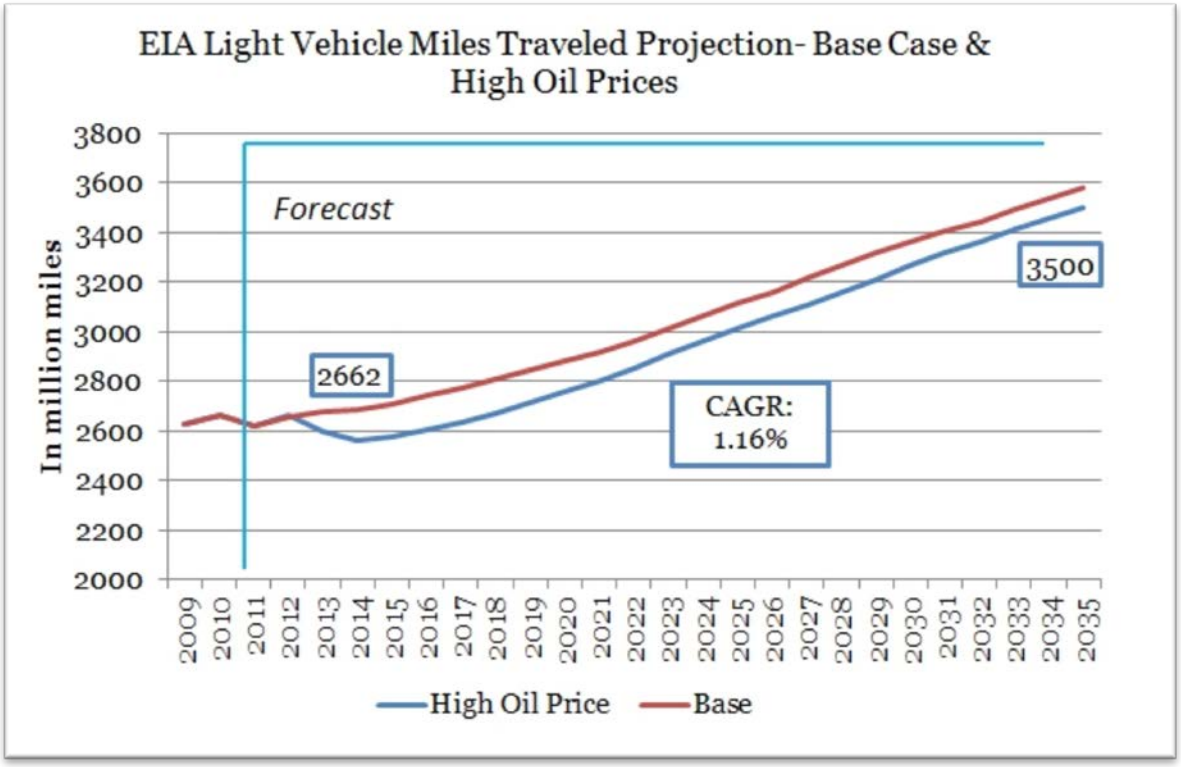
The bottom line is that the U.S. still has a very automotive-centric culture and lifestyle, and increasing total auto usage due to demographic trends. The aftermarket will not go away.

Other recent news and analysis also supports a more positive outlook for miles driven than in recent years. Analysis by the IEA (International Energy Administration) that the U.S. will become the world's largest oil producer by 2020 and will be energy independent by 2030. This means ample energy will be available to allow these miles to be driven.

As AASA analysis showed last year, increasing U.S. vehicle fuel economy will lower the cost per mile driven, also supporting the trend. (Click here to download, "New Fuel Economy Regulations: Why They May Be Good for the Aftermarket;" user name and password required)

Scenarios

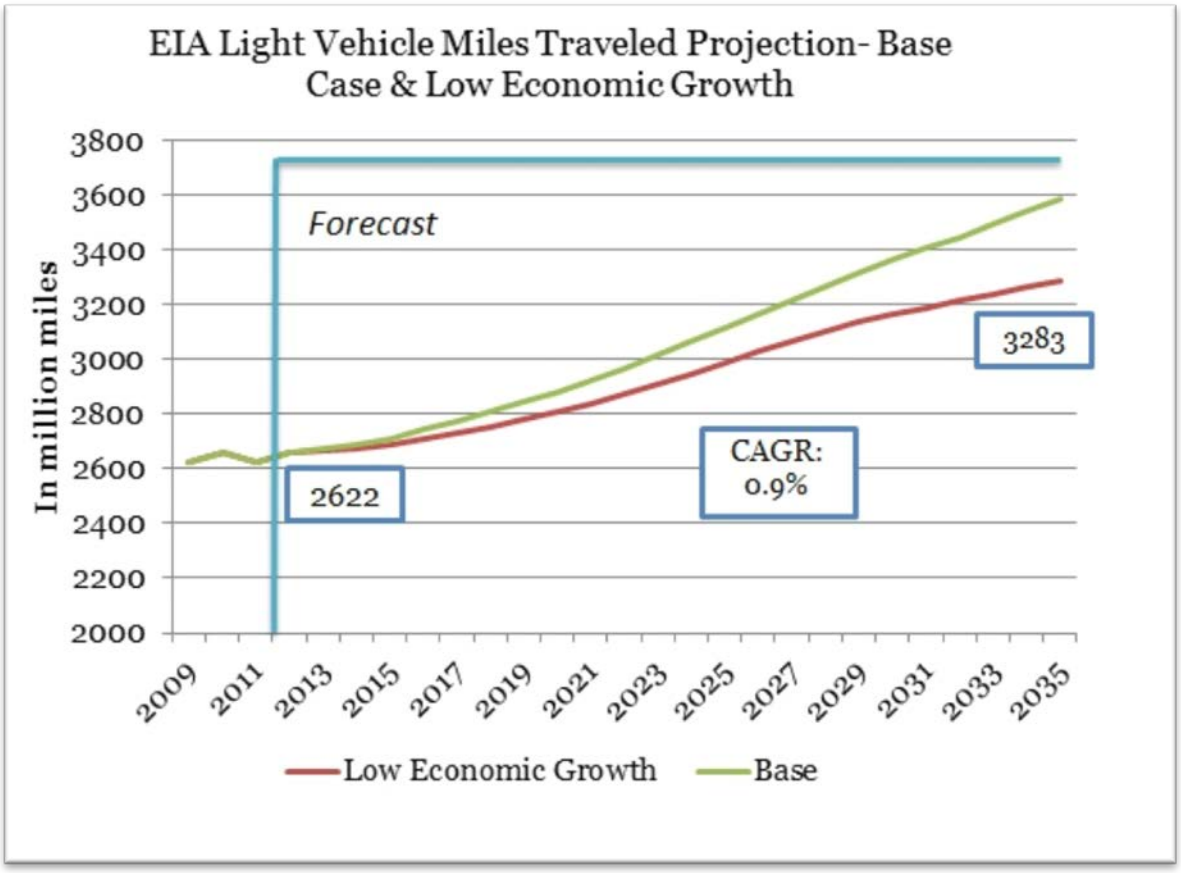
The EIA also forecasts miles driven for a number of alternative scenarios, which include high and low oil prices, high and low economic growth, the development of high technology batteries that could make hybrid and electric vehicles more appealing, and several others. It is impressive that miles driven expectations remain strong even in the scenarios that present downside risk to miles driven and hence the aftermarket.



The high oil price scenario, for example, assumes oil is at $200 a barrel in constant dollars. Even in this scenario, light vehicle miles driven increases to 3.5 billion miles by 2035 or a CAGR of 1.16 percent. This is only ~2 percent below the base case scenario.

However, higher oil prices have an interesting effect. In the short term, higher oil prices cause a significant decrease in vehicle miles traveled. However, this is only the case for several years and then the miles driven increases again as consumers and the market adjusts to a higher price for crude per barrel.

The low economic growth assumes that U.S. economic growth through 2035 will average only 2 percent, well below the average of the last several decades. Of the various scenarios considered by the EIA, this had the greatest negative impact on miles driven.



In this scenario, light vehicle miles driven are forecasted to increase to 3.3 billion miles by 2035 or a CAGR of 0.9 percent. However, this negative outcome still led to ~700 million miles in growth between now and 2035. Absolute growth remains very high even in negative scenarios, again due to the strength of underlying demographics.

Overall, the EIA forecast is very informative and is well worth a perusal. By clicking here, you can access online tools to download data and explore the different scenarios.

Summary and Implications

Over the longer term, the most likely outcome is substantial growth in miles driven – even if the pace of growth is slower than the amazing increase in automobility seen in the 1980s and 1990s. This is a future tailwind that few analysts and companies take into account in their aftermarket forecasts.

This expectation of growth could be a saving grace for the industry over the long-term, offsetting declining replacement rates and concerns about a decline of the population of vehicles in the aftermarket "sweet spot" over the remainder of this decade.

Essentially, the EIA forecast says that if you believe that the U.S. economy and employment will grow in the future, then miles driven will also grow – substantially.

(Margaret Beck and Bailey Watson of AASA also contributed to this article.)

More Information

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