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June 2017 Sales and Revenue Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Christa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Ford Monthly Sales Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Erich Merkle, U.S. Sales Analyst, you may begin your conference.

Erich Merkle
US Sales Analyst, Ford Motor Co.

Thank you, Christa. Well, good morning, everyone, and welcome to Ford's June 2017 U.S. sales call. Today, I'm joined by Mark LaNeve, Ford Vice President, U.S. Marketing, Sales & Service; and Emily Kolinski Morris, Ford's Chief Economist.

So first up, let's give some industry perspective and some color on Ford. We'll start with Mark. Mark?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

Thank you, Erich, and good morning to everybody out there. Thanks for joining us and from all of us back here, wishing you a happy and healthy Fourth of July weekend.

So let's dig into what happened in June. We believe the industry was off slightly. We're basing that on the reports that we received during the month and what we're seeing in this morning's early data. Our data would suggest that total sales, including medium and heavy trucks, came in at about 1.52 million vehicles. There will be a slight decline of about 2% versus a year ago. The corresponding industry total SAAR would be hovering right around 17 million units for the month at that level.

June's industry retail performance was likely down about the same amount, as total sales at approximately 2% with retail sales estimated at about 1.17 million vehicles. We saw industry incentive spend that was higher by about $330 relative to June of 2016. Compared to May, June incentive spending was actually slightly lower by $20.

During the first half of the year, June does mark the end of the second quarter and the first half, total industry sales added up to about 8.6 million vehicles. This represented approximate 2% decline compared to the first half of last year, with first half retail sales estimated to be down a little less at 1%. And as I just said, June was down 2%; so June very much in line with the first half performance of the industry.

Moving on to Ford, our overall sales for June totaled 227,979 vehicles, which was down 5% compared to June of 2016. This year-over-year decline was entirely with fleet as on the retail side, our sales were flat with sales of 152,396 vehicles. And that number is actually up 36 units from a year ago, but, of course, rounds to a flat number. We believe this slight increase will compare favorably to a retail industry that we expect was down for the month.

Our fleet sales were down 13.9%, which was due to the timing of our deliveries last year as we told you would be the case during last month's call. Looking ahead, we also expect – our fleet sales for the month of July are expected to be down again double digits, which is again tied to the timing fleet customers are submitting this year.

Now, while there's obviously significant fluctuation month to month, we expect our overall fleet business to end 2017 about the same as 2016 in terms of volume, share and percent of our total for all three components: rental, commercial and government.

Moving on to the pricing front, our overall average transaction pricing last month increased about $1,800 compared to a year ago. This was the largest increase of any automaker in June and outperformed the industry average of $520 by more than triple.

A big component of the positive pricing story was driven by strong consumer demand for Super Duty pickups with average transaction pricing up $5,300 over year ago levels at $55,400 per truck. Customers continue to buy a very rich mix of the all-new Super Duty with 55% of retail sales coming from Lariat, King Ranch and Platinum edition trucks.

Overall, F-Series transaction pricing totaled $45,600 per truck, which is up $3,100 versus a year ago. We're also seeing consumer demand for up-level trim and series mix on the F-150 in addition to Super Duty and tremendous demand for Raptor, which is also boosting our F-Series mix and pricing.

Now, let's talk more specifically about F-Series sales performance for June. F-Series sales totaled 77,895 trucks last month. That's our fourth month in a row over 70,000 and represented a 9.8% increase, and was our best June sales performance since 2001. This was achieved through strong retail performance for both F-150 and the all-new Super Duty. F-150 sales were up 4% in retail, while retail sales in the all-new Super Duty increased 23% for the month.

Super Duty was strong at every region in the country. It's been that way since we launched. And for the first half of the year, it's been incredibly strong, just month after month. But some of the numbers for June around the country were up 26% for Super Duty in the Northeast; 22% in the Southeast; 29% in the West; 26% in the Great Lakes; and 23% in the largest pickup market in the country, the Central region which includes Texas, so consistently strong performance in all of our regions around the United States.

Customers love this series, it's gaining both sales and share while expanding its transaction pricing as customers place greater value on the level of capability, class-exclusive features, and technology offered in our new pickup trucks.

We also had a great SUV June sales month as well. Ford brand SUV sales for the month totaled 71,666 vehicles, up 3% versus a year ago, and our best June sales performance for Ford brand SUVs in 16 years. At retail, Ford brand SUVs gained 7% for the month as we continue to see the shift in customers especially millennials and baby boomers deciding that SUVs are a better fit for their needs and lifestyle.

We also see – similar to the truck story, we see SUV customers looking for much higher equipment series levels. Couple of examples, Titanium Escape sales represented 30% of its retail Escape business. Edge sales ran at almost 40% Titanium and Sport for the month, and approximately a third of Explorer sales were Limited, Sport, or very high-end Platinum trims.

Explorer in particular had a great month, was up a strong 23% in June, with sales of 21,304 vehicles. This represented Explorer's strongest June sales performance in 12 years. And much like F-Series, Explorer was strong in every region of the country.

Edge had a very good month, 13,411 vehicles, an increase of 20%. And while Escape sales were down overall, retail was up 5% for the month, with some of our largest sales gains for Escape coming out of the West, which was up 18%.

So let's take a look at a couple of first six months of the year highlights. Total 2017 first half U.S. sales for Ford was 1,301,102 vehicles, down 3.8% compared to a year ago. Retail sales totaled 864,000 vehicles, representing a smaller 2% decline that was more in line with the overall industry.

First half fleet sales were 436,946 and were down 7%. As we have mentioned on previous calls, fleet results reflect a strong year-ago comparison where we were front-loaded, and that's obviously due to the timing when our customers are desiring to receive their fleet deliveries.

F-Series continued its leadership position as America's best-selling truck through the first half of the year with 429,860 pickups sold. This represents an 8.8% gain compared to last year. It was our best first half sales performance since our record F-Series year in 2004. And incidentally, we're currently running less than 1% away from that 2004 record pace.

Ford brand SUVs had their best ever first half sales performance with sales up 3% compared to first half of last year with more than 400,000 SUVs sold. It is the first time we've sold more than 400,000 Ford SUVs in the first half of any year, and it's really very encouraging to have this kind of SUV performance in advance of the all-new Expedition that's coming out later this year and our first entry into the hot mini-SUV segment with EcoSport early next year.

Let's move on to Lincoln. Lincoln had a great June, capping off a strong first half. Lincoln sales were up 5% overall in June with 11% gain at retail for a total of 9,275 vehicles sold for the month. June was Lincoln's 17th straight month of year-over-year retail gains. Lincoln car sales were up 2% with gains coming from the all-new Continental.

MKC sales were up 16% last month, and the MKC along with Navigator helped to expand Lincoln's overall SUV sales by 7% last month. From the first half, Lincoln sales totaled 56,337 vehicles, a 6% increase. Lincoln's retail sales were up even more with a 9% gain, giving Lincoln its best first half sales in a decade.

We continue to be enthusiastic about the opportunities in store for the Lincoln brand in the second half of the year, particularly with the all new Navigator arriving in dealerships this fall. So that's a quick look at June and the first half of the year overall.

With that, I'll turn it over to Emily for an update on the economic front.

Emily Kolinski Morris

Chief Economist, Ford Motor Co.

Great. Thank you, Mark and good morning, everyone. Well, we're not able to speak yet to second quarter GDP or first half for that matter, but the economic data that we do have available so far covering the second quarter align with our expectation and the expectation of several key outside tracking estimates that real GDP growth will have accelerated in the most recent quarter ending with June.

Even with the weak first quarter sequential reading that we had on GDP, that means that year-over-year growth in the first half [ph] were (10:55) likely to be at 2% or better, leaving our 2.2% full year GDP forecast unchanged.

Some of the more encouraging recent data points include continued strength in the labor market. The June employment report will be released later this week, but April and May averaged job gains of just over 150,000, and new claims for unemployment insurance remained near recent lows. The employment indicators are especially strong in the context of an unemployment rate that has already fallen to 4.3%, suggesting continued momentum for firming of wage and income growth.

So far this year, average hourly earnings are up 2.4% from the same period a year ago and real disposable personal income so that's adjusted for inflation has risen 1.9% over the same period, even allowing for the somewhat higher inflation that we've had earlier this year as compared with 2016 due to the higher gasoline price.

The consumers are feeling pretty good in terms of their personal financial situation, and that's supported by the data from the University of Michigan Consumer Sentiment Index. Although the overall index fell 2 points in June, the overall number is still at a solid 95.1 points, and the decline was more than accounted for by a fall in the economic expectations component while the current conditions component strengthened slightly. And the survey noted in particular the consistent strength in consumer's personal financial assessment in recent surveys.

The share of survey respondents supporting that it was a good time to buy a car also rose 2 points from May to 67%. The theme of a relatively robust consumer sector offset by a weaker business investment profile continues to hold through the latest data releases as well. Although resurgent activity in the U.S. energy sector is providing some support for investment spending, new capital goods orders excluding aircraft and defense fell by two-tenths of a percent in May. And that was the largest monthly decline since December of last year; the forward-looking indicators of business sentiment remain more favorable however. This morning, we got the June PMI for manufacturing, and that rose nearly 3 points to 57.8% from an already strong 54.9% in May. Orders, production and employment components all posted strong gains.

So as I indicated a moment ago, our assessment is that incoming data remained consistent with U.S. economic growth of 2.2% this year. In the absence of other factors, that economic growth would be expected to support a relatively high level of auto sales and the gaps that I noted between the consumer and business sectors is also consistent with the relative performance of the retail and fleet new vehicle industry this year.

As Erich and Mark noted, we see June new vehicle sales in the 17 million unit range, including medium and heavy trucks, and we will likely see total industry retail sales roughly even with the year ago, in line with the year-to-date performance along with the decline in fleet driven largely by the rental sector.

So with that, I will turn things back over to Erich and we'll speak with you later in Q&A.

Erich Merkle

US Sales Analyst, Ford Motor Co.

Thank you, Emily. Taking a look at some of the industry segment trends and additional details for the month of June, in the industry's small SUV segment represented about 21% of retail sales last month which is up about 2 full points versus year ago. So, small SUVs are – continue to be very hot.

We also continue to see good growth coming out of midsized SUVs, which accounted for about 14.5% of retail industry last month. Kind of like the small SUV segment, the midsized SUV segment is also up 2 full points versus year ago. We also saw a 0.5 point of sequential growth as the segment really bucked seasonal trends that favor cars in the spring/summer months.

Midsized cars represented about 10% of the retail industry in June, which were down about 1.5 points compared to year ago, and 1 point compared to May. Small cars represented about 16.5% of the industry which is off about 1.5 points compared to year ago and down about 0.5 point compared to May. Full-size pickups were really coming on strong this month. We estimate that it's about 13.5% of the retail industry in June which represents a gain of more than 1 percentage point compared to a year ago.

On the inventory front, our total gross stock for the month of June was 696,000 vehicles, with 79 days' supply. This compares to May at 691,000 vehicles at 72 days' supply. And if we compare this with year ago, June of 2016, in gross stock, we had a total of 724,000 vehicles which translated into 78 days' supply. The overall gross stock on a unit volume basis is down about 28,000 compared to year-ago and really this is right in line with where we need to be at this point of the year.

So with that, we're going to turn things over for some Q&A and we're going to start off with the analyst community, Christa.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of John Murphy with Bank of America Merrill Lynch. Your line is now open.

Aileen Smith
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Good morning, guys. This is Aileen Smith on for John. First question, of the $1,800 improvement you noted for average transaction prices in the month, can you bracket how much of that is mix-driven versus the offsetting factors from more aggressive incentive activities? Is it fair to say that the positive impact of mix is greater than the total $1,800 increase for ATPs?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

I can't do that calculation, I could tell you that much of the $1,800 increase is mix-driven. It's a combination of vehicle mix, great Explorer month, great F-150 month, great Super Duty month. And then within the vehicle mix, a very high – as I mentioned in my comments, a very high-series mix and customers choosing some of the latest technological features. Our incentive spending was flat month to month so that wasn't a deterrent in the positive pricing results and we were up only marginally year-over-year on incentives as well.

Aileen Smith
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Okay.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

But I can't do the calculation. I'm not sure I understood the question. I can't do the calculation and I don't believe that you're asking for.

Aileen Smith
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Yeah. That's helpful. And then the second question, I know we always ask this, but can you give us a little color on the leasing activity in the month and where Ford stood versus the rest of the industry? I know you guys had been the really the first to pull back on leasing, and we've heard from some other companies that they expect leasing penetration to moderate. But are you seeing signs of this actually occurring on an industry-wide basis yet?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

Really good question. We've been consistent and disciplined. We were flat from May and from our six-month running average approximately low-20s, 21%. The industry overall runs – tends to run 6, 7, 8 points higher than that in a given month, 27%, 28%. We didn't see any indication of any competitors really backing off, so I would guess that the month will turn out very similar for the industry, right about that 28% level. We certainly don't see a spike in leasing activity, but it's still very competitive out there.

Aileen Smith
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Okay. Great. That's super helpful. That's it from me. Thank you, guys.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

Great. Thank you.

Erich Merkle
US Sales Analyst, Ford Motor Co.

A

Thank you.

Operator: And your next question comes from the line of David Tamberrino with Goldman Sachs. Your line is now open.

David Tamberrino
Analyst, Goldman Sachs & Co.

Q

Well, great. Thank you for taking the questions. Really appreciate it on this short day into the holiday. I want to dig into the retail side here, just because we're seeing, by your estimates, retail down 2%. So far in the month, I think if you look at your larger competitors that have reported so far, you've seen much worse retail performance than the flat that you've reported for June, and really just want to get a sense of what you're seeing out there from, one, a customer perspective and, two, matching with the macro backdrop, which you talked about still looking pretty good but still we're seeing that softness in the retail. So wondering really what's driving that from your perspective on what customers are doing and saying out in the lot.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

I mean, clearly, David, we've got an industry that has peaked. I mean it doesn't look like there's any indication that we would gain enough momentum as an industry in the second half to eclipse last year, even though the second half of the year has run much stronger than the first half going back several years, 2%, we had the industry off 2%, we're off about 2% for calendar year-to-date, we were up marginally retail for the month of June, so we feel like we're outperforming the industry.

And basically, it's a recurrence of the shifts we've been talking about, that dramatic shift into SUVs and trucks which transact at a higher level generally, it's not overcoming the overall weakness in cars from a retail perspective. So, from a Ford standpoint, the shift is very favorable for us in terms of our value stream for both ourselves and our dealers, and we're having an incredible year with the F-Series and a very strong year with SUVs, down 2% overall as, we're off dramatically in passenger cars. And that trend is being played out across the industry, and overall, it's a very good number, if we're running mid-17 million to 17.7 million unit industry. That's very good from historic basis, but clearly off from the peak of last year.

David Tamberrino
Analyst, Goldman Sachs & Co.

Q

Okay. And then just following up on that as I think about the next portion of the year in the back half, I mean I think you guys imply a pretty significant step-up or at least a rebound in retail sales. But our understanding is that credit's gotten a little bit tighter out there and customers are coming back – more of them are coming back, rather, with negative equity. So just wondering how much of an impediment that could be to back half retail sales from a credit perspective as it tightens up or it just gets a little bit or incrementally harder to finance a consumer.

Emily Kolinski Morris
Chief Economist, Ford Motor Co.

A

David, this is Emily. Let me just take a stab at that. I think the factors you're talking about, whether it's negative equity or some of the other trends in the industry, aren't likely to be materially different in the second half than the first half.

As Mark pointed out, I think you may want to be careful thinking about the sequential performance of the retail industry versus the year-over-year. So in year-over-year terms, a retail industry that performed about the way it did in the first half would be very, very strong. It would be stronger in the second half than the first half. So I think that's the triangulation that you have to do in thinking about the outlook for the full year.

David Tamberrino
Analyst, Goldman Sachs & Co.

Q

Appreciate the time. Thank you.

Erich Merkle
US Sales Analyst, Ford Motor Co.

A

Thank you, David. Christa, the next caller please?

Operator: And your next question comes from the line of Dan Levy with Barclays. Your line is now open.

Dan M. Levy
Analyst, Barclays Capital, Inc.

Q

Hi, thanks for taking the call. On this short day into the holiday, I wanted to ask first on the large pickup market. I'd like to get your take on the current competitive dynamic in large pickups and where you think it might go. We've seen in recent months incentives as a percent of ATP at the lowest level in quite some time in the segment. And I'm just wondering how sustainable you think that is, especially considering both share and spend for one of your large competitors is quite low at the moment.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

Well, Dan, we've seen excellent performance. I can only speak to the competitive – what they're going to do in terms of pricing, I can't speak for that, but we have seen disciplined pricing overall in the pickup market. We certainly have been. We're running a very low incentive load on our new Super Duty, as an example. And our Super Duty, coincidentally, is transacting at $55,000, $56,000 in the last two months. That's right at the luxury car average across Mercedes, BMW, all the luxury brands. And we actually – to give a month to outsell the top luxury brands, I like to tell the dealers, our Super Duty is the number one luxury brand in America if you think about it that way.

So, you're seeing some real interesting dynamics in terms of people choosing up level trims. When the vehicle is being chosen for a combination work and pleasure and people – our customers choosing all the latest safety features and it's just been a terrific business for us. We invested heavily, you know the latest generation out in front of the competition and we're certainly reaping the rewards of that. I have no idea, obviously, next year when we get one of our major competitors bring up their new truck, how they'll price it and where they think the competitive advantage will be, but I like the way we're positioned in pickup trucks.

Dan M. Levy
Analyst, Barclays Capital, Inc.
Q

Do you see some sustainability in the strength of your ATPs?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.
A

Yeah. I mean if you think about it, some of the key factors that drive pickup truck business historically, the housing market. New starts in residential housing is way off historical peak so it's got room to run. Infrastructure has a lot of room to be a tailwind for us. So, I'm very bullish on the pickup and we continue to perform month in, month out and really are being surprise on the upside on transaction pricing.

Dan M. Levy
Analyst, Barclays Capital, Inc.
Q

Got it. Okay. And I wanted to ask another question. In terms of trade-in volumes, I was wondering if there's – any data points you might be able to share there. What percent of your new vehicle sales are involved with trade-in some stores and where that stands versus recent years, maybe anything around the average holding period for a new Ford vehicle and where that stands versus [ph] trend is. I think (25:56) I'm just wondering how much less is a trade-in a lever of new vehicle sales today than it has been in the past, if at all?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.
A

It really hasn't changed. We haven't seen a dramatic change. About 50% of our sales to our dealers, give or take, in a given year, involve a trade. The customers, depending on the segment, depending on the original transaction or either if it was going to help drive their equity position, so on our pickup truck business, for instance, we have such great resale value on our pickups, that's one of the key drivers. Why we do so well is the vehicles hold its value incredibly well at the time of trade-in. You see some weakness in some other segments that could be a dampening effect say on mid-cars, for example, but we haven't seen any major shift in the amount of – the percentage of trade-ins coming in.

Dan M. Levy
Analyst, Barclays Capital, Inc.
Q

Okay. Great. Thank you, and have a great holiday.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.
A

Yeah, you too.

Operator: Your next question comes from the line of Rod Lache with Deutsche Bank. Your line is now open.

Rod Lache
Analyst, Deutsche Bank Securities, Inc.
Q

Thanks, everybody. I had two questions. I was hoping you can maybe just address it. I think for Ford, something like when leases terminate; something like 80% of those typically get handed back to Ford Credit. I was wondering if you could talk about – there's a lot of discussion about the pressure on used vehicle prices from off-lease volume but to what extent is that actually supporting new retail sales or new leases just because there's – it's certainly is a catalyst for people to make decisions? If you can just quantify what the off-lease volume is for Ford this year versus last and how that's affecting you?

And then secondly, Emily, one of the things that you'd hope to see in a strong or strengthening economy is scrappage to increase. I was wondering if there's any insights that you get. We typically see that data with a little bit of a lag, but are you seeing anything that would suggest that this is actually helping support some acceleration in scrappage which could help sustain the market a little bit further?

Emily Kolinski Morris
Chief Economist, Ford Motor Co.

A

Let's take the second question first, Rod, on scrappage. I think when the economy is strong, you expect to see vehicle sales strong and we're certainly seeing that. The scrappage data, as we've talked about with you in prior calls, scrappage volumes had been weak. But I think when you look at the entirety of the ecosystem here, what that seem to imply is that we've had some gains in density growth and also some support coming from population. And in fact, the data that really lag unfortunately are the data on new licensed drivers. But in 2015, we saw an increase of 4 million in the number of licensed drivers which I think is a key supportive factor of the industry. So I wouldn't zone in on just the scrappage component, there's a whole funnel that goes from new vehicle sales to used and to scrappage, it goes through its own cycle, but the overall level of sales is clearly still strong and supported by those underlying physical.

Rod Lache
Analyst, Deutsche Bank Securities, Inc.

Q

Right. But if we see those strong gains in licensed drivers, a couple of million plus scrappage accelerating from the 11 million to 12 million, 13 million or more, obviously, that would be pretty bullish. So I'm wondering whether you're seeing the conditions that would typically result in an acceleration in scrappage or any evidence that that's happening.

Emily Kolinski Morris
Chief Economist, Ford Motor Co.

A

Yeah. We don't – as you've pointed out, we don't really have the real-time data on scrappage to understand whether that would be happening or not. So I guess beyond the data we have that cover primarily through the first quarter of this year, that that's kind of where we're at the moment.

Rod Lache
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Still at 11 million or so then?

Emily Kolinski Morris
Chief Economist, Ford Motor Co.

A

Right. Right.

Rod Lache
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And on the off-lease?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

Yeah. Rod, if I understood the question correctly, on the short term, if you forget supply and demand equation for just a second on the lease portfolio, in a given month, we like it when we have a lot of lease customers returning because if you think about it, just out of pure common sense level, they have to do something. The lease is expiring and they need to replace the vehicle. And working with Ford Credit and our dealers, we renew, we either re-lease another Ford to them or they just convert into a purchase, a more conventional purchase at a very high rate. So we are up – we were up in 2015 compared – in 2016 compared to 2015 on the returning lease portfolio, we are up this year as well over 2016. Not at an alarming number, any number that we haven't seen at some point in our history. And we work very hard with our dealers to accommodate those customers coming back in.

But one of the points on the overall lease portfolio, and we pay attention to it obviously, and obviously you guys are as well, is the industry tends to regulate. If you look at a given window of time of, say, the next several years on a lease portfolio, you've also got less rental units, which would tend to be one-year-old vehicles returning into the market than, we say would have had back in the 2002, 2003, 2004 timeframe. I believe there's less overall inventory. So, we've been disciplined on inventory. Looks like most of our competition, with a rare exception or two, tend to be disciplined as well. So the industry tends to self-regulate around things like a more robust lease portfolio, and try to take advantage of our opportunities with those customers coming back in.

Rod Lache
Analyst, Deutsche Bank Securities, Inc.

Q

Generally, we know that for the industry there's maybe 0.5 million more leases that are maturing this year versus last year; another 0.5 million next year versus this year. Do you see that as an industry tailwind or a headwind when you think about the various factors that are impacted by that?

Emily Kolinski Morris
Chief Economist, Ford Motor Co.

A

From an industry perspective, Rod, I think it's really appropriate that you're thinking about it in a balanced way. There are positives to a lot of off-lease vehicles coming back and of course, there are some pressures on the supply side as a result of those large volumes.

I think one thing I would note is that we've probably seen the most significant impact of that so far on daily rental rather than on retail. There's certainly the possibility that that can become a more widespread impact. We'll continue to monitor it, but I think that seems to be the channel through which it's manifesting itself right now.

Rod Lache
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. So sort of neutral on the retail side, but a headwind on the daily rent, is that what you're saying?

Emily Kolinski Morris
Chief Economist, Ford Motor Co.

A

That's what we're seeing so far. Yeah.

Rod Lache
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Okay. Thank you.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

On the margin, yeah, we'd definitely say that.

Rod Lache
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thanks.

Erich Merkle
US Sales Analyst, Ford Motor Co.

A

Thank you, Rod. Christa, we're going to turn things over to the folks in the media at this point, so if we could take our first media caller, please.

Operator: Certainly. [Operator Instructions] Your next question comes from the line of Tom Krisher with Associated Press. Your line is now open.

Tom Krisher
Auto Writer, The Associated Press

Q

Hello, gentlemen. I was wondering what you – it seems kind of perplexing that all the economic fundamentals are very good, yet sales are still down. You'd think that the – people are still buying, they would just switch to SUVs, that would overcome the car sales. And why are we down? What do you think is the reason for that?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

Tom, I'll kick it to Emily, but I would say you had a market that ran up sequentially at very healthy increases since 2010. And obviously, it looks like we hit a peak last year, it's not to say it couldn't play out differently for the balance of this year or even into 2018, depending on lots of factors like interest rates and overall GDP and infrastructure spending and things of that sort. But 17.5 million, 17.6 million unit industry is a very good industry. I'd take it all day long. So Emily, I don't know if you want to comment.

Emily Kolinski Morris
Chief Economist, Ford Motor Co.

A

Yeah. So, Tom, I would just reiterate what Mark said, and back to the discussion that we were having a minute ago on the physical, I think in the range that we're running right now, this is sort of a comfortable running rate for the industry based on those components when you think about scrappage and population. So, even though the economy's continuing to grow, I think you're in a flattish sort of industry environment which we've described previously.

In terms of monthly sales, that means some months will be up and some months will be down. But on the retail side, I think the performance is pretty consistent with where we are in both the economic cycle and the industry cycle. And again, the headwinds that we're seeing are largely due to some dynamics on the fleet side right now.

Tom Krisher
Auto Writer, The Associated Press

Q

Okay. So mostly – you'd say most of the decline would be attributable to fleet sales and you are down in retail, and it looks like the industry is going to be down a little bit retail too.

Emily Kolinski Morris
Chief Economist, Ford Motor Co.
A

Again, month-to-month, near a plateau, you're going to see some ups and some downs, but on average, the retail's much flatter on a year-over-year basis than has fleet been.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.
A

Yeah. Retail down 1%, we believe, when the numbers are all in for June for the first half of the year. And you got to remember, within that number, we don't focus on revenue in the industry too much, but revenue would be up based on the mix effect of going to SUVs and trucks. Most other industries focus on revenue.

Tom Krisher
Auto Writer, The Associated Press
Q

Right. And it's good business especially for you guys, but maybe for some of the other manufacturers that are more car dependent, it's not.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.
A

I only worry about Ford Motor Company, Tom.

Tom Krisher
Auto Writer, The Associated Press
Q

Okay. Thank you very much. Have a good holiday.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.
A

All right.

Operator: Your next question comes from the line of Christina Rogers with Wall Street Journal. Your line is now open.

Christina Rogers
Automotive Reporter, The Wall Street Journal, Inc.
Q

Hi, guys. Can you hear me okay?

Erich Merkle
US Sales Analyst, Ford Motor Co.
A

Yes.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.
A

Yes, loud and clear.

Christina Rogers
Automotive Reporter, The Wall Street Journal, Inc.

Q

Thanks for taking our questions. Just a quick question to follow up on the daily rental. The drop during the month, I know you talked about this being timing, but are you also seeing rental companies – car companies pull back on orders? I mean, how much is it like softening demand from rental car companies, and how much of this is Ford purposely limiting its sale to daily rental?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

Great question, Christina. We try to keep – as we've talked about, we try to keep our overall daily rent for the year within a reasonable number. Very – a lot of exhaustive analysis is done to make sure that we're protecting our residual values and the amount of vehicles flowing through the secondary market. And we anticipate we're going to end the year at roughly the same number that we did in 2016 and which would be really very similar number we did in 2015 and 2014 at about 11% roughly of our overall vehicle sales. We do see the rental car companies becoming a little more cautious given uncertainty of the residual values is that, many of them, it affects their overall business model, but we're not seeing any kind of dramatic movement. It's just, I'd say, slightly cautious for the rental companies.

Christina Rogers
Automotive Reporter, The Wall Street Journal, Inc.

Q

I mean, are you starting to – or are the rental car companies starting to place orders for next year and at this point and are you seeing any kind of pullback in demand for 2018?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

We're in the process right now and it plays out over the next several months of negotiating what we call the 2018 model year – program year contracts with the rental car companies. And as I said earlier, just slightly more cautionary tone to them than a year ago, but nothing alarming.

Christina Rogers
Automotive Reporter, The Wall Street Journal, Inc.

Q

And this is mostly because of the falling used car values that's driving this?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

I think so. I can't speak for them or their demand models, but, yeah, they're keeping an eye on used car values.

Christina Rogers
Automotive Reporter, The Wall Street Journal, Inc.

Q

Okay, great. Thank you.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

Thanks, Christina.

Operator: And your final question comes from the line of Keith Naughton with Bloomberg. Your line is now open.

Keith Naughton
Reporter, Bloomberg LP

Q

Good morning.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

Good morning, Keith.

Keith Naughton
Reporter, Bloomberg LP

Q

So, Escape sales down 6.4%, which is a real contrast to Edge and Explorer, each being up over 20%. Yet you guys have added a week of production in Louisville to get more Escapes on the lots. I'm just wondering if it's a supply problem or I noticed RAV4 had a very strong month, so maybe there's a competitive effect that caused Escape down?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

The year-over-year negative number, Keith, was entirely fleet. We were up 5% – over 5% on Escape retail for the month where our overall inventory situation is in very good shape with Escape. And – but it was affected by the daily rent. We don't put hardly any Edge or Explorer in the daily rent over the course of the year – or I shouldn't say hardly any; it's much less than Escape. So it was affected by the daily rent number and – but retail performance was very strong, and we've been very consistent in our share performance all year in that hotly contested small SUV segment.

Keith Naughton
Reporter, Bloomberg LP

Q

So you feel you match up well with RAV4 and with Honda?

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

Yes.

Keith Naughton
Reporter, Bloomberg LP

Q

Excellent. All right. Thanks very much.

Mark R. LaNeve
Vice President-US Marketing, Sales & Services, Ford Motor Co.

A

Thanks, Keith. Happy Fourth of July to you.

Keith Naughton
Reporter, Bloomberg LP

Q

You too.

Erich Merkle

US Sales Analyst, Ford Motor Co.

All right. Well, thank you very much, Christa, and thank you, everyone, for joining our call this month. Everyone be safe out there and have a great Fourth. Thank you very much.