

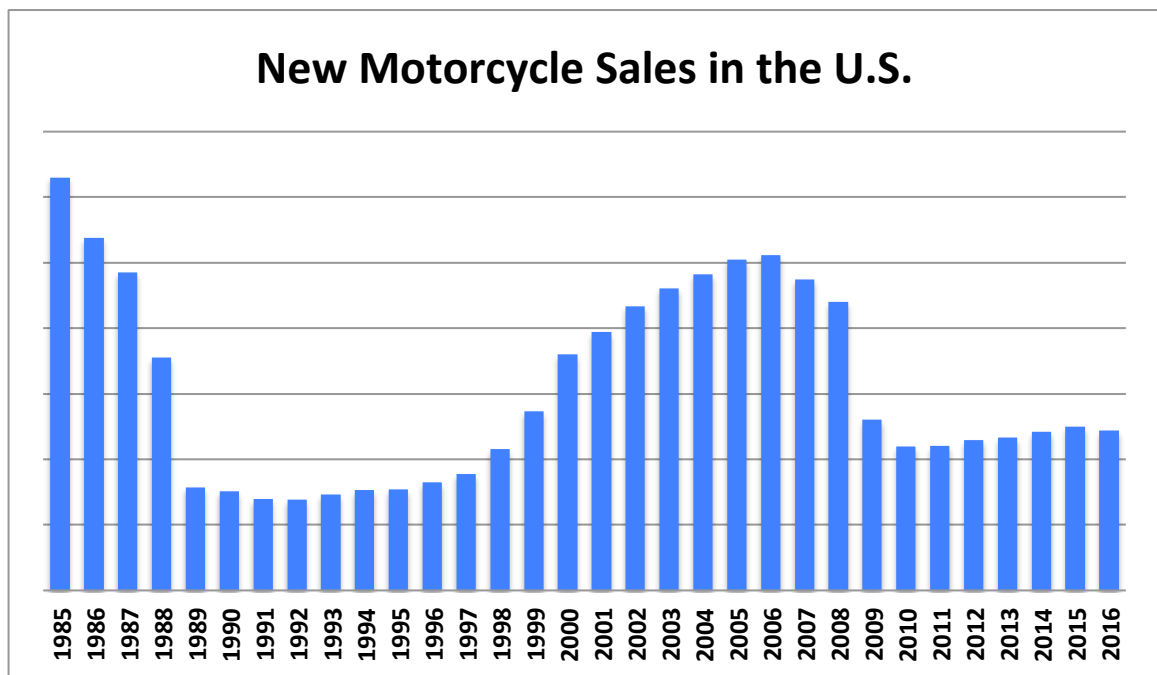


MOTORCYCLE SALES IN THE SLOW LANE *BUT DON'T BLAME IT ALL ON THE MILLENNIALS*

A Report Produced for "Give A Shift"
By Guido Ebert

Sales of new motorcycles & scooters in the U.S. dropped approximately -53% from 2006 to 2011 and, after a few years of low single-digit growth, dipped another -2.5% to approx. 487,000 units in 2016, according to figures compiled by the Motorcycle Industry Council (MIC).

Numerous mainstream news outlets this past year published articles highlighting the downturn being experienced by the motorcycle market, with many of the reports pointing to an aging consumer demographic mixed with the industry's inability to attract youthful buyers. What these articles don't reveal, however, is that a similar sales slump happened nearly 30 years ago.



- Motorcycle Industry Council

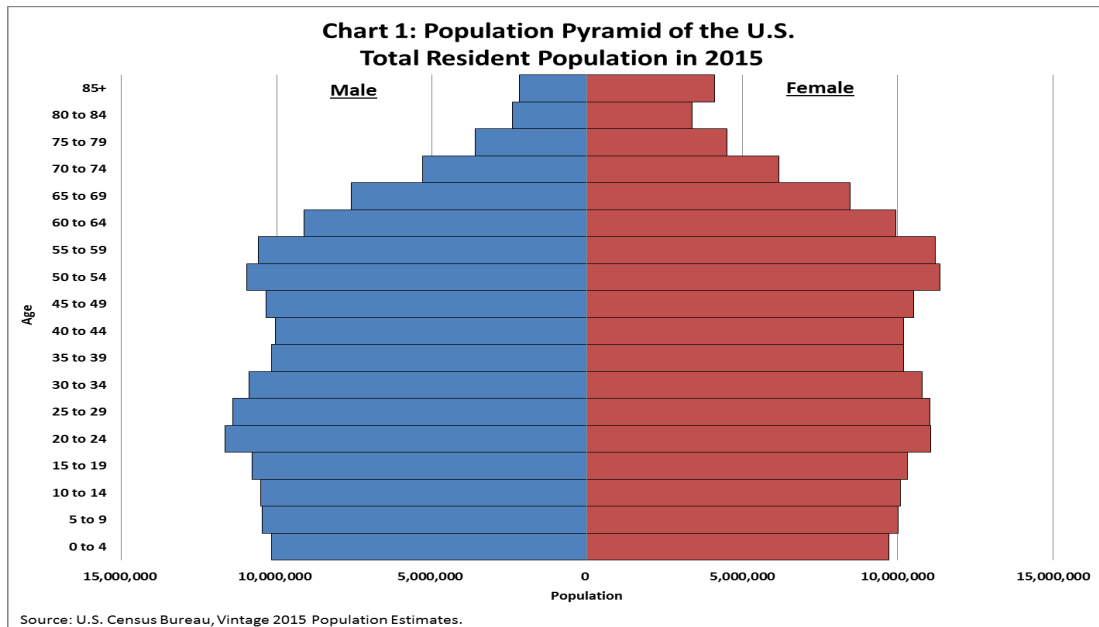
A glimpse at the MIC's historical sales figures shows that, following 15 years of relative stability and a high of 1.260 million new motorcycles sold in 1985, the U.S. motorcycle market experienced a seven-year downturn that saw sales shrink -78% to a low of approximately 278,000 bikes in 1992.

What precipitated these market downturns? What caused the market to rebound from 1993 to 2006? Can we deduce a future for the motorcycle market by examining the past?

First lets take a closer look at those demographics that are being batted around.

DEMOGRAPHICS

The U.S. motorcycle market has spent the past 50 years stoked largely by the “Baby Boomer” generation and, to a lesser extent, “Generation X”.



- U.S. Census Bureau

The post-World War II generation, Baby Boomers include 76 million American children born in the early-to-mid 1940s to the early 1960s and are widely regarded as being the wealthiest generation up to the era in which they arrived.

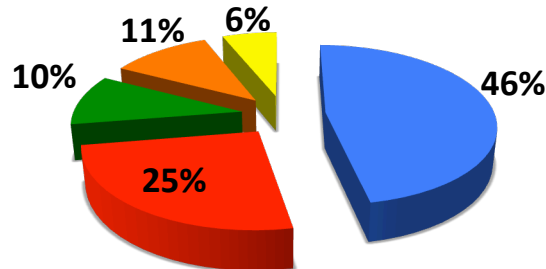
Thereafter, Generation Xers include 55 million American children born between 1965 and 1980. Millennials include 66 million American children born between 1981 and 1997.

According to population estimates released in 2016 by the U.S. Census Bureau, Millennials last year surpassed Baby Boomers as the nation's largest living generation. Thus, in light of the large Millennial generation and shrinking Baby Boomer generation, the concern over changing demographics is a valid one.

The MIC, in its most recent Statistical Annual, indicates that a motorcycle owner's median age has increased to 47 years old from 32 years old in 1990. Owners aged “50 And Over” represent 46% of the total, up from 10% in 1990, while those aged 30-34 represent 10% down from 17%, and those aged 18-24 represent 6% down from 16%.

Motorcycle Ownership (%) By Age Group

■ 50 and Over ■ 35-49 ■ 30-34 ■ 25-29 ■ 18-24



- Motorcycle Industry Council

It's a trend that has not been lost on the largest motorcycle supplier in the U.S., Harley-Davidson. H-D has aggressively pursued "outreach" customers — those ages 18 to 34, women, African-Americans and Hispanics — in recent years but still counts white males age 35 and older as its core customer for motorcycles that have remained — arguably — largely unchanged in overall design.

Going back through the historical “peaks and troughs” of motorcycle sales during the past 40 years, it's easy to imagine how late-term Baby Boomers and early-term Gen Xers stoked the two-wheeler frenzy of the 1970s and early 1980s, left the market to pursue careers and raise families, then returned to the market joined by late-term Gen Xers in the latter half of the 1990s and early 2000s. My friend, industry icon Don Brown, called this his “wave theory.”

Now, it seems we're seeing another change — one in which late-term Baby Boomers are ageing out of the market, late-term Gen Xers have left the market to pursue careers and raise families, and early-term Gen Xers and Millennials are being expected to support the market. Except, apparently, they're not.

Why?

AN ECONOMY IN FLUX

Consumers' lack of available, excess funds since the start of The Great Recession impacted nearly every buyer demographic, from the 20-something out-of-work college graduate who can't obtain credit for a new Supersport bike, to the 30-something buying a house and starting a family, to the 40-something who would prefer to save available funds for family life or his/her retirement nest egg.

So, while some lament about how best to coax Millennials into a desire to take on the sport, others argue that it's not the young peoples' passion for powersports that has disappeared but the monetary means with which to recreate as unemployment & underemployment of this demographic continue to be an issue, leaving little funds for such pastimes.

History shows the U.S. economic recession of the 1980s – and related plummet in motorcycle sales – came on the heels of the farm crisis, a sharp decline in oil prices impacting the energy sector, a restrictive monetary policy to combat inflation, the end of the 1980s real estate boon along with depressed values, large layoffs in construction, manufacturing and defense, and erratic consumer confidence that limited the surge in consumption typical of recovery periods.

It took seven years for the motorcycle market to experience growth following its 1985 downturn. Fueled by the end of the Cold War and the opening of new markets around the world, the Internet boom, low interest rates, a resurgent housing market and low energy prices, the economy returned to growth in 1993 and began what has become known as the longest economic expansion recorded in American history.

Flash forward, and it is important to remember that the economic “recovery” experienced in the eight years since the start of The Great Recession continues to be much weaker than previous historical recoveries where quarterly growth rates typically averaged 6% or more. While Real GDP growth has most recently hovered from 1.5% to nearly 3%, most economists feel that a rate of between 2-3% is still insufficient by today’s standards to sustain a strong economy.

U.S. REAL GDP GROWTH									
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
-0.3%	-2.8%	2.5%	1.6%	2.2%	1.7%	2.6%	2.9%	1.5%	2.4%

- Blue Chip Economic Indicators

U.S. ANNUAL UNEMPLOYMENT RATE									
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%	4.9%

- U.S. Bureau of Labor Statistics

Job growth is showing glimmers of hope, but multiple reports indicate wage gains continue to be soft. It’s not hard to see why: a tight job market mated to the need to pay for ever increasing living expenses and healthcare costs but an unwillingness to “rock the boat” has left workers little leverage to bargain for greater pay.

The above trend has been great for corporate profits, but presents challenges for consumer spending.

Now lets take a look at the individual niches within the motorcycle market to see if we can ascertain where bright spots may be occurring.

ON-ROAD MOTORCYCLES

The **Cruiser** niche – still the largest, most popular segment of the U.S. motorcycle market – lost sales for six of seven consecutive years, according to industry figures.

Noticeable is the decline in **General Cruisers**. The downturn in these models may suggest they offer relatively little for the price in comparison to better-optioned models priced just a couple of thousands dollars more. For instance, the **Full Dress Touring** category has held up in recent years relative to the other cruiser categories and

represents a growing percentage of total cruiser sales as well-heeled consumers of traditional cruisers – aging baby boomers – seek more utility and a greater number of creature comforts from their bikes.

Evidence of this can be found in a break-down of Harley-Davidson deliveries, where the company reports that 43% of its motorcycles delivered last year represented high-dollar Touring models while only 23% of deliveries represented the least expensive Sportster models. Incidentally, H-D's sales of 260,289 motorcycles in 2016 was down -24.3% from a high of 343,981 units in 2006.

The **Sport** bike market has been rebounding for the past five years, largely as a result of a boon in sales within the traditional "Sport" niche and steady sales of the more expensive "Sport-Touring" segment. The 600cc to 1000cc higher-technology-and-higher-price "Supersport" models remain stagnant following historical lows.

While the "Sport" category typically benefits from a wide selection of modestly priced (sub \$10,000) product, sales remain depressed for the once dominant "Supersport" category as the niche's main pool of buyers (young men) continued to struggle with unemployment, underemployment and hard-to-receive credit for these increasingly expensive (and technologically advanced) models. The motorcycle equivalent to the automotive world's Grand Touring cars, "Sport-Touring" model sales have held their own in recent years, likely buoyed by existing long-time riders (aging "Supersport" enthusiasts?) established in their careers and desiring these sporty, useful and decidedly upmarket bikes.

Finally, the relatively low purchase price, standard operating platform and utility effectiveness of traditional **Dual-Sport** models makes them a target for beginner and experienced riders alike. Dual models are built with the capability for use on public roads as well as off-highway recreational use.

While Dual-Sports still represent only 10% of the total two-wheeler market, it is interesting to note the increasing number of models being offered by OEMs. Dual-sport bikes range in style from small & light to large & heavy. While true Dual-Sports can tackle mountain trails and roads with equal vigor, standing out is the number of new models labeled as "Adventure Touring" bikes but more reminiscent of high-seated & racked large displacement standard models. These are the SUVs of the two-wheel world and, like Full Dress Tourers and Sport Tourers, a favorite among well-heeled U.S. buyers.

OFF-ROAD'S ENDURO & COMPETITION MOTORCYCLES

Dependent on enthusiast riders, the **Total Off-Road Motorcycle** market, which represented more than 30% of the Total Motorcycle market in the early 2000s, shrunk to represent only 17% from 2011-2013 before achieving incremental growth to approx. 20% representation.

The Off-Road Motorcycle market is split between **Enduro** and **Competition** models. *Enduro* models include a wide breadth of bike, from 50cc youth models like the best-selling Honda CRF50F to 350cc trail masters like the KTM 350 EXC-F. In many states, *Enduro* bikes can be easily modified for on-road legality.

Competition models, typically 250cc and 450cc models, are high-strung off-road-only

bikes. As with the “Supersport” market, the “Competition” niche is highly susceptible to the trends of young persons. As mentioned above, it may not be the young peoples’ passion for powersports that has disappeared but the monetary means with which to recreate. Unemployment & underemployment continue to be an issue, leaving little funds for such pastimes. This, mixed with higher acquisition costs, higher maintenance costs and increasing travel costs will continue to impact this motorcycle segment. Plus, since Competition models require a dedicated area, many hobbyist riders appear to be coaxed from the endeavor by intricate land use laws and a dwindling number of far-away properties on which to recreate.

Although Off-Road motorcycles are “past-time” vehicles more so than On-Road motorcycles, and expenditures on past-time vehicles are the first to dry up when the economy is in question, positive news for the Off-Road market comes in the form of recreational riders unaffected by the economic woes, the hardcore dirt enthusiast living the off-road lifestyle, and landowners using the bikes on ranches, farms or as cabin runabouts.

NEW vs. USED

Also noteworthy in any discussion about the motorcycle market is the interplay of NEW sales vs. USED sales.

Sales of NEW & USED motorcycles in 2016 likely numbered around 1.782 million units, down -45% compared to a 10-year high of approx. 3.221 million units in 2006, according to MIC figures superimposed with figures from the Insurance Institute for Highway Safety (IIHS).

Interestingly, during years of market growth in 2005 & 2006, NEW sales represented 30% of the market compared to USED sales representing 70%. When the economy hit the wall in late 2008 and markets retracted, NEW sales quickly dropped to 20% of the market while USED sales grew to represent 80% of the market. Remember all of those multi-line dealers picking up as many pre-owned bikes as they could?

Interviews with dealers suggest the market is still experiencing a glut in pre-owned bikes, which means prices are down for many of the more common models. At the same time, dealers say owners with a desirable or unique bike are having no problem unloading their rides on either retailers or other enthusiasts.

Harley-Davidson, in its financial reports, notes the pre-owned market as one of the “risks” associated with the company’s forward-looking comments: “The Company has observed that when the supply of used motorcycles increases or the prices for used Harley-Davidson motorcycles decline, there can be reduced demand among retail purchasers for new Harley-Davidson motorcycles.”

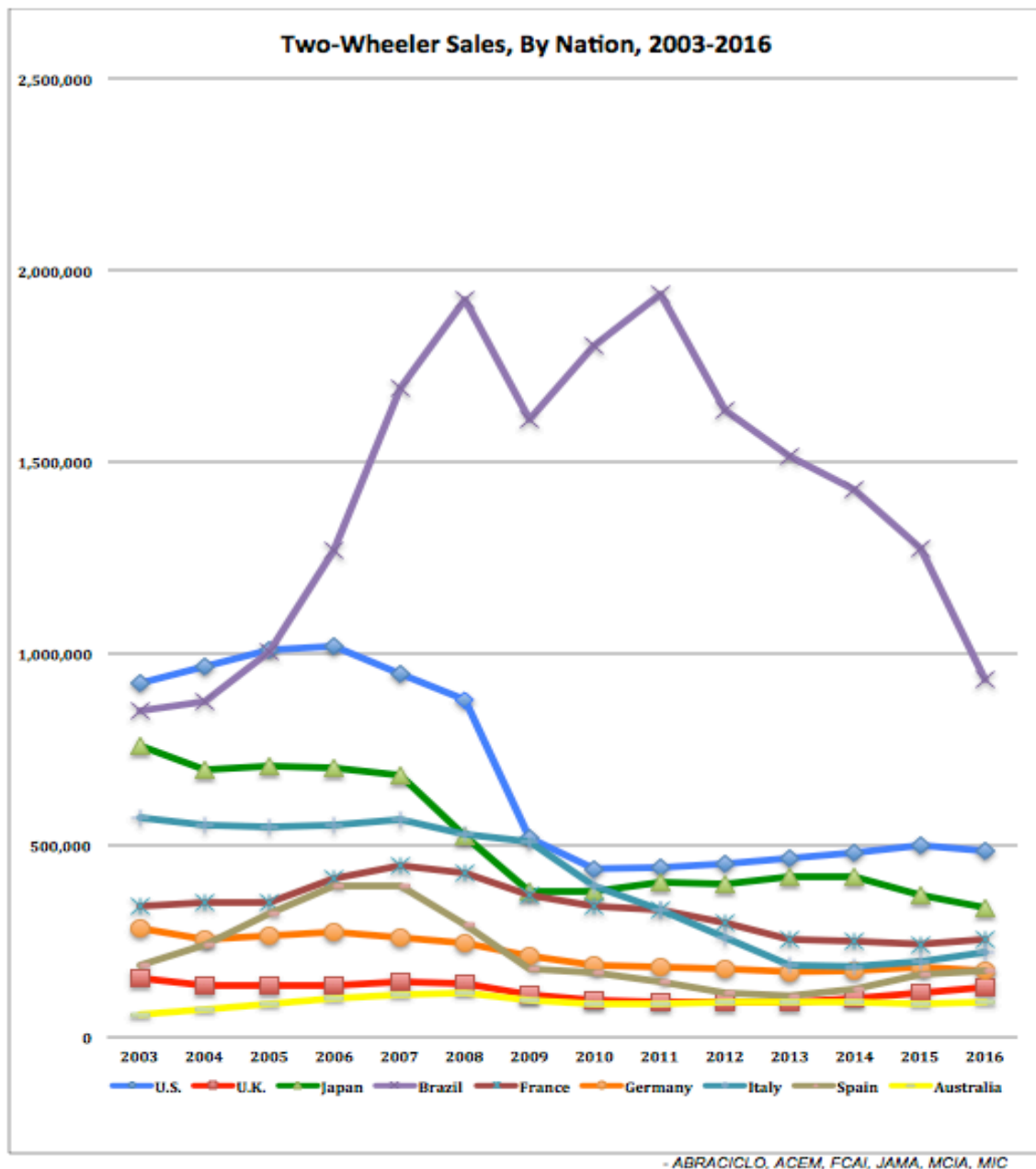
TL;DR: A surplus of pre-owned models negatively impacts sales of new models. Following the boon in sales in the 2000s, current market analysis reveals there is a surplus in lightly used bikes 15 years old or newer.

OTHER MATURE MARKETS

The U.S. is not alone in dealing with a subdued motorcycle market, as other “mature” markets are realizing similar trends.

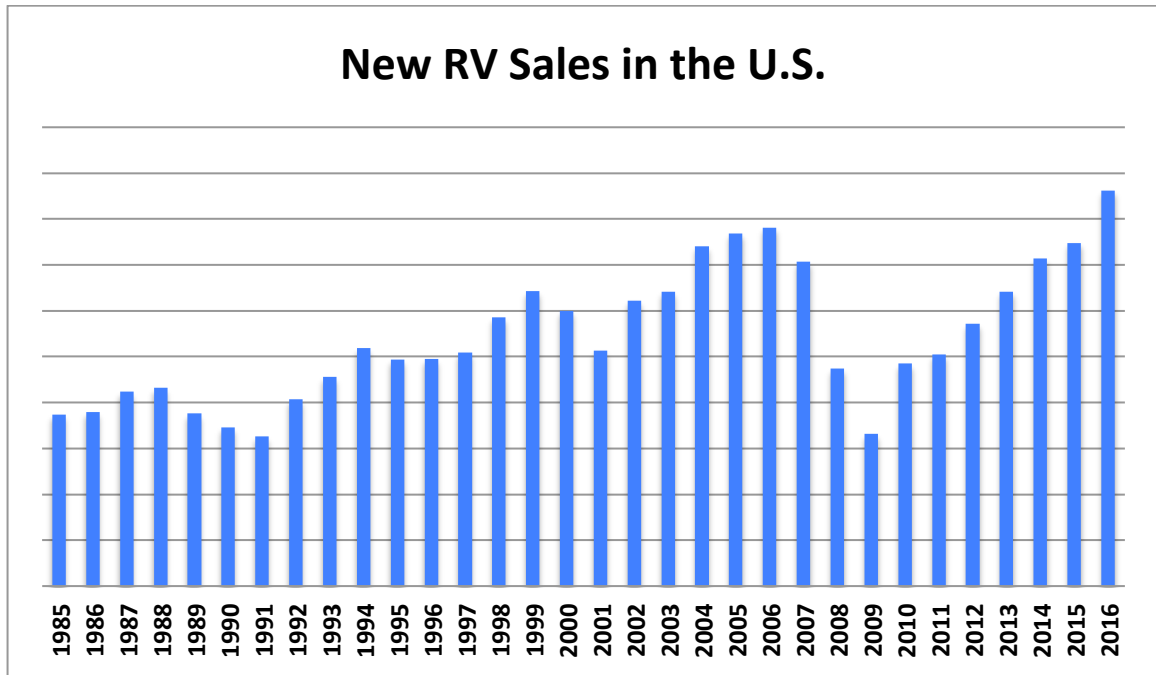
While countries like India, Philippines, Indonesia, Vietnam, Thailand, etc., are experiencing expanded markets on the back of small displacement two-wheelers used for daily transportation, figures compiled by the European Association of Motorcycle Manufacturers (ACEM) reveal two-wheeler sales in major Euro markets were down considerably between 2006-2016: Sales in Italy were down -79.5%, sales in Spain were down -56.5%, sales in France were down -46%, and sales in Germany were down -43%. Also recording losses during the 10-year period were Sweden, Finland, Norway, Denmark, Ireland, Poland, Hungary and Russia, among others.

In Japan, which is also experiencing an ageing populous, sales were down -64% between 2006-2016, according to the Japan Automobile Manufacturers Association (JAMA).



ADJACENT MARKETS

The **Recreational Vehicle (RV)** market (including Fifth Wheel Trailers, Folding Camp Trailers, Truck Campers and Motorhomes) hit a 40-year high in 2016, with shipments climbing 15% to 430,800 units, according to the Recreational Vehicle Industry Association (RVIA), which says it suspects the market will continue to track upward another 9% in 2017 to 470,000 units. RV sales have climbed 160% since 2009.



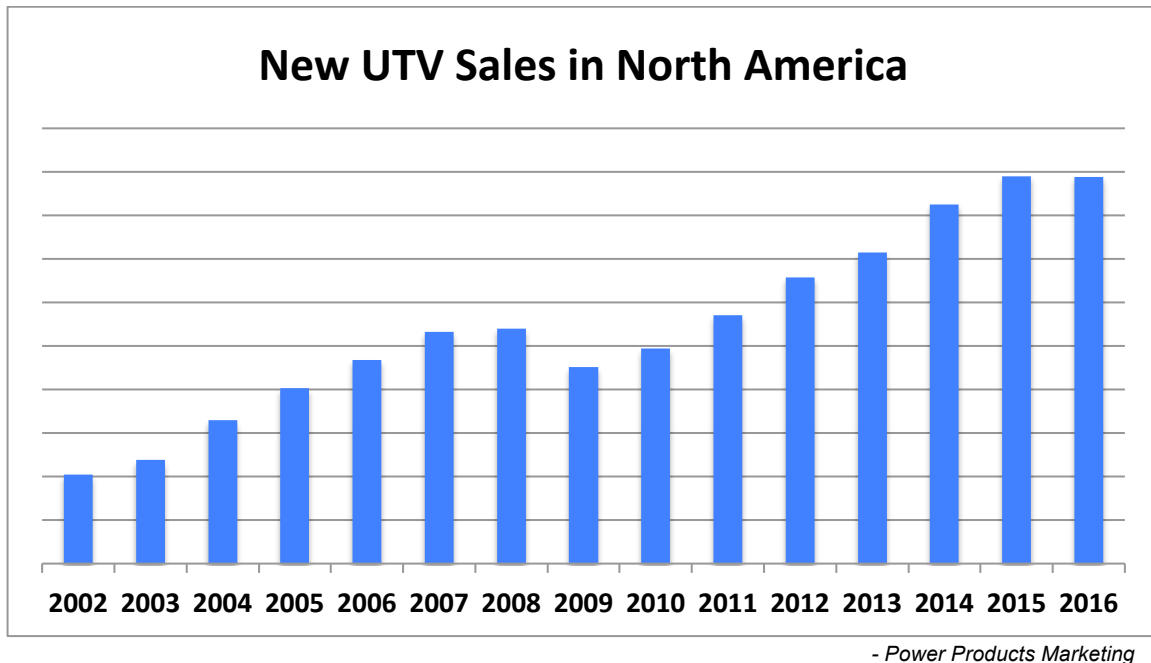
- Recreational Vehicle Industry Association

The RVIA says factors behind growth in the RV industry include:

- Population and demographic trends favoring long-term RV market growth. RV owners aged 35 to 54 posted the largest percentage gains in ownership over the past decade, and RV sales are expected to benefit as aging baby boomers continue to enter the age range in which RV ownership has been historically highest.
- Innovative new products that offer an optimal mix of size, amenities and price for even the budget-conscious consumer. Manufacturers are producing lightweight trailers and smaller, fuel-efficient motorhomes. Green technologies such as solar panels and energy efficient components are appearing on an increasing number of RV models.
- The ability of RV owners to take more frequent closer-to-home weekend getaways or mini-vacations that accommodate busy family schedules. More than 90% of RVers take three or more mini-vacations per year.
- RV ownership and travel can be a great value. More than 80% of RV owners say their RV vacations cost less than other forms of travel. The average amount financed per new unit was \$46,241. And, for many RV buyers, interest on their loan is deductible as second home mortgage interest.

Side-By-Side Utility Vehicles (UTVs) represent another market experiencing stellar

growth, with sales up 97% from 225,800 units in 2009 to 444,100 units in 2016, according to Minneapolis-based research firm Power Products Marketing (PPM).



Previously a vehicle more likely to be found at a work site than a forest trail, North American UTV sales in 2002 began a six-year surge at an average annual growth rate of 20% on the strength of *Consumer* applications, popularized in 2004 by the Yamaha Rhino and in 2007 by the Polaris RZR, according to PPM.

Sales were relatively flat in 2008 – at the dawn of The Great Recession – fell 16% in 2009, but quickly bounced back as consumer recreationists with deep pockets became attracted to the wide breadth of vehicle types being offered.

Who's buying all of these machines?

Whereas in 2000 the ratio between *Consumer* and *Commercial* applications was approximately 40/60, respectively, there was a significant shifting to consumers accounting for 55% of sales in 2003. For 2016, PPM found *Consumer* applications likely accounted for 83% of sales while *Commercial* applications looked to be responsible for 16%.

PPM's data shows the Recreation category was the largest *Consumer* application in 2016, representing 34% of the total market. Other *Consumer* categories of note include Farmers (28.5%), Residential Homesteads (8.9%), Hunters (6.3%) and Estates (5.7%).

As with the RV market, it's suspected the UTV market is also benefitting from population trends as well as the familial aspect of the endeavor. A UTV's standard, automobile-like operating platform makes them easy to drive for a wide variety of user, their utility effectiveness straddles many uses, and their multi-passenger seating options mean you can easily take family or friends along on an adventure.

WHAT DOES THIS ALL MEAN? OWNERS vs. ENTHUSIASTS

Some believe the sales plunge in two-wheelers that took place during the economic slump between 2007-2010 may have resulted from a mass exodus of existing and prospective motorcycle “owners” – people who only slightly fancied riding as an occasional pastime and/or may not have been able to truly afford their purchase made in economic boon years.

If that were truly the case, perhaps that massive shrinkage of the market and the subsequent haphazard single-digit rise and fall through 2016, suggests the motorcycle market has found its core “*enthusiast*” base.

Ultimately, the way it looks right now, the U.S. Motorcycle market could – in a best-case scenario – remain largely flat in coming years. But, despite core enthusiast riders continuing to make desired purchases, a great percentage of the potential motorcycle-buying public will continue to feel impacted by economic stressors, the market will continue to experience an aging owner demographic, and no prominent influencer for major growth appears readily apparent.

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