COMMERCIAL & INDUSTRIAL INVENTORY

UPDATED MAY 2021

TIRES

CURRENT TRENDS
- U.S. miles driven plunged by 39.1% in April 2020. As of March 2021, they remained 3.5% below the pre-pandemic 12-month average rate.
- Petroleum prices hit a three-year high in late May 2021, and tire costs will likely increase because of rising petroleum prices in 2021.
- Increased demand for used vehicles should strengthen aftermarket demand for tires, but higher new car prices amid lower availability will likely hurt original equipment manufacturer tire demand.
- Tire demand trends have been shifting. Consumers are purchasing tires designed to improve fuel efficiency because of stricter fuel economy standards.

PROJECTED VALUES
(12-MONTH OUTLOOK)

DECREASING  STABLE  INCREASING

U.S. VEHICLE MILES TRAVELED

Approximate Net Recovery on Cost (Distributors)

55%-80% passenger tires
60%-88% truck tires

U.S. Vehicle Miles Traveled (millions)

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IMPORTS TRENDING DOWNWARD AS TARIFFS AND DUTIES INCREASE:
prices in 2021.
manufacturers fell in 2020, with the crude oil average price dropping by
than 83% above 2020 average prices.
barrel, an increase of more than 51.1% since January 1, 2021, and more
comes from polymers found in crude oil. It takes approximately seven
tires. Synthetic rubber

RAW MATERIAL COSTS DOWN IN 2020, BUT LIKELY INCREASING IN 2021:
wholesalers that import and distribute all types of tires.
manufacturer (OEM) dealerships that sell and mount individual tires, and
that sell and mount tires from multiple vendors, original equipment
distribution network is somewhat unique and includes tire retailers

MILES DRIVEN DURING PANDEMIC: U.S. miles driven plunged by 39.1% in April 2020, and as of March 2021, they remained 3.5% below the pre-COVID-19 pandemic, 12-month average rate. Actual mileage driven in March 2021 was 19% higher than March 2020 and 12.5% higher than February 2020. Analysts anticipate driving activity will continue to rise through 2026, and total vehicle miles will grow at an annualized rate of 2.1% for the period.

PANDEMIC’S NEGATIVE EFFECTS: The tire industry occupies a segment between manufacturers and the various entities that sell tires. The tire distribution network is somewhat unique and includes tire retailers that sell and mount tires from multiple vendors, original equipment manufacturer (OEM) dealerships that sell and mount individual tires, and wholesalers that import and distribute all types of tires.

The price for natural rubber traded on the Singapore Commodity Exchange has skyrocketed over the course of the pandemic, rising 50.3% since May 2020. Despite the latex price increase, overall raw material costs for tire manufacturers fell in 2020, with the crude oil average price dropping by 1.2% for the year. Recent petroleum prices hit a three-year high in late May 2021, and tire costs will likely increase because of rising petroleum prices in 2021.

IMPORTS TRENDING DOWNWARD AS TARIFFS AND DUTIES INCREASE: New tariffs on tire imports from Taiwan, South Korea, Thailand and Vietnam, which the U.S. Department of Commerce (DOC) preliminarily established on December 30, 2020, were confirmed on May 24, 2021.

To protect U.S. markets, the U.S. government has imposed tariffs on tires from China since 2015, and the International Trade Commission (ITC) voted to continue the existing anti-dumping and countervailing duty orders on those tires in January 2021. After completing a five-year government mandated review in November 2020, the ITC and DOC determined the tariffs should remain in place. Since the U.S. government began the tariffs in 2015, tire imports from China, which had been as high as 60.5 million in 2014, dropped to 2.8 million by 2020.

Finally, manufacturers source a significant amount of the rod used to manufacture tire cord from abroad. While the Trump administration’s initial round of Section 232 tariffs in 2018 included tire cord products, most of the major domestic tire manufacturers applied for, and received exemptions on, tire cord rod.

SPIKING CAR PRICES SHOULD BUOY AFTERMARKET TIRE DEMAND: Car demand continues to strengthen; both new and used car prices have risen rapidly because of the pandemic. Supply chain issues that have been restricting vehicle supply are concurrently spurring demand for cars, as economic conditions improve, and consumer confidence grows. Increased demand for used vehicles should strengthen aftermarket demand for tires. However, higher prices and fewer new cars on the market will likely hurt OEM demand for tires. Overall research firm IBISWorld projects growth in the industry through 2026 and expects manufacturing, dealer, retailer and distributor annual revenues to rise by 3.8%, 1.5%, 2.8% and 2.4%, respectively, during the period.

DEMAND TRENDS SHIFTING TOWARD ENERGY EFFICIENCY: Demand trends for tires have been shifting, with consumers purchasing tires designed to improve fuel efficiency because of stricter fuel economy standards. Analysts expect the California Energy Commission to propose regulations around a program to help ensure replacement passenger and light truck tires sold in the state are equally energy efficient as original equipment tires.

Tire designers improve fuel efficiency mainly by reducing rolling resistance. Only 2% of tires sold nationwide in 2020 were within the low rolling resistance (LLR) sub-category under the categories “green,” “eco” and “energy-saving,” according to market research institute Growth from Knowledge’s point-of-sale tire industry survey.

While analysts expect LRR tires to increase fuel efficiency by only 1% to 2%, OEMs are planning to equip them on an increasing number of vehicles. These types of tires are more expensive than comparably sized non-fuel-efficient tires, and forecasters expect they will increase tire industry revenues. Fuel-efficient tires, which tend to have a shorter lifespan than standard touring tires, will likely increase the potential for more frequent replacement, increasing aftermarket demand for tires.

Analysts project per capita disposable income will increase at an annualized rate of 2.1% through 2026, enabling more consumers to purchase premium tires. Consumers are also more likely to regularly replace older tires when their disposable income is high. Additionally, analysts from IBISWorld expect the number of motor vehicle registrations, which indicates the number of cars on the road, to increase at an annualized rate of 1.4% over the same period. On the industrial side, IBISWorld expects demand from local freight and trucking to rise. Demand from long-distance freight and trucking is predicted to increase at an annualized rate of 2.7%, while demand from local freight trucking is expected to increase at an annualized rate of 3.1% because of the increased consumer demand for goods.

TYPE OF TIRE AND ORIGIN OF MANUFACTURE AFFECT RECOVERIES: Lenders should monitor inventory mix closely. The versatility of all-season tires typically results in stronger recoveries, whereas seasonal tires may face steeper discounts. Similarly, truck tires tend to outperform industrial tires in a liquidation. Origin of manufacture may also influence appraised values. Domestic tires tend to recover an average of 5% to 10% higher than foreign tires mainly because of brand recognition, as the market views brand power as a proxy for quality. Since imported tires lack such recognition, consumers perceive them as lower quality.

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