

## Peak “Peak Car” ?

Disruption in the auto industry is a very hot topic. The embers started burning back in 2005 when Tesla dropped a powertrain into a Lotus Elise, then things started heating up in 2012 when Google drove a Prius across Nevada, without a driver; and then they started blazing in 2014 after Uber did a valuation round at \$18 billion.

And the scorching hot consensus view is that the automobile manufacturing industry is facing an ominous triple-threat of electronic/battery powered vehicles, autonomous driving, and ride-sharing. In other words, conventional wisdom is that the automakers are facing Carmageddon. None other than Bob Lutz has capitulated to conceding a fully autonomous future within 25 years<sup>1</sup>. But others believe it will come even more quickly.

There are several interesting video presentations out there on the subject, including this one from The Economist:

<https://www.youtube.com/watch?v=e2rBzJXLem8>

And this one by Tony Seba:

<https://www.youtube.com/watch?v=xg03UUYGK1s>

The above “peak car” pieces were each done 2-3 years ago, and more much recently there was an article in Bloomberg, broadly reiterating the same theme.

<https://www.bloomberg.com/news/features/2019-02-28/this-is-what-peak-car-looks-like>

The presentations and article are illuminating, extremely interesting, and elucidate many great points. Among them is the fact that urbanization can motivate lower car ownership (and in many cities, it already has). We also agree with their observation that costs of technology will decrease more than most of us can fathom. They always do.

However, these pieces and others like them are spinning a story – to at least some degree - to fit a pre-existing narrative. The people writing them want to be right. They want us to be at “peak car”. If that is the case, then it is possible that these articles are ignoring facts and realities that may be more important than they believe.

For example, energy efficiency by itself (the transition from internal combustion to battery power) – while amazing and wonderful – may not necessarily hurt auto demand. Furthermore, it may even be possible that autonomous driving won’t hurt auto demand either. Sure, auto companies will innovate, as they do now; but people may still want differentiated autonomous cars, just like some people want to fly first class, some business class, and some economy.

Are my buddies back home (Tippecanoe County, Indiana, if you’re asking) going to ride-share in the same kind of cars as the oil sheikhs down the street in Knightsbridge, London?



*To each their own?*

<sup>1</sup> [http://www.autonews.com/article/20171105/INDUSTRY\\_REDESIGNED/171109944/industry-redesigned-bob-lutz](http://www.autonews.com/article/20171105/INDUSTRY_REDESIGNED/171109944/industry-redesigned-bob-lutz)

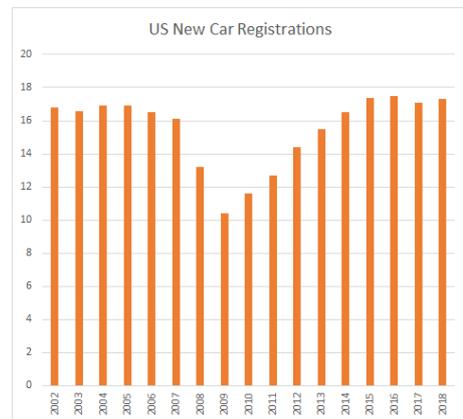
Will my buddies want to ride-share at all? Will the oil sheikhs?

They won't. But we will concede that the most interesting of these threats – at least to us - is the ride-sharing, or asset utilisation story. Tony does a great job highlighting all the positive externalities that will come from this (less traffic, more highway capacity); but he doesn't address the other side of the trade, and there is always another side to the trade.

If there is less traffic, more capacity, and it is easier to get from A to B, might that actually *increase* incentives to own your own car? And are these incentives different (higher or lower) in places like China or India than they are in the US where the "millennial" effect may be more pronounced? Yes, ride-sharing is a massive disruption for high-priced taxi drivers, just as Airbnb is for high-priced hotels. But is there not at least a *possibility* that these asset-light business models might not necessarily dent traditional demand?

In 2006 there were about 72,000 hotel rooms in New York City. Airbnb was conceived a year later and has itself added over 47,000 rooms since then.<sup>2</sup>

So during that period, what has happened to demand for hotel rooms? Has hotel occupancy been as affected as much as the doomsayers predicted? It doesn't appear so. In 2015, hotel rooms had grown by 48%, adding another 35,000 rooms since 2006; and the Office of the New York State Comptroller expects that number to grow again to over 133,000 rooms this year. That's growth since 2015 of 25%, and 85% since 2006.<sup>3</sup>



If in 2006 we had known how successful Airbnb would become, and that they would have nearly 50K rooms in New York City by 2019, very few of us might have predicted that would accompany 85% growth in traditional hotel rooms as well. So perhaps we shouldn't be sure of anything.

Finally, how long will all of this "disruption" take? We wouldn't be surprised to see it take more than 15 years, perhaps a lot more. Despite the "millennial effect", there were still over 17 million new car registrations in the US last year, and total vehicle registrations hit are over 260 million, an all-time high.

So why are people still buying cars? Well, for one, many Americans (even a few millennials), love having a car, if not love their car outright. No matter how quickly we ramp up the technology curve it is still going to take 35 years for the 40-year-old American to turn 75.



*Little guy might end up liking cars too.*

Oh, and – potential trade war aside – the Chinese bought 37% more cars and light trucks than Americans did last year. They bought nearly 24 million. In the US, there are 910 motor vehicles per 1,000 people. In China, there are 173.

Do you think the Chinese are going to fewer cars per capita in the next ten years than in the last ten?

And there are a lot of people in China. Over four times as many as in the US.

But even back in the good ole U S of A, one does wonder how an autonomous car is going to find a spot to back the boat in, or the yard to park in for \$20 on game day, or what we're supposed to do with the muddy cleats and baseball bats when we are ride sharing.

And if we really want to think deeply, what about the Trolley Problem?<sup>4</sup> Would you kill the fat man? Would an autonomous robot? What is the right answer? An autonomous vehicle will be faced with this problem.

<sup>2</sup> <http://insideairbnb.com/new-york-city/>

<sup>3</sup> [https://www.osc.state.ny.us/osdc/hotel\\_industry\\_nyc\\_rpt2\\_2017.pdf](https://www.osc.state.ny.us/osdc/hotel_industry_nyc_rpt2_2017.pdf)

<sup>4</sup> <https://capebretonspectator.com/2017/05/31/trolley-problem-ethics-fat-man/>

Will the 2019 Stanford grad moving one mile to Palo Alto and working for Google buy a new car? Maybe not. Will the recently-emerged middle-class 25-year-old Chinese guy buy his first car? Probably so.

This is certainly an exciting and dynamic topic, and there will be further developments, some of them negative, some positive – but *none* of this is going to happen overnight.

The cell phone was invented in 1973.

And the notion of the autonomous car isn't new either. The ever-prescient Isaac Asimov wrote a wonderful short story in 1953.<sup>5</sup> The story is called "Sally" and it takes place over 100 years in the future, in 2057. Sally<sup>6</sup> is an autonomous Corvette built 12 years earlier in 2045. Her owner, Jake, a former chauffeur, owns her and even owns one of the first autonomous cars, which had been built *all the way back* in 2015, and he was remembering the good old days:

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*"The thought makes me feel old. I can remember when there wasn't an automobile in the world with brains enough to find its own way home. I chauffeured dead lumps of machines that needed a man's hand at their controls every minute. Every year machines like that used to kill tens of thousands of people.*

*The automatics fixed that. A positronic brain can react much faster than a human one, of course, and it paid people to keep hands off the controls. You got in, punched your destination and let it go its own way.*

*We take it for granted now, but I remember when the first laws came out forcing the old machines off the highways and limiting travel to automatics. Lord, what a fuss. They called it everything from communism to fascism, but it emptied the highways and stopped the killing, and still more people get around more easily the new way.*



*Not this Sally*

*Of course, the automatics were ten to a hundred times as expensive as the hand-driven ones, and there weren't many that could afford a private vehicle. The industry specialized in turning out omnibus-automatics. You could always call a company and have one stop at your door in a matter of minutes and take you where you wanted to go. Usually, you had to drive with others who were going your way, but what's wrong with that?*

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So, Isaac Asimov, again, way ahead of his time, predicting all of this over 75 years ago. The UNIVAC 1101 was three years old, and Elon Musk's mother was five.

And in case you were wondering, in Asimov's story, the autonomous cars rose up in a slave revolt in 2057 and killed their would-be master.

So we and Isaac think we have plenty of time before things start looking that dire.

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<sup>5</sup> [https://www.e-reading.club/chapter.php/82060/20/Isaac\\_Asimovs\\_Worlds\\_of\\_Science\\_Fiction\\_Book\\_9\\_Robots.html](https://www.e-reading.club/chapter.php/82060/20/Isaac_Asimovs_Worlds_of_Science_Fiction_Book_9_Robots.html)

<sup>6</sup> Image Source: *Cars* (2006), Pixar Animation Studios, Walt Disney Pictures