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How's Business? Quarter-To-Quarter Automotive Aftermarket Price Analysis From TLG Research

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In this installment of "The Pulse," TLG Research looks at the economic trends influencing third quarter 2014 pricing changes for various parts and service categories. Below are TLG's thoughts on the matter, including insights on when to expect inflation to finally hit.

So far this year, prices for auto parts are up approximately 2 percent overall. Service prices have increased at about the same rate. So, one would ask, where are the big price increases and the inflation we keep hearing about? There are a number of mitigating factors at play it seems:

1. The economy remains soft with a higher than normal structural unemployment.

2. The Sentier Research real income model shows the typical house is up only 1.7 percent in real income year-over-year through July 2014. In "real dollar" terms (inflated), household income is still 6.4 percent lower than 2008. Buying power and motivation has not returned with any strength in our very anemic recovery.

3. Fears of the economies in Europe entering slow or no growth period. This has depressed pricing moves around the world.

4. Pressure by customers, especially the program buying groups and retailers that make up the largest share of storefronts, to minimize price increases.

5. Our shops are trying to recover from four years of low or no margin growth and do push back on their suppliers delivering anything but the most modest increases.

6. With new vehicle sales stronger, much of the manufacturing capacity, and thus the attention, is focused in that direction.

7. The Federal Reserve continues to depress interest rates, though there is talk about ending this strategy. Even so, many analysts predict a slow GDP growth in the 2 percent range through at least 2016 due to economic fundamentals, which is not enough to drive hard pressure on inflation and prices.

8. As of the end of July, the CATO Institute measures our total debt, current, unfunded liabilities such as Social Security, etc. at 480 percent of GDP. And, it's growing.

In plain language, there's no pressure on manufacturers from underneath to increase due to cost increases (they have leveled since early in the year), and lots of pressure to keep prices down from their customers, their customers' customers and beyond. The bottom line is that this dam will burst. With debt at 480 percent of GDP, a current debt of more than $17 trillion, and expected to grow, and a federal reserve policy to artificially hold down interest rates that appears to be falling out of favor, the scenario for price increases is looming. The billion dollar question is when. A balancing act for the manufacturers.

At the shop level, most are simply trying to stay even. While many have been hammered on people costs, especially health insurance if offered, along with the cost of operations, the pressure to hold down pricing has been great. This is especially true for the typical advertised specials such as oil changes, "per axle" brake jobs and the rest where everyone has a special price.

If part prices go up, the labor rate gets shorted. Like manufacturers and distributors, the shops are often working razor thin margins and have to balance between growth and profit.

As Dorothy said in "The Wizard of Oz," "Toto, I've a feeling we're not in Kansas any more." And we aren't in the old economy or aftermarket anymore!