



2016 Top Markets Report **Recreational Transportation**

Overview and Key Findings

Introduction

The recreational transportation sector is composed of boats, motorcycles, bicycles, recreational vehicles (RVs) and miscellaneous transportation (golf cars, snowmobiles and all-terrain vehicles, or ATVs). The International Trade Administration (ITA) expects the sector to continue its healthy growth over the next three years, punctuated by expanding markets both at home and abroad.

The U.S. recreational transportation market has rebounded strongly since 2009. Sales for the different sectors report annual growth ranging between 5 and 10 percent since 2009. Employment is also increasing, up an estimated 5 percent annually over the same period.

This sector has many attributes that make it a strong export sector to promote. The U.S. exports-to-shipments ratio for the sector is estimated to be 30 percent, meaning that exports already play an important part in the sector’s growth. With the U.S. market growing at a faster rate than overseas markets, however, this may actually decline slightly. In 2015, U.S. exports declined 18 percent over the previous year. The biggest factor for that decline was the exchange rate, as a stronger dollar made U.S. products cost more in most overseas markets. The exchange rate with the Canadian

Dollar (U.S. exports to Canada accounted for 41 percent of total U.S. exports for recreational transportation) was particularly telling as the nearly one-to-one exchange rate in September 2013 jumped up to nearly 1.34 Canadian dollars to one U.S. dollar in September 2015. In 2016 the exchange rate hit 1.44 CD/USD in the middle of January but has begun to fall again. 2016 could possibly be another year of declining export sales if the overall exchange rate stays high.

Smart manufacturers, however, will continue to seek overseas opportunities and maintain overseas relationships to survive downturns in the U.S. markets. Developing those overseas relationships now will pay great dividends once exchange rates improve, especially if oil prices also remain low. Transportation prices are a significant factor for remaining competitive and offering lower prices to bring new consumers into the infant recreational transportation sector in developing countries, such as China. For the next few years, ITA projects U.S. exports to grow by 5 percent annually through 2018, reaching \$7 billion in 2018.

This *Top Markets Report* provides a useful context in which to view global opportunities and provides commentary on how the U.S. government can best leverage its trade policy and export promotion tools to benefit exporters. The report is therefore intended to

Figure 1: Ranking of Markets for U.S. Recreational Transportation Exports through 2018

1. Canada	11. Singapore	21. Norway
2. Belgium	12. New Zealand	22. Hong Kong
3. Australia	13. Italy	23. Venezuela
4. Mexico	14. United Arab Emirates	24. Columbia
5. Japan	15. Netherlands	25. South Africa
6. Germany	16. Taiwan	26. Bahamas
7. United Kingdom	17. Sweden	27. Thailand
8. China	18. Brazil	28. Vietnam
9. Spain	19. Korea	29. Saudi Arabia
10. France	20. Argentina	30. Malaysia

provide a candid assessment of various markets around the world. The report is not prescriptive of actions for individual companies.

Key Findings: Top Markets and Methodology

With growth projected into the future and burgeoning international demand for U.S. recreational transportation products, exports are expected to reach \$7 billion in 2018, supporting 180,000 American jobs. ITA expects the Recreational Marine Sector to expand overseas. By 2018, ITA forecasts total U.S. exports of recreational marine products are expected to grow 5 percent annually, reaching an estimated \$2.4 billion in 2018. Though Canada is expected to account for over 90 percent of all U.S. exports through 2018, emerging markets will offer the greatest opportunities for growth for recreational vehicles (RVs). ITA expects the motorcycles sector to expand overseas as exports become a more important driver of the U.S. industry. In 2018, ITA forecasts the U.S. export-to-shipment ratio for motorcycles to grow to 30 percent for the sector. Total U.S. exports of motorcycle products are expected to grow 5 percent annually, reaching an estimated \$1.4 billion in 2018. Total U.S. exports of miscellaneous vehicles are expected to grow 5 percent annually, reaching an estimated \$1.5 billion in 2018.

Methodology

Accurately assessing the recreational transportation trade is difficult and results are often inexact. In fact, due to the decline of 2015 and likely slow start to 2016, ITA's forecast of a 10 percent compound annual growth through 2017 from the 2015 Recreational Transportation Top Markets report is not likely feasible. The primary reason for that growth was an assumption that exchange rates would not fluctuate as they did in 2015. Coupling projections of future trade with future economic developments and exchange rates – either by product or country – given the sector's reliance on overseas consumer confidence and personal disposable income growth is often even more problematic. ITA has sought to be clear about the assumption made in its analysis and welcomes commentary on ways to improve the *Top Markets Report*.

To project the size of each country's potential export market for U.S. companies, ITA looked at past growth and the projected growth of each country's GDP. Additional information on industry expectations and priorities, market size and other economic conditions

were incorporated when available. This sector, however, is subject to high growth and decline rates due to the fact that these are discretionary purchases.

Caveats

As stated previously, this sector is highly labor intensive. For some products, such as bicycles and small motorcycles, only high-end or niche product manufacturers are competitive. In addition, several products within the miscellaneous manufacturing sector, RV and boat sectors are not recreational in nature but rather are designed and built for commercial and industrial purposes. Exclusion of these products from this analysis and the underlying data is not possible. Fortunately, these products are still manufactured by predominately recreational companies.

Case Studies

ITA identified Canada, China and Europe for an in-depth case study of the overall recreational transportation industry sector. Since these various recreational products have unique issues, additional case studies are written about one or two particular subsectors.

The report also includes snapshots of the different recreational transportation subsectors. When possible, subsector rankings have been provided, which should support a better targeting of export promotion activities toward those events and strategies most supportive of U.S. exports within these markets.

Industry Overview and Landscape

The biggest advantage and challenge facing recreational transportation producers is the size and vitality of the existing U.S. market. Americans love to “work hard, play hard!” As a result, the U.S. market for recreational transportation accounts for over half the global demand for these products.

U.S. manufacturers often produce the highest quality products at costs lower than those of many competitors because of economies of scale. Japan and Europe, for example, produce many recreational transport products but often at a cost disadvantage or with far lower quality than many American-made products.

The size of the American market, as well as changing consumer tastes, has also created a demanding

domestic business, stimulating a pace of product development that is faster than overseas markets. As a result, the United States produces more total products than any other country and more innovative products. This combination should continue to provide an important advantage for U.S. suppliers in the global market for the foreseeable future.

U.S. manufacturers, however, can sometimes be content to serve and develop the U.S. domestic market at the expense of smaller overseas markets. The largest manufacturers understand that all markets are important, but small and medium-size manufacturers often ignore export opportunities until there is a downturn in local demand.

Export promotion agencies, as well as domestic manufacturing assistance programs, must continue to educate U.S. firms about international opportunities and help potential exporters identify specific market opportunities. Once a downturn in the U.S. economy happens, it is often too late to shift to export markets, causing smaller manufacturers that could have been supporting international consumers to suspend production or go out of business.

Global Industry Landscape

While there are many strong markets for recreational transportation products, Canada is, by far, the largest export destination. Forty-one percent of all recreational transportation exports are sent to Canada. With virtually no trade barriers, most American manufacturers treat sales to Canada no differently than they do domestic sales. Furthermore, regulatory requirements are nearly identical in both markets.

The second largest market according to U.S. trade figures is Belgium. Belgium is the leading transshipment point for Europe. American-branded outboard marine engines are manufactured in Belgium, so U.S. boats are exported there to have an engine attached for distribution throughout Europe. In addition, U.S. motorcycles also enter Europe through Belgium and are then shipped to dealers in many other European nations.

Australia is the third largest destination for U.S. recreational transportation products. As stated earlier, U.S. manufacturers' top priority is servicing the North American market. Since Australia's summer season is opposite from the United States, U.S. manufacturers

can devote more time seeking sales opportunities in Australia. In addition, Australian and U.S. consumers share similar tastes, abundant outdoor recreational terrain and overall recreational interests.

Mexico is the fourth largest destination for U.S. exports. The key for Mexican growth is consumer confidence and the growth of personal disposable income. A big factor for consumer confidence is security. Can consumers feel comfortable on the roads and waterways in high quality recreational transportation products?

Japan is the fifth largest destination for U.S. exports. Japan used to be the second largest market for the sector in 2002, but with long-term economic stagnation, disposable income growth slowed and saturation in the market, opportunities are harder to find. But even under these conditions, Japanese consumers like and demand U.S. recreational products. Harley-Davidson Motor Company is the leading supplier of large motorcycles in Japan despite significant competition from local manufacturers.

Other notable Top 20 markets are China (eighth) and Brazil (18th). These markets are key priorities for U.S. recreational transportation manufacturers. These large markets are seeing the greatest growth in their middle class populations, the primary purchaser of these products.

Challenges and Opportunities

If you ask overseas consumers what they like and want from the United States, the most often heard term is the "American lifestyle" and products associated with that. Nothing represents America better than the roar of a Harley-Davidson motorcycle, the comfort an Airstream travel trailer or the fun of cruising on a Sea Ray boat on a lake. Often, these are the dreams to which foreign consumers aspire.

As overseas economies improve, more and more consumers have the disposable income to afford these products. In most cases, they do not want local products; they want the iconic American products that signify "American lifestyle fun!" Helping U.S. exporters deliver this message and showcase available products should thus be a cornerstone of export promotion in the sector.

In order to capitalize on overseas buyers' desire for American recreational products, U.S. export agencies

will have to help buyers and sellers to get together. The best way will continue to be through cooperative trade show activities, including both the International Buyer (IBP) Program and the Certified Trade Fair Program. In addition, the International Trade Administration's Commercial Service's (CS) Gold and Platinum Key services will continue to be a great tool for U.S. companies to use. Other notable programs are the International Company Profile and the Small Business Administration (SBA) and Export-Import Bank (ExIm) loan programs. Please see the Addendum in the back of this report for a more comprehensive list of ITA services.

Promoting exports, however, is only half of an effective U.S. government strategy – removing barriers to market entry is the other half. Many markets are still developing, and thus, governments often seek to develop unique standards or impose standards developed for other, non-recreational products.

U.S. domiciled standards development organizations (SDOs) - the Recreation Vehicle Industry Association (RVIA) and the American Boat and Yacht Council (ABYC) - are leaders in developing standards for this industry. Both are accredited by the American National Standards Institute (ANSI), which indicates that they follow the best practices for development of standards as laid out in ANSI's Essential Requirements. The other major standards that apply to RV products internationally include EU regional standards that are referenced in EU directives. To be able to sell their products (manufactured according to RVIA or ABYC standards) in the EU, U.S. manufacturers must undergo costly, burdensome testing to prove that their products meet the requirements of the EU directives. Third-country regulators are hesitant to adopt standards developed by U.S.-SDOs, as they view the process of certifying to these standards as being more complicated

than certifying to EU standards. In some instances, regulators combine regulations that apply to different products in this industry, producing hybrid rules that, for instance, apply requirements developed for autos to RVs. These hybrid rules are usually highly troublesome for foreign suppliers in these markets, including U.S. suppliers.

Another challenge is that foreign markets often see recreational products as luxury items and thus feel content to limit their importation by imposing high tariffs and/or taxes. In the United States, these products are designed for the middle class and are used on vacations to avoid the higher cost of hotels, cost of airfare and other vacation costs.

For example, despite little or no domestic competition, imported RVs, boats and large motorcycles face high tariffs in several Asian markets. The tariffs for certain types of RVs in China are 80 percent. When all taxes and tariffs are applied, an RV selling in the United States for \$100,000 sells for \$235,000 in China, effectively changing how these products are marketed. With the additional tariff cost, an RV is no longer a way to avoid the costs of hotels and restaurant meals but only as a way to escape back to nature.

The recreational marine product sector is the largest exporting segment of this sector, as total U.S. exports of such products are forecasted to reach \$2.4 billion in 2018. The next largest exporting sector is the miscellaneous vehicle industry. Total exports of these products are forecasted to top \$1.5 billion in 2018. Following closely is the RV industry, as exports are expected to be just under \$1.5 billion. The final two industry segments, motorcycles and bicycles, have U.S. exports that are forecasted to reach \$1.4 billion and \$327 million, respectively, in 2018.