

Research @ Citi Markets Edition: Here They Come – Gen Z’s Impact on Autos & EVs

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Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition.

Scott Chronert (00:03)

Hi, I'm Scott Chronert, Head of U.S. Equity Strategy at Citi Research. Welcome to Research @ Citi Markets Edition, covering various topics at work within the U.S. equity markets.

With me today is Mike Ward, our U.S. Automotive Analyst here at Citi Research. I've invited Mike here today to talk about trends in the auto market, specifically as to some of the obvious circumstances related to oil-price impacts, the labor condition, but also as pertains to U.S. demographics. And we can probably even get in some commentary on how we see the EV outlook setting up from here.

Welcome, Mike, and thanks for taking the time today.

Michael Ward (00:37)

Thanks Scott. Good to be here.

Scott Chronert (00:39)

OK, so I think as we go through the Iran conflict, higher-for-longer oil prices is an ongoing risk. It's prompting several issues regarding many areas of the consumer as relates to higher-for-longer oil, price risk, higher interest rates than prior to conflict, and so forth.

From your perch, as we wind through the Q1 reporting period, how have you seen the auto industry setting up for the remainder of the year? And what are the key trends that you expect to unfold as we go forward?

Michael Ward (01:08)

You know, there's absolutely nothing positive about higher oil prices in the auto sector, just from a perception standpoint. And auto stocks go down when oil prices go up.

But the flip side is also true. So if we do get resolved and oil prices do start to reverse, that would be a net positive for the group. I think what the autos battle with on the perception front is the late-70s, early-80s behavior of oil prices and the impact on the industry.

When you look back during those time periods, the average U.S. consumer used about 800 gallons of gas a year to fuel their vehicles. Today, it's about 400. You've had enormous improvements in efficiencies with vehicles. And as a result, the impact of higher oil prices isn't as dramatic, I think, as the market perception. And so I do think once that perception eases, it'll be a net positive for the group.

Scott Chronert (01:53)

And then there's another point I made that we've seen this backup in interest rates. And I think we all know that in many areas of the auto financing component, that's going to be an element here. How much leverage is there related to interest rates as it pertains to underlying auto demand?

Michael Ward (02:10)

Every 50 basis points is about \$10 a month to the average auto payment. So, you need a pretty significant drop in rates to have a meaningful impact.

However, what it does help is the finance companies, and 75% of vehicles are financed. You get a 50-, 100-basis-point reduction in rates, that may be an incentive for the finance companies, which get a lower cost of capital to start incentivizing vehicles. Instead of using just cash on the hood, they can do lower interest rates.

And for every 100 basis points that a finance company can incentivize, it's about \$1,000. Current incentives are \$3,000 per vehicle, \$4,000 per vehicle. You lower rates by 300, 400 basis points, then you have a significant impact on the monthly payment for a vehicle loan.

Scott Chronert (02:52)

OK. So an issue, but perhaps overplayed in terms of the way it influences shorter-term trends.

Michael Ward (02:57)

That's fair.

Scott Chronert (02:58)

Now, the other discussion point that's coming up more broadly is this fairly static employment or labor situation and ongoing concern that with the AI influence, we're going to see lesser white-collar job growth and so forth.

When you think about employment and then the labor condition, how does that then play into these other components regarding fuel prices and interest rates?

Michael Ward (03:22)

Yeah, I think that's a big question with AI: Does it augment or replace? When you think back to, again, the late 70s, early 80s, when the PC first came out, that was a debate back then too. Are PCs going to replace a lot of people? Or do they augment? PCs replaced certain job functions, but it augmented others like ours.

It's a great debate. If you believe everything that you see, yes, there will be jobs lost from AI. On the flip side of that, there will be jobs created from AI.

Just today in the Detroit News, they were talking about the time for vehicle design is normally six to eight months from the original sketch to get it into a clay model. You can do it in a day now. That's tremendous. So does that create opportunities for innovation for new products, maybe enhancing the sales cycle or market-share gains for those that are good with it?

Scott Chronert (04:05)

OK. So it's going to be a two-way storyline here as this plays out. We see this dual-pronged influence of AI. One is the productivity-enhancement opportunity. The other, of course, is going to be the AI disruption, which I think is something that's getting a lot of attention in many areas of how we think about the consumer-spending setup and the consumption setup.

Now, you piqued my interest. We were talking about this a couple of weeks ago, and we have this ongoing view of "it's not the consumer, it's *which* consumer" in terms of has a more dramatic impact on the underlying spending patterns that affect our stocks.

But you brought to the discussion this element of where demographics are going. And honestly, it was something that I hadn't notably considered. Can you walk us through what you're seeing unfolding in this regard, Mike?

Michael Ward (04:56)

I spend a lot of time looking at demographics, and I usually tell people it's easier for me to forecast sales five years out than it is five months out.

And I think the market is underestimating the impact of the Millennial and Gen Z generation. That age group right now was just moving into the prime age periods for income, spending on vehicles, home ownership, family formation. There are 127 million people between the Millennials and Gen Z. The impact on the economy in the next 10 years will be greater than the Baby Boomers were in the 1980s period.

The Baby Boomers, which were followed by Gen X, had a step down in the population data and the birth rates. You don't have that. Millennials, the Gen Z generation is bigger. And so you're looking at a multi-decade impact on the economy and the trends.

From the auto standpoint, I'm excited about it because you're moving into the prime age for increases in the licensed driver's income and spending on vehicles, that 30-to-44 age group. And in fact, we had the Citi Innovation Lab do a survey of 5,000 respondents, and we primarily had them focus on this 30-to-44 age bracket. And literally two-thirds of them expect to get a vehicle in the next 12 months — two-thirds.

70% are looking at hybrids and electric vehicles. And as you alluded to, people who think EVs are dead, they are not dead by a long shot. Because once a consumer goes electric, they are probably going back again and again and again.

And so, while the industry has backed off with the incentives — they took away the \$7,500 — the rate of acceptance will continue to improve over the next decade. And I think you can use California as the lead. In California, last year, BEVs were 20% of the market. They dropped to 14 % in Q1, but I think they're going to go right back up to 20% over the next couple of years. And I think that's where the rest of the country has gone.

Scott Chronert (06:33)

Really interesting stuff. And as a parent of three children that fall into this age category, I'm pretty excited about this trend, because among my failures as a parent was teaching them how to change oil in their car. And I guess with an EV, this isn't as big of a deal.

Michael Ward (06:48)

Don't need it.

Scott Chronert (06:49)

OK. And then in the last few minutes here, we talk about the auto manufacturers quite frequently, and their lineups and the trends for this year and next. But you also cover the auto dealers, and a lot of times they don't get as much of a focus as the auto manufacturers themselves. Can you talk for a moment about what you see within the auto manufacturers vs. what the dealers' fundamentals are looking like right now?

Michael Ward (07:16)

You start with the dealers. There's no greater collection of wealthy individuals in our country than auto dealers. Staggering amounts of wealth — staggering. And just go to the top: The largest private auto dealer in the country is Warren Buffett. Elon Musk owns his own dealers, But you have several self-made billionaires that are auto dealers, including big stakes from Warren Buffett, Michael Dell, Eddie Lampert, Roger Penske. Huge, huge collection of wealth in the auto-dealer space.

It's a great business. And the market doesn't fully appreciate what they do in part because of basically bad information coming from Bloomberg and FactSet and the other data providers. They include floor-plan debt as debt, while the rating agencies don't. And so, when people look at the valuations, they think they're over-levered. They're not.

It's a low fixed-cost business. 75% of your costs are variable. Capex to revenues is 1%, and most of that's variable. The vehicle manufacturers basically supplant your interest, your carrying costs for your inventory, and you have designated territories that are protected by franchise laws. So it is truly a great business, and I think it will continue to be a great business going forward.

On the vehicle manufacturers front, I think what people aren't appreciating as much with General Motors and Ford is both companies have reduced their break-even levels, 50% since 2008. And this time around, as they accumulate cash, I don't think they're going to do anything stupid by going out and making big acquisitions like they did in the 1990s.

I think you'll see them be much more conservative with cash, return it to shareholders, develop products. In the case of General Motors, they're not in Europe, which is historically the most competitive and least profitable market in the world. And so, I think you're going to see them benefit greatly from the Millennials and Gen Z, that wave that's coming with their people-carrier vehicles or large sport utilities and crossover vehicles, really the strength of the Detroit automakers.

Scott Chronert (09:03)

OK, just to wrap things up here, ongoing concern about the state of the consumer as we march through the Iran conflict, higher oil prices and higher interest rates that have come out of that. But there's two sides to the story, which is what you're getting at here.

It's a lot of underlying components of the auto industry that sometimes get perhaps misperceived, but then this notion of having a demographic tailwind that's just beginning to unfold, I think, is fascinating and does take us to a place where when you look at the auto industry, this isn't the industry that we grew up with decades ago. It's a new and revived version of that from the looks of things. And I think that kind of sets up for a different way of looking at these companies.

So, hey, Mike, I appreciate your time on this.

This podcast was recorded May 11, 2026. Thanks for joining today. And be sure to be on the lookout for our next Markets podcast featuring Dirk Willer, Citi's Head of Global Asset Allocation. And also, be sure to watch for our other Research @ Citi podcast series, which you can also view on the same channel.

Thanks, and have a great day.

Disclaimer (10:05)

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