
Key Advisor

Spring 2022



Dealer news and tips

Executive Outlook

We hope this newsletter finds you and your dealership doing well. In business and personal finance, events occur that can reshape and change the course of our plans. The challenge gets to be: Have we made the best possible choices?

Only time can answer that question. In the interim, though, we owe it to ourselves to stay well informed about social and economic trends that directly impact our lives and businesses.

For instance, fraud remains a large concern in automotive sales, accounting for more than \$5 billion of dealer losses annually. You can learn more about counterfeit checks – and how to avoid them – [here](#).



“Based on what we know now, we anticipate that inflation will persist throughout 2022, though we think it likely to ease by the year’s second half.”

– **Scott Young**

In the bigger picture, we also take a closer look at inflation – with insights on how it works and prospects for future economic developments.

In addition, along the way, we’ll drop in a few factoids you’ll likely find interesting. It’s a pleasure for us to stay in touch. Remember that we’re always available to you, even if it’s just to bounce around a few ideas. We’re here to serve your best interests.



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Economic outlook for 2022: Inflation updates

Challenges on the home front

In Q1 2022, the world continues to contend with COVID and Russia threatens geopolitical stability in Europe. On the home front in the U.S., we face the highest inflation in more than 40 years. This outlook focuses on its origins and impacts.

The inflation puzzle

Inflation's most obvious sign: Across broad areas of the economy, numerous goods and services cost more – from gasoline and groceries to cars, clothing and medical care. Though it's commonly assumed that incomes stagnate during inflationary periods, that's not always the case.

Increased wages

An increase in corporate wages and lower unemployment rates typically accompany initial stages of inflation. However, bigger payroll costs and higher interest rates dampen corporate profits and subdue hiring. Higher labor expenses could provide the incentive for a company to raise its prices.

Inflation factors

Low income, high expenses is part of the inflation puzzle: People need more money to buy increasingly pricey necessities, but inflation diminishes economic opportunity. Low income, high expenses, or both make an individual or company far more susceptible to harmful inflationary trends.

What fostered this inflation's arrival and growth? COVID was among the primary forces, though other factors fueled inflation, as well.



“In 2022, U.S. new light vehicle sales are expected to reach nearly 15.5 Million units, an estimated 2.6% increase from 2021 projection of ~15.1 Million units.” – S&P Global

Disruptive events

Supply and labor disruptions played a part, as did quantitative easing and artificially low interest rates. Recent federal intervention counteracted some of COVID's negative economic effects, but it may have helped set a stage for inflation, too. Other elements of the inflation wave include energy cost hikes, extraordinary demand for residential housing, and rising labor costs.

Fed responses

To date, the Federal Reserve has responded with a few mitigating measures, including announced plans to raise the federal funds rate (the overnight interest rate used among commercial banks) and an abatement of new asset acquisition. However, beyond these basic steps, we cannot predict future Fed actions or the events that will shape them.

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Following an initial Fed rate hike in March, interest rates will continue to rise for the rest of this year, and very possibly into the next.

– Scott Young



Looking ahead this year

Based on what we know now, we anticipate that inflation will persist throughout 2022, though we think it likely to ease by the year's second half. Following an initial Fed rate hike in March, interest rates will continue to rise for the rest of this year, and very possibly into the next.

March 2022 marks the end of the Fed's post-2008 quantitative easing and tapering. As noted earlier, the Fed will also begin to withdraw its monetary support of securities.

Investment potential

In 2022, we foresee value in both bonds and stocks, but especially in the latter. In addition:

- The remaining investment year seems likely to offer more bumps than we experienced in 2021.
- Inflation will persist as a pronounced economic risk, causing uncertainty and complexity in the marketplace.
- While times of economic difficulty typically take a toll on markets, it's helpful to recall that long-term market performance has a winning record.

To learn more

Read KeyBank's original, complete [2022 Market Outlook](#) by George Mateyo, Chief Investment Officer, and the KeyBank Investment Center team.

Check fraud continues to rise

If \$5.8 billion of consumer fraud loss in 2021 sounds alarming, consider this: Auto fraud losses topped a record-breaking \$7.3 billion in 2020, and continues to rise.^{1,2} These losses stemmed from a variety of schemes, and it's likely your business has been impacted by at least a few of the many costly fraud practices that prey on car dealerships.

While leading auto industry fraud types include misrepresentation of income, employment, and identity (e.g., synthetic borrowers), there could be a sleeping giant in your Profit & Loss statement: check fraud.

The paper villain

While check use declines with the rise of digital financial services, auto dealerships make attractive targets for paper-check fraud. Here are the three reasons why.

1. Deceptive checks are relatively easy to produce.
2. They carry high transaction values.
3. Checks have multiple points of exposure, including employees, banks, accounting systems, sales, service, and vendors.

Finding and preventing check fraud

First, learn where check fraud may be concealed in your business. Next, take steps to control and prevent it throughout your dealership.

Here are some tips on where your check fraud may be hiding and steps you can take to control it at your dealership.



Source	Preventive measures to consider
Inside your organization Back office/Sales/ Service departments	<ul style="list-style-type: none">• Establish a “cross-check” division of employee responsibilities in accounting, payroll, check ordering, etc.• Limit access to check inventory sensitive information• Conduct background checks as part of the hiring process• Incorporate passive technology like video surveillance
Your laser printer	<ul style="list-style-type: none">• Specialty “secure-ink” toner cartridges prevent easy removal and replacement of payee or other information
Your check paper	<ul style="list-style-type: none">• Thermo-chromatic ink fades when warmed and cannot be color copied• Tamper-detection features to prevent obvious corruption attempts (e.g., stains will appear if solvents are used to remove the ink)• Embedded, copy-void pantograph (e.g., the word “VOID” appears when copied with certain photocopiers)
Your check design	<ul style="list-style-type: none">• Invisible fluorescent fibers that become visible when held under an ultraviolet light• A true watermark is visible when held to light and can't be copied• Visible fibers or dots

¹<https://www.aarp.org>

²<https://www.autofinancenews.net>

Don't be a target

Business checks should include security features that deter check-fraud criminals. The more you secure your checks, the more likely you are to stop fraud before it happens.

Regardless, as technology offers more enhanced security measures, it also creates new opportunities for deception and theft.

While all the preemptive steps noted are worthwhile, they will not fully protect businesses that regularly accept checks as a means of payment.

How Key can help

KeyBank offers a variety of services to help businesses like yours stay ahead of criminals. Our **Positive Pay Services** allows you to stop payment or initiate a return on fraudulent electronic check transactions. You can even intercept in-person fraudulent check-cashing attempts at KeyBank branches, all with the click of a button. For more information about our same-day, next-day and teller-line check fraud protection, [click here](#).



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– Brian Bateman



Credit Card Fraud*

- In 2021, nearly **400,000** cases of credit card fraud were reported in the U.S.
- The U.S. accounts for nearly **one-third** of the world's credit card fraud cases – **\$11 Billion in 2020**
- Compared to 2019, credit card fraud increased nearly **one-third in 2020**

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Learn more

To discover a full range of secure, online capabilities to streamline your cash management activities and simplify your banking needs, or for more information:

Contact: Brian Bateman at brian_p_bateman@keybank.com or

Visit: [KeyBank Auto Dealership Finance](#)

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