J.D. POWER

LMC AUTOMOTIVE

Automotive Forecast March 2019

March 26, 2019

Auto Retail Sales Off to Slowest Q1 Start Since 2013, But Demand for Higher-Priced Vehicles Remains Strong

The Retail Sales Forecast

New-vehicle retail sales in March are expected to fall from a year ago, declining to 1,195,000 units, a 3.4% decrease compared with March 2018. The seasonally adjusted annualized rate (SAAR) for retail sales is expected to be 13.0 million units, down 400,000 from a year ago.

New-vehicle retail sales in Q1 are projected to reach 2,944,200 units, a 4.9% decrease from Q1 2018.

The Total Sales Forecast

Total sales in March are projected to reach 1,562,800 units, a 2.1% decrease compared with March 2018. The seasonally adjusted annualized rate (SAAR) for retail sales is expected to be 16.9 million units, down 400,000 from a year ago.

New vehicle total sales in Q1 are projected to reach 3,952,100 units, a 2.5% decrease compared to the first quarter of last year.

The Takeaway

Thomas King, Senior Vice President of the Data and Analytics Division at J.D. Power:
"This is the first time in six years that Q1 sales will fall short of 3 million units. While the volume story could be better, there is remarkable growth in transaction prices, with records being set monthly. New-vehicle prices are on pace to reach $33,319 in Q1—the highest ever for the first quarter—and it's more than $1,000 higher than last year."

The combination of lower volumes and higher prices means that consumer expenditures on new vehicles will be down only 3%. The rise in transaction prices reflects a combination of factors and is being accelerated by the severe contraction of industry sales at lower price points. For example, retail sales of vehicles under $25,000 are expected to be down 12% in Q1 compared with 5% overall. Also assisting higher prices is continued incentive discipline. Spending-to-date in Q1 is $3,821 per unit, down $119 from the same time last year. Spending on cars is down $333 to $3,627, while spending on trucks/SUVs is down $27 to $3,903.

"As manufacturers look towards the rest of the year, the direction from the U.S. Federal Reserve to keep rates stable in 2019 will help alleviate concerns over vehicle affordability," King said. "While the first quarter has exhibited more weakness than expected, there is still enough time to recover some of the lost volume." Last year, sales during the first quarter were down nearly 3%, while sales during the reminder of the year were down only 2%. Recovery of that volume is key, because the slow start to the year has resulted in increased inventory levels. Without a recovery, the industry will be faced with the tough choice of either increasing incentive levels or cutting production.

Sales & SAAR Comparison

J.D. Power and LMC Automotive U.S. Sales and SAAR Comparisons

	March 2019[1]	February 2019	March 2018
New-Vehicle Retail Sales	1,195,000 units (-3.4% lower than March 2018)[2]	916,823 units	1,283,198 units
Total Vehicle Sales	1,562,800 units (-2.1% lower than March 2018)[2]	1,262,794 units	1,655,808 units
Retail SAAR	13.0 million units	12.3 million units	13.4 million units
Total SAAR	16.9 million units	16.5 million units	17.3 million units

[1]Figures cited for March 2019 are forecasted based on the first 14 selling days of the month.
[2]March 2019 has 27 selling days, one less day than March 2018.

The Details

- The average new-vehicle retail transaction price to date in March is on pace to reach $33,306. The previous high for the month of March—$32,269—was set last year.
- The record prices reflect higher prices trending for both cars (up 2% to $27,089) and trucks/SUVs (up 3% to $36,042)
- Average incentive spending per unit to date in March is $3,689, down from $3,903 during the same period last year.
- Consumers are on pace to spend $39.8 billion on new vehicles in March, down $1.6 billion from last year's level.
- Truck/SUVs account for 68.7% of new-vehicle retail sales through March 17, the highest level ever for the month of March.
- Days to turn, the average number of days a new vehicle sits on a dealer lot before being sold to a retail customer, is 74 days through March 17, up 5 days from last year.
- Fleet sales are expected to total 367,800 units in March, up 2.4% from March 2018. Fleet volume is expected to account for 24% of total light-vehicle sales, up from 23% last year.

Outlook for the Year

Jeff Schuster, President, Americas Operations and Global Vehicle Forecasts, LMC Automotive: "U.S. auto sales are off to a weaker-than-expected start as weather, mixed economic data and lower tax refunds affect Q1 performance. In addition, both domestic and import brands face mounting pressure from the Trump administration to manufacture in America. This pressure has accelerated some planned investment announcements and is already affecting trade negotiations with the EU and Japan, resulting in tariff and brand performance turbulence as the spring selling season begins."

Given the current weakness and uncertain future, LMC's forecast for 2019 total light-vehicle sales has been trimmed by 75,000 units to 16.9 million units, a decline of 2.2% from 2018. The forecast for retail light-vehicle sales remains at 13.6 million.

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