

Consumers Expected to Spend More as Average Vehicle Price Reaches Record Level

The Retail Sales Forecast

New-vehicle retail sales in July are expected to fall from a year ago, according to a forecast developed jointly by J.D. Power and LMC Automotive. Retail sales are projected to reach 1,178,500 units, a 2.0% decrease on a selling day adjusted basis compared with July 2018.

The Total Sales Forecast

Total sales in July are projected to reach 1,397,400 units, a 1.8% decrease compared with July 2018 (selling day adjusted). The seasonally adjusted annualized rate (SAAR) for total sales is expected to be 16.7 million units, flat vs. a year ago.

The Takeaway

Thomas King, Senior Vice President of the Data and Analytics Division at J.D. Power:

“July will be another month of modest sales declines—but with high vehicle expenditures—as the average new vehicle sales price exceeds \$33,000, up over \$1,400 from July 2018.”

The jump in sales price is being driven by consumers paying more for recently launched SUVs and more attractive interest rates on new vehicles that help keep monthly payments affordable when purchasing more expensive vehicles.

SUV share of new vehicles sold through mid-July has risen to an all-time high level, accounting for nearly 52% of new-vehicle sales. The growth has been led by several recent launches in the midsize SUV segment, which currently sits at its highest share ever (15.8%). The strong demand for SUVs is coming at the expense of less-expensive sedans which account for approximately 28% of industry retail sales for the third consecutive month.

The average new vehicle sales price is projected to reach \$33,182 this month—the highest level ever for the month of July—up more than 4% (+\$1,415) from last year. The average price for cars is up 5% to \$26,853 while trucks/SUVs are up 3% to \$35,487.

Industry incentive spending is rising and is on pace to exceed \$4,000 per unit for the month, the highest level since December 2018. However, the increase in incentive spending on a dollar basis is commensurate with the higher-priced vehicles being purchased by consumers. Manufacturer incentive spending as a percentage of MSRP in July is 10%, the same as last year.

Vehicle shoppers are taking advantage of lower interest rates to finance their vehicles. The average APR for a new vehicle loan so far in July is 5.7%, down more than 50 bps from earlier in the year. Sales with an APR of less than 1% have accounted for 9.2% of new-vehicle loans.

“Despite the continued slow-down in sales, consumers are expected to spend more than \$2 billion more on new vehicles than last year,” King said. “This is a clear reflection that manufacturers are building the types of vehicles that shoppers want. Consumer expenditures in July of \$39 billion represents the highest level for the month since 2017.”

Looking forward, August is traditionally one of the busiest sales months of the year. This year, August sales will be inflated by the inclusion of an extra weekend compared to last year, as well as the fact that sales over Labor Day will be included in the manufacturers’ August results. As manufacturers look to take advantage of heavy shopping during the month, a key question is the extent to which they can maintain incentive discipline. The temptation to increase discounts, particularly to clear out inventories of 2019 model-year vehicles will be significant.

Sales & SAAR Comparison

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

	July 2019 ¹	June 2019	July 2018
New-Vehicle Retail Sales	1,178,500 units (-2.0% lower than July 2018) ²	1,175,468 units	1,155,047 units
Total Vehicle Sales	1,397,400 units (-1.8% lower than July 2018) ²	1,514,494 units	1,366,047 units
Retail SAAR	13.7 million units	13.6 million units	13.6 million units
Total SAAR	16.7 million units	17.3 million units	16.8 million units

¹Figures cited for July 2019 are forecasted based on the first 16 selling days of the month.

²July 2019 has 25 selling days, one day more than July 2018.

The Details

- The average new-vehicle retail transaction price in July is expected to reach \$33,065. The previous high for the month of July, \$31,767, was set last year.

- Average incentive spending per unit in July is expected to reach \$4,074, down from \$3,849 last year.
- Consumers are on pace to spend \$39 billion on new vehicles in July, up \$2.3 billion from last year's level.
- Truck/SUVs account for 71.7% of new-vehicle retail sales through July 21, the highest level ever for the month of July.
- Days to turn, the average number of days a new vehicle sits on a dealer lot before being sold to a retail customer, is 73 days through July 21. This is up 6 days from last year.
- Fleet sales are expected to total 218,900 units, down 0.4% from July 2018. Fleet volume is expected to account for 16% of total light-vehicle sales, up from 15% last year.

Outlook for the Year

Jeff Schuster, President, Americas Operations and Global Vehicle Forecasts, LMC Automotive:

"There are signals that auto sales in the second half of 2019 are poised to outperform expectations. While trade risk remains a threat, transaction prices continue to rise and economic growth is moderating, sales in the second half of the year could outperform expectations consistent with strength in the previous five years. This year sees higher fleet volume year-to-date, falling interest rates and escalating incentives. It won't change the fact that the market will be down from 2018, but if consumers respond to the favorable environment, a run-up at the close of 2019 is possible."

LMC is increasing the forecast for 2019 total light-vehicle sales by 40,000 units to round up to 17.0 million units, a decline of 1.9% from 2018. The increase did not affect the forecast rounding for retail light-vehicle sales, which remains at 13.5 million units, a decline of 3.0% from 2018.

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