J.D. POWER

LMC AUTOMOTIVE

Automotive Forecast September 2019

Sept. 27, 2019

Record Q3 Spending Accelerates Auto Sales After Year's Slow Start

The Retail Sales Forecast

New-vehicle retail sales in September 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 1,007,000 units, a 15.2% decrease compared with September 2018. Controlling for the number of selling days, this translates to a decline of 7.8% from last year on two fewer selling days. (Note: This year excludes the Labor Day holiday and has one fewer weekend than September 2018.)

New-vehicle retail sales in Q3 are projected to reach 3,622,500, flat compared to Q3 2018. In contrast, new-vehicle retail sales in the first half of the year were down 2.9%.

The Total Sales Forecast

Total sales in September are projected to reach 1,244,000 units, a 13.3% decrease compared with September 2018. Adjusting the results for two fewer selling days results in a decline of 5.8%. The seasonally adjusted annualized rate (SAAR) for total sales, which normalizes sales for the exclusion of the Labor Day holiday and one fewer weekend this year, is expected to be 16.8 million units. This is down 500,000 units from a year ago.

New vehicle total sales in Q3 are projected to reach 4,280,000 units, flat compared with Q3 2018. In contrast, new-vehicle total sales in the first half of the year were down 1.5%.

The Takeaway

Thomas King, Senior Vice President of the Data and Analytics Division at J.D. Power: "After delivering record sales results in August, when retail sales rose 6.2% on a selling-day adjusted basis, the decline in September sales was expected and reflects a quirk in how the industry reports sales. The large decline in sales this month is driven primarily by the timing of the Labor Day holiday. Unlike most years, sales from the Labor Day holiday weekend were included in August sales reporting instead of September. With close to 250,000 new vehicles sold during the holiday weekend, the exclusion from September reporting is significant."

King noted that noise in the monthly results mean it makes sense to evaluate performance over the entire quarter. Retail sales in Q3 are expected to be flat compared with the same time period last year. This is a remarkable improvement from the first half of the year and the first quarter in nearly two years without a year-over-year sales decline. The improvement however has been accompanied by record levels of spending. Incentive spending is projected to reach $4,159 (up 6% or $246), the highest level ever for the third quarter and just $28 short of the all-time quarter high set in Q4 2017. The increase is being driven by the ongoing sell-down of old model-year vehicles which account for more than 90% of sales in the quarter and represents the slowest sell-down on record.

Transaction prices are expected to set another record for the quarter, with the average new-vehicle sales price projected to reach $33,321, up 4% (+$1,229) from last year. The average price for cars is up 4% to $26,736 and trucks/SUVs are up 3% to $35,725.

Continued growth in prices combined with flat retail sales, means that consumers are expected to spend a record $120.7 billion on new vehicles in Q3. This represents the highest level for any quarter, edging out the previous high set in Q4 2018 by more than $500 million.

Looking ahead to the final quarter of the year, overall consumer affordability will continue to be aided by recent rate reductions. The average interest rate on a finance deal has fallen to 5.5% in Q3, more than 60 basis points lower than the first quarter this year. For a $30,000 vehicle with a 60-month loan, this equates to reduction in payment of nearly $10. “The big questions for the industry are how quickly manufacturers can transition to the new model year and will we see a return to the incentive discipline observed in Q1 and Q2. As manufacturers clear their inventories of heavily discounted 2019 model year vehicles, lower discounts on new 2020 model year vehicles could result in a slower sales pace than we saw this quarter,” King said.

Sales & SAAR Comparison

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

	September 2019[1]	**August 2019**	**September 2018**
New-Vehicle Retail Sales	1,007,000 units (-7.8% lower than September 2018)[2]	1,411,247 units	1,186,985 units
Total Vehicle Sales	1,244,000 units (-5.8% lower than September 2018)[2]	1,642,485 units	1,434,916 units
Retail SAAR	13.9 million units	13.7 million units	14.5 million units
Total SAAR	16.8 million units	17.0 million units	17.3 million units

[1]Figures cited for September 2019 are forecasted based on the first 16 selling days of the month.
[2]September 2019 has 23 selling days, two days fewer than September 2018.

The Details

- The average new-vehicle retail transaction price in September is expected to reach $33,709. The previous high for the month of September, $32,359, was set in 2018.
- Average incentive spending per unit in September is expected to reach $4,208, up from $4,014 last year.
- Consumers are on pace to spend $33.9 billion on new vehicles in September, down $4.5 billion from last year's level.
- Truck/SUVs account for 72.3% of new-vehicle retail sales through Sept. 22, the highest level ever for the month of September.
- Days to turn, the average number of days a new vehicle sits on a dealer lot before being sold to a retail customer, is 75 days through Sept. 22. This is up 7 days from a year ago.
- Fleet sales are expected to total 236,900 units, up 4% from September 2018. Fleet volume is expected to account for 19% of total light-vehicle sales, up from 17% last year.

Outlook for the Year

Jeff Schuster, President, Americas Operations and Global Vehicle Forecasts, LMC Automotive:
"As the global sales outlook continues to weaken, light vehicle demand in the U.S. remains robust. This is despite the headwinds and uncertainty caused by rising tensions with Iran, the UAW strike at GM and ongoing trade concerns. The selling rate for the second half of 2019 is expected to average 17.0 million units, up slightly from 16.9 million units in the first half but behind the 17.2 million-unit pace set in the second half of 2018."

LMC's forecast for 2019 total light-vehicle remains just above the 17.0 million-unit level, with a slight improvement that now translates to a decline of 1.3% from 2018. The outlook for retail is holding at 13.6 million units, a decline of 2.0% from 2018.

Media Relations Contacts
Geno Effler; J.D. Power; Costa Mesa, Calif.; 714-621-6224; media.relations@jdpa.com
Emmie Littlejohn; LMC Automotive; Troy, Mich.; 248-817-2100; elittlejohn@lmc-auto.com

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