J.D. POWER

LMC AUTOMOTIVE

Automotive Forecast September 2020

Sept. 25, 2020

Retail Sales to Post First Gain Since February; Average Transaction Prices Reach Highest Level Ever

The Retail Sales Forecast

New-vehicle retail sales in September are expected to be up from a year ago, according to a joint forecast developed jointly by J.D. Power and LMC Automotive. Retail sales are projected to reach 1,157,800 units, a 3.4% increase compared with September 2019. Reporting the same numbers without controlling for the number of selling days translates to an increase of 12.4% from a year ago. While the increase vs. September 2019 is substantial, it's important to recognize that it is being aided by the industry sales reporting calendar. September 2020 contains two additional selling days than September 2019 and has the added benefit from promotional activity related to the Labor Day weekend, which last year fell into August sales reporting.

The Total Sales Forecast

Total sales in September are projected to reach 1,288,100 units, a 7.5% decrease from September 2019. Reporting the same numbers without controlling for the number of selling days translates to an increase of 0.5% from September 2019. The seasonally adjusted annualized rate (SAAR) for total sales is expected to be 15.7 million units, down 1.6 million units from a year ago.

The Takeaway

Thomas King, president of the data and analytics division at J.D. Power:
"Retail sales in September are poised to post the first year-over-year gain since February, a milestone in the recovery from the disruption that COVID-19 has had on the industry. While the results are flattered by the Labor Day holiday falling within the month, the performance points to strong underlying consumer demand for new vehicles. This is despite tight inventory for many of the most popular vehicles." The average number of days a new vehicle sat on a dealer lot before being sold is on pace to fall to 56 days, the first time below 60 days in five years. Additionally, more than 45% of all vehicles sold in September will have spent fewer than 20 days on dealer lots.

This is enabling manufacturers to reduce overall new vehicle incentives and retailers to reduce the discounts off MSRP that have historically been offered. Incentive spending is expected to fall to the lowest level since July 2019. Average spending is on pace to be $3,964 per vehicle, a decrease of $250 from last year and the first time this year below $4,000. Expressing the same figures as a percentage of the average vehicle MSRP is 9.6%, down 0.8 percentage points from last year and the first time below 10% in 15 months. For context, spending peaked at $4,953 per unit in April of this year.

Retailers also continue to post significant growth in margins on new-vehicle sales. Total grosses per unit, inclusive of finance and insurance incomes, are on pace to reach $2,189, an increase of $723 from a year ago.

Transaction prices are expected reach another all-time high, rising 5.6% to $35,655. The shift towards more expensive trucks/SUVs remains a key driver, with trucks/SUVs on pace to account for 76% of retail sales vs. 72% a year ago. Low interest rates and higher trade-in values are helping to mitigate some of the increases in overall prices. The average rate for loans in September is expected to fall by more than 100 basis points from a year ago to 4.4%. Over the same time, the average monthly finance payment is up only $5 to $582, while the average finance term length is up only one month to 70 months. Concurrently, the average trade-in value has risen to $4,951, an increase of $634 or 14.7% from a year ago.

The combination of elevated sales and transaction prices means that consumers are expected to spend $41.3 billion on new vehicles in September. This represents an increase of $6.5 billion or 18.7% from September 2019.

For the third quarter, retail sales are expected to reach 3.5 million units, a decline of 6.2% from a year ago. Led by the recovery in September, this represents the best quarterly performance this year, with declines of 13% and 23% in Q1 and Q2, respectively. Prices have also simultaneously risen to the highest level ever. Average transaction prices in the third quarter are on pace to reach $35,473—the first-time prices have exceeded $35,000—an increase of 6.5% from Q3 2019.

Higher transaction prices coupled with the modest decline in retail sales volume mean that consumers will spend $123 billion on new vehicles during the third quarter, an increase of $1.4 billion (1.2%) from a year ago.

Retailer profits have also soared over the quarter and are expected to rise to the highest level in more than a decade. Total grosses (inclusive of finance and insurance incomes) on new vehicles are on pace to reach $7.1 billion, an increase of $2.3 billion (49%) from a year ago.

Looking ahead to October, any easing of inventory constraints coupled with the strong underlying consumer demand that is helping to elevate sales will provide additional support for the overall recovery. “Despite some uncertainties that could affect performance in Q4, one notable tailwind could be the return of customers to the market that took advantage of lease extension offers due to disruption from COVID-19,” King said. Lease penetration in September is expected to be 26.5%, a decline of 2.8 percentage points from September 2019 and the lowest

September level since 2014. "These customers that have traditionally replaced their vehicle at the end of their lease have been waiting on the sideline, getting ready for their next purchase," King said.

Sales & SAAR Comparison

J.D. Power U.S. Sales and SAAR Comparison

	September 2020[1]	**August 2020**	**September 2019**
New-Vehicle Retail Sales	1,157,800 units (+3.4% higher than September 2019)[2]	1,202,949 units	1,030,354 units
Total Vehicle Sales	1,288,100 units (-7.5% lower than September 2019)[2]	1,329,557 units	1,281,449 units
Retail SAAR	14.4 million units	12.9 million units	14.2 million units
Total SAAR	15.7 million units	15.2 million units	17.3 million units

[1]Figures cited for September 2020 are forecasted based on the first 16 selling days of the month.
[2]September 2020 has 25 selling days, two more than September 2019.

The Details

- The average new-vehicle retail transaction price in September is expected to reach a record $35,655. The previous high for any month, $35,420, was set in August 2020.
- Average incentive spending per unit in September is expected to reach $3,964, down from the previous record for the month of $4,214 set in September 2019. Spending as a percentage of the average MSRP is 9.6%, down 0.8 percentage points from a year ago.
- Incentive spending on cars is expected to be down $189 to $3,599, while spending on trucks/SUVs is down $292 to $4,074.
- Consumers are on pace to spend $41.3 billion on new vehicles, up $6.5 billion from September 2019.
- Truck/SUVs on pace to account for 76.3% of new-vehicle retail sales, the highest level ever for the month of September.
- Fleet sales are expected to total 130,300 units, down 52% from September 2019. Fleet volume is expected to account for 10% of total light-vehicle sales, down from 20% a year ago.

Global Outlook for September 2020

Jeff Schuster, president, Americas operations and global vehicle forecasts, LMC Automotive: "The latest results are encouraging. The global light-vehicle selling rate for August passed 89 million units, up from 88 million in July. Even though volume dropped 9% year over year in

August, we see more positive signs in September. China continues to lead the global recovery, with August volume up nearly 9% from August 2019. India's wholesale demand increased nearly 15% from a year ago, surprising on the upside after posting zero sales in the month of April. The United States and South Korea also showed strength on a selling day adjusted basis.

"Global light-vehicle sales YTD through August are down 22% from the same period in 2019, a further improvement of 2 percentage points from last month. With continued recovery as the backdrop, the global outlook for 2020 has notched upward to 76 million units, a decline of just 16% from 2019, with accelerating monthly momentum. Lockdown measures are now fairly loose in many parts of the world, but a risk of the reintroduction of more restrictive and widespread measures certainly cannot be ruled out. The United Kingdom and France could follow Australia in a return to a more stringent lockdown."

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