

Vehicle Sales Rise for Second Consecutive Month; Incentives Fall Below 9% of MSRP for First Time Since 2016

The Retail Sales Forecast

New-vehicle retail sales for the month of October are expected to be up from October 2019, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales for new vehicles are projected to reach 1,187,800 units, a 3.0% increase compared with October 2019 when adjusted for selling days. October 2020 contains one additional selling day over October 2019. Comparing the same sales volume without adjusting for the number of selling days translates to an increase of 6.8% year over year.

The Total Sales Forecast

Total new-vehicle sales, including retail and non-retail transactions, for the month of October are projected to reach 1,321,400 units, a 4.5% decrease from October 2019 when adjusted for selling days. Reporting the same numbers without controlling for the number of selling days translates to a decrease of 0.9% from the prior year. The seasonally adjusted annualized rate (SAAR) for total new vehicle sales is expected to be 15.9 million units, down 0.8 million units from 2019, the smallest year-over-year decline since the pandemic began.

The Takeaways

Thomas King, president of the data and analytics division at J.D. Power:

“Two consecutive months of year-over-year retail sales increases demonstrates that consumer demand is showing remarkable strength. The strong sales pace is occurring despite tight inventories. The combination of strong demand and lean inventories is enabling manufacturers to reduce new-vehicle incentives and is allowing retailers to reduce the discounts they typically offer on new vehicles.”

The average number of days a new vehicle sits on a dealer lot before being sold is on pace to fall to 49 days, the first time it has fallen below 50 days in more than eight years. Additionally, for the fourth consecutive month, one in five vehicles are being sold after being on a dealer lot for only five days or less.

The average incentive from manufacturers on new vehicles is on pace to be \$3,678 per vehicle, a decrease of \$425 from prior year and the second consecutive month below \$4,000. Expressed

as a percentage of the average vehicle MSRP, incentives for October are 8.7%, down 1.4 percentage points from a year ago and the first time below 9% since June 2016. For context, incentive spending peaked at \$4,953 per unit in April 2020. Retailers also continue to post significant growth in margins on new-vehicle sales. Total grosses per unit, inclusive of finance and insurance income, are on pace to reach \$2,224, an increase of \$829 from a year ago.

Average transaction prices are expected reach another all-time high, rising 7.3% to \$36,755. The shift towards more expensive trucks and SUVs remains a key driver, with those two segments on pace to account for a combined 77% of retail sales compared to 73% prior year. For context, the average transaction price five years ago in October 2015 was \$30,921.

Low interest rates and higher trade-in values are supporting higher transaction prices. The average interest rate for loans in October is expected to fall by 94 basis points from a year ago to 4.6%. Over the same time, the average monthly finance payment is up only \$16 to \$594. Concurrently, the average trade-in value has risen to \$5,034 an increase of \$519 or 11.5%, from a year ago. Loan terms are relatively stable with the average term up only one month, to 70 months, compared with a year ago.

The combination of elevated retail sales and average transaction prices means that consumers are expected to spend \$43.7 billion on new vehicles, a record for the month of October. This represents an increase of \$5.6 billion, or 14.6%, from October 2019.

Looking ahead to November, progress in relieving inventory constraints, coupled with the strong underlying consumer demand means that the strong sales pace will persist. However, a quirk of the sales calendar means that headline results for November will be less impressive than for September and October. Specifically, the sales calendar for November 2020 is shorter than it was for November 2019. November 2020 has only 28 days in the sales calendar compared with 32 days in November 2019.

Sales & SAAR Comparison

U.S. New Vehicle	October 2020 ¹	September 2020	October 2019
Retail Sales	1,187,800 units (+3.0% higher than October 2019) ²	1,182,342 units	1,112,380 units
Total Sales	1,321,400 units (-4.5% lower than October 2019) ²	1,337,237 units	1,334,003 units
Retail SAAR	14.3 million units	14.7 million units	14.0 million units
Total SAAR	15.9 million units	16.3 million units	16.8 million units

¹ Figures cited for October 2020 are forecasted based on the first 21 selling days of the month.

² October 2020 has 28 selling days, one more than October 2019.

The Details

- The average new-vehicle retail transaction price in October is expected to reach a record \$36,755. The previous high for any month of \$35,961 was set in September 2020.
- Average incentive spending per unit in October is expected to reach \$3,678, down from the previous monthly record of \$4,103, set in October 2019. Spending as a percentage of the average MSRP is expected to reach 8.7%, down 1.3 percentage points from a year ago.
- Average incentive spending per unit on trucks and SUVs combined is expected to be down \$510 to \$3,704, while the average spending on cars is expected to be down \$213 to \$3,572.
- Consumers are on pace to spend \$43.7 billion on new vehicles, up \$5.6 billion from October 2019.
- Truck/SUVs on pace to account for 76.8% of new-vehicle retail sales.
- Fleet sales are expected to total 128,500 units, down 44% from October 2019 on a selling day adjusted basis. Fleet volume is expected to account for 10% of total light-vehicle sales, down from 17% a year ago.

Global Outlook for October 2020

Jeff Schuster, president, Americas operations and global vehicle forecasts, LMC Automotive:

“Global light-vehicle sales posted the first year-over-year gain since December 2019 and only the second in the last 24 months. The selling rate for September was stable at 90 million units after August was revised upward. This is also the first time the SAAR has been above 90 million units since December 2019 and is a good signal the market is still on the road of recouping lost volume. In September, China was up 9% and Indian gained 26% from a year ago. Europe had a 5% increase, as Eastern Europe surged 15% on more than a 100% increase in Turkey.

“Global light-vehicle sales year to date through September increased three percentage points from August and are now down 19% from the same period in 2019. The strong performance in the third quarter—and expected stability in the fourth quarter—is driving the 2020 global outlook to 77 million units, a decline of 15% from 2019. Uncertainty remains elevated as several European countries have, or are considering, new lockdown measures as COVID-19 cases rise across Europe. These new restrictions are certainly a near-term headwind in the intensity of the recovery. Despite the uncertainty, 2021 is expected to improve to 86 million units, an increase of 12% from 2020.”

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