



# The North American inventory dilemma

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It is no secret that one of the biggest challenges right now for automakers in North America is to replenish inventory. Nor is it a surprise. From mid-March, the pandemic forced plant closures across the region, with the shutdowns lasting for an average of 45 days. According to our partner Wards Intelligence, this meant that US inventory at the end of October was 900,000 units lower than at the same point in 2019, with days' supply of only 59 days, versus 73 last year.

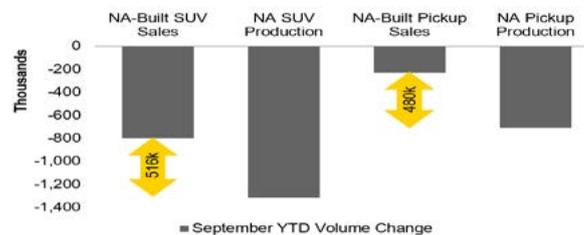
While this is arguably a good problem for automakers to have, another factor behind the lack of inventory is that demand has been surprisingly resilient, notably in the US market, following a low point in April. Recently, the seasonally adjusted annual rate (SAAR) of sales has continued to improve, reaching 16.28 million vehicles in October, from 15.18 million in August and 16.26 million in September. This was the strongest rate since February and points to a sustained market recovery.

The upshot, however, is that production has been racing to catch up with demand. Dealerships had the early advantage of being able to draw from existing stocks. Auto assemblers, on the other hand, were not afforded the luxury of a head start as they battled ongoing lockdowns. Once manufacturing was back up and running, slower line speeds – due to social distancing measures, parts supply issues and employee absenteeism, as well as increased turnover at the OEM and supplier level – further hampered efforts to close the gap.

The current status of inventory in the region has created a 'last-in, first-out' environment in which dealerships are estimated to have turned over roughly half of their start-of-month inventory over the last three months.

Production is expected to remain focused on Pickups and SUVs as demand for these bodystyles continues to outpace output in the region. In the year to September, over 1.3 million fewer SUVs and 706,000 fewer Pickups were built in the region. In sales terms, however, the corresponding declines were of 797,000 and 226,000 units, leaving a gap of 516,000 units and 480,000 units, respectively.

## NA Pickup and SUV Production: Playing Catch-up



The reality is that most models are in short supply and manufacturers simply need to get product on the lot: every lost sale not only represents a loss of revenue, but also a loss of loyalty and potential future revenue.

Although these instances of production constraints are likely to continue in the short term, selective overtime will be used to help boost inventory to meet demand. That being said, even with overtime, most plants do not have the capacity to match the pace of demand quickly enough to close the gap. As a case in point, combined plant capacity utilisation for the top five sales models in North America has, on average, exceeded 100%, despite days' supply for all five models being well below ideal levels.

## The price of popularity

Top NA Sales Models	Production Plants	August – October Plant Utilization	Oct. 2020 US Days' Supply <sup>2</sup>	Oct. 2019 US Days' Supply <sup>2</sup>	Change in US Days' Supply
Ford F-150	Dearborn Truck, Kansas City Truck	78% <sup>1</sup>	59	100	-41
Toyota RAV4	Woodstock, Cambridge, Georgetown	>100%	31	54	-23
Ram 1500	Sterling Heights, Saultillo	>100%	65	102	-37
Chevrolet Silverado	Fort Wayne, Silao	>100%	42	79 <sup>3</sup>	-37
Honda CR-V	Alliston, East Liberty, Greensburg, Marysville	95%	69	72	-3

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<sup>1</sup> Utilization impacted by 2021 MY changeover  
<sup>2</sup> Source: Wards Intelligence  
<sup>3</sup> 2019 UAW strike impacted 2019 days' supply

Short of a slowdown in demand triggered by market conditions, or price hikes (average vehicle transaction price in the US is already at an all-time high of over US\$36,000), there is little that OEMs can do to remedy the situation in the near term. So, assuming that the current pace continues, the lag is likely to remain an issue until the first quarter of next year, at least.