# J.D. POWER

LMC AUTOMOTIVE

U.S. Automotive Forecast for December 2020

Dec. 23, 2020

## Memorable (or Forgettable) Year to End Positively as December Sales Up and Average Transaction Prices Surpass $38,000 for First Time

### The Retail Sales Forecast

New-vehicle retail sales for the month of December are expected to be up from December 2019, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales for new vehicles are projected to reach 1,400,300 units, a 1.0% increase compared with a year ago when adjusted for selling days. December 2020 contains three more selling days and one more selling weekend than December 2019. Comparing the same sales volume without adjusting for the number of selling days translates to an increase of 13.1% year over year.

New-vehicle retail sales for the 2020 calendar year are projected to reach 12,386,000 a 9.5% decrease from 2019.

### The Total Sales Forecast

Total new-vehicle sales for the month of December—including retail and non-retail transactions—are projected to reach 1,619,000 units, a 5.1% decrease from December 2019 when adjusted for selling days. Reporting the same numbers without controlling for the number of selling days translates to an increase of 6.3% from December 2019. The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 16.4 million units, down 500,000 units from 2019.

New-vehicle total sales for 2020 are projected to reach 14,468,200, a 14.8% decrease from 2019.

### The Takeaways

**Thomas King, president of the data and analytics division at J.D. Power**:
"December's performance closes the year on multiple positive notes. Retail sales are up, transaction prices are at record levels and retailer profits are at all-time highs. This reinforces that manufacturers and retailers are succeeding in getting vehicles built, shipped and sold in alignment with resilient consumer demand."

The average number of days a new vehicle sits on a dealer lot before being sold is on pace to fall to 49 days, remaining below the 50-day threshold for the third consecutive month.

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“Strong retail sales, combined with record transaction prices and low manufacturer discounts, is good news for manufacturer profitability,” King said. The average incentive from manufacturers in December on new vehicles is on pace to be $4,014 per vehicle, a decrease of $585 from a year ago. Expressed as a percentage of the average vehicle MSRP, incentives will be at 9.2%, down two percentage points from a year ago, and the fifth consecutive month below 10%. For context, incentive spending per unit is 19% lower than when it peaked at $4,953 per unit in April 2020.

A similar story exists for dealers who continue to offer smaller discounts on new-vehicle sales. Total grosses per vehicle sale, inclusive of finance and insurance income, are on pace to reach $2,053, an increase of $813 from a year ago. This marks the sixth consecutive month above $2,000.

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Average transaction prices are expected reach another all-time high, rising to $38,077, a 9% increase from a year ago. This is the first time that average prices have exceeded $38,000—just one month after prices exceeded $37,000 for the first time in November 2020. For context, average transaction prices are 20% higher in December 2020 than they were in December 2015 at $31,849. The typical increase in luxury vehicles sales in December remains a key driver, along with disciplined incentives and discounting, and the shift towards more expensive trucks and SUVs. Trucks and SUVs are on pace to account for 79% of retail sales compared with 75% a year ago.

Low interest rates and higher trade-in values continue to support higher transaction prices. The average interest rate for loans in December is expected to fall to 4.2%, 97 basis points lower than a year ago. Over the same time, the average monthly finance payment is up only $20 to $610. Concurrently, the average trade-in value has risen to $5,626, an increase of $709 (or 14.4%) from a year ago. Loan terms are relatively stable with the average term being 69 months, only up one month vs. a year ago.

Consumer expenditures on new vehicles is likely to reach all time high of $53.3 billion, up $10.1 billion from December 2019 and $6.6 billion over the previous record of $46.7 billion in August of 2019.

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## A Remarkable Recovery, But…

Despite strong demand in the second half of 2020, the massive sales disruption early in the year will be apparent when manufacturers announce their full-year results. Total Sales in 2020 are forecasted to be down 14.8% from 2019 and retail is forecasted to be down 9.5%. Despite lower sales, higher transaction prices will enable the total value of new vehicles purchased by consumers to be down just 4% at $442 billion.

## Sales & SAAR Comparison

| U.S. New Vehicle | December 2020[1] | November 2020 | December 2019 |
|---|---|---|---|
| **Retail Sales** | 1,400,300 units (+1.0% higher than December 2019)[2] | 1,022,516 units | 1,237,547 units |
| **Total Sales** | 1,619,000 units (-5.1% lower than December 2019)[2] | 1,191,021 units | 1,522,542 units |
| **Retail SAAR** | 14.4 million units | 12.9 million units | 13.9 million units |
| **Total SAAR** | 16.4 million units | 15.6 million units | 16.9 million units |

[1] Figures cited for December 2020 are forecasted based on the first 17 selling days of the month.
[2] December 2020 has 28 selling days, three more days than December 2019.

## The Details

- The average new-vehicle retail transaction price in December is expected to reach a record $38,077. The previous high for any month of $37,140 was set in November 2020.
- Average incentive spending per unit in December is expected to reach $4,014, down from the previous monthly record of $4,599, set in December 2019. Spending as a percentage of the average MSRP is expected to reach 9.2%, down two percentage points from a year ago.
- Average incentive spending per unit on trucks and SUVs combined is expected to be down $698 to $4,004, while the average spending on cars is expected to be down $253 to $4,020.
- Consumers are on pace to spend $53.3 billion on new vehicles, up $10 billion from December 2019.
- Trucks/SUVs are on pace to account for 79.1% of new-vehicle retail sales.
- Fleet sales are expected to total 218,700 units, down 31% from December 2019 on a selling day adjusted basis. Fleet volume is expected to account for 14% of total light-vehicle sales, down from 19% a year ago.

## Observations on Residual Values

**Eric Lyman, vice president, ALG:**
"The residual value outlook throughout 2020 was reminiscent of the eye of a hurricane: somewhat calm and stable while surrounded by chaos. Vehicle inventory shortages and increased consumer demand for used vehicles helped buoy used-vehicle prices. This effectively eliminated widespread short-term threats to negative equity in lease portfolios and end-of-term vehicle values. In fact, strong demand for used vehicles meant that most off-lease vehicles were sold for higher prices than manufacturers had expected, delivering a significant financial windfall.

"Longer term, the drop in lease originations and overall retail sales in 2020 will result in fewer used vehicles returning to the wholesale market, while the reduced number of vehicles sold into daily rental fleets will limit pressure on used-vehicle values in 2021 and beyond. This is a positive for manufacturers as it points to strong residuals in the future allowing them to improve profitability or offer attractive lease payments at lower cost to the manufacturer. However, there is considerable risk. Specifically, the likelihood exists that manufacturers will resume their collective quest to capture market share through profit-eroding incentives that will put pressure on the ALG benchmark residual value forecast. Despite triumph in the face of adversity, we expect old habits to return in 2021."

## Global Outlook for December 2020

**Jeff Schuster, president, Americas operations and global vehicle forecasts, LMC Automotive:** "After six months of improvement, the global selling rate declined on a month-over-month basis for the first time since the start of the pandemic, as restrictions across Europe tightened and the rate of increase in North America slowed. Even in decline, the selling rate still managed to come in just under 90 million units, a strong improvement from the rate of 49 million in April. The market continues to be supported by improvements in the light-vehicle market in China, which was up 11% in November. In addition, Japan, South Korea and India continue to show improvement as each market grew more than 6% from a year ago. Western Europe and the United States each were off nearly 16% from November 2019, but the declines are affected by fewer selling days.

"The 2% contraction in global light-vehicle sales brings the year-to-date decline to -16%, a slight improvement from October. Even with the sobering news in November and the remaining risks as 2020 closes, the global outlook for the year has improved 500,000 units to 78 million, a decline of 14% from 2019. In 2021, we'll see a continuing path of recovery. With COVID-19 vaccinations beginning, there is room for further optimism, but the market still needs to weather the risks that are primarily centered in the first quarter. The 2021 forecast for global light vehicles is holding at 86 million units, an increase of 11% from 2020."

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