J.D. POWER

LMC AUTOMOTIVE

U.S. Automotive Forecast for February 2021

Feb. 25, 2021

Auto Sales Strong in February Despite Adverse Weather And Lean Inventory levels

The Retail Sales Forecast

New-vehicle retail sales for the month of February are expected to show growth from February 2020, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales for new vehicles are projected to reach 975,600 units, a 3.3% increase compared with February 2020 when adjusted for selling days. February 2021 contains two fewer selling days and one fewer selling weekend than February 2020. Comparing the same sales volume without adjusting for the number of selling days translates to a year-over-year decrease of 4.6%. February 2020 was a once-in-a-generation sales calendar month which benefitted from being a leap year and having five weekends.

The Total Sales Forecast

Total new-vehicle sales for the month of February, including retail and non-retail transactions, are projected to reach 1,206,700 units, a 3.7% decrease from February 2020 when adjusted for selling days. Reporting the same numbers without controlling for the number of selling days translates to a decrease of 11.1% from February 2020. The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 16.0 million units, down 0.9 million units from 2020.

The Takeaways

Thomas King, president of the data and analytics division at J.D. Power:
"Despite challenges posed by inclement weather in most of the country, retail sales demand continues to be strong with the industry posting a second consecutive month of year-over-year gains. Typically, weather related sales disruptions are made up in the weeks following, so most of the sales lost at the beginning of February will be made up at the end of February and trail into early March.

While the ongoing strength of the sales rate is impressive, the transaction prices and profitability of those sales is nothing short of remarkable."

The combination of strong retail sales, higher transaction prices and smaller discounts means that February 2021 likely will be one of the most profitable Februarys ever for both retailers and manufacturers.

As February results will show, while inventories are lean, there is still enough inventory to maintain positive sales growth in the near term. However, the lingering risk to the current retail sales pace for the balance of the year is supply chain disruption.

Lean inventories mean that vehicles are selling quickly once they arrive at dealerships—and they are selling with lower discounts. The average number of days a new vehicle sits on a dealer lot before being sold is on pace to fall to 53 days, down 18 days from last year.

The average manufacturer incentive is on pace to be $3,562 per vehicle, a decrease of $614 from a year ago. Expressed as a percentage of the average vehicle MSRP, incentives for February 2021 are 8.2%, down two percentage points from a year ago, and the seventh consecutive month below 10%. For context, incentive spending per unit is 28% lower than when it peaked at $4,953 per unit in April 2020. Retailers also continue to offer smaller discounts on new-vehicle sales. Total grosses per unit, inclusive of finance and insurance income, are on pace to reach $2,237, an increase of $896 from a year ago. Grosses have been above $2,000 for six of the last seven months.

Average transaction prices are expected reach another monthly high, rising 9.8% to $37,524, the highest ever for the month of February and nearly at the record set in December 2020. For context, average transaction prices are 22% higher in February 2021 than they were in February 2016 at $30,746.

Disciplined incentives and dealer discounting, along with the shift towards more expensive trucks and SUVs, remain the key drivers of higher prices. SUVs and trucks are on pace to account for a combined 78% of retail sales compared with 74% a year ago.

Low interest rates and higher trade-in values also are supporting higher transaction prices. The average interest rate for loans in February is expected to fall 121 basis points from a year ago to 4.3%. During the same period, the average monthly finance payment is up only $20 to $602. Concurrently, the average trade-in value has risen to $4,987, an increase of $866 (21.0%) from a year ago. Loan terms are relatively stable with the average term increasing less than one month—to 70 months—compared with a year ago.

Looking forward, March marks the start of two key markers for the industry sales cadence. First, March is when manufacturers typically launch major sales events. This year, the discounts offered during these events are likely to be tempered relative to historical levels due to lower--and better-balanced—inventory levels. Second, March 2020 was when pandemic-related shutdowns began to disrupt vehicle sales, making year-over-year comparisons less relevant.

Overall, the retail sales outlook for 2021 remains extremely positive. Strong sales volumes, coupled with record transaction prices and profitability, are expected to continue.

Sales & SAAR Comparison

U.S. New Vehicle	February 2021[1]	January 2021	February 2020
Retail Sales	975,600 units (+3.3% higher than February 2020)[2]	896,396 units	1,022,693 units
Total Sales	1,206,700 units (-3.7% lower than February 2020)[2]	1,092,997 units	1,357,575 units
Retail SAAR	13.3 million units	14.2 million units	13.0 million units
Total SAAR	16.0 million units	16.6 million units	16.8 million units

[1] Figures cited for February 2021 are forecasted based on the first 17 selling days of the month.
[2] February 2021 has 24 selling days, two fewer days than February 2020.

The Details

- The average new-vehicle retail transaction price in February is expected to reach a monthly record $37,524. The previous high for any month, $37,966, was set in December 2020.
- Average incentive spending per unit in February is expected to reach $3,562, down from $4,176 in February 2020. Spending as a percentage of the average MSRP is expected to reach 8.2%, down two percentage points from a year ago.
- Average incentive spending per unit on trucks and SUVs combined is expected to be down $749 to $3,551, while the average spending on cars is expected to be down $233 to $3,585.
- Consumers are on pace to spend $36.6 billion on new vehicles, up $2 billion from February 2020 and the highest ever for the month of February.
- Truck/SUVs are on pace to account for 78.5% of new-vehicle retail sales.
- Fleet sales are expected to total 231,100 units, down 25% from February 2020 on a selling day adjusted basis. Fleet volume is expected to account for 19% of total light-vehicle sales, down from 25% a year ago.

Observations on Residual Values

Eric Lyman, vice president, ALG:
"The positive metrics in new-vehicle sales also bode well for sustained strength in residual values. There is a cyclical relationship between high trade-in values and equity, low incentives, declining used-vehicle supply and strong residual values. With all these metrics tracking well in early 2021, there is no indication that the used market valuation gains experienced in 2020 will be given back any time soon. One data point that still has yet to rebound is lease penetration which, given the strong residual value outlook, should see some recovery during the next year as lenders get more comfortable with the stability in the long-term used-vehicle forecast."

Global Outlook for February 2021

Jeff Schuster, president, Americas operations and global vehicle forecasts, LMC Automotive:
"Global light-vehicle sales started the year up 1.6% from January 2020. However, the selling rate fell to a lackluster 82 million units, down from the average of 91 million units in the fourth

quarter of 2020. The month was mixed across the world, with China seeing growth of 26% from a year ago, but there were Chinese New Year distortions. Significant lockdown measures in key markets across Western Europe had a negative effect on sales in January, pushing sales down 23% from January 2020. Japan, South Korea and India all exhibited some strength in the new year, while the United States also started the year with a strong selling rate. The global selling rate in February is expected to remain under 85 million units as uncertainty remains high.

"Despite the short-term pressure on volume from the global semiconductor shortage and the continuation of pandemic-related downside risk in the near term, we have increased the outlook for global light vehicle sales slightly to 87 million units, up from 86 million a month ago. The shape of the 2021 recovery continues to hinge on the vaccine rollout and effectiveness, the industry's ability to move past the chip shortage and lower inventory levels. We do not currently expect any material effect or additional risk to the 2021 forecast from production disruptions, but there will be near-term distortions into the second quarter."

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