

## U.S. Automotive Forecast for April 2021 April 28, 2021

### **April New-Vehicle Sales to Break Record Despite Low Inventory; Buyers Will Spend More on New Vehicles Than Any Other April**

#### **The Retail Sales Forecast**

New-vehicle retail sales for April 2021 are expected to be the highest ever recorded for the month of April, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales for new vehicles are projected to reach 1,325,500 units, a 110.6% increase compared with April 2020, and an 20.8% increase compared with April 2019, when adjusted for selling days. April 2021 contains the same number of selling days as April 2020 and one more selling day than April 2019. Comparing the same sales volume without adjusting for the number of selling days translates to a year-over-year increase of 110.6% from 2020 and a 25.6% increase from 2019.

#### **The Total Sales Forecast**

Total new-vehicle sales for April 2021, including retail and non-retail transactions, are projected to reach 1,479,800 units, a 107.1% increase from April 2020 and a 7.8% increase from April 2019 when adjusted for selling days. Reporting the same numbers without controlling for the number of selling days translates to a 107.1% increase from April 2020 and a 12.1% increase from April 2019. The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 18.1 million units, up 9.4 million units from 2020 and up 1.7 million units from 2019.

#### **The Takeaways**

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

“Despite low inventory, April 2021 will be another record-breaking month for the U.S. auto industry. Building on the strength that began in Q4 2020 and continued through Q1 2021, the industry will set records for April sales volumes, transaction prices, consumer expenditure and retailer profitability. However, with the sales pace exceeding the rate at which vehicles are being produced, compounded by significant production disruption due to microchip shortages, there is a growing risk to the industry’s ability to sustain the current sales pace in the coming months.

“While falling numbers of vehicles in inventory at retailers is the primary risk to sales results in the coming months, to date, low inventories have not had a material effect on aggregate sales results. Instead, they have enabled manufacturers and retailers to reduce discounts and consumers are demonstrating a willingness not only to buy vehicles closer to MSRP, but also to buy more expensive vehicles.”

Total retailer profit per unit, inclusive of grosses and finance & insurance income, are on pace to reach \$2,697, an increase of \$1,313 from a year ago. Grosses have been above \$2,000 for eight of the last 10 months. Coupled with the strong retail sales pace, total retailer profits from new vehicle sales will be \$3.5 billion, the highest ever for the month of April and up 151% from April 2019.

Average transaction prices are expected reach another monthly high, rising 6.8% to \$37,572, the highest ever for the month of April and second highest all time on record behind December 2020. For context, average transaction prices are 20% higher in April 2021 than they were in April 2016 at \$31,240.

“Record prices and retail sales mean that, in aggregate, consumers will spend more money on new vehicles than any April on record. Consumers will spend \$49.8 billion on new vehicles this month, the highest ever for April and the third-highest consumer expenditure month on record—eclipsed only by the \$51.2 billion spent in March 2021 and the \$51.5 billion spent in December 2020.

“Retailers continue to prove to be very adaptable to the current environment by turning inventory quickly to maintain sales pace as the average number of days a new vehicle sits on a dealer lot before being sold is on pace to fall to 50 days, down 34 days from a year ago. More notably, retailers are selling a larger proportion of vehicles almost as soon as they arrive in inventory. This month, nearly one-third of vehicles were sold within 10 days of arriving at a dealership, up from one-fourth of vehicles sold within 10 days in April 2019.

“SUVs and trucks are on pace to account for a combined 76% of retail sales, flat with April 2020 and equal to the highest April on record. This is partially due to SUVs and trucks having a more limited inventory than cars. The last time SUV and truck share did not post year-over-year gains was in January 2013.”

The average interest rate for loans in April is expected to increase 46 basis points to 4.3 % from a year ago, on track for the first year-over-year increase since July 2019.

“The strong sales pace, despite smaller discounts and more expensive vehicle purchases is due in part to extremely strong used-vehicle prices. Even with interest rates being slightly higher, the average monthly finance payment is \$593, up only \$2, aided by average trade-in values rising to \$5,502, an increase of \$3,087 (up 128%) from a year ago.

“While the April results are outstanding for retailers in aggregate, the results for manufacturers are mixed. Manufacturers are benefitting from reduced levels of incentives which directly improves their profitability. However, manufacturers recognize revenue when vehicles are shipped from the factories—not when they are sold by retailers. Hence, manufacturers Q2 revenues will be directly affected by microchip-related plant shutdowns which are limiting the number of vehicles they can build in the quarter.

“Looking forward to May, with inventory levels materially lower than they were at the start of April, the risk of inventory related sales disruption is increasing, but April did demonstrate that lower than normal inventories were still sufficient to deliver record sales volumes. Whether inventory levels will finally fall in May to the point where aggregate industry sales are disrupted

is unclear, but a couple of things are relatively certain. First, sales of certain models in select geographies will be disrupted. Second, retailers with inventory will continue to benefit from strong consumer demand and the opportunity to sell that inventory with minimal discounts.”

## Sales & SAAR Comparison

U.S. New Vehicle	April 2021 <sup>1</sup>	March 2021	April 2019 <sup>3</sup>
<b>Retail Sales</b>	1,325,500 units (+110.6% higher than April of 2020; +20.8% higher than April 2019) <sup>2</sup>	1,380,697 units	1,055,077 units
<b>Total Sales</b>	1,479,800 units (+107.1% higher than April 2020; +7.8% higher than April 2019) <sup>2</sup>	1,605,520 units	1,319,894 units
<b>Retail SAAR</b>	16.7 million units	15.5 million units	13.5 million units
<b>Total SAAR</b>	18.1 million units	18.0 million units	16.4 million units

<sup>1</sup> Figures cited for April 2021 are forecasted based on the first 21 selling days of the month.

<sup>2</sup> April 2021 has 26 selling days, the same as April 2020 and one more day than April 2019.

<sup>3</sup> April 2019 is displayed to avoid April 2020 pandemic-influenced comparisons.

## The Details

- The average new-vehicle retail transaction price in April is expected to reach a monthly record \$37,572. The previous high for any month, \$37,966, was set in December 2020.
- Average incentive spending per unit in April is expected to fall to \$3,191, down from \$4,953 in April 2020 and \$3,573 in April 2019. Spending as a percentage of the average MSRP is expected to fall to 7.5%, down 4.2 percentage points from April 2020 and down 1.5 percentage points from April 2019.
- Average incentive spending per unit on trucks and SUVs combined in April is expected to be \$3,173, down \$1,989 from a year ago and down \$445 from 2019, while the average spending on cars is expected to be \$3,219, down \$1,049 from a year ago and down \$247 from 2019.
- Consumers are on pace to spend \$49.8 billion on new vehicles, the highest ever for the month of April, and up \$27.7 billion from April 2020 and up \$14.2 billion from April 2019.
- Truck/SUVs are on pace to account for 76.1% of new-vehicle retail sales in April.
- Fleet sales are expected to total 154,400 units in April, up 81% from April 2020 and down 44% from April 2019 on a selling day adjusted basis. Fleet volume is expected to account for 10% of total light-vehicle sales, down from 12% a year ago.

## Observations on New Vehicle Residual Values

### Eric Lyman, vice president, ALG:

“Unique market conditions behind ALG’s highest residual value forecast on record continue to unfold in favor of remarketers and lease portfolio risk managers—who may have some of the easiest jobs in the auto industry right now. The 2020 declines in overall sales, lease penetration and rental fleet units are driving a 5% decline in ALG’s Used Supply outlook for 2021, with further

declines expected until 2023 when the volume of one- to five-year-old vehicles expected to change hands will be down 11.5% from 2020 levels. The continued shortage of vehicles contributes to lower incentive spending and higher transaction prices which serve to strengthen our benchmark residual value forecast.”

## **Observations on the Used Vehicle Market**

### **Jonathan Banks, vice president, Valuations Services:**

“The used vehicle market continues to be red hot and prices remain at record levels. This isn’t going to change in the foreseeable future. Year to date, wholesale prices have increased a massive 32% while used retail prices are 10% above where they were at the end of 2020.”

## **Global Sales Outlook for March 2021**

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

“The global light-vehicle sales recovery remained strong through March, ending the first quarter up 22% from a year ago. The first quarter selling rate averaged 84 million units, a significant improvement from the average of 70 million a year ago. Top market performers were China and India, up 72% and 41%, respectively. Both markets were affected by the pandemic early and substantially, thus the sharp increase. While the improvement is not nearly as marked, North America has been the surprise of the recovery. Strength has accelerated in the United States and Canada, pushing the region’s selling rate to 19.7 million units, nearly back to pre-pandemic levels. We expect sales to remain strong globally as April closes. The selling rate in April is expected to hold at the rate of 84 million units with some upside potential, thanks to a very strong U.S. market. It will be offset by the continuation of a slower recovery in Europe.

“The effect from vehicle inventory shortages has been muted thus far in America and other key markets. But inventory is reaching a critical low and consumers are scrambling to buy vehicles, even if their first choice is not available. Some effect through the second quarter is expected as demand continues to outpace supply in the U.S. and Canada. Western Europe is a different situation. While sales have improved, the increase was reduced as several countries faced additional virus-related restrictions. The result is inventory levels returning to a healthier level. Our 2021 forecast for global light-vehicle sales has increased slightly to 88 million units, a 13% improvement from 2020. There is a growing feeling of optimism with the expected global economic recovery which spills over to the auto industry as long as manufacturing can weather the disruptions that are likely to be with us for the remainder of the year.”

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