J.D. POWER

LMC AUTOMOTIVE

U.S. Automotive Forecast for May 2021

May 27, 2021

New-Vehicle Sales in May on Pace to Set Another Monthly Record; Consumer Expenditures & Retailer Profit per Unit Reach All-Time Highs

The Retail Sales Forecast

New-vehicle retail sales for May 2021 are expected to be the highest ever recorded for the month of May, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales for new vehicles are projected to reach 1,388,600 units, a 34.0% increase compared with May 2020, and a 10.6% increase compared with May 2019. May 2021 has the same number of selling days as May 2020 and May 2019.

The Total Sales Forecast

Total new-vehicle sales for May 2021, including retail and non-retail transactions, are projected to reach 1,555,600 units, a 39.6% increase from May 2020 and a 1.9% decrease from May 2019. The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 16.7 million units, up 4.7 million units from 2020 but down 0.7 million units from 2019.

The Takeaways

Thomas King, president of the data and analytics division at J.D. Power:
"The U.S. auto industry is showing tremendous adaptability in maintaining a record sales pace, despite historically low inventory levels. May is usually one of the highest-volume sales months with buying activity peaking around the Memorial Day weekend when manufacturers typically offer incremental incentives. This year, notwithstanding supply constraints and significantly reduced incentives from manufacturers, May 2021 will be another record-breaking month for the industry. The industry will again set records in May for monthly sales volumes and aggregate retailer profits and as well as all-time records for transaction prices, consumer expenditures and retailer gross per unit sold.

"Low inventories have still not yet had a material effect on aggregate sales results. While inventory is still the primary threat to maintenance of the current sales pace in the coming months, retailers, manufacturers and suppliers have been able to adapt to maintain the sales velocity this year. The result is a record number of retail sales during the past three months at reduced discounts.

“However, with the sales pace still exceeding the rate at which vehicles are being produced, there is a rising risk to the industry’s ability to sustain the current sales pace in the coming months.”

Consumers are on track to spend $53.1 billion on new vehicles this month, the highest on record for any month.

Total retailer profit per unit, inclusive of grosses and finance & insurance income, are on pace to reach an all-time high of $3,245, an increase of $1,678 from a year ago and the first time above $3,000 on record. Grosses have been above $2,000 for nine of the past 10 months. Coupled with the strong retail sales pace, total aggregate retailer profits from new-vehicle sales will be $4.5 billion, the highest ever for the month of May and up an astounding 162% from May 2019.

“Retailers continue to adapt to the current environment by turning inventory quickly. The average number of days a new vehicle sits on a dealer lot before being sold is on pace to fall to 47 days, down from 95 days a year ago. More notably, retailers are selling a larger proportion of vehicles almost as soon as they arrive in inventory. This month, 33.4% of vehicles will be sold within 10 days of arriving at a dealership, up from only 18.2% of vehicles sold within 10 days in May 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 on vehicle loans increasing slightly, the average monthly finance payment is $596, up only $19, aided by average trade-in values rising to $6,201, an increase of $3,229 (up 108.7%) from a year ago. The average interest rate for loans in May is expected to increase 57 basis points to 4.2% from a year ago, on track for a second consecutive year-over-year increase since July 2019.

“While May results are exceptional in aggregate, the overall sales results for manufacturers will be mixed. Not all manufacturers are experiencing production disruption at the same time or of the same magnitude. This will materially influence various manufacturers monthly sales and profit performance for May and the months to come.

“Looking forward to June, with sales continuing to outpace production in aggregate, falling inventory levels may start to put pressure on the current sales pace. However, based on what we have seen so far, retailers may continue to adapt by turning inventory more quickly to maintain sales velocity. However, regardless of inventory position, manufacturers and retailers will continue to benefit from strong consumer demand and a higher profit per unit sold.”

Sales & SAAR Comparison

U.S. New Vehicle	May 2021[1, 2]	April 2021	May 2019[3]
Retail Sales	1,388,600 units (+34.0% higher than May of 2020; +10.6% higher than May 2019)[2]	1,346,528 units	1,254,974 units
Total Sales	1,555,600 units (+39.6% higher than May 2020; -1.9% lower than May 2019)[2]	1,535,288 units	1,585,011 units
Retail SAAR	15.1 million units	17.0 million units	13.9 million units
Total SAAR	16.7 million units	18.8 million units	17.4 million units

[1] Figures cited for May 2021 are forecasted based on the first 19 selling days of the month.
[2] May 2021 has 26 selling days, the same as May 2020 and May 2019.
[3] May 2019 is displayed to avoid May 2020 pandemic-influenced comparisons.

The Details

- The average new-vehicle retail transaction price in May is expected to reach a record $38,255. The previous high for any month, $37,966, was set in December 2020.
- Average incentive spending per unit in May is expected to fall to $2,957, down from $4,825 in May 2020 and $3,878 in May 2019. Spending as a percentage of the average MSRP is expected to fall to 7.0%, down 4.6 percentage points from May 2020 and down 2.7 percentage points from May 2019.
- Average incentive spending per unit on trucks and SUVs combined in May is expected to be $2,942, down $2,003 from a year ago and down $1,050 from 2019, while the average spending on cars is expected to be $3,001, down $594 from a year ago and down $1,433 from 2019.
- Consumers are on pace to spend $53.1 billion on new vehicles, the highest on record for any month, and up $17.4 billion from May 2020 and up $11.2 billion from May 2019.
- Truck/SUVs are on pace to account for 76.2% of new-vehicle retail sales in May.
- Fleet sales are expected to total 167,000 units in May, up 114% from May 2020 and down 49% from May 2019 on a selling day adjusted basis. Fleet volume is expected to account for 11% of total light-vehicle sales, up from 7% a year ago.

Observations on New Vehicle Residual Values

Eric Lyman, vice president, ALG:
"The question most asked of ALG in May has been, 'How long will the elevated used-market prices last?' Continued new vehicle production issues combined with pent-up demand and ongoing macro-economic recovery has created supply and demand imbalances that will persist during the next 24 months. ALG expects new vehicles sold in 2021 to be worth 60% of their original MSRP after three years. For 2022 calendar year, ALG expects 3-year-old vehicles to retain 54% of their original MSRP before settling to a more stable 50% of original MSRP in 2023 calendar year and beyond."

Observations on the Used Vehicle Market

Jonathan Banks, vice president, Valuations Services:
"Wholesale prices in April continued to surge as consumers, dealers and rental companies leaned on this side of the market to satiate increased used-vehicle demand resulting from ongoing new-vehicle production challenges. As a result, wholesale prices increased at a rapid pace during the past 20 consecutive weeks and are up an unprecedented 37%, while used retail prices are 15% above where they were at the end of 2020. Used-vehicle prices have shown no signs of softening and are expected to remain exceptionally strong for the foreseeable future."

Global Sales Outlook for March 2021

Jeff Schuster, president, Americas operations and global vehicle forecasts, LMC Automotive:
"Global light-vehicle sales in April increased 81% from a year ago, which is not surprising given sales in the early stages of the pandemic last April fell 45% from 2019. April's selling rate increased to 88.1 million units, up from 87.1 million units in March and brings the year-to-date rate to 84.8 million units, still well below pre-pandemic levels. April received a boost from the vigorous US market, which nearly hit a 19-million-unit selling rate. In addition, Western Europe recovered significantly with an increase of 280% from a year ago. Brazil, India, and Eastern Europe also all performed well. Given China's low point in 2020 was March, the improvement in April was subdued at just a 9% increase. South Korea is the only market that declined this April, with an 11% decline. Looking at May, global sales are expected to post a strong year-on-year increase of 35%, but the selling rate looks to slip back to 82 million units and the year-to-date level. In addition to the U.S. being below the 17-million rate, India is expected to drop from a 3.9-million-unit SAAR to under one million units and China is slowing to the 25-million-unit level.

"There is becoming a clear divergence in the global auto market, with the U.S. on the verge of running out of enough sellable vehicle inventory to support the surge in consumer demand while the virus is doing its own surging across much of Asia, triggering stronger restrictions and new risk to auto sales across the region. Despite the strength in the U.S., the new restriction risks and flattening demand performance across Asia has resulted in a pull back of our 2021 forecast for global light-vehicle sales, the first decrease in our outlook since the recovery started. We now expect 2021 to finish at 87.5 million units, a decrease of only 500,000, but it illustrates the volatility of the market and the recovery from the pandemic."

Media Relations Contacts
Geno Effler, J.D. Power; West Coast; 714-621-6224; media.relations@jdpa.com
Emmie Littlejohn, LMC Automotive; Troy, Mich.; 248-817-2100; elittlejohn@lmc-auto.com

# # #