J.D. POWER

LMC AUTOMOTIVE

U.S. Automotive Forecast for June 2021

June 25, 2021

New-Vehicle Demand Remains Red Hot in June, but Low Inventory Cools Sales Pace

The Retail Sales Forecast

New-vehicle retail sales for the month of June are expected to show growth over June 2020 and June 2019, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales of new vehicles this month are expected to reach 1,133,900 units, a 12.4% increase compared with June 2020, and a 0.3% increase compared with June 2019 when adjusted for selling days. June 2021 has the same number of selling days as June 2020 and one fewer selling day than 2019. Comparing the same sales volume without adjusting for the number of selling days translates to a decrease of 3.5% from 2019.

New-vehicle retail sales in Q2 2021 are projected to reach 3,857,500 units, a 44.2% increase from Q2 2020 and a 10.7% increase from Q2 2019 when adjusted for selling days.

New-vehicle retail sales for the first half 2021 are projected to reach 7,110,600 units, a 36.0% increase from the first six months of 2020 and a 10.8% increase from the first half of 2019 when adjusted for selling days.

The Total Sales Forecast

Total new-vehicle sales for June 2021, including retail and non-retail transactions, are projected to reach 1,329,900 units, a 19.5% increase from June 2020 but an 8.3% decrease from June 2019 due to the decline of less-profitable non-retail/fleet sales. Comparing the same sales volume without adjusting for the number of selling days translates to a decrease of 11.8% from 2019. The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 15.8 million units, up 2.6 million units from 2020 but down 1.4 million units from 2019.

New-vehicle total sales in Q2 2021 are projected to reach 4,458,300 units, a 51.6% increase from Q2 2020 and a 1.0% increase from Q1 2019 when adjusted for selling days.

New-vehicle total sales for the first half of 2021 are projected to reach 8,350,300 units, a 32.0% increase from the first half of 2020 and a 0.7% increase from the first half of 2019 when adjusted for selling days.

The Takeaways

Thomas King, president of the data and analytics division at J.D. Power:
"June is set to top off a blistering first half of 2021 with multiple year-to-date performance records. On a volume basis, June 2021 year-to-date retail sales are trending to just above 7.1 million units, the best first half of any year on record. Records will also be set for average transaction price, total consumer spending on new vehicles and retailer profitability."

The average price of a new vehicle is on pace to reach a first half record high of $38,088—up 10.1% ($3,497) than 2020 and up 14.1% ($4,699) than 2019.

The combination of strong retail volumes and higher prices means that consumer expenditures on new vehicles is expected to reach a first-half record of $270.8 billion, up 47.8% from 2020 and up 24.7% from 2019.

Retailer profits from new-vehicle sales will reach first half record levels on both, a per unit, and total basis. Profit per unit for the first half of 2021 will reach $2,844, up $1,310 from the same period in 2020 and up $1,457 from 2019, while total profits will reach $20.2 billion, up $12.1 billion from 2020 and up $11.2 billion from 2019.

Manufacturer profits from retail sales will also likely set a record for the first six months of 2021 due to the combination of strong retail sales, higher average prices and reduced incentives. Incentive spending per unit expressed as a percentage of average vehicle MSRP is trending towards 7.4% for the first six months, down from 10.8% in 2020 and down from 9.6% in 2019.

"While the strong results in June will cap an extraordinary first half of the year, the effect of fewer vehicles in inventory at dealerships is finally starting to have a material effect on aggregate industry sales volumes, as eager buyers struggle to find their desired new vehicle. This is evidenced by the annualized retail sales pace in June 2021 trending toward 13.6 million, down from 17.0 million in April 2021, and 15.0 million in May of 2021. It is important to recognize that the June retail sales pace is still extremely strong and consistent with 2019 levels, but too few vehicles in inventory is preventing the industry sustaining the phenomenal sales pace seen in recent months.

"Despite inventory shortages constraining the volume of vehicles sold to consumers, the underlying strength of consumer demand is clear. Consumer are buying more expensive vehicles despite smaller discounts, which is dramatically increasing the profitability of those sales for both manufacturers and retailers. A consequence of this is that manufacturers are allocating a smaller portion of their production to non-retail buyers such as large fleet companies, which are typically less profitable that retail sales. Sales to non-retail channels are forecasted to fall nearly 40% compared with June 2019, despite strong demand from many fleet buyers."

For June 2021, average transaction prices are expected reach a record high $40,206, the first time above the $40,000 level. For context, average transaction prices are trending to be 14.9% higher in June 2021 than they were in June 2020 when prices broke the $35,000 level for the only the second month on record. This is partially due to retraction in manufacturer incentives. The average manufacturer incentive per vehicle is on pace to be $2,492, a decrease of $1,857 from a year ago and the second-lowest amount on record for the month of June. Expressed as a percentage of the average vehicle MSRP, incentives for June 2021 are trending toward a record low of 5.8%, down nearly five percentage points from a year ago, and the first time ever under 6%.

Retailers continue to adapt to the current environment by turning inventory quickly. For the month of June 2021, the average number of days a new vehicle sits on a dealer lot before being sold is on pace to fall to a record low of 39 days, down from 93 days a year ago. Retailers continue to sell a larger proportion of vehicles almost as soon as they arrive in inventory. This month, nearly 41% of vehicles will be sold within 10 days of arriving at a dealership, up from 35% last month and only 25% in June 2019.

The combination of strong retail volumes and higher prices means that consumers are on track to spend $45.6 billion on new vehicles this month, the highest on record for the month of June. Consumer expenditures on new vehicles is expected to reach a Q2 record of $149.7 billion, up 60.7% from 2020 and up 27.9% from 2019.

Total retailer profit per unit, inclusive of grosses and finance & insurance income, are on pace to reach an all-time high of $3,908, an increase of $2,061 from a year ago. Grosses have been above $2,000 for 11 of the past 12 months. Coupled with the strong retail sales pace, total aggregate retailer profits from new-vehicle sales will be $4.4 billion, the highest ever for the month of June and up an astounding 175% from June 2019.

These results are being enabled, in part, by exceptionally strong used-vehicle prices. Even with interest rates on vehicle loans increasing slightly, the average monthly finance payment is on pace to be $618, up only $33, aided by average trade-in values trending towards $7,057, an increase of $3,379, up 91.8%, from a year ago. The average interest rate for loans in June is expected to increase 27 basis points to 4.2% from a year ago, on track for the third consecutive year-over-year increase.

“Looking forward to July, with inventory levels at historical lows, dealers turning inventory on lots at a breakneck pace, and demand continuing to exceed production, the overall industry sales pace may continue to be supply constrained. However, regardless of inventory position or production levels, manufacturers and retailers will persist to benefit from the current unprecedented level of consumer demand realizing higher profits per every unit sold.”

Sales & SAAR Comparison

U.S. New Vehicle	June 2021[1, 2]	May 2021	June 2019[3]
Retail Sales	1,133,909 units (+12.4% higher than June 2020; +0.3% higher than June 2019)[2]	1,377,059 units	1,175,468 units
Total Sales	1,329,946 units (+19.5% higher than June 2020; -8.3% lower than June 2019)[2]	1,593,061 units	1,507,602 units
Retail SAAR	13.6 million units	15.0 million units	13.5 million units
Total SAAR	15.8 million units	17.1 million units	17.1 million units

[1] Figures cited for June 2021 are forecasted based on the first 16 selling days of the month.
[2] June 2021 has 25 selling days, the same as June 2020 but one fewer than June 2019.
[3] June 2019 is displayed to avoid June 2020 pandemic-influenced comparisons.

The Details

- The average new-vehicle retail transaction price in June is expected to reach a record $40,206. The previous high for any month, $38,539, was set in May 2021.
- Average incentive spending per unit in June is expected to fall to $2,492, down from $4,349 in June 2020 and $3,966 in June 2019. Spending as a percentage of the average MSRP is expected to fall to 5.8%, down 4.7 percentage points from June 2020 and down 4.1 percentage points from June 2019.
- Average incentive spending per unit on trucks/SUVs in June is expected to be $2,397, down $2,066 from a year ago and down $1,720 from 2019, while the average spending on cars is expected to be $2,778, down $1,197 from a year ago and down $793 from 2019.
- Consumers are on pace to spend $45.6 billion on new vehicles—a record for June—and up $10.3 billion from June 2020 and up $6.0 billion from June 2019.
- Truck/SUVs are on pace to account for 75.9% of new-vehicle retail sales in June.
- Fleet sales are expected to total 196,000 units in June, up 89% from June 2020 and down 39% from June 2019 on a selling day adjusted basis. Fleet volume is expected to account for 15% of total light-vehicle sales, up from 9% a year ago.

Observations on New Vehicle Residual Values

Eric Lyman, vice president, ALG:
"ALG has recognized six key drivers contributing to record used-vehicle values in 2021. They are—in order of largest-to-smallest effect—used supply declines; economic recovery; pent-up demand; reduced incentive spend; new-vehicle production issues; and elevated housing prices. These drivers are fueling an expected gain of 11 percentage points in original MSRP among used 3-year-old vehicles in 2021 when compared with Q4 2020. However, only two of these drivers—used supply declines and reduced incentive spending—will have a long-term effect when 2021 model-year vehicles return to the secondary market in 2024. Despite the erosion of influence among many key drivers affecting current used values, ALG is still forecasting that long-term residual values will exceed pre-pandemic levels across all super segments. Our

current forecast calls for an increase of ~2% of original MSRP among 3-year-old vehicles returning to market in 2024 vs. 2019."

Observations on the Used Vehicle Market

Jonathan Banks, vice president, Valuations Services:
"After increasing for 24 consecutive weeks, wholesale auction prices peaked in June, attaining their highest level on record and have now begun to gradually decline. Despite the recent cooling, the used market remains incredibly strong and, at the end this year, prices are expected to be up by approximately 29% on a year-over-year basis. The used market's continued strength is driven primarily by the expectation that used supply will remain a challenge and that new-vehicle market challenges will remain in place for the foreseeable future."

Global Sales Outlook for March 2021

Jeff Schuster, president, Americas operations and global vehicle forecasts, LMC Automotive:
"The recovery in global light-vehicle sales continued in May, with sales up 35% from May 2020. But the combination of various COVID-19-related restrictions and the semiconductor crisis is holding back the level of recovery. The selling rate in May fell from 88.5 million units to 83.1 million, which was in line with our expectations going into the month. China and the United States saw some initial effect from a lack of inventory in May. Light-vehicle sales in Europe were disappointing because of slow market reopenings. Global demand in June is expected to remain subdued but the selling rate is expected to improve slightly to 84.7 million units.

"While the pace of the recovery is slowing because of inventory shortages or lockdown restrictions affecting the reopening of certain markets, we do expect the second half of the year to see a return to a stronger selling pace. As we push out the recovery slightly, the outlook for 2021 has slipped as well. Our 2021 forecast for global light-vehicle sales has been trimmed by 150,000 to 87.4 million units, an increase of 12% from 2020."

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

# # #