J.D. POWER

LMC AUTOMOTIVE

U.S. Automotive Forecast for August 2021

August 26, 2021

Inventory Constraints Keep August New Vehicle Sales Down; Profitability Up as Production Fails to Keep Up With Demand

The Retail Sales Forecast

New-vehicle retail sales for the month of August are expected to decline from August 2020 and decline from August 2019, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales of new vehicles this month are expected to reach 987,100 units, a 14.3% decrease compared with August 2020, and a 21.6% decrease compared with August 2019 when adjusted for selling days. August 2021 has one fewer selling day than August 2020 and three fewer selling days than August 2019. Comparing the same sales volume without adjusting for the number of selling days translates to a decrease of 17.6% from 2020 and a decrease of 30.0% from 2019.

The Total Sales Forecast

Total new-vehicle sales for August 2021, including retail and non-retail transactions, are projected to reach 1,094,500 units, a 13.7% decrease from August 2020 and a 25.3% decrease from August 2019. Comparing the same sales volume without adjusting for the number of selling days translates to a decrease of 17.0% from 2020 and a decrease of 33.3% from 2019. The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 13.1 million units, down 2.1 million units from 2020 and down 4.0 million units from 2019.

The Takeaways

Thomas King, president of the data and analytics division at J.D. Power:
"The month of August is historically a peak selling month as manufacturers launch promotional events to clear inventories of outgoing model-year vehicles and begin sales of the new model year. This year, however, the industry has insufficient inventory at dealerships to meet strong consumer demand. The consequence is that the retail sales pace is depressed, but transaction prices are elevated.

"Similar to last month, dealers currently have approximately 942,000 vehicles in inventory available for retail sale, compared with roughly 3.0 million in inventory two years ago. Although inventory is arriving at dealers daily, it is simply replacing the vehicles being sold, preventing dealers from increasing inventories to a level necessary to support a higher sales pace. This means the sales pace is being dictated by production levels rather than actual consumer demand.

“The consequences of the inventory situation are more apparent in months when sales volumes are typically high, such as August. For context, if August 2021 retail sales were to be at August 2019 levels of 1.4 million units (instead of the 987,000 retail sales forecast), dealer inventory would fall by 423,000 units to less than 519,000 units by month end. In other words, it is simply not feasible to achieve the sales rate observed for August in pre-pandemic years.”

When vehicles are delivered to dealers they sell quickly. This month, more than 49% of vehicles will be sold within 10 days of arriving at a dealership, up from 47% in July 2021 and up from only 26% in August 2019. 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 26 days, the first time on record below 30 days, down from 62 days a year ago, and down 4 days from last month.

For August 2021, average transaction prices are expected reach an all-time high of $41,378, and the first time above the $41,000 level. For context, average transaction prices are trending to be over 16% higher in August 2021 than they were in August 2020. This is partially due to the continued retraction in manufacturer incentives. The average manufacturer incentive per vehicle is on pace to be $1,823, a decrease of $2,132 from a year ago and the lowest amount on record for the month of August. Expressed as a percentage of the average vehicle MSRP, incentives for August 2021 are trending toward a record low of 4.3%, down nearly 5.3 percentage points from a year ago and the second consecutive month below 5%.

“Even with retail volumes being suppressed by supply constraints, the record high transaction prices mean that consumers are on track to spend $40.8 billion on new vehicles this month—the fifth-highest on record for the month of August—ending eight consecutive months of record year-over-year consumer expenditures levels.”

Total retailer profit per unit, inclusive of grosses and finance & insurance income, are on pace to reach an all-time high of $4,430, an increase of $2,321 from a year ago and the second consecutive month above $4,000. Grosses have been above $3,000 for four consecutive months. Despite the supply constrained retail sales pace, total aggregate retailer profits from new-vehicle sales are projected to be $4.4 billion, the fourth-highest on record and up a remarkable 133% from August 2019. August is on track to be the fourth consecutive month for aggregate retailer profits on new vehicle sales to exceed $4 billion.

“These record-breaking pricing and profitability results continue to be assisted by exceptionally strong trade-in values as well as comparatively low interest rates. Average trade-in values trending towards $7,715, an increase of $3,184—or 70%—from a year ago are being driven by robust used-vehicle prices. The average interest rate for new-vehicle loans in August is expected to decrease approximately 14 basis points to 4.17% from 4.31% a year ago, but down 128 basis points from August 2019. While average transaction prices are trending to be nearly 16% higher this month than in August 2020, the average monthly finance payment is on pace to be up 10.0%, or $58 to $638 during the same period due to the combination of high trade equity as well as relatively low interest rates.

“Looking forward to September, the dynamics observed in August are expected to continue with sales being constrained by available inventory. The key question is the extent to which manufacturers can produce enough vehicles to increase—rather than maintain—inventory levels. Ongoing supply chain issues and recent announcements of further production cuts by several manufacturers mean that the aggregate inventory situation is unlikely to meaningfully improve in September. In some instances, it will deteriorate. It also means that prices and per-unit profitability will remain strong. Shoppers accustomed to Labor Day promotional events with large discounts on outgoing model-year vehicles will likely be disappointed by the lack of discounts and choice of vehicles. But as August demonstrates, there are plenty of shoppers willing and able to buy at higher prices with less choice."

Sales & SAAR Comparison

U.S. New Vehicle	August 2021[1, 2]	July 2021	August 2020
Retail Sales	987,067 units (-14.3% lower than August 2020; -21.6% lower than August 2019)[2]	1,141,138 units	1,198,536 units
Total Sales	1,094,453 units (-13.7% lower than August 2020; -25.3% lower than August 2019)[2]	1,277,641 units	1,319,114 units
Retail SAAR	11.1 million units	12.6 million units	13.0 million units
Total SAAR	13.1 million units	14.6 million units	15.3 million units

[1] Figures cited for August 2021 are forecasted based on the first 17 selling days of the month.
[2] August 2021 has 25 selling days, one fewer than August 2020 and three fewer than August 2019.

The Details

- The average new-vehicle retail transaction price in August is expected to reach a record $41,378. The previous high for any month, $40,879, was set in July 2021.
- Average incentive spending per unit in August is expected to fall to $1,823, down from $3,955 in August 2020 and $4,060 in August 2019. Spending as a percentage of the average MSRP is expected to fall to 4.3%, down 5.3 percentage points from August 2020 and down 6.0 percentage points from August 2019.
- Average incentive spending per unit on trucks/SUVs in August is expected to be $1,778, down $2,295 from a year ago and down $2,449 from 2019, while the average spending on cars is expected to be $1,979, down $1,600 from a year ago and down $1,627 from 2019.
- Consumers are on pace to spend $40.8 billion on new vehicles, down $1.8 billion from August 2020 and down $6.0 billion from August 2019.
- Trucks/SUVs are on pace to account for 77.4% of new-vehicle retail sales in August.
- Fleet sales are expected to total 107,387 units in August, down 7.4% from August 2020 and down 48.0% from August 2019 on a selling day adjusted basis. Fleet volume is expected to account for 10% of total light-vehicle sales, up from 9% a year ago.

Observations on the Used Vehicle Market

Jonathan Banks, vice president of Valuations Services:
"In August, used vehicles continue to help fill the gaps on dealer lots left by low levels of new inventory. In the wholesale marketplace, dealers are competing fiercely for a finite amount of available used units which is ultimately helping keep wholesale prices near record levels. So far in August, wholesale prices for units up to eight years in age have been flat to up slightly, while overall wholesale sales are trending nearly 29% lower than during August 2019. We still expect wholesale prices to gradually cool as the market moves into the fall, however, a certain degree

of volatility should be expected as the industry continues to work through supply-related challenges."

Observations on Residual Values

Eric Lyman, senior vice president of ALG:
"The recent cooling in the used market is more than just end of summer seasonality, it signals the start of an extended gradual decline in vehicle values that will play out over the next 18 months and bring residual values closer to pre-pandemic levels. Fortunately, pent up demand, fewer late model year vehicles in the used supply chain and sustained, but tempered, economic recovery will result in residual values that will continue to be above historical norms. ALG's current full-year residual outlook for 2021 model-year vehicles returning in 2024 calendar year is 50.6% of MSRP. This is about one percentage point above the pre-pandemic average of 49.7% of actual 3-year-old retention from 2015-2019."

Global Sales Outlook

Jeff Schuster, president, Americas operations and global vehicle forecasts, LMC Automotive:
"Global light vehicle demand remains under pressure from the severe inventory constraints caused by the semiconductor shortage as well as disruption from the COVID-19 Delta variant. Global volume in July was off 5% from July 2020 and down 9% from July 2019. The selling rate came in at 83.2 million units, down 5 million from July 2020 but only 0.3 million units down from our expectations. Western Europe saw the largest decline of major markets, falling 24% from July 2020. In addition, weakness continued in China and South Korea as both markets were down about 10%. India was the standout in July, with a year-over-year increase of 48%. Looking at August, we expect volume to slip another 7% from August 2020, and the selling rate is expected to come in at 82 million units, down 7 million units from a year ago.

"The one-two punch of inventory shortages and the pandemic are holding back the pace of the global recovery and may lead to permanently lost recovery volume as the effect is expected to last into 2022. The lack of sufficient production volume is the major reason we forecast a 2-million-unit reduction to 83.8 million units in global light-vehicle sales for 2021. Volume is expected to increase just 8% from 2020. The year 2022 has been pulled down slightly, as well, but is still expected to recover to 91.7 million units—which is back to the pre-pandemic level—but further downside risk remains high."

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

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