

U.S. Automotive Forecast for October 2021

Oct. 27, 2021

Inventory Constraints Still Inhibiting New-Vehicle Sales As Prices and Profits Increase to Record Highs

New-vehicle retail sales for the month of October 2021 are expected to decline when compared with October 2020 and October 2019, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales of new vehicles this month are expected to reach 943,500 units, a 17.4% decrease compared with October 2020, and a 15.4% decrease compared with October 2019 when adjusted for selling days. October 2021 has one fewer selling day than October 2020 but the same number of selling days as October 2019. Comparing the same sales volume without adjusting for the number of selling days translates to a decrease of 20.4% from 2020 and a 15.4% decrease from 2019.

The Total Sales Forecast

Total new-vehicle sales for October 2021, including retail and non-retail transactions, are projected to reach 1,085,500 units, a 17.2% decrease from October 2020 and a 18.8% decrease from October 2019. Comparing the same sales volume without adjusting for the number of selling days translates to a decrease of 20.1% from 2020 and a decrease of 18.8% from 2019.

The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 13.5 million units, down 2.9 million units from 2020 and down 3.3 million units from 2019.

The Takeaways

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

“October results demonstrate that new-vehicle sales are still being constrained by how many vehicles are delivered to dealerships each month. However, strong consumer demand and a lack of inventory is leading to record transaction prices and profit for each unit sold. Month-end inventory of vehicles on dealer lots is expected to remain below one million for the third consecutive month.

“When new vehicles are delivered to dealerships they are sold swiftly. Retailers continue to sell a large proportion of vehicles almost as soon as they arrive in inventory. For the month of October 2021, nearly 54% of vehicles will be sold within 10 days of arriving at a dealership.”

This month, 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 20 days, down from 49 days a year ago and down from 23 days in September 2021.

“Strong demand and insufficient inventory continue to drive prices—and profit per unit sold—to record levels. In October 2021, average transaction prices are expected reach a record high of \$43,999, the fifth consecutive month above \$40,000. For context, average transaction prices are trending to be 19.3% higher than in October 2020 when prices hit \$36,887. This is partially due to the near evaporation of manufacturer incentives. The average manufacturer incentive per vehicle is on pace to be a record low of \$1,628, a decrease of \$1,871 from a year ago. Expressed as a percentage of the average vehicle MSRP, incentives for October 2021 are trending toward a record low of 3.7%, down nearly 4.7 percentage points from a year ago and the first time on record below 4.0%.”

Further assisting the rise in prices is the shift from cars to more expensive trucks and SUVs, which are projected to account for more than 80% of sales in October, up 4.6 percentage points from last year and an all-time record for truck/SUV share of retail sales.

Despite retail volumes in October being down significantly, the higher prices mean that consumers are on track to spend \$41.5 billion on new vehicles this month, the second highest on record for the month of October.

Total retailer profit per unit—inclusive of grosses and finance & insurance income—is on pace to reach a record high of \$5,129, an increase of \$2,937 from a year ago and the first time above \$5,000. Grosses have been above \$4,000 for four consecutive months. Despite the drop in sales volume, this record profit per unit sold will result in October 2021 being the most profitable October ever for retailers. Total aggregate retailer profits from new-vehicle sales are projected to be up 213% from October 2019, reaching \$4.8 billion, the highest ever for the month of October, and equal to the record set for any month.

Record prices also are being supported by exceptionally strong used-vehicle prices, as new-vehicle buyers benefit from more equity on their trade-in vehicles. The average trade-in value is trending towards \$8,738, an increase of \$3,598 (70.0%) from a year ago. Also, interest rates are favorable when compared with last year. The average interest rate for loans in October is expected to decrease 49 basis points to 4.04% from a year ago. Even with favorable interest rates and increased trade-in values, the average monthly finance payment is on pace to hit a record high of \$664, up \$72 from last year.

“Looking forward to November, the overall industry sales pace will continue to be constrained by procurement, production and distribution. Put simply, November sales will be determined by the number of vehicles shipped from plants and ports to dealerships, but all indications are that shipments will not rise materially. This means November will likely be another month of lower sales volumes offset by record prices and profitability.”

Sales & SAAR Comparison

U.S. New Vehicle	October 2021 ^{1,2}	September 2021	October 2020
Retail Sales	943,531 units (-17.4% lower than October 2020; -15.4% lower than October 2019) ²	896,295 units	1,185,270 units
Total Sales	1,085,507 units (-17.2% lower than September 2020; -18.8% lower than September 2019) ²	1,002,466 units	1,358,841 units
Retail SAAR	11.7 million units	11.1 million units	14.3 million units
Total SAAR	13.5 million units	12.1 million units	16.4 million units

¹ Figures cited for October 2021 are forecasted based on the first 20 selling days of the month.

² October 2021 has 27 selling days, one fewer than October 2020 but the same as October 2019.

The Details

- The average new-vehicle retail transaction price in October is expected to reach a record \$43,999. The previous high for any month, \$42,921, was set in September 2021.
- Average incentive spending per unit in October is expected to reach a record low of \$1,628, down from \$3,499 in October 2020 and \$4,038 in October 2019. Spending as a percentage of the average MSRP is expected to fall to a record low of 3.7%, down 4.7 percentage points from October 2020 and down 6.2 percentage points from October 2019.
- Average incentive spending per unit on trucks/SUVs in October is expected to be \$1,595, down \$1,943 from a year ago and down \$2,558 from 2019, while the average spending on cars is expected to be \$1,764, down \$1,603 from a year ago and down \$1,944 from 2019.
- Buyers are on pace to spend \$41.5 billion on new vehicles, down \$2.2 billion from October 2020 but up \$3.3 billion from October 2019.
- Truck/SUVs are on pace to account for a record high of 80.9% of new-vehicle retail sales in October.
- Fleet sales are expected to total 142,000 units in October, down 15.2% from October 2020 and down 35.8% from October 2019 on a selling day adjusted basis. Fleet volume is expected to account for 13% of total light-vehicle sales, flat from 13% a year ago.

Observations on the Used Vehicle Market

Jonathan Banks, vice president, Valuations Services:

“The used-vehicle market continues to buck historic seasonal trends and exhibit great strength as the industry moves deeper into the fall selling months. Wholesale prices are expected to close out October up by more than 4%, on average, and this will mark the first-time used prices have increased for the period in the last 25-plus years. The importance of used vehicles continues to progress as both dealer and consumers alike turn to pre-owned to help fill in the gaps created by current new-vehicle production and distribution constraints. Moving into November, expect used prices to remain near all-time highs as competition in the wholesale

marketplace remains fierce due to lower levels of available units flowing through auction lanes and industry challenges remain in place.”

Global Sales Outlook

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

“The global selling rate in September fell to 72.6 million units, the lowest level since May 2020 and more than 7,000,000 units from August 2020. Volume was down 20% from September 2020. This is a further sign that supply chain constraints—mainly due to the lack of semiconductors—continues to cripple the global industry. North America (-23%), Europe (-24%) and China (-17%) are seeing similar inventory shortages and experienced a synchronized volume decline. Additionally, Japan (-32%), South Korea (-31%), Brazil (-28%) and India (-33%) saw similar declines. The outlook for October 2021 is expected to be similar and volume is projected to be down 19% from October 2020 with a selling rate of 74.5 million units, 17 million units lower than the selling rate a year ago.

“Given that the pause in the recovery will extend through the fourth quarter and given the number of challenges manufacturing faces, we expect the industry will continue to struggle in its quest to return to normal. After the significant cut to our near-term outlook last month, we have trimmed 2021 by an additional 400,000 to 80.2 million units—which cuts the increase from 2020 to just 3%. We have also cut 2022 to 84.8 million units, a reduction 500,000 units. While some OEMs have signaled a restart to manufacturing in November, the industry should expect to see starts and stops well into 2022.”

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