

U.S. Automotive Forecast for April 2022 April 27, 2022

Lack of New-Vehicle Inventory Still Constrains Sales Pace as Prices, Profits Reach Record Highs; Incentive Spending at New Low

The Retail Sales Forecast

New-vehicle retail sales for April 2022 are expected to decline when compared with April 2021, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales of new vehicles this month are expected to reach 1,076,200 units, a 23.8% decrease compared with April 2021 when adjusted for selling days. April 2022 has one more selling day compared to April 2021. Comparing the same sales volume without adjusting for the number of selling days translates to a decrease of 20.9% from 2021.

The Total Sales Forecast

Total new-vehicle sales for April 2022, including retail and non-retail transactions, are projected to reach 1,241,300 units, a 21.5% decrease from April 2021. Comparing the same sales volume without adjusting for the number of selling days translates to a decrease of 18.5% from 2021.

The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 14.5 million units, down 3.9 million units from 2021.

The Takeaways

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

“The April sales pace may look disappointing compared with April 2021, but last April’s record sales pace was enabled by the combination of extremely strong consumer demand and enough inventory (nearly 1.7 million units) to turn that demand into actual sales. This April, demand remains strong, but with fewer than 900,000 units in inventory at dealerships, sales volumes will necessarily be well below year ago levels.

“However, as has been the case for the past two quarters, inventory constraints are delivering record prices and profitability. New-vehicle prices continue to set records, with the average transaction price expected to reach an April record of \$45,232—an 18.7% increase from a year ago and the second-highest level on record behind \$45,247 set in December 2021.”

The growth in transaction prices means that, while the sales pace is down 23.8% year over year, consumers will spend \$48.7 billion on new vehicles this month, the second-highest level ever for the month of April and down just 6.1% from April 2021.

“Given the strong demand and lack of inventory, it is unsurprising that discounts from manufacturers continue to be minimal. For April, the average incentive spend per vehicle is on pace to reach an all-time low of \$1,034, a decrease of 65.5% from a year ago. Incentive spending per vehicle expressed as a percentage of the average vehicle MSRP is also trending toward an all-time low of 2.3%, down 4.8 percentage points from April 2021 and the third consecutive month below 3.0%. One of the factors contributing to the reduction in incentive sending is the lack of discounting on vehicles that are leased. Leases accounted for 30% of all new-vehicle retail sales in 2019. This month, leasing will account for just 18% of retail sales.”

As manufacturer discounts have fallen to record lows, dealer profit per unit continues to be at record highs. Total retailer profit per unit—inclusive of grosses and finance and insurance income is on pace to reach a monthly record \$5,046, an increase of \$2,313 from a year ago. Six of the past seven months have seen retailer profit per unit at or above \$5,000. This elevated per-unit profit level is more than offsetting the drop in sales volume as total aggregate retailer profits from new-vehicle sales is projected to be up 46.0% from April 2021, reaching \$5.4 billion, the best April ever and the second-highest amount of any month on record.

“Even at these record pricing levels, vehicles continue to sell quickly and a significant number of vehicles are being ordered—or purchased—by buyers before they arrive at the dealership. This month, 56% of vehicles will be sold within 10 days of arriving at a dealership, while the average number of days a new vehicle is in a dealer’s possession before being sold is on pace to be 18 days—down from 49 days a year ago.

“Rising interest rates do pose a threat to sustaining the current record transaction prices. As expected, average interest rates for new vehicle loans have increased, but at a tempered level. The average interest rate for loans in April is expected to increase 33 basis points from a year ago to 4.61%. However, strong used vehicle values continue to help affordability for new vehicle buyers who have a vehicle to trade in. The average trade-in equity for April is trending towards a record high of \$9,668, a 72.1% increase from a year ago.

“Even with elevated trade-in values, the average monthly finance payment is on pace to hit a record high of \$685 for the month of April, up \$92 from April 2021. That translates to a 15.6% increase in monthly payments from a year ago, which is still below the 18.7% increase in transaction prices. The combination of further interest rate increases and the expectation of some softening of used prices in the latter part of this year will present a growing challenge to the sustainment of the current pricing environment, as will the eventual increase in vehicle availability. However, the current pricing environment is expected to persist for the near term.

“May is traditionally one of the larger sales months of the year, enabled by Memorial Day promotional activity and discounts from manufacturers. This May will be very different as inventory constraints will persist and manufacturer discounts are unlikely to reappear in any meaningful way. Therefore, the year-over-year sales results will again be suppressed, and sales pace will be dictated by manufacturers’ vehicle supply to dealers during the month. With consumers remaining resilient even in an elevated pricing environment, manufacturers and retailers will continue to benefit from historically high profitability on nearly every vehicle sold.”

Sales & SAAR Comparison

U.S. New Vehicle	April 2022 ^{1, 2}	March 2022	April 2021
Retail Sales	1,076,214 units (-23.8% lower than April 2021) ²	1,065,438 units	1,360,793 units
Total Sales	1,241,315 units (-21.5% lower April 2021) ²	1,255,312 units	1,523,028 units
Retail SAAR	13.0 million units	11.4 million units	16.9 million units
Total SAAR	14.5 million units	13.4 million units	18.3 million units

¹ Figures cited for April 2022 are forecasted based on the first 20 selling days of the month.

² April 2022 has 27 selling days, one more than April 2021.

The Details

- The average new-vehicle retail transaction price in April is expected to reach \$45,232. The previous high for any month—\$45,247—was set in December 2021.
- Average incentive spending per unit in April is expected to reach \$1,034, down from \$2,996 in April 2021. Spending as a percentage of the average MSRP is expected to fall to a record low of 2.3%, down 4.8 percentage points from April 2021.
- Average incentive spending per unit on trucks/SUVs in April is expected to be \$1,070, down \$1,898 from a year ago, while the average spending on cars is expected to be \$906, down \$2,183 from a year ago.
- Buyers are on pace to spend \$48.7 billion on new vehicles, down \$3.2 billion from April 2021.
- Truck/SUVs are on pace to account for 78.4% of new-vehicle retail sales in April.
- Fleet sales are expected to total 165,100 units in April, down 2.0% from April 2021 on a selling day adjusted basis. Fleet volume is expected to account for 13% of total light-vehicle sales, up from 11% a year ago.

Global Sales Outlook

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

“Global light-vehicle sales in March finished slightly stronger than expected but were still down 14% from March 2021. The March selling rate of 76.1 million units brings the Q1 2022 selling rate to 79.5 million units, down 4.5 million units from Q1 2021. Global supply chain issues, further complicated by the war in Ukraine, continued to constrain sales levels. In year-over-year terms, China remained somewhat resilient considering the strict lockdown measures in place, but parts shortages held sales in North America and Europe well below potential. We expect April to remain under pressure—that could expand as the restrictions in China increase and inflationary fears weigh on consumers. Volume is projected to be down 18% and the selling rate is expected to slip to 72.5 million units, down 17 million units from the rate last April.

“At this stage of 2022, given the number of negative variables, it is not surprising the outlook remains uncertain and subdued from what should be notable recovery from the pandemic. After another round of revisions to the outlook in China and India, our forecast for light vehicles in

2022 has slipped to 81.7 million units, an increase of just 0.3% from 2021 and down 900,000 units from last month. While the outlook is clouded and growth has evaporated, we still believe that the weak state of global demand is due mainly to supply shortages. But if inflation does not subside, more consumers may be squeezed out of the new-vehicle market as we move into 2023.”

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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