

U.S. Automotive Forecast for May 2022 May 25, 2022

Average New-Vehicle Price Sets Another Record; Interest Rates Push Monthly Loan Payments to All-Time High

The Retail Sales Forecast

New-vehicle retail sales for May 2022 are expected to decline when compared with May 2021, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales of new vehicles this month are expected to reach 1,013,700 units, a 20.9% decrease compared with May 2021 when adjusted for selling days. May 2022 has two fewer selling days compared to May 2021. Comparing the same sales volume without adjusting for the number of selling days translates to a decrease of 27.0% from 2021.

The Total Sales Forecast

Total new-vehicle sales for May 2022, including retail and non-retail transactions, are projected to reach 1,188,100 units, a 18.0% decrease from May 2021. Comparing the same sales volume without adjusting for the number of selling days translates to a decrease of 24.3% from 2021.

The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 13.6 million units, down 3.3 million units from 2021.

The Takeaways

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

“May results reflect a continuation of what has become the norm for the U.S. new-vehicle sales environment. For the 12th consecutive month, month-ending retail inventory will be below one million vehicles. The industry sales pace is being dictated by how many units are delivered to retailers during the month, and demand far exceeds supply. Record transaction prices are the result.

“For retailers and manufacturers, the increase in transaction prices, coupled with the near elimination of discounts on new vehicles, has more than offset lower sales volume to deliver enhanced profitability. However, the sales environment is poised to evolve as the year progresses. Production volumes are likely to improve in the second half of the year, which will lead to increased sales rates. Record levels of pent-up demand from new-vehicle shoppers will mean any extra production should be sold quickly, but the increased production will challenge the industry’s ability to consistently increase transaction prices. During the past 12 months,

new-vehicle prices have increased 15-20% year over year compared with just 2-3% between 2012 and 2018.

“For the balance of 2022, increased vehicle availability, higher interest rates and some cooling of used-vehicle values likely will lead to slower transaction price growth—but are unlikely to lead to declines.”

New-vehicle prices continue to set records, with the average transaction price expected to reach a May record of \$44,832—a 15.7% increase from a year ago and the third-highest level on record despite rising interest rates.

Average interest rates for new vehicle loans have risen. The average interest rate for loans in May is expected to increase 62 basis points from a year ago to 4.92%.

However, elevated used-vehicle values continue to help affordability for new-vehicle buyers who have a vehicle to trade in. The average trade-in equity for May is trending towards a record of \$9,922, a 59.4% 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 \$687, up \$90 from May 2021. That translates to a 15.1% increase in monthly payments from a year ago, which is just below the 15.7% increase in transaction prices. The growth in transaction prices means that, even though the sales pace is down 20.9% year over year, consumers will spend \$45.4 billion on new vehicles this month, the second-highest level ever for the month of May but down 15.5% from May 2021.

“Due to the lack of inventory, discounts from manufacturers continue to be sparse. For May, the average incentive spend per vehicle is \$965, a decrease of 64.6% from a year ago. Incentive spending per vehicle expressed as a percentage of the average vehicle MSRP is trending toward a record low of 2.1%, down 4.4 percentage points from May 2021 and the fourth consecutive month below 3.0%. One of the factors contributing to the reduction in incentive sending is the absence of discounting on vehicles that are leased. This month, leasing will account for just 18% of retail sales. In May of 2019, leases accounted for 30% of all new-vehicle retail sales.

“As demand continues to outstrip supply and pricing remains elevated, 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 May record \$5,066, an increase of \$1,679 from a year ago. Seven of the past eight 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 9.2% from May 2021, reaching \$5.1 billion, the best May ever and the fourth-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 19 days—down from 45 days a year ago.

“Three metrics in June that will demand focus are pricing, interest rates and trade-in values. The combination of future interest rate increases, along with elevated new-vehicle pricing levels, will

present a challenge to sustaining the current ‘Goldilocks’ economic environment. If used prices soften, so will trade-in values, which will reduce consumer purchasing power.”

Sales & SAAR Comparison

U.S. New Vehicle	May 2022 ^{1, 2}	April 2022	May 2021
Retail Sales	1,013,709 units (-20.9% lower than May 2021) ²	1,066,548 units	1,388,125 units
Total Sales	1,188,143 units (-18.0% lower May 2021) ²	1,245,428 units	1,570,199 units
Retail SAAR	11.7 million units	12.8 million units	15.1 million units
Total SAAR	13.6 million units	14.7 million units	16.9 million units

¹ Figures cited for May 2022 are forecasted based on the first 17 selling days of the month.

² May 2022 has 24 selling days, two fewer than May 2021.

The Details

- The average new-vehicle retail transaction price in May is expected to reach \$44,832. The previous high for any month—\$45,247—was set in December 2021.
- Average incentive spending per unit in May is expected to reach \$965, down from \$2,726 in May 2021. Spending as a percentage of the average MSRP is expected to fall to a record low of 2.1%, down 4.4 percentage points from May 2021.
- Average incentive spending per unit on trucks/SUVs in May is expected to be \$991, down \$1,702 from a year ago, while the average spending on cars is expected to be \$874, down \$1,956 from a year ago.
- Buyers are on pace to spend \$45.4 billion on new vehicles, down \$8.3 billion from May 2021.
- Truck/SUVs are on pace to account for 77.2% of new-vehicle retail sales in May.
- Fleet sales are expected to total 174,400 units in May, up 3.8% from May 2021 on a selling day adjusted basis. Fleet volume is expected to account for 15% of total light-vehicle sales, up from 12% a year ago.

Observations on the Used Vehicle Market

Jonathan Banks, vice president, Valuations Services:

“Used-vehicle prices are booming in May as the industry continues working through ongoing new-vehicle inventory challenges. Wholesale prices are expected to rise 1.6%, marking the third-strongest performance of the month of May in the past 20 years. May will be the third consecutive month in which wholesale prices increase, placing them 37.2% higher year-to-date than a year ago. On the retail side of the market, used prices remain near April 2022’s all-time high, while used vehicles continue to fly off dealer lots at a rapid pace. Used retail prices are averaging more than \$31,000 per unit, a figure approximately 14% higher than May 2021, while days to turn fell to a skeletal 39 days. May’s wholesale and used retail results reinforce the importance of used-vehicle operations as dealers and consumers alike continue leaning on this sector of the market to help fulfil replacement vehicle demand.”

Global Sales Outlook

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

“Global light-vehicle sales were volatile in April as volume fell a staggering 24% year over year—the steepest decline so far in 2022. The selling rate plunged to 67.5 million units, which is more than 20 million units lower than the rate in April 2021. A 45% pullback in China led the sales decline, but most major markets remain supply-constrained, which contributes to the ongoing weakness in demand. Lockdowns in China, as well as the war in Ukraine, only exacerbate these issues and apply additional downward pressure to global sales activity.

“Early indicators in May suggest declines are expected to continue. We forecast global sales to be off 15% in May, though down-side risk remains high in the near term. While the selling rate is expected to improve to 72 million units, it is still more than 10 million units below the rate in May 2021.

“The outlook for sales remains severely constrained, triggering another round of cuts to the 2022 forecast. We expect 2022 to end at just 80.0 million units, a decline of 2% from 2021. Most of the cut is focused on the ongoing war-related risk in Europe and fallout from the lockdowns in China. Simply put, there is not enough supply of sellable vehicles to support demand, and that issue is not expected to improve enough through the rest of the year to overcome the new risks. As recovery is pushed out even further and consumers feel more of the effect of rising prices, lack of demand may become the issue once supply can catch up after 2023.”

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