J.D. POWER

LMC AUTOMOTIVE

U.S. Automotive Forecast for September 2022

Sept. 28, 2022

September Sales Pace Shows Incremental Improvement; Highest September on Record for New-Vehicle Spending

The Retail Sales Forecast

New-vehicle retail sales for September 2022 are expected to increase when compared with September 2021, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales of new vehicles this month are expected to reach 958,948 units, a 5.4% increase compared with September 2021. September 2022 has the same number of selling days compared with September 2021.

New-vehicle retail sales for Q3 2022 are projected to reach 2,900,300 units, a 4.2% decrease from Q3 2021 when adjusted for selling days. New-vehicle retail sales for year-to-date Q3 2022 are projected to reach 8,710,600 units, a 14.9% decrease from year-to-date Q3 2021 when adjusted for selling days.

The Total Sales Forecast

Total new-vehicle sales for September 2022, including retail and non-retail transactions, are projected to reach 1,120,279 units, an 11.8% increase from September 2021.

The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 13.6 million units, up 1.5 million units from 2021.

New-vehicle total sales for Q3 2022 are projected to reach 3,374,500 units, a 0.2% increase from Q3 2021. New-vehicle total sales for year-to-date Q3 2022 are projected to reach 10,156,000 units, a 13.3% decrease from year-to-date Q3 2021.

The Takeaways

Thomas King, president of the data and analytics division at J.D. Power:
"Traditionally, September is a high-volume sales month as manufacturers implement promotions for Labor Day to clear out old model-year vehicles and start sales of the new model-year products. This September, while holiday promotions were nearly nonexistent, modest improvements in vehicle production allowed manufacturers to tap pent-up consumer demand. The result is a retail sales pace that shows a modest increase from a year ago but still falls

below its potential due to tight vehicle availability. Although rising interest rates are putting pressure on affordability, transaction prices still rose and consumers spent more money on new vehicles this month than any previous September on record.

“A deeper dive into September results shows that while demand continues to exceed supply, several key financial results are either showing slower growth or have plateaued. Transaction prices rose 6% year over year, an impressive increase, but less than the 10% growth observed earlier this year. Dealer profits have declined modestly from their peak—down just more than $300 from three months ago—while trade-in equity has stabilized at just under $10,000 for the past two months. Overall, this points to some deterioration in per unit pricing and profitability in the coming quarters, as rising interest rates and economic conditions affect demand, coupled with a likely gradual improvement in vehicle availability. That said, future improvements in vehicle availability will increase future sales volumes, offsetting deterioration in per unit pricing and profit.”

September is on track to be the 16th consecutive month that retail inventory closes below one million units. Dealerships are continuing to pre-sell vehicles in their delivery pipeline. This month, 53% 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 20 days—down from 23 days a year ago.

It should be noted that September 2021 was the second month where inventory shortages had a significant influence on new-vehicle sales. Hence, while sales this month will increase compared to prior year levels, the annualized sales rate remains well below historical norms.

For September, new-vehicle prices remain at record levels, with the average transaction price expected to reach $45,622—a record for September, a 6.3% increase from a year ago and the fourth highest of any month on record. The increase in sales volume, coupled with the near record level transaction prices, is resulting in consumers being on track to spend nearly $43.7 billion on new vehicles this month—the highest level ever for the month of September and a 12% increase from September 2021.

For Q3 2022, average transaction prices are expected to reach $45,971, a 10.3% increase from Q3 2021 and the highest for any quarter on record. This increase in pricing was more than enough to offset the 4.2% decline in sales volume as retail consumers are on track to spend $133.3 billion on new vehicles in Q3 2022, a 5.6% increase from Q3 2021.

“The lack of inventory, coupled with strong demand, continues to allow manufacturers to maintain a low level of discounting. The average incentive spend per vehicle is tracking toward $936, a decrease of 47.8% from a year ago. This will mark the fifth consecutive month under $1,000. Incentive spending per vehicle expressed as a percentage of the average vehicle MSRP is trending at 2.0%, down 2.0 percentage points from September 2021. One of the factors contributing to the reduction in incentive sending is the absence of discounts on vehicles that are leased. This month, leasing will account for just 16% of retail sales. For reference, in September 2019, leases accounted for 29% of all new-vehicle retail sales.

“Higher prices coupled with a rising interest rate environment are elevating monthly loan payments. After breaking the $700 level for the first time ever in July, the average monthly finance payment in September is on pace to be $711, up $56 from September 2021. That translates to an 8.5% increase in monthly payments from a year ago, which is above the 6.3% increase in transaction prices. The average interest rate for new-vehicle loans is expected to increase 169 basis points from a year ago to 5.71%.

“The increase in monthly loan payments would be even greater were it not for the continued strength of used-vehicle prices, which increases the amount of trade-in equity that new-vehicle buyers are bringing to their next purchase. The average trade-in equity for September is trending toward $9,617, a 21.7% increase from a year ago.”

Total retailer profit per unit—inclusive of grosses and finance and insurance income—is on pace to be $4,726, flat from a year ago. Total aggregate retailer profits from new-vehicle sales for the month of September is projected to be up 5.3% from September 2021, reaching $4.5 billion, the best September on record.

For Q3 2022, total retailer profit per unit will reach a Q3 record of $4,839, a 10.0% increase over Q3 2021, and total aggregate retailer profits will reach a Q3 record of $14.0 billion, a 5.4% increase over Q3 2021.

“In October, production constraints are expected to continue. These constraints may result in a somewhat lumpy fourth quarter as partially built vehicles in storage are completed and released in batches to the retail channel. Higher interest rates will continue to put pressure on transaction prices and retailer profits. However, with 54% of vehicles still transacting above MSRP, there is still room for price compression without material damage to industry health.”

Sales & SAAR Comparison

U.S. New Vehicle	September 2022[1, 2]	August 2022	September 2021
Retail Sales	958,948 units (5.4% higher than September 2021)[2]	963,064 units	910,073 units
Total Sales	1,120,279 units (11.8% higher September 2021)[2]	1,126,453 units	1,002,466 units
Retail SAAR	11.9 million units	10.5 million units	11.2 million units
Total SAAR	13.6 million units	13.2 million units	12.1 million units

[1] Figures cited for September 2022 are forecasted based on the first 20 selling days of the month.
[2] September 2022 has 25 selling days, the same as September 2021.

The Details

- The average new-vehicle retail transaction price in September is expected to reach $45,622, a 6.3% increase from September 2021. The previous high for any month—$46,173—was set in July 2022.
- Average incentive spending per unit in September is expected to reach $936, down from $1,792 in September 2021. Spending as a percentage of the average MSRP is expected to fall to 2.0%, down 2.0 percentage points from September 2021.

- Average incentive spending per unit on trucks/SUVs in September is expected to be $966, down $807 from a year ago, while the average spending on cars is expected to be $825, down $1,040 from a year ago.
- Buyers are on pace to spend $43.7 billion on new vehicles, up $4.7 billion from September 2021.
- Truck/SUVs are on pace to account for 77.9% of new-vehicle retail sales in September.
- Fleet sales are expected to total 161,300 units in September, up 75% from September 2021 on a selling day adjusted basis. Fleet volume is expected to account for 14% of total light-vehicle sales, up from 9% a year ago.
- Average interest rates for new vehicle loans are expected to increase to 5.71%, 169 basis points higher than a year ago.

EV Outlook

Elizabeth Krear, vice president, electric vehicle practice at J.D. Power:
"Electric vehicle consideration drops again this month as gas prices continue to fall and interest rates rise. The percentage of shoppers that are "very likely" to consider buying or leasing an EV in the next 12 months is 26.3%, down 1.7 percentage points from July. Although these shoppers are easing off the pedal a bit, the percentage of shoppers who are "somewhat likely" to purchase an EV in the next 12 months increased 2.5 percentage points in August.

"The broader reach of EV consideration is due in part to the ongoing expansion of appealing product options. The Chevrolet Blazer EV made a scorching debut at No. 3 in the J.D. Power EV Consideration pulse survey. The GMC Sierra EV debuted at No. 16 and almost certainly accounted for the 3.4 percentage-point drop in the Ford F-150 Lightning's consideration, moving it from No. 1 to No. 2. As the availability of EVs continues to grow, more customers are finding EVs that meet their needs, leading to more competition between brands and within segments on the path to greater EV adoption.

"While overall EV sales will continue to grow as availability increases, competition also will increase between brands, within segments and with price."

Global Sales Outlook

Jeff Schuster, president, Americas operations and global vehicle forecasts, LMC Automotive:
"The China-led recovery in global light-vehicle sales continued in August, with the selling rate hitting 91.3 million units and topping July by more than one million units. Sales volume was up 14% year over year to 6.7 million units but remained 9% below the pre-pandemic August average. China's sales increased 34% but strong growth was also seen across the ASEAN market, which increased 59%. India was up 27%. Both North America (up 3%) and Western Europe (up 1%) reversed the declines from a year ago thanks to some inventory relief.

"Global light-vehicle sales are expected to continue the positive trend in September, with volume up 15% from a year ago—but September 2021 was severely affected by the chip shortage and other supply disruptions. As a result, the selling rate is expected to fall to 84.3 million units, which is still 10.8 million units higher than September 2021. Given the constraints of a year ago, growth across the world is expected to be more synchronized, with main markets expected to increase in the 10-15% range. Asian markets are expected to outperform the rest of the world, with India's volume projected to nearly double from the 2021 volume.

"The increase in China and other parts of Asia has stabilized the global market and offset expected losses in North America, Europe, Japan and Brazil in 2022. We continue to expect global light-vehicle sales to remain at 82 million units, but the increase is now just 0.2% from 2021. We have been concerned that the boost in China sales would greatly deplete inventory levels but inventory in China has increased in the past three months, while demand has been hitting record selling rates. Inventory shortages appear to be less of an issue, though pull forward effect is expected to slow growth in China as the year closes and we head into 2023. As the likelihood of a global recession increases, the expected 5% growth to 85 million units is at risk."

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