J.D. POWER

LMC AUTOMOTIVE

U.S. Automotive Forecast for December 2022

Dec. 21, 2022

Up, Up and Up in December: New-Vehicle Sales Increase, Transaction Prices Hit Record High and Inventory Rises

The Total Sales Forecast

Total new-vehicle sales for December 2022, including retail and non-retail transactions, are projected to reach 1,254,700 units, a 5.3% increase from December 2021, according to a joint forecast from J.D. Power and LMC Automotive. December 2022 has the same number of selling days as December 2021.

The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 13.2 million units, up 0.7 million units from 2021. New-vehicle total sales in Q4 2022 are projected to reach 3,549,800 units, a 9.6% increase from Q4 2021 when adjusted for selling days. New-vehicle total sales for 2022 are projected to reach 13,687,000 units, an 8.4% decrease from 2021 when adjusted for selling days.

The Retail Sales Forecast

New-vehicle retail sales for December 2022 are expected to decline when compared with December 2021. Retail sales of new vehicles this month are expected to reach 1,039,200 units, a 2.8% decrease from December 2021. New-vehicle retail sales in Q4 2022 are projected to reach 2,938,500 units, a 1.3% increase from Q4 2021 when adjusted for selling days. New-vehicle retail sales for 2022 are projected to reach 11,648,200 units, an 11.3% decrease from 2021 when adjusted for selling days.

The Takeaways

Thomas King, president of the data and analytics division at J.D. Power:
"Retail inventory in December is expected to finish its third consecutive month at more than one million units. With the improving inventory levels, December total sales volume will be up from a year ago, however there are still not enough vehicles produced to meet demand. Transaction prices will hit a record high for the month even with shoppers becoming a bit more sensitive to retailer mark-up addendums over MSRP. The reduction in mark-ups is pushing dealer profits off their record high levels, however, per-unit profitably is still nearly double pre-pandemic levels.

“While the inventory situation has improved modestly in the fourth quarter, supply remains well below the level at which consumer demand for new vehicles can be met. New-vehicle transaction prices continue to rise—albeit at a slower pace than earlier this year. The average price in December will set a record of $46,382, an increase of 2.5% from a year ago.”

The record transaction prices means that buyers are on track to spend nearly $48.2 billion on new vehicles this month—the third highest level ever for the month of December and a slight 0.3% decrease from December 2021.

“Dealer profits per unit are off their record highs mostly due to a reduction in dealer addendums but remain extremely strong. Total retailer profit per unit—inclusive of grosses and finance and insurance income—is on pace to be $4,144, down 19.8% from a year ago but still more than double 2019 levels. The decline is due primarily to fewer vehicles being sold above MSRP. In December, 37% of new vehicles are being sold above MSRP, down from 50% in July 2022.”

Total aggregate retailer profit from new-vehicle sales for the month of December is projected to be down 22.0% from December 2021, reaching $4.3 billion for the second-best December on record.

“Dealerships are continuing to pre-sell a good portion of their available inventory allocation, but increased production means vehicles are spending slightly more time at dealerships. This month, 47% of vehicles will be sold within 10 days of arriving at a dealership, down from a high of 57% in March. The average number of days a new vehicle is in a dealer’s possession before being sold is on pace to be 23 days—up from 18 days a year ago.

“Manufacturer discounts are up slightly from a month ago, however, they remain historically suppressed. The average incentive spend per vehicle is tracking toward $1,187, a decrease of 21.4% from a year ago. Incentive spending per vehicle expressed as a percentage of the average vehicle MSRP is trending at 2.5%, down 0.8 percentage points from December 2021. One of the factors contributing to the low level of spending is the absence of discounts on vehicles that are leased. This month, leasing is accounting for just 18% of retail sales. In December 2019, leases accounted for 30% of all new-vehicle retail sales.

“Elevated pricing coupled with repeated interest rate increases continue to inflate monthly loan payments. After breaking the $700 level for the first time on record in July, the average monthly finance payment in December is on pace to be $718, up $47 from December 2021. That translates to a 7.0% increase in monthly payments from a year ago. The average interest rate for new-vehicle loans is expected to increase 247 basis points from a year ago to 6.4%.

Used-vehicle prices are falling modestly which is resulting in less trade-in equity for new vehicle buyers. The average trade-in equity for December is trending toward $9,316, a -3.1% ($297) decrease from a year ago and down $786 since the peak in June 2022. For context, December 2022 trade equity is still more than double the pre-pandemic level helping consumers that have a vehicle to trade in offset some of the pricing and interest rate increases.

“Full year 2022 will show a total sales decrease from 2021 due to production constraints. The year-over-year sales increases experienced for the final five months of 2022 were not enough to offset the year-over-year sales declines in the first half of 2022 which are compared with the record sales pace in the first half of 2021. Pricing and per unit profitability will achieve record levels for full-year results. Overall, despite limited production constraining sales volume, the industry is closing out the year with strong underlying financial results.

“Looking at 2023, retail sales will continue to be dictated by the number of vehicles shipped to dealerships. Indications are that shipments will rise incrementally throughout the year, allowing sales to increase from 2022 levels. However, even with the probability of an economic downturn, pent-up consumer demand from the past two years will keep inventory levels relatively low. Therefore, 2023 is likely to be another year of relative healthy pricing and profitability.”

Sales & SAAR Comparison

U.S. New Vehicle	December 2022[1, 2]	November 2022	December 2021
Retail Sales	1,039,218 units (-2.8% lower than December 2021)[2]	916,666 units	1,068,924 units
Total Sales	1,254,744 units (5.3% higher December 2021)[2]	1,121,975 units	1,191,372 units
Retail SAAR	11.1 million units	11.1 million units	11.4 million units
Total SAAR	13.2 million units	14.0 million units	12.5 million units

[1] Figures cited for December 2022 are forecasted based on the first 15 selling days of the month.
[2] December 2022 has 27 selling days, the same as December 2021.

The Details

- The average new-vehicle retail transaction price in December is expected to reach $46,382, a 2.5% increase from December 2021. The previous high for any month—$46,171—was set in July 2022.
- Average incentive spending per unit in December is expected to reach $1,187, down from $1,511 in December 2021. Spending as a percentage of the average MSRP is expected to fall to 2.5%, down 0.8 percentage points from December 2021.
- Average incentive spending per unit on trucks/SUVs in December is expected to be $1,211, down $296 from a year ago, while the average spending on cars is expected to be $1,233, down $292 from a year ago.
- Retail buyers are on pace to spend $48.2 billion on new vehicles, down $0.2 billion from December 2021.
- Truck/SUVs are on pace to account for 77.6% of new-vehicle retail sales in December.
- Fleet sales are expected to total 215,500 units in December, up 76.0% from December 2021 on a selling day adjusted basis. Fleet volume is expected to account for 17% of total light-vehicle sales, up from 10% a year ago.
- Average interest rates for new vehicle loans are expected to increase to 6.40%, 247 basis points higher than a year ago.

EV Outlook

Elizabeth Krear, vice president, electric vehicle practice at J.D. Power:

"It may seem counter-intuitive but, in the past year, true adoption of EVs has declined as consumer interest and vehicle availability have increased. Simply put, availability has nearly doubled but sales have not kept pace. The J.D. Power EV Index will launch next month, tracking the transition from ICE vehicles to EVs by monitoring six key factors: interest, availability, adoption, affordability, infrastructure and experience. We'll have greater insight to share then.

"Right now, price and lack of public charging are the top two barriers to EV adoption. Affordability declined primarily because of Tesla price hikes, the rich launch of the Ford F-150 Lightning and the Inflation Reduction Act that disqualified 15 vehicles from receiving the tax credit because they didn't meet North America manufacturers' origin criteria."

Global Sales Outlook

Jeff Schuster, president, global forecasts, LMC Automotive, a GlobalData company:

"November global light-vehicle sales came in slightly weaker than expected with an 83.6 million unit selling rate, but it was still nearly 3 million units stronger than November 2021. Volume was up just 3% year over year, as market volatility continued to affect the overall global recovery. Specifically, the Chinese market decelerated sharply, posting a decline of 7% from a year ago, and Eastern Europe was off nearly 20%. India led the markets that improved (+28%), followed by Western Europe (+15%), North America (+12%) and South America (+9%).

"December's selling rate is expected to slip below 80 million units, the weakest level since May of this year. Volume is projected at 7.1 million units, a contraction of 4% year over year as the compounding issues of supply constraints, weaker demand from inflationary pressure and geopolitical uncertainty drives the lower forecast.

"With less than one month of sales to finish the year, the outlook has been trimmed further on weaker-than-expected performance continuing through December. The year is projected to finish at 80.7 million units, a contraction of 1% from 2021. We expect 2023 to carry a high level of risk and uncertainty as several markets could be dealing with a recession. Nonetheless, we forecast a 6% increase to 85.7 million units. This is up slightly from last month, as the current pullback in China is sooner than initially expected, raising the outlook for next year slightly. There remains a high level of risk related to a weaker global economy and affordability concerns in many markets. Factoring risk could bring the forecast down by as much as 2 million units to 83.5 million units for the year."

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