J.D. POWER

LMC AUTOMOTIVE

U.S. Automotive Forecast for January 2023

Jan. 26, 2023

Strong Start to 2023: New-Vehicle Sales Increase as Transaction Prices and Expenditures Hit Record Levels in Year's First Month

The Total Sales Forecast

Total new-vehicle sales for January 2023, including retail and non-retail transactions, are projected to reach 1,043,100 units, a 5.4% increase from January 2022 according to a joint forecast from J.D. Power and LMC Automotive. January 2023 has the same number of selling days as January 2022.

The Retail Sales Forecast

New-vehicle retail sales for January 2023 are expected to decline when compared with January 2022. Retail sales of new vehicles this month are expected to reach 859,800 units, a -1.7% decrease from January 2022.

The Takeaways

Thomas King, president of the data and analytics division at J.D. Power:
"As we start 2023, supply chain disruptions continue but are becoming less severe. This is leading to an increase in the number of vehicles being delivered to dealerships and fleet customers. Retail inventory at the end of January is expected to remain above one million units for the fourth consecutive month. However, the overall volume of new vehicles being delivered to dealerships in January is still not sufficient to meet consumer demand, resulting in record transaction prices for the month.

"While retail inventory levels are generally rising, several manufacturers are directing a larger portion of their increased production towards fleet customers. Fleet sales have been more heavily inventory constrained than retail sales during the past several years, resulting in significant pent-up demand. Rising production levels now allow manufacturers to better support their fleet customers while maintaining retail inventory levels.

"New-vehicle transaction prices continue to rise—although the rate of growth continues to slow. The average price will set a January record of $46,437, an increase of 4.2% from a year ago."

The record transaction prices means that buyers are on track to spend nearly $39.9 billion on new vehicles this month—the highest level ever for the month of January, an increase of 2.4% from January 2022.

“Dealer profit per unit is falling from the record highs of 2022—mostly due to a reduction in dealer addendums—but remain historically strong. Total retailer profit per unit—inclusive of grosses and finance and insurance income—is on pace to be $3,975, down 22.0% from a year ago but still more than double 2019 levels. The decline is due primarily to fewer vehicles being sold above MSRP. In January, 33% of new vehicles are being sold above MSRP, down from the high of 48% in July 2022.”

Total aggregate retailer profit from new-vehicle sales for the month of January is projected to be down 23.4% from January 2022, reaching $3.4 billion for the second-best January on record.

“Dealerships are still pre-selling a large proportion of their inventory allocation, but increased supply means buyers have more selection as vehicles are spending slightly more time at dealerships. This month, 44% of vehicles will be sold within 10 days of arriving at a dealership, down from a high of 57% in March 2022. The average number of days a new vehicle is in a dealer’s possession before being sold is on pace to be 27 days—up from 19 days a year ago—but still less than half the pre-pandemic average of 70 days.

“Manufacturer discounts are up slightly from a month ago, however, they remain historically low. The average incentive spend per vehicle is tracking toward $1,260, a decrease of 7.0% from a year ago. Incentive spending per vehicle expressed as a percentage of the average vehicle MSRP is trending at 2.7%, down 0.4 percentage points from January 2022. 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 17% of retail sales. In January 2019, leases accounted for 31% 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 January is on pace to be $723, up $59 from January 2022. That translates to an 8.8% increase in monthly payments from a year ago. The average interest rate for new-vehicle loans is expected to be 6.8%, an increase of 264 basis points from a year ago.

“Used-vehicle prices are falling which is resulting in less trade-in equity for new vehicle buyers who have a vehicle to trade. The average trade-in equity for January is trending toward $9,350, down $255 (-2.7%) from a year ago and down $709 since the peak in June 2022. For context, January 2023 trade equity is still more than double the pre-pandemic level, helping owners that have a vehicle to trade in offset some of the pricing and interest rate increases.

“This year is off to an encouraging start from an inventory and sales standpoint. Retailer profitability is softening as expected but remains well above historical norms. Looking forward to February, the industry sales pace will continue to be inventory constrained despite improving production levels. Each manufacturer is emerging from the supply shortage in a slightly different way, with variation in production recovery, retail vs. fleet focus and pricing strategy. This means February will likely be similar to January at the industry level, but with rising variation in manufacturer performance.”

Sales & SAAR Comparison

U.S. New Vehicle	January 2023[1, 2]	December 2022	January 2022
Retail Sales	859,818 units (-1.7% lower than January 2022)[2]	1,059,876 units	874,726 units
Total Sales	1,043,089 units (5.4% higher January 2022)[2]	1,281,547 units	989,681 units
Retail SAAR	13.6 million units	11.3 million units	13.9 million units
Total SAAR	15.9 million units	13.5 million units	15.1 million units

[1] Figures cited for January 2023 are forecasted based on the first 16 selling days of the month.
[2] January 2023 has 24 selling days, the same as January 2022.

The Details

- The average new-vehicle retail transaction price in January is expected to reach $46,437, a 4.2% increase from January 2022. The previous high for any month—$47,362—was set in December 2022.
- Average incentive spending per unit in January is expected to reach $1,260, down from $1,355 in January 2022. Spending as a percentage of the average MSRP is expected to fall to 2.7%, down 0.4 percentage points from January 2022.
- Average incentive spending per unit on trucks/SUVs in January is expected to be $1,265, down $98 from a year ago, while the average spending on cars is expected to be $1,290, down $31 from a year ago.
- Retail buyers are on pace to spend $39.9 billion on new vehicles, up $0.9 billion from January 2022.
- Truck/SUVs are on pace to account for 78.7% of new-vehicle retail sales in January.
- Fleet sales are expected to total 183,300 units in January, up 59.4% from January 2022 on a selling day adjusted basis. Fleet volume is expected to account for 18% of total light-vehicle sales, up from 12% a year ago.
- Average interest rates for new vehicle loans are expected to increase to 6.79%, 264 basis points higher than a year ago.

EV Outlook

Elizabeth Krear, vice president, electric vehicle practice at J.D. Power:
"In December 2022, 24.8% of new-vehicle shoppers said they were 'very likely' to consider purchasing an EV, which is 4 percentage points lower than November 2022. The softening correlates to gas prices dropping to the lowest levels in nearly a year.

"Chevrolet once again emerged as the most-considered EV brand in December, breaking away from Tesla by 5 percentage points when Tesla saw all five models decrease in consideration. The Lexus RZ was the most-considered premium model. The affordability of EVs improved slightly during the past two months, following a four-month decline. This improvement is driven by the premium volume mix, which is closer to parity with ICE vehicles than mass market models.

"As the Inflation Reduction Act unfolds, EV affordability will differentiate by vehicle and by transaction type. Currently, only 10% of EV transactions are leases. Beginning this month, however, the rules for eligibility are far less restrictive on leasing than purchasing, and that will make the $7,500 tax incentive a good reason for many to consider leasing an EV."

Global Sales Outlook

Jeff Schuster, president, global forecasts, LMC Automotive, a GlobalData company:
"Global light-vehicle sales in December were slightly stronger than expected with volume of 7.5 million units, an increase of 1% from December 2021. The selling rate held at 83.5 million units, which is consistent with November and 1.3 million units stronger than a year ago. Recovery growth in Western Europe (+13%) North America (+9%) and India (+8%) drove the increase for the month. China remained a drag on the growth, posting a decline of 8% from a year ago. In addition, Eastern Europe was down, but the decline of 8% was the strongest performance since the start of the war in Ukraine.

"January 2023 is expected to post a 6% decline from January 2022, as some payback in China is expected from the incentive last year that has yet to be renewed. The selling rate is forecast to improve from December to 84.1 million units, but January is usually challenging to decipher globally, given the timing of the Lunar New Year.

"This past year was certainly a challenging year, as disruption and negative variables stacked up against the prospects of a recovery during the year. December's slightly better results did push 2022 to 81.1 million units, a decline of 0.4% from 2021. As disruption and economic uncertainty are expected to remain as headwinds in 2023, the outlook continues to hold an elevated level of risk. The forecast for 2023 is at 85.8 million units, an increase of 6% from 2022's contraction. We expect more downside risk to the forecast, as affordability is a concern with many new-vehicle buyers. This risk could erode up to 2 million units of the expected recovery, cutting the growth to 3% for the year. That said, we continue to believe there is a level of unfulfilled demand that exceeds the level of production and inventory, so a path to a more pronounced recovery exists, but it may be pushed to 2024 or even 2025."

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