J.D. POWER

LMC AUTOMOTIVE

U.S. Automotive Forecast for April 2023

April 27, 2023

New-Vehicle Sales Poised to Surge 9.8% This Month; Transaction Prices Expected to Set Record for Month of April

The Total Sales Forecast

Total new-vehicle sales for April 2023, including retail and non-retail transactions, are projected to reach 1,316,500 units, a 9.8% increase from April 2022, according to a joint forecast from J.D. Power and LMC Automotive. April 2023 has 26 selling days, one fewer than April 2022. Comparing the same sales volume without adjusting for the number of selling days translates to an increase of 5.7% from 2022.

The Retail Sales Forecast

New-vehicle retail sales for April 2023 are expected to increase when compared with April 2022. Retail sales of new vehicles this month are expected to reach 1,087,400 units, a 5.9% increase from April 2022. Comparing the sales volume without adjusting for the number of selling days translates to an increase of 2.0% from 2022.

The Takeaways

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

“The industry is poised for another favorable month in April, with projected retail sales expected to increase 5.9%, accompanied by a 2% increase in average transaction prices. Consequently, it’s expected that consumers will spend nearly $47.5 billion on new vehicles this month, reflecting 2.9% growth compared with the same month a year ago.

"It is anticipated that retail inventory levels for April will reach approximately 1.2 million units, which is consistent with March but marks a substantial 45% increase from April 2022. With the significant improvement in overall new-vehicle availability from a year ago, dealer margins are declining and manufacturer incentive spending is increasing. Nevertheless, the demand for vehicles in the retail market remains strong due to pent-up demand from pandemic-related production shortages.

“Overall, the retail sales pace continues to be supply constrained. Therefore, pricing and profitability remain well above historical levels. This market condition is being sustained by manufacturers allocating more production volume to fleet sales. Rather than allocating all incremental production to retailers, manufacturers are opting to sell more vehicles to fleet customers, with fleet sales projected to increase 33% vs. April 2022."

New-vehicle transaction prices continue to rise, with the average price reaching an April record of $46,044. This is a 2.0% increase from a year ago. The record transaction prices means that consumers are on track to spend nearly $47.5 billion on new vehicles this month—the second highest for the month of April and 2.9% higher than April 2022.

The improved supply of vehicles compared with a year ago has resulted in a decline in dealer profits. However, dealer profits remain well above pre-pandemic levels. The total retailer profit per unit, which includes grosses and finance and insurance income, is expected to reach $3,755. While this is 24.5% lower than a year ago, it is still more than double the amount of April 2019. The primary reason for the decline in profit is that fewer vehicles are being sold for prices higher than the manufacturer's suggested retail price (MSRP). This month, only 32% of new vehicles are projected to be sold above MSRP, which is down from a high of 48% in July 2022.

Total aggregate retailer profit from new-vehicle sales for the month of April is projected to be down 23.8% from April 2022, reaching $3.9 billion for the second-highest April on record.

Retailers continue to engage in significant pre-selling of their inventory, however due to higher inventory levels, more consumers are buying vehicles that are currently on the lot. In April, 44% of vehicles are projected to be sold within ten days of their arrival at the dealership, which is down from the peak of 57% in March of last year. The average time that a new vehicle spends in the dealer's possession before being sold is expected to be 30 days, up from 18 days last year, but still less than half the pre-pandemic average of 70 days.

Manufacturer discounts have remained relatively consistent compared to March but have increased materially from a year ago. The average incentive spend per vehicle has risen 58.9% from April 2022 and is currently on track to reach $1,599. The percentage of incentive spending per vehicle in relation to the average MSRP is currently trending at 3.3%, an increase of 1.1 percentage points from April 2022. One of the factors contributing to this low level of spending is the absence of discounts on leased vehicles. This month, leasing is expected to account for only 19% of retail sales, whereas in April 2019, leased vehicles made up nearly 30% of all new-vehicle retail sales.

“Elevated pricing coupled with interest rate increases continue to inflate monthly loan payments. The average monthly finance payment in April is on pace to be $729, up $48 from April 2022. That translates to a 7.1% 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 227 basis points from a year ago.

“Used-vehicle prices have fallen which is resulting in less trade-in equity for new-vehicle buyers who have a vehicle to trade. The average trade-in equity for April is trending toward $9,162, down $363 from a year ago, and down $908 since the peak in June 2022. For context, April 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.

"As we look to May, the asymmetrical market positions of each manufacturer could become more apparent. Brands with higher inventory levels may participate in the tradition of Memorial

Day promotions and discounts to generate sales, while other brands that are still struggling with production will have to decide whether or not to compete on price. The disparity in inventory may result in unbalanced year-over-year sales results among manufacturers. Despite these challenges, including elevated interest rates, consumer demand has demonstrated remarkable resilience. Therefore, we can anticipate that manufacturers and retailers will continue to benefit from historically high profitability on the vehicles they sell."

Sales & SAAR Comparison

U.S. New Vehicle	April 2023[1, 2]	March 2023	April 2022
Retail Sales	1,087,364 units (5.9% higher than April 2022)[2]	1,100,546 units	1,066,548 units
Total Sales	1,316,464 units (9.8% higher than April 2022)[2]	1,361,041 units	1,254,084 units
Retail SAAR	13.3 million units	12.0 million units	12.7 million units
Total SAAR	15.5 million units	14.7 million units	14.4 million units

[1] Figures cited for April 2023 are forecasted based on the first 19 selling days of the month.
[2] April 2023 has 26 selling days, one fewer than April 2022.

The Details

- The average new-vehicle retail transaction price in April is expected to reach $46,044, a 2.0% increase from April 2022. The previous high for any month—$47,362—was set in December 2022.
- Average incentive spending per unit in April is expected to reach $1,559, up from $1,007 in April 2022. Spending as a percentage of the average MSRP is expected to increase to 3.3%, up 1.1 percentage points from April 2022.
- Average incentive spending per unit on trucks/SUVs in April is expected to be $1,673, up $644 from a year ago, while the average spending on cars is expected to be $1,328, up $404 from a year ago.
- Retail buyers are on pace to spend $47.5 billion on new vehicles, up $1.3 billion from April 2022.
- Truck/SUVs are on pace to account for 78.0% of new-vehicle retail sales in April.
- Fleet sales are expected to total 229,100 units in April, up 33.3% from April 2022 on a selling day adjusted basis. Fleet volume is expected to account for 17% of total light-vehicle sales, up from 14% a year ago.
- Average interest rates for new-vehicle loans are expected to increase to 6.85%, 227 basis points higher than a year ago.

EV Outlook

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

“While EV market share has improved from 2.5% in March 2020 to 7.3% in March 2023, it’s important to note that the latter figure is down from 8.5% in February 2023. Despite an improvement in the Affordability factor score of the J.D. Power EV Index, the slippage in Adoption and in Infrastructure means that the parity of EVs to gas-powered vehicles is flat. Our

March data shows that 21% of new-vehicle shoppers are 'very unlikely' to consider an EV for their next purchase—the highest percentage we've seen. Nearly half of those shoppers—49%—cite lack of charging stations as a key reason why.

"As tax credits make their way to consumers, the Affordability factor for March is 91—the first time the score has exceeded 90 since May 2022. The high will be short-lived as the effect of new IRA battery eligibility requirements becomes evident in EV Index results in the coming months. The new requirements mean fewer vehicles are eligible for Clean Vehicle Credit and, among those retaining eligibility, many see a decline in applicable amount."

Global Sales Outlook

Jeff Schuster, group head and executive vice president, automotive at GlobalData, parent of LMC Automotive:

"Global light-vehicle sales ended the first quarter up 4.4% year over year to 20.6 million units, driven by recovery growth. Growth of battery electric vehicles accelerated 31.4% in the first quarter, while volume of gas-powered vehicles fell 3.2%. March's selling rate increased to 84 million units from 81 million units in February. March volume was up 10.6% year over year to 8.1 million units, driven by strong volume growth in Brazil (+37.9%), Western Europe (+22.6%) and Korea (+21.3%). North America and China grew slightly less than the global market, but both markets exceeded expectations going into the month.

"Global light-vehicle sales in April are expected to increase 23.5% to 6.8 million units with the growth coming from a low base in April 2022. The selling rate is forecast to increase to 84.9 million units from 67.9 million last April. Growth in China is an outlier at a projected increase of 90% from being locked down in April 2022. Solid growth continues in Europe, up 21.5%, as markets start to rebound from supply disruption and the effect of the war in Ukraine.

"As the recovery continues and production levels rise to fuel stronger demand, we are holding the forecast consistent with last month at 86 million units, a 6.2% increase from 2022. Supply disruption is projected to improve further but will remain an issue throughout 2023. The overall effect on underlying demand is expected to be 4 million units of disruption, half what it was in 2022."

Media Relations Contacts
Geno Effler, J.D. Power; West Coast; 714-621-6224; media.relations@jdpa.com

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