Inventory Shortages Cause July Sales Pace to Weaken but Demand Drives Average Transaction Price Above $41,000 for First Time

The Retail Sales Forecast
New-vehicle retail sales for the month of July are expected to grow from July 2020 but decline from July 2019, according to a joint forecast from J.D. Power and LMC Automotive. Retail sales of new vehicles this month are expected to reach 1,187,300 units, a 3.7% increase compared with July 2020, but an 8.7% decrease compared with July 2019 when adjusted for selling days. July 2021 has one more selling day than July 2020 and two more selling days than July 2019. Comparing the same sales volume without adjusting for the number of selling days translates to an increase of 7.7% over 2020 and a decrease of 1.4% from 2019.

The Total Sales Forecast
Total new-vehicle sales for July 2021, including retail and non-retail transactions, are projected to reach 1,319,300 units, a 2.7% increase from July 2020 but a 12.4% decrease from July 2019 due to the decline of less-profitable non-retail/fleet sales. Comparing the same sales volume without adjusting for the number of selling days translates to an increase of 6.7% from 2020 but a decrease of 5.3% from 2019. The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 15.0 million units, up 0.4 million units from 2020 but down 1.9 million units from 2019.

The Takeaways

Thomas King, president of the data and analytics division at J.D. Power:
“Inventory constraints, and its divergent effects on vehicle sales, continues to be the key theme for July. Too few vehicles in inventory mean the sales pace in July is well below the levels seen earlier this year. Conversely, the lack of inventory is driving the price of the vehicles to record highs as manufacturers and retailers continue to dial back discounts. While the quantity of sales is down, the quality of each sale is up, evidenced by the fact that consumers will spend more money buying new vehicles than ever before in the month of July, and dealer profits from selling new vehicles will reach an all-time high.”

Dealers currently have 932,000 vehicles available for retail sale, compared with 3.1 million two years ago and, while new inventory is arriving at dealers daily, it is being sold almost as quickly as it arrives. This month, more than 45% of vehicles will be sold within 10 days of arriving at a dealership, up from 43% in June 2021 and up from only 26% in July 2019. The average number
of days a new vehicle sits on a dealer lot before being sold is on pace to fall to a record low of 31 days, down from 75 days a year ago, and down 6 days from last month.

For July 2021, average transaction prices are expected reach an all-time high of $41,044. For context, average transaction prices are trending to be nearly 17% higher in July 2021 than they were in July 2020. This is partially due to the continued retraction in manufacturer incentives. The average manufacturer incentive per vehicle is on pace to be $2,065, a decrease of $2,170 from a year ago and the lowest amount on record for the month of July. Expressed as a percentage of the average vehicle MSRP, incentives for July 2021 are trending toward a record low of 4.8%, down nearly 5.5 percentage points from a year ago, and the first time on record below 5%.

The combination of strong retail volumes and higher prices means that consumers are on track to spend $48.7 billion on new vehicles this month, the highest on record for the month of July.

“Total retailer profit per unit, inclusive of grosses and finance & insurance income, are on pace to reach an all-time high of $4,260, an increase of $2,230 from a year ago and the first time higher than $4,000. Grosses have been above $3,000 for three consecutive months. Coupled with the strong retail sales pace, total aggregate retailer profits from new-vehicle sales are projected to be $5.1 billion, the highest ever on record and up an astonishing 216% from July 2019. July is on track to be the third consecutive month for aggregate retailer profits on new vehicle sales to exceed $4 billion.

“These record-breaking pricing and profitability results continue to be assisted by exceptionally strong used-vehicle prices, which translates into elevated trade in values for consumers. While average transaction prices are trending to be nearly 17% higher this month than in July 2020, the average monthly finance payment is on pace to be up only 6.4%, or $38, to $622 during the same period, aided mostly by average trade-in values trending towards $7,501, an increase of $3,353—or 81%—from a year ago. The low interest rate environment is also helping to moderate monthly payments. The average interest rate for new vehicle loans in July is expected to increase only 4 basis points to 4.24% from 4.20% a year ago, but down 132 basis points from July 2019.

“Looking forward to August, the dynamics observed in July are expected to continue. Inventory levels will not improve meaningfully in August and the sales pace will be depressed as many shoppers fail to find their desired vehicle. However, buyers who do find their desired vehicle will pay higher prices. The silver lining in this environment is that manufacturers and retailers will realize extraordinary profits on every unit that is sold, and in many cases the per-unit profit will more than offset the drop in volume.”
Sales & SAAR Comparison

<table>
<thead>
<tr>
<th>U.S. New Vehicle</th>
<th>July 2021(^1,2)</th>
<th>June 2021</th>
<th>July 2019(^3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Sales</td>
<td>1,187,241 units</td>
<td>1,127,900 units</td>
<td>1,204,236 units</td>
</tr>
<tr>
<td></td>
<td>(+3.7% higher than June 2020; -8.7% lower than June 2019)(^2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Sales</td>
<td>1,319,275 units</td>
<td>1,293,229 units</td>
<td>1,393,771 units</td>
</tr>
<tr>
<td></td>
<td>(+2.7% higher than July 2020; -12.4% lower than July 2019)(^2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail SAAR</td>
<td>13.1 million units</td>
<td>13.5 million units</td>
<td>14.2 million units</td>
</tr>
<tr>
<td>Total SAAR</td>
<td>15.0 million units</td>
<td>15.3 million units</td>
<td>16.9 million units</td>
</tr>
</tbody>
</table>

\(^1\) Figures cited for July 2021 are forecasted based on the first 20 selling days of the month.
\(^2\) July 2021 has 27 selling days, one more than July 2020 and two more than July 2019.
\(^3\) July 2019 is displayed to avoid July 2020 pandemic-influenced comparisons.

The Details

- The average new-vehicle retail transaction price in July is expected to reach a record $41,044. The previous high for any month, $39,942, was set in June 2021.
- Average incentive spending per unit in July is expected to fall to $2,065, down from $4,235 in July 2020 and $4,069 in July 2019. Spending as a percentage of the average MSRP is expected to fall to 4.8%, down 5.5 percentage points from July 2020 and down 5.4 percentage points from July 2019.
- Average incentive spending per unit on trucks/SUVs in July is expected to be $2,002, down $2,357 from a year ago and down $2,236 from 2019, while the average spending on cars is expected to be $2,284, down $1,561 from a year ago and down $1,333 from 2019.
- Consumers are on pace to spend $48.7 billion on new vehicles—a record for July—and up $9.9 billion from July 2020 and up $8.8 billion from July 2019.
- Trucks/SUVs are on pace to account for 76.5% of new-vehicle retail sales in July.
- Fleet sales are expected to total 132,000 units in July, down 5.3% from June 2020 and down 35.5% from July 2019 on a selling day adjusted basis. Fleet volume is expected to account for 10% of total light-vehicle sales, down from 11% a year ago.

Observations on the Used Vehicle Market

Jonathan Banks, vice president, Valuations Services:

“Used-vehicle prices remain near a record levels, however, the wholesale market is cooling from its red-hot spring and early summer pace. As a result, wholesale prices are expected to end the month down slightly from June. The decline marks the first time that prices in this channel will move lower since December 2020, and the start of historic seasonal depreciation that typically occurs during late summer and the fall months. Ultimately, inventory shortages of new vehicles continue to help bolster used prices as both consumers and dealers look to fill the gaps. Through the remainder of the year, used prices should continue drifting slightly lower each month—but still hover near all-time highs.”
Global Sales Outlook

Jeff Schuster, president, Americas operations and global vehicle forecasts, LMC Automotive:
“The ongoing chip shortage cut into the recovery pace of major markets in June as the selling rate stood unchanged from May at 82.9 million units. While the rate was up 4.5 million units from June 2020, growth was below expectations and has flattened out. On a volume basis, global light-vehicle sales were up 6% from June 2020 to 7.0 million units but declined nearly 15% from June 2019. Demand in China and South Korea was sluggish, making these two markets the worst performing major markets. China was down 13% from a year ago and South Korea was down 20%. The United States and Western Europe continue to recover but the effect of chip shortages is taking hold and further constraining volume. Despite an expected selling rate increase to 83.5 million units, global light-vehicle demand in July is expected to post the first year-over-year decline since November 2020 with volume at 6.6 million units.

“Lack of inventory is clearly affecting selling rates in key markets. With no immediate remedy in sight, there’s an increasing risk that the situation will worsen in coming months and put renewed pressure on the post-pandemic recovery. Continued disruption has triggered a more pronounced cut to the 2021 outlook. Global light-vehicle sales are now expected to grow 11%, with volume cut to 86.4 million units for the year, a reduction of 1.0 million units.”

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