U.S. Automotive Forecast for December 2023

Dec. 21, 2023

December to Cap Off Another Profitable Year for Dealers as Consumers Spend Record $578 Billion on New Vehicles in 2023

The Total Sales Forecast

Total new-vehicle sales for December 2023, including retail and non-retail transactions, are projected to reach 1,396,700 units, a 13.2% increase from December 2022, according to a joint forecast from J.D. Power and GlobalData. December 2023 has 26 selling days, one fewer than December 2022. Comparing the same sales volume without adjusting for the number of selling days translates to an increase of 9.0% from a year ago.

The seasonally adjusted annualized rate (SAAR) for total new-vehicle sales is expected to be 15.4 million units, up 1.7 million units from December 2022. New-vehicle total sales in Q4 2023 are projected to reach 3,826,000 units, a 9.8% increase from Q4 2022 when adjusted for selling days. New-vehicle total sales for 2023 are projected to reach 15,466,000 units, a 13.2% increase from 2022 when adjusted for selling days.

The Retail Sales Forecast

New-vehicle retail sales for December 2023 are expected to increase when compared with December 2022. Retail sales of new vehicles this month are expected to reach 1,169,000 units, a 13.1% increase from December 2022. Comparing the same sales volume without adjusting for the number of selling days translates to an increase of 8.9% from 2022. New-vehicle retail sales in Q4 2023 are projected to reach 3,186,700 units, a 9.8% increase from Q4 2022 when adjusted for selling days. New-vehicle retail sales for 2023 are projected to reach 12,645,600 units, an 8.4% increase from 2022 when adjusted for selling days.

The Takeaways

Thomas King, president of the data and analytics division at J.D. Power:
“December results cap off the year with a strong performance, illustrated by double-digit year-over-year sales growth and the second-highest consumer expenditure on new vehicles ever recorded for the month. Total sales of just under 15.5 million for 2023, represent a significant increase of 12.8% from 2022, when just 13.7 million vehicles were sold. What's even more noteworthy is that consumer expenditure on new vehicles in 2023 set a record of $578 billion.

This is the third consecutive year in which U.S. consumers spent more than half a trillion dollars buying new vehicles.

Sales growth for December is being enabled by improving vehicle availability and affordability. Retail inventory levels in December are expected to finish around 1.7 million units, a 7.6% increase from last month and 55.1% increase compared with December 2022, but still nearly 40% below pre-pandemic levels.

“As inventory improves, the average new-vehicle retail transaction price is declining. Transaction prices in December are trending towards $46,055, down $1,274—or 2.7%—from December 2022. However, even with the decline in average transaction prices, consumers are on track to spend nearly $50.4 billion on new vehicles this month—the second highest on record for the month of December and 5.1% higher than December 2022.”

Sales to fleet customers are also rising as vehicle availability improves. Fleet sales are projected to increase 13.6% from December 2022, or 9.4% on a non-selling day adjusted basis.

“The increase in new-vehicle supply and higher interest rates are resulting in falling per unit dealer profits, but those profits continue to exceed pre-pandemic levels. The total retailer profit per unit—which includes vehicles gross plus finance and insurance income—is expected to be $2,729 in December. While this is 32.5% lower than a year ago, it is still more than double the amount in December 2019. The primary factor behind the profit decline is the reduced number of vehicles selling above the manufacturer's suggested retail price (MSRP). This month, only 18.9% of new vehicles are projected to be sold above MSRP, which is down from 32.5% in December 2022.”

Total aggregate retailer profit from new-vehicle sales for this month is projected to be $3 billion, down 27.1% from December 2022, but up 103% from December 2019. Total aggregated retailer profit for 2023 is projected to be $42 billion, down 23% from 2022, but still more than double the pre-pandemic level.

"While retailers continue to pre-sell vehicles, rising inventory is enabling more shoppers to buy directly off dealer lots. In December, 35.5% of vehicles are projected to be sold within 10 days of their arrival at the dealership, which is down from the peak of 57% in March 2022. The average time that a new vehicle spends in the dealer's possession before being sold is expected to be 38 days, up 13 days from a year ago, but still less than half the pre-pandemic average of 70 days.

“Manufacturer discounts in December are expected to be up $145 from November and have materially increased from a year ago when incentives were at record lows. The average incentive spend per vehicle has grown 90.7% from December 2022 and is currently on track to reach $2,458. Expressed as a percentage of MSRP, incentive spending is currently at 4.9%, an increase of 2.3 percentage points from December 2022. This month, leasing is expected to account for 21.2% of retail sales, up significantly from 17% in December 2022, but still well below December 2019 when leased vehicles made up 30% of all new-vehicle retail sales.

“Despite falling transaction prices, higher interest rates and reduced trade equity are contributing to the escalation of monthly loan installments. The average monthly finance payment in December is on pace to be $739, up $9 from December 2022. That translates to a

1.1% increase in monthly payments from a year ago. The average interest rate for new-vehicle loans is expected to be 6.9%, an increase of 46 basis points from a year ago.

"Average used-vehicle prices are forecasted to be $29,413 in December, reflecting a 2.6% or $786 decrease to December 2022. However, they remain 28.7% higher than the pre-pandemic level. The decline in used-vehicle values is translating to lower trade-in equity for consumers. The average trade-in equity is trending towards $8,521, down $780 from a year ago. It's important to note that despite this decrease, trade-in equity remains nearly double the amount prior to the pandemic.

"In 2024, retail inventory is expected to keep rising and that increase in supply will lead to moderation in pricing. Additionally, anticipated interest rate cuts will also help affordability. This trend will drive an increase in sales, but at the expense of OEM and retailer per-unit profitability. This tradeoff between increased volume and lower per-unit profit means that total profitability for OEMs and retailers will remain very strong relative to historical levels."

Sales & SAAR Comparison

U.S. New Vehicle	**December 2023[1, 2]**	**November 2023**	**December 2022**
Retail Sales	1,169,037 units (13.1% higher than December 2022)[2]	1,015,944 units	1,073,330 units
Total Sales	1,396,696 units (13.2% higher than December 2022)[2]	1,225,500 units	1,281,492 units
Retail SAAR	13.1 million units	12.3 million units	11.5 million units
Total SAAR	15.4 million units	15.4 million units	13.7 million units

[1] Figures cited for December 2023 are forecasted based on the first 14 selling days of the month.
[2] December 2023 has 26 selling days, one fewer than December 2022.

The Details

- The average new-vehicle retail transaction price in December is expected to reach $46,055, down $1,274 from December 2022. The previous high for any month—$47,329—was set in December 2022.
- Average incentive spending per unit in December is expected to reach $2,458, up from $1,289 in December 2022. Spending as a percentage of the average MSRP is expected to increase to 4.9%, up 2.3 percentage points from December 2022.
- Average incentive spending per unit on trucks/SUVs in December is expected to be $2,645, up $1,346 from a year ago, while the average spending on cars is expected to be $1,880, up $634 from a year ago.
- Retail buyers are on pace to spend $50.4 billion on new vehicles, up $2.4 billion from December 2022.
- Trucks/SUVs are on pace to account for 81% of new-vehicle retail sales in December.
- Fleet sales are expected to total 227,660 units in December, up 13.6% from December 2022 on a selling day adjusted basis. Fleet volume is expected to account for 16.3% of total light-vehicle sales, unchanged from a year ago.

- Average interest rates for new-vehicle loans are expected to increase to 6.9%, 46 basis points higher than a year ago.

EV Outlook

Elizabeth Krear, vice president, electric vehicle practice at J.D. Power:
“With EVs accounting for 9.8% of retail sales thus far in December—up more than a percentage point from 8.5% a year ago—it’s noteworthy that the J.D. Power EV Index factors of consumer interest, availability and affordability are all hitting the highest levels of the year. Nearly one-third (29%) of consumers now say they are ‘very likely’ to consider an EV for their next vehicle, which is the highest level in 16 months. Meanwhile, overall EV affordability has reached parity with gas-powered vehicles, driven largely by state and federal tax incentives and significant price reductions in Tesla’s high-volume Model Y and Model 3. Vehicle availability also has increased significantly—51 models now vs. 43 models a year ago—and many are being offered in lower-priced trim levels.

“EV share of inventory has grown in the past year from 1% to 6% but it’s important to keep this in context. A year ago, new-vehicle shoppers struggled to find many EVs on dealer lots and were paying a premium. Higher inventory levels are helping EV adoption.

“However, the first quarter of 2024 will be one of the most dynamic quarters the EV market has ever seen. Automakers and consumers will grapple with significant new provisions that go into effect from the Inflation Reduction Act, putting pressure on EV affordability. On the product side, Tesla is refreshing the high selling Model 3, but Chevrolet starts 2024 absent its cheapest EVs—the recently discontinued Bolt and Bolt EUV—while it launches more expensive midsize SUV and full-size truck models.

“Also, in January, several new variables go into effect from the Inflation Reduction Act that will affect EV prices. First, consumers will now be able to claim purchase credit (Section 30D) for their qualifying vehicle at point of sale, which can be used as a down payment. Previously, buyers had to wait until filing their taxes the following spring. On the challenging side, more stringent IRA requirements about critical mineral components and sourcing mean that many top-selling models will lose IRA credit on purchase transactions. These models include top selling Tesla Model Y and Model 3, plus Ford Mustang Mach-e and others. Automakers will be forced to react with profit-hurting incentives or face a potentially slower sales pace. Combined with likely pull-ahead demand into Q4 2023, Q1 2024 will be worth watching.”

Global Sales Outlook

Jeff Schuster, group head and executive vice president, automotive at GlobalData:
“Global light-vehicle sales in November were robust and continued the trend the of selling rates above 90 million units. November saw a selling rate of 94 million units and a volume increase of 14% year over year. China continued pace with strong sales that were up 26% from a year ago. Europe and North America had consistent growth, up 12% and 11%, respectively. Korea was a surprise with the selling rate accelerating to 1.8 million units, well above the year-to-date average of 1.7 million units.

"December should finish the year on a high note, with continuing recovery volume and the refilling of sales lost during the pandemic. The selling rate is expected to climb to 95 million units and most markets are expected to grow year over year. China may be a standout, as consumers continue to take advantage of government and industry incentives, plus exports remain robust.

"The current state of the global auto industry is healthy and near-term risks are down slightly from earlier in the year. This year is projected to finish at 89.6 million units, an 11% increase from 2022. In 2024, supply is expected to be sufficient for global demand growth of 3% to 92.3 million units. However, the outlook is not without risks. Most major markets are still dealing with high vehicle prices and there remains risk of recession in North America and Europe. Next year is pivotal for manufacturers and may be the first true test for where natural demand is."

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