J.D. POWER

LMC AUTOMOTIVE

Automotive Forecast November 2019

Nov. 27, 2019

November Sales Boosted by Strong Discounts as Spending Reaches New High

The Retail Sales Forecast

New-vehicle retail sales in November are expected to be up from a year ago, according to a forecast developed jointly by J.D. Power and LMC Automotive. Retail sales are projected to reach 1,182,400 units, a 1.2% increase on a selling day adjusted basis compared with November 2018. Reporting the same numbers without controlling for the number of selling days translates to an increase of 5.2% over last year. (Note: November 2019 contains one additional selling day than November 2018.)

The Total Sales Forecast

Total sales in November are projected to reach 1,444,200 units, which is flat on a selling day adjusted basis compared with November 2018. Reporting the same numbers without controlling for the number of selling days translates to an increase of 4.3% over last year. The seasonally adjusted annualized rate (SAAR) for total sales is expected to be 17.5 million units. This is up slightly from a year ago.

The Takeaway

Thomas King, Senior Vice President of the Data and Analytics Division at J.D. Power: "The industry is expected to show growth in November with the benefit of an additional weekend, but the gains are being accompanied by rising incentives. Strong promotional activity over the holiday weekend is expected to drive spending to the highest level ever." This year's November sales month contains five weekends compared with four last year. With more than 200,000 sales anticipated over the holiday weekend, manufacturers are expected to target the large number of shoppers to help clear out record levels of older model-year vehicles.

Average incentive spending per unit is on pace to reach $4,538, an increase of more than 12% from last year and the first time ever above $4,500. The previous high for the industry was $4,378 set in December 2017. The average APR for finance deals in November is expected to fall to 5.3%, the lowest level since February 2018.

While high inventories of older model-year vehicles is a considerable factor in the year-over-year growth, incentive spending on newer models is expected to eclipse last year. Spending on 2020 model-year vehicles is on pace to reach $3,723, an increase of nearly 13% from a year ago.

Notably, incentive spending on a percentage basis is again growing at a faster rate than transaction prices. Manufacturer incentive spending as a percentage of MSRP in November is on pace to reach 11.1%, exceeding 11% for the first time in more than 10 years.

Transaction prices are expected to remain above $34,000 for the second consecutive month. Average prices for the industry on are pace to reach $34,054, down $179 from last month but up $622 from November 2018.

As a result, consumers will spend $40.3 billion on new vehicles in November. This is up $2.7 billion from last year and marks the fourth time this year that expenditures will exceed $40 billion.

Looking ahead to next month, December presents the last chance for manufacturers to finish the year on a high note. In each of the past four years, December was the highest sales volume month of the year. However, considerable risk of further incentive escalation is possible. “Incentive spending typically rises by 3-4% in December, which would continue to drive overall spending to unprecedented territory,” King said. “This is concerning for the health of the industry when combined with rising sub-prime sales, which are growing at the highest rate since August 2018.”

Sales & SAAR Comparison

J.D. Power and LMC Automotive U.S. Sales and SAAR Comparisons

	November 2019[1]	**October 2019**	**November 2018**
New-Vehicle Retail Sales	1,182,400 units (1.2% higher than November 2018)[2]	1,112,380 units	1,123,683 units
Total Vehicle Sales	1,444,200 units (0.3% higher than November 2018)[2]	1,333,350 units	1,389,266 units
Retail SAAR	13.8 million units	13.8 million units	13.5 million units
Total SAAR	17.5 million units	16.5 million units	17.4 million units

[1]Figures cited for November 2019 are forecasted based on the first 14 selling days of the month.
[2]November 2019 has 26 selling days, one day more than November 2018.

The Details

- The average new-vehicle retail transaction price in November is expected to reach $34,054. The previous high for the month of November, $33,488, was set in 2018.

- Average incentive spending per unit in November is expected to reach $4,538, up from $4,049 last year. The previous record —$4,378—was set in December 2017.
- Incentive spending on cars is expected to be up $454 to $4,185, while spending on trucks/SUVs is up $503 to $4,658.
- Consumers are on pace to spend $40.3 billion on new vehicles in November, up $2.7 billion from last year's level.
- Truck/SUVs account for 72.7% of new-vehicle retail sales through Nov. 17, the highest level ever for the month of November.
- Days to turn, the average number of days a new vehicle sits on a dealer lot before being sold to a retail customer, is 76 days through Nov. 17. This is up 6 days from a year ago.
- Fleet sales are expected to total 261,800 units, down 3.5% from November 2018. Fleet volume is expected to account for 18% of total light-vehicle sales, down from 19% last year.

Outlook for the Year

Jeff Schuster, President, Americas Operations and Global Vehicle Forecasts, LMC Automotive:
"The monthly selling rates for autos have given mixed signals during the second half of 2019, but the overall level remains robust. Volatility has replaced the typically strong selling rate pattern of the last five years. Other factors, such as increasing incentive levels and the ongoing trend of higher transaction prices, are adding to the existing uncertainty around trade. Auto suppliers are feeling even more pressure as inventory corrections and mix adjustments are being managed through a more pronounced slowdown in production levels. North American production is expected to decline nearly 4% to 16.3 million units in 2019. This overall uneasiness is causing a pullback in investment and decision-making, which risks turning into a self-fulfilling recession prophecy."

LMC's forecast for 2019 total light-vehicle sales is holding near 17.1 million units, a decline of 1.4% from 2018. The outlook for retail light-vehicle sales remains at 13.7 million units, a decline of 1.8% from 2018. Looking at 2020, total light-vehicle demand is forecast at 16.8 million units and retail light-vehicle demand is at 13.5 million units, each declining 1.7% from 2019.

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