

SMARTER PERSPECTIVE: AUTOMOTIVE

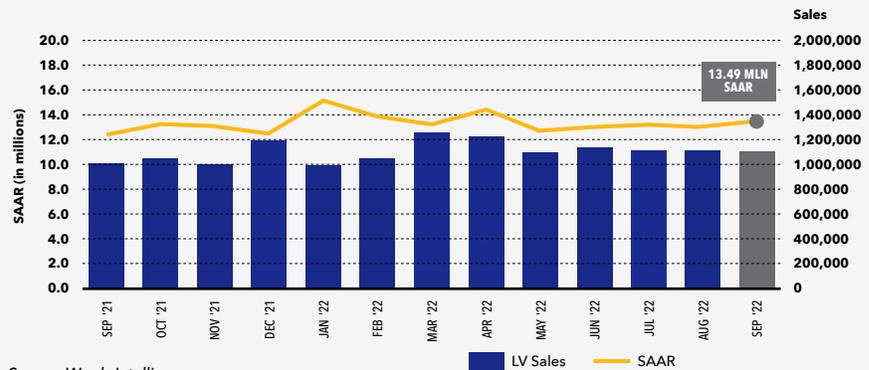
2022 Outlook Falls Below 14 Million Vehicles

By Keith Spacapan

October 14, 2022 The U.S. automotive industry sold 1.1 million new cars and light-duty trucks in September, a seasonally adjusted annual rate (SAAR) of 13.5 million vehicles. At the outset of the pandemic in early 2020, the industry was flush with new vehicle inventory which it lived off of for more than a year while carmakers tried to respond to supply chain challenges precipitated by the global pandemic. By August 2021, retail inventories had sunk below 1 million vehicles, about 25% of pre-pandemic levels, and sales began to suffer.

September 2022 marked the 16th consecutive month in which retail inventory failed to exceed one million vehicles. The industry's monthly sales have languished at around 1 million vehicles for nearly as long. Sales of 1 million vehicles in the dead of winter is the equivalent of more than 15 million vehicles on a seasonally adjusted basis. Encouraged by the resilience of the market, industry analysts at the time were forecasting full year sales in excess of 16 million vehicles. Actual year-to-date sales through September 2022 have been only 10.3 million vehicles, a decrease of 13% from the same period in 2021. At the current sales rate of 1.1 million vehicles monthly, full year sales for 2022 would be only 13.3 million vehicles, a decrease of 10% from 2021. Most industry analysts are currently forecasting full year sales for 2022 between 13.5 to 14.0 million vehicles.

U.S. Light Vehicle Sales



Source: Wards Intelligence

The shortage of semiconductors (chips) at the center of the automotive supply chain challenges is now expected to linger well into 2023, dashing industry expectations for annual sales of 16 million vehicles for at least another year. The industry is slowly making the necessary adjustments and inventory levels are starting to show steady improvement. The concern now is "affordability," because it seems the only thing not up right now are consumers' 401K investments. The cost to borrow is up, the average transaction price for a new car is up, and even the average cost of a gallon of gas is starting to trend back up. After declining for 98 consecutive days, the average price of a gallon of gas recently reversed course in response to the market volatility for oil prices and oil refineries idled for necessary maintenance.

The average transaction price for a new vehicle is now above \$45,000, an increase of 6.3% from September 2021. For comparison purposes, the average transaction price prior to the global pandemic was only about \$35,000. At current interest rates, the average monthly loan payment is now over \$700. It is possible that automakers will offer more healthy incentives to reduce the consumer's burden. With insufficient inventory available to sell, the average incentive is currently only \$1,000 per vehicle, or 2.2% of the average transaction price. Prior to the global pandemic, average incentives were closer to \$4,000 per vehicle or 11.4%. Automakers will no doubt be reluctant to return to such expensive incentives, knowing they are difficult to take back once given, but some relaxation may be necessary in the current environment.

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Finance Cost

5.7% APR
+70 bps QOQ +140 bps YOY

Fuel Cost

\$3.76 per gallon
-\$0.06 MOM +\$0.57 YOY

Inventory

42 days
+2 days MOM +11 days YOY

Incentives

\$1,090 per vehicle
-\$23 MOM -\$1,257 YOY