

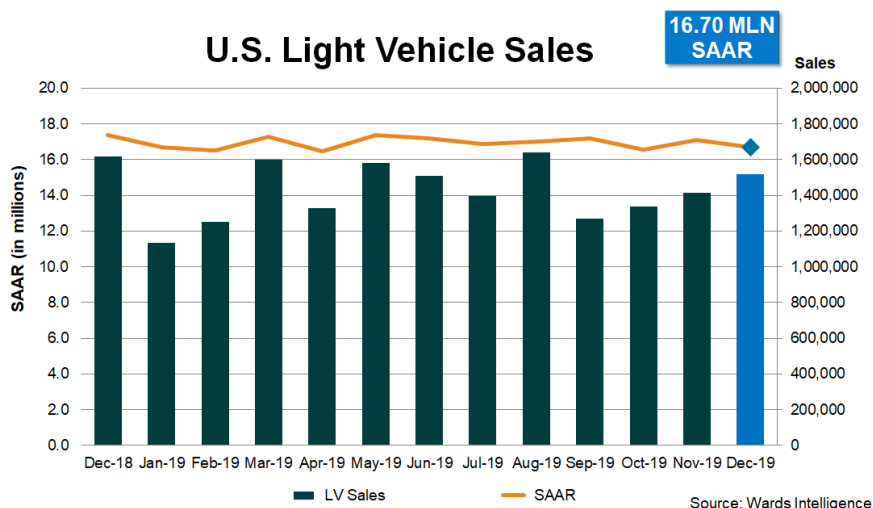
## Smarter Perspective: Automotive Industry

4 Q 2019

### The Sales Streak has been Extended to Five Years

By Keith Spacapan

The United States light-duty new vehicle market has exceeded 17 million units four years running and the general pessimism at the outset of 2019 has waned with each passing month. The market was off 2.4% in the first six months of the year but new vehicle sales exceeded a seasonally adjusted annual rate (SAAR) of 17 million vehicles during three of those months, providing some hope of extending the sales streak. There were 17,318,961 new vehicles delivered in 2018. And, after losing 212,382 vehicles in the first nine months of 2019, the industry could ill afford further losses in excess of 100,000 additional vehicles over the balance of the year, without running the risk of falling below the threshold of 17 million vehicles for the first time in five years.



The fourth quarter did not start on a positive note. Despite one additional selling day in October, the industry lost an additional 27,000 vehicles as compared to 2018 and the margin for further losses continued to shrink. The industry was to be given another chance to redeem itself in November, again aided by an additional selling day, as well as an additional selling weekend. This time sales responded positively, but optimism was muted knowing the additional selling day/weekend would be given back in December. Once all the invoices were counted for the year, it was confirmed, 2019 was to be the fifth year running that United States light-duty vehicle sales exceed 17 million vehicles.

For most manufacturers, sales demand for trucks (pick-ups, crossovers, and sport utility vehicles) was the basis for success. Light-duty trucks now represent more than 70% of total new vehicle sales pushing average transaction prices to record levels. But vehicle affordability has now replaced interest rates as the top concern for potential buyers. To combat the affordability issue, manufacturers are throwing money at the problem. Overall, incentive spending as a percentage of MSRP remains close to 11 percent, the highest level since the great recession.

In the wake of last year's surprising sales performance, industry analysts are hesitant to bet against the market. At the outset of 2019, the consensus forecast among industry analysts fell short of 17 million units. The final count for 2019 was 17,108,156 light-duty vehicles. Going forward, trade risk and vehicle affordability remain top concerns but for many analysts, the possibility of a recession is still at least a year away. If the labor market remains strong, which is one sign of a healthy economy, some analysts believe consumers will continue to support a 17 million unit market.

#### Finance Cost

5.4% APR  
-10 bp MOM  
-50 bp YOY

#### Fuel Cost

\$2.59 per gallon  
+\$.02 MOM  
+\$.35 YOY

#### Inventory

58 days  
-11 days MOM  
-4 days YOY

#### Incentives

\$3,944 per vehicle  
-\$188 MOM  
+\$138 YOY