



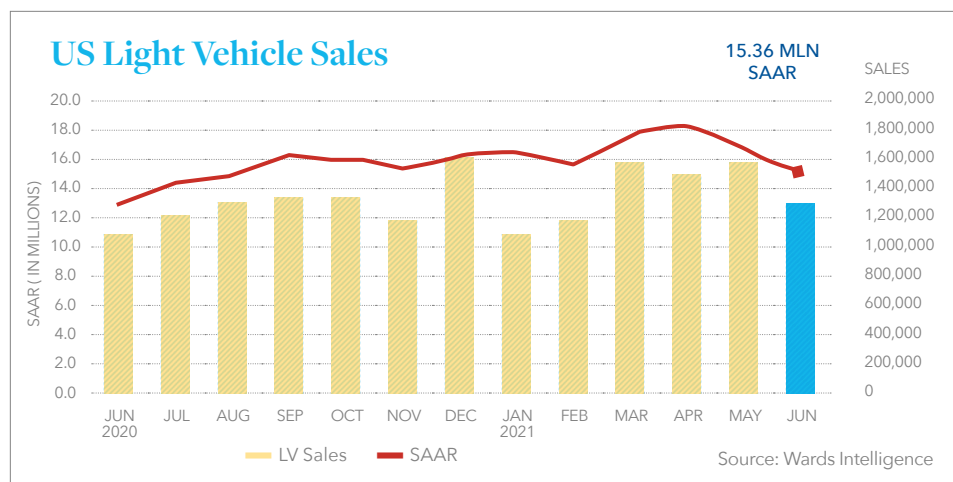
SMARTER PERSPECTIVE: AUTOMOTIVE INDUSTRY

# Weight of Chip Shortage Reaches Tipping Point

By Keith Spacapan

**July 23, 2021**— Sales momentum late in the first quarter carried over into the second. The seasonally adjusted annualized rate of sales (SAAR) for light-duty vehicles reached 18.5 million vehicles in April 2021, an all-time record for the month. For the time being at least, the highly reliable spring bounce from tax refund season, coupled with a new round of COVID-19 stimulus checks, was more than enough to avoid the impact of falling inventories. In the shadow of April's results, a SAAR of 17.1 million in May seems like a bit of a letdown but it did mark the third month in a row that annual sales velocity exceeded 17 million vehicles. Unfortunately, the downside of three straight months of strong sales demand for an industry that is struggling to maintain production is dangerously low inventory levels. Without sufficient inventory to support sales, the SAAR tumbled back to 15.4 million vehicles in the month of June.

At the outset of the second quarter, there were only 2.4 million new vehicles on dealer lots, a 39 days' supply at then-current sales levels. Americans traditionally buy new vehicles from dealer inventory as opposed to ordering from the factory, partly due to the wait time as well as the financial incentives. The industry accepted ideal inventory level is a 65-day supply; higher inventory levels can lead to profit-



sucking discounts while lower inventory levels can result in lost sales. Dealer inventory at the start of June was well below 2.0 million vehicles which may have been the tipping point.

AutoForecast Solutions estimates chip-related assembly line shutdowns and slowdowns have cut global production by about 4.5 million vehicles, 1.5 million in North America alone. Without adequate replenishment, average dealer inventory had sunk to a 27-day supply by the end of June. For some of the vehicle segments, average day supply was under two weeks. To paraphrase one dealer, a year ago they had a full lot of cars and hardly any customers. Now they have a lot full of customers and hardly any cars. Dealer inventory levels have now reached their lowest

point since October 2009 and dealers are reporting that in the absence of the usual holiday promotions, showroom traffic was noticeably lower leading up to the July 4th weekend. Along with the global health pandemic, the chip crisis continues to linger longer than expected. Additionally, there is some concern that there will not be enough labor to support growth or that yet another coronavirus variant could lead to more lockdowns. After increasing their full-year 2021 forecasts in the first quarter, most economists are sticking with their current position (16.5-16.9 million) until they know more.

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**Finance Cost**

4.6% APR  
+10 bp QOQ  
+40 bp YOY

**Fuel Cost**

\$3.13 per gallon  
+\$0.08 MOM  
+\$0.94 YOY

**Inventory**

27 days  
+2 day MOM  
-32 days YOY

**Incentives**

\$2,751 per vehicle  
-\$304 QOQ  
-\$1,325 YOY