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Asset Smarter

SMARTER PERSPECTIVE: AUTOMOTIVE

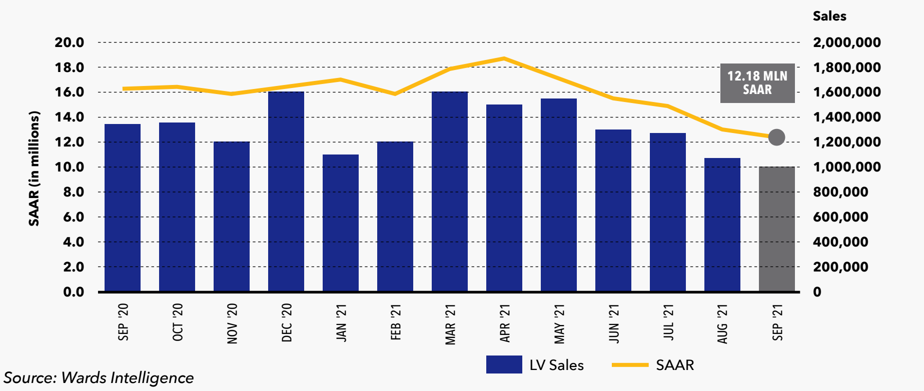
Since When has Too Little Inventory Been a Problem?

By Keith Spacapan

When has having too little inventory ever been a problem for the U.S. automotive industry? For years, the industry has struggled to balance capacity with demand. Historically, manufacturers kept assembly plants churning out the metal in order to offset fixed costs and then rely on sales incentives to clear the excess inventory. However, when the stay at home orders were put in place in March 2019 the manufacturers had no choice. Initially, idling assembly plants was not a problem because the vehicle dealerships were shuttered as well. But as the economy began to open, the task of re-booting vehicle production proved problematic. The industry's much vaunted just-in-time supply chain, which was an asset during "normal" times, turned out to be a liability in this "new normal."

Most of the blame is being heaped on the lack of microchips; those tiny digital brains that are at the heart of most everything these days. But there is plenty of blame to spread around. There has been a shortage of commercial truck drivers, a shortage of sea containers, a shortage of magnesium, a shortage of port facilities, and a shortage of railyard terminals. At times, even mother nature was to blame. LMC Automotive analysts said automakers worldwide have lost 6.8 million units of vehicle production so far in 2021 and that could rise to 9.4 million before the end of the year. Due to lost production, U.S. retail inventory has fallen below one million vehicles by the end September, which is 1.4 million fewer new vehicles than September 2020, and 2.5 million fewer than in September 2019. At the current sales volume, September 2021 U.S. retail inventory is only a 30-day supply, a level well below the industry standard 65-day supply.

U.S. Light Vehicle Sales



Source: Wards Intelligence

With insufficient inventory to support sales, U.S. light-duty vehicles sales fell 25 percent in September 2021 to just under 1 million units. That is the lowest tally for the month of September since 2010, when the industry was still in the grips of the Great Recession. There have only been three occasions in the last ten years that monthly sales failed to exceed one million light-duty vehicles. In terms of a seasonally adjusted annualized rate, September sales equate to only 12.1 million vehicles. That marks the fifth straight month the SAAR had declined from its peak of 18.5 million units in April 2021. With the September sales drop, third-quarter volume will have dropped a total of 14 percent from the third-quarter of 2020 and 22 percent from the third quarter of 2019. At the outset of the quarter, plenty of industry insiders were still predicting industry sales of 16.5 million vehicles in 2021. The rapid slowdown in industry sales since then is forcing analysts to reconsider. Industry analysts are now forecasting 2021 U.S. sales between 15.0 million and 15.5 million vehicles.

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Finance Cost	**Fuel Cost**	**Inventory**	**Incentives**
4..4% APR	$3.28 per gallon	30 days	$2,236 per vehicle
–20 bps QQQ –20 bps YOY	+$0.10 MOM +$1.11 YOY	+1 day MOM –27 days YOY	–$186 QQQ –$1,792 YOY