

SMARTER PERSPECTIVE: AUTOMOTIVE

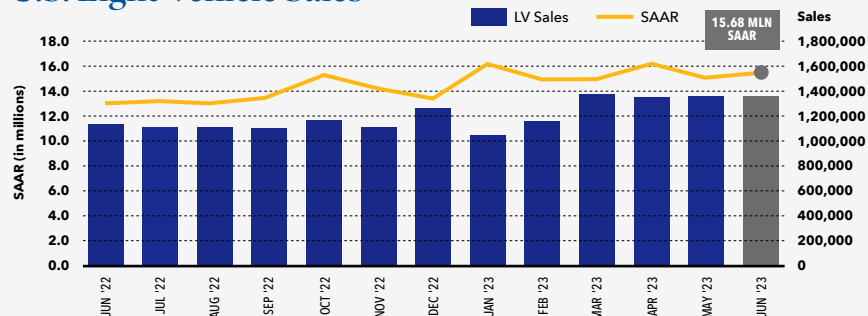
Growing Concerns Over Vehicle Affordability

By Keith Spacapan

In 2022, a seasonally adjusted annualized rate (SAAR) of 15 million for U.S. light-duty vehicles was a threshold the industry only managed to cross on two occasions. In fact, based on its inability to keep up with demand due to a lack of semiconductors, the SAAR, for most months, failed to come within one million units of that threshold. Full-year 2022 sales of light-duty vehicles ended at 13.9 million units, down 8% from 2021. In contrast, thus far in 2023, the U.S. automotive industry has rarely dipped below a 15 million SAAR before bouncing its way back to a SAAR of nearly 16 million vehicles. In June 2023, the industry completed the second quarter at a SAAR of 15.8 million vehicles annually. Most industry analysts are now anticipating U.S. sales of light-duty vehicles in 2023 to fall between 15.0 million and 15.5 million vehicles. If not for concerns about continued political unrest in Europe, a faltering global economy, and the rising cost of financing a vehicle, analyst estimates would likely be higher.

Most supply chain managers in the automotive industry are still likely suffering from sleep deprivation, but the lack of semiconductors is no longer the bottleneck it once was. According to the Cox Automotive dealer sentiment index, an uncertain economy and vehicle affordability are the top two business concerns on the minds of car dealers. To fight inflation, the central bank has raised its interbank federal funds

U.S. Light Vehicle Sales



Source: Wards Intelligence

rate 5 percentage points since March 2022, reaching the highest level since just before the start of the 2007-2009 recession. As a result, the average annual percentage rate (APR) on new car loans was 7.1% in the second quarter of 2023, as compared with 5.0% in the second quarter of 2022. In addition, according to Edmunds' market research, the average amount financed in the second quarter remained above \$40,000 for the fifth straight quarter. Vehicle availability has improved since semiconductors became more widely available, but vehicle affordability is now a very real concern. 2022 was the year of supply chain shortages, and with the inability of many Americans to afford the costs associated with purchasing a new vehicle, Randy Parker, CEO of Hyundai Motor America, recently referred to 2023 as "the year of affordability."

In response to the Great Recession, the federal government established the

Car Allowance Rebate System (CARS), more affectionately known as "Cash for Clunkers," because it gave participants up to \$4,500 to trade in an older model vehicle for a new one. The federal government already has a number of programs in place to incentivize consumers and subsidize manufacturers to modernize the U.S. vehicle fleet. The CARS program was a bit rushed at the time, and there were resulting problems, but it is credited with spurring sales and retiring some of the worst gas-guzzling, air-polluting vehicles on our highways. Now would be a good time to roll out a CARS-type program as part of the federal government's larger efforts to modernize the automotive industry and to protect against another Great Recession. An argument can be made that in light of the speed of technology, such a program should be a part of an ongoing effort to retire a limited number of older vehicles every year in order to maintain a healthy, modern vehicle fleet.

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Finance Cost

7.1% APR
+10 bps QOQ +210 bps YOY

Fuel Cost

\$3.50 per gallon
-\$0.01 MOM -\$1.29 YOY

Inventory

53 days
-2 day MOM +15 days YOY

Incentives

\$1,798 per vehicle
+\$10 MOM +\$880 YOY