

Five Factors Holding Back US Light Vehicle Sales

Contributed by Euromonitor International
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US light vehicle sales were decimated as a result of the financial crisis, falling to a trough of just 10.4 million units in 2009, some 40% lower than the peak of more than 17.3 million units in 2000.

Sales steadily recovered in 2010 and 2011 and there is much positivity as demand could hit 14.5 million units in 2012.

However, a fall in the unemployment rate means that the economically active population is at record levels, so why do sales remain so subdued by historical

Firstly, the Consumer Confidence Index in the US may be rising but remains below 80, while it was rarely so low prior to 2008. Secondly, the unemployment rate is projected to fall to 8% in 2012, but prior to the crisis the last time unemployment was this high was back in 1983. Thirdly, inventory was hurt by last year's tsunami and is only now fully recovering. Fourthly, manufacturers so far are showing restraint with regard to the generous consumer incentives they were offering for most of the last decade until the economic meltdown.

Finally, a major shift which has occurred as a result of the economic recession is that US consumers are now prioritising the need to live within their means and are tending to acquire new credit only for larger, specific purchases, according to credit data from the national credit bureau Trans Union LLC. Furthermore, credit standards have been tightened for auto lending, as they have been for other types of loans, with the most risky consumers not qualifying.

Unlike the housing market, car prices in the US have remained relatively high throughout the economic downturn as consumers have held on to their cars for longer and have delayed upgrading to newer models in order to conserve their dwindling financial resources, but also because production was slashed and inventory eventually dried up.

These higher prices serve as a boost for the country's banks as they dominate auto lending for used cars, while the financing arms of car manufacturers and franchised dealer networks typically control auto lending for new cars. In fact, auto lending was one of the only bright spots for banks in light of the mortgage crisis and general tightening of credit during the recession in the US as many consumers opted for used cars instead of new cars.

Since auto lending remains one of the only areas in which US lending banks were able to continue to expand during 2010 and 2011, many auto lenders extended as many loans as possible to car buyers and car dealers, which drove down lending rates and made auto lending less profitable overall for all lenders during 2011.

In conjunction with falling unemployment, rising confidence and increased inventories, low lending rates are driving the recovery in US light vehicle sales. However, consumer confidence and unemployment levels are still on the road to recovery and the more cautious attitudes of US consumers towards debt will not change overnight.

Euromonitor International forecasts that auto lending will not recover to previous high levels until 2014, and despite the growing size of the economically active population, US light vehicle sales are unlikely to set any new records until at least 2015.

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