National Vehicle Transporters Alliance

How Low Will It Go: Car Sales and Production

Limbo anyone? Whether it was at a summer camp, birthday party, or on the beach during an exotic vacation, chances are we all have played limbo. The common refrain during a rousing rendition of limbo is, “How low can you go?” Hopefully this question sparks a fond memory, because we now find ourselves asking that same question, but with more dire consequences than simply falling to the laughter of family and friends. The most recent new vehicle SAAR (seasonally adjusted annual rate) report was released last week, and it sparked the limbo reference as everyone is wondering, “How low will it go?”

In August, there were 1.1 million cars and light duty trucks sold throughout the U.S., which represents a 15% decline in sales from just the prior month of July, and 17% less than August 2020[1]. August 2021 SAAR was 13.1 million, resulting in the fourth consecutive month of decline of this key measurement of new vehicle sales. While our current circumstances are often characterized as “unprecedented times,” a deeper review of the data shows that we have been here before:

- In addition to this last four-month stretch, since April 1976 there have been seven other instances in which SAAR declined four straight months in a row
- SAAR declined seven months in a row from October 2007 to April 2008 and again six months in a row from September 2008 to February 2009
- Outside of the COVID-impacted months of March 2020 to May 2021, this month’s SAAR is the lowest since September 2011

When we see references to 2008, we are instantly reminded of the events that were occurring at that time. The economic crisis of 2008 had severe impacts on the auto industry but they also greatly impacted every other industry. So, in those instances, the auto industry wasn’t alone. Although most industries that rely on computer chips are impacted in some way by the most recent phenomenon, none are being impacted to the extent of the auto industry. With SAAR now at its lowest non-COVID level in 20 years, the question has to be asked, “have we reached the bottom?” To adequately answer that question, let’s look at how some of the major OEMs are fairing.

Despite the drop in overall sales month over month, some manufactures are doing better than others. Last month, Tesla sales increased by nearly 22%, with over 23,000 units sold. Other OEMs that increased their sales include BMW (+12.5%), Mazda (+4.5%), Volvo (+3.0%), and Hyundai (+2.4%).

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[1] Marklines Auto Industry Report for August 2021

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Unfortunately, the good news stops there as most other OEMs realized declining sales due to low inventory and production stoppages. The largest decreases were incurred by the Detroit 3... It is estimated that GM sales decreased by 38.6%, Ford by 33.2%, and Stellantis (formerly FCA) by 19.5%. The various supply chain shortages appear to be having a greater impact on the domestic OEMs as their year-over-year (YOY) sales are underperforming as compared to their foreign counterparts. Sales by the Korean OEMs are up roughly 3% (YOY) and the European and Japanese OEMs saw a slight downtick in (YOY) sales by 1% and 5% respectively. On the flip side, the domestic manufactures sales are down 29% from last year[2]. However, comparisons to last year, which was affected by COVID-19, do not tell an accurate story.

As we return to our limbo question, regrettably it appears that we are poised to go lower. Within the last few weeks reductions in production or plant shutdowns were announced across the industry. Most recently, GM announced that it would idle nearly all of its plants in North America for at least two weeks[3]. This comes on the heels of other production announcements from Toyota, Nissan, and Honda. All of these production reductions can trace their roots to the on-going chip shortage. So, until the chip crisis subsides, we will continue the current trend that we are on of declining new vehicle sales.

COVID-19 surges in Malaysia have contributed to the global chip crisis. Malaysia is home to some of the world's largest semiconductor chip suppliers and factories. "The country accounts for 13% of global chip assembly testing and packaging, and 7% of the world's semiconductor trade passes through Malaysia, undergoing some added value at local factories or getting combined with other parts before being shipped."[4] As Malaysia and other key countries continue to combat COVID-19 cases, the hope is that by the end of the year we will begin to see some stabilization in the global chip market. If that happens, the roller coaster we are on will finally start to go up. Until then, hold on to your seats and work to reduce costs where possible.

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[2] Bank of America Global Research (9/1/21)
[3] Detroit Free Press (9/2/21)
[4] Reuters (8/26/21)