

Automotive Demand Outlook Remains Stable

Demand Index Inches Up M/M

BLUF (Bottom Line Up Front): The NCM automotive index improved again in the most recent data, and it remained above the long-term average. The index came in at 63.0, up 0.6% from last month. There is a caveat with this month's index. The conflict in the Middle East will begin to have a more material impact on consumer spending if it continues for another 60 days. It could kill the second half of the year. The index measures demand over the next 6 months but is subject to change under heavy Black Swan influences like this conflict.

Economic Conditions:

- **Economic Activity Show Consumers Remain Resilient.** The Bureau of Economic Analysis confirmed Q1 2026 real GDP growth at 2.0% annualized, above Q4 2025's weak 0.5% reading and ahead of many economist expectations. Q2 advanced readings have it as high as 3.8%, being driven heavily by consumer spending, nonresidential investment (data centers, power generation, etc.), and inventory building activity. Consumer spending is still the primary driver. This is a meaningful positive for discretionary retail categories including powersports sales, as it confirms that the household sector is not contracting yet despite tariff and geopolitical uncertainty. The forward risk, however, is real: tariff-related cost increases and shortages of supply are still working through the supply chain, and their full impact on household budgets will be more visible in Q2 and Q3 data.
- **The Used Vehicle Market Is Sending a Counterintuitive Signal — And It's Important.** While new vehicle demand softens, used vehicle sales have done well. The mid-May 2026 Manheim reading of 208.2 (its highest point since October 2023) was up 2.7% month-over-month and 4.9% year-over-year. Buyers who cannot afford a \$52,000 new vehicle are driving meaningful demand into the \$28,000–\$38,000 used segment. Consumer inflation-adjusted discretionary income was down 1.1% Y/Y through April, which will continue to keep shoppers value-focused for now.
- **Looking for the Next Demand Catalyst, And It Could Be “Slow and Steady”.** There would be nothing wrong with “slow and steady” on the sales front given the volatility of the past year. And that could be where market conditions are headed. The tax refund “sugar high” for the market is fading and the US economy really doesn't have another stimulus in the offing. However, if there is a resolution in the Strait of Hormuz, the Fed could move on interest rates (inflation tied to oil prices eases, supply-side conditions improve, the bond market settles down, and the Fed may have headroom to move). Until then, we need a new demand catalyst, otherwise “slow and steady” could be the best condition to hope for.

Risks Creating Headwinds for Vehicle Sales:

- **The DRAM Chip Shortage: Is it the Biggest Supply Risk?** The 2021–2022 semiconductor shortage cost automakers more than 11 million lost production units and reshaped the industry's inventory dynamics for three years. A structurally similar risk is now forming in DRAM chips, the dynamic random-access memory that powers driver assistance systems, premium infotainment, and connected vehicle features. AI data center demand is consuming DRAM fab capacity at an accelerating rate, and chip manufacturers are prioritizing higher-margin DDR5 products for AI applications over the DDR4 chips used in most current automotive platforms. DRAM prices have already increased over 100%, and analysts project prices could rise another 70–100% in 2026 versus 2025 levels. OEMs of varying brands have already placed the impact at more than \$1 billion in additional costs. If the 2021 playbook repeats, OEMs will manage allocations internally for months before making downstream acknowledgment. The early signal to watch: rising backorder depth on models with ADAS and premium infotainment packages. That pattern, if it emerges in Q3 allocation data, is the first visible indicator of a crunch that could tighten supply meaningfully by late 2026 or early 2027.
- **Are Mexico Parts Tariffs Creating a Shadow Inventory Problem?** Mexico supplies approximately 40% of U.S. auto parts by value. The real exposure sits in the Tier 2 and Tier 3 supply chain: component suppliers using Chinese or Asian inputs that cannot meet USMCA's 75% regional content threshold face the full 25% tariff on those components. OEMs are managing the constraint through trim allocation adjustments. The signal usually looks like: “temporarily unavailable” package or trim codes in allocation systems are frequently really a non-compliant parts constraint. Inventory that looks available on paper may be constrained in ways that won't become visible until well into the Q3 production cycle.

Conclusions:

1. The NCM Automotive Demand Index at 63.0 reflects above-average demand in historical terms, supported by an economy that has not contracted and a consumer base that, at the upper-income end, remains active.
2. The index reading is real. But the caveats attached to it are equally real: eight consecutive months of year-over-year SAAR declines, the Q1 tax refund tailwind now fully expired, real disposable income contracting at -1.1.
3. Three supply-side risks: Mexico parts tariff constraints affecting trim allocation systems, the EU tariff escalation to 25% on luxury European imports, and the emerging DRAM chip shortage — are each capable of tightening inventory.

Related Macro Items We are Watching:

1. **Demographics Never More Important?** Demographic trends may have never played a bigger role in shaping consumer purchasing than what we see now across the discretionary retail level (all NCM segments except farm equipment). It creates great opportunities, challenges, and is critical in understanding how to market into it. Here are just a few of the big, cyclical changes coming from demographic factors:
 - A. Retiring Baby Boomers (10,000 a day) will see more than 23 million hit retirement age by 2031. Many will retire, and will be looking for new hobbies, travel, and outdoor activities. And they are retiring as one of the wealthiest generations in history.
 - B. Gen X and Millennials are starting to get unprecedented “wealth benefits” as estates transfer to them (\$38T globally over the next decade). Many of those households will go from average or above average household incomes to having access to 7-figure lump-sum funds. Many will upgrade old equipment or purchase their first discretionary big-ticket item.
 - C. Boomers, X-ers, and older Millennials are also seeing the benefits of years of 401K building activity and can now tap savings for discretionary spending (because they have the 401K to fall back on for retirement). Many X-ers are retiring early as a result (at a younger age) and have much discretionary income to work with. That is especially the case for a Gen X family that inherits from a Boomer.
 - D. New generations (Alpha and Beta) are a concern because they are more “screen oriented” but have recently shown some interest in outdoor activity.

NCM Automotive Demand Index

Briefing Date: May 2026

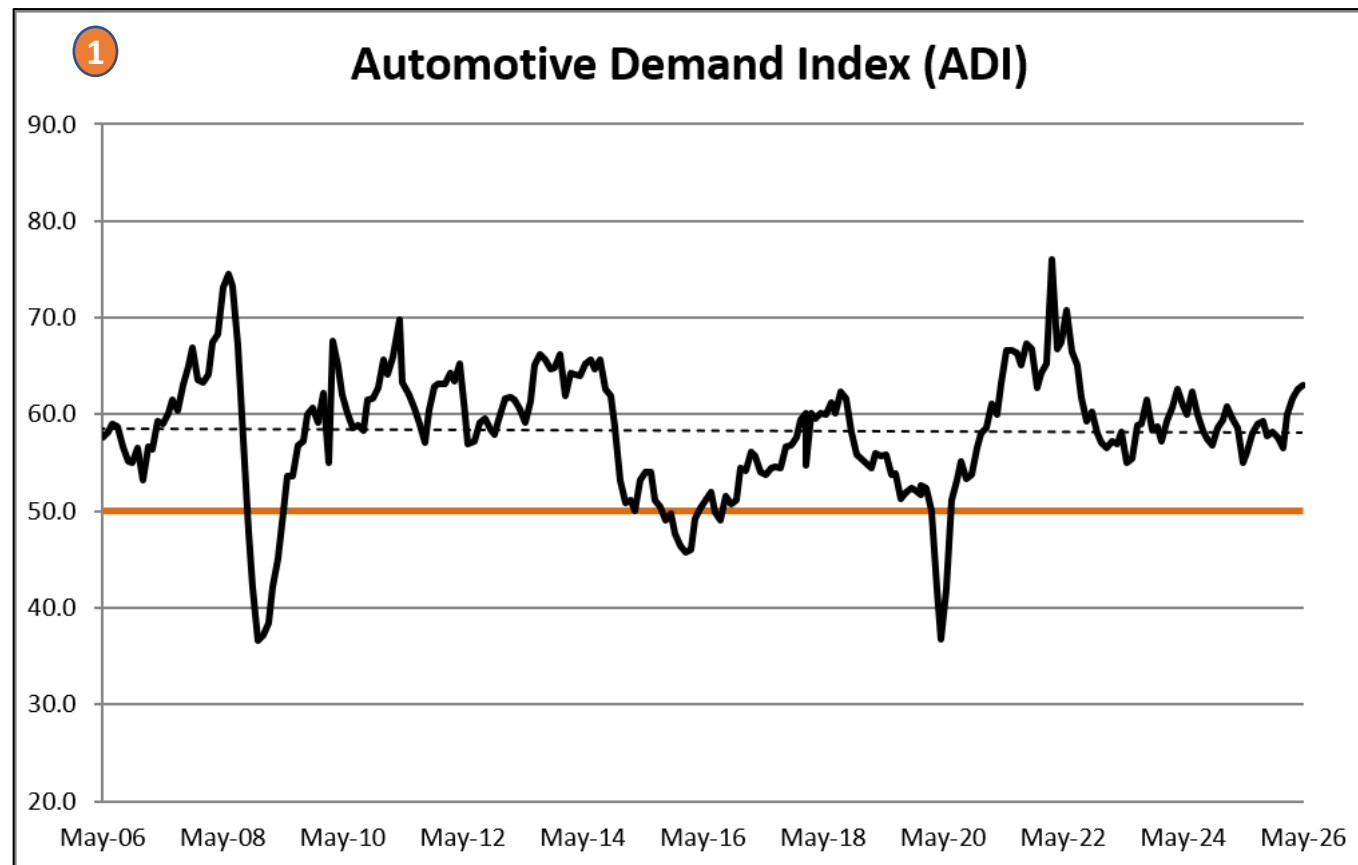
Key Index Remains Resilient Despite Headwinds

BLUF (Bottom Line Up Front): the NCM Automotive Demand Index (ADI) was higher in the latest reading. The current index (at 63.0) was showing vehicle demand staying above the long-term average of 57.4 points, and ahead of last year's levels. This index measures demand, based on economic metrics that generally drive consumer spending and the need for new vehicles over the next six months. We expect the index to improve in the coming months as new consumer spending activity, but much of it will hinge on ending the conflict and resumption of the free-flow of ships through the Strait of Hormuz.

NCM ADI:	
• April	63.0
• March	62.6
• February	61.6
• January	60.0
• December	56.6
• November	57.6

Primary Impacts on the Automotive Sector:

- 1 ADI Comes in at 63.0.** The NCM ADI came in at 63.0, up 0.6% M/M vs. 62.6 last month. The index was 14.5% higher than it was last year at this time (against the heavy reciprocal tariff announcement month last year). It is still above the 20-year trendline illustrated by the dotted line in the chart at right. Said another way, and relative to prior periods, demand remains "better" over the next six months.
- 2 Inventories and Sales Mixed.** Inventory data lags by a month, but new sales data has been released. Light weight vehicle sales were trending at 15.9 million units (annual rate) in April (latest available), this was 1.5% higher M/M from March but was 7.1% lower Y/Y (8.7% lower in the last report). The inventory to sales ratio was 20.7% higher Y/Y (8.2% lower in the last report) and is now above the long-term trend (orange line in the graph below right). Historically, it is still 57.1% lower than levels prior to the pandemic (27.7% last month). Inventories have moved upward, but supply chain challenges tied to the Strait of Hormuz could have a lasting effect on the ability for OEMs to continue to meet unit demand.
- 3 What is Pulling on the ADI?** The ADI uses 18 different economic metrics to gauge consumer demand, and several factors were pushing or pulling on it this month. This month's optimistic index reading comes with many caveats. It assumes that the conflict in the Middle East comes to a resolution before the end of July.



	Apr-26	Mar-26	Apr-25	Y/Y Change %	M/M Change %
Composite	63.0	62.6	55.0	14.5%	0.6%

Looking Forward:

- Areas Under Focus for 2026.** The following are areas that will largely shape this year.
 - Supply Chain Disruptions Still Loom.** As mentioned, many dealers are now sitting on ample inventory with many facing severe overstocks in some categories. This inventory buffer could be a good thing for now; the global supply chain is still going through a shock of sorts as the Strait of Hormuz remains closed. More than 50% of the global supply of petrochemicals used in plastics manufacturing is in short supply or has faced price surges in the past 60 days. At some point, this and semiconductor shortages will play a role in tightening available inventories for vehicles.
 - The EU Auto Tariff Threat: Active, But Resolution Is Now Likely Before July 4.** On May 1, 2026, President Trump announced a tariff increase on EU-imported automobiles and trucks from 15% to 25%, citing the EU's failure to ratify its end of the August 2025 Turnberry trade agreement. However, on May 20, EU lawmakers reached a provisional agreement to accelerate ratification, with a final vote now expected in mid-June, ahead of Trump's July 4 deadline. Analysts at UBS and Bernstein both project a favorable resolution before the 25% rate takes effect, though UBS flagged some near-term reduction in EU auto imports in Q2 as manufacturers manage uncertainty.

