Briefing Date: June 2025

Automotive Demand Softens

Demand Index Slips 7.1% Y/Y

BLUF (Bottom Line Up Front): The NCM automotive index softened again in April/May, and it slipped just below the long-term average. The index came in at 56.2, down 2.4 points from 58.6 in March. This is still historically a stable reading. As mentioned last month, there is much at hand in the next few months. Consumer sentiment was improving at the time of writing and a number of trade deals were on tap that could help boost spending and hiring.

Economic Conditions:

- **Q2 GDP Surges** – The current trend for second quarter GDP is much hotter than expected. The Atlanta Fed is showing the GDPNow estimate at 3.8%, much higher than Blue Chip Economist estimates for 1%. Consumer spending and commercial investment was leading the surge. This runs contrary to general sentiment and concerns over potential recession risk. Most of the outlook has now turned, and it would accelerate if the budget bill is passed and the remaining 17 trade agreements are signed before July 7th. The risk of economic slowing is still possible; the environment is still highly volatile and is being buffeted by key factors that can affect economic growth (both positive and negative). But for now, the overall economic signals are good for big ticket item purchases.

- **Consumers Not Sure How to React to Tariff Risk?** – Last issue we looked at the consumer reaction to the tariff risk and made some assumptions. It has been expected that higher tariffs would trigger higher prices for vehicles and there have been some moves in that direction, but they have not been universal. It was also expected the consumer would rush to buy but there has been a little less of this desperation buying than anticipated. Many automakers stockpiled parts (and cars) and still have plenty of inventory as they assure buyers they are keeping prices steady.

- **Varied Strategies to Deal With Tariffs –** It has been very hard to establish any kind of strategy around tariffs as they are still being used as negotiating tools. The initial tariff is often more of a threat to get attention and then talks start. There have been dozens of adjustments and delays and that makes planning awkward. Some OEMs have already announced price hikes while others assert they will not hike. Those that make their vehicles in the US have been touting this even as they import significant portions of the vehicle. The consumer is justifiably confused.

- **What Will Motivate Car Buying Now? –** There are any number of factors that go into buying a new (or used) vehicle and it changes with the level of income. Those in the upper third of earners are not all that sensitive to price (or even loan costs) while those in the bottom third are extremely concerned. Sales of higher end vehicles have been holding steady but low-priced options are sitting on the lot. The middle third of earners will buy as long as they feel secure in their job. Right now, the biggest motivation seems to be a desire to beat an expected price hike and that has affected demand for imports.

Risks Creating Headwinds for Vehicle Sales:

- **Three Headwinds for the Next Quarter –** The first is still tariff worry. Every time there is a threat of a tariff hike there is a wave of concern followed by extreme skepticism as it is assumed this is only one round of many. The consumer is struggling to keep current with the latest twists and turns and that inhibits long term decision making. It has become difficult to determine what the pricing strategies are. The second headwind revolves around income. The upper income buyer is watching the markets as this is where the bulk of their income has been originating. Some weeks they are ahead and other weeks they are behind. This has been affecting demand for higher end purchases such as houses and vehicles. The third headwind affects the middle-income earner – job stability. Thus far employment numbers have remained stable, and they remain low but there are more companies discussing layoffs as their sales numbers droop. The wave of government layoffs have been contested but those jobs lost are in that middle income layer.

- **Credit Issues –** Thus far there has been some stability as far as credit is concerned. There have been no surges in foreclosures, but auto loans have been seeing higher levels of default. Millions of potential car buyers are now contending with making high loan payments on student debt, and credit card payment pressures have also mounted.

Conclusions:

1. Automotive demand showed a temporary easing – but sales remained reasonably strong through April. Early data from May was showing some softening.

2. Consumer confidence has started to inch up in recent weeks.

3. There is little desire on the part of the Federal Reserve to reduce rates as they are still mostly worried about inflation. If there is a major dip in the US GDP growth rates there may be movement downward by year's end. Inflation is expected to increase in the coming weeks as some tariff pressure starts to show.

Related Macro Items We are Watching:

1. **The Whiplash Shockwaves.** Across all NCM sectors, each have (and will) go through a similar set of significant shockwaves this year. The first shockwave hit in the first quarter when consumers and businesses were trying to get ahead of a potential port strike and tariffs (which at the time looked tame compared to the reciprocal tariffs).

   From April 2nd through the present, reciprocal tariff fears (even after they were reduced for most countries to 10% for 90 days) led to a drop in consumer and corporate sentiment. It affected some sectors in an unexpected way, many consumers jumped out to try and make big ticket purchases before tariffs hit. But there was also an economic headwind created in the process.

   Economic data could show some soft pockets over the next 30 – 60 days, despite most indexes showing an improving 6-month outlook.

   But by July, if specific scenarios play out as expected, the second half of the year could be set for rapid growth. The budget deal is expected to be completed by early July (if it isn't, there will be a completely different set of expectations set for the remainder of the year and 2026 outlook). In the bill are provisions that would stimulate construction, manufacturing, and infrastructure buildout. Most households would see a continuation of current tax benefits, so there would be no real surge in consumer spending tied to that. But the fear of a tax hike would go away.

   In addition, 17 more large trade agreements could be signed by then, boosting US exports by potentially $350 billion a year. That could create a better 2H of '25 and a better outlook for '26.

NCM Automotive Demand Index

Dips on Uncertainty

Briefing Date: June 2025

BLUF (Bottom Line Up Front): the **NCM Automotive Demand Index (ADI) fell in the latest reading.** The current index (at 56.2) was showing vehicle demand now running behind the long-term average of 57.4 points, and it remains below 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. This report's data and the industry was going through tremendous volatility early in Q2. We would expect conditions to improve sharply in the June report which will be issued at the end of the month.

NCM ADI:

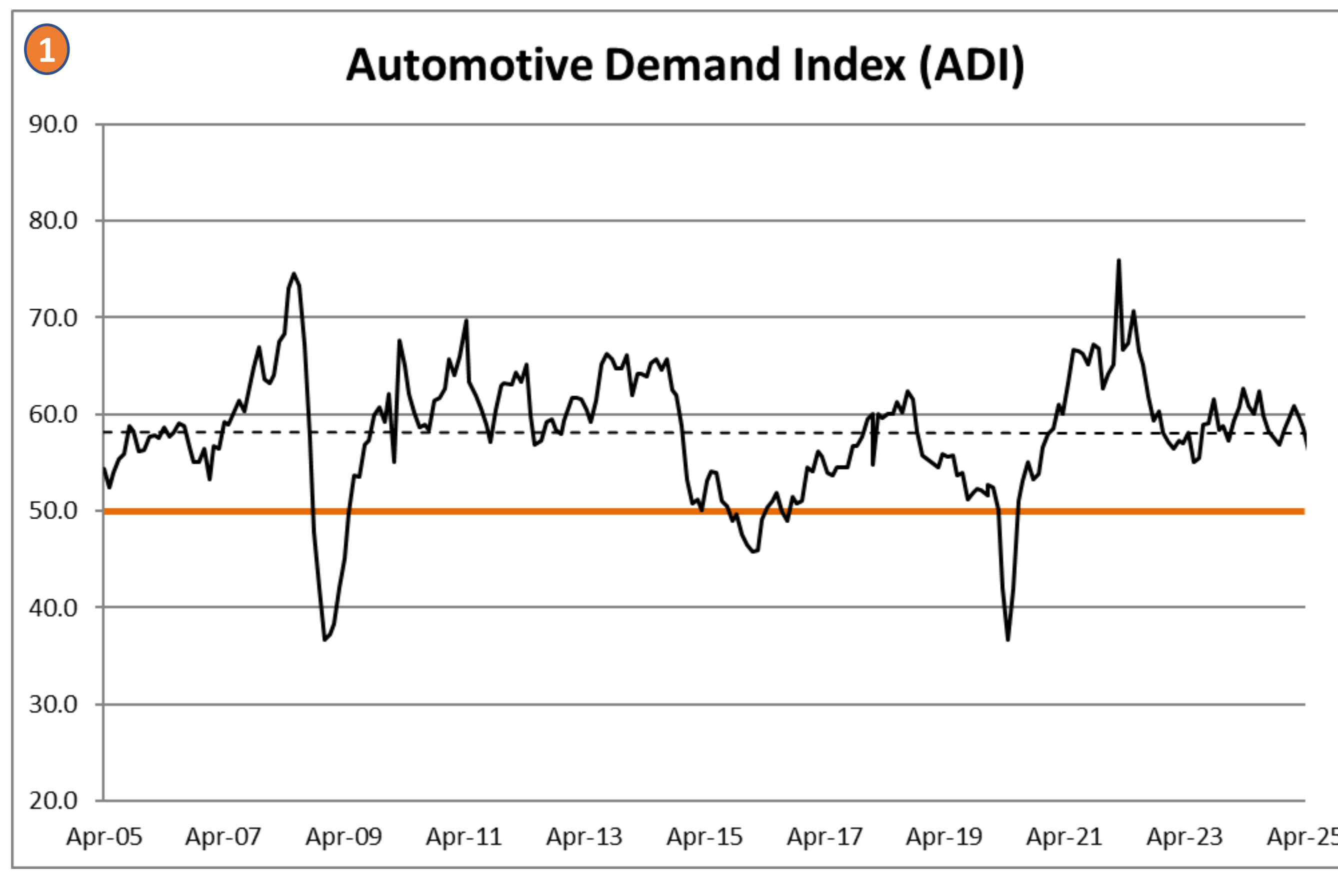
- April 56.2
- March 58.6
- February 59.6
- January 60.8
- December 59.5
- November 58.6

Primary Impacts on the Automotive Sector:

- **ADI Comes in at 56.2.** The NCM ADI came in at 56.2, down by 4.1% vs. the March reading of 58.6. The index was 7.7% lower than it was last year at this time. But it remains in-line with the 20-year trendline illustrated by the dotted line in the chart at right. Said another way, and relative to prior periods, demand remains within a "normal" market range.

- **Inventories and Sales Mixed.** Light weight vehicle sales were trending at 17.250 million units (annual rate) in April (latest available), this was 3.3% lower M/M from March but was 9.0% higher Y/Y (14.8% higher in the last report). The inventory to sales ratio was 9.5% lower Y/Y (16.1% lower in the last report) which remains above the long-term trend (orange line in the graph below right). Historically, it is still 45.3% lower than levels prior to the pandemic (35.7% last month). Inventories are still too low, relative to sales for the right models. Overstocks are present in some models while long backlogs of production exist for others.

- **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. Consumer spending remained stable as mentioned and the gap between inflation and wages is improving (which gives consumers more monthly income to work with). But this is slow, and some risks remain. This was evident in the index this month as consumer sentiment dipped on trade fears, which have since improved.



2	25-Apr	25-Mar	24-Apr	Y/Y Change %	M/M Change %
Composite	56.2	58.6	60.9	-7.7%	-4.1%

Looking Forward:

- **Vehicle Inventory Issues Late in 2025?** Sales were beginning to show sluggishness in May according to industry reports. The annual rate of sales may have slowed to between 15.6-16.0 million units, down from a rate of 17.3-17.8 hit in March and April as we reported earlier. YTD, sales are up slightly by 1.1%. But foot traffic was cooling in May after a tariff-induced wave of buying took place early in Q2.

  But inventories could be a different situation. Aside from the report shown at right, other sources show inventories could be down as much as 7.4% at the start of May (10.5% lower from a year ago). Further, OEMs are facing a tough uphill battle with Tier 2 and 3 suppliers. Many of those suppliers are getting hit with high tariff pressures and have cancelled inbound orders of raw materials and component parts. That will eventually hit Tier 1 suppliers and OEMs at some point this fall, if the reorder process does not pick up more quickly. Parts ordered from China will be the key pressure point (condensers, wiring, batteries, etc.). Hybrids are at the most risk due to their complex componentry.

  Supply chains are expected to get back in cycle, but it could be early in 2026 if economic outlooks continue to outpace expectations and consumption continues to be robust (and gaining momentum in July and early Q3).