

July auto sales remain strong, but for how long?

U.S. consumers continued buying new cars and trucks at a brisk pace in July, but there are growing concerns that industry sales will slow down as the year grinds on. While automakers won't report July sales until Wednesday, most industry forecasters expect July to come in about 10% higher than July 2011 even though the overall U.S. economy has slowed and consumer confidence is falling. "Automotive sales are essentially moving in a direction that is not consistent with the general economic news," said Jeff Schuster, senior vice president of forecasting for LMC Automotive. LMC Automotive, Edmunds.com and TrueCar.com all expect that industry sales ran at an annualized rate of 14.0 million or higher in July — a rate that would be viewed as a sign of continued strength for automakers and the broader economy. For now, the industry is still enjoying a slow, but steady sales rebound because people who held onto cars during the recession are finally springing for new models. Buying a car also has become easier because banks that froze lending in 2008 and 2009 are increasingly willing to make loans to people with slightly riskier credit records. "Basically, there are a lot of people out there who have not bought cars for the last 4-5 years because they have been shut out of the market," said Lacey Plache, chief economist for Edmunds.com. On average, the age of cars that consumers are trading in exceeds 6.2 years, Schuster said. That's about a year older than before the 2008 recession began. Also, the introduction of a number of new models in high-volume segments such as the all-new Dodge Dart compact car, redesigned Ford Escape SUV and redesigned Nissan Altima midsize sedan are helping to spark consumer interest, Plache said. New product introductions, especially in high-volume segments, often generate interest and boost industry sales. But on Friday, the U.S. Department of Commerce said the U.S. economy grew at an annual rate of 1.5% for the three months ending June 30. That was a sharp decline from the 2.0% annual rate for first three months of the year. Also, confidence among U.S. consumers dropped in July to the lowest level this year. The Thomson Reuters/University of Michigan final index of sentiment declined to 72.3 this month from 73.2 in June. Meanwhile, the nation's unemployment rate remains above 8%. There also is a continuing risk that Europe's deepening recession could further slow the U.S. economy. "We are not on as solid of ground as we might like to be going into the second half of the year," Plache said. Schuster doubts that new car sales will slow much in coming months. "But I don't think we are going to see the increases that many expected in the second half," he said.