

Better finance deals spur July auto sales: analysts

(Reuters) – The pace of auto sales is expected to hold steady in July, when sweeter financing deals prompted American consumers to replace aging cars and trucks despite languishing consumer confidence and high unemployment. According to a Reuters survey of 41 economists, the annual rate of U.S. light vehicle sales is expected to be 14 million this month. In June, that rate was 14.1 million. Over the last two weeks, auto executives have noted that lenders are offering better deals to consumers with lower credit scores. Last week, Group 1 Automotive Inc (GPI.N) said its relationship with lenders is “probably at an all-time high.” “We are hopeful that factors such as pent-up demand and easier, available credit can overcome the risk of a softer U.S. economy,” RBC Capital Markets analyst Joseph Spak said. Auto sales are an early indicator each month of U.S. consumer demand. Major automakers will report vehicle sales on August 1. A year ago, vehicle sales were weak due to a shrinking supply of cars and prices too high for consumers trapped in a tepid economic recovery. Data this week showed U.S. consumer confidence rose in July but remained historically low. Weak confidence and still-high unemployment could limit auto sales this year.

Still, better financing deals have attracted consumers who have been closed out of the auto market since the recession. That coupled with pent-up demand and increased construction spending could drown out economic uncertainty, Barclays Capital analyst Brian Johnson said. In the first quarter, the number of vehicle loans given to consumers with credit scores below 680 increased 18.2 percent from a year earlier, according to the most recent data available from Experian Automotive. Loans to these consumers made up just over 23 percent of deals extended to vehicle buyers in the first quarter of 2012, up from 20.79 percent in the first quarter of 2011. Interest rates fell across the board.

Lithia Motors (LAD.N), which relies heavily on Chrysler dealerships, said future sales growth is reliant on subprime buyers. Sales to subprime buyers increased 31 percent in the second quarter, Lithia said. “The expansion of sales to this segment represents the next leg of recovery and new vehicle sales,” Chief Financial Officer Chris Holzshu told analysts during a conference call last week. **AUTO SALES FAR FROM**

‘HEALTHY, ROBUST’ The industry is on the mend after its near-collapse three years ago, when General Motors Co (GM.N) and Chrysler Group LLC (FIA.MI) filed for bankruptcy and sales fell to 10.4 million vehicles. Most analysts expect sales will pick up in the second half of

the year, when many automakers launch new models. LMC Automotive and RBC Capital Markets are among the experts that expect U.S. auto sales to be around 14.5 million this year. Pent-up demand also has helped sales. The average vehicle on the road is more than a decade old, so

some people must buy new cars and trucks as older vehicles push past the point of repair. Although recent results are robust, the auto industry is “far from the healthy, robust athlete” it was a few years ago, marketing and research firm CNW Research said a note. U.S. auto sales averaged around 16.7 million a year between 1998 and 2007. “The key holdback among consumers remains having well-paying jobs and solid confidence in the economy,” CNW said. “Today, the industry is feeding off of those who need a car, not want one.” Auto research firm

TrueCar.com said top U.S. automaker GM's sales are likely to be flat in July, while the smallest U.S. automaker Chrysler may post a 17.5 percent increase. Ford Motor Co (F.N), the second-largest U.S. automaker, will report a 1.1 percent decline in sales, TrueCar predicts.

Japanese automakers are expected to show a strong surge in sales compared to a year ago when they were still struggling with vehicle shortages after the March earthquake in Japan. TrueCar predicts a 45-percent jump for Honda Motor Co Ltd (7267.T), a 22-percent jump for Toyota Motor Corp (7203.T) and a 12.5-percent increase for Nissan Motor Co Ltd (7201.T). (Reporting By Deepa Seetharaman; Editing by David Gregorio)