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Sector Morsel

Auto affordability: An uphill drive

31 May 2024

Key takeaways

- New and used vehicle prices have fallen from their 2021 peaks, but rising financing rates and higher insurance and maintenance costs are pressuring the overall total cost of car ownership.
- Bank of America internal data on auto loan originations suggests that overall car sales are flattening, likely due in part to these affordability issues. And a Bank of America proprietary survey finds that Americans feel as though vehicle maintenance and loans are two of the top five most difficult household expenses to afford.
- The average loan amount of used electric vehicles (EVs) is down 20% YoY, with originations increasing at faster rates than traditional gas-powered vehicles.

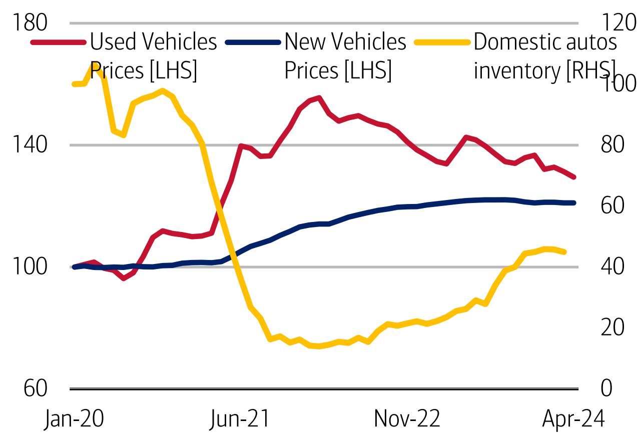
New and used auto prices are falling…

The automotive market is showing signs of stabilizing, at least when it comes to auto prices. But a broader set of affordability challenges still appear to be facing consumers – particularly for the young.

Early in the pandemic, consumers were faced with the increasing cost of new and used vehicles. Supply chain issues had significantly reduced the availability of key components needed for new vehicle manufacturing, which coincided with higher demand, driven by people seeking alternatives to public transportation and more stimulus cash on hand. As a result, there was a steep drop in domestic inventories (Exhibit 1), which resulted in a surge in the sticker price for new vehicles. And with consumers unable to find or afford a new model, they moved into the used market, steeply increasing prices there, too.

Exhibit 1: New and used vehicle prices increased significantly during the pandemic partly due to a drop in inventories, but have begun to return to pre-pandemic levels

Used and new vehicle prices [Left Hand Side] compared to domestic autos inventory [Right Hand Side] (index January 2020 = 100, monthly)



Source: Haver Analytics

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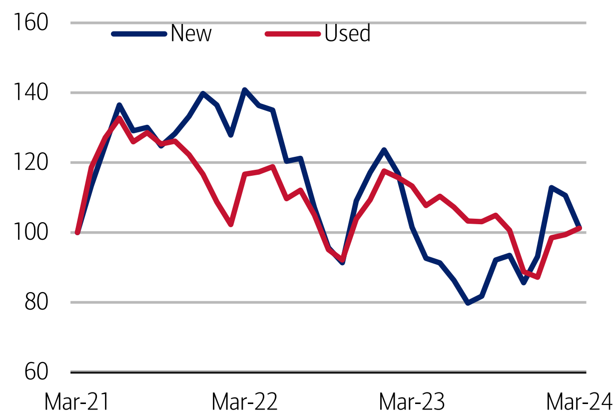
Exhibit 2: While new vehicle loan originations saw larger growth in 2022, used vehicle loans were stronger in 2023, but originations have fallen from their peaks in 2021 and 2022

New and used vehicle loan originations (Three month moving average, index March 2021 = 100)



Source: Internal Bank of America data

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Thankfully supply chain issues impacting new vehicle supply have slowly eased, leading to a partial recovery in inventories and a rise in new auto sales. But interestingly, in internal Bank of America consumer auto loan origination data we find that in 2023 used vehicle originations remained higher relative to March 2021 than for new car originations (Exhibit 2). A key reason here, in our view, is likely to be the sustained decline in used car prices over the last few years, which is helping mitigate – though not reverse – some of the sharp decline in car affordability that has occurred since the pandemic.

…but the total cost of vehicle ownership is increasing

While used car originations have been supported by declining used car prices, Bank of America loan origination data shows that in 2024 the year-over-year (YoY) growth in total (new and used) vehicle originations is slowing; auto sales data also suggests the uptrend in new car sales has flattened off.

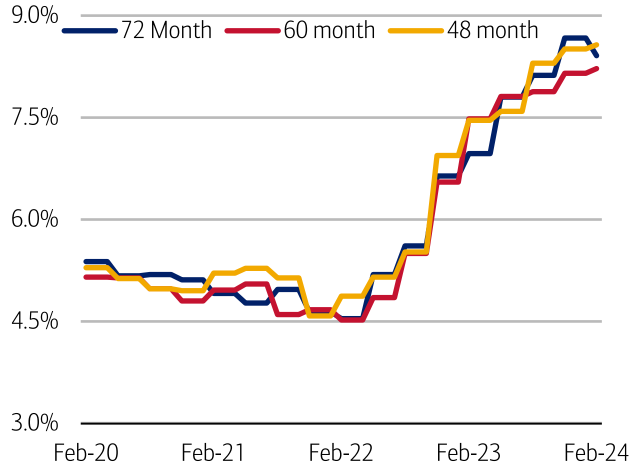
One reason for this flattening, we believe, is that the total 'all in' cost of ownership – including elevated interest rates, insurance, and maintenance costs – has become more expensive even as auto prices are declining.

Exhibit 3 shows that interest rates for car loans have risen sharply since April 2022, increasing almost four percentage points for 48-, 60-, and 72-month loans. This translates to nearly a $100 monthly payment increase for a loan of $51.2K, the average new vehicle loan amount as of March 2024, according to internal Bank of America data.

Insurance costs are rising, too. According to the Bureau of Labor Statistics' (BLS) Consumer Price Index (CPI) data, motor insurance prices jumped 22.6% YoY in April 2024. As discussed in a recent [Consumer Checkpoint](), premiums may remain elevated, providing further tailwinds to vehicle affordability.

Exhibit 3: Interest rates for new car loans have grown significantly since 2022 for all loan terms

Finance rate on consumer installment loans at commercial banks by loan term (monthly, %)



Source: Haver Analytics

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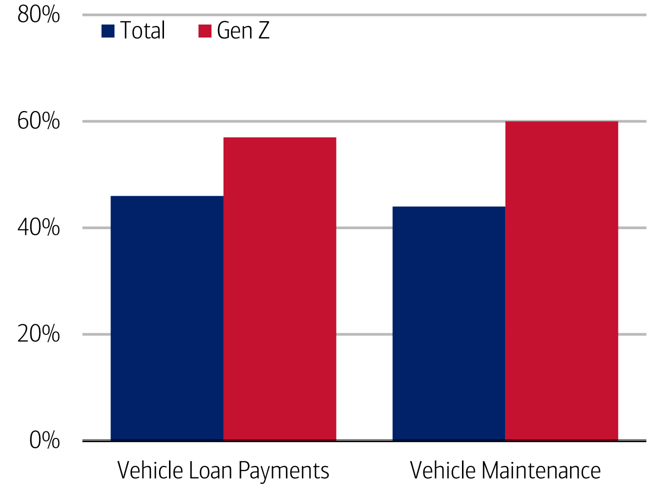
Exhibit 4: Nearly 45% of total respondents to an April 2024 study reported difficulty affording vehicle loans or maintenance, while the share was even starker for Gen Z at nearly 60%.

Percentage share of survey respondents overall and Gen Z (%, April 2024)



Source: Bank of America Proprietary Market Landscape Insights Study

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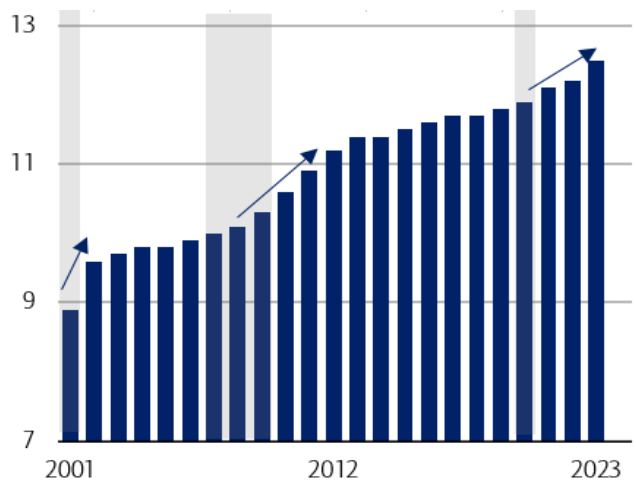
In fact, Americans feel that vehicle maintenance and loans were two of the top five most difficult household expenses to afford as of April 2024, according to a recent Bank of America proprietary Market Landscape Insights study. Nearly 45% of respondents reported difficulty affording these items, while the share was even starker for Gen Z at nearly 60% (Exhibit 4). These findings are supported by official data which shows motor vehicle maintenance and repair costs are up 35% compared to January 2020 and 8% YoY.

Faced with these higher 'all in' automotive costs, it could be that some consumers are waiting for auto prices to fall further – or holding out for newer inventories – before purchasing. That may explain why owners are keeping their vehicles for longer. The average age of vehicles in the United States was 12.5 years in 2023, up 40% compared to 2001 and 2.5% YoY (Exhibit 5), according to data from the US Bureau of Transportation.

Exhibit 5: The average age of all vehicles in operation reached 12.5 years in 2023, up 40% compared to 2001 and 2.5% YoY

The average age of all light vehicles in operation in the United States (actual years, yearly)



Source: US Bureau of Transportation. *Light vehicles" refer to cars and light trucks. Shaded areas indicate a recessionary period occurred in that year.

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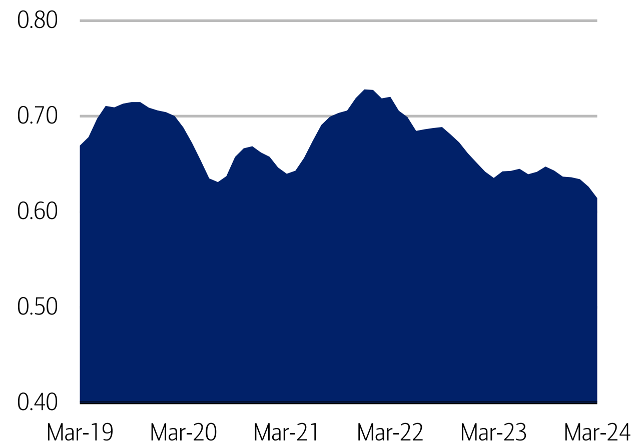
Exhibit 6: The ratio of average loan amounts for used vehicles compared to new vehicles reached a peak in late 2021 but has fallen below pre-pandemic levels

Average used vehicle loans divided by average new vehicle loans (Three month moving average, ratio)



Source: Internal Bank of America data

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Used EVs for everyone? Yes and no

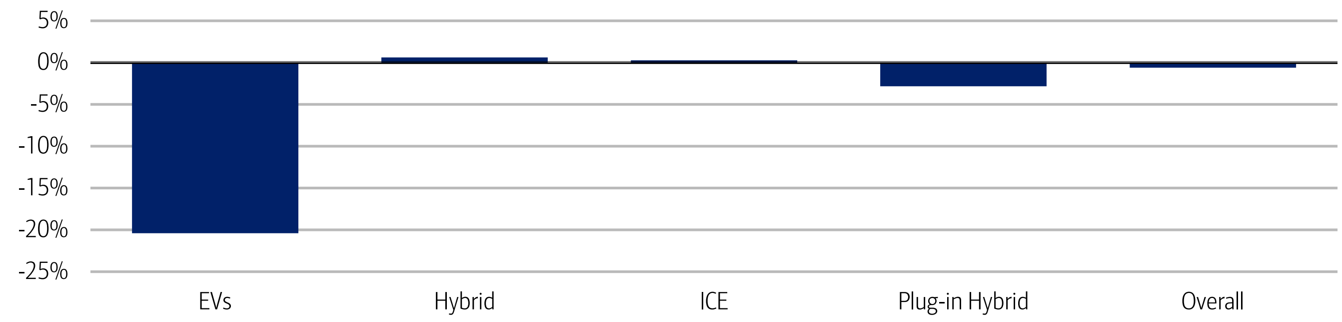
With overall vehicle affordability worsening, the fact that used vehicle prices are easing relative to new car prices will likely provide some relief to consumers searching for a change of vehicle. According to Bank of America consumer auto loan origination data, used cars have historically traded at 70% the value of a new model, (Exhibit 6). In late 2021, at the peak of the squeeze in new vehicle supply, this moved above 75%, but has now decreased as of March 2024 to a figure below historical levels.

And for some consumers it appears the search for affordability is leading them to consider used electric vehicles (EVs) and hybrids. In fact, the average loan for a used EV decreased steeply, down 20% YoY in March 2024, compared to flat YoY growth for used gas-powered vehicles, according to Internal Bank of America loan origination data (Exhibit 7). Accordingly, we also find a sharp increase in loan originations for used EVs compared to traditional gas-powered vehicles (Exhibit 8).

But the EV option is not readily available for everybody. The current relative scarcity of charging stations means that the option to purchase a new or used EV may be skewed particularly to households who have access to a charging station at home. Internal Bank of America data also finds that urban and suburban areas have higher shares of EV charging spending, our proxy for a household that owns an EV (Exhibit 9).

Exhibit 7: The March 2024 average loan amount for used EVs has decreased steeply, down 20% YoY compared to the average loan amount for used gas-powered vehicles, which remained unchanged

Year over year percentage change of used vehicles by fuel type (Three month moving average, %)



Source: Internal Bank of America data

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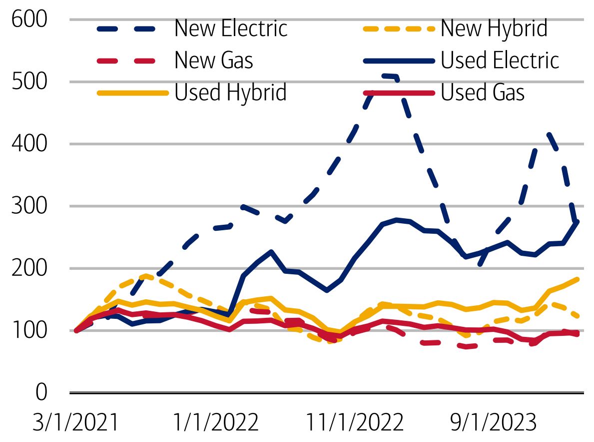
Exhibit 8: Loan originations for used EVs and hybrids are currently seeing higher growth compared to traditional gas-powered vehicles

New and used vehicle loan originations by fuel type (three-month moving average, index March 2021 = 100)



Source: Internal Bank of America data

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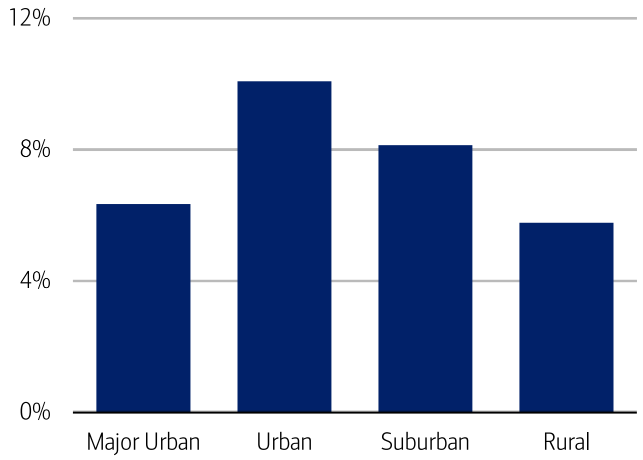
Exhibit 9: The March 2024 share of EV households is higher for urban and suburban regions, likely as a result of proximity to charging stations

Percentage share of EV households by Census region (%, monthly)



Source: Internal Bank of America data

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Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Households' location is extracted based on customer home addresses.

Bank of America consumer auto loan originations data reflects loans for private vehicle sales and covers originations at dealers, direct purchases and refinancings. EV households are designated by EV charging spending across credit card, debit card, ACH, wires, bill pay, person-to-person, cash and check channels, where applicable. EV spending is denoted by proprietary methods including, but not limited to, MCC codes.

Bank of America Proprietary Market Landscape Insights Study

This online quantitative survey was fielded Mar. 6 – 13, 2024 among customers and noncustomers sampled and balanced to provide a representative view of the U.S. adult population (n=2,314). Insights are based on aggregated and anonymized responses to surveys. Significance testing is done at the 90 percent confidence interval.

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