CUNA Economic Update, November 2021

In the November CUNA Economic Update, CUNA Senior Economist Dawit Kebede provided an outlook on the auto lending market, focusing on credit union loan originations.

Highlights from the current update include:

- The **auto inventory/sales ratio dropped down to 0.5% in September**, the lowest rate since data became available in 1993. Early estimates reveal that the global **auto industry is expected to lose $210 billion in 2021**. This decline is due to computer chip and labor shortages, port backlogs, and transportation costs.
- Used cars are not depreciating in value during the pandemic. In 2021, **used car value has increased by 30%**. This increase in used car value is caused by supply chain issues in new auto production and delivery, and growing competition to local dealerships from online marketplaces such as Carvana.
- In 2020, **credit union auto loan growth came in at 1.3%**, a decrease from the 2019 growth rate of 2.5%, due to the economic downturn brought on by the pandemic. Before 2019, credit unions enjoyed six consecutive years of double-digit loan growth.

"A negative loan growth rate for new cars is not uncommon during a period of economic downturn. In early 2020, over 20 million people lost their jobs, creating a significant decline in consumer spending, and consequently, in loan originations. This year we saw an upward trend, but we ran into another problem—supply shortages." – Dawit Kebede

Production and the used car market
"If you look at the value of your car, pre-pandemic to now, you'll notice that the value has increased significantly. For some, the value has doubled. Online car retailers are providing consumers with better prices than local car dealerships. The online used car market has expanded the geography of competition , further raising prices."

Delinquency rates
Fiscal and regulatory support by the federal government contributed to the lowest delinquency rate that we have ever seen in the auto finance industry in recent years. For credit unions, this means that asset quality is strong.

Loan originations and age demographics
"In the third quarter of 2021, consumers between the ages of 18-49 contributed to 62% of auto loan originations. This is important for credit unions, where the current average age of a credit union member is 51. Younger demographics dominate the market for new auto financing. In addition, online vehicle purchasing and financing, a method attractive to younger individuals, is becoming all too common. Having a membership that is consistent with this demographic trend is important for credit unions to increase their market share in auto financing."

Dawit Kebede, PhD, is CUNA's Senior Economist. He has over eight years of research experience, with a focus on trade, employment, and consumer finance.

Please email Lauren Williams (lwilliams@cuna.coop) to set up an interview with CUNA's Senior Economist Dawit Kebede.