Car Prices Are Falling – Auto Industry Review

Years of consecutive increases in U.S. auto sales have put a glut of vehicles on U.S. highways. In addition, a significant number of those sales were with a lease, leading to a rising tide of cars flowing back into the market as lease terms expired.

As automakers have added manufacturing capacity, they have also been aggressive in offering larger incentives on new vehicles in order to maintain record sales momentum. That has put downward pressure on the entire market.

Consequently, the number of drivers that owe more on their cars than they are worth is surging. Americans are paying on a record $1.6 trillion of auto loans currently, according to the most recent Federal Reserve data. That represents roughly half of all licensed drivers in the U.S. Among those that carry loan balances, the Federal Reserve estimates that auto loans make up between 10 percent and 23 percent of their total financial obligations.

Auto prices soared as the pandemic took hold in 2020 through 2022, as supply constraints for critical auto components hindered manufacturing and distribution of automobiles globally. Low interest rates on auto loans helped subsidize rising auto prices as consumer demand continued on.

Sources: Federal Reserve Bank of St. Louis