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How Oversupply is Steering New Car Prices into a Price War



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The U.S. automobile market, once racing at full throttle, has hit a sudden speed bump in recent months. After reaching record-high prices just last summer, the cost of new cars is now poised to plummet due to a looming oversupply, igniting a fierce price war among automakers.



The Road to Lower Prices

A recent UBS report has sent shockwaves through the industry, predicting that global car production will outstrip sales by a staggering 6% this year. This surplus of

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approximately 5 million vehicles will inevitably force automakers to make substantial price cuts to clear their lots. Although these price adjustments may not take effect until the latter half of 2023, the automotive world is already bracing for a price showdown, with some electric vehicle (EV) manufacturers leading the charge by slashing prices.

UBS has issued a resounding warning, cautioning that due to the surging production schedules, there looms a substantial risk of overproduction, which in turn is exerting mounting pressure on pricing dynamics. The incipient price war has already made its presence felt within the electric vehicle (EV) realm, with industry experts foreseeing its ripple effect permeating the conventional combustion engine sector as we venture into the latter part of 2023.

Winners and Losers on the Horizon

Family car manufacturers are particularly vulnerable to these price cuts, according to analysts, whereas luxury car brands are expected to weather the storm more gracefully. Electric vehicle manufacturers may bear the brunt of the situation, grappling with the dual challenges of surging energy costs and elevated prices that push potential buyers out of reach. In January, Tesla, led by visionary Elon Musk, slashed prices on its cars by as much as £8,000 in the U.K., bringing some of its more affordable models within the price range of mass-market competitors like Kia.

Ford Motor Company and Lucid, in a strategic move, have followed in the footsteps of Tesla, responding to its pricing maneuvers by lowering their own prices for electric vehicles (EVs), as highlighted by the Proactive Investors website. Simultaneously, concrete evidence is emerging that the pricing landscape across all automotive segments is gradually softening. According to data from Cox Automotive, wholesale used-vehicle prices in March witnessed a 2.4% year-over-year decline, although they did exhibit a slight uptick of 1.5% from the preceding month. Further corroborating this trend, a report from Kelley Blue Book dated March 23 revealed a consistent three-month decline in new vehicle prices, indicating a sustained shift, even though prices continue to maintain historically elevated levels.

Underlying Factors Behind the Oversupply

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A confluence of factors is fueling this impending oversupply, including:

- The chip shortage has disrupted new vehicle production.
- The Ukraine conflict, causing disruptions in the supply of commodities used in car manufacturing, such as steel and aluminum.
- Escalating material costs, making vehicle production costlier for automakers.

The oversupply is compelling automakers to take action, with some already slashing prices, and others expected to follow suit in the coming months. The battleground for this price war is expected to be especially fierce in the electric vehicle (EV) market, where competition is already intense. High battery costs have squeezed EV manufacturers' profit margins, prompting some to initiate price reductions, with more expected to do so soon.

Navigating the Road Ahead

While the impending price plummet may be a boon for consumers, offering the promise of lower car prices, it could pose significant challenges for automakers already grappling with financial pressures stemming from the chip shortage and other obstacles. It's essential to keep in mind that these predictions are just that—predictions. Market behavior can be unpredictable, and prices may not necessarily plummet as anticipated. Nevertheless, the factors contributing to the oversupply are likely to persist for some time, making it a reasonable expectation that prices will eventually come down.

If you're in the market for a new car, it may be prudent to wait for the price drop, potentially saving you a substantial amount of money. However, if your need for a vehicle is pressing, you may find yourself with no choice but to purchase at the currently elevated prices. In any case, it's a time of shifting gears in the automotive industry, and consumers and automakers alike are bracing for the ride ahead.