New-Vehicle Transaction Prices Trend Downward as Incentives Rise, According to Kelley Blue Book

- February 2023 average new-vehicle transaction prices declined month over month, with incentive spend increasing for the third straight month.
- Luxury brand sales continued their strong showing, with a 19.5% share of total sales, propping up the overall industry ATP.
- Electric vehicle (EV) prices declined for the third straight month, dropping more than $1,000 as Tesla slashes prices to increase demand.

ATLANTA, March 8, 2023 /PRNewswire/ -- The average transaction price (ATPs) of a new vehicle in the United States declined in February 2023 to $48,763, a decrease of 1.4% ($705) from an upwardly revised January reading of $49,468. Transaction prices last month were up 5.3% ($2,466) from year-ago levels, according to data released today by Kelley Blue Book, a Cox Automotive company. Meanwhile, incentive spend rose to 3.0%, averaging $1,474, a level not seen since March 2022.

According to Kelley Blue Book calculations, new-vehicle ATPs have been above the average manufacturer's suggested retail price (MSRP), also known as the sticker price, for more than a year. In February 2023, the average price paid was just $95 more than the average sticker, as prices continued to trend downward relative to sticker price. A year ago, the average ATP was nearly $1,000 over MSRP. Last month, sales volumes were up month over month by 9% and up 9% year over year, thanks in part to improved supply and added fleet sales. A tougher economy and high loan rates are putting downward pressure on retail demand.

"The transaction data from February indicates that prices continue a downward trend at the beginning of 2023," said Rebecca Rydzewski, research manager of economic and industry insights for Cox Automotive. "Both luxury and non-luxury prices were down month over month, but new models, richer product mix and limited discounting are contributing to elevated prices."

Average Prices for Non-Luxury Cars Decline
The average price paid for a new non-luxury vehicle in February 2023 was $44,697 – a decline of $681 compared to January. Most non-luxury brands – including Chrysler, Dodge, Ford, GMC, Hyundai, Mazda, Subaru, and Volkswagen – saw ATP declines between 0.2% to 3.9% month over month in February. This correlates with higher incentives helping to push prices down. Kia and Honda showed the most price strength in the non-luxury market, transacting between 4% and 6% over sticker price in February.

Luxury Share Stays High, While Average Prices Fall in February
Strong luxury vehicle sales have been a primary reason for overall elevated new-vehicle prices. This trend continued in February 2023 when luxury vehicle share hit 19.5% of total sales, down slightly from the record high 19.7% in January. The high share of luxury sales pushes the overall industry ATP higher, even though the luxury ATP declined month over month. For comparison, in February 2018, luxury share was 13.2% of the market.

In February 2023, the average luxury buyer paid $65,534 for a new vehicle, down $644 from January. Buyers continue to pay over MSRP for new luxury vehicles.

Luxury vehicle ATPs were a mixed bag in February, with luxury cars, luxury full-size SUVs and luxury mid-size SUVs showing price declines between 0.3% and 4.1%. Entry-level luxury cars prices remained stable, while luxury compact SUVs and luxury subcompact SUVs saw price increases between 0.6% and 1.4%.

Mercedes-Benz and Land Rover showed the most price strength in the luxury market, transacting between 5% to 7% over sticker price last month. Luxury brands Alfa Romeo, Audi, BMW, Infiniti, Lincoln, and Volvo showed the least price strength, selling 1% or more below MSRP in February.

Led by Tesla, Electric Vehicle Prices Decreased Notably in February, Continuing a Downward Trend
The average price paid for a new EV decreased by$1,050 (down 1.8%) in February 2023 compared to January. The average new EV sold for$58,385, according to Kelley Blue Book estimates, which is still well above the industry average. The drop in pricing was driven by significant price cuts from Tesla, which commands roughly two-thirds of the EV market. Tesla's average transaction prices decreased by $977, down 1.6% month over month and down 5.9% year over year. Lower prices likely helped Tesla deliver higher sales volumes. According to Kelley Blue Book estimates, Tesla sales in February increased year over year by more than 44%.

Auto Incentives Offered by Manufacturers Remain at Historically Low Level but Trending Upward
Incentives reached a 10-month high inFebruary 2023, increasing to 3.0% of the average transaction price compared to 2.8% in January. However, incentive spend remains at a historically low level. For comparison, in February 2021, Kelley Blue Book estimates incentives averaged 8.3% of ATP. Luxury cars had the highest incentives in February at 6.5% of ATP. Meanwhile, vans had the lowest incentives, with less than 1% of ATP.

"After nearly a year of incentives below 3% of ATP, it will be interesting to see if this upward trend continues as inventory improves," said Rydzewski. The most affordable vehicles – compact cars, compact SUVs, and subcompact cars – had incentives on par or above the industry average. High loan rates and continued inflationary pressures appear to be hurting the lower part of the market, so automakers are more focused on luxury and higher-end models."

Data tables are available for download.

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