PolkView
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Length of U.S. Vehicle Ownership Hits Record High

> "The average length of vehicle ownership rose three months from Q4 2008 to Q1 2009."

American consumers are holding on to their cars and trucks longer than ever before. In Q3 2011, the average length of ownership of vehicles purchased new rose to a record 71 months. Likewise, retention of vehicles originally bought used climbed to an all-time high of 50 months.

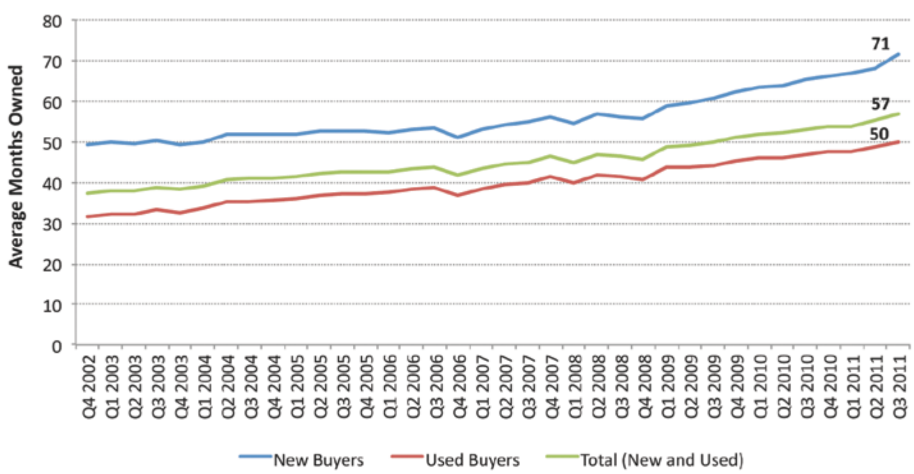
What are some of the likely factors driving this trend? Is length of ownership expected to continue to increase or start to decline? More importantly, what are the implications for the automotive industry – both in terms of vehicle sales and parts and service opportunities?

Drawing on length of ownership data for the past 10 years, this Polk View answers pertinent questions related to this important automotive metric.

Increased Retention of Vehicles Tied to Economic Downturn

Not surprisingly, the average length of vehicle ownership in the U.S. started to trend to a higher overall level in Q4 2008 when the economy soured. As Americans were hit by job losses, the mortgage crisis and the credit crunch, many cost-conscious consumers decided not to invest in a new vehicle. In fact, between Q4 2008 and Q1 2009, the average number of months Americans held on to their new and used vehicles rose by nearly three months.

Figure 1: Average Length of Ownership – Q4 2002 through Q3 2011



Since then, the number of months that U.S. drivers retain their vehicles has trended upward each quarter (except for between Q4 2010 and Q1 2011, when the length of ownership for used vehicles remained steady).

Factors Driving Increased Length of Ownership

Length of vehicle ownership recently hit an all-time high: 71 months for new vehicles and 50 months for used cars and trucks. Several factors are likely at play. Even though credit restrictions have loosened, many Americans are still hesitant to invest in an expensive purchase due to the continued weak job market and high unemployment rates. Many consumers have financed their vehicles for longer time periods in order to create less expensive monthly payments, leading to longer ownership cycles. Additionally, research by various automotive agencies points to increased durability for cars and trucks sold in the U.S. Lastly, Hyundai and other OEMs have offered generous warranty periods, which make it less risky for Americans to retain older cars and trucks.

Used cars and trucks typically change hands more frequently than new vehicles, and the average length of used vehicle ownership is currently about two years shorter than for new vehicles. The lower expected lifespan of used vehicles results in shorter length of ownership as compared to new cars and trucks.

Another Polk measure shows a corollary trend: the average age of vehicles on the road is also on the rise, hitting a record of 10.8 years as of July 2011.

Implications for the U.S. Automotive Market

Length of ownership data serves as a barometer of the overall health of the auto industry, with specific implications for different facets of the industry as follows. Looking at length of ownership trends at the manufacturer or brand level would provide more actionable data for those trying to anticipate demand for vehicle sales and for parts and service business.

- **Automotive Parts Stores:** The trend toward increased length of ownership has been a huge advantage for major auto parts stores such as AutoZone, O'Reilly Automotive and Advance Auto Parts, whose stock prices have outpaced the S&P 500 Index since late 2007[1]. Looking to save money on repairs, an increasing number of drivers have turned to Do-It-Yourself (DIY) vehicle repair. A recent study showed that more than three-quarters of customers who typically pay to have their vehicles repaired would try to do it themselves to save money.[2]

continued

This Polk View is based on Polk's new and used retail vehicle registrations from Q4 2001 through Q3 2011 among U.S. households.

[1] *"Average Age of Vehicles Hits Record in 2011," Madison.com, January 24, 2012*

[2] *"Economy/Aging Vehicles Continue to Drive More DIY Auto Repairs, According to AutoMD.com's 2012 DIY Report" (press release), February 1, 2012*

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- **OEM Dealership Service and Repair Facilities:** Automakers have long wrestled with the fact that consumers tend to go outside of the OEM-affiliated network for service and repair once the warranty term expires. But, dealers and OEMs can also view longer length of ownership as an opportunity to target the growing base of customers with older vehicles for service-oriented loyalty programs. Strategically, many dealerships rely on repeat service visits to foster loyalty and drive new and used vehicle sales from service customers.
- **New Vehicle Sales:** Over the next few years, Polk projects that new U.S. light vehicle sales will continue to climb slowly upward, reaching pre-downtown levels of 16 million by 2015. As the economy improves, pent-up demand for new vehicles will help this effort. However, this doesn't mean that the average length of ownership will immediately start to decline. With unemployment still high and many consumers continuing to suffer from the lingering effects of the economic meltdown, the trend of longer length of ownership will likely continue for at least the next few years.

  Dealers, sales, marketing and advertising leaders involved in new vehicle sales would be wise to watch the length of ownership trend in order to determine when consumers might come back to market. A length of ownership analysis at the manufacturer or brand level might provide insights into the return-to-market cycle to decide when to push messages to targeted consumers and stimulate purchase behavior. Recent Polk research shows that new vehicle owners exhibit lower brand loyalty as they retain their cars or trucks longer[3], indicating the importance of targeting potential vehicle buyers at the right time.
- **Used Vehicle Sales:** Longer length of ownership has resulted in a lower used vehicle supply. This, along with an anemic recent supply of off-lease volumes, has allowed dealers to charge more for the limited used inventory on their lots. With the trend of increased vehicle retention expected to continue for at least a few years, used vehicle sellers will benefit from higher top-line prices. Dealerships should also look for opportunities to convert consumers looking for scarce used vehicles into new vehicle buyers.
- **Extended Warranty Providers:** Third-party providers of extended warranties will continue to benefit from the opportunity to sell products that provide peace of mind to consumers who hold on to their vehicles past the expiration of manufacturer warranties.

> "In Q3 2011, the average length of new vehicle ownership reached a record high of 71 months."

ABOUT POLK

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[3] *"Improving Sales Volume Forecasting by Adding Loyalty to the Mix," Polk White Paper, May 2011*