

COMMONWEALTH TRANSPORTATION FUND REVENUE REPORT September 2022

Summary

Commonwealth Transportation Fund (CTF) revenues increased by 1.0 percent in September

Motor Fuels Tax

Motor fuels taxes increased by 2.6 percent in September.

U.S. retail gasoline prices in our forecast average \$3.80 per gallon (gal) in 4Q22 and \$3.57/gal in 2023. Retail diesel prices average \$4.86/gal in 4Q22 and \$4.29/gal in 2023. We expect U.S. gasoline consumption in 2022 to average 8.8 million b/d, down 40,000 b/d from 2021, and we expect it to stay near that level in 2023, with rising fuel efficiency offsetting price- and economy-driven increases in transportation demand.

Motor Vehicle Sales and Use Tax

Motor vehicle sales tax collections increased by 1.5 percent.

U.S. new-vehicle sales remain depressed. The SAAR moved up to its highest rate since April but remains well below the expected market equilibrium. Global production of new vehicles continues to struggle because of supply-chain constraints centered on the ability to obtain the necessary semiconductor microchips. In good news for the auto industry, there has been some progress in this area during the past few months. However, as the supply side begins to ease ever so slightly, cracks are beginning to appear in auto demand.

The first fault line is showing in vehicle prices. Rising or steady vehicle prices during periods of low sales indicate strong demand. During the past quarter, vehicle prices have been sending conflicting signals. Used-vehicle prices through September are down more than 10 percent from their peak early in 2022. However, new-vehicle prices continue to rise. Still, that rate of price increase has slowed. Transaction-price growth in August was the lowest in 12 months.

As used-vehicle prices have fallen and transaction price growth has slowed, new-vehicle inventory has increased. This is another sign that demand is no longer outstripping supply. Both seasonally adjusted and not seasonally adjusted auto inventories reached their highest level since August 2021.

It is no surprise that demand is waning. Consumers are getting hammered. Broad-based and historically high inflation has sapped real spending power as wages have not been able to keep up with prices. Also, despite the rate of growth for new vehicles' transaction prices slowing, they remain at an all-time high. All this is compounded by the auto-specific interest rates that have reached the highest level in two years. As a result, the Cox Automotive/Moody's Analytics Vehicle Affordability Index reports affordability for new vehicles reached all-time lows for the fifth consecutive month in August.

Price weakness and rising inventories could be caused by a ramp-up in supply. However, global auto manufacturing does not appear to be back. Japanese production remained 21 percent below 2019 levels as of July. Worse, Germany was 33 percent below August 2019 production numbers. The U.S. is faring better than its Asian and European counterparts. Motor vehicle assemblies have lagged the 2019 average by around 5 percent each of the past four months, considerably better than 2021.

State Retail Sales Tax

The transportation portion of the state retail sales tax increased by 9.0 percent in September.

Motor Vehicle Licenses

Motor vehicle registration fee collections fell by 58.2 percent in September.