

Less choice, higher car prices in chip shortage

May 19 2021, by Ronald Montoya



Ford pickup trucks built lacking computer chips are shown in parking lot storage in Dearborn, Mich., Tuesday, May 4, 2021. Automakers are cutting production as they grapple with a global shortage of computer chips, and that's making dealers nervous. Credit: AP Photo/Paul Sancya

The pandemic appears to be receding in the U.S. and the economy is

recovering, yet car shoppers heading back to car dealerships are in for a surprise: There are fewer vehicles to choose from and higher prices as a result.

New car inventory is down 48% from last year, with trucks and SUVs hit the hardest. Plus, the percentage of people paying above sticker price has risen from 8.1% in April 2020 to 12.7% in April 2021, according to Edmunds data. That's the highest percentage on record since 2002.

The culprit is a global shortage of semiconductors or microchips, as they're commonly called, which are critical components for myriad features such as infotainment systems, driver aids and more. The pandemic caused many auto manufacturers to slow production and reduce the order of these chips, which electronics companies subsequently bought up.

Manufacturing new chips is an intricate process, and it will take many months before more are built to meet the demand. In the meantime, automakers have built thousands of [new vehicles](#) but can't ship them to dealers because they're missing the chips they depend on. This backup has led to fewer vehicles on the dealer lot and fewer discounts.

"At the rate we're going, it's going to be a lot tougher for car shoppers to find exactly what they want this summer," said Ivan Drury, Edmunds' senior manager of insights.

The chip shortage has also indirectly increased consumer demand for used cars, either as a less expensive alternative or because people simply can't find the specific new vehicle they're looking for. And dealerships will not be as willing to discount cars as long as demand exceeds supply across the board.

With this difficult shopping climate in mind, Edmunds' experts have

come up with tips to navigate the current market.

RECALIBRATE YOUR EXPECTATIONS FOR DISCOUNTS

That killer deal you got a few years ago won't be the same today. Don't be surprised if a dealership only discounts the vehicle by a few hundred dollars, holds the line on the sticker price, or even sets a price above the manufacturer's suggested retail price. Research comparable vehicles in your area to help determine a fair price. We also recommend cross-referencing your prices with a third-party guide such as Edmunds to see what others are paying.

EXPAND YOUR SEARCH

Take a look at the dealerships in the next town or county over. This strategy can increase your chances of getting the car you want or finding a better deal. Tempted to cross state lines for a car purchase? Make sure to research your local sales tax laws and emissions requirements and check with your Department of Motor Vehicles on how to handle the temporary registration.

GIVE YOURSELF OPTIONS

Have backup picks in colors and even a range of different models to give yourself the most flexibility. If you're having trouble locating a certain model, consider its equivalent at another brand. It may not be one you're familiar with, so make sure to research it well, but you might end up liking it better

GIVE SEDANS ANOTHER CHANCE

Trucks and SUVs are by far the most popular vehicles today, which means that they will be more expensive and harder to find. Modern

sedans offer more space than ever and, in theory, should be easier to find on a dealer lot.

CROSS-SHOP NEW AND USED

In today's market, it's best not to leave any stone unturned. There may be situations in which a [new car](#) might be a better value than a [used car](#), or vice versa. Make sure to explore all your new or used car options.

TAKE ADVANTAGE OF SKY-HIGH TRADE-IN VALUES

One bright spot for those with a vehicle to trade in is that it is currently a seller's market. This can help soften the blow from the higher [prices](#). Make sure to appraise your vehicle at multiple venues to help you get its maximum value.

LEASE AN EASIER-TO-FIND VEHICLE

Are you brand-loyal but can't seem to find a good car from your automaker of choice? Consider leasing from another brand that might have a better selection. We're not asking you to permanently change your preferences, which is why leasing works in this scenario. It gives you an easy out in two to three years when you want to return to your brand.

WAIT FOR THE MARKET TO COOL

Edmunds analysts estimate that the [vehicle](#) shortages might last for about six months. If you're not in an immediate rush to buy a car—perhaps you work from home—you could try again near the end of the year.

EDMUNDS SAYS: Although shopping for a car has rarely been as challenging as it is right now, there are a number of strategies you can employ to make the best of it.

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