

## Galves Market Conditions – August 2012



### Dealing With Declines

By now I'm sure it's no surprise to any of our subscribers that we are in the midst of a pretty steep and pervasive market decline. The fact that we had a good run for much of the spring is perhaps only a distant memory at this point as we confront what is a default mindset for many of us in the used vehicle segment of the auto business (well, probably more accurately for those of us in any facet of the business): you're only as good as last month's results. How quickly we (or they) forget.

Be that as it may, we are dealing with a declining market and for most of us that is not a positive experience. It certainly keeps us at Galves busy and alert. One of the positives of our being so closely connected to so many active players in the industry is that we can really turn on a dime and stay abreast of industry developments and perhaps even a bit ahead as we have learned to anticipate various signals and seasonal trends.

We see the decline as being driven largely by a lack of retail traffic. While this is not an unusual summertime experience, we think this summer is particularly bereft of live bodies walking into showrooms for all the usual reasons (kids at home, vacations, travel, outdoor activities) as well as a variety of unusual (and unusually compelling) reasons somewhat unique to the times we live in. There is what appears to be an important election coming up featuring what appears to be two distinct paths to the future. We still have a high level of unemployment and underemployment. The economy is just bumping along. Lots of housing is in jeopardy or underwater. Europe's economy is threatening to implode. There are lots of reasons for most consumers to stick with the status quo at this point in time when it comes to personal transportation. Right now it seems most people are focused on needs as opposed to wants, and if they don't really need to make a vehicle change, they aren't.

So. We have a declining market and it is pretty much all inclusive in terms of segments and is probably more severe than what we have experienced the last couple of years. And our sense is that it will continue for a while. There will be some residual effect from pent-up demand as we move out of summer and beyond the normal summertime restraints, but the core issues will remain.

### **Late Models & Luxury Units Lagging**

Hardest hit continues to be the very late model vehicle segments that are in relatively large supply and are experiencing some additional headwinds as weaker new vehicle sales and increased new vehicle supply have begun to raise the specter of increased manufacturer incentives. The European and Asian luxury segment, cars and trucks, are close behind. Those that can afford it are inclined to buy new; those who can't quite afford it are sticking with what they have or opting for the next level down in a new vehicle. In general the higher priced vehicles in the luxury segment are most affected.

As usually happens in this sort of market, more vehicles become perceived as ordinary in terms of mileage, equipment, color, and condition, and become, therefore, weaker. Conversely, admittance to the level of extraordinary – and therefore stronger prices - requires a higher standard in terms of mileage, equipment, color, and condition.

Price range vehicles continue to be less affected than other segments in general and lower mileage vehicles in this segment do particularly well. Everything else, unless it qualifies as extraordinary in some way, is suspect. That includes convertibles and sport coupes, pick-ups, SUVs, vans, crossovers, econocars, mainstream cars... the whole gamut.

There seems to be a reasonable number of dealers in the lanes but they are ultra-selective about what they chase. They will buy ordinary vehicles but only at their price. There are definitely some bargains out there if sellers choose to move inventory, but a heightened percentage of "no-sales" is the more likely outcome.

We don't foresee any reason for the generalized market slide to change significantly as we move through the remainder of summer.