

Galves Market Conditions – February 2013



Spring Market Emerging?

Predicting if and when the used vehicle “spring market” will arrive has become a bit tricky, particularly in recent years. There was a time when you could expect a very solid, stable, and predictable market to begin somewhere from mid- to-late January and to continue through May and often into June. Lately predicting the onset of that welcome market has become guesswork at best and estimating its staying power more like a stab in the dark. Thus far 2013 illustrates the guesswork, stab in the dark mode perfectly.

If it looks like the spring market has arrived, you are probably focusing on some of the extreme prices being paid for a relatively few special vehicles that check all the wholesale/retail hot buttons: right color, excellent condition, highly optioned, low mileage, rare (sometimes by a combination of these very desirable assets, sometimes simply rare because of low sales volumes). A typical 2010 silver/tan Mercedes E-350 4matic with nav (which virtually all of them have) with 30k will be hard-pressed to bring \$31,000. The same vehicle in white/tan with a pano roof, adaptive cruise, and 20k will likely bring around \$35,000. Those rare and unique vehicles are chased hard and doing extremely well, but they represent a very small segment of the market.

We are being told that the vast majority of more ordinary vehicles are not being chased and attract few bidders in the lanes. Price (meaning an attractively lower price) often is the determining factor in a vehicles salability, and that is a clear signal that spring has not yet arrived. We definitely see that among the vehicles that have a reasonable supply. The exceptional ones can do quite well, but there is a clear drop off among those more ordinary vehicles with more mainstream color, equipment, miles, and condition. Our data supports that assessment of the market.

Still Dealing With Sandy

There is some thought that an unusually strong post-Sandy market may be retarding a normal spring market. Sales were unusually strong through the year end and many of those vehicles may remain in inventory and be impeding current activity. It could also be that many of those insurance checks are being used toward new vehicle purchases rather than used. Whatever the reason, the market is weaker than normal for many segments and we think that may continue for a while.

Luxury Market Still Lagging

Particularly shaky continues to be the European and Asian luxury market. In general, the higher the volume the weaker the model. Mercedes E-class and C-class for 2010 are plentiful, for instance, and ordinary ones are difficult. The same can be said for BMW counterparts, 3-series and 5-series. In general, the more expensive luxury models have very low demand and are problematic as well. Mercedes S-class, BMW 7-series, and Lexus LSs are some examples. Where you have very little volume, as in some recent year Jaguar models, you can expect greater activity and relatively stronger sales.

The same holds true for more mainstream vehicles. The market is flooded with 2010 Camry LEs and it can seem like begging when you're on the block with one. But run a white/tan XLE with leather, moon, nav, and a favorable clock – or an unfavorable one for that matter – and it's a different story. The same can be said for scarcer vehicles like Acura TSXs or TLs, Subaru Legacys, and so forth. If they are relatively rare they are a much easier sell. Good price-range vehicles are, of course, always scarce and therefore remain immune to market weakness.

Economics 101: the theory of supply and demand continues to be the factor that determines what's hot and what's not in auto wholesale. Some things never change. The fact is, demand in general is not great. Consumer confidence is down a bit, paychecks are a bit lighter for many as a result of a return to higher payroll taxes. Vehicles are better and are being kept longer. Ordinary vehicles are not being chased. It's not a terrible market, but it's not inspiring either. Spring may come a little late this year.