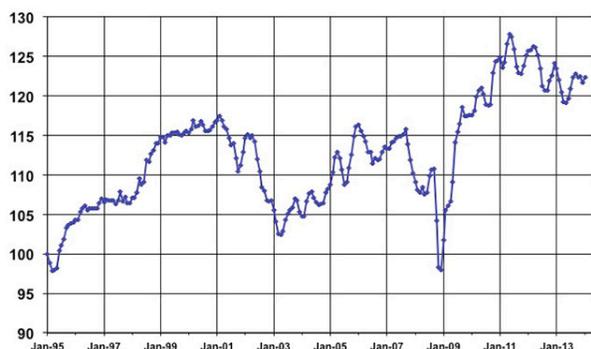


Wholesale Prices Rise in January



Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) rose 0.5% in January. The Manheim Used Vehicle Value Index reading was 122.3 in January, which represented a 0.9% decline from a year ago.

Although the general consensus did (and still does) call for a moderate decline in wholesale prices in 2014, it is not surprising to see temporary swings against that trend. The recent uptick in wholesale prices is also totally consistent with the strong retail used vehicle profits that dealers earned in the fourth quarter of last year and, by all indications, continued to earn in January. Additionally, weather and other factors temporarily shifted wholesale supplies from their upward trajectory.



New vehicle sales stalled by the cold. New cars and light-duty trucks sold at a seasonally adjusted annual rate (SAAR) of 15.2 million in January, down from 15.4 million in December and 15.6 for the full year of 2013. Dealers, manufacturers, and analysts all cited extreme weather conditions during the month as a contributing factor to weaker-than-expected sales. Regional registration data confirmed their analysis.

Although the SAAR in recent months has been impacted by both calendar events (late Thanksgiving) and weather events, it is always a little troubling if the three-month moving average dips below the 12-month moving average – something which may happen this month. Additionally, since new vehicle buyers can be sensitive to swings in the equity markets, recent volatility in those markets is not encouraging. Nor is the fact that even high-income households, which dominate the new vehicle buying population, have relatively low savings rates. Nevertheless, economic fundamentals still suggest the industry can reach the 16 million new unit sales mark this year without the use of aggressive incentives.

Used vehicle sales keep chugging. Used retail sales in January (according to CNW) were down 0.7%, but that was against a strong year-ago pace. And, franchised dealers were able to post a 2.4% gain in sales during the month, despite weather-related headwinds. CPO sales again played an important role.

Fourth-quarter reports from the publicly traded dealership groups showed exceptionally strong used vehicle operations. Even the long-term decline in gross margins appears to have been temporarily arrested. Given that environment of retail profit opportunities, it is no wonder that dealers are aggressively bidding up prices at auction.

Mileage on rental risk vehicles increases in January. Prices for end-of-service rental risk units fell in January relative to December when measured as a straight average, but prices were up after adjustments for changes in mix and mileage.

Off-rental volumes were up from December's low level, but down from a year ago. New vehicle deliveries into rental in January were off more than 15% due to delays in some shipments. As those deliveries get back on schedule in February, so too should off-rental volumes. The average mileage on rental risk units sold at auction increased by 10% year-over-year to more than 40,000 miles, the highest level since February 2011.

Market class and price tier shifts. Pricing for compact and luxury cars continued to underperform the overall wholesale market in January. Pickups, vans, and sports cars were the strongest segments.

Our analysis of mileage by price tier indicates that in January all price tiers under \$9,000 continued to perform very well in the wholesale market, with vehicles priced between \$8,000 and \$9,000 the strongest segment. There was some weakness in the \$20,000 to \$25,000 price tier.