

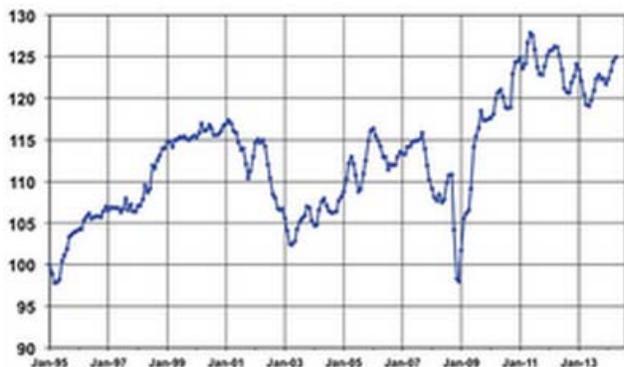
## Manheim Used Vehicle Value Index – April 2014



### Wholesale Prices Rise Again in April

Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) rose for the fourth consecutive month in April. This resulted in a Manheim Used Vehicle Value Index reading of 124.9 for the month, which represented a 4.8% increase from a year ago.

Most market participants had been expecting to see some easing in used vehicle values due to rising wholesale supplies by this point in the year. As an explanation of why it hasn't happened, we can only beat the same old drum – the strength of the retail market is preventing any meaningful decline in prices. The competitive nature of the wholesale market means that dealers keep on bidding until their expected grosses become insufficient to cover the risk. Today, gross margins have stabilized and net profits have soared as a result of higher throughput and increased operating efficiencies.



**New vehicle sales: higher volumes and transaction prices.** New cars and light-duty trucks sold at a seasonally adjusted annual of 16.1 million in April. Retail deliveries and lease originations were strong. Total new vehicle fleet sales were up in April, but only because of significant increases from a year ago in both commercial fleet and government purchases. New vehicle sales into rental were down more than 3% in April, and off 7% for the first four months of the year.

Stronger retail new vehicle demand and reasonable production schedules left dealer inventories in much better shape than they were a couple of months ago. That suggests manufacturers might continue to enjoy higher average transaction prices and flat incentive spending. Both of which, of course, support used vehicle values.

**Used vehicles: strong sales, and even stronger profits.** Total dealer sales of used vehicles rose 4% in April, resulting in a year-to-date increase of 2% (according to CNW). Retail used unit sales by the seven publicly traded dealership groups increased

more than 10% in the first quarter of 2014 (up 7% on a same-store basis), and more important, net profits were at record levels due to greater throughput, increased operating efficiencies, and strong F&I income. Likewise, CPO sales increased 9.5% in April and 10.5% year-to-date.

**Rental risk units: low volumes, high prices.** Unadjusted for mileage and mix shifts, auction prices for rental risk units continued to rise in April. Adjusted for mileage and mix, prices were down marginally from March, but still up nearly 7% from a year ago. Average mileage slipped below 40,000 for the first time this year, but was still 9% higher than a year ago. Volumes sold at auction remained on the low side, and industry sources indicate new units sold into rental fleets declined 7% in the first four months of 2014 compared to a year ago. The bulk of that decline was accounted for by domestic manufacturers.

**Market class and price tier trends.** All major market classes now have year-over-year prices gains. The increase for luxury cars is, however, insignificant. Although wholesale pricing in the luxury segment has suffered for more than a year, luxury vehicles outperformed the overall market in April. Most of that was due to easy year-over-year comps.

An analysis of average mileage by price tiers indicates the sweet spot in the wholesale market has moved up in price. In April, the strongest pricing (and lowest relative supply) was in the \$12,000 to \$14,000 price range. In 2013 and early 2014, the strongest pricing was often found in the \$8,000 to \$10,000 price range.

**Tax refunds: the final gasp.** As noted the past two months, tax refunds in February of this year were much stronger than a year ago, since IRS processing in 2013 was delayed due to the last-minute “fiscal cliff” negotiations. In fact, tax refunds as of February 14 were up 23%, or \$18.7 billion, from their year-ago level. In March and April, however, those gains disappeared. As of April 25, individual income tax refunds were up only 2.0%, or \$5 billion, from last year.