

Wholesale Prices Decline in May



Though wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) fell in May, the Manheim Used Vehicle Value Index reading of 124.7 for the month represented a 4.7% increase from a year ago.

The continued strength in wholesale pricing reflects a strong retail market and only modest increases in wholesale supplies. Readily available retail financing at attractive terms has enabled dealers to achieve healthy profits on the subsequent retail sale of their auction purchases. In addition, the always-competitive retail used vehicle marketplace has become more so as franchised dealers increasingly focus on (and improve) this side of their business.

May new vehicle sales surprise to the upside. New cars and light-duty trucks sold at a seasonally adjusted annual rate of 16.7 million in May. That was considerably above the consensus forecast that looked for something in the low 16-million range. Clearly, analysts failed to appreciate the boost provided by five weekends and the Memorial Day pull ahead of some June sales. And, at least one manufacturer had a significant increase in rental deliveries. Nevertheless, there's no denying that the retail new vehicle market was hot in May, especially given the other measures of consumer spending in recent months.

Importantly, in May, average new vehicle transaction prices were higher and incentive spending was flat. Inventory levels, with the benefit of higher sales, fell below the 60 days' supply mark. That suggests that the healthy pricing and incentive scenario can continue.

Dealer used vehicles sales on a record pace in 2014. Total used vehicle sales in May were unchanged from their year-ago level, according to CNW, but that was the result of an 8% decline in private-party transactions. The combined used vehicle sales of franchised and independent dealers were up 4% in May and 2.5% year-to-date. That, combined with increased sales in each of the past four calendar years, means that dealer used vehicle sales are on track to set a record in 2014. We have always considered wholesale pricing to be more closely tied (both theoretically and statistically) to dealer retail volumes than the overall sales total that includes private party transactions.

Give credit where credit is due. There is no doubt that used vehicle retail financing is always critically important to supporting wholesale values. But, in addition, there is the cascading effect from new vehicle financing. Growing new vehicle sales with flat incentive spending would not have been possible without lenders' stretching terms and offering higher loan-to-value ratios to keep monthly payments and down payments in check. To be sure, those longer terms and higher LTVs could be interpreted as a shadow incentive, but that generally only comes into play if the loan turns sour. In May, the S&P Auto Default Index fell to a new low.

Rental risk units: low volumes, high prices. Unadjusted for mileage and mix shifts, auction prices for rental risk units declined in May from their April high, but remained 5% above their year-ago level. Average mileage remained steady at just below 40,000. Volumes sold at auction remained on the low side, but, with increased new vehicle sales into rental in May, wholesale supplies should pick up in coming months.

Market class and price tier trends. As was the case in April, all major market classes have year-over-year price gains. The increase for luxury cars is, however, less than one percent. And, although the year-over-year gain for compact cars is 4.3%, in recent months their pricing has been soft. Pricing for pickups remains exceptionally strong.

An analysis of average mileage by price tiers indicates the sweet spot in the wholesale market continues to move up in price. In May, the strongest pricing (and lowest relative supply) was in the \$11,000 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.