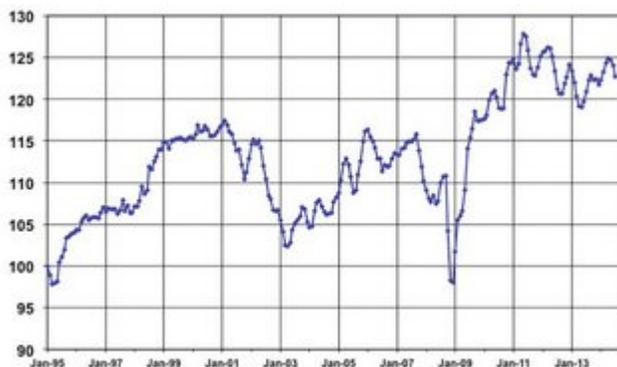


Wholesale Prices Decline Again in July



Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) declined 1% in July. That resulted in a Manheim Used Vehicle Value Index reading of 122.7 for the month, an increase of 1.5% from a year ago.

This was the third consecutive monthly decline in wholesale pricing. And, given that the magnitude of the decline has increased each month, it has prompted talk of a free fall in pricing. That talk is premature. Wholesale prices have been on a secular downward trend since the all-time peak was reached in May 2011; but the movements have been modest, and there have been several up-cycles within the larger trend. Recent price movements reflect an adjustment that many thought would occur earlier in the year. That it came now, just prior to a period of historical seasonal weakness in pricing and impending wholesale supply increases, only intensified the fear of a collapse. But such a collapse cannot come from industry forces alone. It would also require a significant altering in the current trajectory of labor market and credit conditions. That's possible, but not likely.



New vehicle sales: Upside surprises never last forever. After posting upside surprises in May and June (16.7 million and 16.8 million, respectively), new vehicles sold at a seasonally adjusted annual rate of 16.4 million in July. That was a slight disappointment from the expected 16.6 million rate. But, as we noted when reporting on May and June sales,

there were technical factors that distorted the seasonal factors and artificially boosted the selling rate in those months. July represented payback for that distortion. In practice it is best to look at the selling rate on a three-month moving average basis. By that measure, sales are currently running at 16.7 million rate – a level that will exceed this year's full-year total. Indeed, 16.7 million is close to what the consensus is projecting for 2015. In other words, the recovery in new vehicle sales is leveling off.

The story with respect to new vehicle pricing was mixed in July. Average transaction prices were up more than 2% from a year ago, according to Kelley Blue Book; but that was solely the result of mix shifts. Manufacturers reported that average transaction prices for many comparably equipped compact and midsize cars declined during the month as a result of the competitive marketplace.

The projected new vehicle inventory and incentive trends that developed in July suggest some further downward pressure on wholesale prices.

Used vehicle sales slow in July. Used vehicle sales, as reported by CNW, were also a slight disappointment in July. Sales by dealers were down more than 5% during the month, which produced a year-to-date decline of 0.5%. But here too, alarm bells should not be set off. Dealers are continuing to report good turn rates and strong profits.

Rental risk units: Prices remain in a narrow range, and mileage rises. Auction prices for rental risk units (adjusted for mileage and mix shifts) moved up marginally during the month, but were flat versus a year ago. Unadjusted for mix and mileage shifts, rental risk prices were down for both the month and year-over-year. Average mileage on rental risk units sold at auction continued to increase and reached nearly 41,000 miles, up 11% from a year ago.

Luxury car pricing has been good for buyers; not so much for sellers. In July, the price decline in wholesale values for most luxury cars was twice that of the overall market. And there were segments within the luxury market (for example, entry level and premium units) that suffered even more. These segments have been underperforming the overall market throughout the past year. Blame it on the growing wholesale supply of very nice units being offered and the continued effort to push new sales. That's great for consumers and dealers (who acquire vehicles at the right price and turn quickly), but it has been a little rough on commercial sellers

of these units. Most of them, however, had been long expecting this adjustment in price.

Compact and midsize car pricing remains stuck. Compact and midsize cars have been the victims of their own product successes. It has resulted in a very competitive marketplace for both new and late-model used units. Given the plethora of high-quality offerings, it is tough for any one model to stand out. That has increased both cash and noncash promotions

Price movements in July were fairly consistent across the price tiers. Our analysis of average mileage by price tiers showed that the strongest pricing in July was in the \$13,000 to \$15,000 range, whereas the weakest price was just below that, in \$10,000 to \$12,000 range. But the differences were not large and were totally consistent with the shifts in auction volumes.