

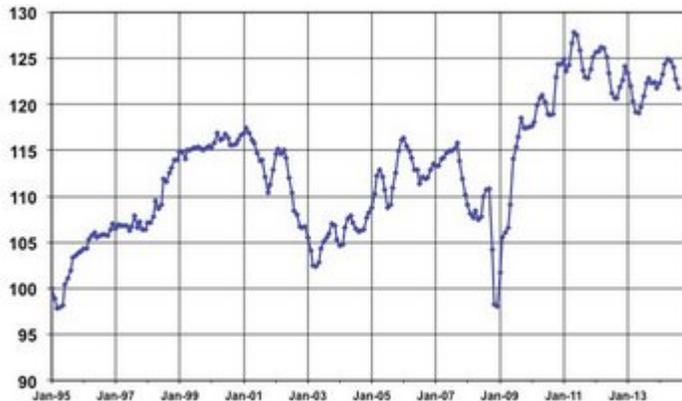
Wholesale Prices Decline Again in August



Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) declined 0.7% in August. This was the fourth consecutive monthly decline and brought the August Manheim Used Vehicle Value Index reading to 121.8, down 0.4% from a year ago.

The recent downward movement in wholesale pricing reflects:

- A reversion to trend levels after an extended period of exceptionally strong pricing;
- Increased wholesale supplies; and
- In recent months, moderating retail demand.



Wholesale used vehicle values: Back to trend levels. August's 121.8 Index reading put it right on the trend line for the entire series back to 1995. (The trend line naturally has an upward slope since the Index represents a dollar amount, not a residual percentage.)

Fundamentals, and history, now suggest the Index will move into an extended period below trend. However, we do not expect that the coming deviation from trend will be as pronounced as the 10% underperformance in early 2003 or 17% shortfall that occurred in December 2008. In both of those instances, a weakening economy and tight credit amplified the normal cyclical swing in wholesale pricing. Today, employment growth is improving and retail credit conditions remain favorable.

New vehicle sales: August was a scorcher. New cars and light duty trucks sold at a seasonally adjusted annual rate of 17.4 million in August – the fastest pace since 2006. Sure, the quaint selling-day adjustment and an early Labor Day artificially boosted the pace a modest amount. As a result, expect some pullback in September's selling rate; but also consider the longer-term trend. The annualized selling rate over the past three

months was 16.9 million, over the past six months it was 16.6 million, and over the first eight months of this year it has averaged 16.3 million.

And these strong sales have not been the result of fleet sales. Total new vehicle sales into fleet rose by 13.5% in August, but year-to-date fleet sales are up only 3.8% versus a 5.5% increase in retail deliveries.

Used vehicle sales pace weakens, but profits are still good. Retail used unit sales by dealers declined in August for the third consecutive month – and last month’s falloff was more than 9%, according to CNW. Nevertheless, we continue to hear positive comments from dealers that turn rates are good and net margins are strong. Thus, although slightly more selective, dealers are still aggressively seeking appropriate inventory. But, with new vehicle sales so strong, keep in mind that for franchised dealers a lot of great inventory is literally being driven to their door every day in the form of trade-ins and lease turn-ins.

Rental risk prices ease from record highs. Auction prices for rental risk units (unadjusted for mix and mileage) declined for the fourth consecutive month in August. The average price is now off approximately \$1,200 from the all-time high reach in April, but down less than \$300 from a year ago. The index of rental risk pricing that adjusts for changes in mix and mileage was down \$1,610 from its March peak and down \$470 from a year ago.

Volumes sold at auction remained low in August, and average mileage slipped back below 40,000. With new vehicle sales into rental up 10% in August, some increased flow back into the wholesale market is inevitable, whether it is via the traditional auction process or some other channel.

Pickups and vans remain segment leaders. Mileage and seasonally adjusted prices for major market classes showed only pickups and vans (especially cargo vans) up year-over-year. Luxury cars remained the segment with the largest decline in wholesale pricing over the past year, but the pace of decline for this segment in August was not out of line with the overall market.

Price movements in August reflect shifting wholesale supplies. Our analysis of average mileage by price tiers showed that the strongest pricing in August remained in the \$13,000 to \$15,000 range, whereas the weakest pricing was in the \$9,000 to \$10,000 range. These trends were strongly consistent with the underlying shifts in auction availability.