

## Wholesale Prices Decline Again in September



Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) declined 0.3% in September. This was the fifth consecutive monthly decline and brought the September Manheim Used Vehicle Value Index reading to 121.4, down 1.1% from a year ago.

After exceptionally strong new vehicle sales in August, some franchised dealers entered September with higher-than-desired used vehicle inventory levels as a result of trade-ins and lease turn-ins. Dealers who priced these units right were able to quickly retail them and then purchase from the growing supply of commercially consigned units at auction in September. Independent dealers also stepped up their purchasing activity given a slight improvement in retail sales and lower wholesale pricing, which provided a better risk/reward proposition.

***New vehicle sales: Back to reality.*** After an exceptionally strong 17.4 million new vehicle sales pace in August (driven in part by technical and calendar factors), new vehicle sales, as expected, pulled back to a 16.3 million rate in September. For the first nine months of this year, the seasonally adjusted annual selling rate was 16.3 million; it was 16.6 million over the past six months and 16.7 million over the past three months. Although economic forces suggest that the retail consumer sector will improve in the months ahead, it is likely that the auto industry will plateau given that it got out ahead of, and then ran considerably faster than, the overall recovery.

Lease penetration rates have continued to rise in 2014, pushing new lease originations up by close to 15% so far this year. Many of today's leases are returning satisfied lease customers from 2011. It is hoped that this virtuous lease return/new lease cycle continues, as it will help offset the slower turn cycle being created by the growing number of 72-month and 84-month retail loans.

***Used vehicles: A better September.*** After a disappointing August when dealer used vehicle retail sales declined by more than 9%, September saw an increase of nearly 5%, according to data from CNW. Some of the used vehicle sales shift reflects reverberations from the new vehicle side. Strong new vehicle sales in August stole some used vehicle buyers in that month, but the resulting trade-ins were then retailed in September. Franchised dealer used vehicle retail sales were up 6.6% in September after being down 5.6% in August. CPO sales were up 20% in September and 10% year-to-date.

Independent dealers also saw improved performance in September, with deliveries up 2.4% from a year ago. This is a trend that may very well continue, given that payrolls are growing and discretionary income for low- and middle-income households is being boosted by falling gas prices.

***Rental risk prices fall again in September.*** Average auction prices for rental risk units continued to decline in September. After accounting for broad changes in mix and mileage, prices for rental risk units were down 4.5% from a year ago. Average mileage crept back up above 40,000, and volumes sold increased.

***Market segment and price tier trends.*** Pickups and vans remain the strongest segments year-over-year; but in recent months, all of the market classes have been showing basically the same level of easing in prices on a seasonally adjusted basis. The multiyear decline in used luxury car pricing slowed considerably in September, which if it holds will be good news for lessors that have a large number of luxury units coming back over the next several months.

Although vehicles in the \$9,000 to \$10,000 price range continued to show the weakest relative price performance in September (and also the highest year-over-year increase in supply), this segment may be helped in coming months by falling gas prices, which provides a big benefit to households that make up the retail customer base for these vehicles.