

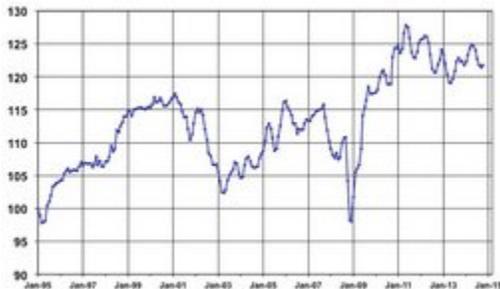
## Wholesale Prices Rise in October



Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) ticked up in October, after declining in each of the previous five months. The October Manheim Used Vehicle Value Index reading was 121.8, a decline of 0.4% from a year ago.

After eliminating some inventory-heavy positions in the third quarter, dealers were once again in acquisition mode during October. Sure, nonseasonally adjusted prices fell during the month (they invariably do); but the decline was less than normal and came despite some significant increases in wholesale volumes. Credit higher new vehicle transaction prices, stable incentive activity, and renewed consumer interest in used vehicles.

Nevertheless, fundamentals suggest further wholesale price declines are in the offing. It's just that movements will not be – and never are – a straight line.



**New vehicle sales: Steady sales, higher transaction prices.** New cars and light-duty trucks sold at a seasonally adjusted annual rate of 16.4 million in October. This was the same as the average pace achieved over the first 10 months of the year and also what is expected for the full year. Next year's consensus forecast remains below 17 million.

What happens when the pie stops growing as rapidly? A fight for market share and the return of harmful incentives? Maybe not. On the positive side, manufacturers have greater flexibility in adjusting production. But, on the negative side, the strengthening dollar has provided a number of foreign manufacturers with greater pricing flexibility.

**Used vehicles: Stable sales, good bottom line.** Total used vehicle sales in October were essentially flat versus a year ago, according to CNW. Franchised dealers sales were up 4% in October (flat year-to-date), and independent dealer sales were down 9% during the month and 3% year-to-date. Several analysts expect that used vehicle retail activity will close out the year strong. Clearly, already in October, dealers must have thought they had a retail buyer for the off-rental units that they bought in high numbers. And, in the lower price points, dealers using down-payment deferral programs are already in the midst of their tax selling season. And so far, so good. However, political, legislative, and bureaucratic issues may delay and dilute the more traditional tax selling season.

**Rental risk: Higher volumes, higher mileage, and lower prices.** As a result of recall-delayed selling, auction volumes of rental risk units were up significantly in October. Average mileage was a record 44,800 miles. Auction prices, unadjusted for market class and mileage changes, were down 6% from a year ago. Adjusted prices were down 4%.

**Market segment and price tier trends.** Pickups and vans remain the strongest segments year-over-year, while midsize and compact car pricing continues to suffer from competitive new vehicle pricing and greater consumer interest in the small crossover segment. The multiyear decline in used luxury car pricing has abated in recent months.

In a reversal of trend from earlier in the year, vehicles in the \$8,000 to \$10,000 price range enjoyed strong relative pricing in October. Vehicles in the higher price tiers did less well.