

Wholesale Prices Rise Again in November



After ticking up in October, wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) showed a more sizable gain in November. This pushed the November Manheim Used Vehicle Value Index to a reading of 123.3, which represented an increase of 0.7% from a year ago.

Wholesale price movements since April suggest that, if there was a price misalignment between new and used vehicles, it was modest at best. The five-month decline in pricing lowered wholesale values by less than 3%, and the subsequent two-month rise has brought prices within 1.3% of their April high. Recent wholesale pricing also suggests that the low- to mid-16 million new vehicle SAAR in September and October did not create the level, or age/model/condition mix, of trade-ins and lease turn-ins that dealers needed for today's robust used vehicle market. The dealer's mood in November was one of active acquisition at auction.

New vehicle sales: Monthly SAAR tops 17 million. New cars and light duty trucks sold at a seasonally adjusted annual rate of 17.1 million in November. That pace might have been artificially boosted by the selling day adjustment and higher fleet sales, but still it was a solid report. The average new vehicle transaction price rose to \$33,754 in November, up 1.7% from a year ago, according to Kelley Blue Book.

Maintaining that pricing strength over the course of the coming year may prove challenging. Clearly, the expected plateauing in new vehicle sales, the significant weakening of the yen, and the large amount of dry powder that manufacturers have to raise incentives could lead to aggressive pricing next year. And don't forget the usual year-end step-up in promotions that will occur this month.

Used vehicles: Steady and strong profits. Used vehicle retail sales by dealers ticked up by less than 1% in November, after declining in October, according to CNW. And, although year-to-date used vehicle sales by dealers are down 1.1%, all indications are that profits are being generated at record levels.

Growing lease turn-ins, as well as newer trade-ins, have significantly raised the average used vehicle selling price at franchised dealers. Relatedly, another strong month of CPO sales in November pushed the year-to-date tally to 2.14 million, an increase of 10.2% from the year-ago period.

Rental risk: A bounceback in pricing. Average auction prices for rental risk units (both adjusted and unadjusted for mileage and mix shifts) moved up in November relative to October, but were still down year-over-year. In hindsight, we can now see that October's sharp downward movement was exaggerated by heavy volumes and a greater share of below-average condition vehicles. November's auction volume of rental risk units was up significantly from a year ago; but due to the normal large seasonal

reduction, November was still the lowest-volume month of the year. Average mileage crossed the 45,000-mile threshold for the first time ever.

Market segment and price tier trends. Luxury vehicles continued to outperform the overall market in November; but due to weakness earlier in the year, they still have a lot ground to make up. Maintaining luxury car residuals in the months ahead will be important due to the current, and upcoming, seasonal rise in lease returns in this segment. Pricing in the compact car market remained competitive in both the new and used vehicle markets.

Our analysis of changes in mileage by price tier suggests that vehicles in the \$8,000 to \$10,000 price range are showing the weakest demand, whereas vehicles in the \$13,000 to \$15,000 range are enjoying the strongest relative pricing.

Dealer-consigned units at auction had a 1% increase in average selling price despite a 2% rise in average mileage.