

January 2015 Kontos Kommentary

Current Used Vehicle Market Conditions



Summary

Average wholesale used vehicle prices rose significantly in January on both a month-over-month and year-over-year basis. One would be quick to conclude that the market seems to be admirably absorbing the highly anticipated growth in supply, and that would be true. Still, it is important to disaggregate averages and indexes in order to look at the underlying impact the supply of off-rental and off-lease vehicles is having on current-to-one-year-old models and three-year-old models, respectively. A somewhat different picture emerges here in that prices for these age segments did indeed take a hit in January, as:

- 1) auction “factory” sales were resumed for large inventories of off-rental program units that had been curtailed at year-end 2014, and
- 2) growing numbers of vehicles leased approximately 36 months (three years) ago continue to reach maturity and enter online and in-lane remarketing channels.

Strong retail demand, especially for CPO units, as well as moderate incentives, have partially offset these impacts for these age segments and the used vehicle market as a whole.

Details

According to ADESA Analytical Services’ monthly analysis of [Wholesale Used Vehicle Prices by Vehicle Model Class](#)¹, wholesale used vehicle prices in January averaged \$10,220 – up 3.6% compared to December and up 2.4% relative to January 2014. Much of the month-over-month and year-over-year price variance by model class segment is driven by higher off-rental program vehicle sales this January compared to December and January 2014. (Program vehicles are typically current-model-year or one-year-old models that sell for higher average prices than other auction sales types.) Thus, not a lot should be read into the double-digit increases in average prices seen in some model class segments. However, even after stripping off the impact of higher program vehicle sales, prices for Midsize SUVs and Fullsize Pickups still showed strength.

Prices for used vehicles remarketed by manufacturers were down 10.8% month-over-month and down 11.5% year-over-year. As anticipated in this report last month, the tailwind to prices that might have been provided by the absence of program units due to sale curtailments in December, turned into a headwind as these units are being released in early 2015.

Prices for fleet/lease consignors were up 5.2% sequentially and up 1.3% annually. This indicates healthy demand for older repo and commercial fleet vehicles, even as off-rental risk and off-lease prices face downward pressure from higher supply.

Dealer consignors registered a 2.2% increase versus December and a 3.7% increase relative to January 2014, indicating that independent dealers are readily absorbing the excess franchised dealer trades generated from strong new vehicle sales.

Retail used vehicle sales in January were up 1.4% year-over-year, based on data from CNW Marketing/Research. CPO sales were particularly strong in January, rising 17.2% year-over-year, according to figures from Autodata.

¹The analysis is based on over six million annual sales transactions from over 150 of the largest U.S. wholesale auto auctions, including those of ADESA as well as other auction companies. ADESA Analytical Services segregates these transactions to study trends by vehicle model class, sale type, model year, etc.

The views and analysis provided herein relate to the vehicle remarketing industry as a whole and may not relate directly to KAR Auction Services, Inc. The views and analysis are not the views of KAR Auction Services, its management or its subsidiaries; and their accuracy is not warranted. The statements contained in this report and statements that the company may make orally in connection with this report that are not historical facts are forward-looking statements. Words such as "should," "may," "will," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "bode", "promises", "likely to" and similar expressions identify forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include those matters disclosed in the company's Securities and Exchange Commission filings. The company does not undertake any obligation to update any forward-looking statements.