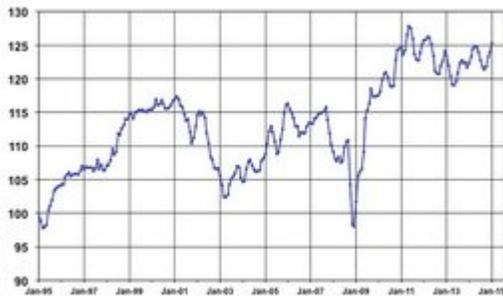


Wholesale Prices Rise Again in January



Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) increased in January for the fourth consecutive month. This pushed the January Manheim Used Vehicle Value Index to a reading of 125.3, which represented an increase of 2.5% from a year ago.

January's price rise pushed used vehicle values to their highest level since April 2012. The fact that wholesale prices are now back to a level last seen when off-lease volumes were at their trough is contrary to expectations of most analysts. Wholesale prices are not, however, in conflict with the continued rise in new vehicle transaction prices (net of incentives) or the strong retail used vehicle results being reported by most dealers.



New vehicle sales and pricing on track at start of 2015. New cars and light-duty trucks sold at a seasonally adjusted annual rate of 16.7 million in January. More than a handful of makes had their best January ever.

Kelley Blue Book reported that average transaction prices were up 5% from a year ago, driven in part by mix shifts. Even the government's new vehicle component of the Consumer Price Index, which is mix- and quality-adjusted, remains up year over year. As a result, although wholesale values relative to the New Vehicle CPI are elevated (on both a lagged and current basis), they are not outside of historic norms.

Used vehicle sales and profits remain strong. In January, dealer sales of used vehicles rose 1.4%, according to CNW. CPO sales jumped 17% in January. That was after both publicly traded and private dealer groups indicated strong used vehicle operations in the fourth quarter. Volumes were up with no sacrifice to gross or turn rates.

When final numbers for the seven publicly traded dealerships are reported, it is almost inevitable that fourth-quarter same-store used unit retail volumes will show a rise for the 22nd consecutive quarter. And it is possible that gross margins held steady after several years of decline. We expect that labor market and credit conditions will continue to be

favorable for used unit sales for the remainder of 2015. Maintaining margin, however, will require superior inventory management in the face of what may be volatile industry conditions and easing wholesale values.

Pricing for rental risk units holds steady. Auction prices for rental risk units sold in January rose relative to December after adjusting for mix and mileage, but were down absent the adjustment. Adjusted prices were basically level with a year ago. Average mileage on units sold in January remained at the record high level posted in December.

Market segment and price tier trends. In January, relative pricing strength across price tiers was extremely consistent and seemingly uninfluenced by shifting volumes for the various price points. This suggests an efficient market that has erased earlier price anomalies through the competitive bid process.

Wholesale pricing for compact cars was weak in January. That has been the trend for more than a year as a result of competitive pricing on the new vehicle side and abundant offerings in the wholesale market. The pricing pressure in this segment has only been intensified by the plunge in gas prices.

Auction prices for dealer-consigned units sold in January were noticeably higher than a year ago on growing volumes and slightly rising mileage.