Wholesale Prices Slip in February

Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) declined in February after increases in each of the previous four months. This put the February Manheim Used Vehicle Value Index to a level of 125.1, which represented an increase of 1.5% from a year ago.

The number of vehicles entering wholesale channels grew significantly in February. Meanwhile, retail demand, save for the CPO segment, leveled off. Yet, wholesale prices remained above trend by most measures. Chalk it up to manufacturer pricing discipline on the new vehicle side and good inventory management by dealers on the used vehicle side.

February new vehicle sales: a slip or a pause? New cars and light-duty trucks sold at a seasonally adjusted annual rate (SAAR) of 16.2 million in February. Given that analysts had been expecting a 16.5 to 16.7 million pace, February's sales report was viewed with disappointment. Probably too much so. Just as January's pace of 16.6 million was greeted with too much enthusiasm.

Sales rates in January and February are very sensitive to the seasonal adjustment factors. And those factors are often less than precise, due to both statistical, and actual seasonal, reasons. At best, sales during the first two months of 2015 suggest a pause after last year's strong close. At worst, it may be evidence of the more cautious consumer behavior exhibited in overall retail sale activity for some time. In either case, it's likely temporary.

From a used vehicle residual standpoint, it is important to note that February's sales disappointment did not elicit aggressive promotions. Kelley Blue Book reported that average new vehicle transaction prices in February increased 3.6% (or $1,145) from their year-ago level. Autodata reported that average per-vehicle incentive spending declined 1% from a year ago.

Although aggregate inventory levels are not overly worrisome, the weaker-than-expected sales pace did cause greater imbalance. Refreshingly, some manufacturers have decided to slow production rather than force the market.

Used vehicles: steady sales, strong profits. Most dealers continued to report good operating results in their used vehicle departments. Lease returns and newer trade-ins are providing a wider mix of offerings, and dealers have been optimizing inventory to make the most of it. CPO sales rose 10.3% in February. That, combined with January's increase of 17%, produced year-to-date CPO sales of more than 392,300 units, up 13.6% from 2014's record pace.

Weekly tax refunds slow. Individual tax refunds disbursed in the first week of February totaled $39.3 billion. In the second week that slipped to $33.6 billion, and in the third week it dropped off to $24.5 billion. Total refunds during the first three weeks of February were down 13.8%, or $15.7 billion, from their year-ago level. Other than some marginal weakness in lower-priced used units, there appeared to be little direct impact to the auto industry from the reduced level of refunds.

Rental risk volumes (and mileage) rise. Mix-adjusted auction prices for rental risk units sold in February improved slightly from January, but were down relative to last year's high levels. Volumes were high in February. So, too, was the average mileage on the units, which rose to more than 48,500 miles.

Market segment trends. Compact cars have been the weakest segment in terms of wholesale pricing in recent months, as well as over the past year. That's not surprising given slow sales and a high days' supply on the new vehicle side. Pricing for cargo vans continued to be very strong.