

## Wholesale Prices Decline in March



Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) fell 0.5% in March. (Naturally, prices rose before the seasonal adjustment.) March's decline pushed the Manheim Used Vehicle Value Index to a reading of 124.5, which was virtually identical to its year-ago reading of 124.4.

Although wholesale prices fell in the final two months, the average level for the first quarter was 1.6% higher than the fourth quarter of last year and 1.3% above the year-ago quarter. Wholesale pricing has remained slightly above trend level due to continued strong profit opportunities on the subsequent retail sale.

New vehicle sales pace exceeds 17 million in March. As expected, the seasonally adjusted annual selling rate bounced back in March from a weather-dampened 16.2 million pace in February. March's strength was concentrated in foreign nameplates due to higher incentives (possibly allowed by exchange rate movements) and the closeout of the fiscal year for Japanese companies.

Industrywide, however, it is still true that the new vehicle sales environment is supportive to used vehicle residuals. Average transaction prices continue to rise across the board (up 3.5% over the past year to \$33,280, according to Kelley Blue Book), and incentive spending was flat in March (down for domestic brands, and up for foreign nameplates).

Reasonable new vehicle inventory levels going into April should also help used vehicle values. On the used inventory side, it will be important to see if dealers placed the right money on the slightly higher-than-expected number of trade-ins they received in March. Auction activity in the coming weeks will tell that story.

Used vehicle sales: overall market stable, late-model vehicles strong. Retail used unit sales by franchised and independent dealers appear to have been level with a year ago both in March and for the quarter. Dealers retailing units in the \$18,000 and above range did better than those selling lower-end units. CarMax posted a strong 7% increase in same-store retail used unit volumes and an average transaction price of \$19,297 for their fiscal quarter ending February 28. Manufacturer CPO sales also continued their record pace, up 8% in March and 11% year-to-date.

Dealers selling lower-priced units were likely hampered by a less-than-stellar tax refund season. Since the start of February, the level of tax refunds has fallen below the year-ago amount in seven out of eight weeks. Through March, total refunds were down 1.1%, or \$2.3 billion, from a year ago.

Pricing for rental risk units eases from a year ago. Auction prices for rental risk units sold in March jumped up from February, but the seasonal movement was less than last year's spike. As a result, prices – although still strong – were down 4.2% from a year ago, adjusting for mileage and broad changes in mix. On a sales-weighted basis, rental risk prices in the first quarter of 2015 were down 2% from the first quarter of 2014.

Auction volumes for rental risk units were up significantly both in March and for the quarter as a whole. Conversion rates were better-than-average. Although average mileage on rental risk units in March dipped from February's record high, it remained above 45,000 miles, and up 8% from a year ago.

Market segment and price tier trends. In recent months, as well as over the past year, wholesale pricing for compact cars has been weak. Pickups and vans continued to be the significant outperformers.

Within the pricing tiers, there continued to be weakness in the \$9,000 to \$11,000 range and strength in everything above \$15,000. Pricing for dealer-consigned units improved in March after showing some temporary weakness in February.