Wholesale Prices Decline in April

Manheim

Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) fell 0.2% in April. (Prices were up slightly before the seasonal adjustment.) April's decline pushed the Manheim Used Vehicle Value Index to a reading of 124.2, which represented a decline of 0.6% from a year ago.

Although April represented the third consecutive monthly decline in the Manheim Index, it would be incorrect to say that wholesale pricing is weak. In fact, it is fairer to say that used vehicle values are elevated and have remained in a relatively narrow range for more than four years.

Higher new vehicle transaction prices and disciplined marketing have clearly played a role in supporting used vehicle residual values. And, although wholesale supplies are beginning to grow quite nicely, the aggregate numbers are not yet outside of historic norms.

April new vehicle sales: stable, solid, sensible. New cars and light-duty trucks sold at a seasonally adjusted annual rate (SAAR) of 16.5 million in April. This is slightly below expectations, and considerably below March's 17.1 million pace; but the slower sales rate was partly the result of some Asian manufacturers' pushing sales in March to close out their fiscal year. The year-to-date sales pace (16.6 million) is in line with expectations and is consistent with the full-year sales forecast of close to 17 million. In fact, new vehicle sales this year have been quite strong given the weakness in overall consumer spending and economic growth.

Higher new vehicle transaction prices (+2.6%, or $836, over the past year, according to Kelley Blue Book) continue to support used vehicle residuals. Modest incentive spending has also helped. Given that new vehicle inventory levels remain in good shape, these favorable forces will likely remain.

There has been a noticeable increase in fleet deliveries, with new vehicle sales into rental up 11.9% through April. But this is largely a timing issue, so the pace should slow. In any event, the impact on residuals won't come until 2016.

Used vehicle retail market remains solid. In the first quarter of 2015, the seven publicly traded dealership groups had a 6.7% increase in same-store used unit retail sales. It was their 23rd consecutive quarterly increase in unit volumes. Gross margins narrowed slightly, but net profits reached record highs. All indications are that the healthy sales environment continued in April. We know for certain that was true for CPO sales, which were up 11.3% in April and 11.4% year to date.

Dealers selling lower-priced units were hampered by a less-than-stellar tax refund season. Despite an uptick in the third week of April, total tax refunds received through April 24 were down 1.1%, or $2.9 billion, from a year ago.

Rental risk prices fall from last year’s record high. Auction prices for rental risk units sold in April fell more than 4% on both a mix-adjusted and straight-average basis. That comparison, however, was against last year’s record high.

Auction volumes for rental risk units continued to rise significantly in April. This was reflective of the 11.9% increase in new unit sales into rental during the first four months of 2015. Conversion rates were better than average, and average mileage, at more than 46,600 miles, was high.

Market segment and price tier trends. In what was likely a temporary turnaround, midsize cars had an uptick in pricing in April. They remain, however, one of the weaker segments over the past year. Pickups, vans, and large SUVs 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. The volume of vehicles offered in the $9,000 to $11,000 range was up considerably from a year ago. Given that the bulk of units currently sold in this price range are either compact or midsize cars from the 2012 or 2013 model year, we can expect volumes will to continue to grow.

Pricing for dealer-consigned units was strong in April. This suggests that dealers put the right money on the higher-than-expected number of trade-ins they received in March. Of course, putting the right money on cars is easier when there’s not excessive pressure to sell new vehicles.