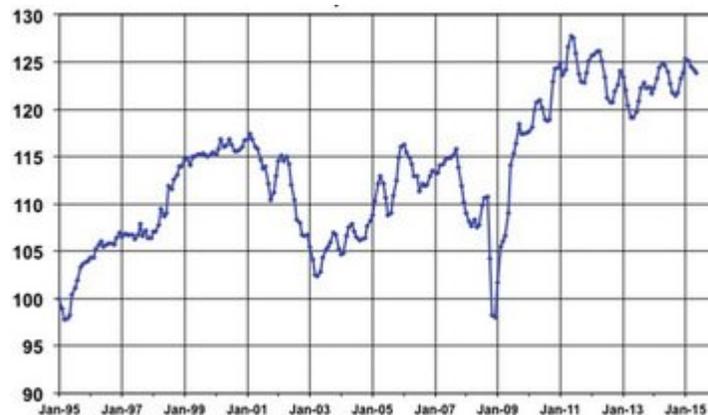


## Wholesale Prices Decline Again in May



Wholesale used vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) declined for the fourth consecutive month in May. This brought the Manheim Used Vehicle Value Index to a reading of 123.8 in May, which represented a decline of 0.7% from a year ago.

A look at the Manheim Index over its entire 20-plus year history shows that pricing over the past five years has been not only elevated, but stable. Sure, there have been intra-year swings; but over the longer time span, the movements have been modest. Indeed, even with the recent declines in wholesale pricing, the Index is only 3.1% lower than the peak reached in May 2011 – and that was a peak that was artificially boosted by the supply disruption resulting from Japan’s earthquake.



The current Manheim Index reading is also close to its historic trend line, whether that line is based on raw data or adjusted for changes in new vehicle prices. With wholesale supplies certain to grow (indeed, accelerate), a movement below trend should be anticipated. The degree of deviation will be dependent on the ability of basic economic forces – labor market and credit conditions – to continue to support retail used unit volumes and profits.

**Consumers buy vehicles, but not much else.** New cars and light-duty trucks sold at a seasonally adjusted annual rate (SAAR) of 17.7 million in May. This was far above expectations, and it was the best pace in nearly a decade. Three calendar quirks boosted the sales rate: 1) five weekends during the month, 2) Memorial Day’s coming early, and 3) the quaint notion of adjusting for one less “selling” day. Expect a June pullback (the selling-day adjustment will go the other way). Nevertheless, new vehicle sales are strong (the year-to-date pace is 16.8 million), especially given that consumer spending on other items has been weak all year as households increase their savings rate.

With respect to supporting used vehicle values, it is encouraging that new vehicle transaction prices continue to rise, incentive spending is flat, and inventory levels are normal. Wholesale used vehicle prices, as measured by the Manheim Index, are now approximately at their historical trend level with respect to new vehicle prices as measured by the government.

**Used vehicle retail market remains solid.** Total used vehicle retail sales rose 5% in April, after being down in the first quarter, according to NADA. Conversations with dealers suggest that the turnaround continued in May. For certain, CPO sales continued their record pace, with sales up 12.2% in May and 11.6% year-to-date. With dealers' increasing operating efficiencies, the higher throughput has produced record profits.

**Rental risk: Older, rougher vehicles drag down price.** A straight average of auction prices for rental risk units sold in May was down more than 10% from the year-ago level. After adjusting for broad shifts in market class and mileage, the year-over-year decline was still over 6%. Much of the remaining decline was a result of older and rougher-condition vehicles being sold. For example, in May 2014, 65% of the rental risk units sold were from the 2013 model year; but in May 2015, only 29% of sales were accounted for by 2014 model year vehicles (57% of sales continued to be accounted for by 2013 model year units). Likewise, in May 2014, 45% of the risk units sold at auction had a condition grade of 4.0 or better. In May 2015, only 30% did.

Auction volumes for rental risk units were up significantly in May and for the first five months of the year. Meanwhile, the number of new units sold into rental rose less than 1% in May, but was up 9.4% year-to-date.

**Market segment and price tier trends.** May represented a continuation of trend with respect to pricing movements within market classes. Namely, compact cars were weak, and pickups were strong. Luxury cars also continued to underperform the overall market, and within that segment, entry luxury cars were under the greatest price pressure.

Within the pricing tiers, there was weakness in the \$9,000 to \$11,000 range and strength in everything above \$15,000. This also represented a trend that has been going on for some time. The volume of vehicles offered in the \$9,000 to \$11,000 range was up considerably from a year ago.

Pricing for dealer-consigned units in May was higher than a year ago, and average mileage declined ever so slightly during the month after rising for many years.