

June 23, 2010

A Not So Strong 'Strong' Market

The prevalent message we've been getting through the spring has been that we have been in a 'strong' market and despite Manheim's recent announcement of a record high index for the month of May, our consultants and their sources have been singing something of a 'different tune' for the past few weeks. We've been a bit reluctant to overstate this message because of popular sentiment to the contrary, but the message we have been getting from people who really know – some of the most active wholesale dealers in the country – is that although certain segments of the market continue to have pockets of strength, by and large the market is generally weak and ordinary vehicles are difficult to sell.

The bottom line, we think, is that it is after all summer and we are experiencing the sort of stagnant, declining market that is typical for this time of year. Although there is not a large supply of vehicles due to slow new vehicle sales and efforts to diminish fleet vehicles, program vehicles, and lease terminations, there is an equally diminished demand among consumers. The result is a stagnant market in most segments.

Lower Priced Vehicles Continue to Sell

The one bright spot continues to be lower price range vehicles of all sorts. They continue to be relatively scarce and in demand and have little competition among new vehicles except from the most inexpensive models which do not meet the basic needs of many consumers.

Plenty of Off-Lease Luxury Vehicles

The import luxury segment continues to be the most problematic. Leasing is a necessary evil for this group to maintain new vehicle sales volume and they therefore have steady volumes of lease terminations to remarket and supply simply outpaces demand among most models. Here the opposite of what is true for price range vehicles applies: mileage, color, and equipment are most important in determining what off lease vehicles get chased by dealers.

The strength in the market is very thin and the difference between a white/tan 2007 Mercedes E350 with 28K, navigation and Sport Package, and a comparable silver/gray with 40k and no nav or Sport, can be extreme. Even Lexus products, seemingly immune from normal market pressures much of the time, are suffering in this market. Infiniti G-series have been sold in volume in the past and have been impacted inordinately of late. Volvo S60s the same.

Trucks Keep Rolling

Vans have been doing well as they usually do as spring moves toward summer. Their volume has been down in recent years and that has contributed to their relative strength as well. Same for pickups and SUV's. New vehicle sales among

these segments were restricted by the gas crisis two years ago and that market is benefiting from the resulting diminished supply.

Late-model vehicles in most segments continue to be affected by new vehicle incentives and the general economic malaise and have been eroding steadily if not dramatically. We expect that to continue throughout the summer.

I notice that I have been using the word "relative" a lot in recent market reports, and that's because although some segments appear to be doing well, they are not really hot segments except in comparison, that is, 'relative' to some of the other segments that are really quite weak.

Only Pockets of Strength

We continue to hear and read, pretty much on a daily basis, that this is a strong market. We want to emphasize that the people we speak to, some big players on the front lines of the used vehicle sales industry, are in general disagreement with that consensus. Yes, there are pockets of strength, but overall their sense is that this is a thin market and once you penetrate that thin group of exceptional vehicles, selling becomes a struggle and is largely dependent on significantly diminished pricing expectations. It is never a good situation for sellers when prices considered 'too good to pass up' are what's driving current demand.

Dan Galves