

Galves Market Conditions - October 2009

A Retreat from the "Feeding Frenzy"

It is mid-October, and although the used vehicle market continues to be unusually strong for this time of year you can sense that those market conditions that typically create downward pressure in late fall/early winter are starting to have an impact. The main culprit during the holiday season is generally lack of demand. This year that lack of demand has been matched by a similar lack of supply and prices have remained atypically strong throughout the fall. While the supply continues to be very light due to few new vehicle trades and moderate program vehicle/lease termination offerings, demand has weakened and values are beginning to soften moderately for all but the most unusual and desirable vehicles. Keep in mind though that nothing is in freefall or unsalable as can happen at this time of year, but there definitely is a retreat from the feeding frenzy that has had many of us scratching our heads over what buyers have been paying for vehicles for the past few months.

What this means is that there will probably be some weakening of the late model popular priced vehicles that dealers have been buying in response to the lack of new vehicle inventory available for many makes and models. The post-Cash for Clunkers sales doldrums may have finally settled down what had been an unprecedented market. We think you will see some weakening among the more normal vehicles (in terms of miles, condition, equipment, color, scarcity) in all segments. Convertibles have been leading the price retreat as one would expect at this time of year. Pick-ups and SUVs that had rebounded so impressively from the ridiculous lows of a year ago are experiencing some recent, moderate erosion as well.

Desirable Vehicle Still Strong

The truly unusual and desirable vehicle will probably continue to be very strong as dealers chase them to the point that all the rest of us can do is look at each other quizzically. I recently had a dealer tell me that he is wholesaling certain vehicles for what he was retailing them for a year ago. Such are the levels of overreaction we, the professionals, and the public are capable of.

Luxury Segment Bears Watching

As we have cautioned in previous editions and has been confirmed by recent history, the luxury segment - and the European luxury segment in particular - is most prone to a negative supply/demand relationship and therefore most vulnerable to price erosion. It is not yet in freefall and has not yet reached the point that no matter how much the book is dropped they still want to buy below book, but it is a segment that we think bears close watching.

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