April 2010 Kontos Kommentary
Current Used Vehicle Market Conditions and Outlook

Summary
Wholesale used vehicle price growth appeared to moderate in April, as retail used vehicle prices are reaching levels where they become less attractive relative to prices of new vehicles. According to ADESA Analytical Services calculations using the most recent Federal Reserve Board data, the average retail price of a used vehicle represented 58% of the average new vehicle price in February. A rule of thumb we have observed over the years is that when the average retail used vehicle sales price exceeds 60% of the average new vehicle sales price, a portion of used vehicle demand tends to be "cannibalized" by new vehicle sales. With wholesale prices growing 4.0% in March (see last month's commentary) and 0.3% in April, it is possible that the 60% used-versus-new retail price ratio has now been surpassed.

Evidence for this is that retail sales of used vehicles by franchised dealers (i.e., dealers who sell both new and used vehicles) were down 4.2% on a year-over-year basis in April, while new vehicle sales were up nearly 20%. On the other hand, independent dealers (i.e., dealers who only sell used vehicles) registered a year-on-year sales increase in April, indicating that shoppers who can only afford used vehicles are still plentiful. Moreover, tight supplies of used vehicles and the budding economic recovery continue to create upward pressure on wholesale prices, as dealers bid aggressively in-lane and online for needed inventory.

Dealers are being aided in their efforts to achieve quick inventory turn and respectable grosses despite higher wholesale prices and tight used vehicle supply by using efficient wholesale and retail tools. These tools include online run lists and inventory management software that allow dealers to employ just-in-time inventory practices.

Details
According to ADESA Analytical Services' monthly analysis of Wholesale Used Vehicle Prices by Vehicle Model Class[1], wholesale used vehicle prices in April averaged $10,579 – up 0.3% from March and 7.5% versus prior year. Fullsize vans and fullsize cars, respectively, recorded the biggest year-over-year price gains and losses, but these segments are small and can often have volatile average price swings based on variations in such things as seller type and vehicle condition. Prices for most segments are moving with the overall market, although mini and full-size SUV prices did take a bit of a hit in April -- perhaps due to rising gas prices over the last couple of months. Minivans registered above-average price gains during the month.

Prices were up for all seller types. Manufacturers registered a 0.7% month-over-month price increase and a 14.1% year-over-year rise; fleet/lease consignors experienced a 1.1% sequential price increase and a 12.4% annual increase; and dealers saw a 0.6% average price increase versus March and a 13.4% uptick versus April 2009.

ADESA Analytical Services estimates that auction industry inventory levels stood at 31 days at month-end compared to 40 days last April – continuing to indicate tight supply and high auction throughput.

Based on data from CNW Marketing/Research, retail used vehicle sales in April were down 4.2% year-over-year for franchised dealers, but up 3.8% for independent dealers, leaving total retail volume down a modest 0.5%. On a month-over-month basis, retail sales of used vehicles were up for both franchised (up 39%) and independent (up 35%) dealers. The consumer price index for used vehicles rose by 16.3% year-over-year in March (latest available) based on data from the Bureau of Labor Statistics.

[1]The analysis is based on nearly seven million annual sales transactions from over 170 of the largest U.S. wholesale auto auctions, including those of ADESA as well as other auction companies. ADESA Analytical Services segregates these transactions using the J.D. Power and Associates Vehicle Segmentation Guide to study trends by model class.