MANHEIM CONSULTING

Current Monthly Index

Wholesale Prices Rise Again in September

Wholesale used vehicle prices (on a mix, mileage and seasonally-adjusted basis) rose 1.8% in September. This brought the Manheim Used Vehicle Value Index to a record high of 118.5, representing a 6.9% increase from a year ago. Adjusted wholesale prices have now risen for nine consecutive months.

The supply/demand dynamic that has pushed used vehicle values higher is a multiple-year, not a multiple-month, trend. Nevertheless, wholesale prices appear to be reaching a plateau. In particular, the last week of September saw an easing in prices that was greater than the normal seasonal pattern.

Manheim Used Vehicle Value Index

January 1995 = 100

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Jan	100.0	104.3	106.5	107.1	114.8	115.3	116.9	114.6	105.5	104.7	108.8	116.3	113.3	109.1	101.7
Feb	98.9	104.3	106.9	107.1	114.8	115.8	117.4	115.1	104.1	104.8	110.3	115.5	113.3	108.1	105.5
Mar	97.8	105.3	106.8	107.8	114.1	116.9	116.9	114.6	102.5	106.6	112.2	114.9	114.1	107.7	106.1
Apr	97.9	105.7	106.8	109.5	115.0	116.1	116.1	115.0	102.4	107.6	112.9	114.2	114.2	108.4	106.6
May	98.2	106.1	106.8	108.7	115.0	116.2	115.8	114.2	102.8	107.9	112.1	112.9	114.7	107.5	109.1
Jun	100.4	105.5	106.3	109.1	115.3	116.8	114.7	112.0	104.3	107.1	110.7	112.9	114.9	107.8	114.1
Jul	101.1	105.7	106.7	111.9	115.3	116.3	113.8	110.4	105.1	106.5	108.8	111.4	114.9	109.9	115.4
Aug	101.9	105.8	107.9	111.6	115.4	115.6	114.0	108.4	105.5	106.2	109.1	112.1	115.1	110.7	116.4
Sep	103.3	105.8	106.6	112.6	115.1	115.6	112.1	108.0	105.9	106.3	110.9	111.9	115.8	110.8	118.5
Oct	103.6	105.7	107.2	113.1	115.0	115.7	110.4	106.7	107.0	106.4	112.5	112.0	113.9	104.2	
Nov	103.9	106.4	106.4	114.0	115.3	116.1	111.2	106.6	106.8	107.7	114.9	112.9	111.9	98.3	
Dec	104.0	107.0	106.4	114.0	115.5	116.7	112.9	106.7	105.3	108.2	116.1	113.5	110.2	98.0	

New vehicle sales slide, but inventory counts remain low. The payback from cash-for-clunkers was more than anticipated, especially since all the surveys suggested that buyers brought into the market would not have otherwise been new vehicle buyers in the near-term, if at all. Despite the dismal 9.2 million seasonally adjusted annual selling rate in September, new vehicle inventory unit counts (not days supply) remained low, and the mix is positively skewed away from carryover models. As a result, overall new vehicle incentive activity has been, and will remain, constrained.

Retail sales of used vehicles also slid in September. Retail sales of used vehicles by dealers tumbled 14% in September, according to CNW Marketing Research. It was the biggest year-over-year monthly decline this year, and was evidence that the market slowdown in the aftermath of cash-for-clunkers was widespread, impacting both new and used vehicle sales. The weakness in retail demand prompted some dealers to wholesale used units that they were right-side up in as a result of the strong wholesale pricing environment. As a result, dealer consignment volumes at auction improved after being weak in the first eight months of the year.

Whither used vehicle prices? The lack of wholesale used vehicle supply churning in the market, coupled with the reduction in new vehicle inventory levels, has kept used vehicle prices very strong all year. That trend has not been detrimental to dealers even though it increased the difficulty and cost of acquiring inventory. In fact, the rise in wholesale prices has been indirectly credited with boosting dealer retail margins by keeping turn rates high. But, as widely reported, lender loan amounts have not kept pace with the higher wholesale prices. So, any further slowing in retail demand could quickly become detrimental to wholesale pricing. Given that, the ongoing weakness in the labor market, the slippage in consumer confidence, higher loan delinquency rates, and the necessary further de-leveraging of household and bank balance sheets are not positive omens. *(For additional comments on short and long-term economic trends please follow us on Twitter (http://twitter.com/ManheimConsult) and the Manheim Consulting blog (http://manheimconsulting.typepad.com))*

Wholesale Vehicle Valuations by Market Segment and Consignor Group

Compact and midsize cars still fared poorly relative to pickups and SUVs in year-over-year price comparisons, but that was driven by last year's abnormal, gas-price-influenced, market. When looked at from just January of this year, all market classes of vehicles have had price increases of a similar magnitude. And, when looked at just over the past three months, compact cars have outperformed the overall market. It is the failure to account for mileage changes that has led some analysts to suggest that compact cars are underperforming the overall market. In September, the average compact car sold at auction had 13% more miles than year ago. Relative to January's low point, the average mileage for compact cars sold at auction was up a whopping 23%.

Prices for off-rental program vehicles were sharply higher in September as a result of low volumes and a much richer mix of vehicles being sold. Rental risk prices were also up during the month, despite higher volumes and much higher average mileage.

Pricing in the lower price tiers ($5,000 and below) remained stable in September. Many Buy-Here, Pay-Here (BHPH) dealers were fearful that reduced availability would push prices beyond their reach. It appears, however, that demand for these vehicles has also ebbed. Many BHPH dealers find themselves in communities where the unemployment rate in the demographic groups that they serve is 25% or higher. As a result, the size of their prime customer base - the working poor - has shrunk.