MOODY'S
ANALYTICS

DATIUM INSIGHTS

METHODOLOGY

June 2020

# Australian Used-Vehicle Prices Rebound Quickly in June

Prepared by

Michael Brisson
Michael.Brisson@moodys.com
Senior Economist

Contact Us

Email
help@economy.com

U.S./Canada
+1.866.275.3266

EMEA
+44.20.7772.5454 (London)
+420.224.222.929 (Prague)

Asia/Pacific
+852.3551.3077

All Others
+1.610.235.5299

Web
www.economy.com
www.moodysanalytics.com

## Introduction

The Australian used-vehicle market bounced back strongly in May following the largest two-month drop in prices on record. The global COVID-19 recession took governments, businesses and families by storm. The auto industry was acutely impacted by the lockdowns imposed through plummeting demand for autos and transportation in general. The May comeback is a welcome sign that the economic reopening is taking hold.

# Australian Used-Vehicle Prices Rebound Quickly in June

BY MICHAEL BRISSON

The Australian used-vehicle market bounced back strongly in May following the largest two-month drop in prices on record. The global COVID-19 recession took governments, businesses and families by storm. The auto industry was acutely impacted by the lockdowns imposed through plummeting demand for autos and transportation in general. The May comeback is a welcome sign that the economic reopening is taking hold.

Used-vehicle prices, as tracked by the Datium Insights-Moody's Analytics Used Vehicle Price Index, increased by 10.6% from April to May (see Chart 1). This follows a price contraction of 14% over March and April. The collapse in prices wiped out the historic gains in used-auto prices that had occurred since 2016. The drop proved to be short-lived, as prices have firmed up rapidly.

Prices rebounded significantly for passenger cars as well as light trucks and utes. After controlling for vehicle kilometers, age, subsegments, etc., the price increase was slightly better for passenger cars than for trucks/utes. Car prices increased by 11.2% and truck/ute prices increased by 10.6% from April to May. The larger rebound is mainly a function of the deeper fall for passenger car prices. Car prices fell almost 15% compared with a 12.4% decrease for trucks and utes from February through April. Low petrol prices likely kept demand comparatively higher for less fuel-efficient vehicles such as trucks, utes and SUVs. Additionally, trucks and utes are used in construction, which was deemed to be an essential business.

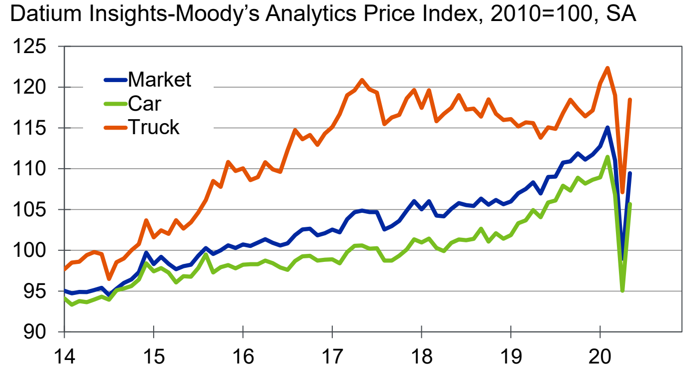
Having used-vehicle prices at the same level they were 12 months ago is a bit out of step with a national unemployment rate already higher than during the global financial crisis. However, a closer analysis shows the used-vehicle market has distinct advantages supporting price stability until economic acceleration can restart. Supply constraints, the substitution effect, low fuel costs, and a decline in public transportation have all helped prices bounce back from April lows.

Due to supply constraints, used-vehicle prices had pushed up almost 10% since 2018. The slowdown in new-vehicle sales that has occurred across Australia over the past 24 months has put considerably fewer vehicles into circulation than 2012 to 2018 (see Chart 2). This drop in supply will be further exacerbated as new-vehicle sales slump from decreased demand due to the COVID-19 recession hitting the Aussie economy.

An additional advantage held by the used-car market is the substitution effect. The substitution effect occurs between new and used vehicles during periods of economic

## Chart 1: Prices Show Historic Bounce

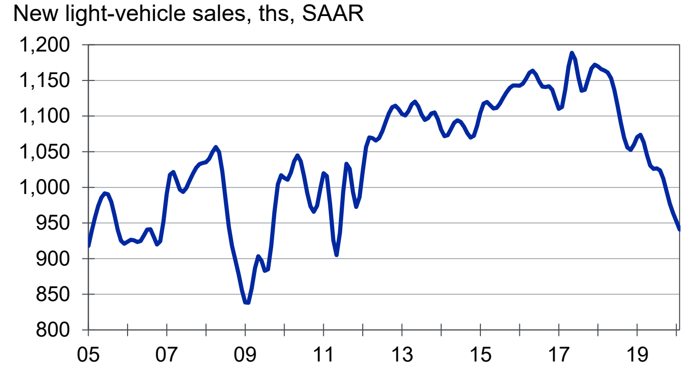
Datium Insights-Moody's Analytics Price Index, 2010=100, SA




Sources: Datium Insights, Moody's Analytics

## Chart 2: Vehicle Supply Already Low

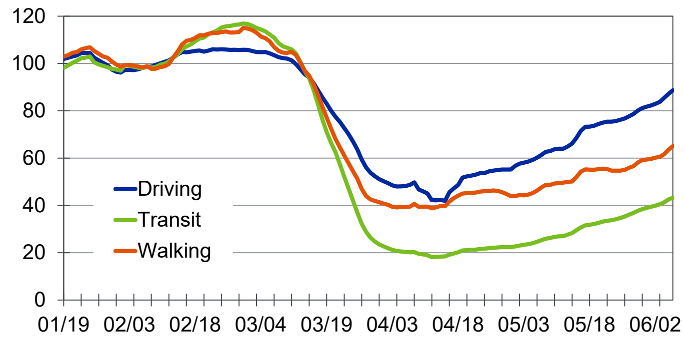
New light-vehicle sales, ths, SAAR




Sources: Wards Intelligence, Moody's Analytics

## Chart 3: Transit Slow to Return

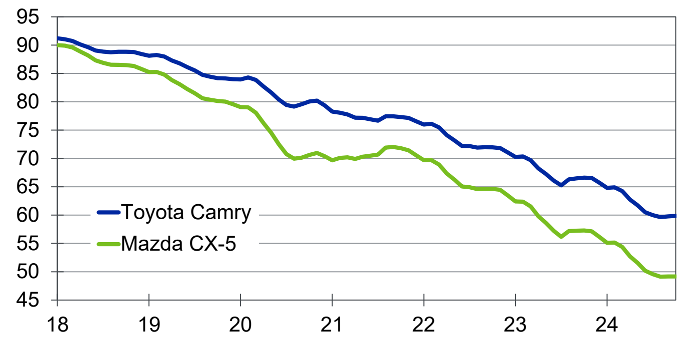
Australia routes searched, Jan 13, 2020=100, 7-day MA




Sources: Apple Inc., Moody's Analytics

## Chart 4: AutoCycle Vehicle-Specific Forecast

Residual value, % of MSRP, Apr adverse economic scenario




Sources: Datium Insights, Moody's Analytics

uncertainty. Under the assumption that new and used vehicles are perfect substitutes as a form of transportation, consumers will choose the less expensive good, used vehicles. When consumers are nervous about their livelihood, vehicles become a way to get around more than a symbol of social class.

Low fuel prices will also support used-vehicle prices. Fuel costs are expected to remain low as global energy demand remains depressed. Used vehicles are on average less fuel efficient than their newer cousins. Lower fuel costs push consumers towards less fuel-efficient vehicles because during these periods they are marginally less expensive to operate. All else being equal, demand for used vehicles will rise more in periods of low fuel prices than those with higher fuel prices.

One final advantage is demand for public transportation has plummeted and will take longer to rebound than driving. The trend shown in Chart 3 is caused by the fear of contracting the novel coronavirus, and social distancing guidelines. Some degree of social distancing either mandated or nonmandated will likely stay in place until successful therapies or a vaccine is developed. The world is racing towards these solutions, but any successful treatment is likely an event for 2021 rather than 2020. In the meantime, people who own or can afford to purchase a vehicle are likely to prefer to drive on their own rather than depend on public transportation. In Australia, public transportation usage had grown six times faster than private vehicle usage over recent years. This trend will stop.

The hedonically derived Datium Insights-Moody's Analytics Used Vehicle Price Index gives an excellent sense of the general direction of the market. However, valuing your own vehicle portfolio rather than the market requires knowing the forecast of a particular vehicle under multiple economic scenarios. Utilizing the make, model, model year, location of sale, kilometers, and numerous other available options, the Australian AutoCycle pricing solution projects price impacts on individual vehicle values under multiple economic paths. An example in Chart 4 shows that the popular 2018 Mazda CX-5 compares poorly with a 2018 Toyota Camry, with the same kilometer assumptions, sold in Victoria, and at a fixed price. The Moody's Analytics April baseline scenario forecasts the price drop for the medium SUV from the current economic turmoil will be more than 20% larger than the relatively stable prices of the classic passenger vehicle.

Despite the underlying drivers stabilizing the market, significant used-vehicle price growth beyond the initial rebound will be difficult. The global economy will continue to tread water until a vaccine or proven treatments for COVID-19 are developed. More locally, the Australian economy will be hurt by travel restrictions and lost consumer demand. The strengths of the used-vehicle market will allow prices to avoid significant setbacks. However, the continued economic stress will restrict price growth over the near to medium term despite the strong start to reopening.

## About the Author

Michael Brisson is a senior economist and associate director at Moody's Analytics. He is the lead auto economist, working as a member of the Specialized Modeling group in West Chester PA. Mike works developing new empirically driven auto-related products and services. Prior to joining the Specialized Modeling group, Mike built CECL, CCAR, and stress-testing models of consumer loan performance as a member of the Business Analytics team. Additionally, Mike has worked in the Moody's Analytics Research group, where he developed models for state and local government revenue forecasts. Mike holds a PhD in applied economics from Northeastern University.

## About Moody's Analytics

Moody's Analytics provides financial intelligence and analytical tools supporting our clients' growth, efficiency and risk management objectives. The combination of our unparalleled expertise in risk, expansive information resources, and innovative application of technology helps today's business leaders confidently navigate an evolving marketplace. We are recognized for our industry-leading solutions, comprising research, data, software and professional services, assembled to deliver a seamless customer experience. Thousands of organizations worldwide have made us their trusted partner because of our uncompromising commitment to quality, client service, and integrity.

Concise and timely economic research by Moody's Analytics supports firms and policymakers in strategic planning, product and sales forecasting, credit risk and sensitivity management, and investment research. Our economic research publications provide in-depth analysis of the global economy, including the U.S. and all of its state and metropolitan areas, all European countries and their subnational areas, Asia, and the Americas. We track and forecast economic growth and cover specialized topics such as labor markets, housing, consumer spending and credit, output and income, mortgage activity, demographics, central bank behavior, and prices. We also provide real-time monitoring of macroeconomic indicators and analysis on timely topics such as monetary policy and sovereign risk. Our clients include multinational corporations, governments at all levels, central banks, financial regulators, retailers, mutual funds, financial institutions, utilities, residential and commercial real estate firms, insurance companies, and professional investors.

Moody's Analytics added the economic forecasting firm Economy.com to its portfolio in 2005. This unit is based in West Chester PA, a suburb of Philadelphia, with offices in London, Prague and Sydney. More information is available at www.economy.com.

Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO). Further information is available at www.moodysanalytics.com.



## About Moody's Corporation

Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO). MCO reported revenue of $4.4 billion in 2018, employs approximately 13,100 people worldwide and maintains a presence in 42 countries. Further information about Moody's Analytics is available at www.moodysanalytics.com.