ANALYSIS
JULY, 2020

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

A Perfect Storm Blows Wholesale Used-Vehicle Prices Sky-High

INTRODUCTION

Wholesale used-vehicle prices rose to all-time highs across Australia in June. Following a record-breaking monthly increase in May, June doubled down on the historic gains. Used-vehicle prices were up 11% from May to June and a mind-boggling 23% from the lows reached in April, according to the Datium Insights–Moody's Analytics Price Index (see Chart 1). To put that in perspective, used-vehicle prices rose only 23% from the depths of the 2008-2009 global financial crisis to the beginning of 2020. Record highs have been driven by a perfect storm of not enough vehicles being available and strong demand for private transportation.

A Perfect Storm Blows Wholesale Used-Vehicle Prices Sky-High

BY MICHAEL BRISSON

Wholesale used-vehicle prices rose to all-time highs across Australia in June. Following a record-breaking monthly increase in May, June doubled down on the historic gains. Used-vehicle prices were up 11% from May to June and a mind-boggling 23% from the lows reached in April, according to the Datium Insights–Moody's Analytics Price Index (see Chart 1). To put that in perspective, used-vehicle prices rose only 23% from the depths of the 2008-2009 global financial crisis to the beginning of 2020. Record highs have been driven by a perfect storm of not enough vehicles being available and strong demand for private transportation.

The number of cars and utes available in the wholesale market was expected to be limited going into 2020. New-vehicle sales dropped by 20% from 2018 to 2020. Without new vehicles sold to start, the used-vehicle market begins to dry up. New-vehicle sales sagged coming into the pandemic to the point where purchases in January were the same as in September 2008, during the global financial crisis. Limited new-vehicle sales in the past few years has now made low-age, low-mileage options hard to find. This trend will be exacerbated, as new-vehicle sales reached historic lows in April and May (see Chart 2).

In addition to the depressed levels of used vehicles, the number of new vehicles available has also been constrained. Early indications are June sales were kick-started by the confidence boost from the lifting of lockdowns and the instant-asset tax write-off. However, COVID-19-related production stoppages in vehicle-manufacturing countries and a collapse of global trade have made many popular models thin throughout showrooms. Imports of new vehicles dropped to 10½-year lows in May. A lack of options in the new-vehicle market pushed consumers and thus dealerships to bid up the price of used vehicles. Used vehicles remain a viable substitute for new vehicles when the preferred new vehicle is not available or ready to be shipped into port.

The auto finance market is also playing a role in limiting the number of used vehicles. Lenders have allowed loan payment deferrals and held back repossessions, keeping cars that would normally pass through auctions out of reach. When the nationwide reopening began in May, sellers may have been looking to time the market by holding back supply to catch a price rebound in the spring. The same approach was likely taken by lessors that extended terms for lessees in hopes of not needing to go to the wholesale market

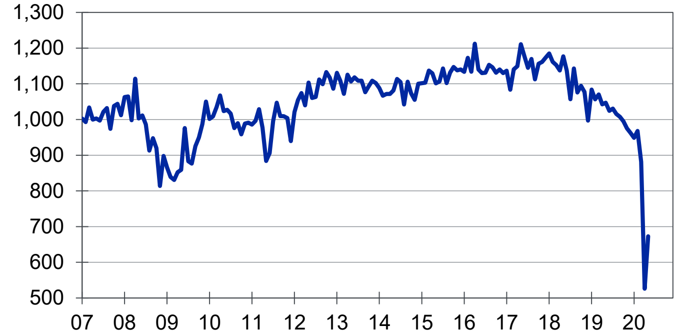
Chart 1: Prices Show Historic Bounce

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

Sources: Datium Insights, Moody's Analytics

Chart 2: New-Vehicle Sales Crash

New light-vehicle sales, ths, SAAR



Sources: Wards Intelligence, Moody's Analytics during the depths of the recession. Each of these COVID-19-related impacts keeps more vehicles out of reach, making the number of cars and utes well below the number being demanded by the market and causing prices to be bid up for what is available.

Demand for the used vehicles that are available remained strong in June. Beyond the boost of confidence from reopening, low fuel prices and a shift away from public transportation have pushed buyers into dealerships. Public transportation, where social distancing is all but impossible, has become disfavored in the age of the coronavirus. As seen in Chart 3, public transit routes searched in Australia are down 45% from January and 48% below the indexed driving routes nationwide. This trend will continue.

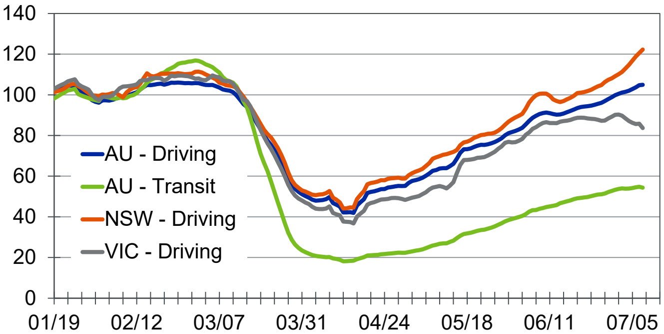
Still, given the considerable tailwinds from limited supply and steady demand, July prices will likely remain elevated but still not reach the peaks of June. The perfect storm that arose in June is not sustainable. The early signs of recovery have hit a speed bump in Victoria as localized outbreaks of COVID-19 have forced the state into a second round of lockdowns. The lockdowns have already decreased driving, as shown in Chart 3, which will ultimately lead to lower demand for vehicles. More important to prices, though, will be consumer confidence. If outbreaks and subsequent shutdowns, like in Victoria, continue to occur, consumer confidence will wane, driving down personal consumption. Without consumers buying things, businesses will not hire and the labor market will not be able to recover in full. Unfortunately, this fear and pullback cycle is the most likely scenario until a vaccine or treatment becomes viable.

During the next few months prices will begin to decrease slowly as supply constraints ease. Sellers looking to take advantage of the used-vehicle price bubble will begin to bring more vehicles to auction. Additionally, there will be pressure on the demand side as the unemployment rate stays persistently high. Despite Australia being relatively successful at containing the virus, the global recession will continue to punish some of the country's most successful industries, including tourism and education, creating additional rounds of layoffs.

The steady decrease in wholesale used-vehicle prices is expected to last until 2021. Risks to this forecast are present on both sides, and will likely mean the wild price swings of the past quarter are more probable than the industry would hope. Forecast risks include widespread outbreaks and lockdowns that would drive consumers away from dealerships and push prices down quickly, as was demonstrated in April. However, if new vehicles remain difficult to import because of outbreaks or shutdowns in other countries, used-vehicle prices will be the beneficiary. The movements in the market have been extraordinary during the past three months. A usually steady market has been rocked by volatility. Using the Datium Insights–Moody's Analytics Price Index, we can track all the twist and turns, give the market a sense of where prices are headed, and help the industry make better decisions.

Chart 3: Transit Low; Victoria Slowing

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



Sources: Apple Inc., Moody's Analytics

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.

DISCLAIMER: Moody's Analytics, a unit of Moody's Corporation, provides economic analysis, credit risk data and insight, as well as risk management solutions. Research authored by Moody's Analytics does not reflect the opinions of Moody's Investors Service, the credit rating agency. To avoid confusion, please use the full company name "Moody's Analytics", when citing views from Moody's Analytics.

About Moody's Corporation

Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO). MCO reported revenue of $4.8 billion in 2019, employs more than 11,000 people worldwide and maintains a presence in more than 40 countries. Further information about Moody's Analytics is available at www.moodysanalytics.com.