

ANALYSIS
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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.

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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).

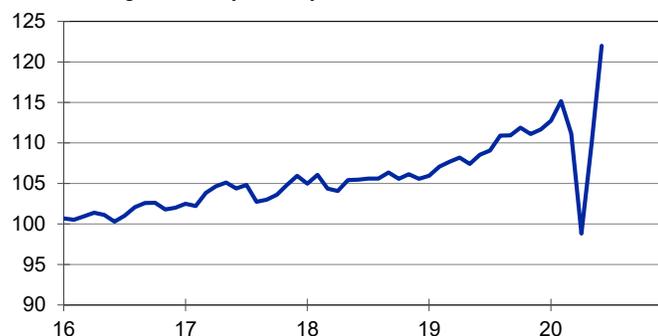
In addition to the depressed levels of used vehicles, the number of new vehicles available has also been constrained. Early indications are June sales were kick-started by the confidence boost from the lifting of lockdowns and the instant-asset tax write-off. However, COVID-19-related production stoppages 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,

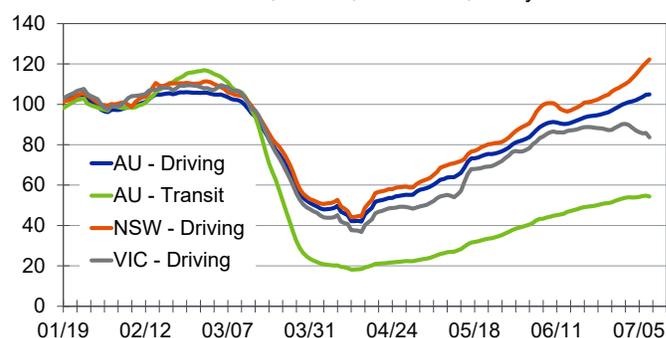
continue to occur, consumer confidence will wane, driving down personal consumption. Without consumers buying things, businesses will not hire and the labor market will not be able to recover in full. Unfortunately, this fear and pullback cycle is the most likely scenario until a vaccine or treatment 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

Chart 3: Transit Low; Victoria Slowing

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



Sources: Apple Inc., Moody's Analytics

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 Dattim 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.

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.

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