ANALYSIS
JULY 2020

Wholesale Used-Vehicle Price Report: 2020Q2

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INTRODUCTION

Comparing wholesale used-vehicle prices from the first and second quarters of 2020, people might think there was a moderate decrease in prices. They would be wrong. Despite the quarterly average declining by 4.6%, the movement of prices within the quarter set multiple records. The difference between the quarterly average and monthly price movements in the Moody's Analytics Used Vehicle Price Index is shown in Charts 1 and 2. Here we see why quarterly averaging can be dangerous during periods of rapid volatility.

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BY MICHAEL BRISSON

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The volatility in wholesale used-vehicle prices has been caused by economic upheaval linked to the spread of COVID-19. The pandemic caused state governments to shut down businesses and limit unnecessary travel. As a result, used-vehicle prices dropped 17.6% in April. These orders were for the most part hastily removed, leading to a quick rebound in economic activity. Boosted by federal stimulus measures and increased unemployment benefits, consumer demand waned less than expected. In turn, used-vehicle prices jumped 26% from April to June. To put that in perspective, used-vehicle prices rose only 20% from January 2011 to the end of 2019.

Prices soared from April to June because not enough vehicles were available. Supply of new vehicles was impacted as safety concerns from the pandemic caused all auto manufacturers in the U.S. to halt operations by the end of March. This led to vehicle production shutting down despite demand for vehicles remaining solid.

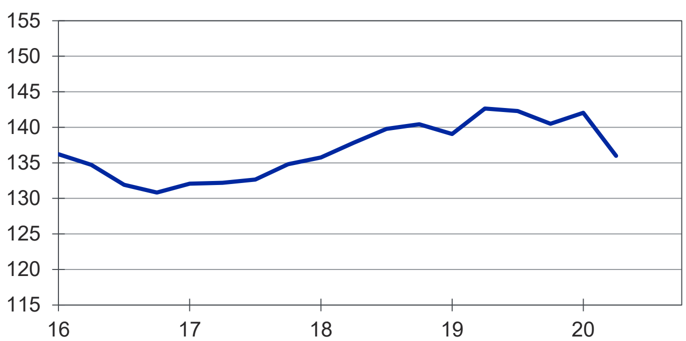
It is usually the case that assembly lines keep running until the recession saps demand. During the normal recession cycle everyone who wants a new truck can get one, usually with increased incentives, and the new- and used-vehicle markets are at most adjacent competitors. This go-round, a lack of options in the new-vehicle market pushed consumers and thus dealerships to bid up the price of used vehicles.

A lack of production is not the only culprit in holding back the number of available cars and trucks. Used vehicles have also been hard to source. As shown in Table 1, the supply of wholesale used vehicles was 43% less than in the second quarter of 2019. The auto-credit market is a major reason for the limited availability of used vehicles.

Lenders have allowed loan payment deferrals and held back repossessions, keeping cars that would normally pass through auctions out of reach. Additionally, when states began reopening in May, some sellers that had inventory looked to time the market,

Chart 1: Quarterly Prices

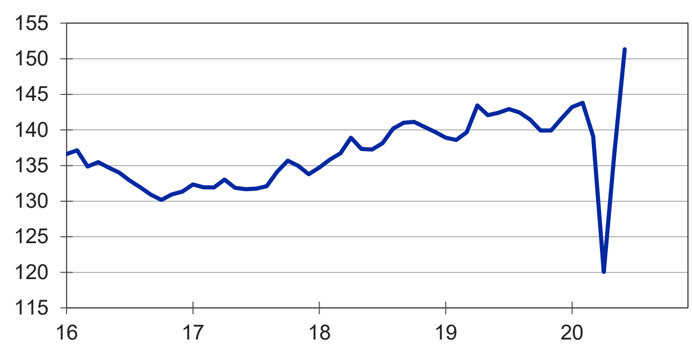
Moody's Analytics Price Index, 2010=100, SA



Sources: NADA, Moody's Analytics

Chart 2: Monthly Prices

Moody's Analytics Price Index, 2010=100, SA



Sources: NADA, Moody's Analytics

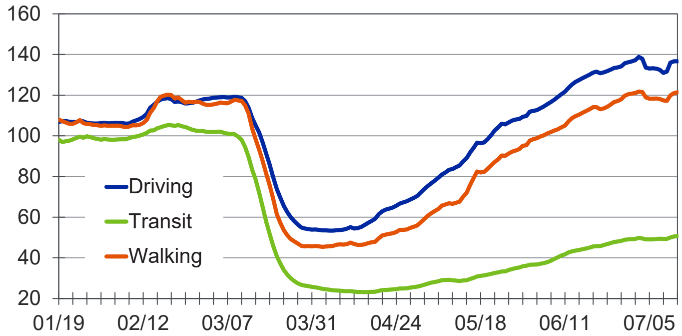
holding back supply to catch a price rebound like the one that followed the depths of the financial crisis. This was also part of the playbook for lessors that extended terms in March and April in hopes of not needing to go to the wholesale market during the depths of the recession. The extension of leases, halting of repossessions, and shutdown of production worked together to keep the number of cars, trucks and sport-utility vehicles well below the amount being demanded by the market.

The impacts to supply were not only in the highly demanded truck and SUV segments. Table 2 shows that large, midsize and compact cars performed well, with prices well above those in the second quarter of 2019. This is despite higher demand for light trucks and SUVs because of increased popularity and low fuel prices. One possible reason for the surge in car prices is that automakers have prioritized restarting production of more profitable truck and SUV models rather than making less profitable car segments. This prioritization may have sent buyers that would normally purchase in the new market to the used market to find a car.

Another reason car subsegments have gained in prices is because the shift away from public transportation has pushed buyers in denser urban areas 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, searches of public transit routes in the U.S. are down 49% from January and 63% below the indexed driving routes nationwide. This trend will continue.

Chart 3: Transit Remains Low

U.S. routes searched, Jan 13, 2020=100, 7-day MA



Sources: Apple Inc., Moody's Analytics

Additionally, many dealerships missed out on their normal spring inventory buildup as auctions shut down or went all digital. This led to a considerable amount of pent-up demand that began to be wrung out once dealerships reopened and consumers were able to make purchases. The pent-up

Table 1: Wholesale Used-Vehicle Auction Summary

	2020Q2	2020Q1	2019Q4	2019Q3	2019Q2
Avg sale price, $	11,346	10,834	10,672	10,849	11,140
Avg sale price, % change yr ago	1.86	2.19	1.62	2.17	3.86
Avg price-to-MSRP ratio	0.349	0.338	0.333	0.342	0.351
Sales volume	1,159,115	1,772,761	1,722,619	1,941,600	2,040,069
Sales volume, % change yr ago	-43.18	-10.01	-7.28	1.67	1.89
Lease/fleet sale volume	518,176	728,501	727,247	787,075	831,849
Lease/fleet volume, % change yr ago	-37.71	-9.74	-1.66	9.45	6.40
Lease/fleet penetration rate, %	44.7	41.1	42.2	40.5	40.8

Sources: NADA, Moody's Analytics

Table 2: Moody's Analytics Retention Value Indexes

% change yr ago, by subsegment

Subsegment	Jun 2020	May 2020	Apr 2020	Subsegment	Jun 2020	May 2020	Apr 2020
Compact car	7.05	-6.06	-19.43	Large van	-4.73	-14.72	-22.15
Compact MPV	3.96	-8.39	-22.82	Midsize car	7.45	-3.51	-18.28
Compact premium car	6.19	-4.21	-14.09	Midsize pickup	-0.80	-10.49	-21.32
Compact premium sport	5.51	-3.81	-6.45	Midsize premium car	8.88	-1.46	-11.73
Compact premium SUV	-0.07	-7.93	-13.95	Midsize premium sport	2.70	-8.29	-12.73
Compact sport	9.67	-2.96	-13.80	Midsize premium SUV	0.32	-7.99	-16.88
Compact SUV	3.59	-6.46	-18.32	Midsize sport car	0.88	-5.84	-12.80
Large car	11.25	0.55	-15.58	Midsize SUV	3.02	-6.83	-18.30
Large premium car	5.67	-0.27	-13.49	Midsize van	1.17	-8.10	-21.71
Heavy duty truck	-3.45	-10.17	-21.60	Small car	4.25	-9.33	-23.00
Light duty truck	0.36	-9.16	-19.91	Small premium car	1.81	-6.97	-11.70
Large premium SUV	0.08	-8.12	-17.55	Small premium SUV	-0.76	-5.90	-12.47
Large SUV	0.93	-7.01	-15.99	Small SUV	2.53	-6.67	-17.26

Sources: NADA, Moody's Analytics

demand will likely be wrung out by the end of summer.

Given the considerable tailwinds from limited supply and steady demand, third-quarter prices will remain elevated but not reach the peaks of June. The perfect storm of decreased supply and demand that arose in June is not sustainable. Additionally, the shoots of recovery may be stomped out as a majority of states, including the economic powerhouses of California, Texas and Florida, have been forced to put reopening plans on hold because of virus reintensification. More important to prices, though, will be consumer sentiment. If COVID-19 outbreaks and subsequent shutdowns continue, 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 for a long time. Unfortunately, this fear and pullback cycle is the most likely scenario for the U.S. until a vaccine or treatment becomes viable.

During the next few months prices will likely begin to decrease as supply constraints ease. Rental companies are de-fleeting, repos are once again happening, and extended leases are coming due. Sellers looking to take advantage of the used-vehicle price bubble will bring more vehicles to auction, driving prices down. Additionally, there will be pressure on the demand side as the unemployment rate stays persistently high.

The baseline forecast is for an economy that is treading water rather than sinking through the rest of the year. The current most likely path is that the double-dip recession will be staved off by another round of federal stimulus measures, and the virus spread will not lead to widespread economic shutdowns. Under this baseline scenario, a steady decrease in wholesale used-vehicle prices is expected to last until 2021.

Risks to this forecast are highly weighted to the downside, and additional wild price swings such as those in the second quarter of 2020 are more probable than the industry would hope. The most serious and likely risk is that continued widespread outbreaks and subsequent lockdowns push the economy into a double-dip recession. In this scenario prices would drop precipitously as additional and more permanent rounds of layoffs crush consumer demand. Wholesale used-vehicle prices will fall in the third quarter from the all-time highs of June; more uncertain are the speed and depth of the drop.

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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