

ANALYSIS
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Australian Used-Vehicle Prices Rise in First Quarter on Supply Concerns

INTRODUCTION

Wholesale used-vehicle prices across Australia continued their relentless path higher throughout the first quarter of 2021. According to the Datium Insights-Moody's Analytics Price Index, a hedonically derived index controlling for factors including age, make, kilometrage, etc., wholesale used-vehicle prices are 37% above the pre-pandemic high set in February 2020. Prices increased 5% in the first quarter, the slowest quarterly increase in the past four, but faster than any quarterly increase in the 10 years prior. Recent gains remain tied to supply constraints in the market amid steady demand.

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BY MICHAEL BRISSON

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New-vehicle supply remains constrained, pushing up prices for used vehicles as buyers look to get their preferred make or model without being put on a waiting list. Ordering your new vehicle and then waiting for it to be delivered has become commonplace across the country. Dealers and consumers have become increasingly frustrated by the inability to buy and sell with ease as in years past.

Already-tight inventories have been stretched thinner as manufacturers around the globe grapple with a bottleneck of available semiconductor chips. Global auto production has been slowed by a shortage of semiconductor chips, which are increasingly prevalent in

the modern automobile. The shortage of these important electronic circuits first reared its head toward the end of 2020 as new-vehicle sales rebounded worldwide. The faster-than-expected rebound caught semiconductor suppliers off guard and unprepared to supply the chips needed for the robust global recovery of auto sales.

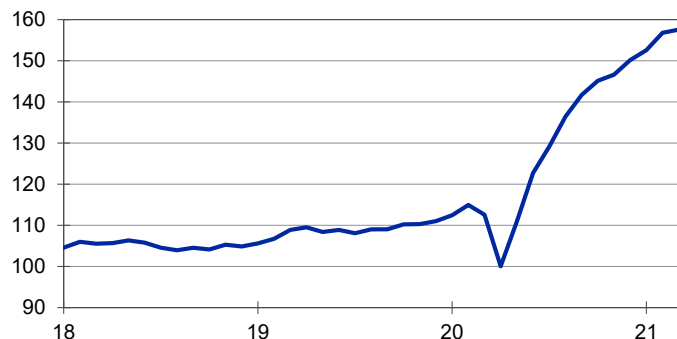
The Australian market was already tight on auto supply coming into the recession. New-auto sales averaged less than 1 million units from the start of 2018 through February 2020. This is well below the equilibrium rate of 1.1 million units established in the five years prior. The decrease in auto supply has been felt at the auctions, where transactions remain muted (see

Chart 2). March saw the closest number of transactions to the previous year since June. However, this is compared to a month when in-person auctions were not allowed. If compared to March 2019, transactions are 25% less. Prior to the pandemic, the average year-over-year change in transactions was an increase of 7%.

The acute issues for auto supply are coming at a time of steady demand. Demand for vehicles has been boosted by a strong economic recovery. The Australian economy has jumped back quickly thanks to aggressive federal fiscal policy and successful control of the COVID-19 outbreak. As shown in Chart 3, the total number of jobs is back to the pre-pandemic level. More specific

Chart 1: Prices Continue to Climb

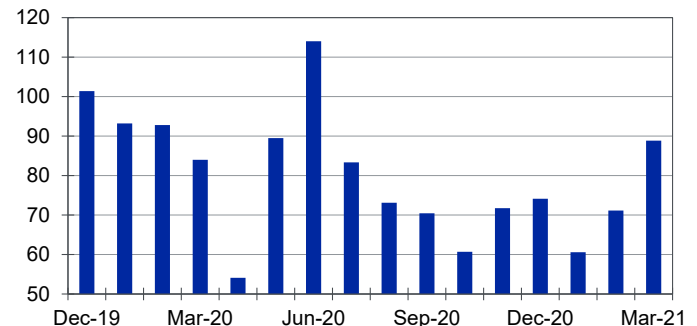
Datium Insights-Moody's Analytics Price Index, 2010=100, SA



Sources: Datium Insights, Moody's Analytics

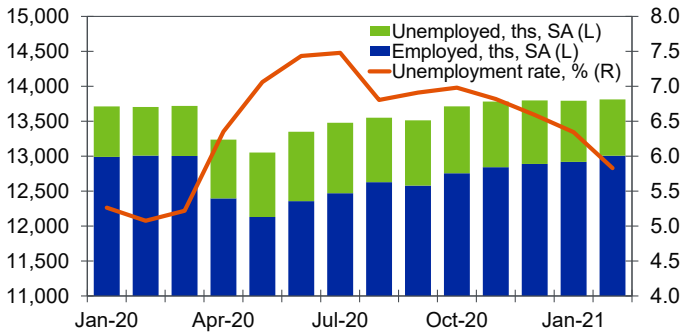
Chart 2: Transactions Remain Low

Auction transaction observations, % of previous yr



Sources: Datium Insights, Moody's Analytics

Chart 3: Labor Force Returns



Sources: ABS, Moody's Analytics

to autos, demand continues to be supported by a preference for the perceived safety of private transportation as shown in the continued weakness of public transportation usage (see Chart 4).

Still, demand does face a few headwinds. The pandemic-specific drivers for private transportation including decreased reliance on public transportation and air travel will continue to dissipate as fear and restrictions recede. As shown in Chart 5, air travel has picked up significantly from the lows reached early in the pandemic. During the past year, many have opted for the much longer drive over flying. Going forward, fewer of these trips will be driven.

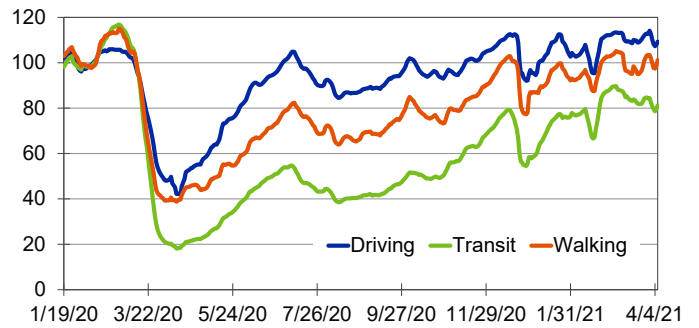
Demand may already be waning from these headwinds as price growth slowed to end the quarter. Price gains for March were the lowest of 2021. In fact, ute prices fell in March as high fuel prices kept buyers at bay (see Chart 6). Additionally, sky-high used-vehicle prices may also be scaring off potential purchases. If a buyer believes valuations are artificially high and will come back down soon, they may hold out for lower prices.

Prices are not expected to revert to pre-pandemic levels, as they will remain elevated throughout the second quarter while supply pressures and steady demand keep the market hot. There is expected to be some pullback in prices in the third quarter, but price levels are projected to remain rather flat once the corner is turned. Prices of durable goods do not usually crash back like commodities. It takes time and energy for dealerships to go out and change the prices on vehicles. However, the market is overvalued and will take time to recalibrate. The most likely scenario for this recalibration is through an extended period of limited price growth over the medium term.

What this means for individual vehicles is a return to a more normal rate of depreciation.

Chart 4: Transit Very Slow to Return

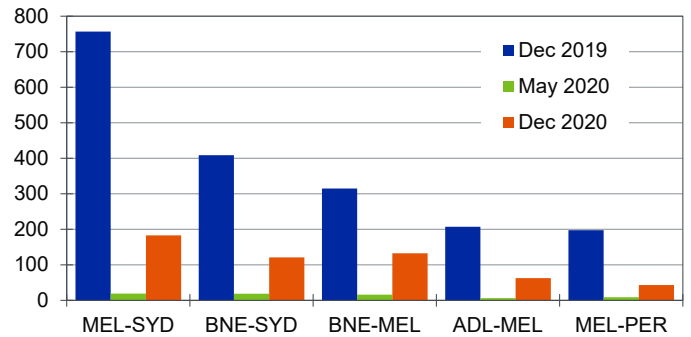
Australia routes searched, Jan 13, 2020=100, 7-day MA



Sources: Apple Inc., Moody's Analytics

Chart 5: Air Travel Coming Back

Passengers carried, monthly activity, ths

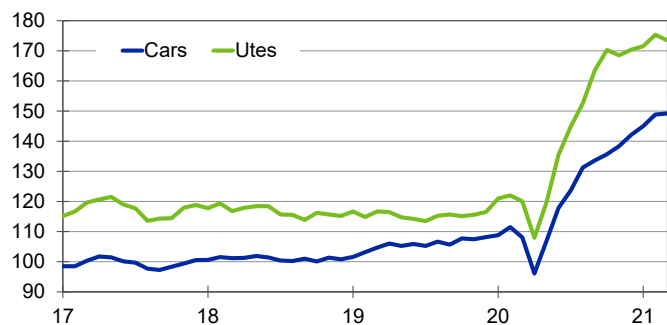


Sources: BITRE, Moody's Analytics

Chart 7 shows prices for a Ford Ranger and Toyota Camry using the Moody's Analytics AutoCycle residual value forecasting solution. This chart shows that normal depreciation, where a Ranger loses value at a faster rate than a Camry, is expected to resume after the second quarter of 2021. At this point, it will have been well over a year of dramatic ups and downs and the market will be long overdue for a breather.

Chart 6: Ute Prices Fall in March

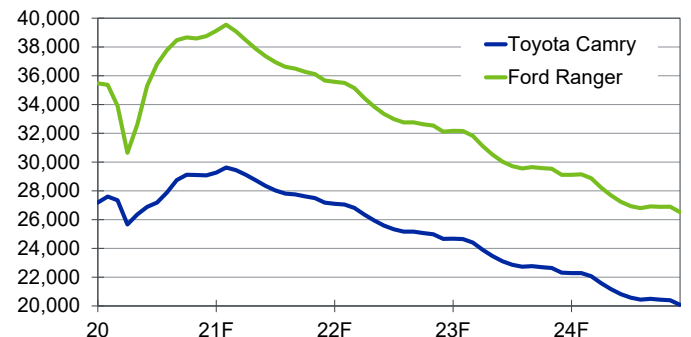
Datium Insights-Moody's Analytics Price Index, 2010=100, SA



Sources: Datium Insights, Moody's Analytics

Chart 7: Normal Depreciation Returns

Model yr 2018, 20,000 km/yr, auction sale, black, NSW, A\$



Sources: Datium Insights, AutoCycle AU, 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 Economic Research group in West Chester PA. Mike works at developing new, empirically driven auto-related products and services. Prior to leading the Moody's Analytics auto research team, Mike built loan and vintage-level CECL, CCAR, and stress-testing models of consumer loan performance as a member of the Business Analytics group at Moody's Analytics. Additionally, Mike has spent time developing econometric models used by U.S. states and local governments for tax/revenue projections. Mike holds a PhD in applied economics from Northeastern University.

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