

# USED VEHICLE REPORT

**Q1 2023** | Used Market Enters Uncharted Territory Post-Pandemic



## Executive Summary

After experiencing a meteoric rise in values, used vehicle prices are coming back down to Earth with price drops and depreciation. Used prices are still significantly higher than they were pre-pandemic, but given the price ascension of new vehicles, used vehicles still provide value to consumers looking for an affordable mode of transportation. However, given that the main sources of used vehicle inventory (lease returns, trade-ins, daily rentals) are still constrained, the used vehicle market will continue to be competitive since the reduced number of vehicles amid high demand will keep prices high. There could be some relief for consumers when automakers start incentivizing new vehicles, but we are only seeing the beginning of incentives, and since supply chains remain fragile, these discounts may not create a significant impact in the near term.



## Key Points

**Used car prices are softening but remain historically high.** The average used vehicle transaction price in Q1 2023 dipped 6.4% year over year but is up 44% from five years ago.

**The pool of affordable used vehicles is shrinking, but the used market continues to offer value compared to new.** The share of used vehicles sold for under \$20,000 was 30.6% in Q1 2023 compared to 60.5% five years prior. In the new car market, less than 1% of vehicles sold in Q1 were under \$20,000, which showcases how the used market offers compelling value to consumers requiring a less expensive option.

**Many vehicle owners have virtually been driven for free over the last three years thanks to elevated used car values.** Although used vehicles are beginning to depreciate again, values of older used vehicles are near where they were three years ago.

**The supply of used vehicles is being squeezed across the board.**

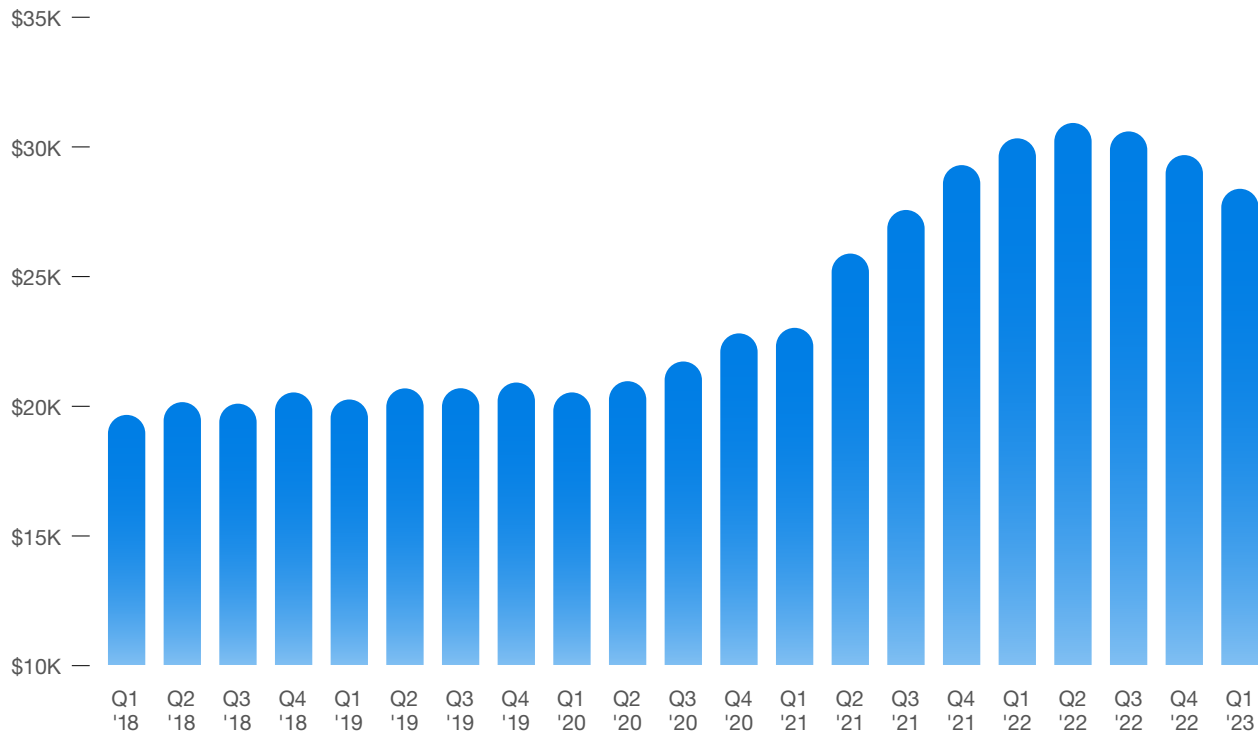
- Lease volume dropped significantly to 559,000 vehicles in Q1 2023 from 1 million vehicles in Q1 2018.
- Trade-in volume declined to 5.5 million vehicles in 2022 from 6.2 million vehicles in 2018.
- Off-rental vehicles, which have historically been a steady source for near-new used vehicles, are now much older, with the average vehicle age climbing to 3 years in March 2023 from 1.9 years in March 2019.

# USED MARKET CONDITIONS



## Used Car Prices Cool From All-Time Highs

USED VEHICLE AVERAGE TRANSACTION PRICE BY QUARTER



Source: Edmunds

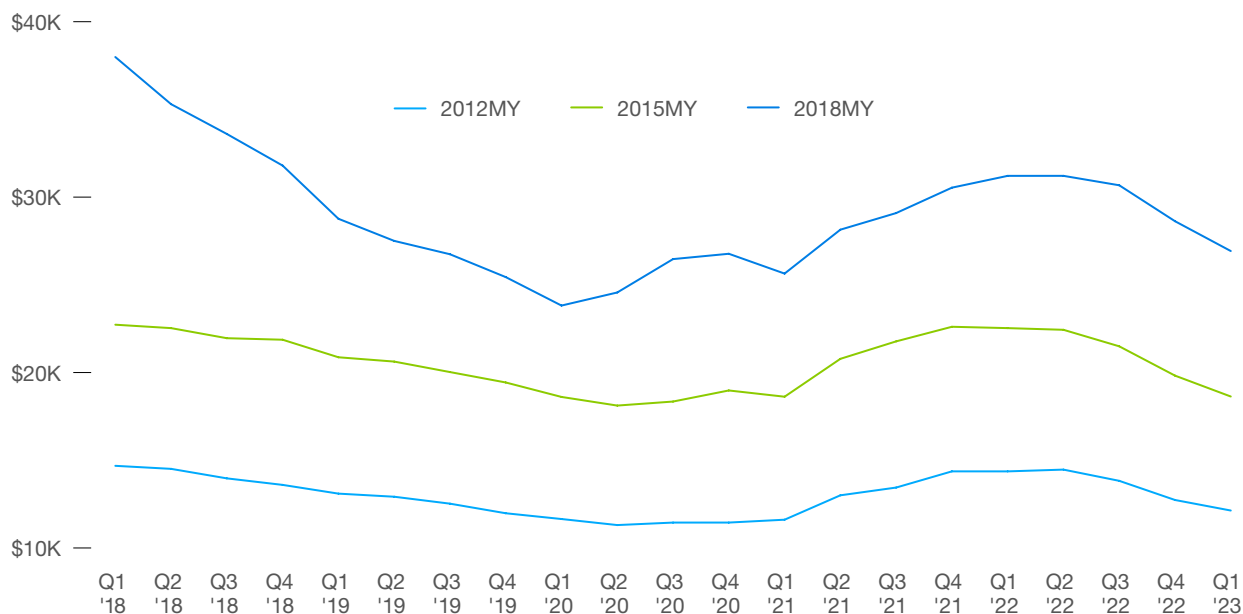
The average transaction price for used vehicles in Q1 2023 dipped by 6.4% to \$28,381 compared to \$30,329 in Q1 2022, but the Q1 2023 ATP still represents a tremendous 44% increase from Q1 2018's \$19,657. Current used values are much higher than they were before the pandemic regardless of the vehicle's age, make, model, features or mileage.

Avg. transaction price for used vehicles dipped by

6.4%

## Depreciation Begins Where It Left Off Pre-Pandemic

USED AVERAGE TRANSACTION PRICE BY MODEL YEAR



Source: Edmunds

After skyrocketing values took the used vehicle market for a ride, used vehicle prices are finally falling in line with more typical patterns and used vehicles are once again becoming depreciating assets. A bright spot for owners of older used vehicles is that current used vehicle values are largely the same as they were pre-pandemic: Although their vehicles have gotten

older and incurred more mileage, their values haven't changed, and for the last three years, owners have essentially driven their vehicles for free. For example, the average mileage accrued on a 2018 Toyota Camry has increased on average by 130% between Q1 2020 and Q1 2023, but the average transaction price has also increased by 8.0%.

| Avg Mileage by MY   | 2012MY  | 2015MY | 2018MY |
|---------------------|---------|--------|--------|
| Q1 2020             | 94,259  | 63,908 | 29,359 |
| Q1 2023             | 113,446 | 89,630 | 59,746 |
| Q1 2023 vs. Q1 2020 | 20.4%   | 40.2%  | 103.5% |



## The \$20K Used Vehicle Is Becoming Harder to Find

USED TRANSACTION PRICES BY VEHICLE MILEAGE AND AGE

| Q1 2018 - Used ATP | 0 yrs | 1 yr  | 2 yrs | 3 yrs | 4 yrs | 5 yrs | 6 yrs | 7 yrs | 8 yrs | 9 yrs | 10 yrs |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| <10,000 mi.        | \$40K | \$31K | \$29K | \$28K | \$29K | \$31K | \$36K | \$30K | \$28K | \$36K | \$33K  |
| 10,000-19,999 mi.  | \$31K | \$28K | \$26K | \$24K | \$23K | \$22K | \$22K | \$25K | \$21K | \$25K | \$25K  |
| 20,000-29,999 mi.  | \$26K | \$26K | \$25K | \$23K | \$21K | \$20K | \$19K | \$20K | \$18K | \$18K | \$21K  |
| 30,000-39,999 mi.  |       | \$23K | \$22K | \$22K | \$21K | \$18K | \$18K | \$17K | \$16K | \$15K | \$15K  |
| 40,000-49,999 mi.  |       | \$19K | \$18K | \$22K | \$20K | \$18K | \$16K | \$16K | \$14K | \$13K | \$13K  |
| 50,000-59,999 mi.  |       | \$24K | \$20K | \$21K | \$19K | \$17K | \$16K | \$15K | \$14K | \$12K | \$12K  |
| 60,000-69,999 mi.  |       | \$25K | \$22K | \$21K | \$18K | \$16K | \$15K | \$14K | \$13K | \$11K | \$11K  |
| 70,000-79,999 mi.  |       | \$25K | \$22K | \$21K | \$18K | \$16K | \$15K | \$14K | \$12K | \$11K | \$11K  |
| 80,000-89,999 mi.  |       |       | \$22K | \$21K | \$17K | \$15K | \$14K | \$13K | \$12K | \$10K | \$10K  |
| 90,000-100,000 mi. |       |       | \$20K | \$22K | \$17K | \$14K | \$13K | \$13K | \$11K | \$10K | \$10K  |

| Q1 2023 - Used ATP | 0 yrs | 1 yr  | 2 yrs | 3 yrs | 4 yrs | 5 yrs | 6 yrs | 7 yrs | 8 yrs | 9 yrs | 10 yrs |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| <10,000 mi.        | \$51K | \$47K | \$45K | \$34K | \$37K | \$56K | \$45K | \$55K | \$47K | \$59K | \$53K  |
| 10,000-19,999 mi.  | \$42K | \$44K | \$40K | \$31K | \$31K | \$36K | \$37K | \$38K | \$37K | \$35K | \$36K  |
| 20,000-29,999 mi.  | \$0K  | \$41K | \$38K | \$31K | \$30K | \$31K | \$30K | \$29K | \$28K | \$26K | \$26K  |
| 30,000-39,999 mi.  |       | \$38K | \$36K | \$31K | \$30K | \$29K | \$28K | \$27K | \$25K | \$23K | \$22K  |
| 40,000-49,999 mi.  |       | \$39K | \$33K | \$31K | \$29K | \$28K | \$26K | \$24K | \$23K | \$20K | \$18K  |
| 50,000-59,999 mi.  |       | \$41K | \$34K | \$29K | \$28K | \$27K | \$25K | \$23K | \$21K | \$19K | \$17K  |
| 60,000-69,999 mi.  |       | \$43K | \$29K | \$26K | \$27K | \$26K | \$24K | \$22K | \$20K | \$18K | \$16K  |
| 70,000-79,999 mi.  |       |       | \$36K | \$27K | \$27K | \$25K | \$23K | \$21K | \$19K | \$17K | \$16K  |
| 80,000-89,999 mi.  |       |       | \$38K | \$28K | \$26K | \$24K | \$22K | \$20K | \$19K | \$16K | \$15K  |
| 90,000-100,000 mi. |       |       | \$38K | \$28K | \$26K | \$23K | \$21K | \$20K | \$18K | \$16K | \$14K  |

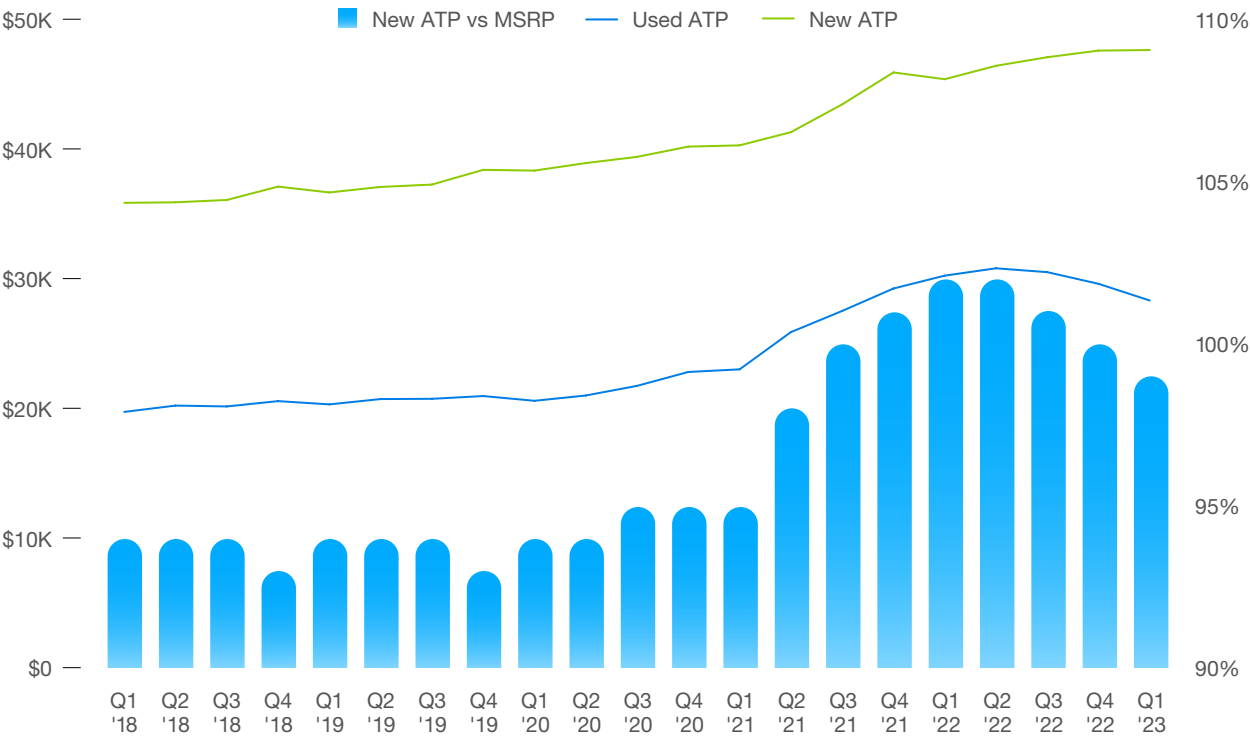
Source: Edmunds

Consumers who have shopped in the used vehicle market in the past may find it hard to fathom the dynamics of the current landscape. Not long ago, \$20,000 was seen as an acceptable amount to spend on a used car to get an

optimal blend of miles and age. In today's market \$20,000 puts consumers into a much older vehicle or a piece of inventory that is approaching the 100,000-mile mark.

# Used Car Pricing Trend Deviates from New

0-TO-3-YEAR-OLD USED ATP, NEW ATP, NEW ATP VS. MSRP



Source: Edmunds

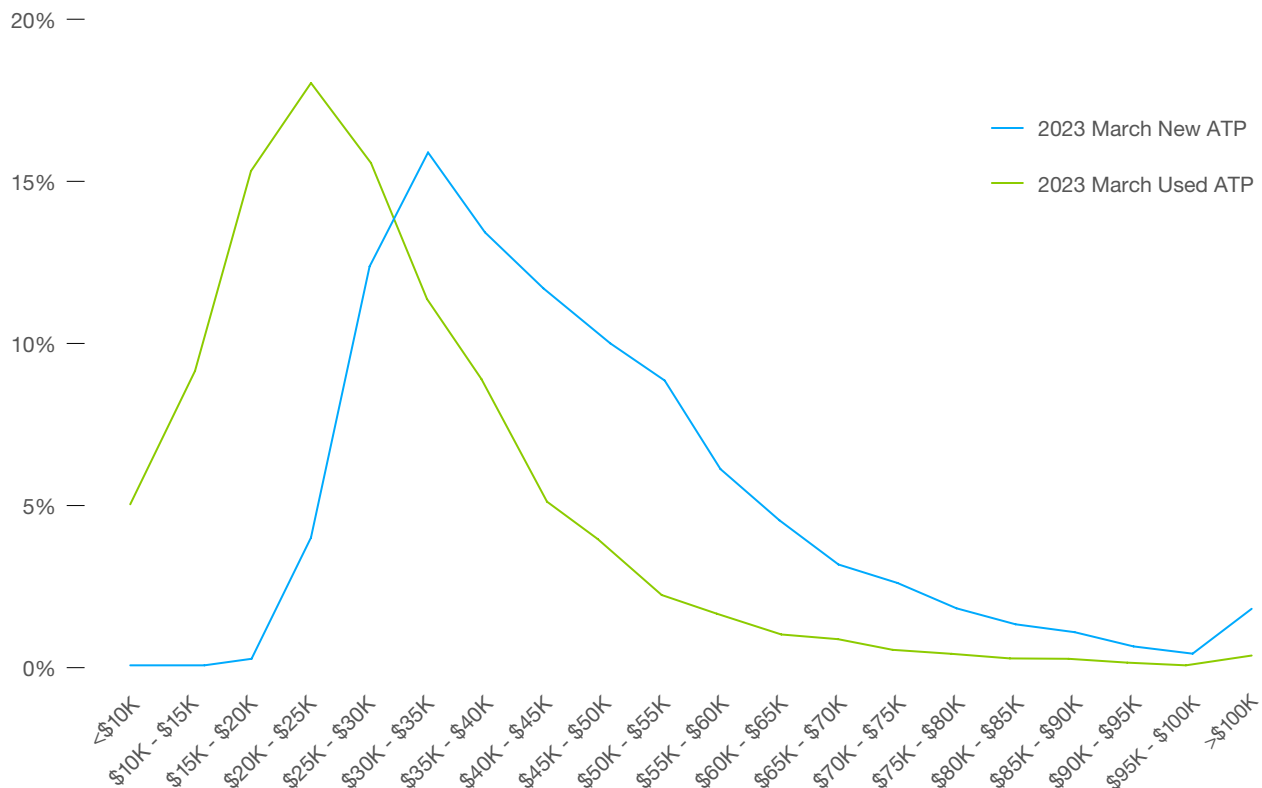
The trajectories of new and used average transaction prices are finally beginning to diverge as new vehicle ATPs begin to dip below average sticker prices. New vehicles are sitting on dealer lots for increasingly longer periods of time over the last two quarters, signaling

that the rush to pay any price for new transportation is coming to a halt. As contributing factors, interest rate hikes have yet to be met with incentives that are sufficient and widespread enough to help curb consumer anxiety around decreased affordability.



## The Used Market Offers Price Relief from the New Car Market

NEW VS. USED ATP RANGES



Source: Edmunds

Nearly half of used vehicles sold are under

\$25K

Despite the historic elevation of used vehicle values and the recent slight reduction in the ATP for new vehicles compared to average MSRP, new car prices have risen to the point where there are still significantly fewer affordable options available. Nearly half of used vehicles sold are under \$25,000; in the new car market that figure is less than 5%. This will keep demand for used vehicles strong as Americans continue to seek out cheaper alternatives — particularly in a shaky economy.

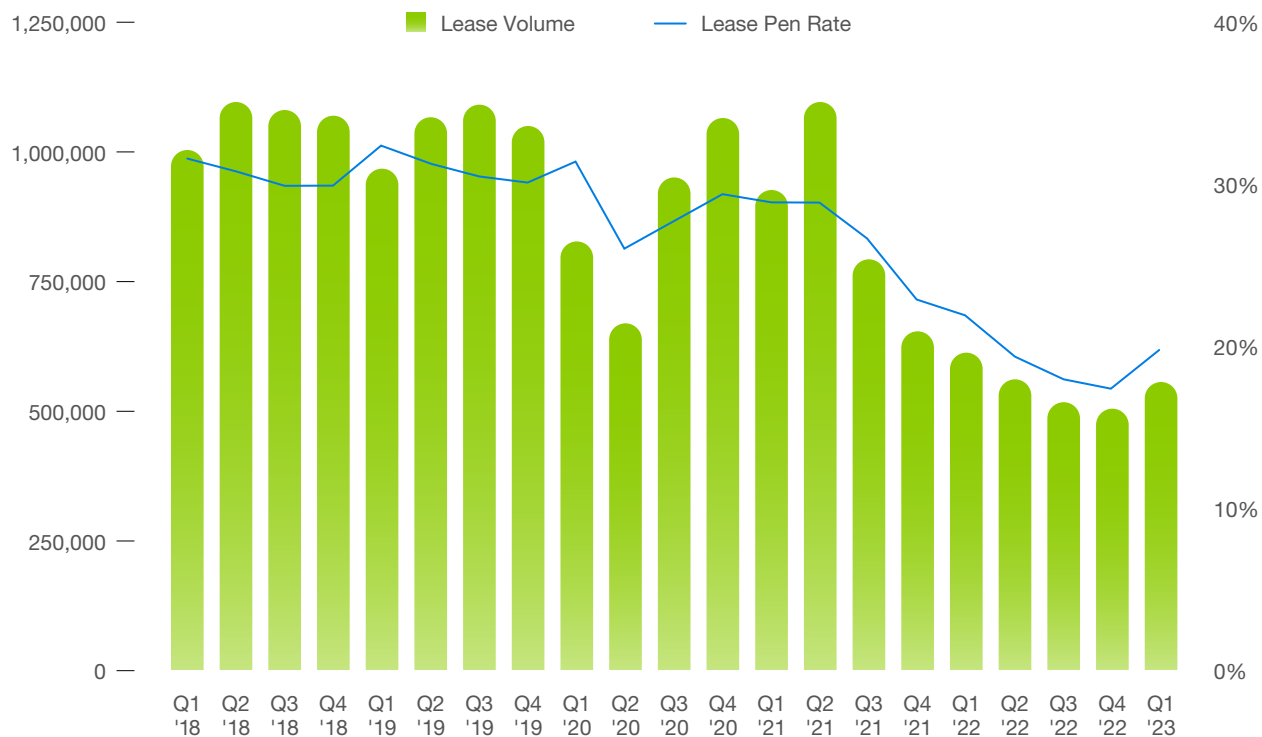
SQUEEZED SUPPLY CHANNELS OF USED  
VEHICLES WILL ALTER THE FUTURE OF

# THE USED CAR MARKET



## Constraints Within the Off-Lease Market Continue

### OFF-LEASE



Source: Edmunds

Leasing has historically been a reliable source of near-new used vehicles, but fewer automakers offered incentives toward leases over the last few years. As a result, many customers chose to extend their leases or buy out their vehicles at the end of their leases. These slumping lease volumes immediately cut used vehicle inventories and are setting the stage for supply constraints for years to come.

EVs may be an exception to this trend thanks to a loophole for lessees in the Inflation Reduction Act. Under the IRA, tax credits are available for all electric vehicles regardless of buyer income or battery sourcing guidelines and can be applied to lease payments, therefore making EV leasing more attractive. The EV lease rate in March 2023 was 34% compared to 8% five months prior in November 2022. EVs, however, are a small portion of the lease market and will not make a dent in the overall lease volume trend, but this does provide a rosier outlook on used EV availability than just a few months ago.

## Fewer New Vehicle Sales Diminishes Trade-In Volumes

NEW VEHICLE TRADE-IN VOLUME &amp; AGE



Source: Edmunds

Fewer new car sales are also beginning to take a toll on the volume and variety of used cars that dealers are able to acquire through trade-ins. The twofold effect on used vehicle values spans across the board as trade-ins typically bring in a wider range of vehicle types and ages compared to off-lease or off-rental vehicles.

The last two years brought a slightly younger mix of vehicles to dealers' used lots as owners of late-model vehicles found themselves with positive equity sooner

than expected — and are potentially better acclimated to higher priced vehicles that are on new car dealers' lots. While it might be too soon to determine if this is a greater trend this year, the average vehicle trade-in age during Q1 2023 was closer to the pre-pandemic average of 5.9 years compared to Q1 2022's average of 5.3 years. This could indicate pent-up demand might be bringing back customers who have been sitting on the sidelines waiting for new car values to cool and selection to improve before returning to the market.

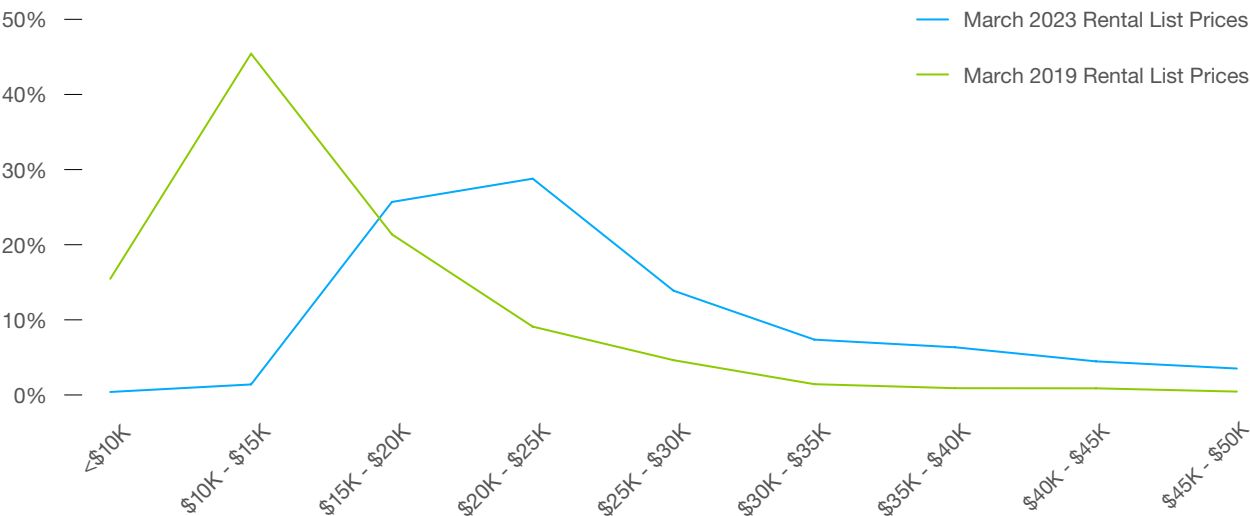
# Off-Rental Drives Older, More Expensive Vehicles to the Secondhand Market

AVERAGE RENTAL VEHICLE AGE, MILEAGE AND PRICE

| Rental     | Avg Age | Avg Miles | Avg Price |
|------------|---------|-----------|-----------|
| March 2019 | 1.9     | 39,796    | \$15,829  |
| March 2023 | 3.0     | 48,525    | \$28,916  |

Previously, cars being sold after service as rental cars were a predictable source of used inventory that highly resembled the new car market, just with higher miles. However, reduced new vehicle inventory that consumers faced in the retail market during the pandemic also took

its toll on rental agencies, which weren’t able to acquire replacement inventory at their typical intervals. Rental vehicles today are more likely to be a bit older and even from a prior generation or a refresh behind what is available on the new vehicle market.



Source: Edmunds

In terms of pricing, today’s market of off-rental cars has completely shifted away from the source of affordable basic transportation that it once was. In March of 2019, 61% of rental listings were \$15,000 or below, and as of March 2023 that had dropped to 2%. Now, more than half (55%) of off-rental listings

have bumped up to the \$15,000-\$25,000 price range. Recent new car sales for 2023 have seen a growth in fleet sales, but it is highly doubtful that there will be enough volume to make a difference pricewise in the near term for the off-rental market.



## Looking Ahead: A Price Freefall Is Unlikely

There is speculation around the market's return to normal, or at least a return to seasonal buying patterns as used vehicle values continue to fall from their peak — with some fluctuations. But with so many supply-side constraints, only a return to seasonality seems possible. Due to current supply dynamics, used vehicle inventory is skewing older and 5- to 10-year-old vehicles could offer a source of pricing relief for consumers. Unfortunately, it is less likely that we'll see greater volumes of near-new used vehicles come from off-rental or off-lease sources, and as a result 1- to 3-year-old vehicles are less likely to budge in pricing like their older counterparts.

Used vehicle prices could see meaningful reductions if new car sales were to stall out. Such a scenario could prompt automakers and dealers to leverage heavier incentives to entice consumers into new vehicle purchases and therefore place downward pressure on used vehicle values. But with many automakers attempting to align supply and demand, heavy incentives may not be necessary.



# Questions?

[strategicinsights@edmunds.com](mailto:strategicinsights@edmunds.com)