



used vehicle market report

Q2 2017

Key Takeaways

Used-vehicles sales summary

Quarter	Total sales	Franchise used	CPO
Q2 2012	9,320,928	2,570,044	462,357
Q2 2013	8,952,801	2,756,076	548,844
Q2 2014	9,203,337	2,839,086	581,588
Q2 2015	9,659,329	2,885,039	660,672
Q2 2016	9,891,090	2,906,081	678,294
Q2 2017	10,054,845	2,946,362	693,802

Certified Pre-Owned is a subset of franchised used

2017 posts all-time record for Q2 used sales:

Q2 used sales crossed the 10 million unit threshold for the first time in 2017. Sales increased across the board as total used sales rose 1.7% from Q2 2016, franchise used sales increased 1.4%, and CPO sales climbed 2.3%.

Used prices continue to rise but less steeply:

The average retail transaction price for a used vehicle was \$19,227, a 2.1% increase from last year and a Q2 record high. The increase is driven by a wave of lease returns that has led to record sales volume of more expensive 3-year-old and newer used vehicles, but the oversupply of these near-new vehicles has begun to push their prices down.

Shortage of older used vehicles:

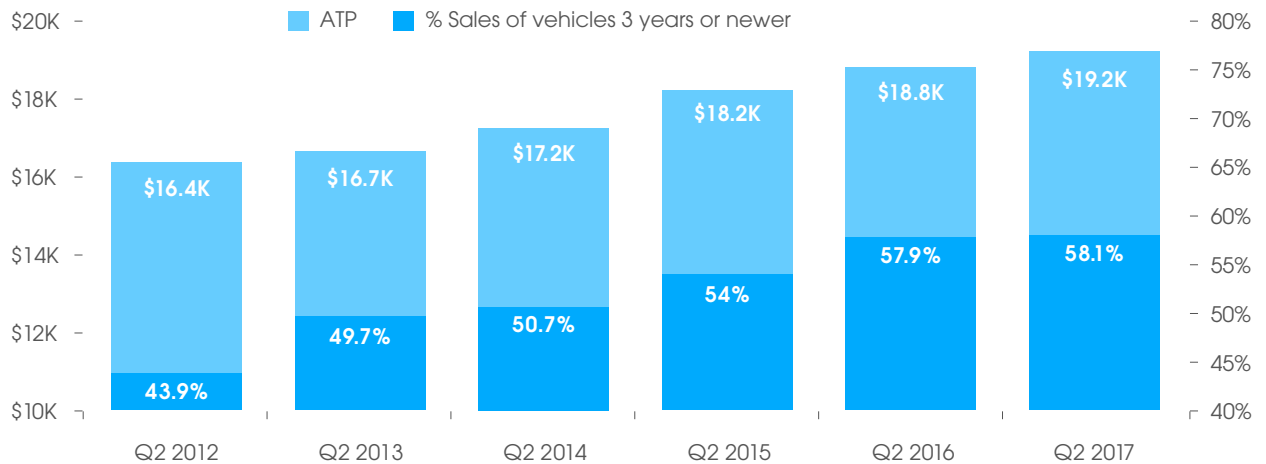
While the near-new market is saturated, the low level of new-vehicle sales at the bottom of the recession has led to a scarcity of older used vehicles. Compounded by lower levels of trade-ins, the limited supply of used vehicles 5 years old and older is driving their prices up.

Converging price gap:

With decreasing retained values of newer-used and increasing values of older-used vehicles, the used market has both a lower price ceiling and a higher floor price. Shoppers can expect better deals on near-new models but will face higher entry prices on more affordable older-used models. These factors narrow the gap between the newest and oldest used cars, which has created pricing tension in the model years in between.

Used prices increase but gains are declining

Average transaction prices

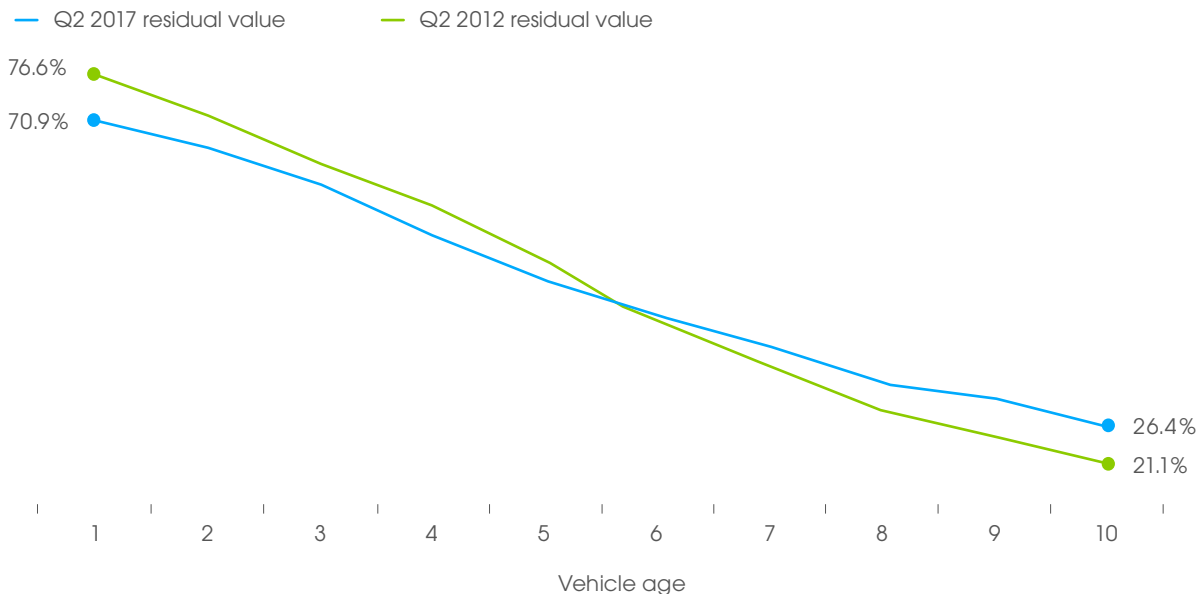


The slowdown in the growth of used values is caused by multidimensional factors:

- Since 2012, the percent of vehicles 3 years old or newer sold at franchise used dealers has been climbing. This shift is helping to push the overall average transaction price upward as these newer vehicles naturally carry a higher price tag.
- The high number of off-lease vehicles is saturating the market, which is softening residual values for these newer pieces of higher-priced inventory.
- Daily rental fleets have steadily increased their buy since 2013, which has augmented the number of 1- and 2-year-old vehicles moving into the used market.
- New vehicle sales have begun to slow down, causing OEMs to increase incentives and putting downward pressure on pricing of near-new used vehicles.
- Older vehicles are retaining much more of their original value versus years prior. However, their decreasing market share lessens their impact on overall pricing.

Older cars worth more; newer cars worth less

Residual value by age



Source: Edmunds

Falling values in the near-new market are being counteracted by older used vehicles, which are rising in value. However, fewer consumers are trading in a vehicle when purchasing new, which is causing the supply of older used vehicles to stagnate. Additionally, the drastically reduced number of new cars sold during the recession is adding to that scarcity; therefore, prices for older used vehicles are only moving upward.

New used vehicles are depreciating more quickly

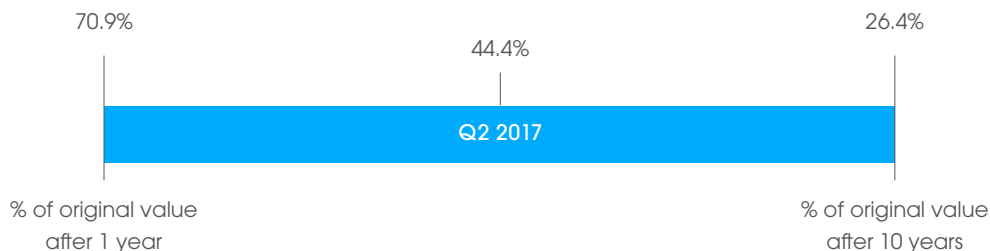
2017 vs 2012 1 & 10 year old residual value by segment

Category	Residual Value	Q2 2012	Q2 2017
Midsize traditional SUV	1-year old used value	79.6%	75.7%
	10-year old used value	16%	32.5%
Subcompact car	1-year old used value	85.2%	70.2%
	10-year old used value	25.2%	26.6%
Large truck	1-year old used value	75.6%	73.9%
	10-year old used value	25.9%	39.9%
Compact truck	1-year old used value	83.5%	85.2%
	10-year old used value	30.6%	44.4%
Compact car	1-year old used value	82.7%	69.9%
	10-year old used value	26%	25.1%
Minivan	1-year old used value	72.7%	64.4%
	10-year old used value	15.3%	18.3%
Large car	1-year old used value	67.8%	59.8%
	10-year old used value	17.8%	19.9%
Midsize car	1-year old used value	73.4%	63.9%
	10-year old used value	21.4%	22%
Midsize crossover SUV	1-year old used value	79%	71.3%
	10-year old used value	19.6%	21.5%
Compact crossover SUV	1-year old used value	78.9%	71.9%
	10-year old used value	24.9%	26.8%

The change in retained value is vastly different from five years ago and spreads across every major vehicle category. In each category, we are either seeing the residual value of a 10-year-old vehicle increasing, the residual value of a 1-year-old falling, or both. This shift lessens the residual gap between 1-year-old and 10-year-old vehicles and puts pressure on the residual values of all vehicle ages in between to become closer.

Older used vehicles are priced closer to newer used vehicles

Currently:



Five years ago:



The difference in values between the extreme of a 1-year-old vehicle and a 10-year-old vehicle is beginning to lessen. In 2012, the difference in pricing was 55.5%; now the divide is only 44.4%. As the gap in values between these two vehicle ages tightens, there is an increased amount of tension in pricing vehicles that are only one or two model years apart. While this increases pricing difficulties for vehicles that fall in this age range, the end result is a market with a higher entry price than before. But, for consumers, a few more dollars will go much further than in previous years.

Looking ahead:

The factors contributing to the tightening of residual values in vehicles from 1 to 10 years old will remain in play throughout the end of the year. While the values of older vehicles will see some relief next year as we move further past the recessionary car sales years, the near-new inventory will still have to compete with subsequent years of high numbers of lease vehicles returning to the market.