



# used vehicle market report

Q1 2017

## key takeaways

### Used-vehicles sales summary

Quarter	Total sales	Franchise used	CPO
Q1 2012	10,345,866	2,563,470	455,050
Q1 2013	9,790,578	2,649,644	483,200
Q1 2014	9,641,280	2,783,454	551,700
Q1 2015	9,810,560	2,819,642	614,400
Q1 2016	10,322,933	2,927,771	646,400
Q1 2017	10,187,724	2,920,015	647,400

Certified Pre-Owned is a subset of Franchise Used

### Used Sales Stall in 2017

In Q1 2017, 10.2 million vehicles were sold in the used market, a decrease of 1.3% versus the previous year. Franchise used sales also showed a reduced number of units sold, with a 0.3% decrease versus 2016. Fewer consumers trading in their existing vehicle upon their new purchase could be side-stepping inventory from dealers.

### CPO Volume Remains Flat

Certified Pre-Owned sales inched up with a 0.1% lift over 2016 and accounted for 22.2% of all franchise used sales.

### Used Values Up, but Mixed Signals Ahead

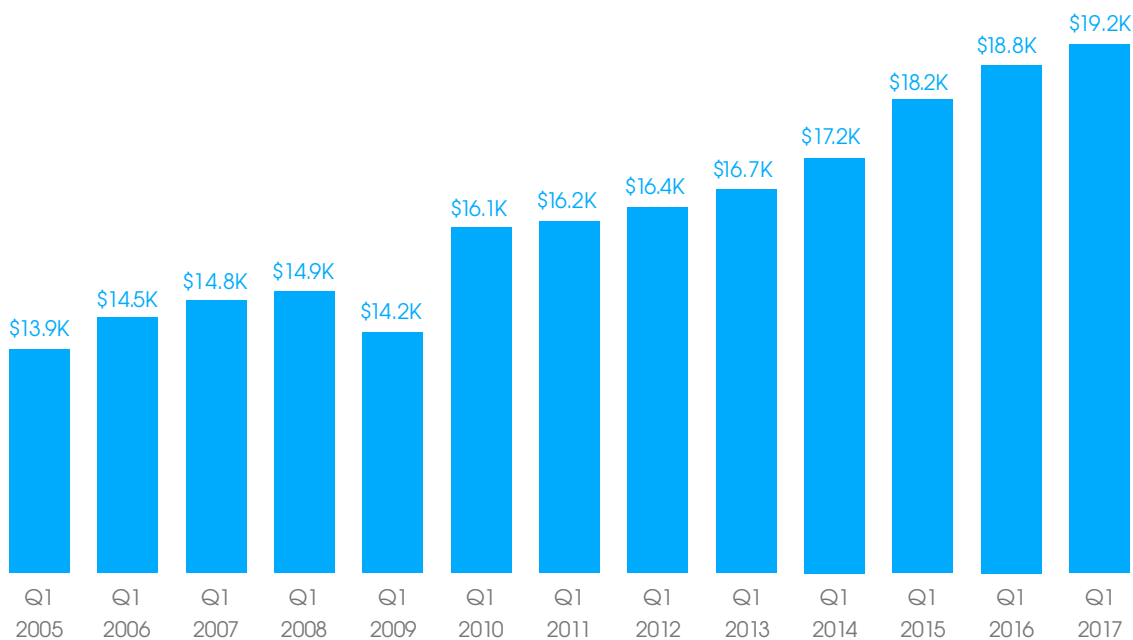
The average retail used vehicle sold for \$19,227 in Q1 2017, an increase of 2.1% year over year. This record-breaking high can partially be attributed to a higher mix of vehicles being sold that are only 3 years old or newer (53% of sales in Q1 2017) and these 3-year-old vehicles began with much higher MSRPs versus years prior. One caveat is that, while the MSRPs are up and so is the share, these vehicles aren't retaining nearly as much value as before.

### Older Inventory Squeezed, Newer in Surplus

In Q1 2017, the average age of traded-in vehicles was 6.4 years old, essentially flat from last year, but the percent of buyers willing to part with their existing vehicle is down from 45.0% last year to 42.8%. With a forecast for fewer sales, this further constrains the availability of older vehicles. On the other hand, leasing's supply of near-new is forecast to last nearly three more years.

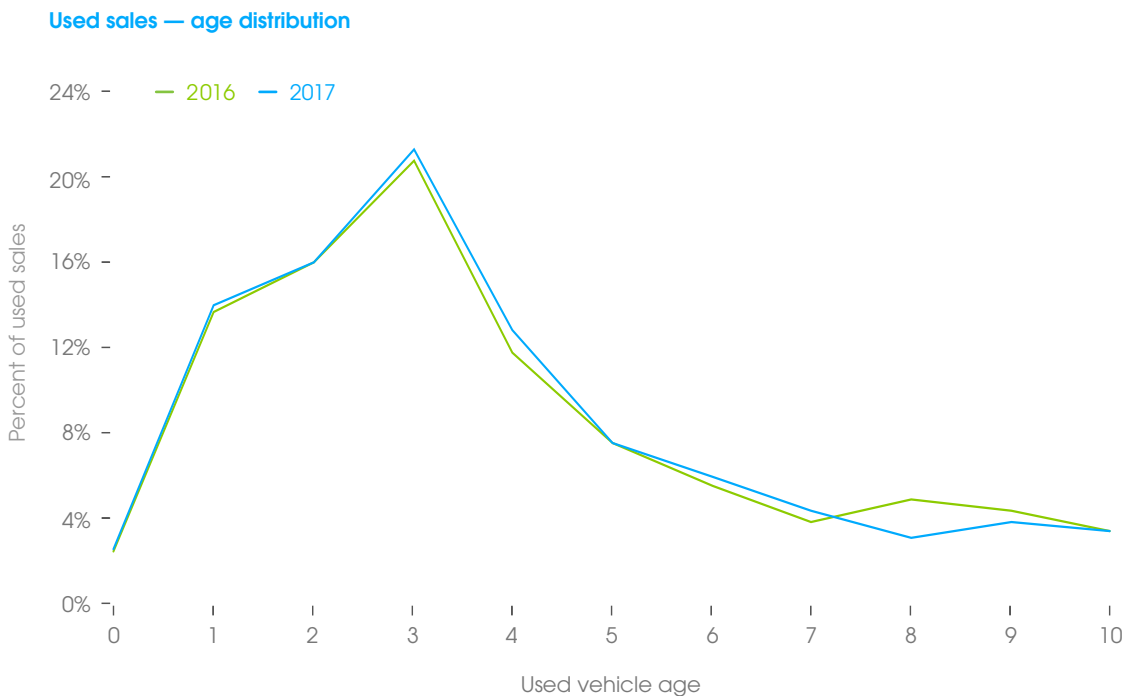
## Used prices edged up

Average transaction prices (\$ thousands)



The first quarter of 2017 registered another record high and eclipsed the \$19K threshold. There are three primary factors for such a high overall average:

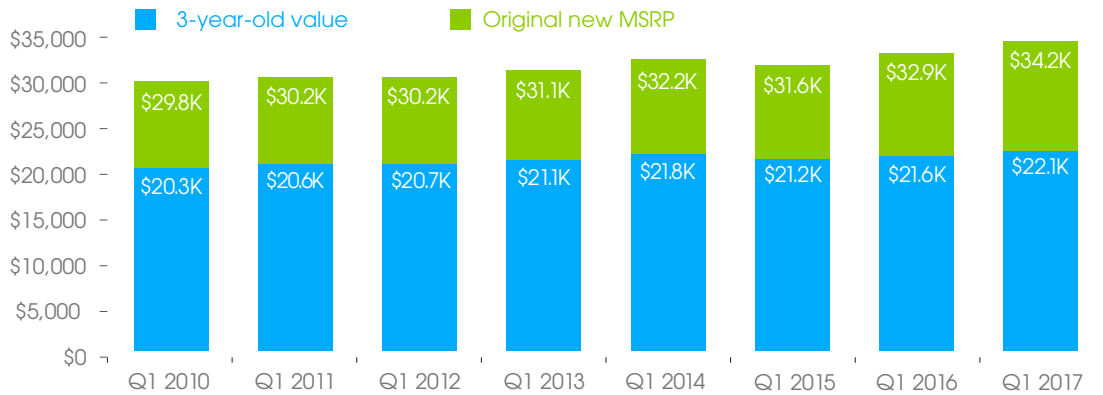
- 1 consistently high levels of vehicles being sold that are 3 years old or newer
- 2 massive MSRP gains that new vehicles are experiencing are beginning to reflect on the used side
- 3 older used inventory that is being sold is in high demand and is retaining higher values than years prior



The average age of a retail used vehicle sold during Q1 2017 was 4.4 years, down slightly from 4.5 years old in Q1 2016. While the distribution still peaks at the 3-year-old age marker, it is anticipated that as the year progresses the market will see even more 3-year-old used vehicles being sold in the market.

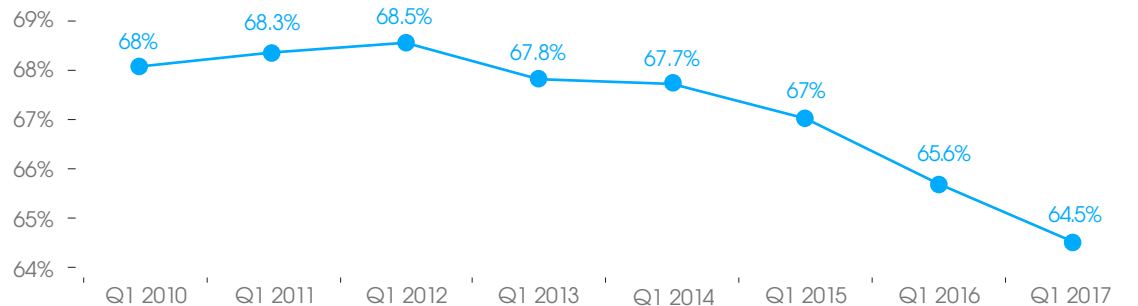
## Lease returns saturate market, soften residuals

### 3-year-old vehicles

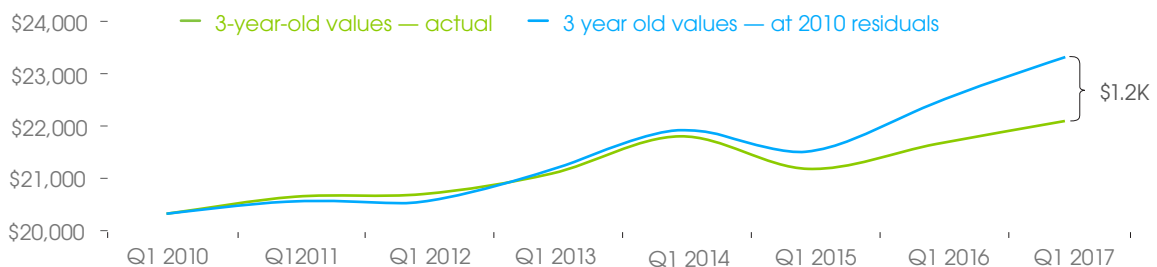


The surplus of off-lease vehicles has begun to put downward pressure on residual values. New-car sales are still seeing a dramatic increase in MSRPs. The original MSRP of a 3-year-old vehicle sold in Q1 2017 reached \$34.2K, a 14.7% lift from Q1 2010. By contrast 3-year-old retail used values hit \$22.1K, an increase of just 8.7% for those same vehicles on the secondhand market. In dollar terms, this translates to a \$1.2K loss on the used market if used retained values had not dropped off from 2010-2012 levels.

### 3-year-old retained value



### Residual drop-off impacts used prices



## Outpaced MSRPs expand to more segments

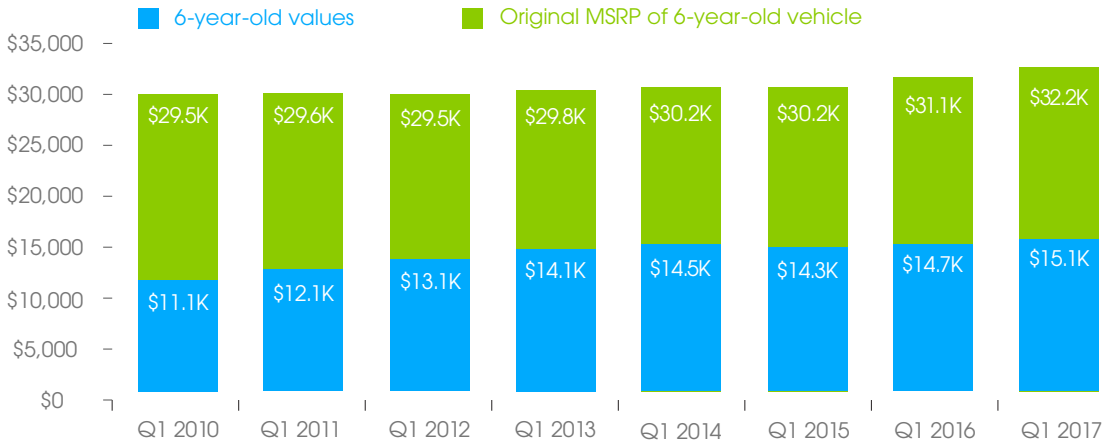
MSRP vs 3-year-old values

	2011 vs 2010	2012 vs 2010	2013 vs 2010	2014 vs 2010	2015 vs 2010	2016 vs 2010	2017 vs 2010
Number of affected categories	2	0	3	2	5	7	9
Premium luxury car			Large crossover SUV	Midrange luxury SUV	Entry luxury car	Compact car	Compact car
Premium sport car			Premium luxury car	Premium luxury car	Large crossover SUV	Entry luxury car	Compact crossover SUV
			Premium sport car		Midrange luxury car	Large crossover SUV	Entry luxury car
					Midsize car	Midrange luxury car	Large crossover SUV
					Premium luxury car	Midsize car	Large traditional SUV
						Premium luxury car	Midrange luxury car
						Subcompact car	Midsize car
							Premium luxury car
							Subcompact car

In the past, new-vehicle MSRP growth outpacing 3-year-old used values was prevalent in some luxury segments, but the proliferation of high lease rates in mainstream vehicle categories has begun to take a toll on resale values and expanded this trend across the industry.

## Older used vehicles continue to grow in price

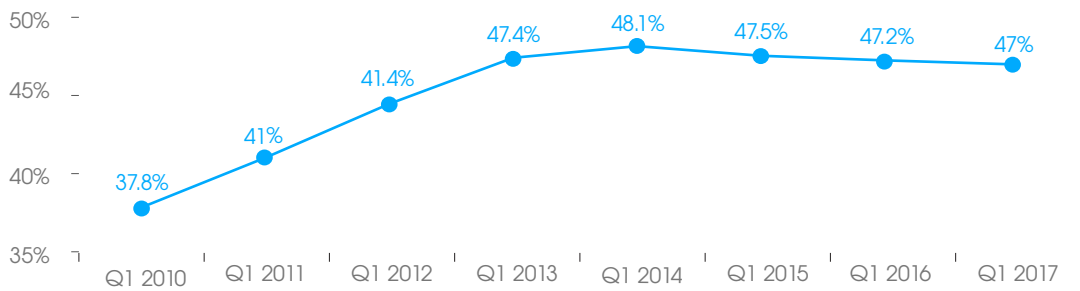
### 6-year-old vehicles



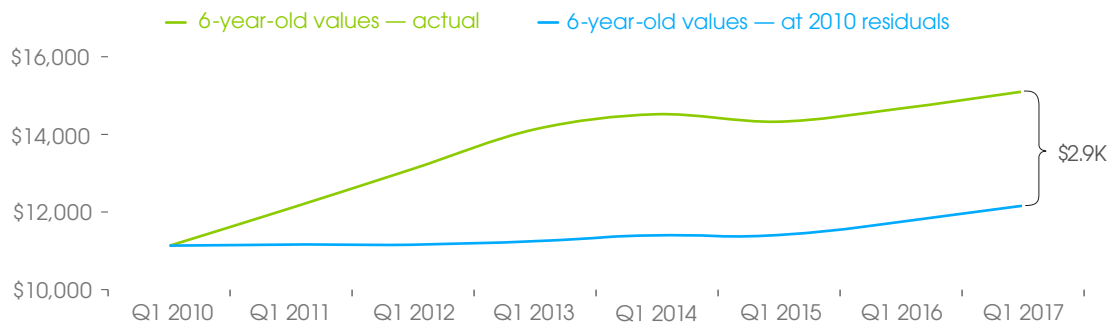
While 3-year-old and newer used cars are facing an oversupply, older used vehicles are seeing a supply pinch as consumers seek more affordable used-car options. With supply low and demand high, older used models have maintained more residual value.

The retained value of a 6-year-old vehicle in Q1 2010 was 37.8%, which jumped to 47% in Q1 2017, a \$2.9K lift in value across that period.

### 6-year-old retained value

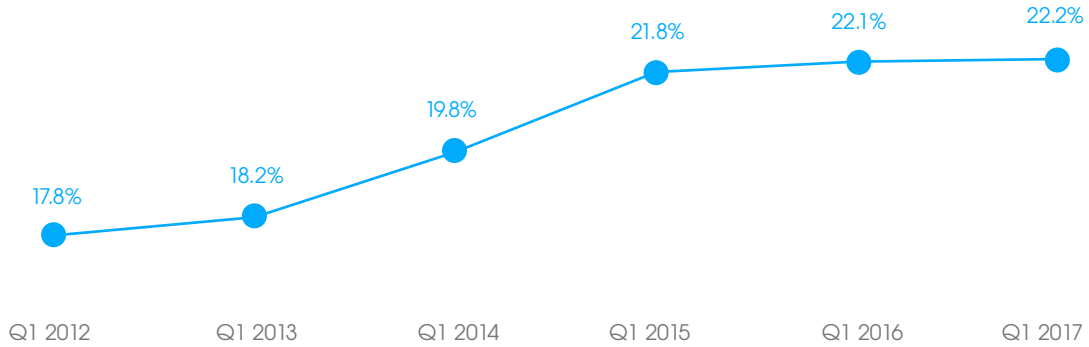


### Residual drop off impacts used prices



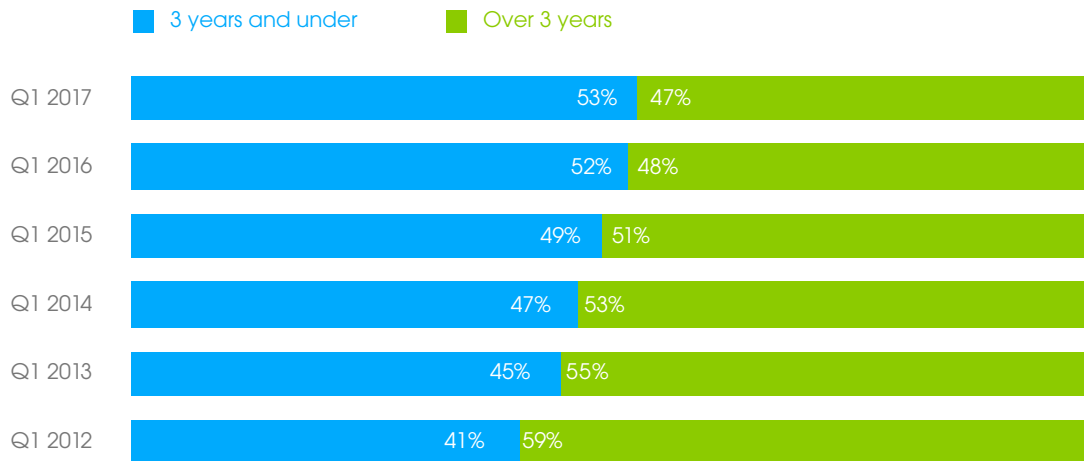
## 2017 continues the growing CPO trend

CPO % share of franchise used sales



CPO sales volumes remained relatively flat in Q1 2017, but due to a lower volume of franchised used sales, CPO made up a slightly larger share of franchise sales at 22.2% versus last year’s 22.1%.

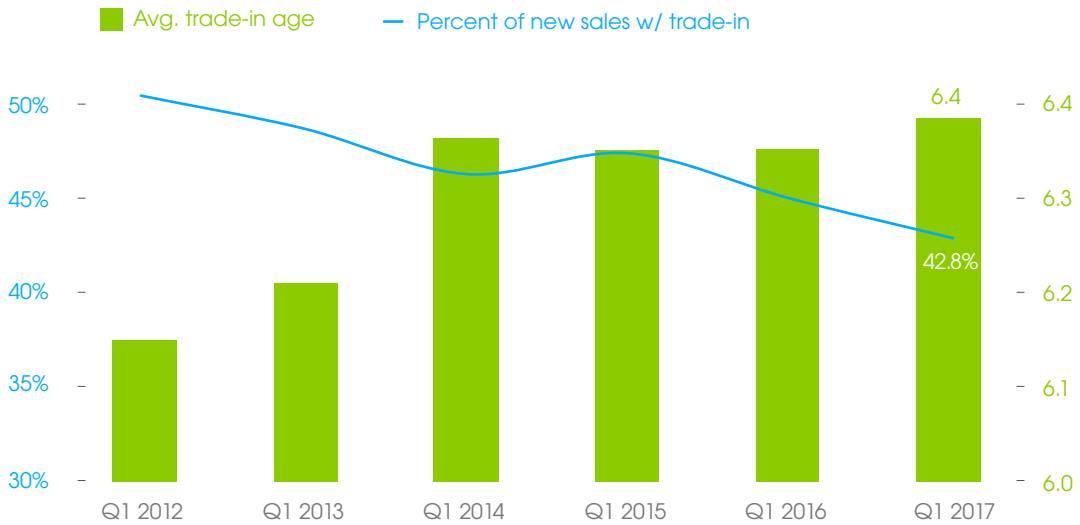
Near-new vs. older used sales %



The share of vehicles that fall under the near-new category that were sold off franchise dealer lots in 2017 hit a high of 53%. Near-new will always have a consistent underlying feed of vehicles that are retired rental units, but the recent gains are the result of when residuals were higher and leasing was an easy way to move more new cars.

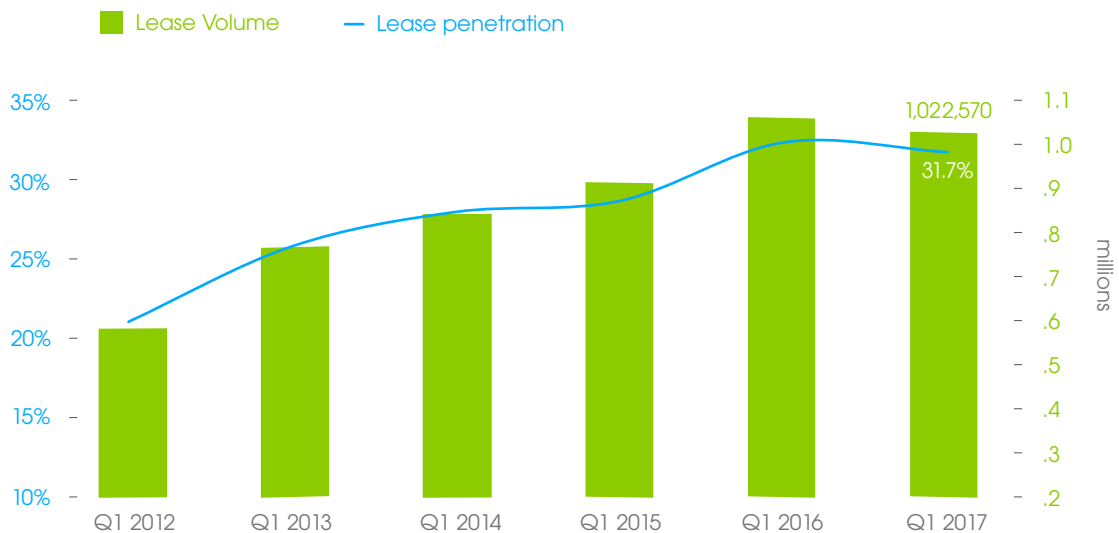


Leasing & trade-ins change used landscape



In Q1 2017, some long-anticipated trends took hold in the used market. New-vehicle sales are expected to slide, and coupled with the reduction of vehicles being traded in, will further restrict the share of older used vehicles, which are already surging in demand. While older used vehicles are poised for higher prices due to the supply shortage, lease returns will continue to hit the used market at elevated levels for the next two years, further reducing the values of near-new vehicles as we saw at the start of 2017.

Near-new units keep coming



questions?

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