

USED VEHICLE REPORT

Q2 2023 | Despite Ongoing Challenges,
Used Market Buoyed by Deferred Demand



Executive Summary

Multiple challenges placed pressure on the used vehicle market in the second quarter of 2023: Inventory acquisition was a mixed bag for retailers, rising interest rates compounded affordability issues, and gradual improvements in new car inventory did little to reduce pricing for the majority of used vehicles. Despite all of these factors, demand remains ever present for used vehicles and there are no signs of the used market slowing down. Why? Record-high prices over the past few years created a high level of deferred demand, which is now streaming into the market since many shoppers simply cannot wait any longer to purchase a vehicle.

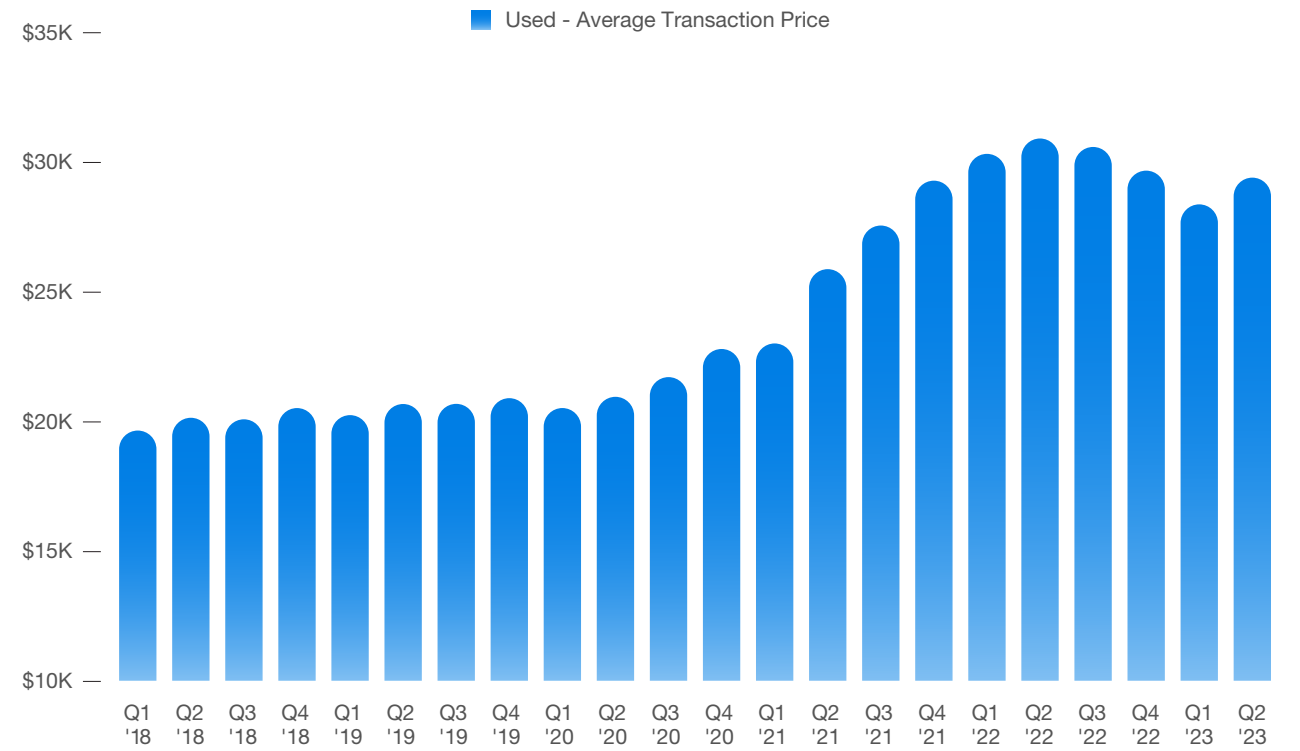
Key Points

- **Demand defies the odds:** Years of postponed vehicle purchases are expected to keep used vehicle prices at higher-than-expected levels for years to come. New vehicle inventory has improved, offering more options to consumers who previously struggled to find and buy a used vehicle amid fierce competition. And while the industry has found a more manageable balance of inventory and discounts, it comes with the trade-off: Only the newest used vehicles are likely to reflect noticeable price reductions.
- **Out with the new, in with the old:** The used vehicle supply has experienced dramatic shifts in sourcing: Typical trade-in cycles have been thrown off-course, rental agencies have revised their buying and selling patterns, and leasing has been reshaped by institutional-level changes as well as consumer-driven behavioral ones. These factors have reduced the availability of lightly-used vehicles and made higher prices for higher-mileage vehicles the norm.
- **Leasing takes new shape but still offers limited relief:** Reliable and predictable leasing patterns were once a cornerstone source of inventory for near-used vehicles market, but that is no longer the case: Nearly 1 in 5 new vehicles are leased in today's market, compared to 1 in 3 just a few years ago. It is also getting harder to predict what consumers will do at the end of their leases given that many captive finance companies have implemented rules against working with third-party companies for buyouts and early lease terminations. One growth area for leasing, however, is specific to EVs. Newly implemented rules for federal tax credits allow a full subsidy when an electric vehicle is leased, which has drummed up some consumer buy-in. But even as lease penetration rates increase for EVs, EVs are still only a small fraction of the market and it will take years before they find their way back onto dealer lots as used vehicles.



Used Car Prices See a Seasonal Uptick

QUARTERLY AVERAGE TRANSACTION PRICES FOR USED VEHICLES



Source: Edmunds

The average transaction price in Q2 2023 dipped 4.6% to \$29,472 compared to last year's Q2 peak of \$30,905, but still represented a significant 46% increase from Q2 2018's \$20,153. A price reduction from last year was inevitable as Q2 2022 also coincided with some of the lowest levels of new car inventory, funneling many new-car shoppers into a used car market with already inflated prices. Another notable trend is the 3.8% quarter-over-quarter price increase from Q1 to Q2 2023, which is slightly higher than the typical 2% seasonal increase that we would expect to see within a typical year. This is likely due to a correction from the overly aggressive 4% drop in Q1 2023 from Q4 2022 that resulted from industry speculation that new car inventory would continue to rise rather than plateau in the first half of the year.

Avg. transaction price for used vehicles dipped by

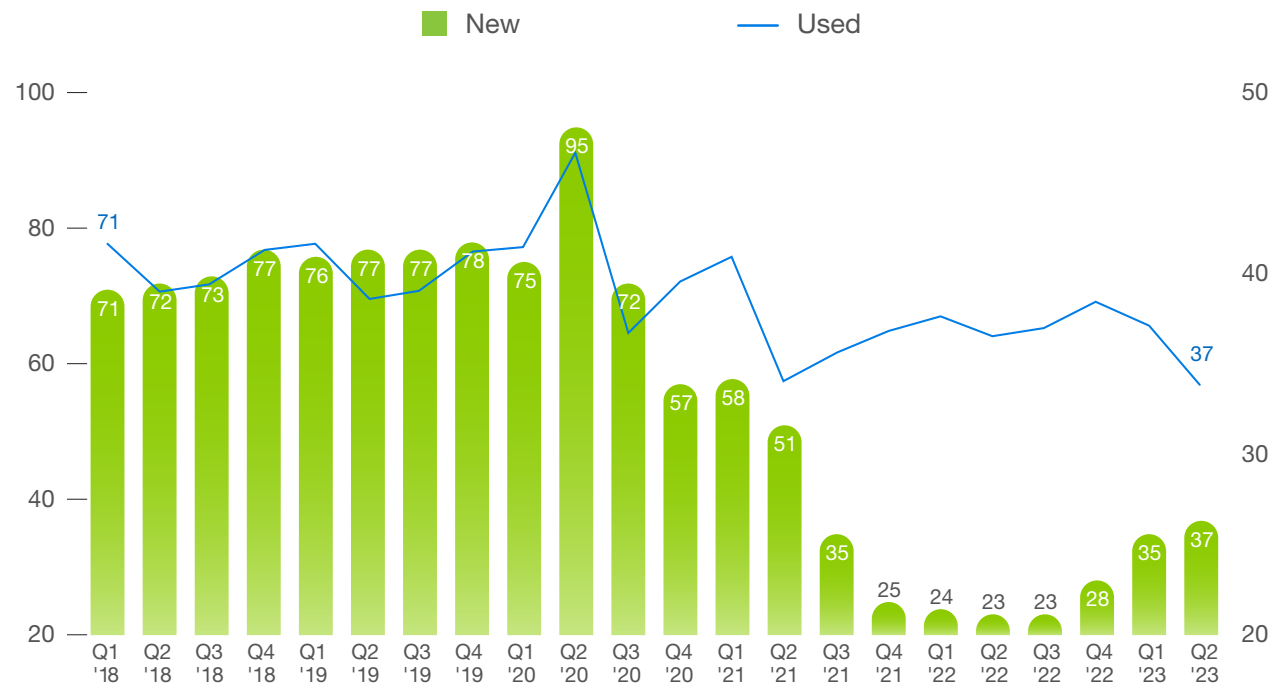
4.6%

USED MARKET CONDITIONS



Demand Buoy Used Vehicle Sales

QUARTERLY NEW AND USED DAYS TO TURN



Source: Edmunds

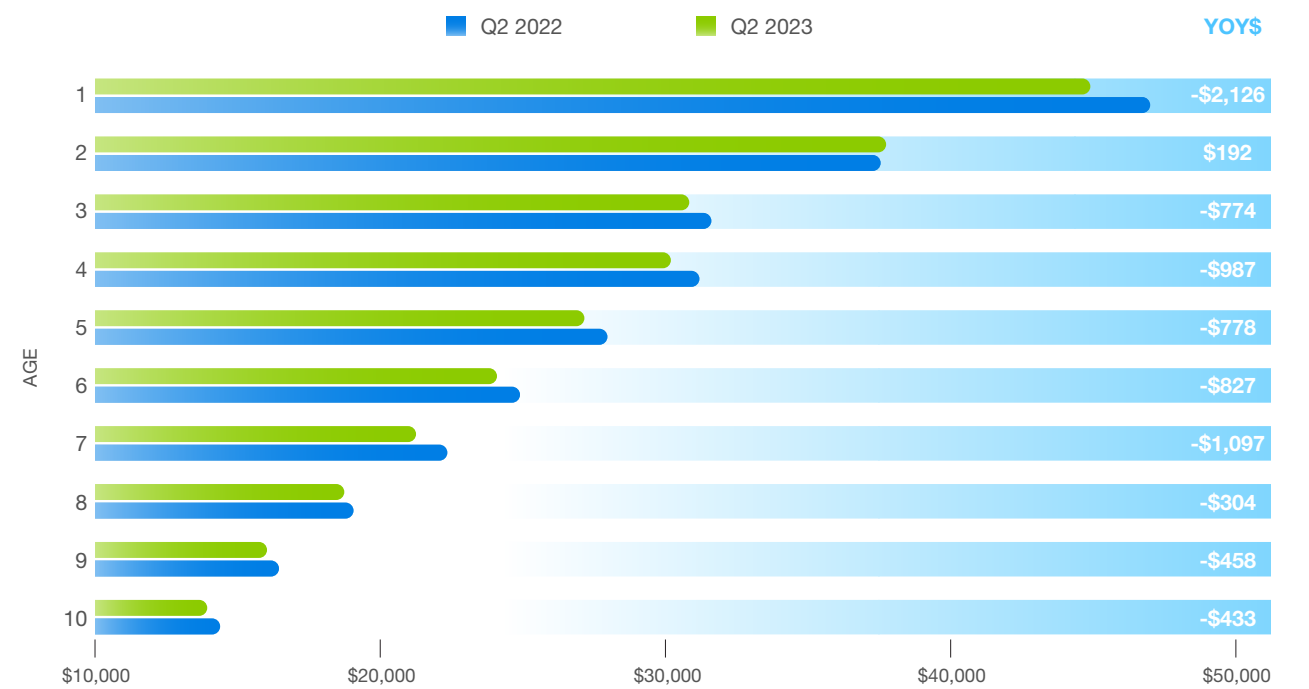
Despite inflation-fighting rate hikes from the Fed and vehicle prices hovering well above normal, the average days-to-turn¹ for used vehicles remains below normal levels, indicating that vehicle acquisition is a very high priority for consumers regardless of the current

economic climate. These low days-to-turn numbers, coupled with new and used vehicle supply chains that have not fully recovered, hint at higher used vehicle prices throughout the rest of the year.

¹ How many days a vehicle sits on a dealership lot before being sold

The Newest Used Cars See the Biggest Discounts

AVERAGE TRANSACTION PRICES BY USED VEHICLE AGE



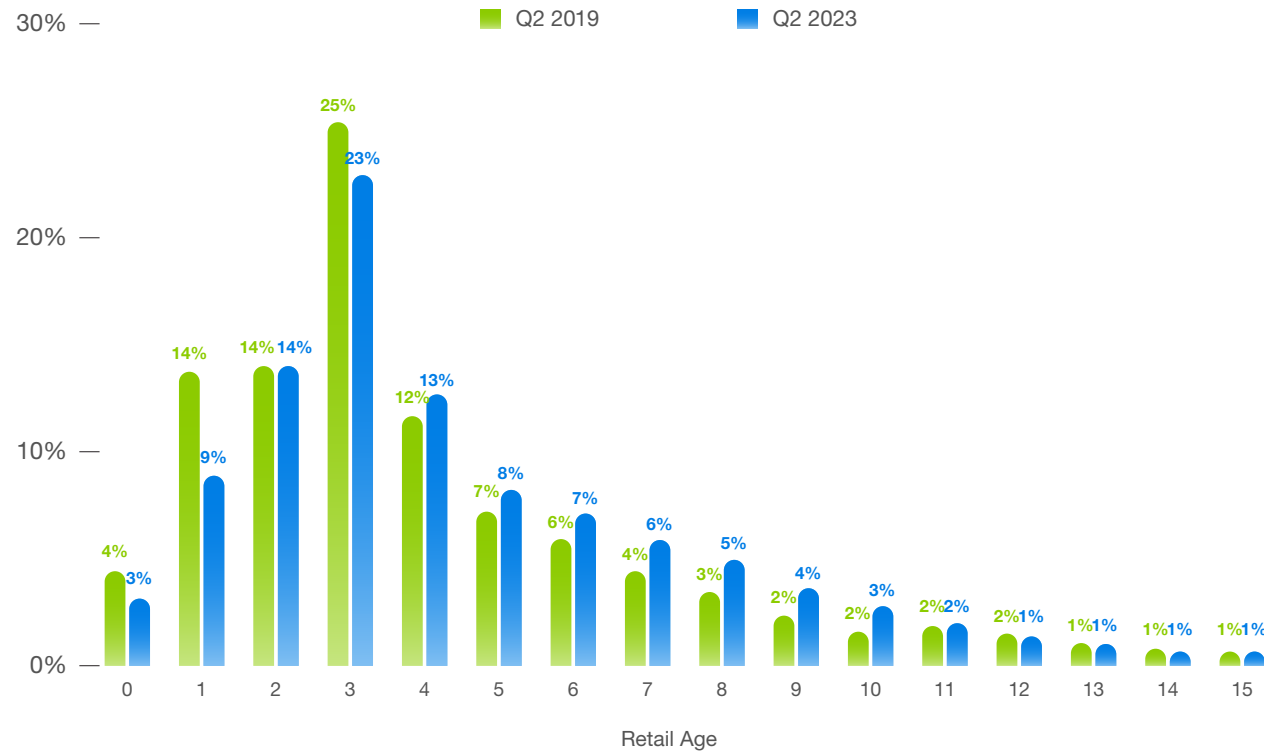
Source: Edmunds

Last year's extreme shortage in new car inventory pushed many buyers into purchasing used vehicles instead; this resulted in record-breaking used prices and raised the ceiling for used car prices across the board. Although it's a positive sign that new car inventory is recovering

in 2023, levels have not stabilized to such a point that would bring down prices on anything but the newest used vehicles, with 1-year-old vehicles experiencing a price drop of nearly \$2K.

Dealers Move More 4-Year-Old or Older Vehicles

QUARTERLY USED CAR SALES SHARE BY VEHICLE AGE



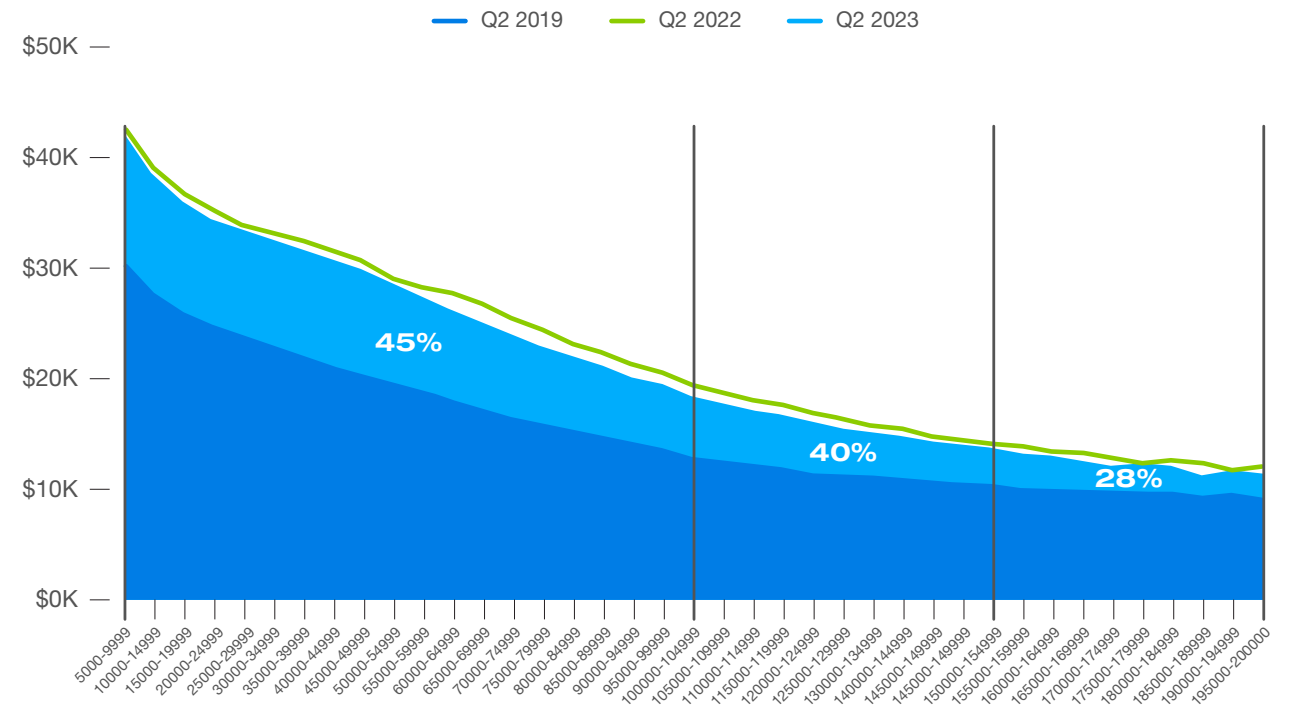
Source: Edmunds

Disruptions to rental car agency replacement purchases and the typical life cycle of leasing have resulted in fewer near-new used vehicles being available. In Q2 2019 dealers were stocking newer vehicles, with 58% of their sales from 3-year-old or newer vehicles; in Q2 2023, that figure decreased to 49%. As this trend

continues, consumers in the used market will likely find themselves considering older vehicles than what they're accustomed to. As a result, they might be unprepared for the amount of maintenance that will be required if they plan on owning these older vehicles for as long as they have near-new used cars in the past.

More Miles, More Wear & Tear, More Money

AVERAGE USED VEHICLE MILEAGE VS. AVERAGE TRANSACTION PRICE



Source: Edmunds

Higher prices aren't the only factor consumers are contending with; they're also dealing with higher mileage and subsequent added wear and tear that come at every price point, along with an expedited maintenance schedule. The premium consumers are paying above pre-pandemic prices is higher for vehicles with fewer miles: Typically the average transaction price of a vehicle with

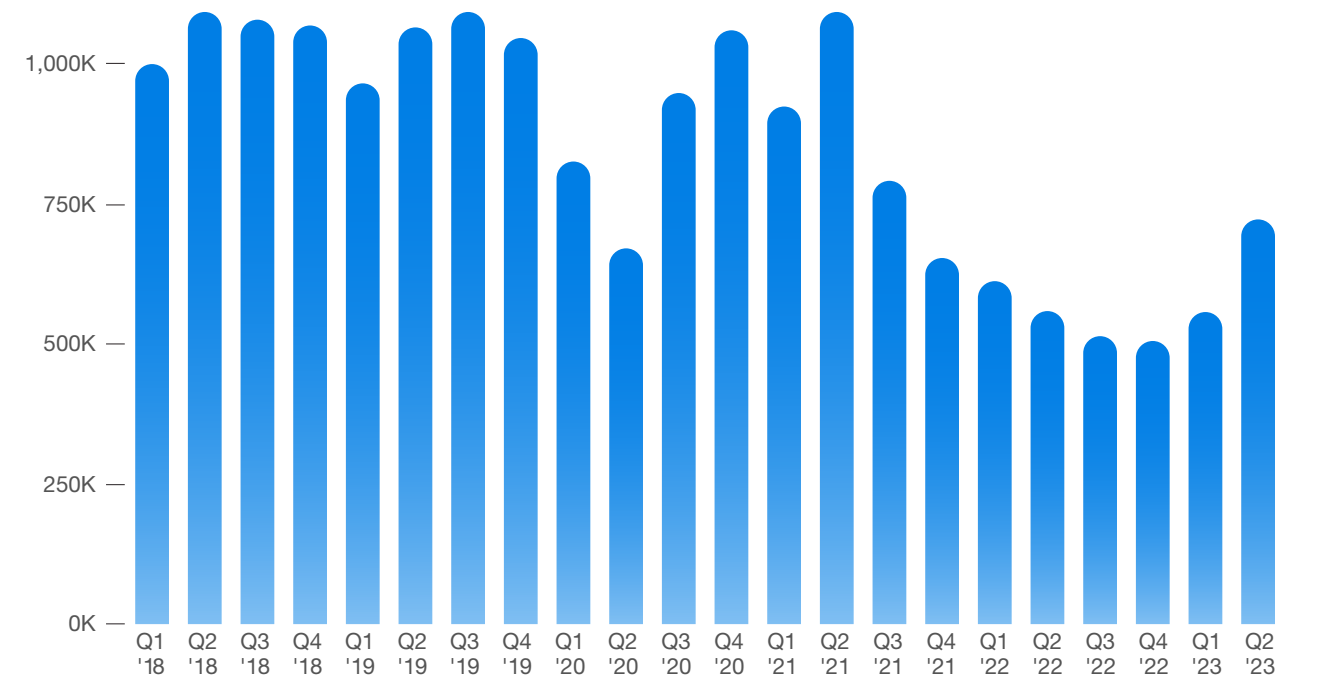
under 100K miles was 45% higher in Q2 2023 than in Q2 2019, but anyone expecting higher-mileage vehicles to provide pricing relief might be shocked to find that vehicles with 100K-150K miles are going for 40% more while vehicles with between 150K and 200K miles are commanding 28% more than in Q2 2019.

SQUEEZED SUPPLY CHANNELS OF USED VEHICLES WILL ALTER THE FUTURE OF
 THE USED
 CAR MARKET



Leasing Takes a Turn

QUARTERLY LEASE VOLUMES



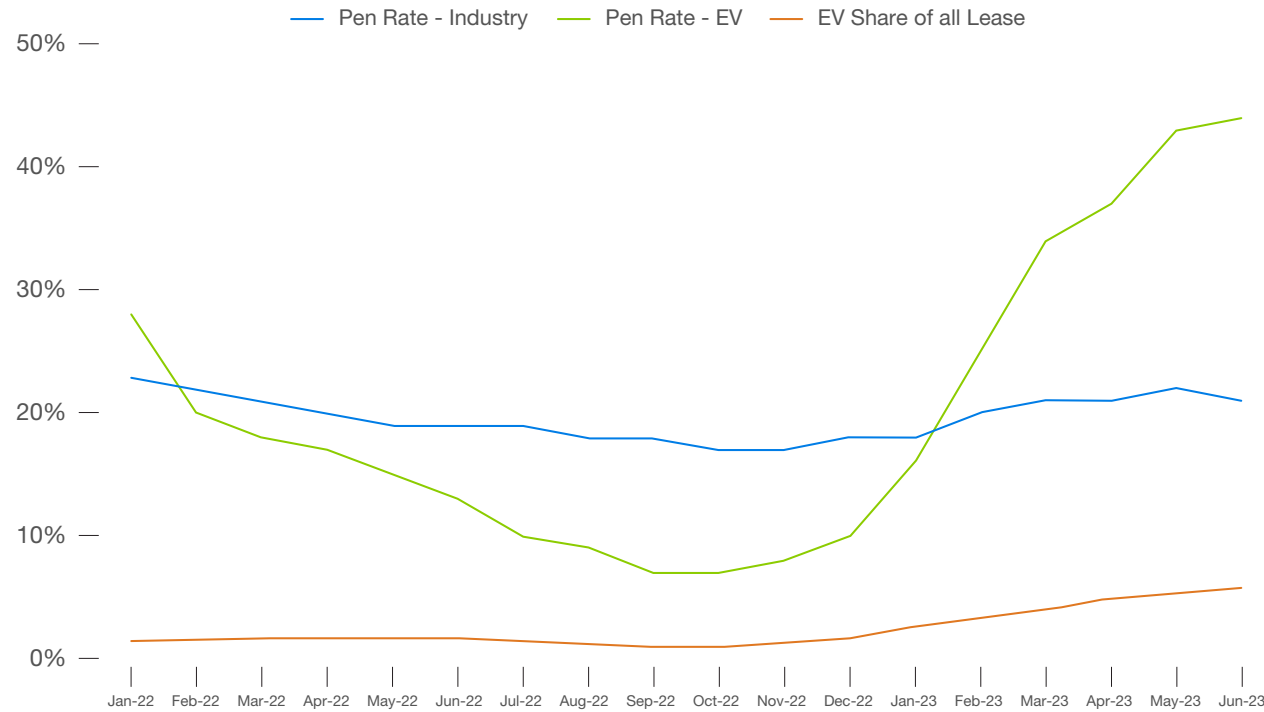
Source: Edmunds

The lag time between when a vehicle is sold as new and then returns to the market as a used unit is going to be under extra scrutiny this year given the notable drop in lease volumes during the pandemic. More consumers

opted into dealer-financed purchases to take advantage of low APR 84-month loans and therefore are less likely to jump back into today's high interest rate market.

Leasing Gets a Green Boost

MONTHLY LEASE PENETRATION RATES



Source: Edmunds

Leasing provides a critical supply of used vehicles to the market, but over the last year, automakers haven't felt pressure to incentivize leasing, and therefore consumers are finding it less appealing. A potential bright spot has been the ruling that leased EVs will qualify for the full federal tax credit under the Inflation Reduction Act regardless of battery sourcing, vehicle build location or

buyer income. This has led to an uptick in EV leasing in which almost half of today's dealer-sold EVs are leased. But with EVs still only making up 7% of the new car market, the industry can't expect a significant volume of off-lease EVs to hit the market en masse for many years to come.

High Off-Lease Values Here to Stay

QUARTERLY LEASE RESIDUAL VALUES BY POWERTRAIN



Source: Edmunds

A positive for consumers who opt to lease today is that forecasted residual values for leased EVs and gas-powered vehicles are staying elevated due to the reduced volume of off-lease vehicles in the used market. Unfortunately, the future low volumes are a bit of a detractor for shoppers hoping to take advantage

of off-lease EVs in the near future — since such a small volume of EVs are being leased, and their starting prices are so high to begin with, it's unlikely that off-lease EVs in a few years will have dropped in value enough to meet the \$25,000 requirement to qualify for the Inflation Reduction Act's used EV tax credit.



Looking Ahead: Used Prices Expected to Stay Elevated

The used vehicle market has been a challenging place for dealers and consumers alike over the last few years given that prices have become increasingly difficult to predict, supply is not mirroring years prior, and interest rates are not favorable. The only certainty for consumers planning on making a purchase seems to be that it will be nearly impossible for them to get their hands on a used vehicle comparable to what they bought years

ago in features, mileage or price. Consumers willing to wait for a return to normalcy within the used market unfortunately could be sitting idle for years since there are no easy solutions to the problems in the used vehicle market. On the other end, for dealers and automakers is that most buyers will either become acclimated to higher prices or begrudgingly make a purchase because they won't be able to wait any longer.

Questions?

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