



USED VEHICLE OUTLOOK

2019

Key takeaways

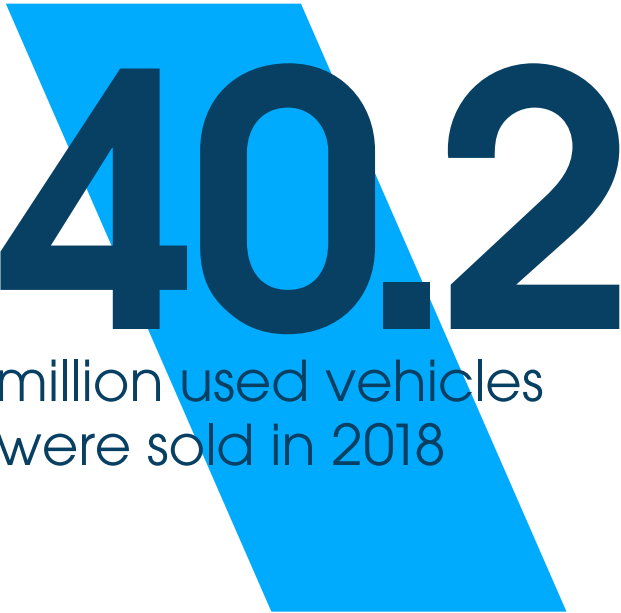
Year	Used Sales	Franchise Sales	CPO Sales
2013	35,775,755	10,793,385	2,112,548
2014	36,241,800	11,178,073	2,340,348
2015	37,254,854	11,400,111	2,553,663
2016	38,602,466	11,600,597	2,641,900
2017	39,203,694	11,461,515	2,644,422
2018	40,232,959	11,882,637	2,700,394

Source: Edmunds

USED CARS POISED TO STEAL SHOPPERS FROM THE NEW CAR MARKET

In 2018, over 57 million new and used vehicles were sold in the United States. It's a staggering figure considering the adult population stood at only 253 million*, which translates to one vehicle transaction per every 4.4 adults. In 2019, however, we expect a pullback in the new car market as rising prices and interest rates push many potential buyers out of the market. As a result, we expect there will be renewed interest in the used car market as a substitute for new for the following reasons:

- The price gap between new and used vehicles has widened, giving consumers an opportunity to save more than ever by opting for a 3-year-old used vehicle.
- While the price gap is widening, the gap between interest rates for new and used vehicles has narrowed. Interest rates on new vehicles have shot up rapidly, with the once popular zero percent offers all but vanishing.
- A record number of lease returns are expected in 2019, increasing inventory of near-new used vehicles and giving consumers a wider selection.
- An uptick in truck and SUV leasing three years ago means higher quantities of these popular vehicles will hit dealer lots throughout the year.



40.2
million used vehicles
were sold in 2018

Certified pre-owned vehicles (CPO) represent a small percentage of franchise used sales, but the opportunity to offer CPO vehicles to buyers priced out of the new vehicle market will be important to dealers as well as automakers. While consumer interest in CPO programs is mounting, consumers face a learning curve on the benefits and drawbacks of certified vehicles.

*Source: Census.gov (Population estimates, July 1, 2018, (V2018))

The price gap widens between new and used

In 2013, the price gap between new and 3-year-old used vehicles was 56 percent (or \$11,398). That number grew significantly to 62 percent (or \$13,705) in 2018, with nearly every segment showing notable increases.

3-YEAR-OLD USED VS. NEW SAVINGS

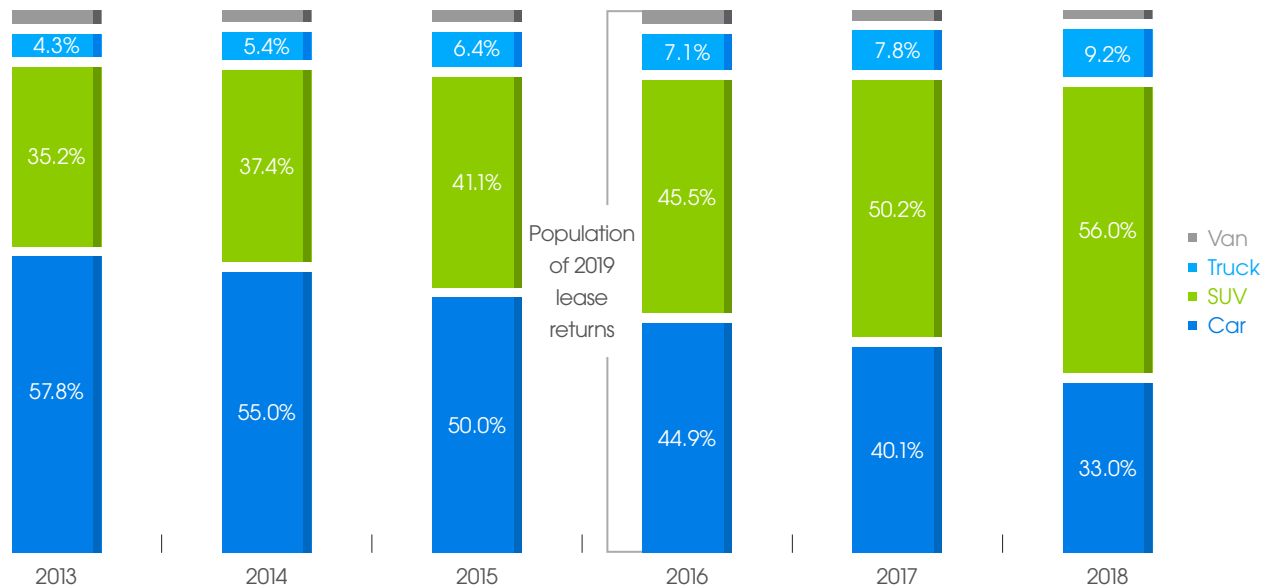
Segment	2013	2018	Additional % Savings
Subcompact Car	\$5,750	\$7,519	31%
Compact Car	\$7,135	\$7,891	11%
Midsize Car	\$9,679	\$10,979	13%
Large Car	\$14,771	\$15,623	6%
Sports Car	\$9,656	\$15,877	64%
Subcompact SUV	\$11,423	\$9,302	-19%
Compact SUV	\$7,997	\$9,760	22%
Midsize SUV	\$13,753	\$13,924	1%
Large SUV	\$21,965	\$24,024	9%
Midsize Truck	\$7,594	\$9,341	23%
Large Truck	\$14,550	\$15,765	8%
Minivan	\$11,765	\$12,154	3%
Luxury Subcompact Car	\$8,568	\$13,606	59%
Luxury Compact Car	\$15,079	\$19,509	29%
Luxury Midsize Car	\$19,755	\$25,991	32%
Luxury Large Car	\$35,547	\$45,486	28%
Luxury Sports Car	\$33,392	\$37,374	12%
Luxury Subcompact SUV	N/A	\$15,242	N/A
Luxury Compact SUV	\$16,141	\$18,967	18%
Luxury Midsize SUV	\$19,711	\$22,318	13%
Luxury Large SUV	\$36,049	\$41,536	15%
Industry	\$11,398	\$13,705	20%

Source: Edmunds

As a new segment, subcompact SUVs showed a decline, with a glut of 3-year-old models available during the last five years.

Near-new inventory on the rise and more SUVs in the market

NEW LEASE COMPOSITION BY VEHICLE TYPE



Source: Edmunds

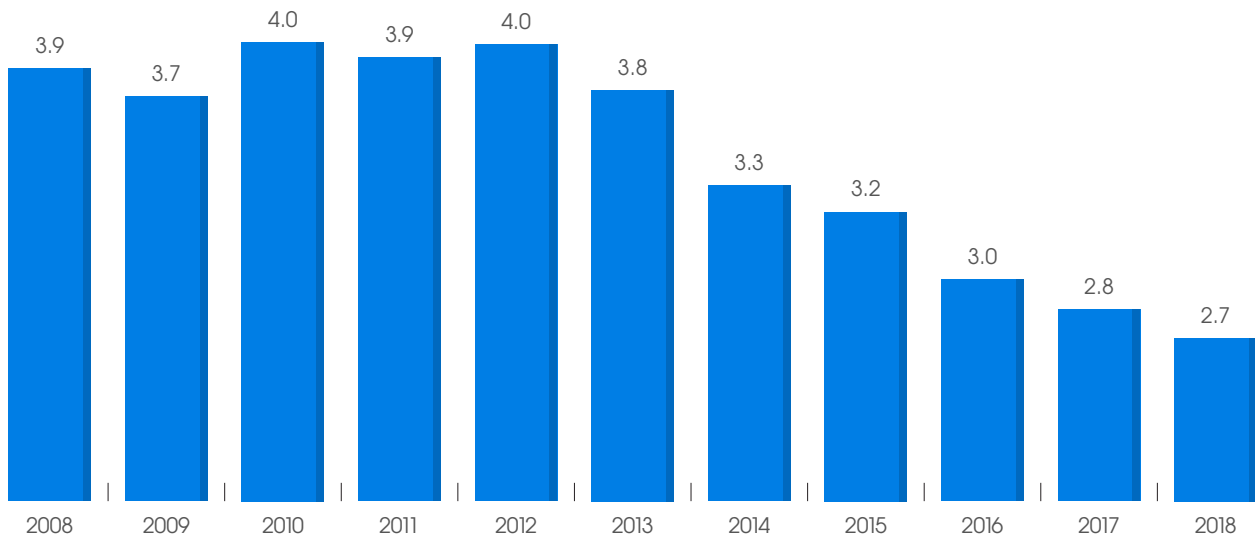


Lease returns have been on the rise but will top out this year with 4.3 million vehicles expected to come off lease. In addition to the higher quantity, we expect to see a higher volume of trucks and SUVs in lease returns, which aligns with prevailing consumer preference. In 2016, SUVs were leased in a higher volume than passenger cars for the first time ever.

46%
of leases were
SUVs in 2016

Interest rate gap between new and used smaller than ever

DIFFERENCE BETWEEN NEW & USED INTEREST RATES (PERCENTAGE POINTS)



Source: Edmunds

The historically low interest rates of the post-recessionary period have slowly come to an end. New car interest rates jumped 17 percent (or 0.8 point) in 2018 — rising from an average interest rate of 4.9 percent in 2017 to an average of 5.7 percent in 2018. Rates for used vehicles have risen at a slower clip, with interest rates increasing 9 percent in the same period. Although average rates for used vehicles will always be higher than for new, the lack of subsidized finance programs in the new car market has narrowed the gap between interest rates for the two segments.



The dearth of favorable financing could be a shock for many buyers returning to the market. It's likely they recall an abundance of low interest rate loans the last time they purchased a new vehicle.

Certified pre-owned (CPO) may be a safe transition into the used market

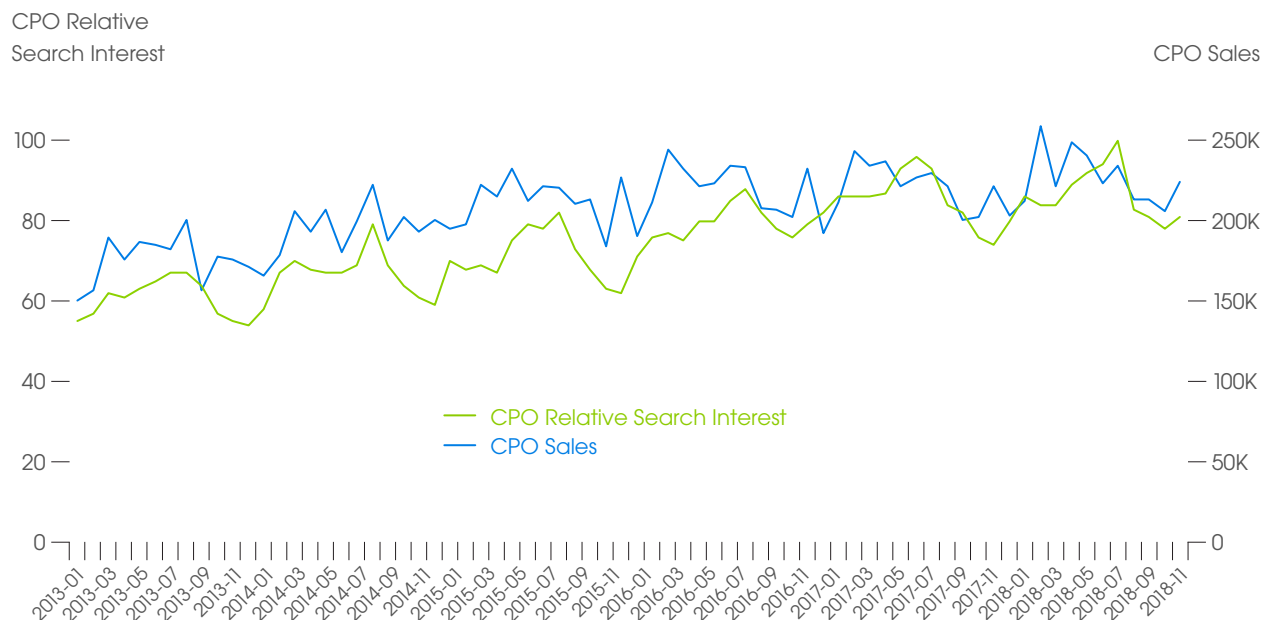
Given the less than favorable financial conditions in the new vehicle market, buyers may switch to used as a way to save money or as their only option because they've been priced out altogether. For those buyers with more financial latitude, the used market may be attractive since the inventory level of trucks and SUVs will be higher than in years past.

Certified pre-owned vehicles are another option for displaced new-car buyers making the switch to the used market. These programs present the opportunity for increased sales for both automakers and dealers as well as greater consumer satisfaction as they offer more favorable pricing than new with the assurance of an automaker warranty. CPO vehicles are also likely to have subsidized finance offers.

In fact, interest has risen in "certified pre-owned" as a search term.



CPO SALES & RELATIVE SEARCH INTEREST



Source: Google Trends February 2019

We've seen growing interest in certified pre-owned vehicles, but there is a need to educate consumers as many are unfamiliar with the benefits of CPO vehicles and their differentiation from the rest of the used vehicle market.

Top pages viewed on Edmunds for certified pre-owned shoppers:

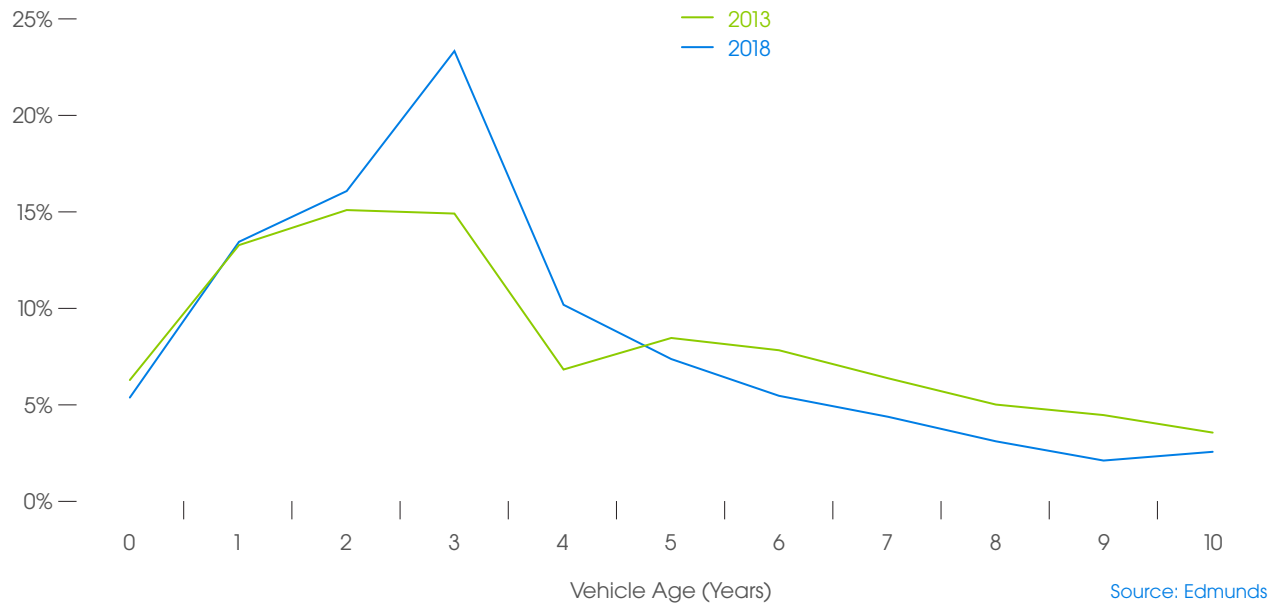
2.7

million CPO vehicles
were sold in 2018



3-year-old vehicles make up 23% of all franchised used sales

SHARE OF FRANCHISE USED SALES BY VEHICLE AGE



The composition of franchised used vehicle sales has transformed dramatically. Three-year-old vehicles accounted for 8.5 percentage points more sales in 2018 than they did five years earlier, representing the most-sold vehicle age by a wide margin. As a consequence of the record number of lease returns expected in 2019, this figure is only expected to increase. And this flood of inventory generates more opportunities for dealers to certify vehicles to differentiate their inventory.

Meanwhile, sales of vehicles 5 years and older have dropped off in volume, creating a scarcity of more affordable used vehicles.





LOOKING AHEAD: THE USED TIPPING POINT

Used vehicles have finally emerged as a compelling alternative to new, and market factors in 2019 will only increase their appeal. Growing new-vehicle transaction prices and an oversupply of used vehicles have expanded the savings advantage in pre-owned vehicles. Additionally, consumers give up less going the used route since late-model cars are rich in technology and come in the body styles Americans gravitate toward, namely trucks and SUVs. At the same time, incentives that have

made record-high new-vehicle transaction prices more palatable, such as zero percent APR and steeply discounted leases, have dried up. Without these incentives, we expect shoppers will gravitate to used vehicles for the significant savings they present. While the new vehicle market is expected to fall below 17 million sales for the first time in five years, we expect used vehicle sales, which crossed 40 million units in 2018, to strengthen and grow.

