



USED CAR REPORT

Q1 2018



Key takeaways

Year	Total Sales	Franchise Used	CPO	Gas Price
Q1 2013	9,790,558	2,649,644	497,635	\$3.57
Q1 2014	9,623,024	2,783,454	551,807	\$3.40
Q1 2015	9,482,306	2,819,642	615,012	\$2.27
Q1 2016	10,322,931	2,927,771	646,390	\$1.89
Q1 2017	10,407,210	2,918,374	647,338	\$2.33
Q1 2018	10,567,929	2,964,894	674,297	\$2.58

Sources: Edmunds
eia.gov

USED SALES SHOW NO SIGNS OF SLOWING DOWN

A total of 10.6 million used vehicles were sold in Q1 2018, a 1.5 percent increase from Q1 2017. Franchise dealer sales showed a similar increase, with help from trade-in volume that rose by 3 percent compared to Q1 2017. Sales of certified pre-owned vehicles experienced a larger bump of 4.2 percent compared to the prior year.

VALUES UP ACROSS THE BOARD

Continuing on par with the 2.3 percent price increase of used vehicles from Q1 2016 to Q1 2017, used-vehicle prices rose 2.2 percent during Q1 2018. This increase in values was driven by the ever-growing supply of near-new vehicles coming off-lease and a greater demand for vehicles of all types and ages.

Another trend affecting values is the strong consumer appetite for vehicles sold between \$5,000 and \$25,000, which represent three-quarters of all transactions. Vehicles in this price range have experienced an overall drop in days-to-turn, demonstrating growing demand while maintaining and even increasing values.

10.6
million used vehicles
were sold in Q1 2018



RISING GAS PRICES AFFECT CAR DEMAND

With fuel costs in the first quarter of 2018 at their highest level since 2014, some consumers are beginning to rethink making the switch from a car to an SUV or truck. Increased demand for compact cars and subcompact cars, the most frugal of all segments, is creating a shift in market dynamics, a rise in values, and a decrease in the days-to-turn.

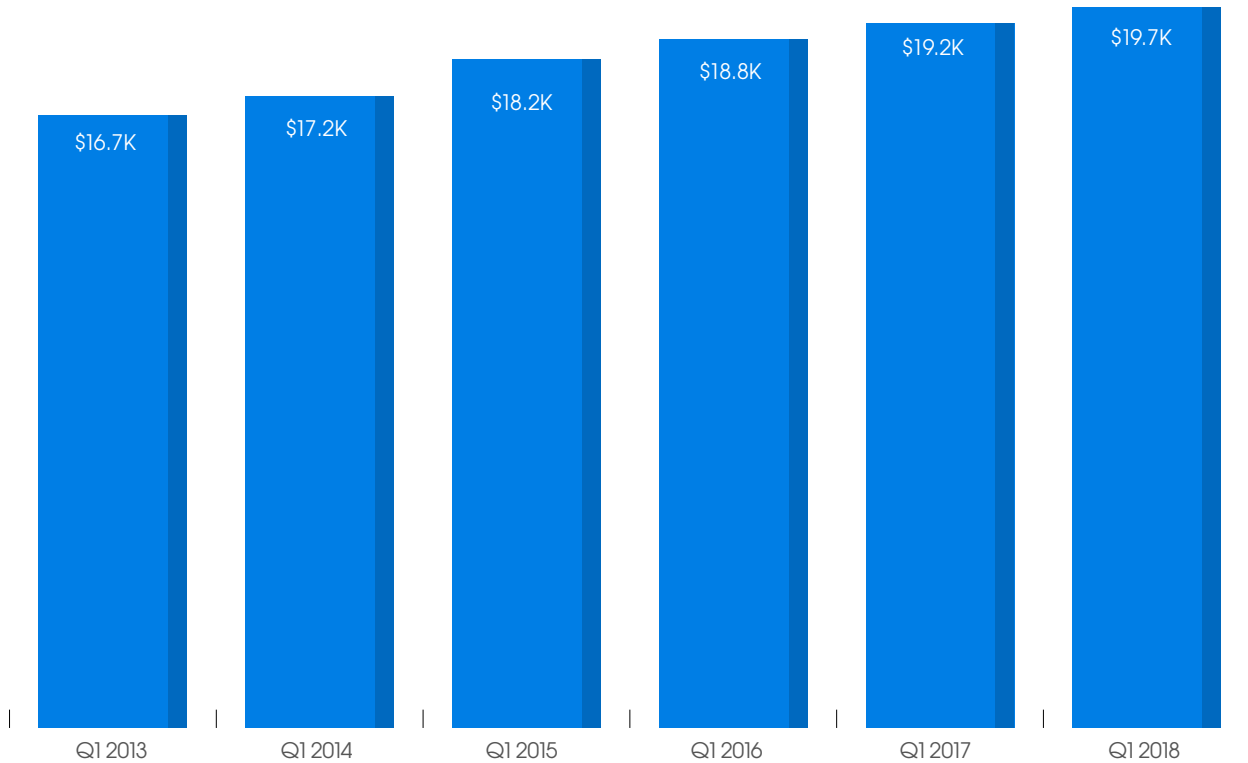


SUV AND TRUCK RESIDUAL VALUES HAVE A LONG WAY TO FALL

Years of stable fuel costs, economic recovery, and advances in SUV and truck design have helped to buoy residual values. While the current hike in fuel costs is affecting the purchase habits of the most price-conscious consumers, it has yet to translate into a drop in residuals for SUV and trucks. Newer SUV and trucks are nothing like their counterparts from 10 years ago during the gas crisis of 2008; however, they still lag behind their car segment counterparts in fuel economy. For now, SUV and truck segments are insulated from rising fuel costs, but a large spike or steady creep past the \$4-a-gallon threshold could spell disaster for resale values.

Used prices steadily increase

AVERAGE TRANSACTION PRICE



Sources: Edmunds

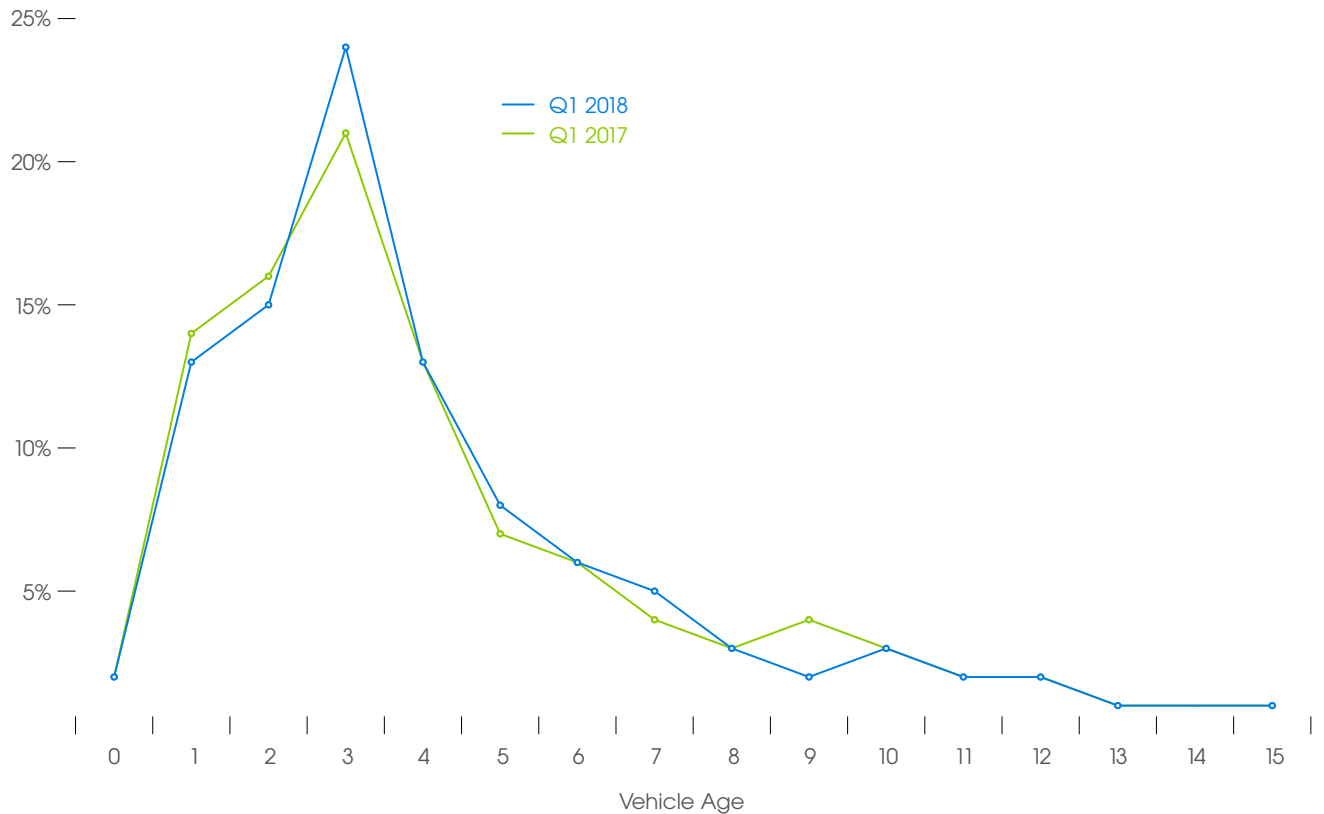
Another first quarter of record high values was achieved by a set of mixed market dynamics that propped up values. For years we've seen used values climb steadily, stemming from a high concentration of newer vehicles and high demand for SUVs and trucks of all ages. Fuel costs, once a very important factor in vehicle purchases, were pushed aside for the last three years, but the recent spike has helped car segments retain more value.

\$19.7K

average used
transaction price
in Q1 2018

3-year-old vehicles dominate franchise sales

USED SALES AGE



Sources: Edmunds

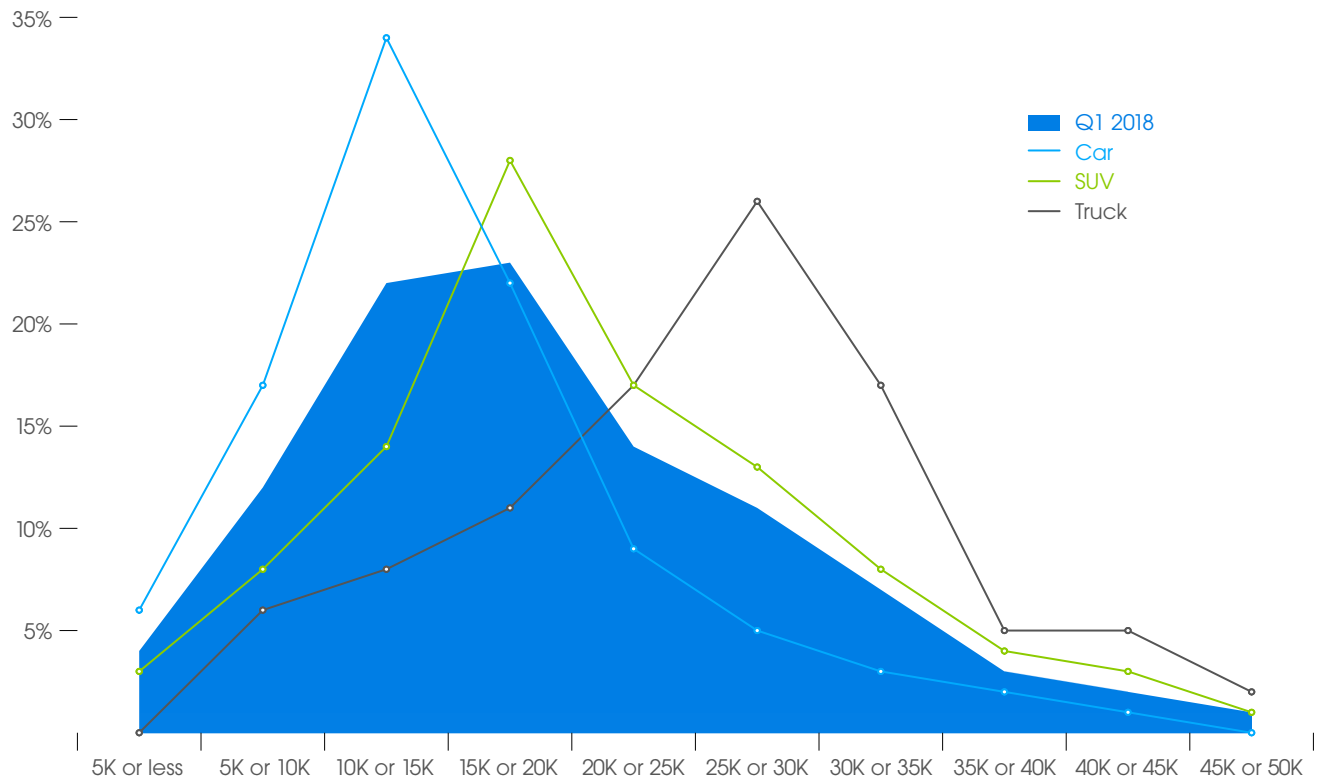
The influx of off-lease vehicles has been one of the largest factors in bolstering overall used values. When the industry leased nearly 3.5 million units in 2014, that created a significant concentration of 3-year-old vehicle sales in 2017. In 2015 nearly 4 million units were leased and now those vehicles are returning to dealer lots, saturating the market even further — nearly a quarter of all used franchise sales are of vehicles that are only 3 years old.

24%

of franchise used sales were 3 years old in Q1 2018

Cars occupy the lower price ranges

Q1 2018 SALES DISTRIBUTION



Sources: Edmunds

Price-sensitive consumers who are switching now toward smaller car segments in anticipation of increasing fuel costs are benefiting from cars' lower price point.





Smaller cars moving quicker off dealer lots

While increasing fuel costs have some consumers willing to pay more for compact and subcompact cars, on the other end of the spectrum we see shoppers who place enough value on increased cargo capacity, ride height and other SUV/truck features to bear the costs of lower fuel economy and higher price tags.

3 Year Old - Retail Price	Q1 2017	Q1 2018	Price Change
Compact Car	\$12,958	\$13,464	3.9%
Compact SUV	\$18,822	\$19,114	1.6%
Large Truck	\$29,574	\$32,418	9.6%
Midsize Car	\$15,353	\$15,316	-0.2%
Midsize SUV	\$24,504	\$25,006	2.0%
Subcompact Car	\$11,284	\$11,622	3.0%

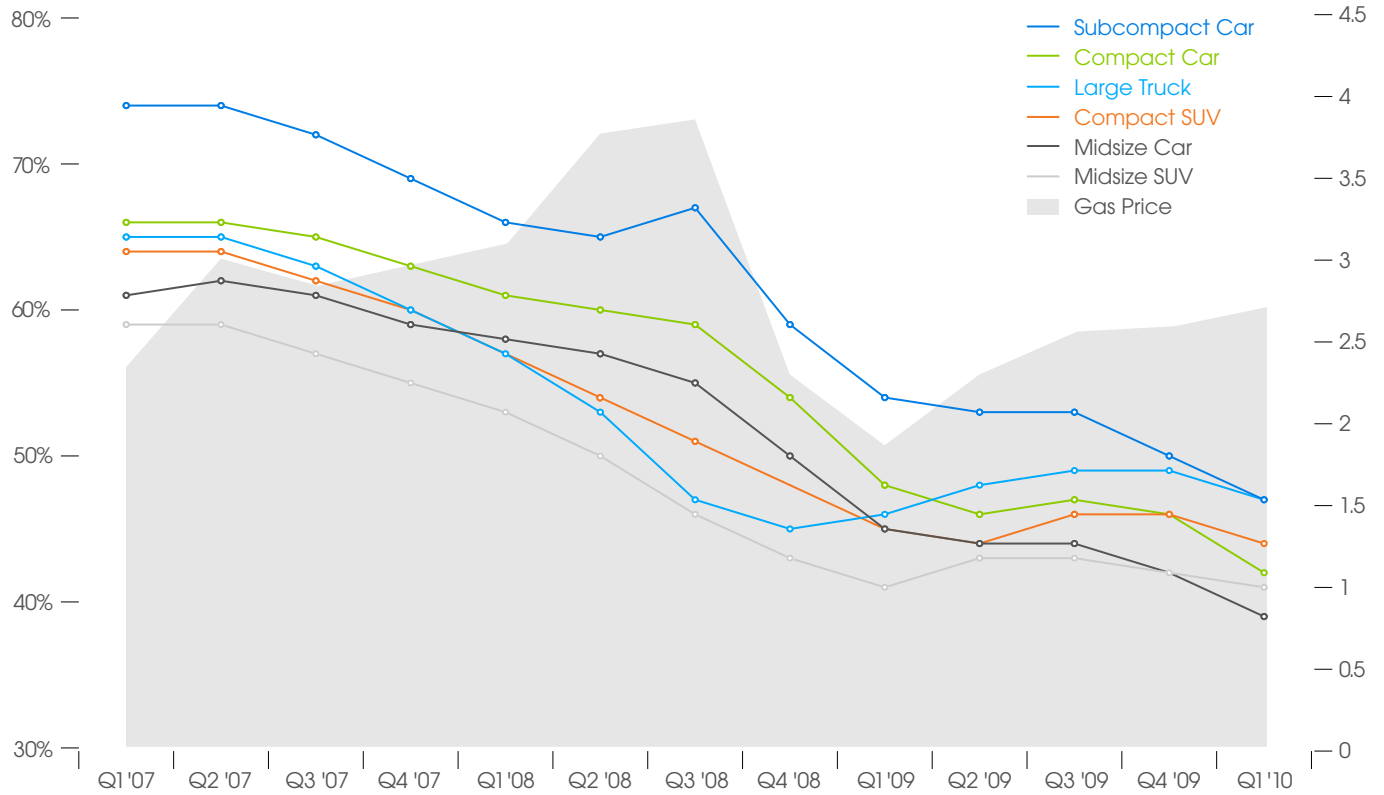
Sources: Edmunds

3 Year Old - Days-to-Turn	Q1 2017	Q1 2018	Days-to-Turn Change
Compact Car	39	36	-7.0%
Compact SUV	39	38	-4.1%
Large Truck	45	47	5.5%
Midsize Car	39	40	2.6%
Midsize SUV	40	43	7.5%
Subcompact Car	44	40	-8.5%

Sources: Edmunds

A spike in fuel costs is manageable, but sustained highs take us into uncharted waters

2005 MODEL YEAR RESIDUAL



Sources: Edmunds
eia.gov



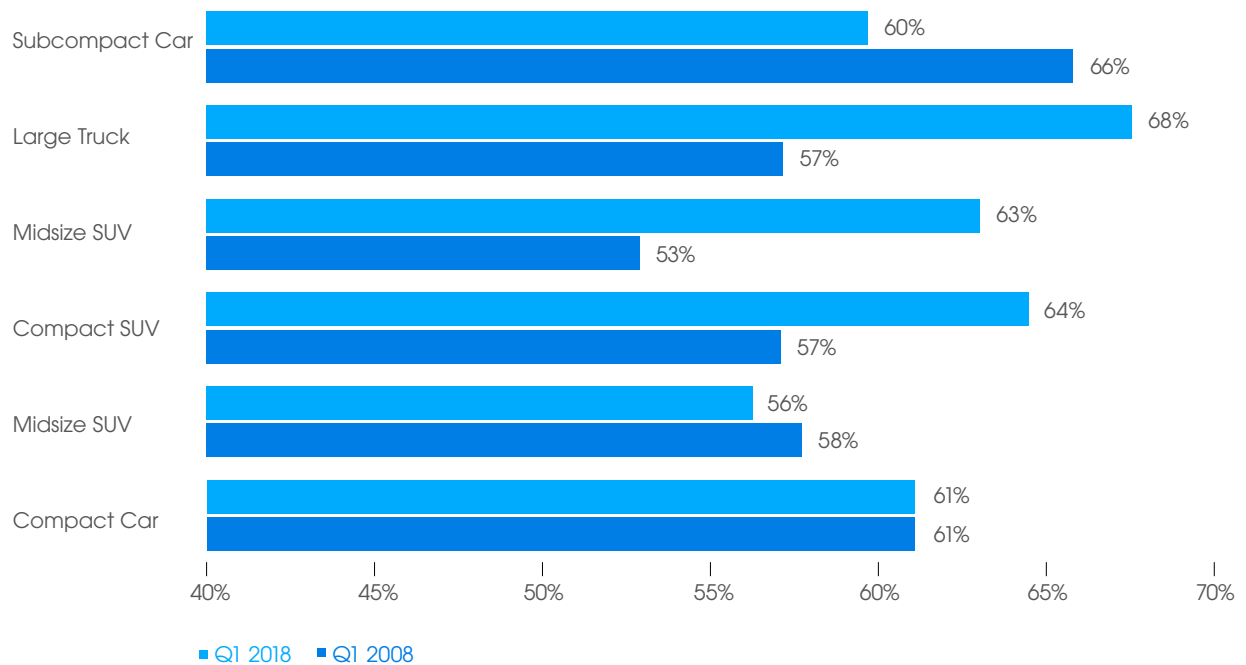
There is a fair amount of risk in timing the sale of a less fuel-efficient vehicle. During the fuel crisis of 2008, SUVs and trucks dropped dramatically in resale value, beyond their natural rate of depreciation. The values recovered as fuel costs dropped and then experienced a more steady rise in 2009, but we have yet to see the long-term effects of sustained high fuel prices.

Truck and SUV residual values at risk

Examining the current scenario versus 10 years ago reveals a fair amount of overvaluation in the SUV and large truck segments. These segments will become increasingly vulnerable to an erosion of residual values due to their unappealing high prices, and the volume of off-lease vehicles from these segments is expected to rise over the year along with fuel costs. While the first two factors are known issues, the unpredictable nature of fuel costs could pose either a temporary threat to residual values or a permanent one.



3 YEAR OLD RESIDUAL VALUE



Sources: Edmunds

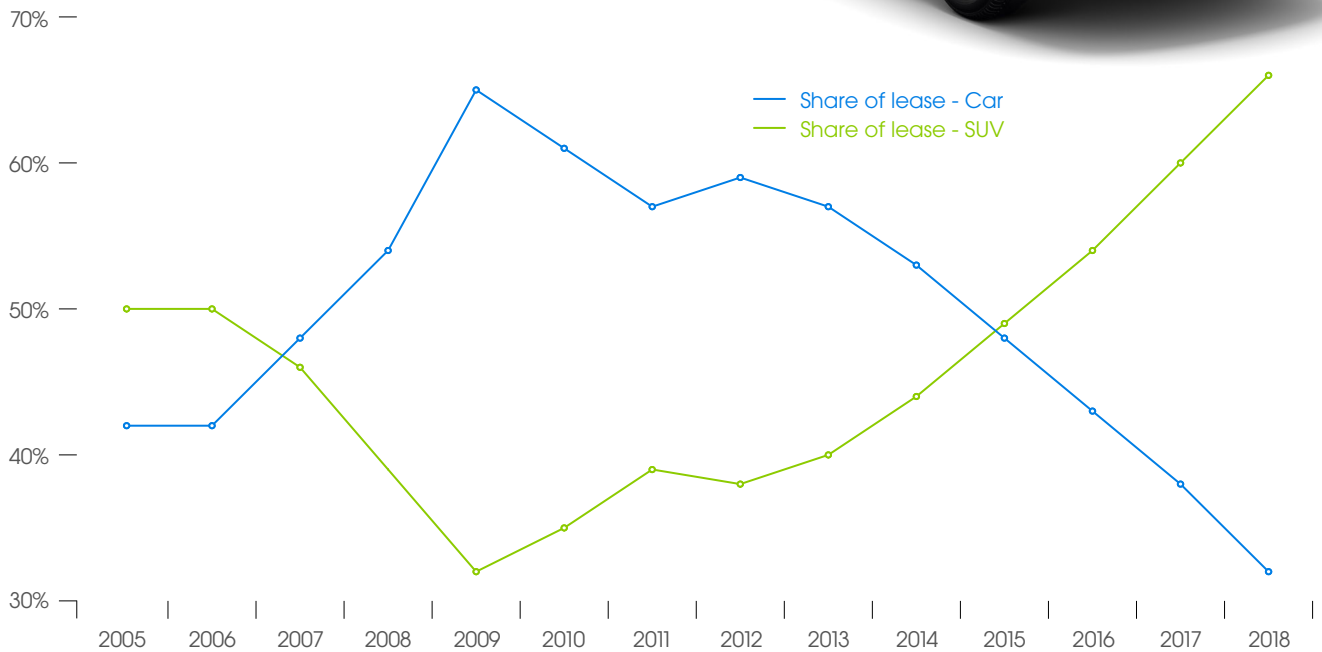
Massive shifts in lease type

For the last few years, car-based products reigned as the dominant vehicle type in the off-lease market. This was unfortunate timing for those lease returns given that low fuel costs shifted consumer preference from cars to SUVs and trucks. As we enter the timeframe for SUVs and trucks to take over a larger share of lease returns, fuel costs are showing signs of rising and disrupting a market that has been stable for years.

66% of leases in 2018 have been SUVs



SHARE OF LEASES BY VEHICLE TYPE



Sources: Edmunds

