



USED CAR REPORT

Q2 2018

Key takeaways

Year	Total Sales	Franchise Used	CPO
Q2 2013	8,952,753	2,756,076	548,844
Q2 2014	9,099,375	2,839,086	581,588
Q2 2015	9,635,560	2,885,039	660,672
Q2 2016	9,891,090	2,906,081	678,294
Q2 2017	10,170,702	2,946,072	693,802
Q2 2018	10,421,134	3,028,734	711,270

Sources: Edmunds

USED SALES STAY STRONG

10.4 million used vehicles were sold in Q2 2018, a 2.5 percent increase over Q2 2017. Franchise dealers saw a similar uptick, thanks to readily available units from off-lease helping to supply near-new vehicle inventory. Certified pre-owned vehicles moved past the 700K threshold for the first time with a 2.5% increase over Q2 2017.

RECORD-HIGH USED PRICES

In the second quarter of 2018, used-vehicle transaction prices hit their highest level on record since 2005. Average used-vehicle prices reached \$20,153 in Q2 2018, marking a 3.3 percent increase year-over-year. This is a notable increase when compared to the 0.8 percent jump in Q2 2017 from Q2 2016. This record increase in values continues to be spurred by different consumer reactions to fuel costs. On one side, slightly elevated fuel costs have pushed more price-sensitive shoppers to re-examine their need to purchase an SUV or truck, while on the other end of the spectrum, there are consumers who continue to view fuel costs as tolerable when they compare vehicle categories.

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million used vehicles
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In Q2 2018, average
used-vehicle
prices reached

\$20K+



NEAR-NEW NEW NORM

High volumes of off-lease vehicles are establishing a trend that will hold for years. In Q2 2018, 25.5 percent of all franchise dealer sales were of 3-year-old vehicles, which is a 3.2 percentage point increase from last year's 22.3 percent. Taking into consideration that new-car lease penetration rates have held at nearly 30 percent through 2018, off-lease vehicles will now effectively constitute the majority of franchise used sales until at least 2021.

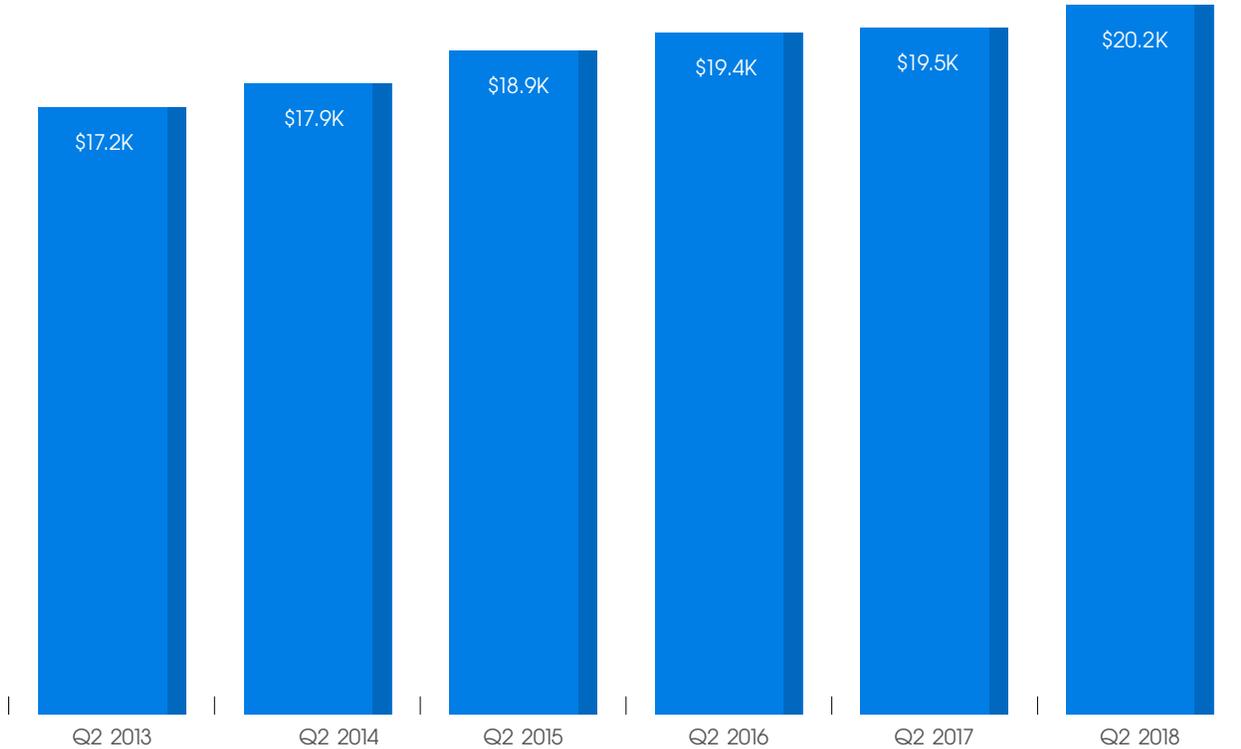


NEW TRANSACTION PRICES OUTPACE USED

Despite values for used vehicles hitting record-high levels, residual values of near-new (1- to 3-year-old) vehicles have weakened and the gap between new-vehicle average transaction prices (ATPs) and used-vehicle ATPs has reached the widest point that the industry has ever seen. However, the threat of U.S. tariffs against imported vehicles could upend this trend. If tariffs are imposed, would-be new-car buyers could shift their purchases toward used vehicles. Depending on the scope and severity of the tariffs, there could be a massive influx of consumers who begin to eye a near-new vehicle over a tariff-imposed competitor.

Used prices break the 20K threshold

AVERAGE TRANSACTION PRICE



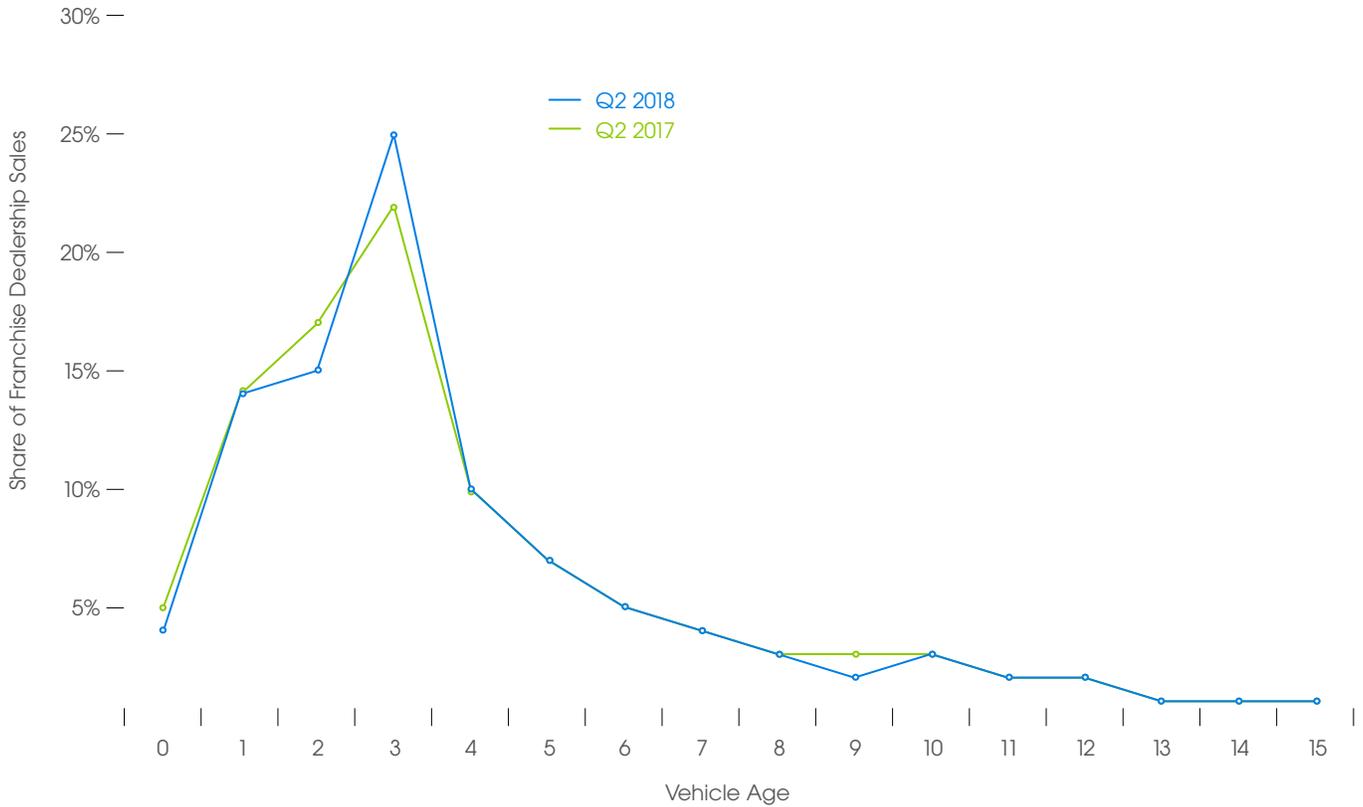
Sources: Edmunds

Record-high ATPs for used vehicles in Q2 were caused by a number of factors: The majority of used vehicles sold was heavily weighted toward the near-new age range of 1 to 3 years old, demand was strong across all used-vehicle categories, and the mix of vehicles coming off-lease leaned more toward light trucks at 53 percent versus 50 percent in Q2 2017.



3-year-old vehicles are in abundant supply

USED SALES AGE



Sources: Edmunds

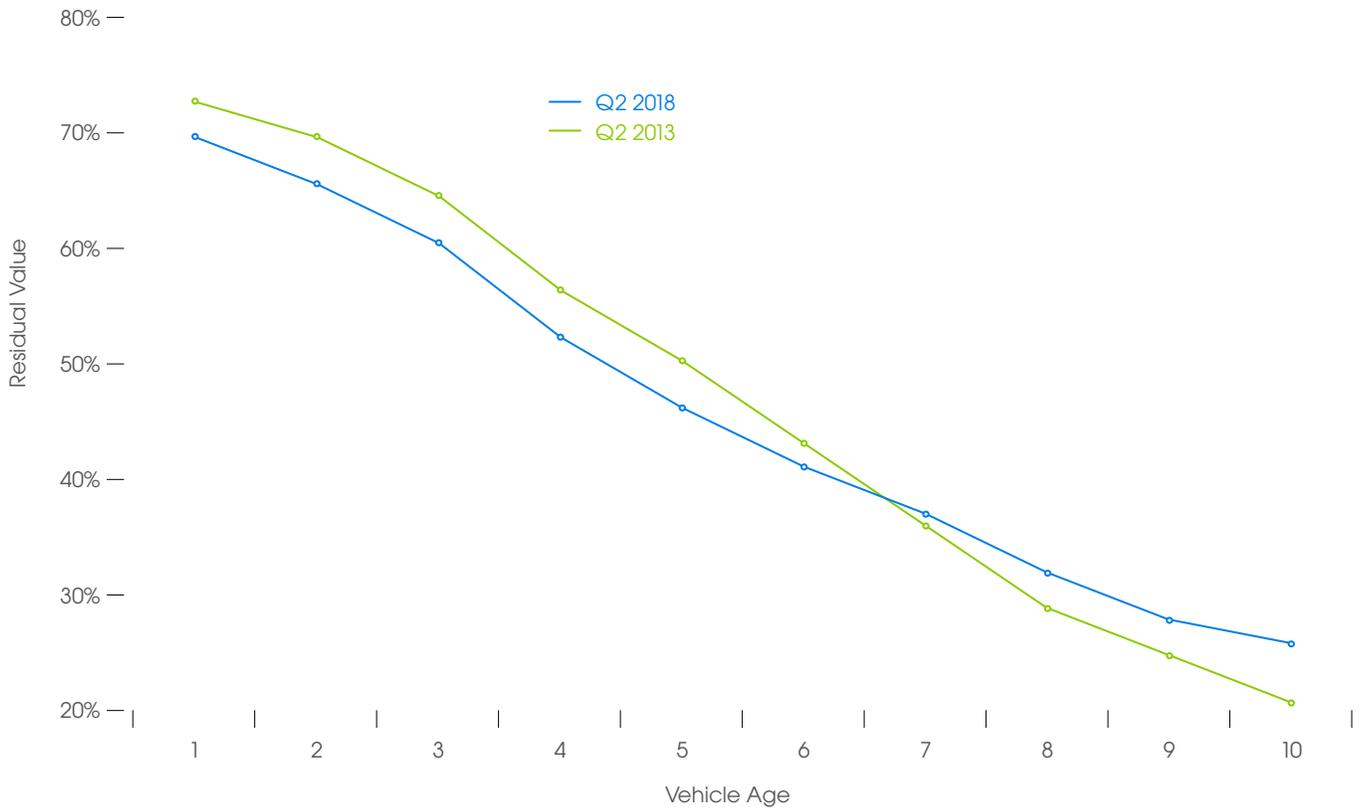
Supplies of 3-year-old vehicles hit a record-high level in Q2, accounting for nearly one-fourth of all franchise dealer sales. Despite high levels of inventory, 3-year-old vehicles aren't sitting on the lot for long and have an average of 38 days to turn, which is the lowest we have on record for any quarter going back to 2005.

3-year-old vehicles have an average of

38
days to turn

Tables have turned on residuals

NEWER RESIDUALS TRENDING DOWN



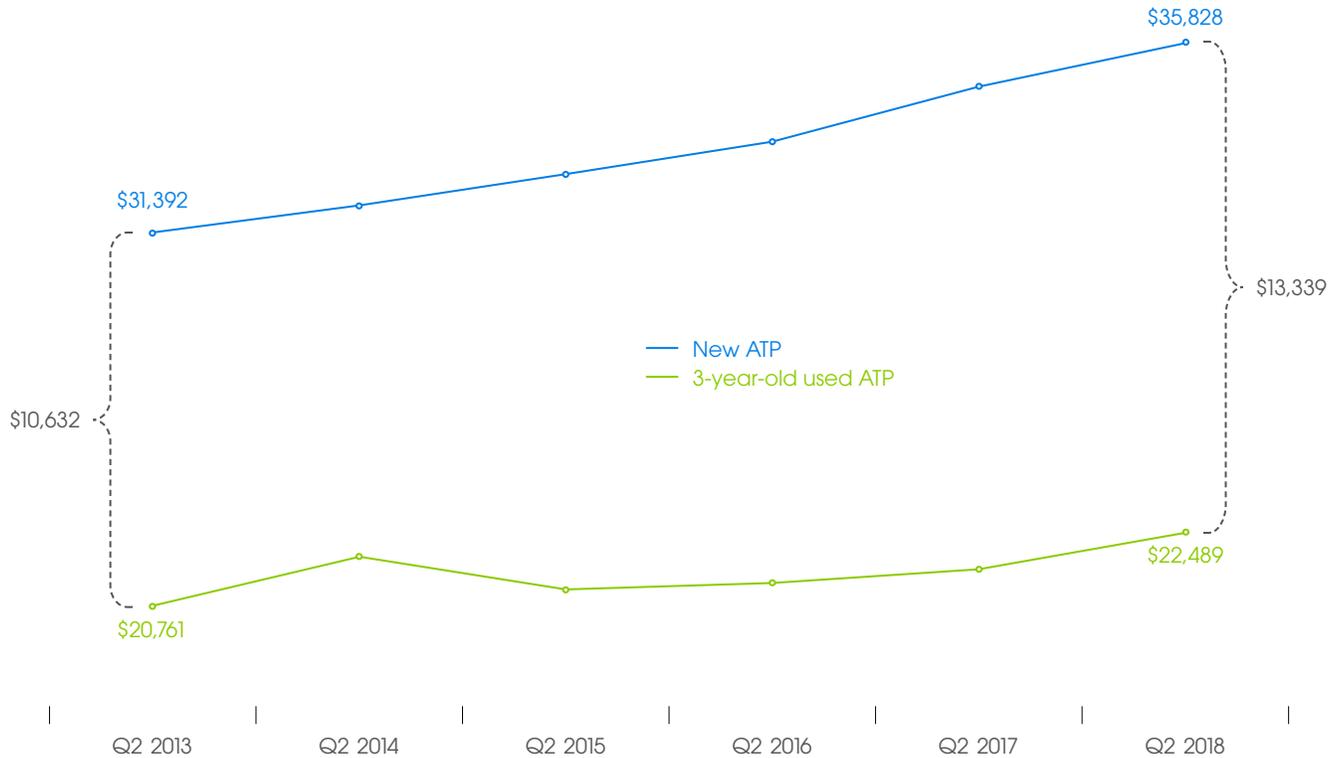
Sources: Edmunds



The used market is contending with two extremes: the constant supply of off-lease vehicles and a shortage of older vehicles. Comparing Q2 2018 to Q2 2013, we see that residual values are flattening and creating less of a discrepancy between model years, underscoring how buying a near-new vehicle presents a greater value now more than ever before.

Used vehicles hold greater value than ever

AVERAGE TRANSACTION PRICE: NEW VS. 3-YEAR-OLD



Sources: Edmunds

The ATPs of both new and used vehicles have increased over the years, but new-vehicle ATPs have grown at a disproportionate rate compared to used. This growing gap is likely to continue to widen at the same rate unless an outside factor such as tariffs on imported new vehicles comes into effect. Tariffs of this nature could send new-car shoppers into the used market, but the impact will largely be determined by the added cost to consumers on the new side. If the impact is large enough, there is also the real possibility that used-car values could begin to rise at an accelerated rate in response to the increased demand.

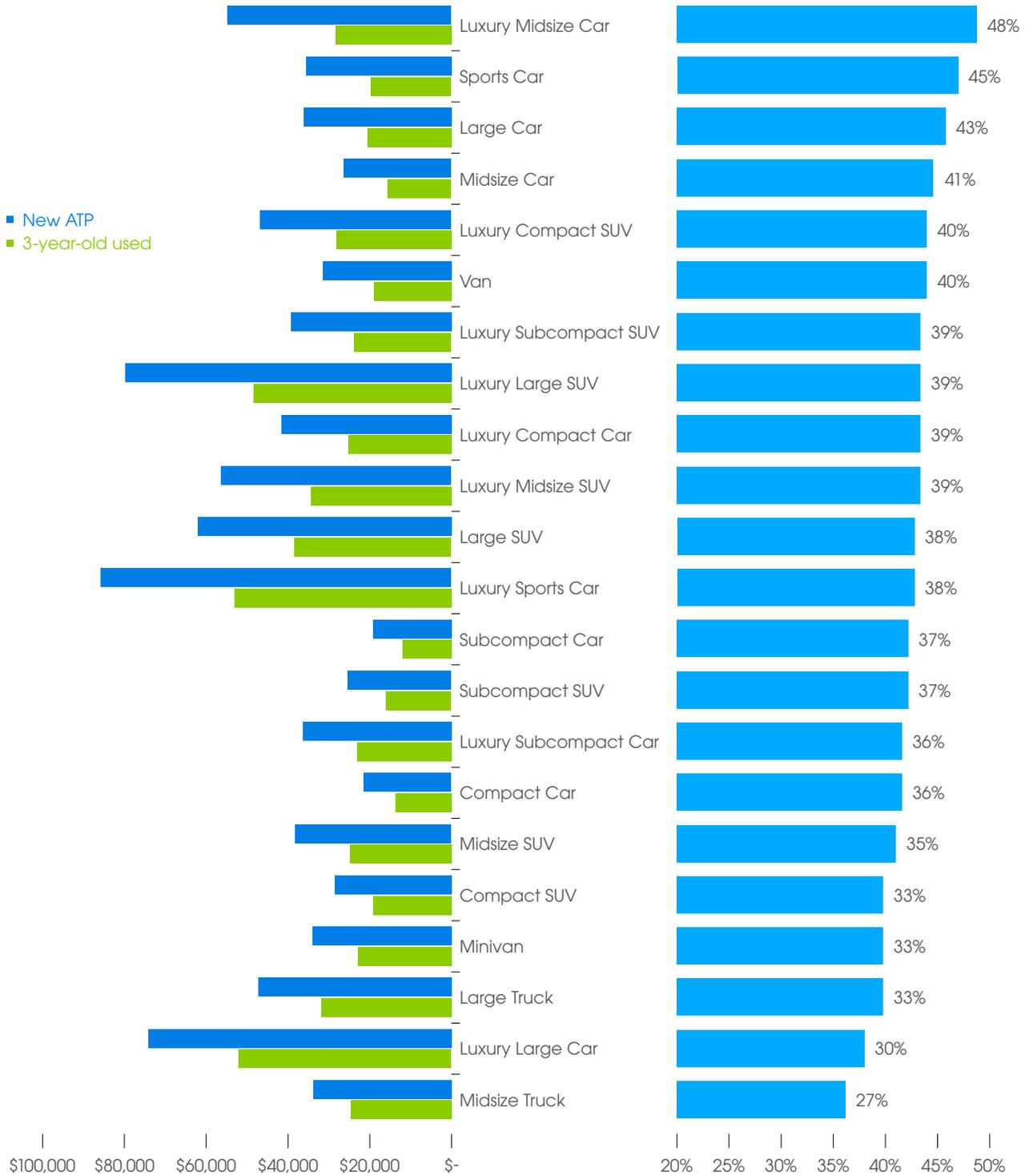
Savings from buying a three year vehicle have increased from \$10.6K to

\$13.3K

Savings by category

NEW & 3-YEAR-OLD USED VALUES BY CATEGORY

SAVINGS



Sources: Edmunds

Savings when purchasing a 3-year-old vehicle versus new by category vary from a minimum of 27 percent in savings for midsize trucks all the way up to 48 percent for luxury midsize cars. Midsize trucks is a category that has been invigorated on the new sales front with the resurrection of old models, but leasing has never been popular among these shoppers. And with such limited quantities on the used market, midsize trucks retain high values, making them less appealing from a savings perspective. On the other end of the spectrum, luxury midsize cars serve as an example of the used market providing significant savings since these vehicles often have the highest lease penetration rate of any vehicle category. With consumer preferences leaning more toward SUVs

and trucks, you'd assume that the savings would be more clear-cut and you could apply a general savings figure based upon overarching SUV, truck and car vehicle categories. That isn't the case. The dynamics of 3-year-old used vehicle values are primarily dictated by the supplies afforded to the market from leasing, and within each category, volumes differ. Specific models that might have been leased in higher volumes compared to their competitors are also a factor.

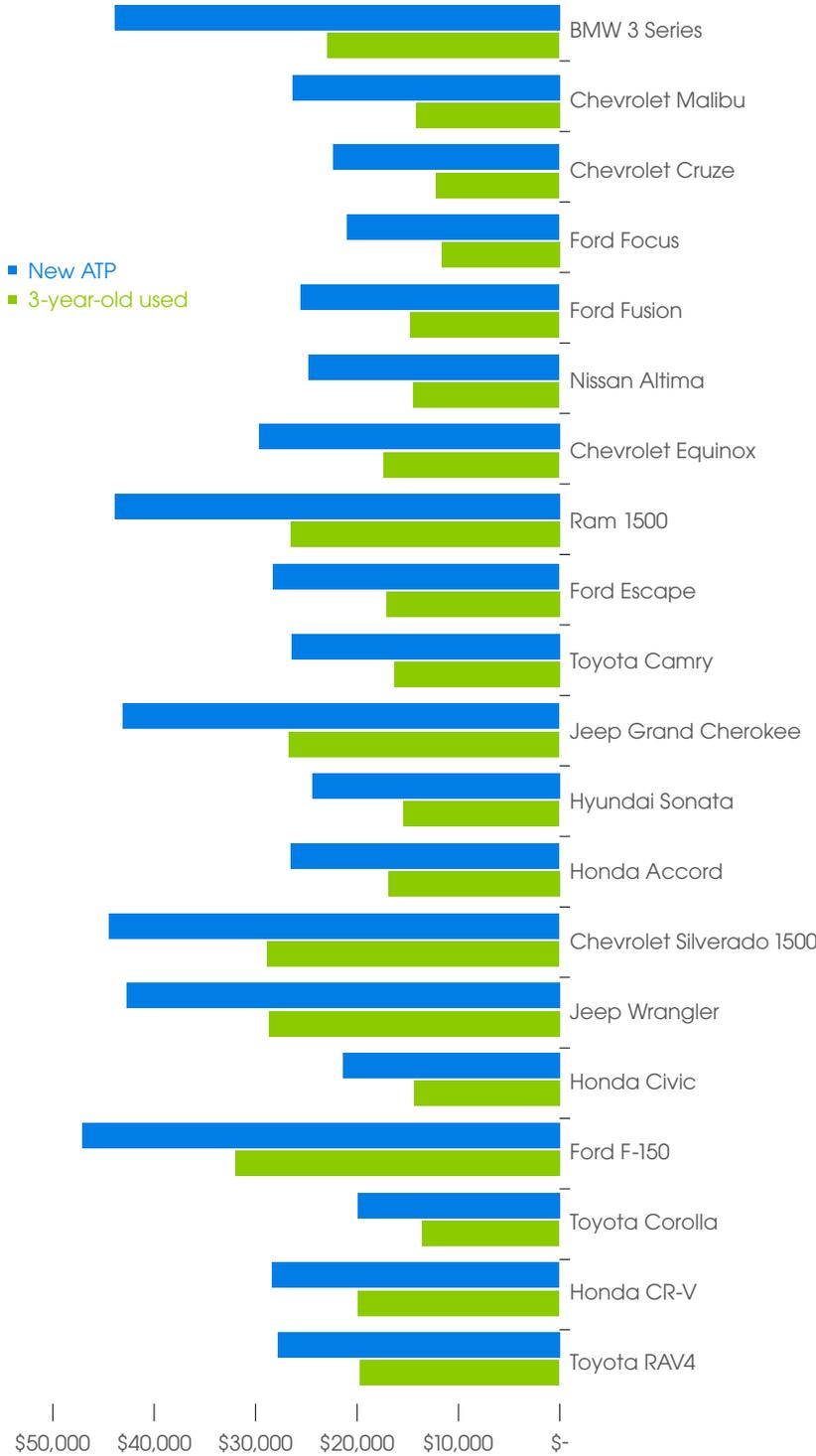
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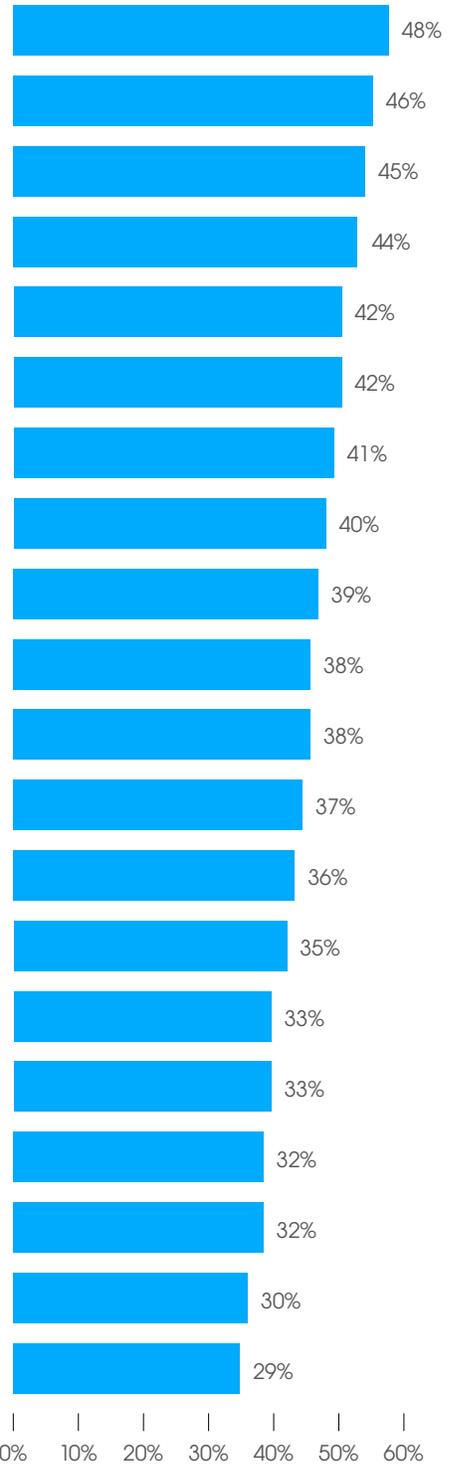


Savings by model

NEW & 3-YEAR-OLD USED VALUES BY MODEL



SAVINGS



Sources: Edmunds



As part of our analysis, we also sampled values for the 20 top-selling used vehicles. A vehicle such as the Toyota RAV4 was a best-seller when new, and even though it was heavily leased three years ago, the strong residual values of this vehicle combined with the healthy overall demand in the compact SUV segment don't allow for significant savings. On the other end we see that BMW's 3 Series, a legend in the compact luxury car segment, faces weakened residual values because of high lease volumes in a

segment that is no longer seen as the entry point into the luxury market. But those who regard the 3 Series as the luxury compact sedan to own can realize a wealth of savings. Going forward we could expect these new-versus-used dynamics to continue in a predictable manner. However, if tariffs are enacted against specific models, these savings figures are bound to change and are certain to test customer loyalty.

