



# Height Research Report

27 AUGUST 2018

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## Auto Lending

### Dealer Demand Drives Best Used Vehicle Prices in Five Years

#### THE TAKEAWAY

J.D. Power's (JDP) [August 2018 Used Car And Light Truck Guidelines](#) show that 2018 used vehicle prices through July are outperforming prices for 2014-2017 (Figure 1). Dealer demand for used vehicles to offset declining new sales is the primary factor driving used vehicle prices higher. The demand has been so strong that it has offset not only normal seasonal trends but also factors such as higher auction volumes and off-lease vehicles. JDP noted that Penske Automotive Group (PAG), Group 1 Automotive (GPI), and Sonic Automotive (SAH) all reported double-digit increases in used vehicle sales for 2Q18. Dealers' increased focus on used vehicle sales make it clear that used vehicle prices will experience only an average decline in 2018. If the demand persists beyond the summer months, price declines may be below average. Improved used vehicle prices are positive for Capital One Finance (COF), Ally Financial (ALLY), Santander Consumer (SA), Credit Acceptance Corp. (CACC), and Consumer Portfolio Services (CPSS).

**Conclusion.** We recently lowered our 2018 used vehicle forecasted price decline to 17-19%, down from an above-average depreciation rate of 20-22%. A continuation of the trends experienced in July could require another revision to our pricing forecast. Dealer and consumer demand for used vehicles has been so strong in the summer of 2018 that it has more than offset higher auction volumes, record off-lease volumes, and a continuing record of 40 month-over-month (MoM) increases in new car incentives.

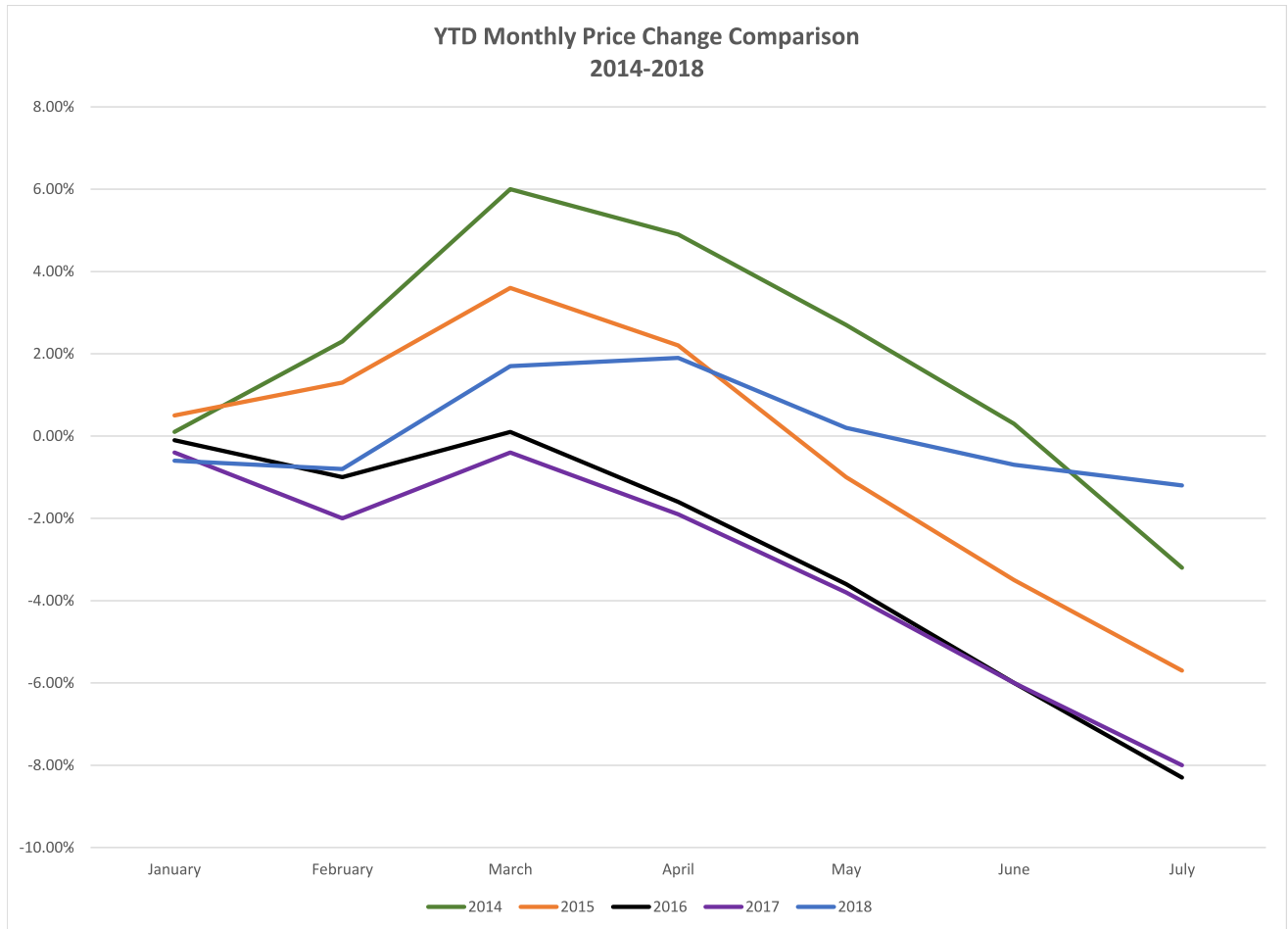


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Figure 1. JDP Unadjusted Used Vehicle YTD Price Performance 2014-2018



Source J.D. Power, Height Capital Markets.

**YTD price performance points to an average decline, maybe better.** JDP's used vehicle pricing information indicates that prices are on pace to decline 16% using 2016 September to December data and down 12% using 2017 pricing data (Figure 2). Black Book estimates the average annual price decline for used vehicles is 18% and Edmunds.com estimates it at 15%. The pricing outlook is in-line to below these averages. The increased demand from dealers for used vehicles is having a material positive effect on pricing. Given the market forces that are in place, it is a challenge to assess how long this demand will continue to influence used vehicle pricing. The demand appears to have continued into mid-August.

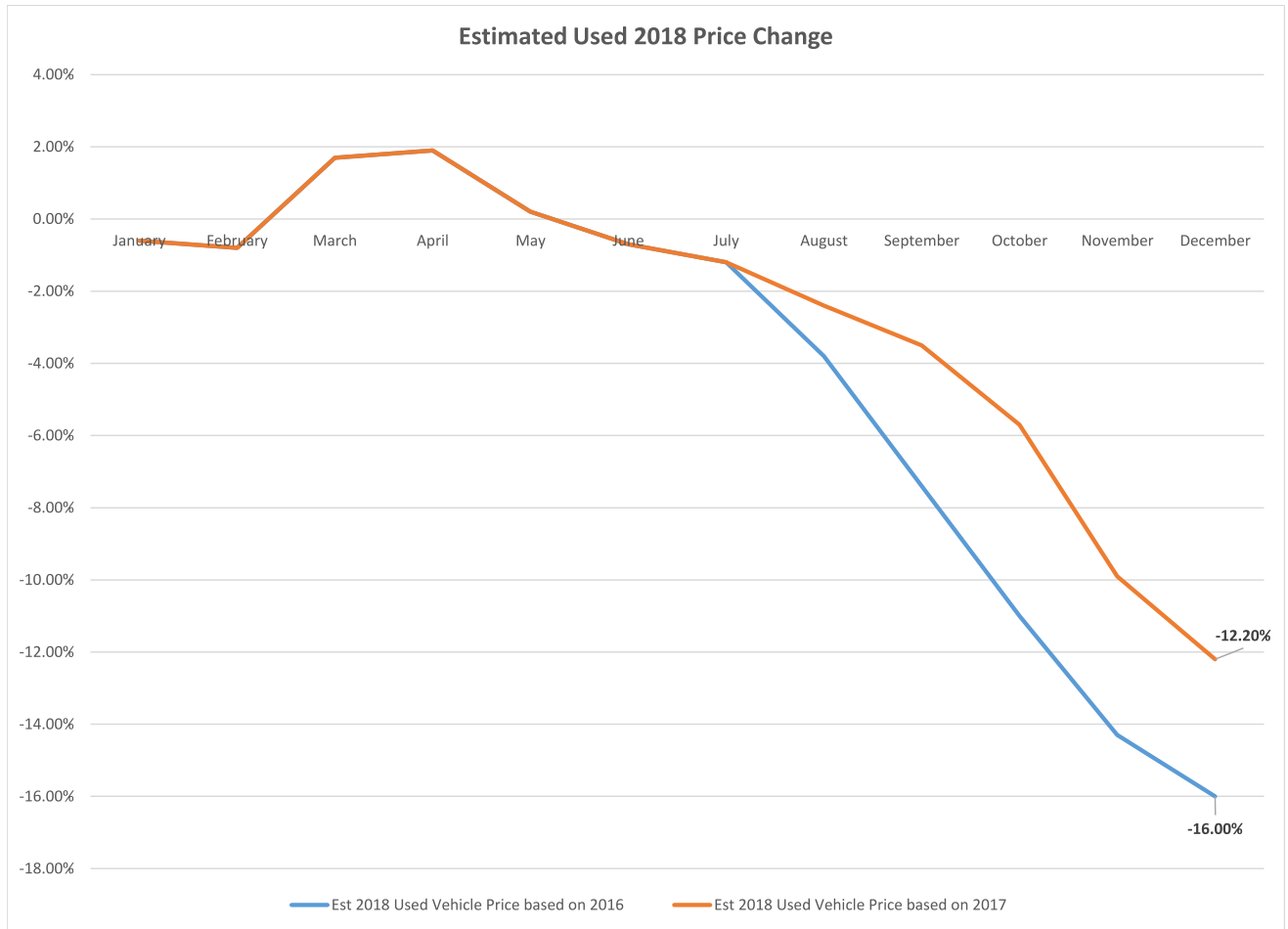


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**Figure 2. Used Vehicle Forecast Based on JDP 2016 & 2017 Price Performance**



Source JDP, Height Capital Markets.



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**Black Book [Market Insights](#) weekly auction market commentary indicates that strong June price performance has continued into August.**

*Week ended [August 17](#):*

The overall used vehicle market is doing extremely well, bucking the seasonal trend seen in previous years. This time last year, the weekly drop in values was five times the rate seen today. [Anil Goyal, Executive Vice President, Black Book Operations]

The market is very good, although most of the vehicles coming through the auction lanes are covered in ash due to the widespread forest fires.

Plenty of buyers and inventory. Auctioneers are not having to work hard at receiving bids.

Prices continue to remain strong. Trucks and cargo vans are attracting a lot of the attention. Older vehicles that look good and have reasonable miles are doing well due to back-to-school buying.

*Week ended [August 10](#):*

Strong bidding in person and online, resulting in a really good August sale.

Trucks still rule, and the money was strong except for the poorer quality vehicles.

**Black Book's weekly pricing data points to average price declines.** Using Black Book's 2016 data, 2018 used car prices are projected to decline by 17.9%, an improvement of 110 bps from our previous report. Black Book's 2017 pricing shows a similar improvement with 2018 prices tracking down 15.6%, an improvement of 70 bps (Figure 3 and 4). We have focused on the 2016 data series due to the effect Hurricane Harvey had on used vehicle prices in 2017. The reduction in price depreciation over the last two months required that we revise our thesis for 2018 used vehicle price depreciation to an average decline from an above-average decline.

Black Book's data shows that used truck prices will decline at an average rate in 2018. Based on 2016 data, truck prices are expected to decline by 17.4%, better by 50 bps better than what we [forecasted](#) in our August 16 report less than two weeks ago. The 2017 data shows truck prices will decline by 14.6%%, which is 40 bps better than in our prior report (Figure 5).



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**Figure 3. Estimated 2018 Used Vehicle Price Performance - Black Book Data**

Weekly Wholesale Used Car Price Change Vehicle Type	Price Change YTD 2018	Price Change 8/18-12/30/17	Est 2018 Price Chg	Price Change 8/19 -12/30/16	Est 2018 Price Chg
Sub-Compact Car	-3.8%	-10.3%	-14.1%	-13.7%	-17.5%
Compact Car	-3.4%	-9.1%	-12.5%	-11.7%	-15.0%
Mid-Size Car	-3.3%	-10.2%	-13.5%	-10.0%	-13.2%
Full-Size Car	-5.3%	-9.2%	-14.4%	-13.0%	-18.3%
Near Luxury Car	-10.3%	-10.1%	-20.4%	-13.0%	-23.3%
Luxury Car	-11.3%	-11.0%	-22.3%	-12.0%	-23.3%
Prestige Luxury Car	-10.0%	-10.5%	-20.5%	-15.5%	-25.5%
Sporty Car	-1.0%	-10.8%	-11.8%	-17.1%	-18.1%
Premium Sporty Car	-5.8%	-10.0%	-15.8%	-11.6%	-17.4%
<b>CARS-Overall</b>	<b>-5.6%</b>	<b>-10.0%</b>	<b>-15.6%</b>	<b>-12.4%</b>	<b>-17.9%</b>
Sub-Compact Crossover	-3.1%	-8.2%	-11.3%	-12.7%	-15.8%
Compact Crossover/SUV	-5.3%	-6.9%	-12.2%	-10.5%	-15.7%
Mid-Size Crossover/SUV	-7.8%	-8.1%	-15.9%	-11.7%	-19.5%
Full-Size Crossover/SUV	-9.8%	-7.1%	-16.9%	-10.3%	-20.1%
Sub-Compact Luxury Crossover	-9.8%	-10.3%	-20.1%	-2.8%	-12.6%
Compact Luxury Crossover/SUV	-10.4%	-10.6%	-21.0%	-9.3%	-19.8%
Mid-Size Luxury Crossover/SUV	-10.4%	-9.6%	-20.0%	-11.0%	-21.4%
Full-Size Luxury Crossover/SUV	-10.6%	-8.3%	-18.9%	-10.3%	-21.0%
Minivan	-7.5%	-9.3%	-16.8%	-12.3%	-19.8%
Compact Van	-4.6%	-5.2%	-9.8%	-15.8%	-20.4%
Full-Size Van	-6.5%	-3.0%	-9.5%	-9.9%	-16.4%
Small Pickup	-3.9%	-5.2%	-9.1%	-8.6%	-12.5%
Full-Size Pickup	-6.7%	-5.5%	-12.2%	-8.2%	-14.9%
<b>TRUCKS-Overall</b>	<b>-7.4%</b>	<b>-7.2%</b>	<b>-14.6%</b>	<b>-10.1%</b>	<b>-17.4%</b>

Source: *Black Book*, *Height Capital Markets*.

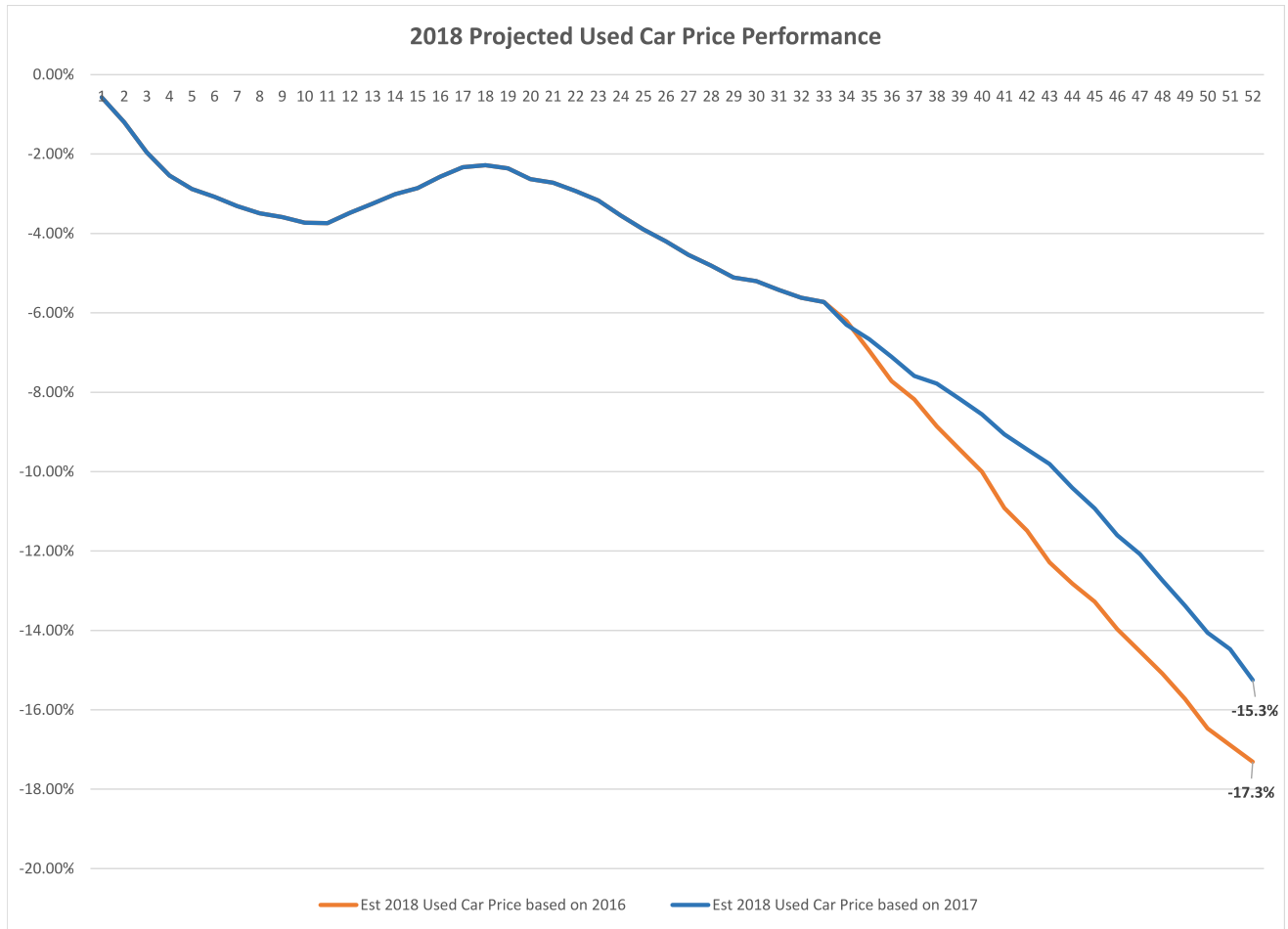


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**Figure 4. Estimated 2018 Used Car Price Performance - Black Book Data**



Source: *Black Book*, Height Capital Markets.

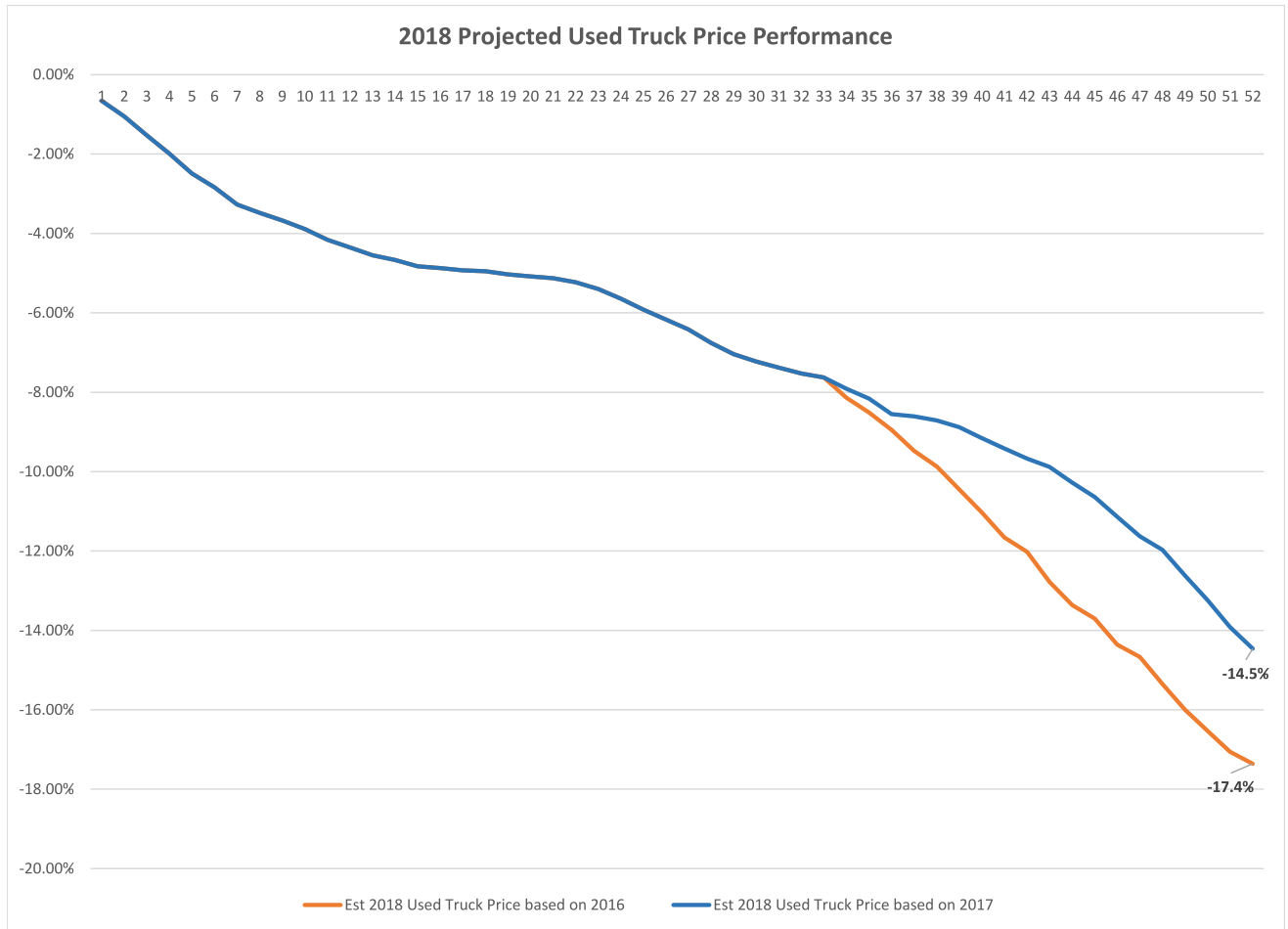


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Figure 5. Estimated 2018 Used Truck Price Performance - Black Book Data



Source: *Black Book*, Height Capital Markets.



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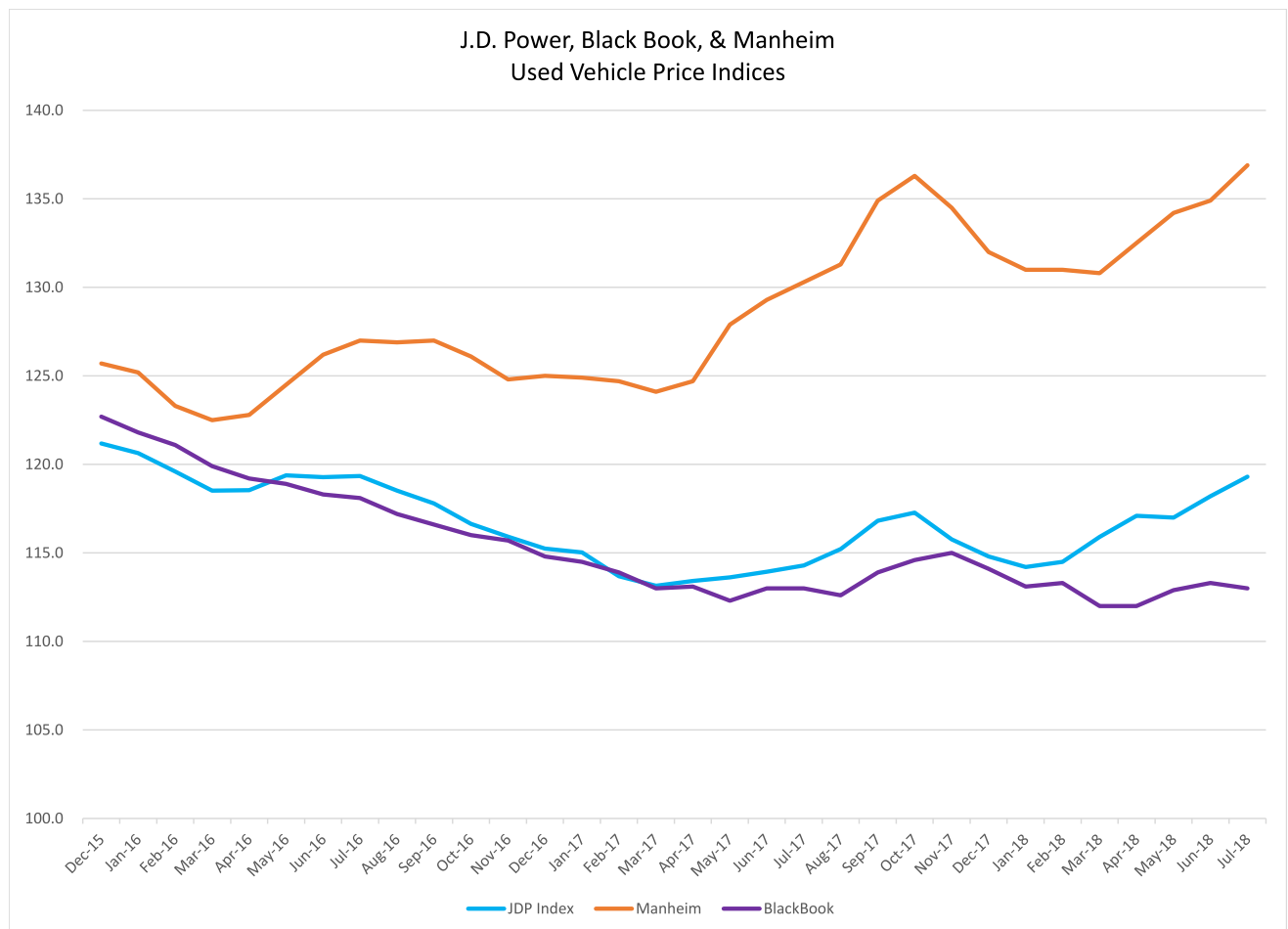
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**Height outlook.** Black Book's weekly 2018 improved significantly in June, July, and August, which resulted in a continued improvement in the pricing forecast. If the Black Book and JDP pricing data continue at the current pace, we will have to revise our 2018 pricing outlook of down 17-19% again, perhaps materially.

Strong dealer demand for used vehicles has overtaken trends that we expected to compress pricing significantly so much so that we may need to revise our outlook again. We have been monitoring increasing volumes of off-lease vehicles (unchanged), tighter credit underwriting standards (unchanged), increasing new vehicle incentives (unchanged), increasing days supply of new vehicles (changing), and off-lease volumes going to auction (we lowered our projection). While auction volumes are expected to rise for the balance of the year, the increase is unlikely to result in sufficient price pressure, which points to an average price decline in 2018; however, if dealer demand continues into September or beyond, price declines may be below average in 2018.

**Figure 6. Used Vehicle Price Indices Improved in July**



Source: [Black Book](#), [Manheim](#), [J.D. Power](#), [Height Capital Markets](#).



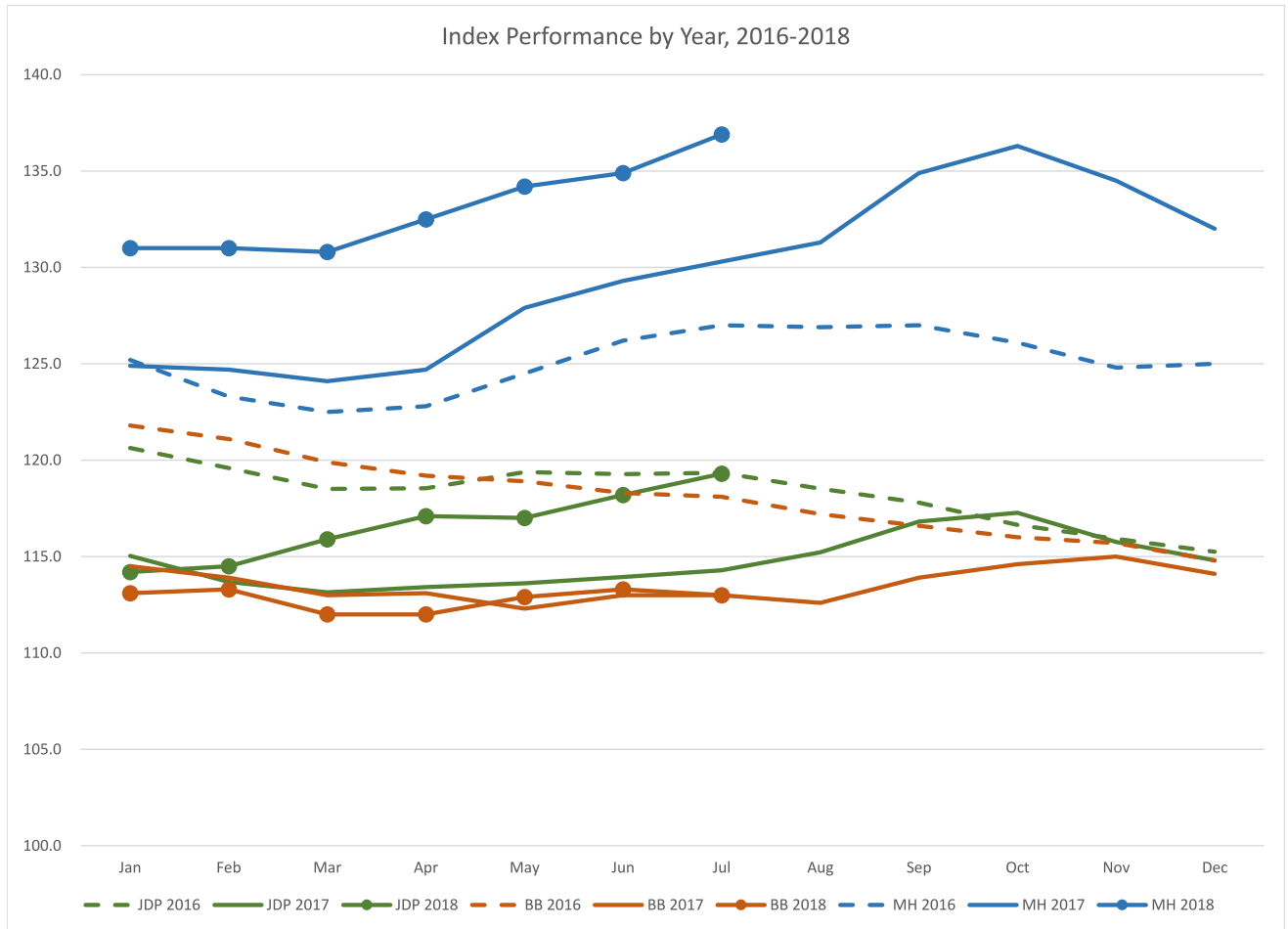


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**Figure 7. Annual Index Performance**



Source: *Black Book, Manheim, J.D. Power, Height Capital Markets.*



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**Figure 8. Black Book Weekly Price Change as of August 17, 2018**

Weekly Wholesale Used Car Price Change Vehicle Type	WoW Change	Price Change YTD 2018	2018 YTD Price Chg Annualized	Price Change YOY
Sub-Compact Car	0.05%	-3.8%	-6.1%	-12.6%
Compact Car	0.03%	-3.4%	-5.3%	-11.4%
Mid-Size Car	-0.07%	-3.3%	-5.2%	-12.2%
Full-Size Car	-0.13%	-5.3%	-8.3%	-13.2%
Near Luxury Car	-0.25%	-10.3%	-16.3%	-18.7%
Luxury Car	-0.09%	-11.3%	-17.8%	-20.0%
Prestige Luxury Car	-0.63%	-10.0%	-15.7%	-18.6%
Sporty Car	-0.08%	-1.0%	-1.6%	-11.1%
Premium Sporty Car	-0.25%	-5.8%	-9.1%	-14.5%
<b>CARS-Overall</b>	<b>-0.11%</b>	<b>-5.6%</b>	<b>-8.8%</b>	<b>-14.2%</b>
Sub-Compact Crossover	-0.06%	-3.1%	-4.9%	-10.4%
Compact Crossover/SUV	-0.09%	-5.3%	-8.3%	-11.3%
Mid-Size Crossover/SUV	-0.22%	-7.8%	-12.3%	-14.6%
Full-Size Crossover/SUV	0.00%	-9.8%	-15.5%	-15.7%
Sub-Compact Luxury Crossover	-0.14%	-9.8%	-15.5%	-18.1%
Compact Luxury Crossover/SUV	-0.17%	-10.4%	-16.4%	-18.9%
Mid-Size Luxury Crossover/SUV	-0.26%	-10.4%	-16.4%	-18.0%
Full-Size Luxury Crossover/SUV	-0.27%	-10.6%	-16.8%	-17.5%
Minivan	-0.08%	-7.5%	-11.8%	-15.6%
Compact Van	-0.25%	-4.6%	-7.2%	-9.4%
Full-Size Van	-0.41%	-6.5%	-10.3%	-9.1%
Small Pickup	0.00%	-3.9%	-6.1%	-8.5%
Full-Size Pickup	0.04%	-6.7%	-10.6%	-11.5%
<b>TRUCKS-Overall</b>	<b>-0.10%</b>	<b>-7.4%</b>	<b>-11.6%</b>	<b>-13.5%</b>

Source: Black Book [Market Insights](#), Height Capital Markets.



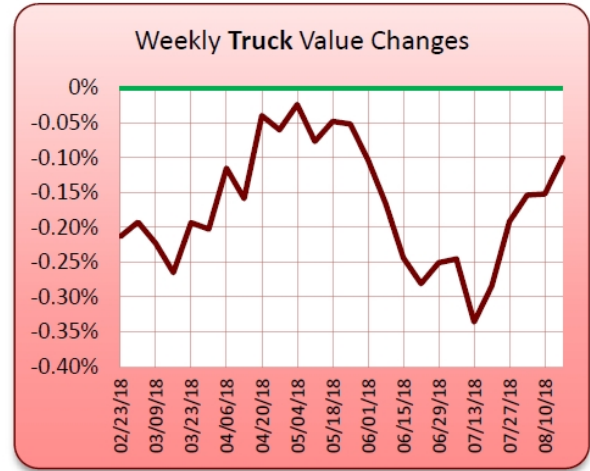
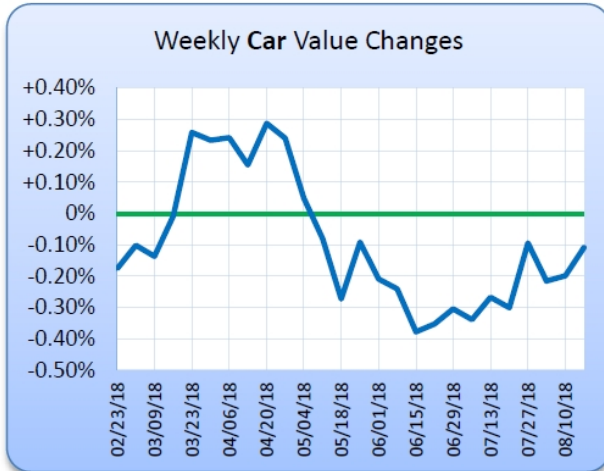
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Figure 9. Black Book Quarterly Changes in Car Segment Values

## Weekly Value Changes – Cars vs. Trucks



Source: Black Book [Market Insights](#), Height Capital Markets.



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