

Q3 2016 USED VEHICLE MARKET REPORT



Used Vehicles Sales Summary

Quarter	Total Sales	Franchise Used	CPO
Q3 2011	9,242,998	2,436,724	438,719
Q3 2012	9,355,565	2,531,912	465,963
Q3 2013	9,202,280	2,862,619	540,260
Q3 2014	9,221,601	2,931,736	611,010
Q3 2015	9,448,857	2,995,497	653,286
Q3 2016	9,758,814	2,917,510	675,551

Certified Pre-Owned is a subset of Franchised Used

Key Takeaways

Used Sales up over 2015: Q3 2016 closed with 9.8M vehicles sold in the used market, an increase of 3.3% over the previous year. Franchise used sales showed a 2.6% decrease over 2015, due to fewer trade-ins occurred at dealerships this year.

CPO Sets Record Q3 Share: Certified Pre-Owned sales moved forward with a 3.4% lift in sales over Q3 2015 and accounted for 23.2% of all franchise used sales.

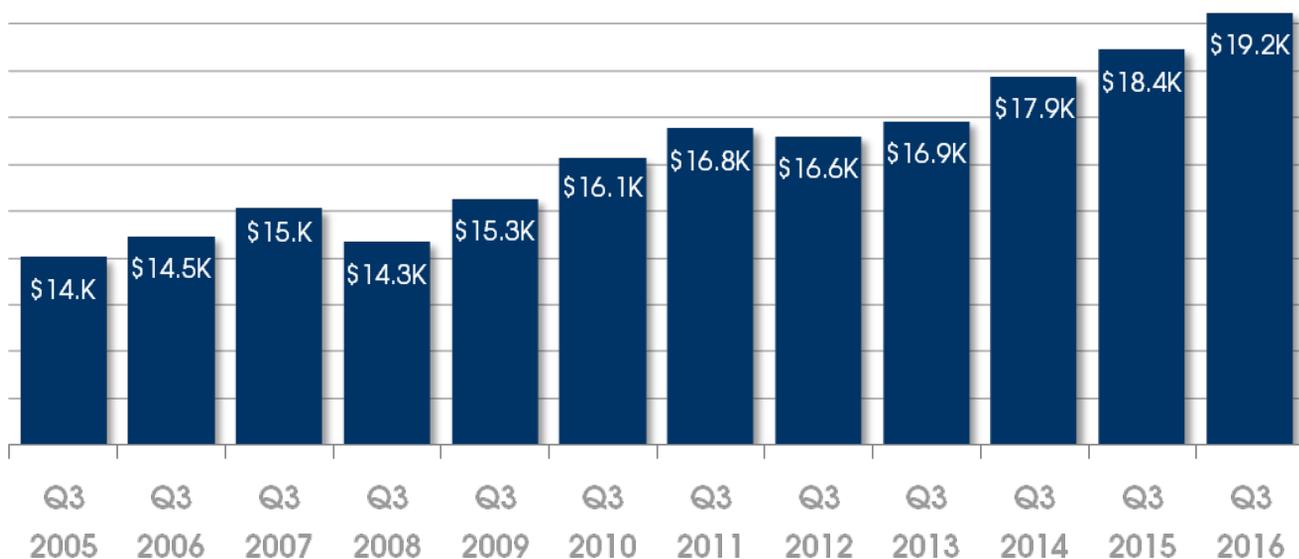
Used Prices Stay Above \$19K: The average retail used vehicle sold for \$19,232 in Q3 2016, an increase of 4.3% over last year. This increase in overall values is fueled by the younger age (4.0 years, on average) of vehicles sold at franchise dealers, a reduced number of trade-ins for new sales, and the high lease volumes from prior years.

Negative Equity on the Rise: Even though the average monthly payment on used vehicle loans remains relatively flat from prior years, the share of consumers trading in a vehicle on which they still owe money has continued to rise.

Used Inventory Supply Factors: Changes in new car buying behavior are beginning to alter the landscape of franchised used vehicles. Continued growth in leasing combined with fewer trade-ins are skewing used vehicle inventories towards near-new vehicles.

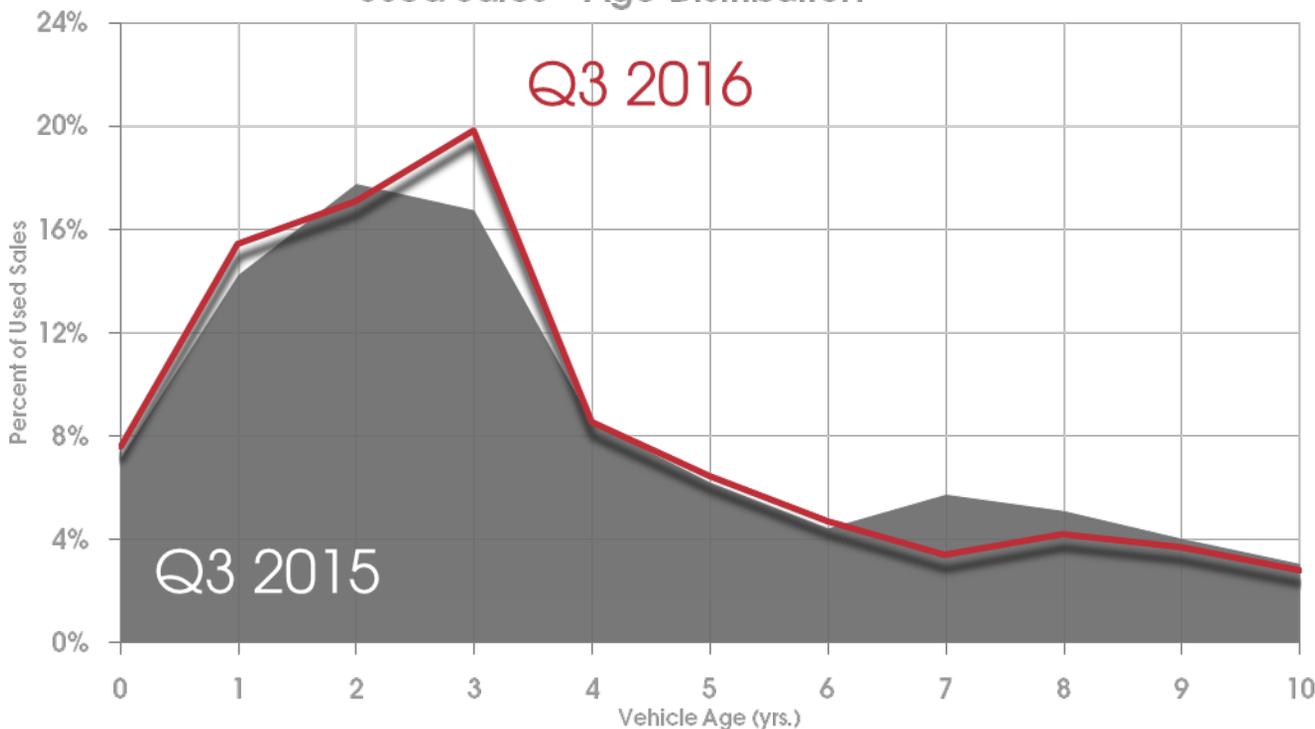
Retail Used Values Continue to Climb

Annual Transaction Prices



Q3 2016 continues the trend of rising retail prices, with average used car prices coming in above \$19K. This sustained trend shows a 4.3% increase over last year and hints that Q4 will carry us through the end of the year with values approaching the \$20K milestone.

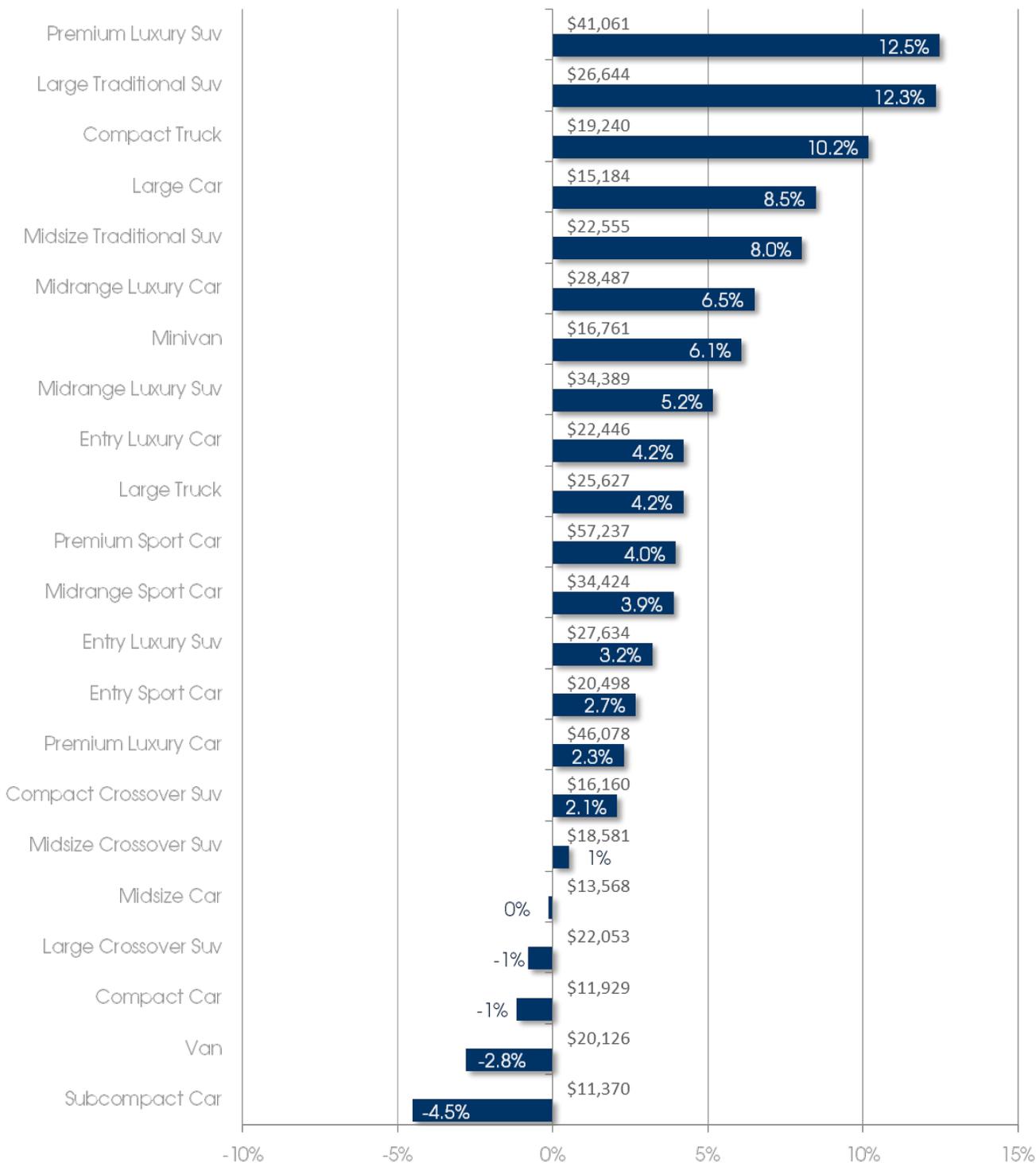
Used Sales - Age Distribution



The average age of retail used vehicles sold during Q3 2016 was 4.0 years, down from 4.3 years in Q3 2015. With lease returns being a major factor of near-new used inventory, it is no wonder that we're seeing such a high portion of three-year-old or younger vehicles on dealer lots, given that 2013 had a 25.6% increase in lease volumes over 2012.

Used Prices: High Prices Getting Higher

Q3 2016 vs. Q3 2015 Average Transaction Price



Consumers in the market for used vehicles from segments with higher price points will not find any relief, as these segments continue to grow in price. On the other hand, lower fuel costs continue to restrict demand (and prices) on high-volume segments such as subcompact, compact and midsize cars.

2016 Continues the CPO Trend

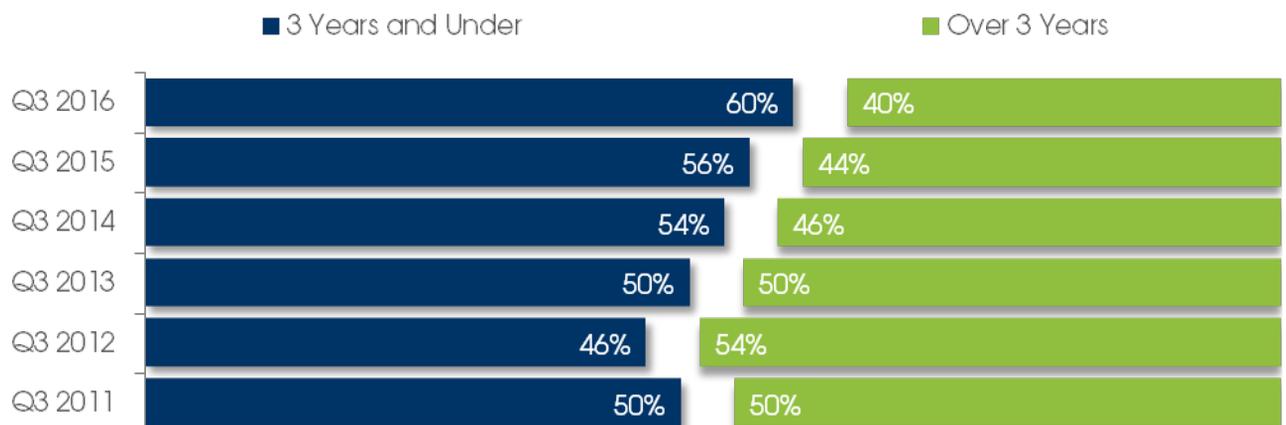
CPO Share of Franchise Used Sales



There were around 675K CPO vehicle sales in the third quarter of 2016, representing a 3.4% increase over last year. CPO vehicles made up 23.2% of the retail used market, which bests last year's 21.8% mix in Q3 2015 and is the highest third quarter share on record. The trend was compounded by a slight decrease in overall franchise used sales, stemming from a decrease in trade-ins on new car sales.

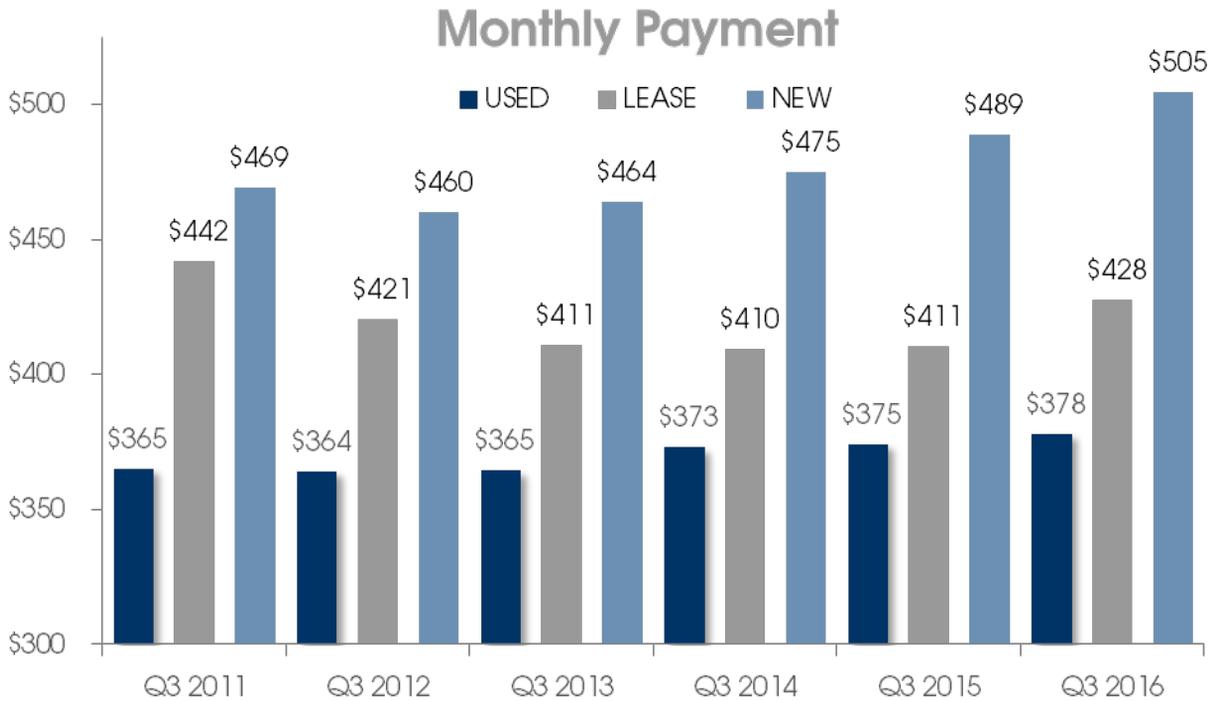
Most Franchise Dealer Inventories Are Near-New

Near New vs. Older Used Sales



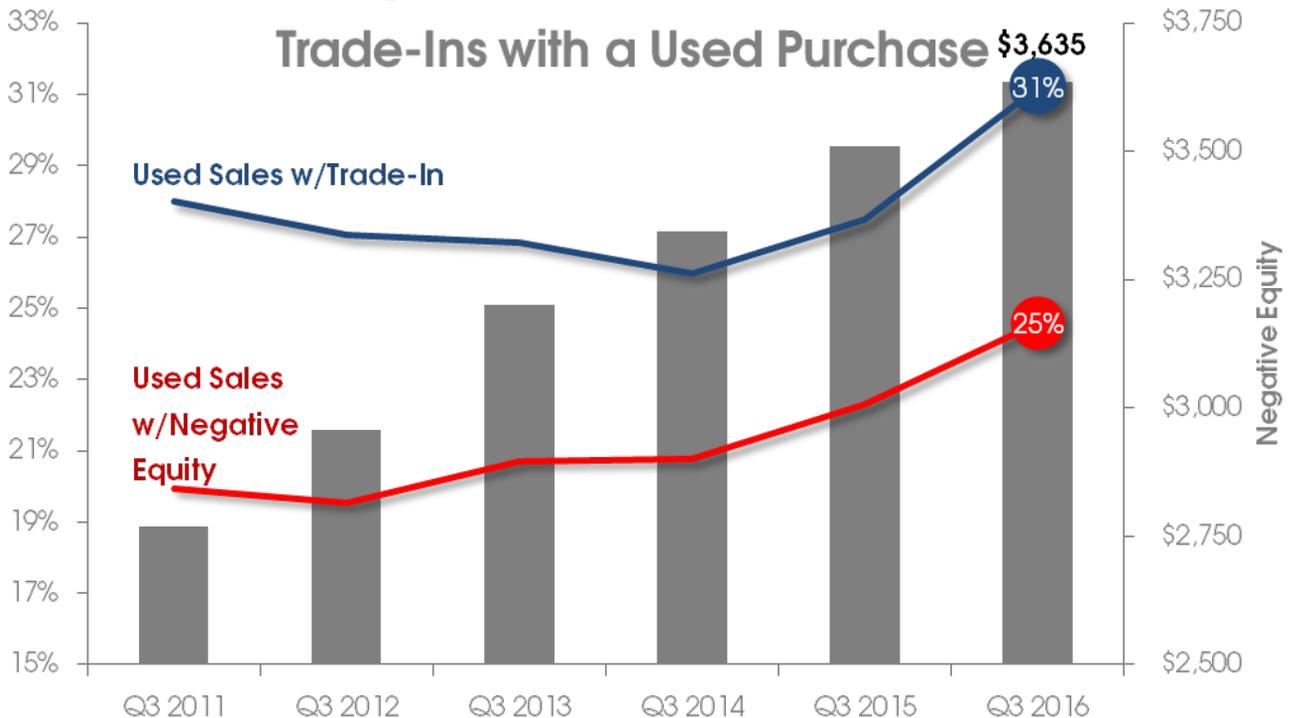
From 2012 to 2013, lease volumes increased by 658K units, which has significantly altered today's franchise used dealer inventories. In Q3 2016, 60% of vehicles sold were 3 years old or younger, up from 46% as recently as four years ago.

Used Monthly Payments Hold Constant



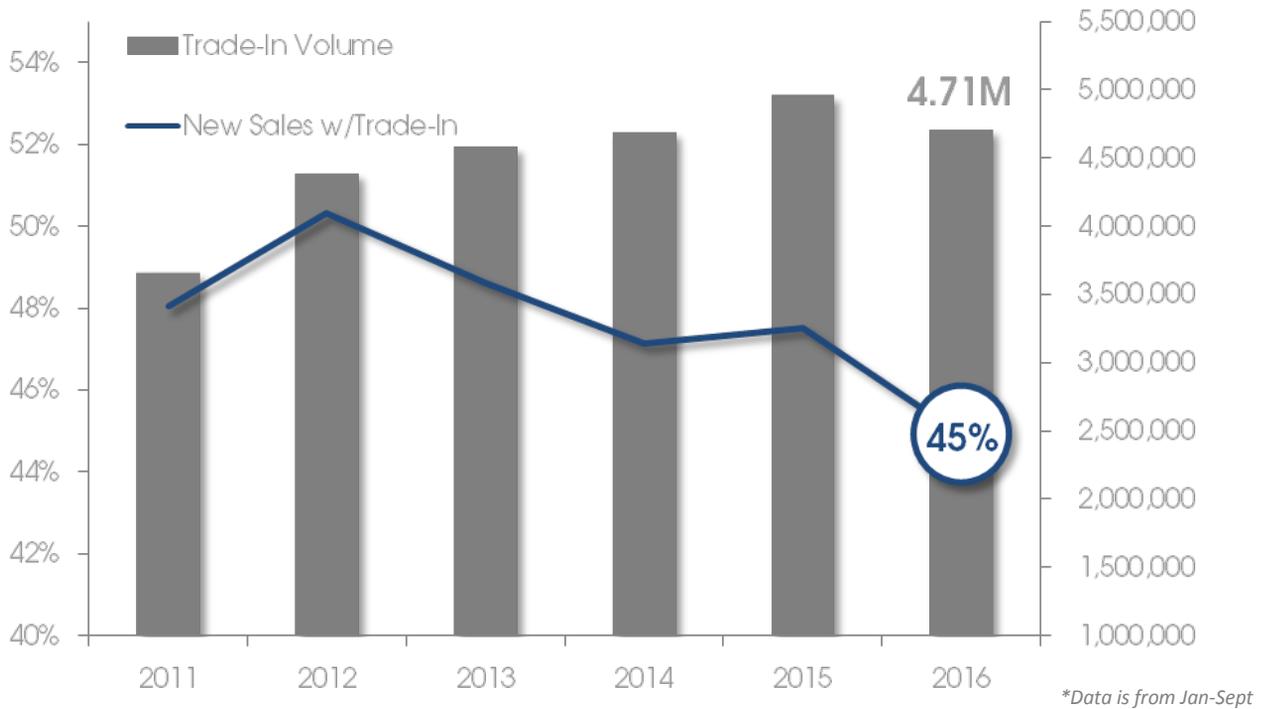
Used vehicle loan payments showed the lowest increase of the three loan types, a mere \$3/month versus the more sizable increases to both lease (\$17/month) and new (\$16/month) financing.

Negative Equity on the Rise



Q3 saw a record for used car transactions that involved a trade-in (31% of all used car purchases). While this is healthy shopper behavior, it is concerning that 25% of these trade-ins had negative equity at the moment of transaction. This is the highest rate ever, and it's curious that more shoppers than ever before are undeterred by how much they owe on their trade-ins.

Reduced Diversity of Used Inventory



The growing trend of new vehicle buyers either not having a trade-in or not willing to part with their vehicle at the dealership is beginning to take effect on the used market. Plateauing new car sales combined with a lower share of trade-ins has regressed the overall trade-in volume to 2014 levels. With trade-ins averaging six years old and fewer of them on dealer lots, the recent level of lease volumes sets the stage for vast amounts of near-new inventory dominate the used car market for years to come.

Expect More Near-New Inventory

