



used vehicle market report

February 2017

key takeaways

Used vehicles sales summary

Quarter	Total sales	Franchise used	CPO
2011	36,920,834	9,386,972	1,742,400
2012	37,582,716	9,992,034	1,833,700
2013	35,827,519	10,793,385	2,082,900
2014	36,241,800	11,178,073	2,340,400
2015	38,276,140	11,407,200	2,533,100
2016	38,513,967	11,573,462	2,643,000

Used sales up over 2015

38.5M vehicles sold in the 2016 second-hand market, a slight 0.6% increase compared to 2015. Franchise used sales gained 1.5% over 2015 despite fewer trade-ins on new vehicle sales.

CPO volume set record

Certified Pre-Owned sales forged ahead with a 3.5% lift over 2015 and accounted for 22.8% of all franchise used car sales.

Highest used vehicle prices ever

The 2016 average retail used price was \$19,189—3.4% higher, year-over-year. This record breaking high can be attributed to a newer fleet: 58% of the used vehicles sold were three years old or newer. Consumers' high demand for trucks and SUVs also contributed. Also, 8- to 15-year-old vehicles from almost every category retained more of their value.

Favorable financing mitigated high prices

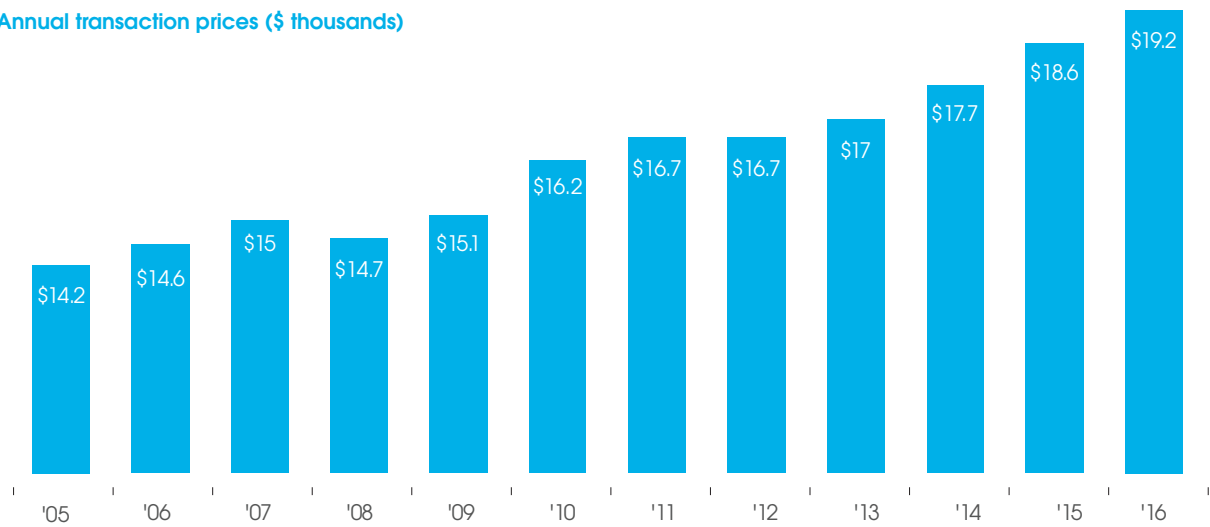
Financing was one place consumers found relief from higher prices. Interest rates were at record lows, coupled with slightly longer loan terms.

Older vehicle supply fading

2016 saw fewer buyers trading in old vehicles when purchasing a new one. This affected older used car supply, since the average age of a trade-in is six years old (on a new car purchase). For buyers in the near-new used market, supply is healthy, as 2014 leasing volume increased 10.6% over 2013.

used prices edged up

Annual transaction prices (\$ thousands)



Record 2016 transaction prices reflected a used market that's undergoing dramatic change. Growing numbers of three-year-old off-lease vehicles, more one- to two-year-old rental returns and a consistent flow of near-new trade-ins made a big impact. A record-high 58% of the used vehicles sold at franchise dealerships were three years old or newer.

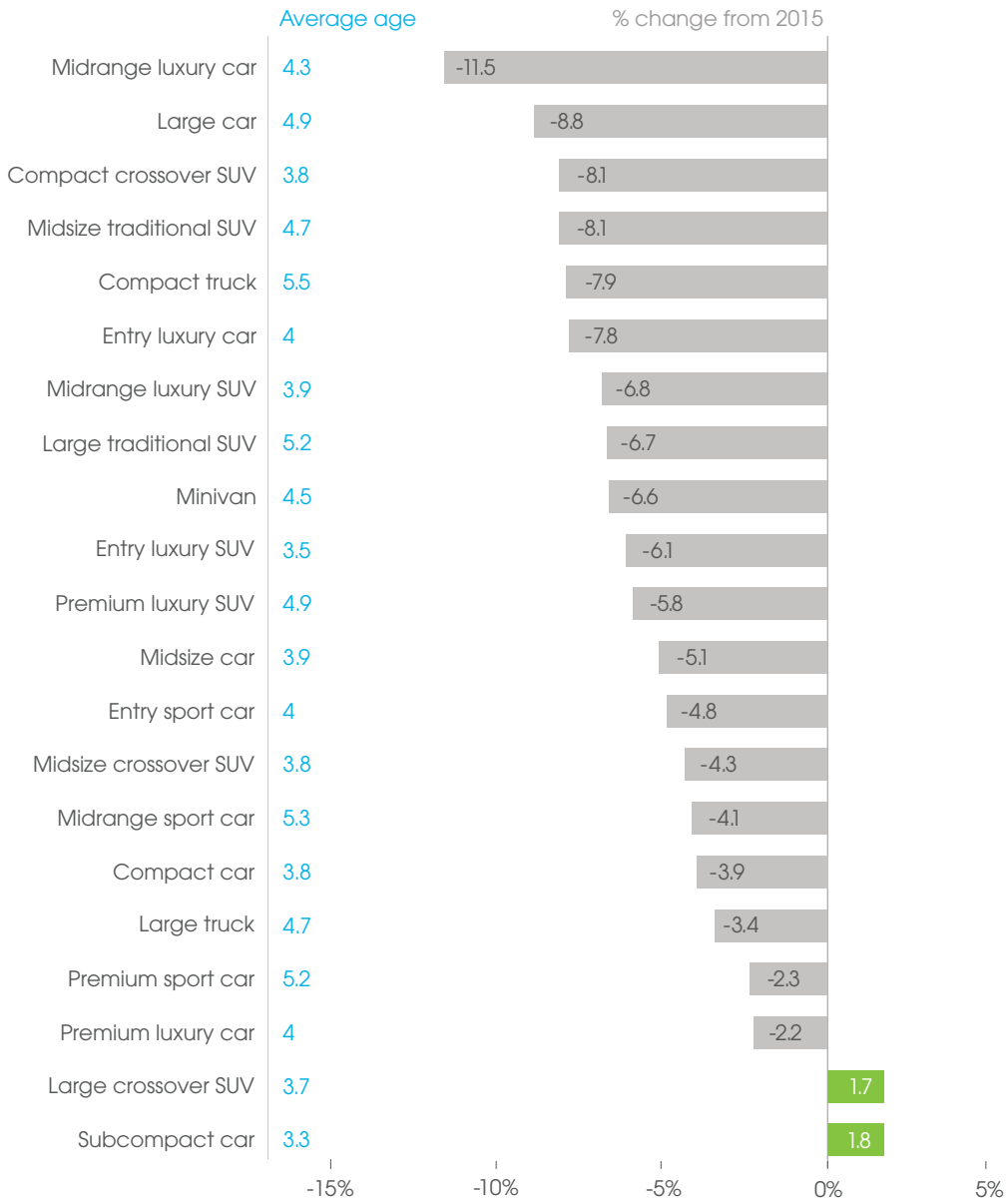
Used sales age distribution



The average age of a retail used vehicle sold during 2016 was 4.1 years, down from 4.4 in 2015. The largest vehicle age group sold last year were off-lease three-year-old vehicles. However, one- and two-year-old rental cars were also very well represented. This trend will continue because car rental agencies have bought more vehicles in the last few years.

leasing reduced average age, increased price

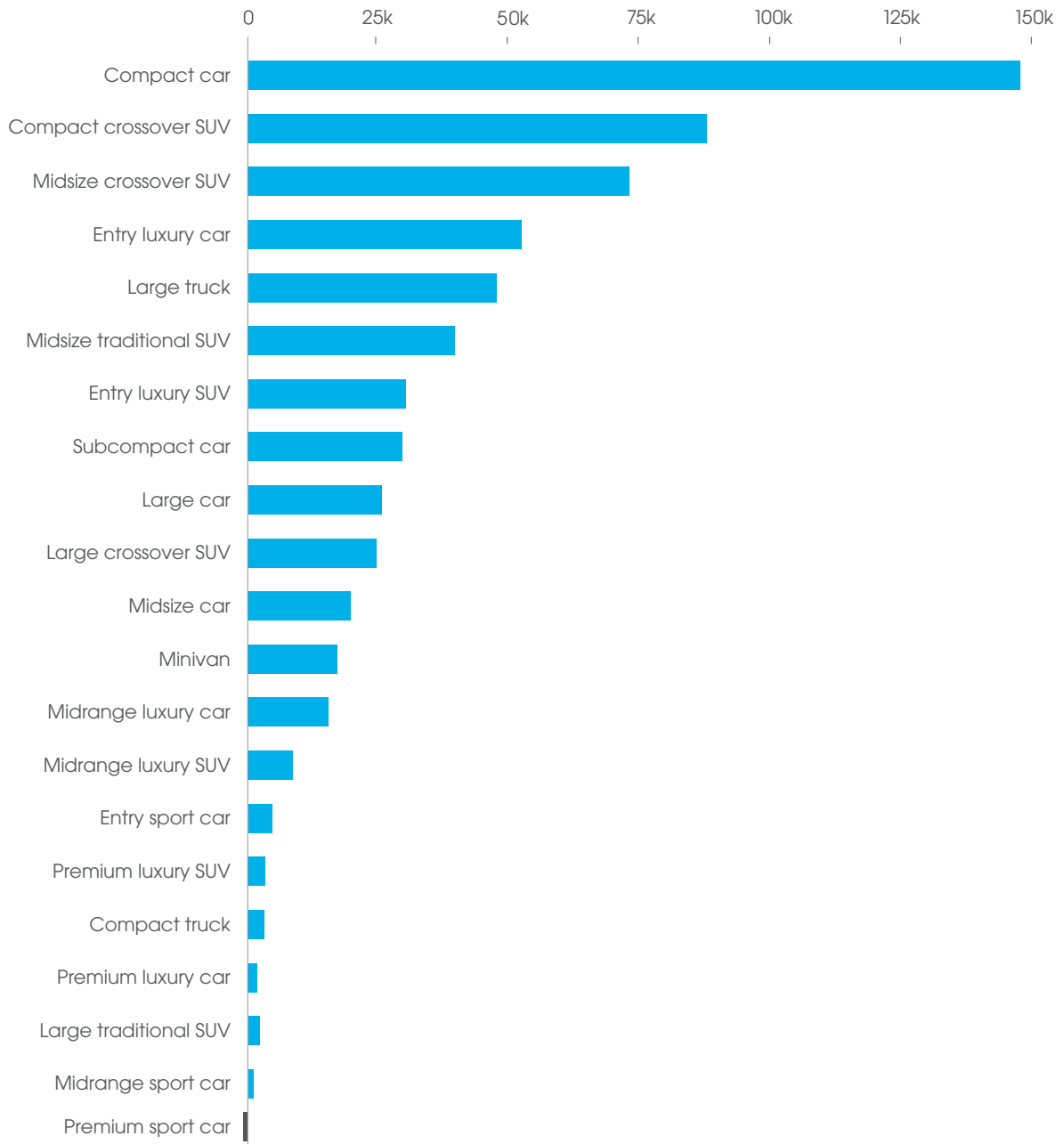
2016 used market average vehicle age



The drop in average vehicle age led to higher prices in nearly all categories. While newer used vehicles have fewer miles and less wear, there is a downside. Their value (and demand) can be lowered significantly if manufacturers offer big incentives on similar new vehicles.

used market absorbed lease volume

2013 vs. 2012 additional lease volume

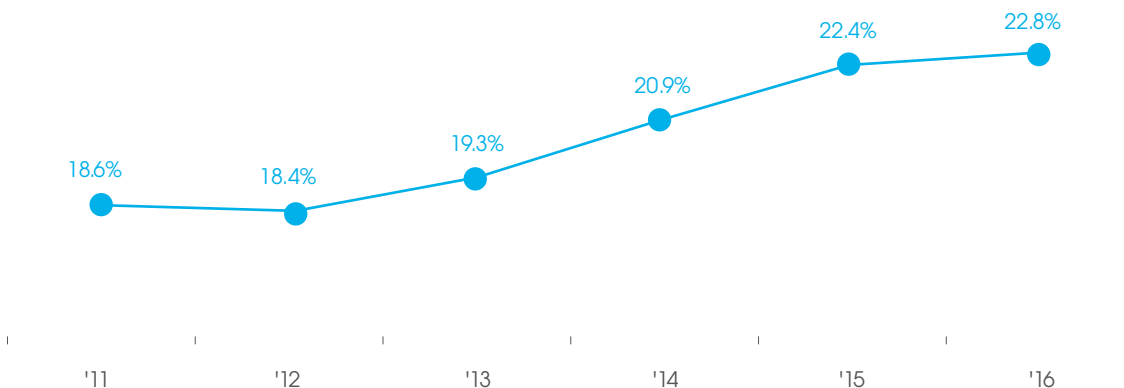


Used car demand kept values high

Even with the increased volume of off-lease vehicles (some categories saw over 50K units more than the previous year), 2016 pricing was consistent with 2015. From 2013 to 2014, lease volume increased 10.6%—partially driven by demand for popular vehicle categories, including compact crossovers, large SUVs and large trucks. We expect this to keep transaction prices higher into 2017.

2016 CPO continued to grow

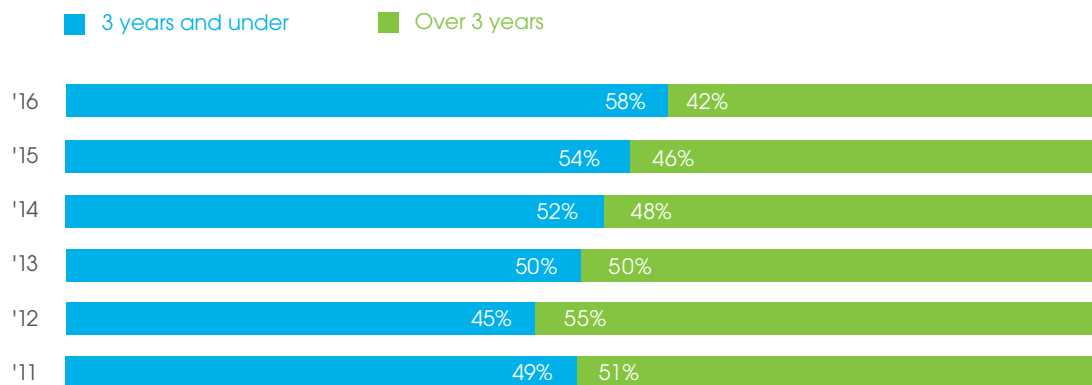
CPO % share of franchise used sales



Franchise used sales saw record CPO share

CPO vehicle sales climbed to an all-time high last year. 2.6M units sold on franchise dealer lots. This accounted for 22.8% of franchise used vehicle sales—also a record. CPO sales could still increase in the future, although they don't specifically correlate to the increased leasing volume we've seen. Many lease returns come into the used market as non-Certified Pre-Owned vehicles.

Near-new vs. older used sales %

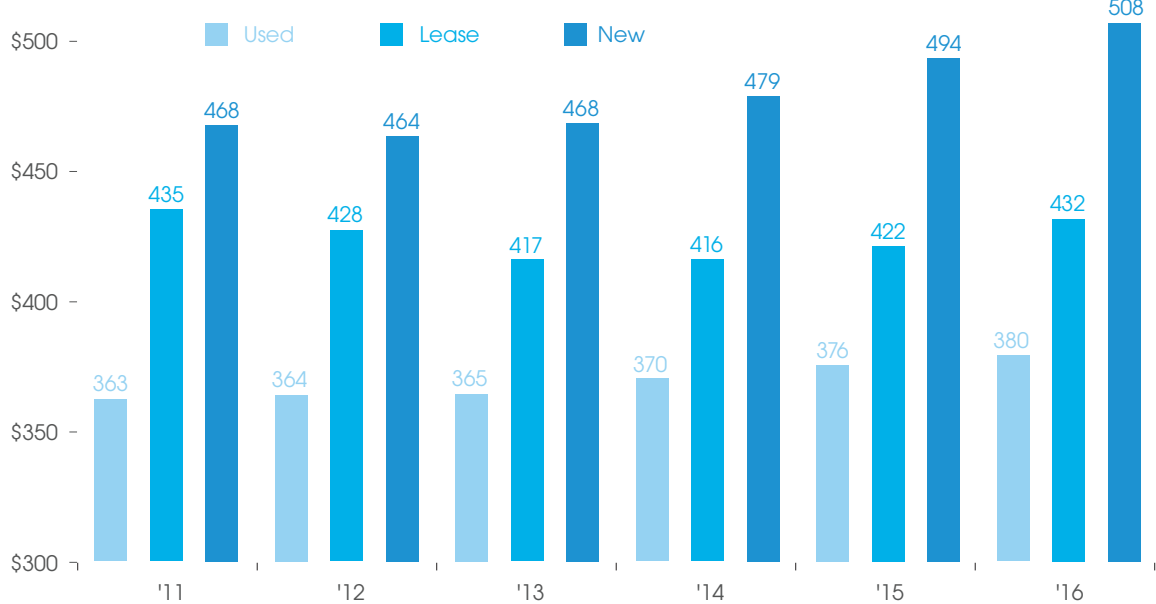


Near-new category continued to shine

58% of the cars sold off franchise dealer lots in 2016 were near-new. Retired rental units consistently feed the near-new category. But the recent gains resulted more from leasing's popularity as an easier way to sell more cars. The higher residuals of lease returns also helped fuel this increase.

used monthly payments held constant

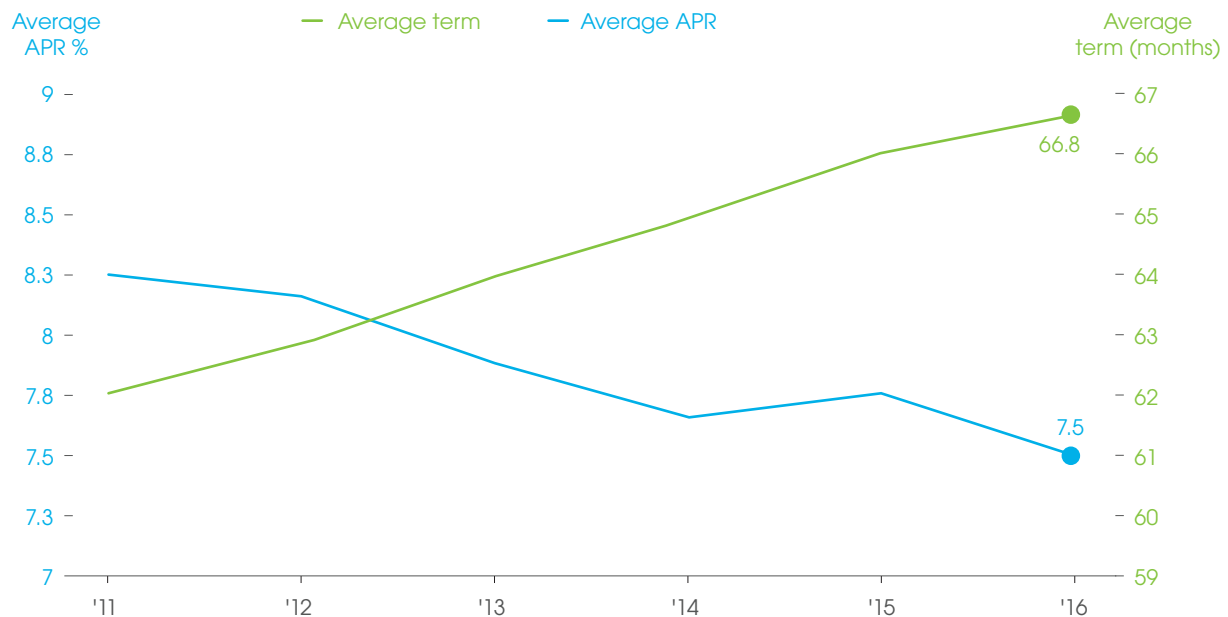
Monthly payment



Lowest increase of loan types

Used vehicle loan payments only grew \$4/month in 2016. Compare that to more sizable financing cost increases for lease (\$10/month) and new (\$14/month).

Loan rates and terms

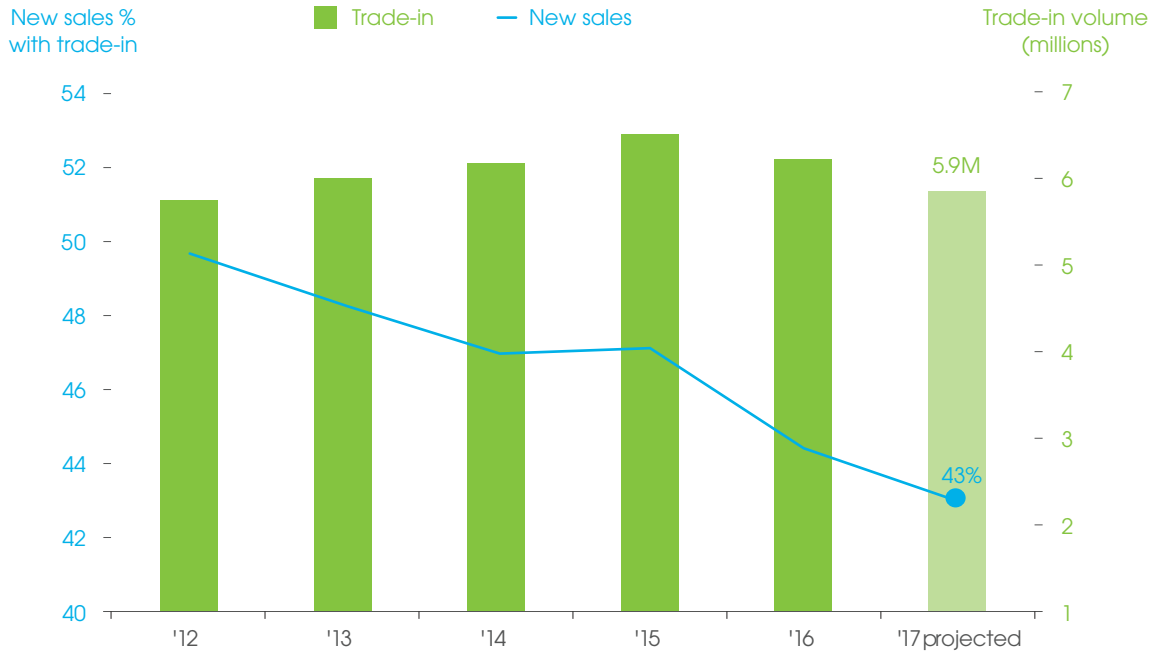


Longer loans, lower APRs

The financed amount for used vehicles grew last year. But reduced interest rates helped mitigate consumer costs. While new car loans and leases often get subvented interest rates, the used car market has its own low-interest deals: some CPO vehicles qualify for captive backed low-interest loans.

forecast for 2017

Older used vehicle shortage



2017 used market: more near-new, fewer older vehicles

New car buyers traded in vehicles less in 2016. For 2017, we expect more of the same. Add the likely new vehicle sales dip, and trade-ins could slip below 6M units for the first time since 2012—lowering older used inventory. But the volume of near-new used vehicles should rise due to the 10.6% uptick in leasing back in 2014.

Leasing rate and volume



questions?

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