

As the COVID-19 situation continues to develop, J.D. Power Valuation Services is committed to supporting our industry through this unprecedented time.

What follows are our insights through the week ending May 24.

## **The Takeaways**

- New vehicle sales recovery remains on pause, with sales down 25% from pre-virus expectations for the last three weeks.
- Wholesale auction activity is closing in on pre-virus levels despite the lack of widespread in-lane bidding. Auction sales exceeded 91,000 units, just 11% below pre-virus expectations.
- Wholesale auction prices are within striking distance of pre-virus expectations. Prices rose 2.3 percentage points to mark the fifth week in a row of meaningful growth. Prices are now down just 2% versus our pre-virus forecast.

## **New and Used Market Performances (Through the Week Ending May 24):**

### **New Vehicles: Retail Sales Recovery Remains on Pause**

For the week ending May 24, retail sales were 25% below the pre-virus forecast, similar to the performance in the weeks ending May 10 and May 17. These three weeks of similar performance follow a five-week stretch of sustained improvement. The retail sales pace was weakest during the week of March 29, when sales were 59% below the pre-virus forecast. Sales then improved at a rate of four to eight percentage points per week until the week ending May 10, when sales were down 23% from the pre-virus forecast.

There are several factors driving the current pause in recovery. These factors include, but are not limited to, new vehicle inventory constraints, the fact that many lessees haven't yet returned to market and mature buyers as well as subprime buyers remaining out of market. Additionally, a portion of new buyers are migrating to used vehicles.

Sales performance across the country remains mixed. For example, heavily virus impacted markets such as New York continue to recover, while others deteriorated week-over-week.

Average transaction prices declined for the third consecutive week during the week ending May 24, falling by approximately \$300 to an average of \$34,300 per unit. The week's variance was driven largely by changes in segment mix. Prices are normalizing as pickup segment mix falls back and smaller SUVs gain share. Incentives remain elevated and low interest loans for extended terms continue to be widely available. Industry average incentive spending per unit has been \$4,800 for the past three consecutive weeks.

Sales through week ending May 24 reached 670,000 units and May's retail sales outlook is forecast at 991,000 units. This represents a decline of 24% from pre-virus expectations, or a sales decline of 312,000 units.

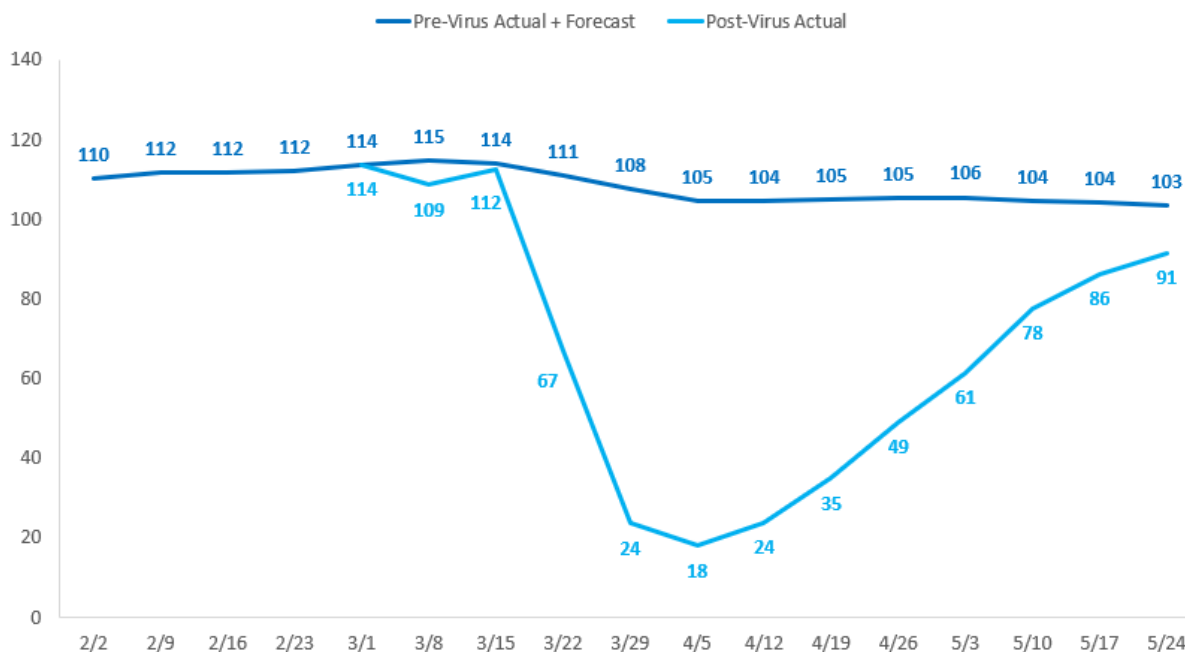
The virus is projected to remove 1,200,000 to 1,600,000 sales over the five months of March through July 2020. Full-year sales will be determined primarily by the extent to which normal business and social activities can resume, mitigation of economic conditions through government stimulus actions, inventory constraints, and OEM incentives. The full-year retail sales outlook is 11,400,000 to 12,400,000 sales versus a pre-virus baseline of 13.4 million sales, while the 2020 full-year outlook for total sales is 13,000,000 to 14,400,000 versus a pre-virus baseline of 16.8 million.

## Used Vehicles: Auction Sales Rise Once Again

Wholesale auction sales took another big step toward recovery the week ending May 24, rising 6% to a total of 91,000 units. The week's result was just 11% below our pre-virus estimate of 103,000 units for the week – especially impressive considering that most auctions across the country remain in digital-only mode.

Wholesale auction sales have totaled 534,000 units since mid-March, a decline of 609,000 units versus the same period in 2019 and a loss of 517,000 units versus our pre-virus expectations. While a substantial portion of the lost volume will make its way to auction due to deferred off-lease, off-rental, and delayed dealer wholesale sales, a meaningful share will not. This is due in large part to the fact that trade-in volume has been, and will continue to be, much lower than pre-virus levels because of lower new and used retail sales. As such, dealers will have fewer units to sell through wholesale auctions. Note that dealer wholesale sales (i.e., auction sales where the dealer is the seller) are typically biased toward vehicles that are older than three years old – or the cohort of more affordable vehicles that tend to increase in importance during times of economic distress.

### Weekly Wholesale Auction Sales (000s)



*Note: Vehicles up to 8 years old.*

Segment-level auction sales were up virtually across the board on a weekly basis last week, led by Midsize SUV, Midsize Van, and Small SUV where sales increased an average of 16%. In addition, certain segments were within 10 percentage points of pre-virus sales levels, including Midsize Pickup, Compact Premium SUV, and Midsize Premium SUV.

## Segment Auction Sales (000s)

	Segment	Week Ending					Weekly Change	
		4/26/2020	5/3/2020	5/10/2020	5/17/2020	5/24/2020	Δ 5/17 v. 5/24	
MAINSTREAM	Compact Car	7.0	8.5	10.4	11.2	11.6	+4%	
	Compact SUV	6.5	8.4	9.7	11.1	11.6	+5%	
	Large Car	1.8	2.1	2.8	2.8	3.0	+7%	
	Large Pickup - Light Duty	5.2	6.3	8.1	8.9	9.4	+6%	
	Large SUV	0.8	1.1	1.5	1.9	1.7	-7%	
	Midsize Car	7.4	8.9	11.0	11.9	12.3	+3%	
	Midsize Pickup	0.9	1.0	1.3	1.5	1.5	+3%	
	Midsize SUV	5.5	7.3	9.3	10.3	11.8	+14%	
	Midsize Van	1.4	1.8	2.2	2.3	2.7	+15%	
	Small Car	2.1	2.4	2.7	2.8	2.9	+5%	
	Small SUV	2.3	3.0	4.2	4.2	5.0	+18%	
PREMIUM	Compact Premium Car	1.5	2.1	2.8	3.2	3.2	-0%	
	Compact Premium SUV	0.7	0.9	1.5	1.9	1.9	-3%	
	Large Premium Car	0.2	0.2	0.2	0.3	0.4	+19%	
	Large Premium SUV	0.3	0.4	0.6	0.7	0.7	+1%	
	Midsize Premium Car	0.6	0.8	1.1	1.2	1.3	+3%	
	Midsize Premium SUV	1.3	1.7	2.3	3.0	3.0	-1%	
	Small Premium Car	0.2	0.4	0.5	0.5	0.6	+15%	
	Small Premium SUV	0.2	0.2	0.4	0.4	0.3	-21%	

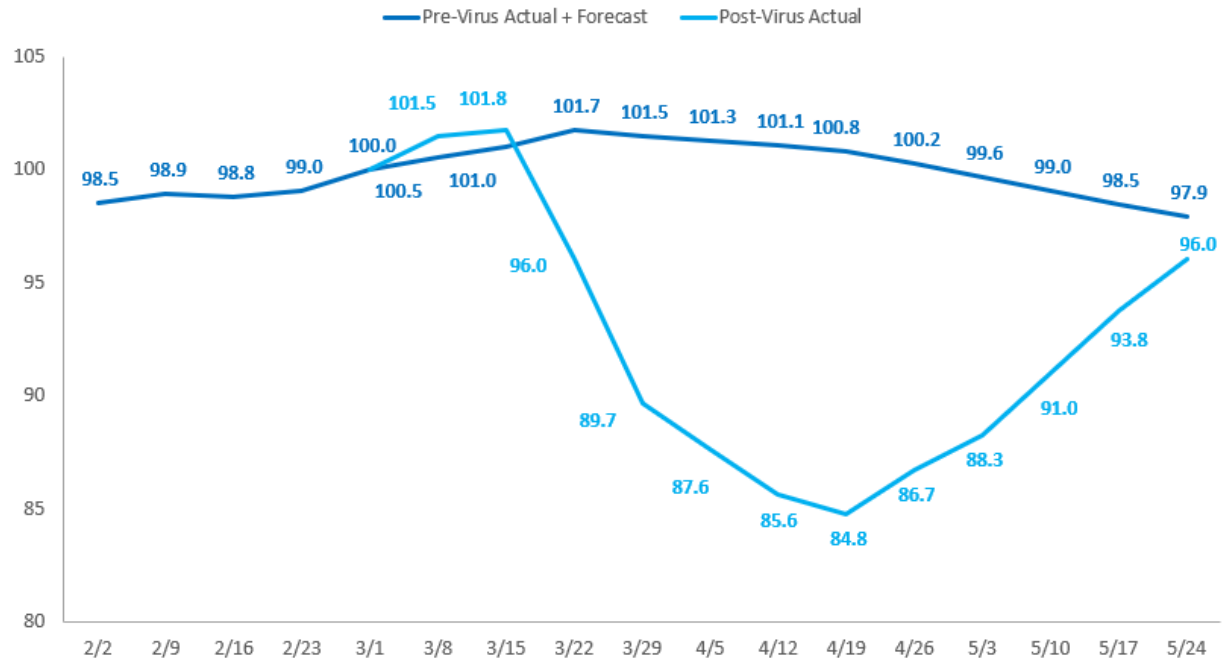
Note: Vehicles up to 8 years old.

## Wholesale Auction Prices are Within Striking Distance of Pre-Virus Expectations

Wholesale auction prices jumped another 2.3 percentage points the week ending May 24, placing prices 11.2 percentage points higher than they were five weeks ago. Prices are now less than 2% removed from our pre-virus expectations and are on par with levels recorded back in mid-March.

Thus far, wholesale auction prices have essentially performed as we have expected for many weeks now and are substantially stronger than many had projected. In fact, prices may surpass pre-virus expectations in the near-term as dealers replenish used vehicle inventory depleted by relatively robust used retail sales. That said, the road ahead is not without its challenges. While wholesale auction prices are rapidly approaching pre-virus expectations, prices will likely exhibit volatility moving forward as dealers replenish retail inventory, an influx of off-lease and off-rental units enter the market, and economic headwinds impact consumer demand. So, even though it would not be surprising to see prices outperform near-term, they will likely fall shortly thereafter due to the downward pressure associated with higher supply and high unemployment.

## Weekly Wholesale Auction Price Index



Note: Vehicles up to 8 years old. March 1 = 100.

## Segment Auction Prices (000s)

Segment		4/26/2020	5/3/2020	5/10/2020	5/17/2020	5/24/2020	Weekly Change Δ 5/17 v. 5/24
MAINSTREAM	Compact Car	\$7.0	\$7.2	\$7.5	\$7.8	\$8.0	+3%
	Compact SUV	\$11.7	\$11.9	\$12.1	\$12.5	\$12.8	+2%
	Large Car	\$11.3	\$11.8	\$12.1	\$12.6	\$12.9	+3%
	Large Pickup - Light Duty	\$19.6	\$20.0	\$20.5	\$21.2	\$21.8	+3%
	Large SUV	\$29.9	\$29.7	\$29.9	\$30.8	\$31.6	+2%
	Midsize Car	\$8.2	\$8.4	\$8.7	\$9.0	\$9.2	+2%
	Midsize Pickup	\$17.1	\$17.7	\$18.2	\$18.6	\$19.0	+2%
	Midsize SUV	\$15.2	\$15.5	\$15.9	\$16.3	\$16.7	+2%
	Midsize Van	\$11.4	\$11.5	\$11.9	\$12.1	\$12.4	+2%
	Small Car	\$5.1	\$5.2	\$5.4	\$5.7	\$5.9	+4%
PREMIUM	Small SUV	\$10.3	\$10.5	\$11.0	\$11.3	\$11.5	+2%
	Compact Premium Car	\$14.3	\$14.7	\$15.0	\$15.3	\$15.5	+1%
	Compact Premium SUV	\$18.5	\$18.8	\$19.0	\$19.1	\$19.3	+1%
	Large Premium Car	\$26.7	\$27.6	\$28.4	\$29.2	\$29.7	+2%
	Large Premium SUV	\$31.4	\$31.6	\$32.0	\$33.2	\$33.4	+1%
	Midsize Premium Car	\$17.7	\$18.3	\$18.7	\$19.0	\$19.4	+2%
	Midsize Premium SUV	\$21.3	\$21.6	\$21.7	\$22.2	\$22.4	+1%
	Small Premium Car	\$11.6	\$11.5	\$11.7	\$11.9	\$11.9	+0%
	Small Premium SUV	\$15.5	\$15.6	\$15.7	\$16.2	\$16.7	+3%

Note: Vehicles up to 8 years old.

Segment level price performances improved across the board yet again last week. Mainstream segment prices grew an average of 3% versus the week prior, while premium prices increased a lesser 1%. Small Car prices grew most at 4%, while prices for a number of segments jump 3%, including Compact Car and Large Pickup. Small Premium SUV prices jumped 3% as well, but on very light volume.

Light Duty Large Pickup prices closed the week nearly 2% above pre-virus levels, which reflects strong consumer and dealer demand, especially in markets where new vehicle inventory has been depleted due to aggressive new vehicle incentives. Midsize Pickup and Midsize Premium Car prices are also over pre-virus levels (by an average of 2%).

## **Used Retail Sales and Prices Continue to Perform Well**

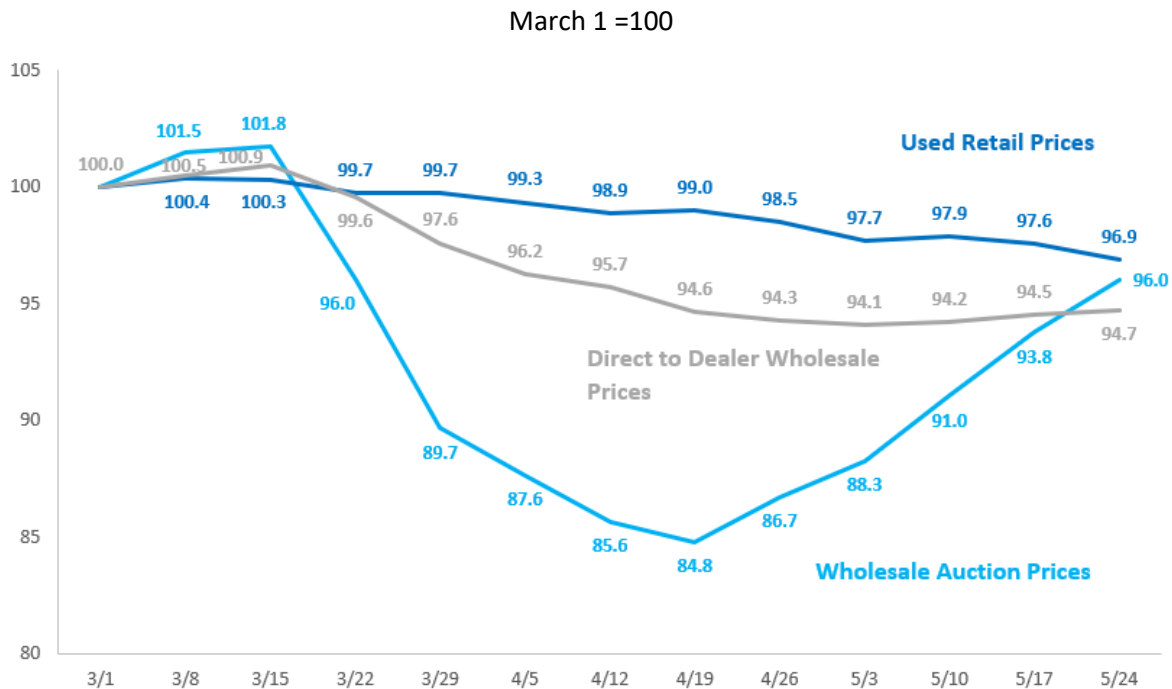
Per J.D. Power's Power Information Network (PIN) data, used retail sales are recovering more quickly than new vehicle sales. For the week ending May 24, used retail sales for the week were just 10% below pre-virus expectations, compared to 25% below expectations for new vehicles.

As far as retail prices are concerned, they continue to follow trends that are fairly normal for the time of year. Used retail prices fell less than 1 percentage point on a weekly basis the week ending May 24, and are down just 3 percentage points versus the beginning of March.

The takeaway – throughout March, April and early May, dealers have been selling down used vehicle inventory at retail while they have not been adding to inventory via wholesale auction purchases at the same pace. As such, they are increasingly turning to physical auction to fill inventory gaps created over the past several weeks (which is driving wholesale auction prices up as described earlier).

Direct to dealer prices continue to exhibit stability with prices essentially unchanged for the fifth consecutive week.

## Weekly Used Retail, Direct to Dealer Wholesale, and Wholesale Auction Price Indices



*Notes: Wholesale auction sales include simulcast and physical auction sales. Direct to dealer wholesale sales occur "upstream" or outside of a physical auction sale. Data covers vehicles up to 8 years in age. Figures are mix-adjusted.*

### Used Vehicle Price Outlook Improves

With five weeks of consistent improvement behind us, the used market appears to be on a clear path to recovery. While hurdles remain, we believe the strength observed in used retail and wholesale prices warrant a positive adjustment to our full year used price outlook. Specifically, we now expect prices to finish the year down 2% to 5% on a full year basis versus 2019, a slight improvement over the 3% to 5% reduction expected previously. In addition, we believe that prices will be somewhat better than expected over the first part of June as dealers continue restocking inventory and pent-up demand is released. Prices are then expected to soften once again through July due to increased supply entering the market due to rental fleet right sizing and off-lease returns and pressures associated with high unemployment.

As should be expected, given the highly uncertain nature of the COVID-19 pandemic, this forecast is subject to change in the coming weeks.

## Supplemental Weekly Valuation Updates

Valuation Services continues to provide weekly updates to our monthly values to ensure our clients have the most the up-to-date information needed to make sound business decisions in these uncertain times. For more information regarding our weekly values updates, methodology, or any other questions please visit [www.nada.com/b2b](http://www.nada.com/b2b). Please feel free to call us at 800-544-6232 Monday through Friday 8:30 a.m.-6 p.m. EDT or email us with your questions any time.

Thank you,

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