

A small victory: Used-car prices slip from dizzy heights

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Jessica Pitts sits behind the wheel of a 2019 Lincoln MKC on the lot of Jack Demmer Lincoln in Dearborn, Mich., on Monday, July 19, 2021. Pitts bought the used car at the dealership. A seemingly endless streak of skyrocketing used vehicle prices is finally coming to a close in the U.S., according to the latest data Credit: AP Photo/Mike Householder

For months, anyone who wandered onto a dealer lot to look for a used car could be forgiven for doing a double take—and then wandering right off the lot.

Prices had rocketed more than 40% from their levels just before the viral pandemic struck, to an average of nearly \$25,000. The supply of vehicles had shrunk. And any hope of negotiating on price? Good luck with that.

But now, a sliver of hope has emerged. The seemingly endless streak of skyrocketing used-vehicle prices appears to be coming to a close.

Not that anyone should expect bargains. Though average wholesale prices that dealers pay are gradually dropping, they'll likely remain near record levels. So will the retail prices for consumers. Supply remains tight. And while demand has eased a bit, a steady flow of buyers could keep prices unusually high for a couple of years more.

"It's a short-term correction," suggested Paul Sugars, sales manager for pre-owned vehicles at Jack Demmer Lincoln in Dearborn, Michigan. "Buyers are sitting on the fence, waiting to see what happens."

Sugars should know. As internet and foot traffic at his dealership fell in the past few weeks, he began to cut prices on some of the 70 used vehicles on his lot. Now, he says, buyers are starting to return.

One of them is Jessica Pitts of Detroit, who began shopping for a used vehicle last year after her car broke down. But as prices roared ever higher, Pitts delayed her purchase. Recently, though, after Sugars cut the price of a red Lincoln MKC she had been watching, Pitts took notice.

"That's what brought it back to my attention," she said. "The price had come down a little."

The red compact SUV, with 58,000 miles on it, cost Pitts roughly \$27,500, down just a little from \$28,000.

The return of buyers like Pitts has led experts to suggest that demand will be high enough to keep used-vehicle prices from falling significantly. One reason is that supply is still low. According to Cox Automotive, dealers last month had only enough vehicles to meet demand for 34 days—11 days fewer than in the same month in 2019, the last year that was considered normal for used vehicle sales.

Few think the slight easing of used-car prices heralds any slowdown or reversal in overall inflation across the economy. With the notable exception of lumber prices, which initially skyrocketed only to fall back to earth, many goods, components and services—from semiconductors and gasoline to clothing, restaurant meals and household furnishings—have grown increasingly expensive. So have labor costs, as worker shortages in many industries have led employers to raise pay.

Still, the Federal Reserve under Chair Jerome Powell foresees inflation eventually easing after supply shortages are resolved. Bond investors appear to agree. The yield on the benchmark 10-year Treasury note, which generally reflects the outlook for inflation, has declined in recent weeks in a sign that investors remain more concerned about the prospect of an economic slowdown than about surging inflation.

Until the pandemic flattened the economy in March 2020 and shrank the supply of both new and used vehicles, average wholesale used vehicle prices paid by dealers rose only a little every year. Average prices briefly fell in April last year, only to soar over 60% to a peak in May this year, according to data kept by Manheim, a group of auction houses where dealers buy vehicles.

Any decline, however slight, would represent welcome relief for buyers.

In June, the average retail list price of a used vehicle was just short of \$25,000, a record. Prices rose so high that some 2-year-old used vehicles were, counter-intuitively, selling for more than the sticker price when they were new.



Paul Sugars, pre-owned sales manager, works on his computer at Jack Demmer Lincoln in Dearborn, Mich., on Monday, July 19, 2021. A seemingly endless streak of skyrocketing used vehicle prices is finally coming to a close in the U.S., according to the latest data Credit: AP Photo/Mike Householder

Low-income buyers have been especially hurt. Anyone who was

compelled to buy a used car to commute to work was often limited to vehicles with 100,000 miles or more. Yet the average price of even those vehicles jumped 31% in the past year—to \$16,489—according to Edmunds.com. Buying a car—any car—became out of reach for many.

Some of the price increases were fueled by government stimulus payments that arrived in March, when a qualifying family of four could receive \$5,600. Retail prices for used vehicles surged so high that in April, May and June, they accounted for about one-third of the entire increase in the U.S. consumer price index. In June, used prices rose a record 10.5%, helping to drive inflation to 5.4% compared with the same month a year earlier. That was the highest such increase since 2008.

By late June and into July, used-vehicle shoppers had seen enough. Many decided to wait for the craziness to end, and their pullback caused wholesale prices to decline slightly. Dealers feared they had paid too much for vehicles on their lots. Some started cutting prices.

"The frenzy is over, so inventory is starting to build a little bit," said Michelle Krebs, an analyst for Cox Automotive. "Typically, used-vehicle prices drop after tax refunds, stimulus checks."

Alex Yurchenko, senior vice president of data for Black Book, which monitors vehicle costs, expects prices to decline a bit more but to remain well above 2019 levels for a couple more years. Eventually, he suggests, prices will fall further as supply catches up to demand.

Jonathan Smoke, chief economist of Cox Automotive, cautions against expecting a drop back to pre-pandemic used-car prices.

"That," he said, "would require a major decline in demand and a simultaneous expansion in supply. Neither are likely to happen."

The whole crazy price cycle began with the eruption of the pandemic, when many states issued stay-at-home orders. Prices plummeted, and automakers shuttered factories for eight weeks. The resulting decline in supply came just as many cooped-up consumers wanted a new or used vehicle to commute to work or to take road trips without coming in contact with others.

While the auto plants were shut down in April and May last year, computer chip makers shifted production to satisfy wild demand for laptops, gaming devices and tablets. That created a shortage of automotive-grade chips, which remains an acute problem that might not be resolved until next year.

With new-car inventory slipping and demand high, the resulting jump in prices for new vehicles sent many buyers into the used market. Their demand reduced supply and drove up used-vehicle prices, too.

Some new-vehicle dealers have run out of best-selling models of pickup trucks and large SUVs. For some models, there are only enough vehicles on dealer lots to satisfy eight days of consumer demand. Manufacturers prefer to keep 60 days on hand to provide a good selection.

Ernie Garcia, CEO of used vehicle upstart Carvana, said too many variables make it impossible to predict where used-vehicle prices will go from here. They could fall if the chip shortage and other supply-chain bottlenecks are resolved and new-vehicle prices ease. But they could shoot back up, too, under certain circumstances.

"It'll be hard for car prices to return all the way to normal until we have normalization in the supply chain of auto manufacturers," Garcia said.

Everyone who predicted auto prices over the past year, he said, "has been wrong in pretty short order."

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