

New or used? Either way, price hikes squeeze US auto buyers

February 23 2021, by Tom Krisher and Mike Householder



In this image made from video, cars drive through the used vehicle lot at a LaFontaine auto dealership in Fenton Township, Mich., Thursday, Jan. 28, 2021. A chain reaction touched off by the coronavirus pandemic has pushed new-vehicle prices to record highs and dramatically driven up the cost of used ones. (AP Photo/Mike Householder)

The viral pandemic has triggered a cascade of price hikes throughout America's auto industry—a surge that has made both new and used

vehicles unaffordable for many.

Prices of new vehicles far outpaced overall consumer inflation over the past year. In response, many buyers who were priced out of that market turned to used vehicles. Yet their demand proved so potent that used-[vehicle](#) prices soared even more than new ones did.

The price of an average new vehicle jumped 6% between January of last year, before the coronavirus erupted in the United States, and December to a record \$40,578, according to data from Edmunds.com.

Yet that increase was nothing next to what happened in the used market. The average price of a used vehicle surged nearly 14%—roughly 10 times the rate of inflation—to over \$23,000. It was among the fastest such increases in decades, said Ivan Drury, a senior manager of insights for Edmunds.com.

The main reason for the exploding prices is a simple one of economics: Too few vehicles available for sale during the pandemic and too many buyers. The price hikes come at a terrible time for buyers, many of whom are struggling financially or looking for vehicles to avoid public transit or ride hailing because the virus. And dealers and analysts say the elevated prices could endure or rise even further for months or years, with new vehicle inventories tight and fewer trade-ins coming onto dealers' lots.

The supply shortage arose last spring after the coronavirus hit hard. Automakers had to shut down North American factories to try to stop the virus' spread. The factory shutdowns reduced the industry's sales of new vehicles and resulted in fewer trade-ins. So when buyer demand picked up late in the year, fewer used vehicles were available.

Compounding the shortage, rental car companies and other fleet

buyers—normally a major source of used vehicles for dealers—have been selling fewer now. With travel down and fewer people renting cars, the fleet buyers aren't acquiring as many new vehicles, and so they aren't off-loading as many older ones.

"It's like a weird perpetual motion machine right now with pricing," said Jeff Goldberg, general manager of Goldie's Motors, a used vehicle dealership in Phoenix.

Charlie Chesbrough, senior economist for Cox Automotive, predicted a tight used-vehicle market with [high prices](#) for several more years.

"There are millions fewer used vehicles that are going to be available starting next year, 2022 and 2023," he said.

The resulting price spike essentially has created three classes of auto buyers: Those affluent enough to afford new vehicles. People who can afford late-model used cars. And buyers with low incomes or poor credit who are stuck with older, less reliable vehicles.



In this image made from video, a worker washes a Jeep inside the service department of a LaFontaine auto dealership in Fenton Township, Mich., Thursday, Jan. 28, 2021. A chain reaction touched off by the coronavirus pandemic has pushed new-vehicle prices to record highs and dramatically driven up the cost of used ones. (AP Photo/Mike Householder)

The industry is still trying to recover from the pandemic's devastation last spring. The resulting factory closures shrank output by 3.3 million vehicles. Sales temporarily dried up, and so did the influx of trade-ins.

Once the factories restored production in May, demand turned hot. Problem was, the supply of vehicles fell well short of demand, especially for pickup trucks and SUVs. Prices surged. And new-vehicle purchases for the year tumbled—by nearly 2.5 million to 14.6 million.

When Larry Parsons of Hartland Township, Michigan, went to buy a

pickup truck in August, the question of whether to buy new or used was unfortunately an easy one.

"We did look at new trucks, but the price is excessive," he said. "Some trucks cost upwards of \$70,000. It's to the point where it's ridiculous."

Instead, Parsons settled on a 2019 Ford F-150 with 29,000 miles on it. The truck, priced at \$52,000 when new, cost \$37,000. He also bought an 84-month warranty to cover the vehicle while he is still making loan payments.

To be sure, vehicle prices had been rising well before the pandemic struck, with many buyers choosing loaded-out trucks or SUVs and taking on loans of six years or more to keep their payments low. Even so, used prices had remained relatively low, with an ample supply of 3 million-plus vehicles returning to the market each year from leases.

Then the virus hit. With it came government stimulus checks, which many buyers who used as down payments. Because they weren't spending on restaurants or vacations, some people spent even more on vehicles than they otherwise would have.

"If I'm going in at \$40,000, I might as well spend \$45,000," Drury said of buyers. "I might as well treat myself."

Even with loans of more than 60 months, average monthly payments range into the mid-\$500s for new vehicles, putting them out of reach for many. Right now, said Chesbrough, the Cox Automotive economist, the bulk of the growth in the new-vehicle market is in the \$50,000-and-above range.

In recent years, automakers had set the stage for higher prices by scrubbing many lower-priced new vehicles that had only thin profit

margins. Starting five years ago, Ford, GM and Fiat Chrysler (now Stellantis) stopped selling many sedans and hatchbacks in the United States. Likewise, Honda and Toyota have canceled U.S. sales of lower-priced subcompacts. Their SUV replacements have higher sticker prices.

"The industry has been abandoning that \$30,000-and-below price point," Chesbrough said. "Essentially, they've been forgoing that territory to the used car market."



Larry Parsons, who bought a used pickup truck last year in part due to the high cost of new trucks, sits inside his Ford F-150 in Livonia, Mich., Tuesday, Feb. 16, 2021. A chain reaction touched off by the coronavirus pandemic has pushed new-vehicle prices to record highs and dramatically driven up the cost of used ones. (AP Photo/Mike Householder)

The increased demand and higher prices for late-model used cars have spelled trouble for lower-income buyers, noted Art Ramos, who runs a used-vehicle store in McAllen, Texas, near the Mexico border.

Unemployed people who were receiving jobless aid during the pandemic have had trouble securing a loan. Those who can buy typically have to look at much older vehicles with significant miles on them.

"All the people who were unemployed for all these months—I couldn't get them approved," he said.

When lower-income buyers are able to get loans, they typically must pay higher rates—sometimes over 20% with some lenders, Ramos said.

Yet because many buyers have no other options, older vehicles with more than 100,000 miles on them are in high demand now, said Ryan LaFontaine, CEO of a 20-dealer chain in Michigan that includes two used-only stores.

In the past, dealers wouldn't have bothered with those trade-ins; they would have sent them to regional auction houses. But auto quality has sharply improved in the past decade. So LaFontaine's group is reconditioning such cars and providing credit counseling for buyers with lower incomes or poor credit.

"Every year, we increase our ability to cost-effectively recondition

vehicles that we can present to consumers and stand behind it," said Mike Jackson, CEO of AutoNation, the country's largest dealership group.

Dealers say competition for used vehicles, especially from upstart online auto sellers Carvana and Vroom, contributed to the price increases with bidding wars at auctions. Still, Jackson argues that autos remain affordable because consumers are typically receiving more money for their trade-ins. Interest rates remain low, too. New-vehicle loan rates not subsidized by automakers are averaging 4.4%, according to Edmunds, while used loans average 7.8%.

Average prices did subside a bit in January. But that might be deceptive, said Edmunds' Drury. Fewer expensive new and used luxury vehicles were sold during the month, he said, thereby temporarily lowering overall prices.

Those on the front lines says competition for vehicles is intensifying as dealers stock up for buyers who may soon receive additional government stimulus checks and income tax refunds.

In the meantime, a global shortage of computer chips for vehicles is forcing automakers to reduce production. The chip shortage could potentially diminish the supply of vehicles once again, which, in turn, would likely send new and used prices up further.

Unaffordable [prices](#) might open the door to a company that could profit on low-priced new cars with just basic features. That, Chesbrough notes, is what the Korean automaker Hyundai did to enter the U.S. market decades ago.

"I do think the industry does make itself kind of vulnerable," he said.

© 2021 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed without permission.

Citation: New or used? Either way, price hikes squeeze US auto buyers (2021, February 23)
retrieved 26 April 2024 from <https://techxplore.com/news/2021-02-price-hikes-auto-buyers.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.