

The Takeaways

- Wholesale Activity has Slowed Significantly, W/W Volume Declined 52%
- Used Prices are Eroding, W/W Prices Were Reduced 5%
- Annual Used Price Expectations Worsen, Y/Y Prices Forecast to Decline by 2% to 10%

What will be the approach used by J.D. Power when it comes to future valuation adjustments? In a word, prudent.

The COVID-19 pandemic that is severely disrupting new- and used-vehicle operations. Social distancing measures have severely curtailed activity at dealerships and wholesale auctions across the country, while state and local stay-at-home mandates have brought operations to a virtual halt. These are unprecedented disruptions.

While there will be a significant increase in volatility for sale prices and volume of used vehicles, we are committed to providing valuation updates that are based on sound supply and demand fundamentals rather than unreasonable swings in pricing or volume dictated by short-term responses to COVID-19.

New and Used Market Performances (Through the Week Ending March 22):

New Vehicles

The J.D. Power pre-virus forecast for March 2020 was 1.48 million total sales and 1.12 million retail sales, declines of 0.5% and 1.7% respectively from March 2019. Through March 22, 543,000 retail sales have occurred, a decline of 129,000 units or 19% vs. the pre-virus forecast.

New retail sales have deteriorated rapidly over the past three weeks, falling 1%, 15%, and 35% on a weekly basis beginning with March 8. It is important to note that many stay-at-home orders were only recently enacted, the effects of which are not reflected in March 22 results.

Prior to the escalation of the COVID-19 virus in the U.S., J.D. Power expected 16.8 million new-vehicle sales and 13.4 million retail sales in 2020, which were declines of 1.9% and 2.6%, respectively, from 2019. Current expectations are that the virus will remove 1.8 to 2.8 million sales over the five months of March-July. Our current full-year projections for total new sales range from 13.3 to 14.8 million units (a decline of 21% to 12%).

Key variables dictating the severity of the sales loss are the length and duration of consumer and business restrictions. As restrictions are removed, sales will be driven by economic conditions and the effect of government and manufacturer stimulus actions. There is likely to be significant pent-up demand that will be released in May or June, but the net effect will be mitigated by a general reduction of demand due to economic conditions.

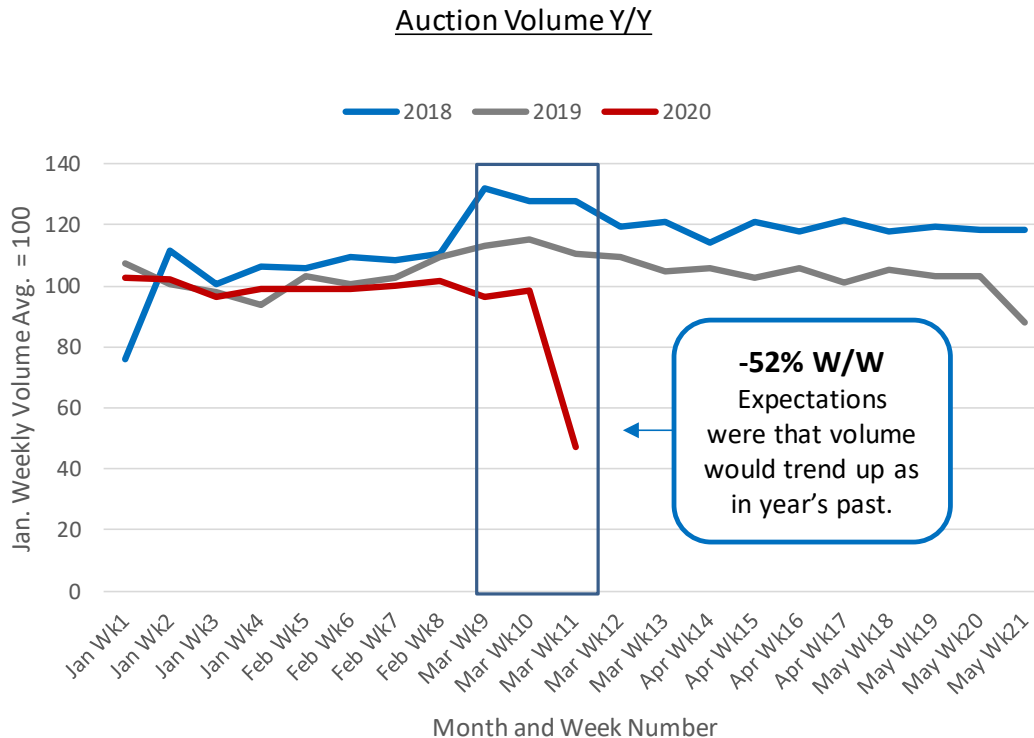
Used Vehicles

Wholesale activity eroded significantly the week ending March 22. Manheim and ADESA, the country’s two largest wholesale auction houses, announced the week of March 16 that all sales would be converted to simulcast only. ADESA ultimately made the decision to suspend all physical and simulcast sales as of March 20 and to run in “minimum essential operations status” until at least April 3. Compounding matters, all auctions in states that have mandated the closing of nonessential businesses (e.g., California, the second biggest state for auction sales) are effectively closed.

Manheim announced March 23 that all auctions will continue running simulcast-only sales as local ordinances permit, but it was closing all lots to buyers and sellers through April 3. In addition, sellers are no longer allowed to represent vehicles on-site.

It is important to note that digital marketplaces for both Manheim and ADESA remain open and active. Independent auctions are experiencing similar disruptions in stay-at-home states and are also heavily utilizing digital solutions. Looking ahead, the additional restrictions placed on auction operations at the end of last week and early the week of March 23 mean that auction activity in subsequent weeks will be curtailed even further.

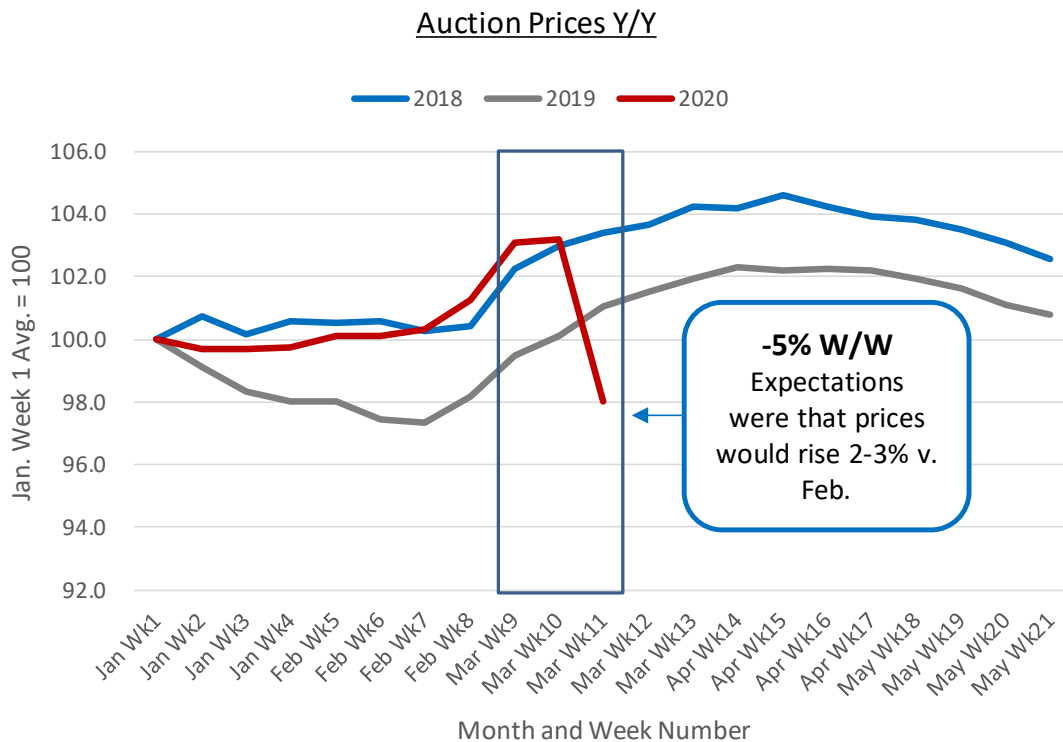
Regarding wholesale activity, wholesale auction volume (simulcast and physical sales) was relatively stable over the first two weeks of March, with volume down by 3% vs. the prior two-week average. Last week, however, auction volume declined 52% as auction companies escalated operational adjustments.



Declines at the state level were largely similar to the national average. Volume in California was down 53% vs. the second week of March, while volume in Florida, Pennsylvania and Texas fell between 49%-56%. These four states account for the lion's share of wholesale auction volume activity. Hard-hit areas such as New York and the Pacific Northwest experienced declines of 78% and 59%, respectively.

Across seller types, dealer sales volume was down most last week, dropping 63%. Fleet and lease volume (i.e., units sold by captive finance companies, rental/fleet companies and manufacturers remarketing rental program vehicles), was down by an average of 41% vs. the prior week.

Used prices typically rise through the first quarter as consumer demand strengthens along with the receipt of federal tax refunds. This year was not much different as prices were up by an average of 3% through the two weeks of March vs. January. Prices took a negative turn the week ending March 22, however, dropping by 5% vs. the week prior. (Note that underlying data has been adjusted for changes in mix.)



Last week's 5% drop in wholesale prices was the biggest one-week decline recorded since at least January 2000. While prices moved lower for all segments, car prices fell most, dropping by an average of ~6%. Truck and SUV losses averaged a 4% decline.

Segment Auction Prices (000s)

	Segment	Week Ending			Δ W/W
		3/8/2020	3/15/2020	3/22/2020	
Mainstream	Compact Car	\$9.8	\$9.8	\$9.1	-7%
	Compact SUV	\$15.3	\$15.4	\$14.7	-5%
	Large Car	\$15.3	\$15.4	\$14.7	-5%
	Large Pickup - Light Duty	\$24.3	\$24.4	\$23.6	-3%
	Large SUV	\$33.8	\$33.9	\$33.1	-2%
	Midsize Car	\$11.6	\$11.5	\$10.8	-6%
	Midsize Pickup	\$21.1	\$21.3	\$20.7	-3%
	Midsize SUV	\$18.9	\$18.9	\$18.2	-4%
	Midsize Van	\$15.8	\$15.8	\$15.1	-4%
	Small Car	\$7.7	\$7.7	\$7.2	-7%
Premium	Compact Premium Car	\$16.1	\$16.1	\$15.3	-5%
	Compact Premium SUV	\$20.8	\$20.9	\$20.0	-5%
	Large Premium Car	\$29.1	\$29.9	\$29.0	-3%
	Large Premium SUV	\$36.9	\$36.6	\$35.5	-3%
	Midsize Premium Car	\$20.2	\$20.3	\$19.5	-4%
	Small Premium Car	\$14.9	\$15.1	\$13.7	-9%
	Small Premium SUV	\$17.7	\$17.8	\$16.9	-5%

Bucking economic fundamentals, the market witnessed a sharp decline in prices along with a precipitous decline in supply. We expect this to likely worsen during the next two months as both demand and supply will continue to have downward pressure from COVID-19 policies and economic changes. J.D. Power Valuation Services will be addressing these abnormal market conditions by establishing values using statistical methods that utilize historical depreciation trends and statistical modeling to smooth out some of the short-term effects while also reflecting the realities of the current market.

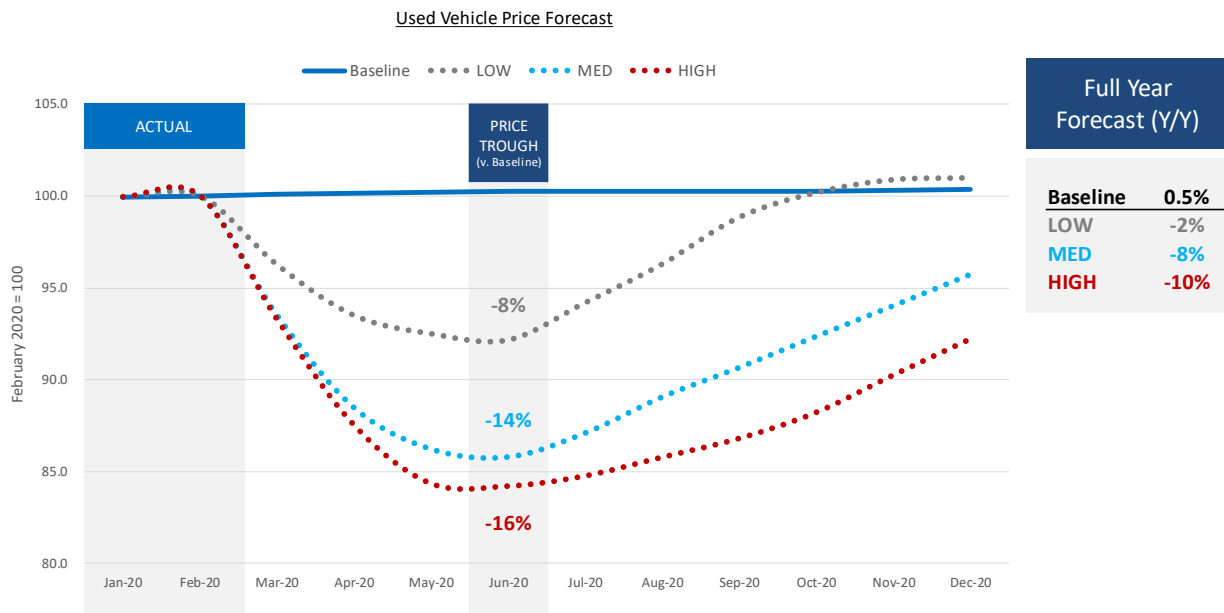
As far as used retail sales are concerned, used sales at franchise dealers fell 38% on a weekly basis last week. Used retail prices held up better than wholesale prices, dropping just 2%.

Used Price Outlook

Used-vehicle prices had been on a pre-virus rise, increasing by an annual average of 2% in 2018-19 and growing an additional 3% year over year through February. COVID-19 will change this trajectory, particularly near term.

J.D. Power has created low/medium/high used price impact scenarios reflecting various supply and demand disruptions. Each scenario is based on effects of employment, oil prices and household net worth/expectations of future income. The low-impact scenario assumes a relatively quick recovery following a sharp economic downturn in Q2 '20, while the high-impact scenario assumes a much longer recovery well into 2021 following a deep recession and very gradual improvement in employment. The medium-impact scenario assumes a brief recession near-term followed by a recovery later in 2020 and into 2021.

Pre-virus, our full-year estimate for used prices was that they would be flat to up ~1% vs. 2019. Our current full-year projections now point to prices falling 2% (low scenario) to 10% (high scenario) compared with 2019.



Approach to Valuations Moving Forward

As last week's retail and wholesale auction results indicate, prices can—and likely will—experience substantial volatility over the next several weeks, and maybe longer. Our low/medium/high used price scenarios point to declines ranging from ~8% to ~16% peak-to-trough (trough being in the May/June 2020 time period) vs. our baseline expectations before beginning to recover.

Given that declines would largely be due to temporary factors (i.e., the virtual cessation of wholesale and retail activity), we believe that it is more judicious and responsible to take a somewhat conservative approach to value adjustments. This mindset will guide our approach near-term, or until we have more definitive justification to adopt a different one.

While we have already released used vehicle values for April 2020, we will be providing revised Official Used Car Guide values on April 1. The market is changing rapidly, and we are working hard to provide the information necessary to help our customers make sound business decisions in these uncertain times.

In addition to revised April values, Valuation Services is implementing supplemental weekly value updates. These supplemental weekly values will be available beginning the third week of April and will continue to be produced through the entirety of the situation.

As we continue to support each other, we at J.D. Power stand firm in our commitment to ensure our customers have access to powerful data and valuable insights to help them make the right decisions for their businesses. Please feel free to contact us at [800-544-6232](tel:800-544-6232) Monday through Friday 8:30 a.m.-6 p.m. EDT or email us with any questions you have.

Thank you,

J.D. Power Valuation Services Team

Jonathan Banks

jonathan.banks@jdpa.com

Larry Dixon

larry.dixon@jdpa.com

David Paris

david.paris@jdpa.com