

As the COVID-19 situation continues to develop, J.D. Power Valuation Services is committed to supporting our industry through this unprecedented time. We will be releasing more frequent valuation updates and establishing values based on statistically derived depreciation trends exhibited in a normal functioning market while also reflecting a portion of what is occurring in the current market. What follows are our insights through the week ending March 29.

The Takeaways

- As expected, wholesale used vehicle activity virtually halted during the week ending March 29 as wholesale sales nosedived 72%. Wholesale prices fell more than 6% - the largest one-week drop on record.
- Versus March 2019, wholesale sales volume tumbled 38% or 183,000 units this March, while used vehicle retail sales at franchise dealers fell 38%, or 420,000 units Y/Y.
- J.D. Power Valuation Services' revised April 2020 forecast has valuations dropping by an average of 2.4% versus March 2020. Values were essentially flat in the pre-COVID April 2020 release.

New and Used Market Performances (Through the Week Ending March 29):

Stay-at-Home Mandates Severely Impacting New Vehicle Sales

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 29, 667,000 retail sales have occurred, a decline of 325,000 units or 33% vs. the pre-virus forecast.

New retail sales deteriorated rapidly over the month, falling 1%, 15%, 36%, and 61% per week over the last four weeks. Weekly losses were highly correlated with escalating stay-at-home or "essential business" mandates. As of April 1, 39 states had enacted such mandates affecting 265 million people or 80% of the U.S. population. Compounding matters, 25 states have full or partial bans on automotive sales with many markets also closing dealership sales operations. Stay-at-home orders are being updated daily to allow dealers to complete online or no-contact sales. However, there are currently five states – Michigan, Pennsylvania, Washington, Kentucky, and Hawaii – that are not allowing even digital sales.

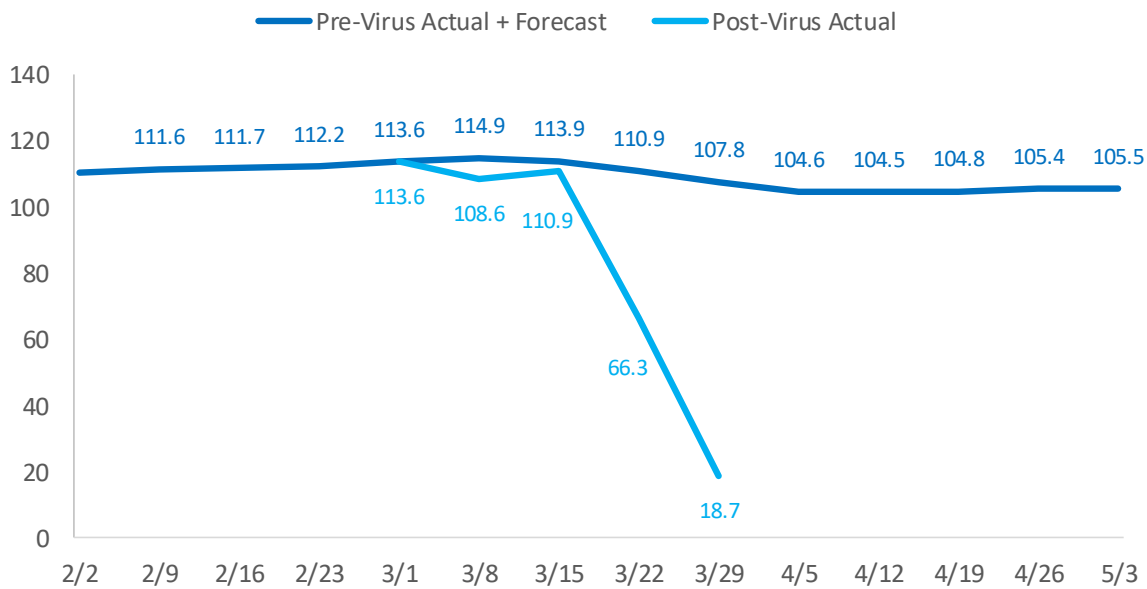
J.D. Power's March retail sales outlook calls for 697,000 units. This is a 37%, or 418,000 unit, decline from our pre-virus forecast. This also reflects a decrease of 43% or 528,000 units from March 2019's 1,225,000 retail sales total. Including fleet sales, total sales are expected to be 983,000 for the month, a decline of 623,000 units or 39% from March 2019.

The virus is projected to remove 1.6 to 2.4 million sales over the five months of March-July. Full year total sales projections range from 12.1 to 14.8 million units versus a pre-virus baseline of 16.8 million units. A key driver influencing the actual outcome is the duration and severity of stay-at-home regulations. As restrictions are removed, sales will be driven by economic conditions and the effect of government and manufacturer stimulus actions.

Suspension of Physical Auctions Resulting in Ripple Effect Across Used Market

Wholesale activity continues to be severely disrupted by stay-at-home orders, suspension of physical auction sales by all major auction houses, and the suspension of all non-digital sales through April 3 at ADESA auctions. Wholesale auction volume fell 72% the week ending March 29 versus the week prior. This follows a decline of 40% the week ending March 22. Compared to March 2019, volume is down 38% or 183,000 units.




















Weekly Wholesale Auction Volume (000s)



At the state level, auction activity ground to a halt in the hardest-hit areas last week. Volume declined by an average of 96% in California, New York, and Michigan. Sales in California fell to below 500 units, a far cry from the roughly 13,000 sales that occurred each week prior to the outbreak.

Volume was down to a lesser extent in Florida, Pennsylvania and Texas, dropping 60% on average. As of last week, the three states had yet to order state-wide stay at home mandates. That changed this week, however, as all three states have issued more stringent orders minimizing nonessential business activity. It is also important to note that this group of states is responsible for nearly a third of all wholesale sales.

Segment Auction Volume (000s)

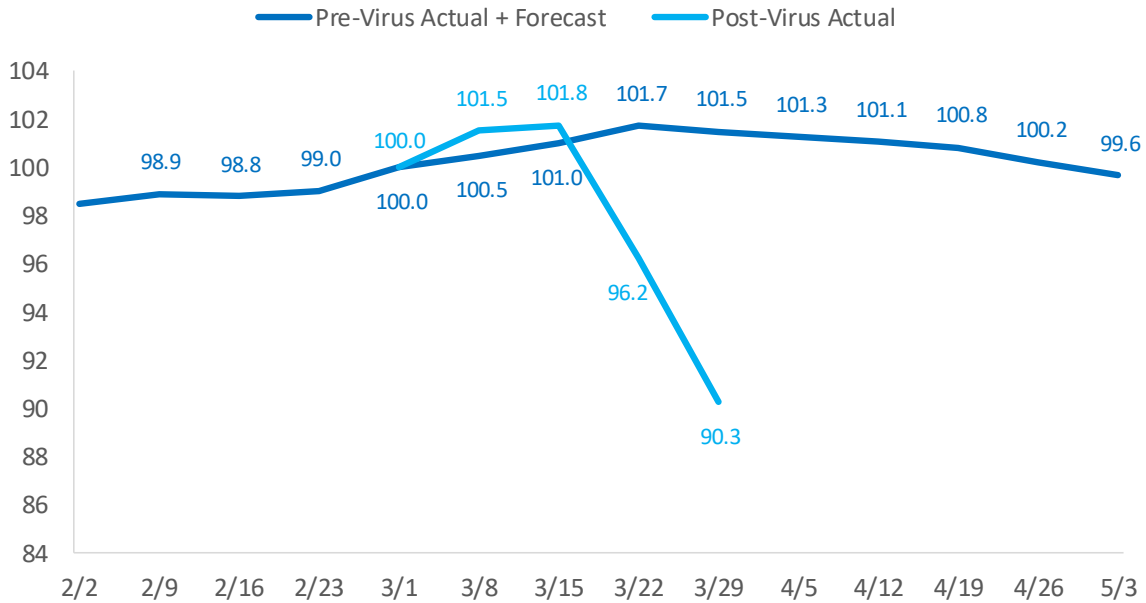
	Segment	Week Ending				Weekly Change	
		3/8/2020	3/15/2020	3/22/2020	3/29/2020	Δ 3/22 v. 3/29	
MAINSTREAM	Compact Car	15.4	15.8	9.7	2.8	-72%	
	Compact SUV	12.9	13.1	8.3	2.4	-71%	
	Large Car	3.5	3.6	2.3	0.7	-71%	
	Large Pickup - Light Duty	10.2	10.4	5.8	1.4	-75%	
	Large SUV	2.6	2.4	1.2	0.3	-78%	
	Midsize Car	15.8	16.0	10.2	2.9	-71%	
	Midsize Pickup	1.6	1.6	1.0	0.3	-68%	
	Midsize SUV	13.5	14.1	7.9	2.0	-74%	
	Midsize Van	3.0	3.3	2.0	0.6	-72%	
	Small Car	4.4	4.4	2.7	0.9	-67%	
Small SUV	5.6	6.0	3.7	1.0	-74%		
PREMIUM	Compact Premium Car	3.5	3.6	2.2	0.7	-69%	
	Compact Premium SUV	1.8	1.8	1.1	0.3	-69%	
	Large Premium Car	0.5	0.4	0.3	0.1	-61%	
	Large Premium SUV	1.0	0.9	0.5	0.1	-71%	
	Midsize Premium Car	1.8	1.7	0.9	0.3	-70%	
	Midsize Premium SUV	2.9	2.9	1.6	0.5	-68%	
	Small Premium Car	0.8	0.7	0.6	0.1	-84%	
	Small Premium SUV	0.5	0.5	0.3	0.1	-71%	

Weekly declines across segments were relatively consistent across the board, reflecting the overall industry average.

As stated in our 3.30.2020 report, 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 first two weeks of March vs. January. Prices took a negative turn the week ending March 22, dropping by 5% vs. the week prior (note that underlying data has been adjusted for changes in mix). Prices fell further last week, dropping more than 6% week-over-week.

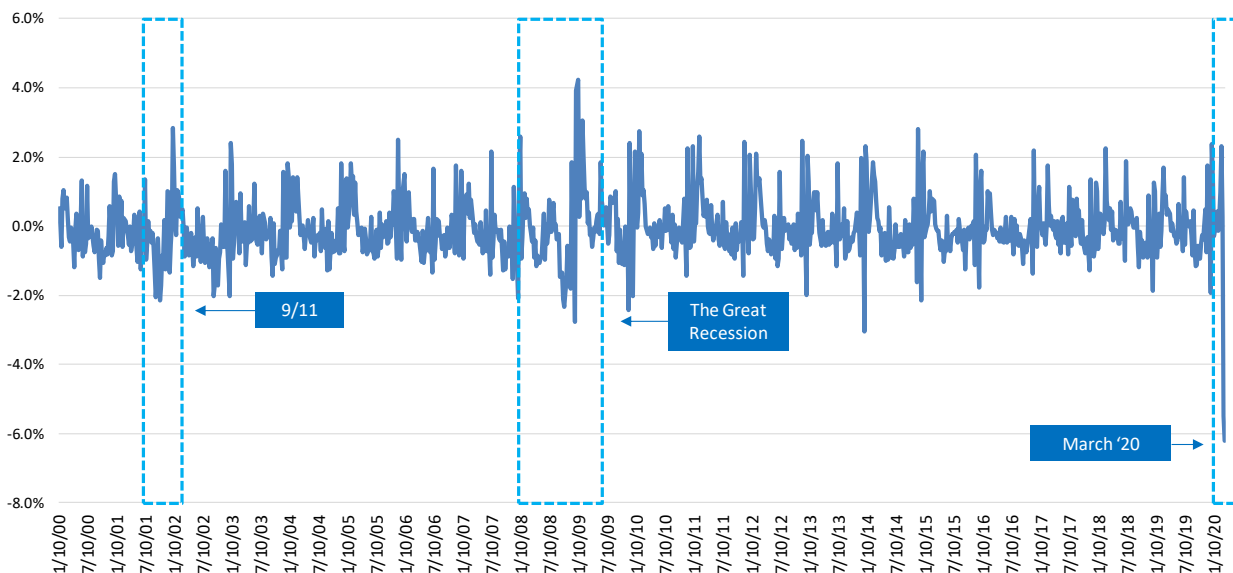
Weekly Wholesale Auction Price Index

(March 1 = 100)



Losses experienced over the past two weeks were by far the greatest on record, surpassing declines recorded in the wake of 9/11 and throughout the tumultuous Great Recession.

Weekly Change in Auction Prices (%)



Segment Auction Prices (000s)

	Segment	Week Ending				Weekly Change Δ 3/22 v. 3/29
		3/8/2020	3/15/2020	3/22/2020	3/29/2020	
MAINSTREAM	Compact Car	\$8.7	\$8.7	\$8.0	\$7.3	-9%
	Compact SUV	\$13.7	\$13.8	\$13.1	\$12.3	-6%
	Large Car	\$12.7	\$12.8	\$12.1	\$11.2	-7%
	Large Pickup - Light Duty	\$21.6	\$21.7	\$20.9	\$20.0	-4%
	Large SUV	\$32.0	\$32.0	\$30.9	\$29.6	-4%
	Midsize Car	\$10.0	\$10.0	\$9.3	\$8.5	-9%
	Midsize Pickup	\$19.2	\$19.4	\$18.6	\$17.4	-6%
	Midsize SUV	\$17.6	\$17.6	\$16.8	\$16.1	-5%
	Midsize Van	\$13.8	\$13.9	\$13.1	\$12.2	-7%
	Small Car	\$6.3	\$6.3	\$5.7	\$5.3	-7%
	Small SUV	\$12.1	\$12.2	\$11.6	\$10.8	-7%
PREMIUM	Compact Premium Car	\$16.2	\$16.3	\$15.4	\$14.6	-5%
	Compact Premium SUV	\$21.0	\$21.1	\$20.2	\$19.5	-3%
	Large Premium Car	\$29.4	\$30.2	\$28.9	\$28.3	-2%
	Large Premium SUV	\$35.3	\$35.0	\$33.9	\$32.8	-3%
	Midsize Premium Car	\$19.1	\$19.2	\$18.3	\$17.4	-5%
	Midsize Premium SUV	\$23.6	\$23.5	\$22.7	\$21.6	-5%
	Small Premium Car	\$13.8	\$14.0	\$12.9	\$12.4	-4%
	Small Premium SUV	\$17.2	\$17.4	\$16.5	\$15.6	-6%

At the segment level, compact and midsize car prices fell most in the industry (a similar result occurred the week prior). Large pickup prices held up relatively well, which is likely due to less stringent stay-at-home mandates in high truck demand states (Texas for example). Premium segment losses were generally less than mainstream declines. Note that premium vehicle demand, and thus prices, does not strengthen through a given first quarter as it does for mainstream vehicles. This relative lack of inflation pre-COVID is likely helping minimize premium segment losses to a small degree.

As far as used retail sales are concerned, used sales at franchise dealers fell nearly 40% on a weekly basis last week. Used retail prices on a mix adjusted basis declined by 0.5% and 0.8%, respectively, over the weeks ending March 22 and 29. In terms of absolute prices, retail prices increased by 4.6% the week of March 29, which indicates a more expensive mix of vehicles being sold.

Used profit margins are beginning to show signs of contraction, but results are not definitive. After being relatively stable over the first three weeks of March, margins slipped by 0.6-ppt last week to an average of 6.8%. Last week's figure is similar to levels recorded in January and February. Note that margin performance across major DMA's was mixed.

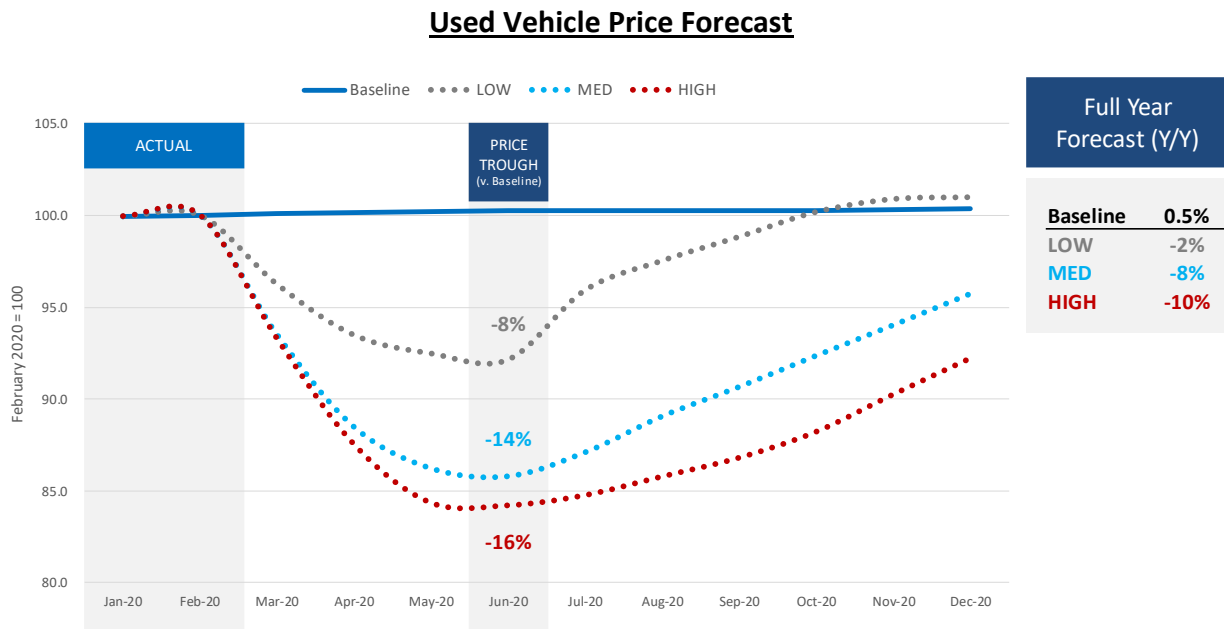
Market Recovery Expected to Begin in June

As mentioned in our 3.30.2020 report, the used vehicle market will continue to experience substantial volatility over the coming weeks. While future Used Car Guide valuations will reflect a portion of what is occurring, we have adopted a somewhat conservative approach to adjustments given that declines will be due to unprecedented temporary factors. This mindset will guide our approach near-term, or until we have more definitive justification for changing it.

In our initial April 2020 Used Car Guide release, valuation changes versus March 2020's edition were relatively subtle. This is consistent with both historical seasonal movement and our forecast expectations for April 2020 given market conditions pre-outbreak.

On March 30 we released updated Used Car Guide valuations for April 2020 to incorporate a portion of the movement expected over the month as a result of post-virus conditions. Specifically, valuations were reduced by an average of ~2.4% versus March 2020.

As communicated in our 3.30.2020 report, we have created low/medium/high used price impact scenarios reflecting various supply and demand disruptions (see "Used Vehicle Price Forecast" chart below). Given the conservative approach described earlier, April 2020's revision was based on our low impact scenario. It is important to note that evolving market conditions may lead to future adjustments that are more severe than what occurred for April's revision.



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 COVID-19 epidemic.

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 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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