As mentioned in the previous Ducker Automotive Whitepaper, the used car market was also suffering from numerous shortages and supply disruptions. In the absence of sufficient quantities of new vehicles, buyers were turning to the market for second-hand vehicles. As a result, used car prices reached new heights in late 2021 and early 2022, and the trade-in war became more intense. Low-mileage used cars were regularly priced above the new model MSRP, and dealers were increasingly buying older vehicles with higher mileage, which they used to sell to used car specialists and used car lots.

However, the used car bubble seems to have burst since the second quarter of 2022. New cars have been slowly becoming more widely available, as supply chain bottlenecks finally start to ease. According to Manheim, although the wholesale used vehicle prices increased 2.5% in January compared to December last year, it is now down 12.8% from a year ago. Another phenomenon is also driven by consumers buying out their leased vehicle as residual values were negotiated before the COVID situation pushed prices up. This leads transaction prices to move down.

(Source: Manheim, Cox Automotive)
Increasing inventory may contribute to the wholesale price drop. Normally, dealers have between 60 and 90 days of sales on their new vehicle fleet. During the pandemic, some were down to 3 or 4 days of stock, which means that all cars coming in were already allocated and sold. But now sales are completed around 40 days on average. Total automotive inventory increased to about 1.7 million units at the end of 2022, the highest level since May 2021 and up 160,000 units from the end of August, according to BofA Securities. The Cox used-vehicle inventory index shows a slight increase in Q3 2022 to 46, six points higher than the previous quarter and up 13 points year over year. On the new-vehicle side, while still historically low, the index also shows improvement from the third quarter as well as one year ago. Now at 53, the new-vehicle inventory index indicates more dealers feel their inventory is growing, not declining. Importantly, the index is above the 50 threshold for the first time since the onset of the pandemic.

Despite of the decreasing price, used car demand could soften due to inflation, weak consumer confidence and the concerns about a recession. CarMax reported a big earning miss in Q3 last year, as vehicle sales fell short of estimates. Potential buyers could be balking at some of the interest rates they’re getting on these loans. In many cases, above 7%. Other players in the market, such as Carvana, Auto Nation, Vroom, etc., are not doing better either. Worse, many companies have inventories of vehicles which acquisition prices are above the current market value. The unloading of these volumes is necessary to generate cash flow, but each vehicle sold could ultimately lead to a loss.

To make matters more complicated, the used car market is also impacted by another shortage - spare parts. In the past three years, limited supply and high prices made used car made dealers sell older and higher mileage vehicles. AutoNews reported unimaginable sales such as a dealer offering a Chevrolet Tahoe with 313,761 miles for sale, another in California is offering Toyotas with over 200,000 miles. Delays and availability have been driving up spare parts prices, even for parts that have no electronics or obvious technical complexity. Alloy wheels have seen their price double and ornamental parts are sometimes missing. Increasing labor cost is another item that high-milage used car consumers must consider. Reconditioning will have a hard time keeping a steady pace and within budget.

Although the price of used cars continues to move down from the record high seen about a year ago, it is still too early to say that they are becoming affordable when you consider higher interest rates, higher age and milage, as well as increased repair cost due to the lack and the increase in replacement parts. As supply chain issues might linger due to tensions between US and China and the Russian invasion of Ukraine leading to material scarcity and high energy cost, the car market will remain high priced. The recent price drop from Tesla shows a slowed market where demand needs to be incentivized to react. The EV carmaker was sitting on more than 70,000 unsold new vehicles. Lowered MSRP has triggered a price war with Ford. But knowing that the average sales price for an EV remains above $65,000 on average, the price decrease is more of a natural movement to attract consumers.