

ANALYSIS
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Australia Used-Vehicle Prices Finish 2020 With Another Record

Introduction

Australian used-vehicle prices experienced a year unlike any before. Pushed by the COVID-19 pandemic, consumers rushed into the market at the same time supply was restricted by slow production and reduced trade-ins. According to the Datium Insights-Moody's Analytics Price Index, as shown in Chart 1, wholesale used-vehicle prices were up by 35% from where they ended 2019. This incredible jump in prices is made more improbable because it happened as the nation endured numerous lockdown orders, devastating job losses, and the first recession in a generation.

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BY MICHAEL BRISSON

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Used-vehicle prices in 2020 threw out relationships with traditional economic indicators such as the unemployment rate and were driven by untraditional supply and demand factors. Pandemic-induced changes to tastes and preferences caused people to shun public and shared transportation such as airplanes and public transport. Apple mobility data show public transport routes searched remain down 25% from where they were towards the start of 2020 (see Chart 2).

At the same time demand was heightened, supply was being squeezed. New-vehicle production, which was shut down for

weeks, has reopened in fits and starts. This has caused many popular vehicles and trims to remain at arm's length from potential buyers, sending them to the used market. The most popular vehicles across Australia remain utes/light trucks. This has caused the segment of larger vehicles to rise faster than the market in general (see Chart 3). Prices of light trucks/SUVs/utes have risen at a 46% clip year over year, more than 40% faster than the decreasingly desirable passenger-car segment.

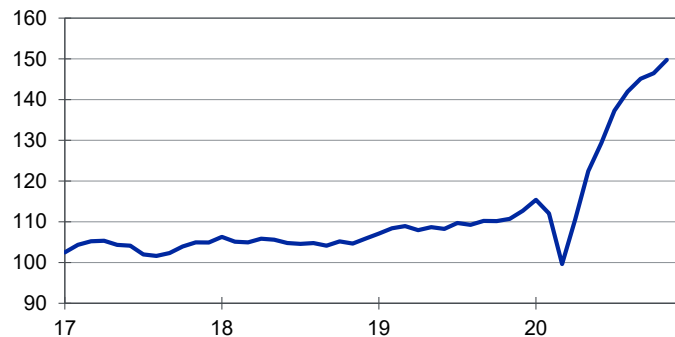
While popular new utes remained hard to obtain, the used-market supply remained

depleted. Lease contracts were pushed out due to lockdowns, social distancing, and lack of miles driven, limiting the used supply of younger vehicles. These roadblocks caused transactions through Pickles, the largest auto auction house in Australia, to end the year down 20% compared with 2019, as shown in Chart 4. Additionally, new-vehicle sales were low coming into 2020, making the availability of younger vehicles harder to come by, a trend exacerbated by the plunging sales in the early months of the lockdown.

Depressed new-vehicle sales experienced a bounce-back to end 2020 (see Chart 5) in

Chart 1: Prices Close Year on High Note

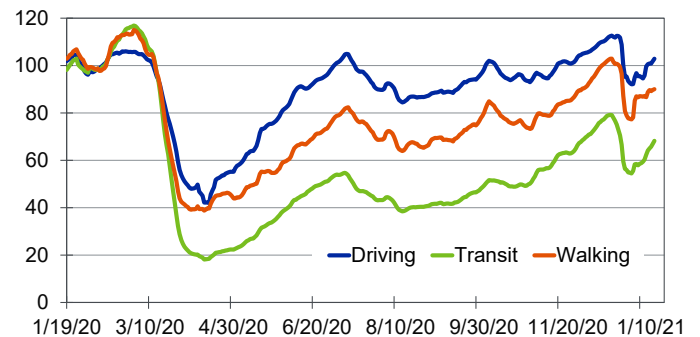
Datium Insights-Moody's Analytics Price Index, 2010=100, SA



Sources: Datium Insights, Moody's Analytics

Chart 2: Transit Not Quite Back

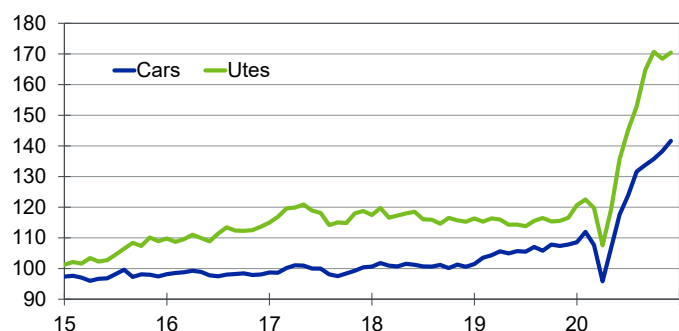
Australia routes searched, Jan 13, 2020=100, 7-day MA



Sources: Apple Inc., Moody's Analytics

Chart 3: Ute Prices Rise Faster in Pandemic

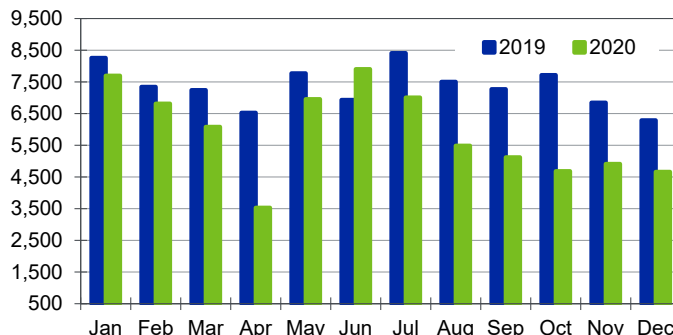
Datium Insights-Moody's Analytics Price Index, 2010=100, SA



Sources: Datium Insights, Moody's Analytics

Chart 4: Auction Transactions Remain Low

Transaction observations, #



Sources: Datium Insights, Moody's Analytics

response to the astronomical used-vehicle valuations. New-vehicle sales experienced the best month in nearly two years in November. Despite many households struggling economically, new-car and -ute sales are expected to remain elevated as supply returns and prices remain attractive compared with record prices on the used market.

The jump in used-vehicle prices has not merely been an Australian phenomenon. Across the globe, the prices of used vehicles rose as a result of the idiosyncrasies of the COVID-19 global recession. In spite of disparities in cultures and policy responses, used-vehicle valuations ended the tumultuous year up in Europe and North America. Used-vehicle prices in the U.S. ended the year up more than 13%, the highest year-over-year gain on record.

Still, seasonally adjusted prices have cooled in the U.S. over the past couple of months and the same trajectory is expected in the Australian market. Demand for an additional vehicle has likely dried up, with those looking for a private ride in lieu of public transport having already purchased a vehicle. Others may be anticipating the return to public transport as plans for vaccine distribution are rolled out. With an end of the pandemic now in sight, it does not make sense to purchase a car you probably would not use until next winter.

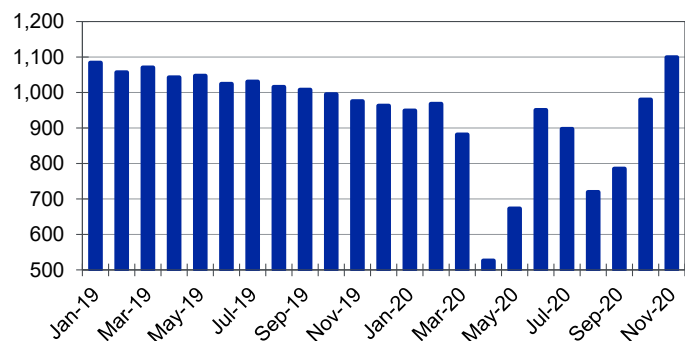
Used-vehicle prices are expected to have peaked across Australia in the fourth quarter of 2020. As shown in Chart 6, wholesale prices are expected to decrease by a seasonally adjusted 3% in the first quarter of 2021 and an additional 1% in the second quarter. This

will mark the first quarter-over-quarter drop in prices in the past two years outside of the lockdown-driven drop in the second quarter of 2020.

Risks to the forecast are weighted towards the downside. A comparable rise in used-vehicle prices has never been experienced in the Australian market. A lack of precedent is driving considerable uncertainty about how prices will wind down: slow and steady or steep and sudden. If unneeded newly purchased vehicles come back to the market at the same time extended lease contracts expire, and new-vehicle supply is no longer constrained, there will be significant downward pressure on used-vehicle prices. In this case, the slow and steady forecast will underestimate the roughness of the road back to normal.

Chart 5: New-Vehicle Sales Pop in Q4

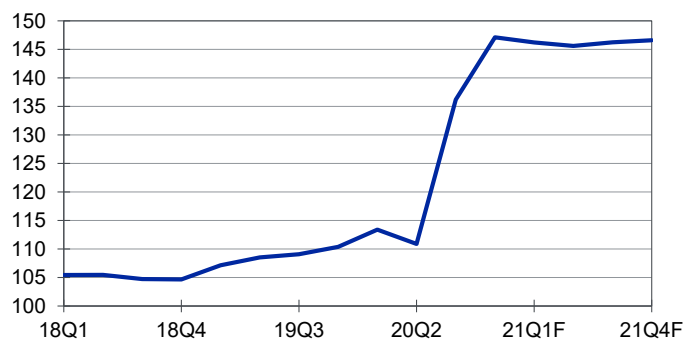
New light-vehicle sales, ths, SAAR



Sources: Wards Intelligence, Moody's Analytics

Chart 6: Used-Vehicle Prices Will Stabilize

Datium Insights-Moody's Analytics Price Index, Jan 2010=100



Sources: Datium Insights, Moody's Analytics

About the Author

[Michael Brisson](#) is a senior economist and associate director at Moody's Analytics. He is the lead auto economist working as a member of the Economic Research group in West Chester PA. Mike works at developing new, empirically driven auto-related products and services. Prior to leading the Moody's Analytics auto research team, Mike built loan and vintage-level CECL, CCAR, and stress-testing models of consumer loan performance as a member of the Business Analytics group at Moody's Analytics. Additionally, Mike has spent time developing econometric models used by U.S. states and local governments for tax/revenue projections. Mike holds a PhD in applied economics from Northeastern University.

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