

ANALYSIS
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Australia Used-Vehicle Fourth-Quarter Price Report: A Fresh High

INTRODUCTION

Australian wholesale used-vehicle prices increased in the fourth quarter of 2021, bucking the fall in the prior quarter. The Datium Insights-Moody's Analytics Price Index climbed to a record-high 174.4 in December, up 18% from December 2020 and 56% from early 2020. Used-vehicle prices increased in the final months of 2021 as the Australian economic recovery resumed following the aggressive lockdowns in numerous states and territories in the September stanza. Price gains were compounded by the global shortage in semiconductors for new vehicles.

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PREPARED BY KATRINA ELL AND MICHAEL BRISSON

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Two factors pushed used-vehicle prices higher in the December quarter. The first was the semiconductor chip shortage that has been a feature of the global landscape over the course of the year. Carmakers have been unable to source sufficient semiconductor

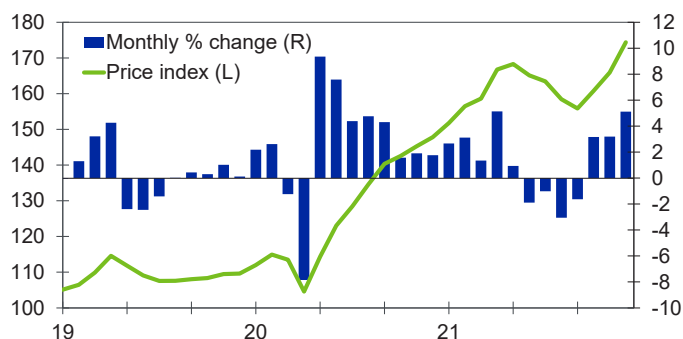
chips to produce enough new vehicles to satisfy consumer demand. This has increased interest in the substitute, used-vehicle market. The shortage of new vehicles has occurred alongside a tightening in supplies of used vehicles; drivers are unwilling or unable to trade in their vehicles. Combined, these trends have created a perfect storm, manifesting as unprecedented prices. Auction inventories, low since mid-2020, eased further in the final months of 2021, ending the year at a record low (see Chart 3). In short, car owners are sitting tight.

The second and also an Australia-specific factor pushing used-vehicle prices higher

is the local COVID-19 situation. Wholesale used-vehicle prices contracted in the third quarter as a result of strict lockdowns in New South Wales and Victoria, which together account for more than half of the national population. Lockdowns caused household spending to retreat as people stayed home and nonessential businesses closed. In October, the two states eased movement controls, causing household spending and demand for vehicles to rebound. The recovery was not met with increased supply, driving the Datium Insights-Moody's Analytics Price Index to a record high in December.

Chart 1: Wholesale Used-Vehicle Prices

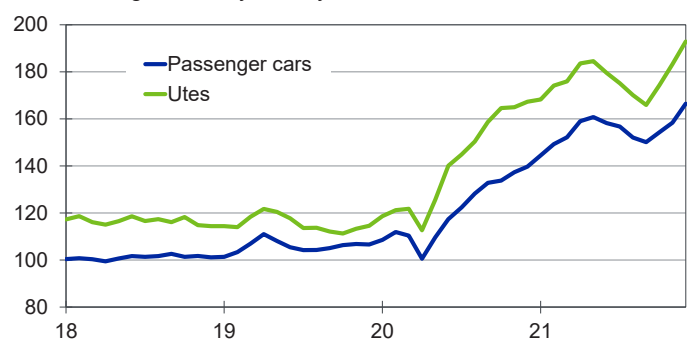
Datium Insights-Moody's Analytics Price Index, 2010=100, SA



Sources: Datium Insights, Moody's Analytics

Chart 2: Ute Prices Rise Fastest

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



Sources: Datium Insights, Moody's Analytics

The near-term outlook is for used-vehicle prices to remain high. On average, prices jumped 29% in 2021. They are expected to rise 3.6% in 2022 (see Chart 4). Our baseline assumes that high used-vehicle prices will be supported by steady demand and a lack of new and used inventory. With no way to increase the supply of used vehicles, prices will stay high in the near term.

The chronic global semiconductor chip shortage should ease in the third quarter of 2022. As new-car production ramps up, prices of used vehicles should cool. In fact, used-vehicle prices are expected to decline for the first time in almost a decade in 2023.

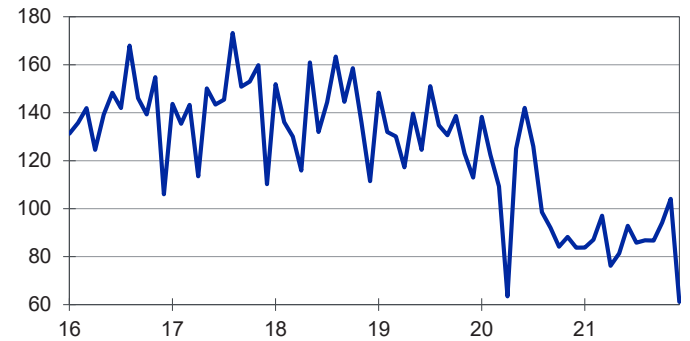
The arrival of the Omicron variant has increased near-term downside risk and uncertainty regarding Australia's economic recovery. Even without an official lock-

down, people are choosing to stay home more as daily infections spike to fresh highs. Apple mobility data show a hefty drop in household activity from late December (see Chart 5). If the healthcare system comes under rising strain, despite high vaccination coverage of the eligible population, then the likelihood of a return to aggressive lockdowns is high; that would temporarily hurt consumer spending and in turn demand for

new and used vehicles. Even if a lockdown is avoided, it is unclear when consumer activity will return to normal given the pandemic's unpredictable trajectory.

Chart 3: Auction Transactions Slump

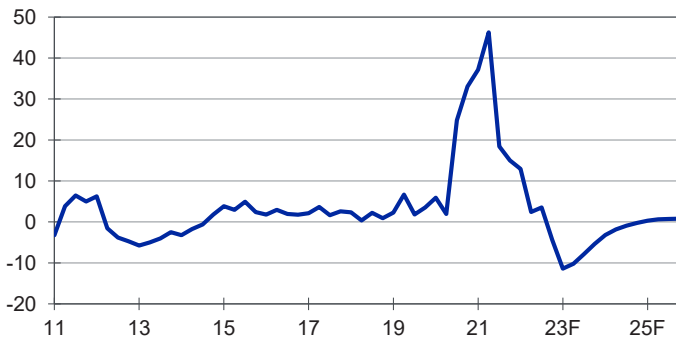
Auction transactions, 2012=100



Sources: Datium Insights, Moody's Analytics

Chart 4: Prices to Come Off the Boil

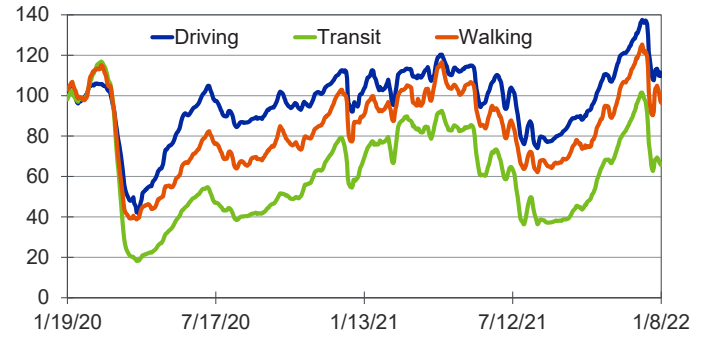
Wholesale used-vehicle price, % change yr ago



Sources: Datium Insights, Moody's Analytics

Chart 5: Omicron Drives Lower Mobility

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



Sources: Apple Inc., Moody's Analytics

About the Authors

Katrina Ell is an assistant director and economist in the Sydney office of Moody's Analytics. Katrina manages the Asia-Pacific edition of Economic View and is responsible for the research and analysis of economies throughout the Asia-Pacific region. Katrina is regularly quoted by international media such as CNBC, Bloomberg, The Wall Street Journal, Financial Times and Sky News. She previously worked as an analyst at the Australian Prudential Regulation Authority. Katrina received her bachelor's degree in economics (honors) from Macquarie University.

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