



Rodney's Take

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Lipstick on the Auto Industry Pig

I have a love/hate relationship with buying used vehicles from car dealerships. I know the best inventory typically sits on their lots because they cherry pick trade-ins, but the experience is so painful that I have to work myself up to the task. I'm not worried about the price I pay, as I research the transaction well in advance and have a plan before I set foot on the lot. It's the mindless conversations that must—must!—take place with sales managers and finance personnel.

I'm sure these people are great to socialize with in "real life," but something about the job requires them to torture language and borderline misrepresent information to the point that I don't believe any of them. That's probably why I'm suspicious of any news out of the industry, including the latest take on used vehicle sales.

After a nasty fall in March and April, the average used-car price rebounded strongly in May and June and likely reached a record high of \$14,600 at the end of last month, according to Mannheim. Car salesmen are quick to point out that while new car sales have dwindled because of falling supply

as well as demand, used car sales are just 4.6% lower than pre-pandemic forecasts.

Hmm.

I've no reason to think the value and volume reports are wrong, but I'm not sure they tell the entire story. To read these numbers, you might think that auto sales are powering back to some semblance of normal, but that seems unlikely. Used-car sales are getting an incredible assist from both Uncle Sam and the coronavirus and should take a hit in the second half of 2020.

In addition to shooting out stimulus checks to more than 150 million Americans, it's no secret that the federal government is topping up unemployment by \$600 every week, which means that the majority of people who qualify for benefits earn more by not working. Unemployment peaked at 14.7%, and more than 20 million claimed benefits. Even if just half of those earned more while at home, that's still 10 million Americans who suddenly got a pay raise.

The government also gave companies that extend credit, such as mortgage lenders, credit card companies, and others, to put consumers into payment plans if they needed or simply wanted a break, while not reporting the transactions to the credit bureaus.

The end result was many Americans losing their jobs, getting a raise, and watching their credit scores at least remain stable if not go up because of more time without negative reports.

At the same time, auto manufacturers shut down production lines as new car demand slumped and companies developed plans for how to make the workplace safe for employees. Americans might buy 14 million new cars this year, a significant drop from the more than 17 million sold last year.

With more money, better credit scores, lower interest rates, and fewer new cars available, used car sales popped. It sounds great, but that's in the past.

The federal unemployment bonus checks are set to end on July 31. Whether they will end or not is still an open question. But as jobs open up and employers call back employees, the benefits are supposed to go away whether the worker takes the job or not. We'll also see several of the payment plans and deferral options on consumer credit end and are likely to see a jump in the number of consumers with negative remarks on their credit reports.

And then there are the cars themselves.

Rising prices and unit sales of used cars are great for dealerships that traffic in such units, and they also bolster the finance arm of major manufacturers because they own so much leased inventory. But higher used car sales don't do much for the top line results of GM, Ford, and Fiat-Chrysler. They need to get new units onto dealer lots and out the door. New car sales bounced in May and June, but they won't come close to 17 million units this year. Manufacturers need every sale they can get, and they won't be able to dump a bunch of unwanted inventory into the rental market.

We also should see more used cars hit the market in the months ahead as vehicles come off lease and Hertz sells more units to raise cash for creditors.

With more competition from new cars, more units on sale, and consumers coming off of a federally induced income rush, I'm not expecting used car sale prices to remain at record highs. But I could be wrong. I'm sure someone at a car dealership would set me straight.

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Got a question or comment? You can reach us at info@hsdent.com.