



Rodney's Take

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Not All Used Cars Are Created Equal

Recently, my youngest moved from Colorado to Boston, which obviated her need for a car. My wife and I helped her settle in, and then drove her pickup back to Texas and prepped it for sale. It's a good truck, but it is eight years old and has more than 100,000 miles on it. I wasn't sure what to expect in the market, as I'd been keeping tabs on inflation and knew used car prices were soaring. It turns out that we had the right kind of vehicle to sell, which isn't true in every case. While prices are off the charts in general, some makes and models are doing much better than others, which goes to show that consumers still play favorites and, if their choices matter, oil will be with us for a long time.

According to the U.S. Bureau of Labor Statistics (BLS) used car prices jumped 10% in April, 7.3% in May, and another 10.7% in June. Since July of last year, prices have risen 45.2%. That's pretty awesome, but the headline number covers up wide swings. A dive into the details of how the BLS tracks car prices and a look at values over time at CarGuru illustrates the point.

You'd think that if a five-year-old Jeep Cherokee sold for \$15,000 in 2020 and \$15,000 in 2021, the price had not changed, but that's not how the government sees it. According to the BLS, which tracks hundreds of vehicles of different makes and models, each one has an expected depreciation schedule. If the price of that Jeep Cherokee was expected to fall by 10% but instead remained steady, then according to the BLS the price *appreciated* by 10%. If the price moved higher, the expected depreciation that never happened is added to the gain.

The pricing of the most recent models, in which cars less than three years old are selling at new-car prices, is turning the BLS depreciation model on its head.

I don't have the BLS data on cars, but the sales data from CarGuru for the past year makes the point. A used 2019 Ford F-250 SuperCrew that sold for \$48,500 last summer costs \$63,600 today. That's a 31% increase, which must be added to the annual depreciation the BLS was expecting.

But not all used cars age as well as monster Ford pickups.

The 2018 Tesla Model S increased in value by just 14.4% and the price of the electric Chevy Bolt actually fell by 4.6% vs. a year ago. Pickup trucks and SUVs gained the most, whereas EVs were far back in the pack.

Like almost everyone else, I expect car prices to fall back in line as the outsized spending based on checks from Uncle Sam fades and the auto manufacturing supply chain works out the kinks. But the crazy situation in the market today shows that consumers have clear ideas about what they want and are willing to pay for. Judging by where they've put their money, people still want big vehicles with internal combustion engines. Ford, General Motors, Stellantis, Volkswagen, and other automakers are spending billions of dollars on electric vehicles and pledging to spend billions more. One day soon, the mismatch between what consumers want and what car makers intend to build will play out on the showroom floor.

I wouldn't want to be a car dealer forced to take hundreds of new EVs just to watch my customers fight over recent-model gas-powered cars on the used vehicle lot. This might be a great situation for Carmax and other used car dealers, if they can get enough inventory to meet demand.

To check the price trends for many makes and models of cars at CarGuru, click here: <https://www.cargurus.com/Cars/price-trends/>

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