Kontos Kommentary: COVID-19 Special Edition

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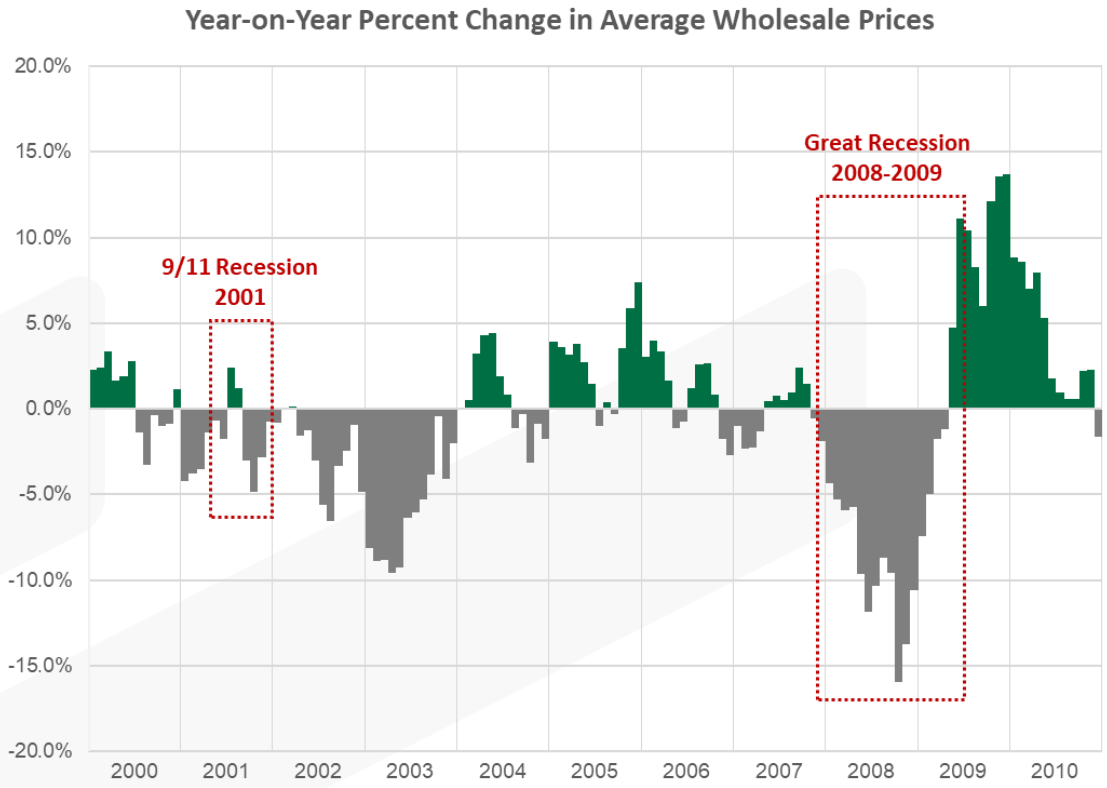
Although the COVID-19 pandemic is unprecedented, insights can be drawn from past remarketing industry experience and thereby using history as a guide in these uncertain times. Because the last ten years have represented the longest expansion on record, one must go back to the Great Recession of 2008-09 and the 9/11 timeframe to find downturns and shocks to the economy that negatively affected wholesale values for a sustained period of time. The chart below depicts trends in wholesale prices during the first decade of the new millennium.



Source: KAR Global Analytical Services based on AuctionNet data.

The recession of 2001, which lasted from March through November of that year and encompassed the tragic events of 9/11, had a significant but short-lived effect on wholesale values. The continuation and acceleration of year-over-year price declines beyond the roughly 5% year-over-year drop in October 2001 following 9/11 was due primarily to an influx of off-lease volume and high new vehicle incentives even as the economy rebounded. The downturn in average prices after 9/11 continued for 20 months until May of 2003, which I described as an “inflection point” in the wholesale market at the time.

In the Great Recession of December 2007 to June 2009, wholesale used vehicle prices fell even more dramatically than post-9/11 but recovered more quickly. The absolute bottom was reached in October of 2008, which I then described as “Red October” as wholesale values fell by more than 15% year-over-year — a record that still stands (although possibly not for long). Thus, that “inflection point” was achieved in roughly ten months versus the 20 months post 9/11.

Fast-forwarding to the current situation, we can broadly apply these past patterns as we think about the severity and duration of wholesale price declines in response to the virtual cessation of economic activity in a high percentage of the U.S. market. The recession that this has induced will likely follow a pattern that mirrors the "curve" of the pandemic often talked about by Dr. Fauci in his press briefings. Just as the pandemic pattern is likely to worsen before it gets better (though as a nation we are trying to "flatten the curve"), used vehicle values (when auctions resume some semblance of pre-March level of sales and conversion rates) are likely to fall by the sorts of double-digit year-on-year levels we saw both post-9/11 and during the Great Recession.

So, the duration of the decline will likely correspond to the length of the current recession, which again depends on the timing of resumption of social and economic interaction as the pandemic is contained.

And, it's best to expect that upticks in used vehicle values are several months down the road, though strong demand for used vehicles in tough times, supportive government fiscal and monetary policies, and low oil prices should help limit the damage.

Source: Analysis is based on over 7 million annual sales transactions from over 250 of the largest U.S. wholesale auto auctions, including those of ADESA as well as other auction companies. KAR Global Analytical Services segregates these transactions to study trends by vehicle model class, sale type, model year, etc.