

CLIENT EMAIL BLAST 081320

THE AUTO INDUSTRY AND COVID-19

I held off on this post till we got some sense of the strangest time I have ever seen in the car business (and world at large, of course!). Now that I have some sense of where we are at, I wanted to share some insights that I hope will be helpful in planning for you.

NEW VEHICLES

Most all manufacturers shut down their plants in January and February. We are now running out of most popular pickup trucks and many SUVs and crossovers. In fact, fullsize pickups sales last month were actually 3 percent higher than in 2019! Some of my dealers have already told us they wont sell through brokers or discount them, as they want to hoard what they have and get closer to sticker price, until inventory levels return closer to normal.

While production will start to resume this month, reopening factories wont happen overnight. And, since there are three levels of suppliers who make or assemble parts, even before they are assembled into whole vehicles, I don't expect full scale production to resume until June or July. Therefore expect greater and greater shortages of desirable vehicles into August and September. If you are thinking of a new truck, crossover or SUV move on it as soon as you comfortably can.

USED VEHICLES

Prices on used vehicles plunged 10-20 percent in late March and April. This was mainly due to two factors:

1. Dealers not knowing if they would be open.
2. Line of credit (LoC) companies seizing dealers' unused money and only offering 60-65% of the wholesale value of any vehicles bought or taken in on trade.

The first issue is resolved—for now—but the second still is driving used prices. LoC banks are expecting dealers to use their cash reserves to pitch in 30-35% of the wholesale price of a trade-in. This is very hard, or impossible to do, since we use reserves to keep the business open and get the cars ready for sale, which costs an average of \$1,500 per vehicle.

Used trade-in prices should start to increase back to the levels we saw pre-COVID-19 as new vehicles run out and lenders get more realistic about what they will provide on their lines of credit. Of the used cars out there, many were bought before the crisis and therefore the dealers aren't willing to loose money to sell them, especially when the LoC companies wont give them the same on replacement vehicles.

INTEREST RATES

Though the fed funds rate is at or near zero, almost no independent bank or credit union was willing to drop their rates to match. Many car companies did, and you can get 0 percent on many new vehicles. On used, the best rates I am finding are 2.99 percent. That is still near historic lows, thankfully.

I hope you are well and I want to thank you from the bottom of my heart for helping keep our business to a level where we could pay our bills and at least break even! Without you we would have had to close down weeks ago.

Isaac

As an auto broker, since 1991, Isaac Bouchard has sold or leased most every type of new or used vehicle made. He has also taken in trade thousands of vehicles, which has given him insight into what holds together and what doesn't.