

ANALYSIS

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Auto Prices: Upward Momentum Continues Through Year's End

Fourth-Quarter Used-Vehicle Price Report

In the fourth quarter of 2024, wholesale used-vehicle prices continued to rise, with the Moody's Analytics Sale Price Index climbing by 1.2% since the end of September. This marks the second consecutive quarterly increase, a positive trend not observed in the past three years. As of December, prices have rebounded 5.6% from their June low.

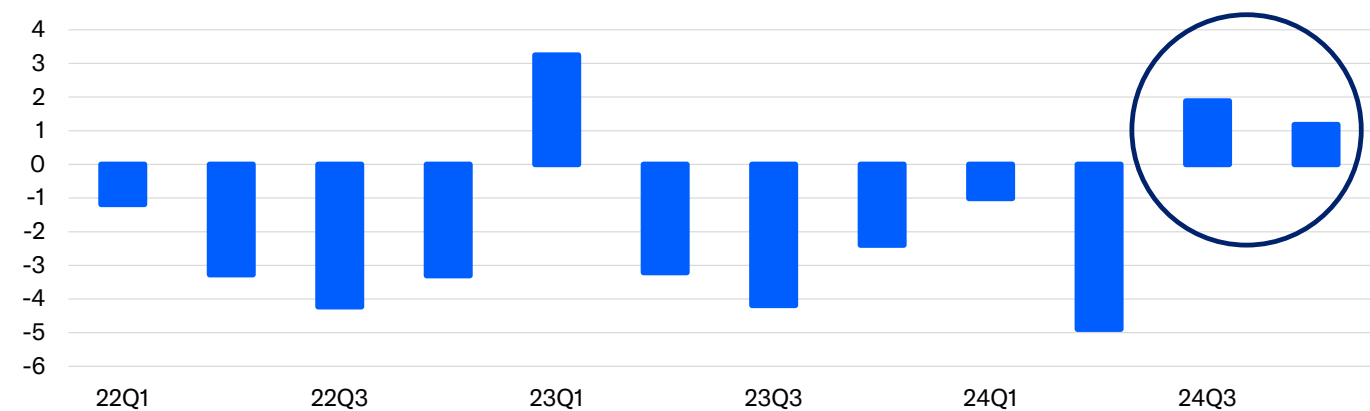
Auto Prices: Upward Momentum Continues Through Year's End

BY: MICHAEL BRISSON

In the fourth quarter of 2024, wholesale used-vehicle prices continued to rise, with the Moody's Analytics Sale Price Index climbing by 1.2% since the end of September (see Chart 1). This marks the second consecutive quarterly increase, a positive trend not observed in the past three years. As of December, prices have rebounded 5.6% from their June low.

Chart 1: Prices Increase Again

Moody's Analytics Used-Vehicle Price Index, % change qtr ago



Sources: AuctionNet, Moody's Analytics

Price deflation in the used-vehicle market from the end of 2022 through June 2023 has reversed in earnest. The timing coincides nicely with what is expected to be an undersupply of off-lease 3-year-old vehicles from the pandemic-era leasing contraction. This would, in theory, cause a lack of supply of younger, lower-mileage vehicles on the used market.

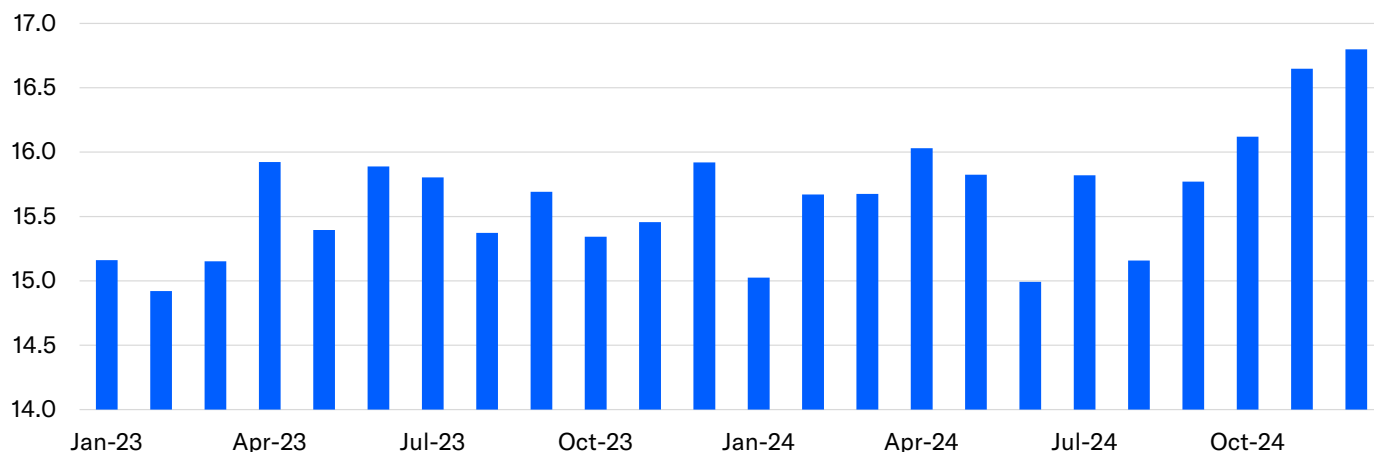
However, this has not panned out in the wholesale numbers. According to AuctionNet, in-person auctions have seen a 12% yearly increase in 0- to 3-year-old vehicles, more than any other three-year age cohort. In all, there has been a 9.4% increase in wholesale volumes in 2024 compared with last year.

Still, there does appear to be upward price pressure in the secondhand auto market. Looking deeper at the supply side of the equation, retail inventories were down 6% from last year and were at their lowest levels (seasonally adjusted) in the past four years. These low retail inventories are likely sending dealerships to the wholesale markets, further supporting prices.

The demand side of the equation is more straightforward. Vehicle demand grew significantly during the year's final quarter for both new and used vehicles. U.S. new-vehicle sales notched more than 16 million SAAR for all three months for the first time since the spring of 2021 (see Chart 2).

Chart 2: New-Vehicle Sales Jump to End Year

New light-vehicle sales, mil, SAAR



Sources: BEA, Moody's Analytics

This increased demand is likely attributable to two distinct factors related to the recent election. Some consumers are anticipating price increases because of potential tariffs and subsidy reductions under the new administration. Others, feeling more optimistic about the economy's future following the election, are now more willing to make larger purchases.

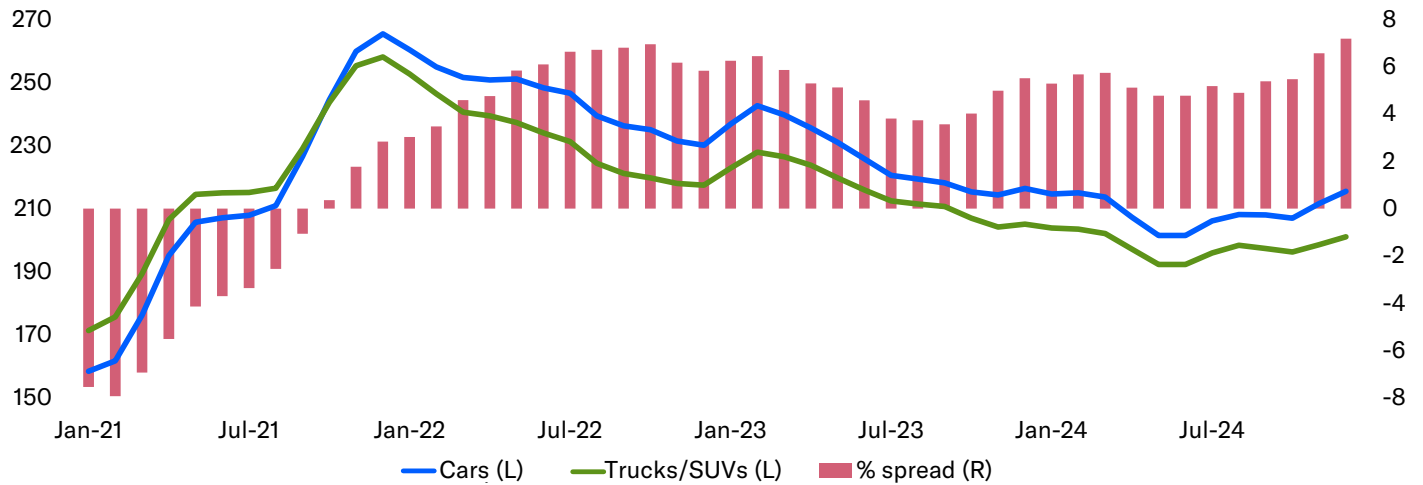
However, the election has not affected the diverging price trends between passenger cars and trucks/SUVs. Passenger car prices widened their spread further over trucks/SUVs this past quarter (see Chart 3), with a 3.6% increase compared with a 1.9% rise for trucks and SUVs. This continued support for car prices is likely due to the persistent lack of inventory stemming from automakers' decision to prioritize the production of more profitable larger vehicles during the post-pandemic supply-chain disruptions.

Electric-vehicle prices have exhibited a degree of stability this quarter, edging up 0.1% since September (see Chart 4). Despite this positive movement, EV prices are still 40.4% below their peak in the summer of 2022. While nominal EV prices are 8% higher than pre-pandemic levels, their real value has significantly eroded due to broader economic inflation.

Used-EV prices are facing continued downward pressure from the growing influx of newer electric models into the new-vehicle market. Simultaneously, demand growth for EVs appears to have slowed. EVs (battery electric vehicles and plug-in hybrid electric vehicles), as a percentage of total registrations, grew only 8% year over year through November, compared with 35% growth during the same period in 2023.

Chart 3: Passenger Cars Increase Price Gains on Trucks/SUVs

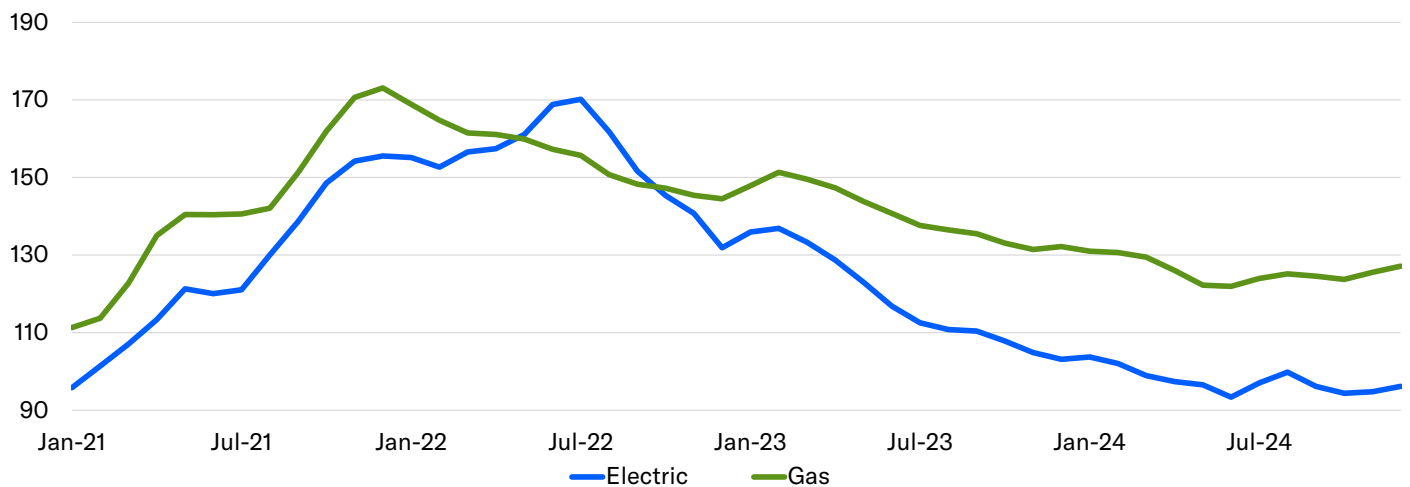
Moody's Analytics Used-Vehicle Price Index, 2010=100



Sources: AuctionNet, Moody's Analytics

Chart 4: Used-EV Price Declines Level Off

Moody's Analytics Used-Vehicle Retention Index, 2015=100



Sources: AuctionNet, Moody's Analytics

The outlook for used-vehicle prices has become more uncertain in recent months. While tailwinds such as greater vehicle demand, an expected drop in interest rates, and a limited supply of off-lease vehicles suggest higher prices in the near term, these are offset by interest rates not falling in tandem with the Federal Reserve's target rate, a continued strong supply of younger, low-mileage vehicles, and persistent affordability concerns.

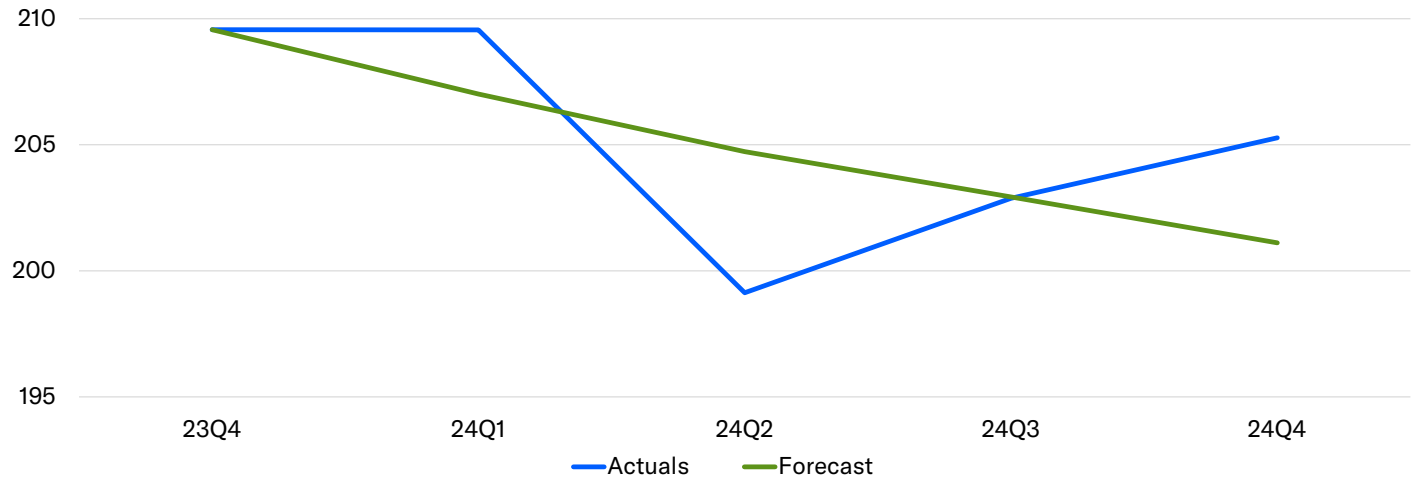
Given these opposing forces, the forecast remains similar to last quarter's. Prices are expected to fluctuate in the short to medium term, exhibiting larger monthly swings, but will remain in a relatively stable range during the next few years. We anticipate a return to a traditional used-vehicle price appreciation of 1% to 2% per year by 2027.

The risks to this forecast have grown on both sides during the past quarter. Increased vehicle demand from consumers trying to purchase before potential tariffs kick in could push prices higher than expected in the near term. Moreover, rising stock and house prices may further amplify this, which might boost spending through the wealth effect. Conversely, if inflation rebounds because of tariffs or a reduced labor supply, the Fed may be forced to reverse course and raise interest rates, once again curtailing demand.

The 2025 forecast is marked by greater uncertainty compared with 2024. While we had projected a 4.2% price decrease last year, the year concluded with a 2.1% decline. Although the monthly swings proved difficult to forecast due to their unique drivers, the overall trend was accurately captured, with the third quarter aligning almost perfectly with our forecast from nine months prior (see Chart 5). However, the election results once again altered the macroeconomic landscape in the final quarter, leading to higher-than-expected prices.

Chart 5: Last Year's Forecast Cuts Through the Noise

Moody's Analytics Used-Vehicle Price Index, Jan 2024 forecast, 2010=100



Sources: AuctionNet, Moody's Analytics

Despite the considerable accuracy of our used-vehicle price forecasts in the past two years, it remains a notoriously challenging series to pin down—and 2025 will likely be no exception. We have reached a turning point where, for the first time since 2020, price movements will be driven more by the macro environment than by vehicle supply. Buckle up.

ABOUT THE AUTHOR

Michael Brisson is a director in Economic Research at Moody's Analytics. He is the lead auto economist working as a member of the Economic Research group in King of Prussia PA. Mike works at developing new, empirically driven auto-related products and services. Prior to leading the Moody's Analytics auto research team, Mike built loan and vintage-level CECL, CCAR, and stress-testing models of consumer loan performance as a member of the Business Analytics group at Moody's Analytics. Additionally, Mike has spent time developing econometric models used by U.S. states and local governments for tax/revenue projections. Mike holds a PhD in applied economics from Northeastern University.

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