# Coronavirus: how will the Used Car market react?

The automotive market is facing its 5th major crisis this century after 9/11 (2001), the financial crisis (2008), the Euro crisis (2012) and last, but not least, the Dieselgate (2016). The Coronavirus crisis is however difficult to compare with previous situations, as its causes and effects are unprecedented.

With prolonged containment and an uncertain return path to normal, what will happen with the used-car market and prices when the recovery takes hold?

## A crisis like no other

Traditional crises result from a market imbalance where supply exceeds demand: manufacturers and their networks produce more vehicles than individuals and businesses can absorb.

The result is an increase in inventories, longer lead times and, ultimately, lower prices as a means of returning to equilibrium before production is adjusted downwards.

The coronavirus crisis is different, in that it does not create an imbalance between supply and demand: it simply and abruptly brings the entire market to a virtual shutdown.

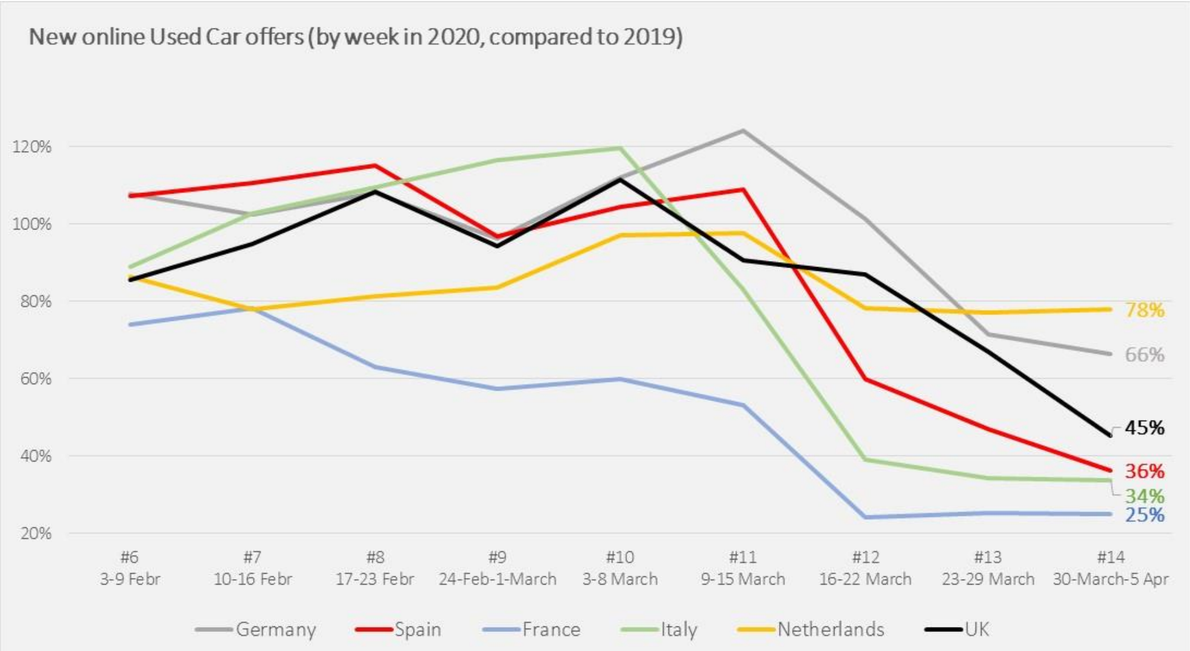
Since March 15th 2020, most manufacturers' production has been stopped, the distribution networks have been closed, the leasing companies are delivering only a few vehicles and are negotiating contract extensions with their customers.

Transactions observed in locked-down countries have fallen by more than 80%. A few private sellers are still trying to sale their vehicles, but face negligible demand.

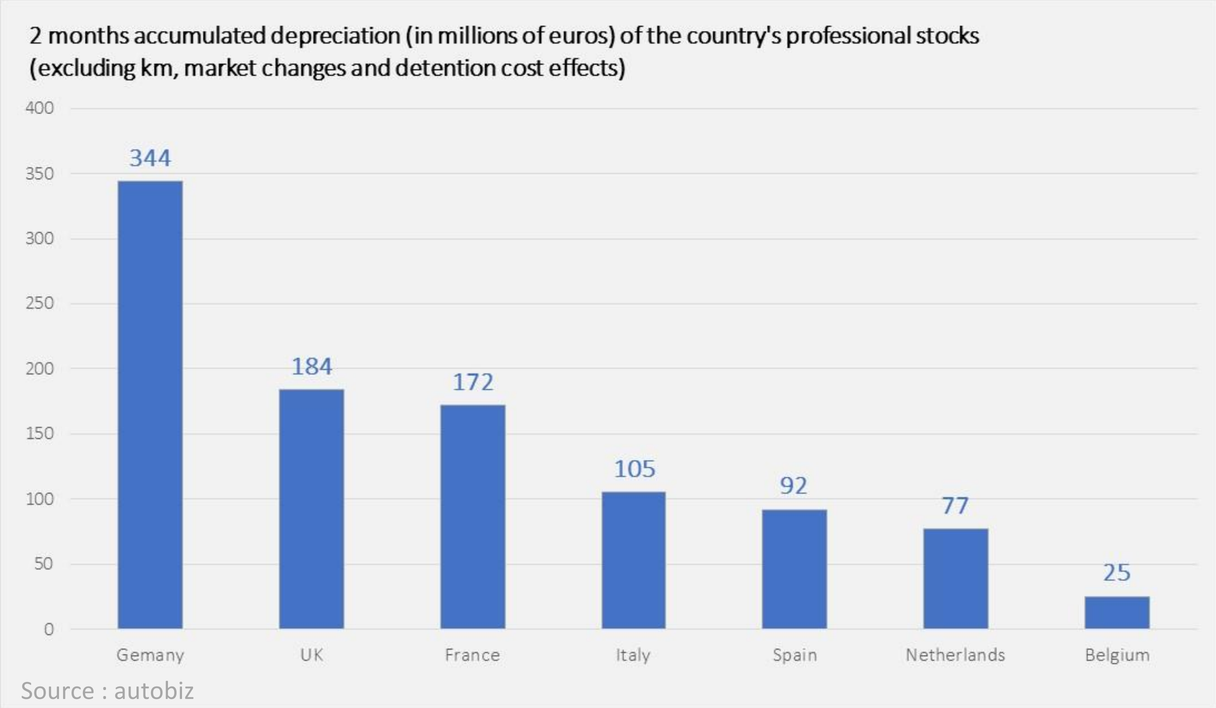
## The Chinese example

To predict how the recovery could take place, the sector is closely observing the Chinese market. In March, the first month after containment, Volkswagen China reports having resumed production at most of its plants[1]. The manufacturer estimates its sales level at 60% of last year's volume, with a forecast return to normal by early summer.

Other sectors, such as the luxury goods sector, also saw their sales in China pick up in March, with levels leaving them optimistic about a market recovery[2].




Source : autobiz




These figures, if confirmed, would make it possible to envisage recovery scenarios within 4 months in Europe, from the date of containment.

It remains to be seen what level of production the health constraints will ultimately permit and how the crisis will affect long-term consumer and business demand.

## Short term impact on Used Car prices

The store closures have hit dealer profitability and cash flow hard.

When resuming business, many dealers, especially those not benefitting from financial lifelines by their manufacturers, will be under pressure to generate cash quickly to meet urgent deadlines.

They will also have to reorganise their balance sheet, burdened by large new liabilities.

The result is likely to be a short-term drop in the price of Used Cars, stronger in more ‘liquid’ B2B channels, and more limited in the less reactive B2C channels.

By way of comparison, in B2B sales, the impact will be at least equivalent to that observed during end of period ‘balance sheet sales’ of June and December, during which dealers regularly reduce their inventories, with average markdowns of around -5% on usual prices.

This phase of pressure on prices should however be limited in time. The gradual resumption of New and Used Car production should avoid a tidal wave of supply, giving demand time to return to healthy levels.

### The autobiz Used Car Market Observatory

*Since 2008, as part of its Market Observatory, autobiz collects millions of data points on the World’s most important automobile markets, with a focus on prices and sales channels. Each data point can be interpreted as a micro-economic signal. This data, once aggregated and followed in time, allows our researchers and economists to identify and quantify pricing mechanisms on a macro-economic scale.*

## Which scenario for the economy?

Unlike the Great Depression of 1929 or the financial crisis of 2008, the current situation has not been triggered by a financial ‘bubble’.

The Coronavirus has hit an overall healthy World economy, even if it was showing first signs of slowing down in 2019 and earlier this year.

Nevertheless, our ability to support the huge amounts of debt incurred by our states to overcome the Coronavirus shutdown has its limits.

The length of the crisis and the time it will take for businesses to recover will determine whether we will face an economic recession on the scale of that of the Euro in 2012 the financial crisis of 2008, or even another Great Depression, comparable to 1929.

## The CCI, the main economic indicator for Used Car values

The Consumer Confidence Index (CCI), published by the OECD for March 2020 over its entire zone, shows a monthly fall of record magnitude since its creation in the 1970s.

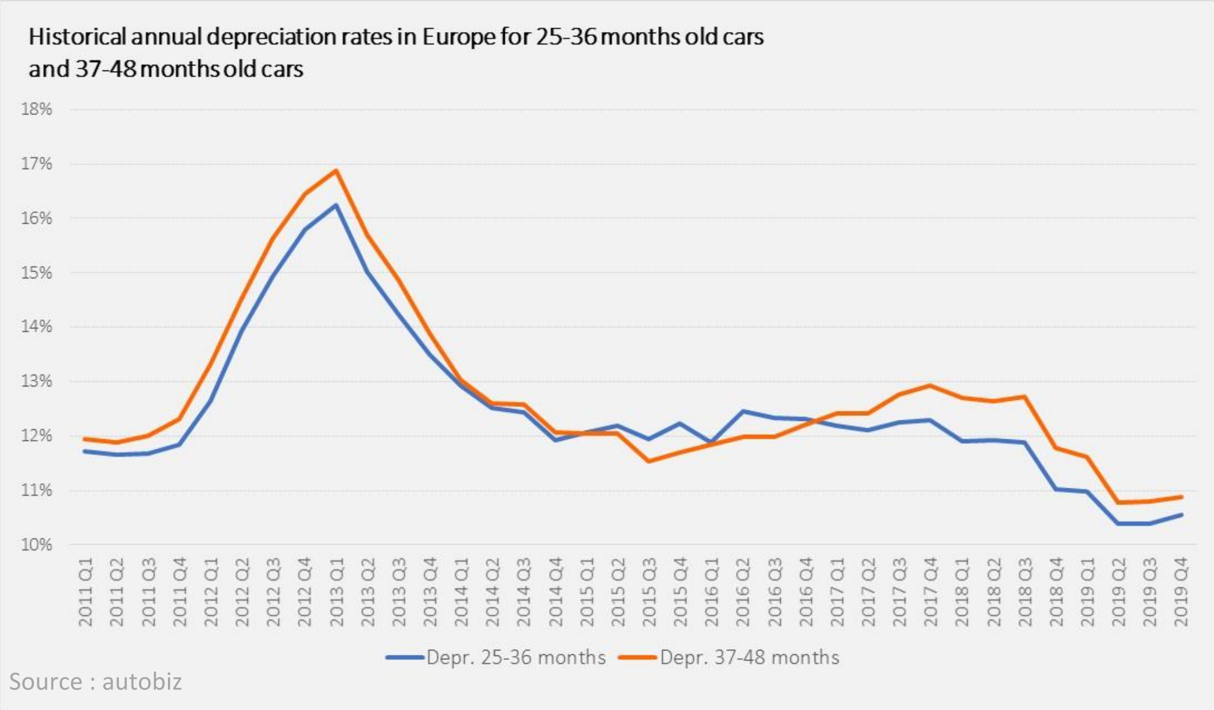
While it was still positive in February 2020, it fell below 100 points for the first time since the end of 2014, reflecting the pessimistic outlook of consumers.

Historically, this indicator is highly correlated with Used Car prices: a fall in one leads to a fall in the other.

The publication of the next indicator for April will be significative for estimating the pressure on prices when trading resumes in May.

**CCI - a key indicator for forecasting depreciation rates and residual values.**
autobiz market observations conducted over the past 10 years have demonstrated the very strong correlation between vehicle depreciation and consumer confidence.


Source : OCDE




## Which scenario for longer-term residual values?

While waiting to see the impact of the Coronavirus materialize on the economy, a cautious interim scenario would be to base a forecast of residual values on lessons of the 2012 crisis.

At the time, the annual depreciation rates of Used Cars, all products combined, had jumped from a 'normal' level of around 12% p.a. before the crisis to 17% in the main European countries[3].

In other words, the residual values of 3-year vehicles had fallen from a 'normal' level of 68% to 57%.

It then took three years, until the end of 2014, for depreciation levels to return to normal.
It took the same period of about 3 years for diesel-powered cars to return to a 'normal' level of depreciation after being hit by Dieselgate.

This period of 3 years could again prove to be the time needed for supply and demand to match on the European markets. A prudent scenario would thus be to base residual value forecasts on annual depreciation levels rising rapidly from the summer of 2020 to a peak of 18% p.a., and then returning to a normal level in 2023[3].

In addition to strictly economic effects, forecasters should also take into account possible qualitative effects on consumer behaviour and preferences, triggered by a long period of containment.

Leasing, electric vehicles and e-commerce should thus emerge as big winners from this crisis

### Our commitment for the coming weeks

*In order to anticipate the behaviour of the Used Car market during the crisis, we will update all data available to us on a weekly basis and share it with our partners and customers.*

Sources
(1) Interview of Stephan Wöllenstein, CEO of Volkswagen Group, by He Shan, published on April 1st 2020 in China.org.cn (http://www.china.org.cn/business/2020-04/01/content_75885415.htm)
(2) Market interviews (3) autobiz Market Observatory (4) OECD