

March 17, 2020

Wholesale

- As of last week, buying and prices are still high. Prices remain strong, and interest rates have been cut to nearly 0%. The supply of new cars may become problematic in the future as the supply of parts is scarce due to supplier facility shutdowns, so QUALITY used vehicles will be in demand, and dealers are preparing for that possibility.
- Wholesale auctions (short term) - As physical auctions shut down, we are seeing an increase in online activities.
 - Manheim auctions are now all digital until April 3rd
 - ADESA auctions will be online only via ADESA Simulcast until further notice.
 - Ritchie Bros. Auctions are also limiting onsite bidding.
- Disruption of new vehicle supply chain (short term) - there are reports that indicate delays in new inventory delivery due to factory closures in Asia. If this continues for the next several months, we will see an increased demand on newer, used vehicles that will cause strengthening of used prices on 0-4-year-old models.
- Macroeconomic factors (short and long term) - Prolonged factory closures and disruption to trade and travel could result in an economic slowdown (or even a recession).
- There is a necessity for digital communications and digital retail offerings from dealers
- **Last Week's Impact on Wholesale Values**
 - This past week ended up being dealers' last opportunity to be physically present to purchase at most auctions. This led to strong sales rates and high retention rates for almost all segments. We are seeing a demand for the traditional "Spring market" vehicles, which are those under \$10,000. Over the weekend, we received reports from dealers that reported good retail foot traffic on their lots.
- **Short-Term Impact on Wholesale Values**
 - Going forward, we do anticipate that foot traffic at dealer lots will slow down as people adhere to both the CDC and governments' guidance on social distancing. It will be important for dealers to adjust to this change in consumer behavior to facilitate deals with little-to-no physical contact. As for this week in particular, we do anticipate continued wholesale strength, as dealers fill their lots and work to take advantage of the lowered interest rates and low fuel prices.
- **Long-Term Impact on Wholesale Values**
 - The expectation is that there will be a supply chain impact on new cars and an affordability problem for new sales, so dealers are preparing for an increase in demand for affordable, quality used units. However, unlike previous downturns in the economy, the unknown is the impact of social distancing on consumer buying behavior.

New Sales

We anticipate a significant reduction in US **new vehicle sales** in 2020. Note that Chinese automotive sales fell 21.6% in January, and 80% in February YOY.

- **Best Case Scenario:** Slowdown in March / April and resumption of normal activities over the summer, with no major drop in consumer confidence - 10% drop in new sales to 15.3mm units in 2020
- **Recession Scenario:** Negative GDP growth in Q2 / Q3 (with possible negative growth in Q1 already), drop in consumer confidence, and a temporary, big jump in unemployment - 25% drop in new sales to 12.75mm units in 2020
- **Severe Recession Scenario:** Prolonged social separation policy due to coronavirus, followed by a deep recession - 40% drop in new sales to 10.2mm units in 2020

Factors that will determine new sales volume

- **Positive**
 - Low interest rates
 - Credit is available to prime consumers
 - OEMs are creating consumer relief programs
 - Increased incentives to stimulate demand / lease replacement
- **Negative**
 - Unemployment will increase substantially (at least temporarily)
 - Supply chain issues (Europe, Asia)
 - Highly likely there will be an interruption to consumer confidence and buying behavior resulting in fewer big-ticket item purchases
 - There might be a substantial reduction in *fleet / rental* purchases (as leisure / business travel will be reduced in 2020)

OEMs

- Most OEMs across North America have requested non-factory employees to work from home
- The official launches of many new products are expected to be delayed both in terms of product availability and the marketing efforts behind them.
 - Cadillac Lyriq electric SUV debut delayed until the fall
 - The much-anticipated Ford Bronco launch is delayed, date TBD.
- Auto shows are postponed, including the New York auto show, which is rescheduled for August 28 through September 6. This is the first such postponement since World War 2.
- Many OEMs are pulling press vehicles from the road and cancelling media events.
- For consumers at lease-end, OEM's are likely to offer affordable lease extensions in an effort to retain customers until supply returns

- We are starting to see OEM reaction to help consumers and support their sales efforts at the same time
 - Hyundai reinstating their 2009 program to help ease consumer fears of job loss. Hyundai will make up to 6 months of payments for new owners who lose their jobs and have purchased or leased their vehicle through Hyundai Capital. Hyundai also has 0% loans for up to 72 months with no payments for 90 days.
 - GM has announced 0% financing for up to 84 months and deferred payments for the first 120 days of the loan.
 - Ford has launched a support program for customers and is launching advertising this week around the theme "Built for Right Now" and "Built to Lend a Hand." The program will allow a delay of payments on new vehicle purchases or leases and Ford Credit is also offering customers who buy a new vehicle the option to delay their first payment for 90 days
 - Others are following suit

Supply Chain

- Automotive market supply chain for new vehicles and parts - **impact TBD**
 - Many of the highly affected countries are main sources for both vehicles and parts.
 - We are starting to see more global manufacturing being shut down for two weeks (FCA announced Italian production will freeze for two weeks, but US impact from these facilities is minimal).
 - It is typical for an OEM to have two-month supply of vehicles in their supply chain, but this will vary widely by product. Many OEMs are likely approaching the end of their reserves, so there is concern over the ability and cost of sourcing from other suppliers.
- Disruption to aftermarket parts supply (short term) - Like the new vehicle supply chain, there are concerns about the automotive parts supply chain in the aftermarket. Effects of the virus could result in the reduction of available used units on the wholesale market (due to difficulties to repair / recondition of units). Limited supply of desirable vehicles may cause wholesale prices to increase on cleaner, newer models.
- Parts
 - The auto sector is heavily globalized, many components come from China and EU nations who are greatly impacted by COVID-19.
 - Many of the parts cross borders multiple times before they get to the end consumer making the chance for a breakdown in logistics failures even higher.
 - On a positive note, according to media reports, some factories in China are starting to come back online

Canada

On March 13, The Bank of Canada made an unexpected rate reduction, cutting the central bank's benchmark interest rate by 50 basis points to 0.75 per cent. It is anticipated that more rate cuts are pending. On March 16, the bank also announced measures to help the mortgage bond market, as well as making access to "repos" (a type of short-term loan) easier.

The TSX (Toronto Stock Exchange) is at its lowest in four years. It declined on Monday by 13%, despite trading being temporarily halted.

The Canadian dollar is hovering at a four-year low, which makes export of used vehicles to the U.S. more attractive.