



ECONOMIC CAUSES FLEET DECLINE

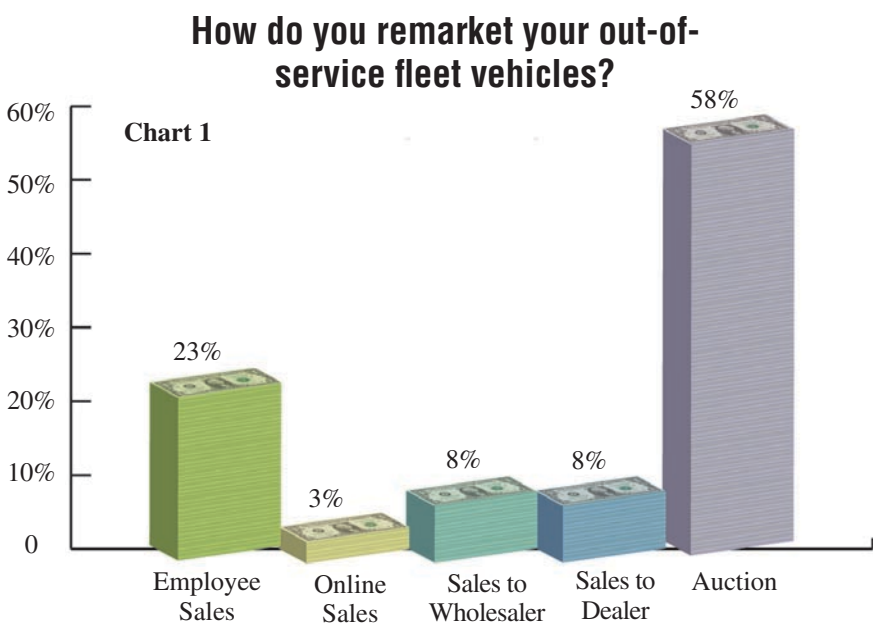
By Mike Antich & Lauren Colin

The wholesale market for calendar year 2007 was shaping up to be a pretty good year until the fourth quarter hit. Since the second week of October, resale prices softened across all vehicle segments. On average, resale prices declined 8 percent for the fourth quarter 2007 compared to the same period in 2006. Traditionally, resale prices decline in the fourth quarter of each year, reflecting the wholesale market's cyclical seasonality. However, several new factors, all related to the slowdown in the general economy, put the 2007 seasonal decline in a different light.

The bread-and-butter customers of out-of-service fleet vehicles are generally buyers with C and D credit, namely subprime buyers who buy from independent dealers.

"These dealers are having difficulty getting subprime customers financed," said Bob Graham, director of vehicle remarketing for Automotive Resources International (ARI). "There is nothing on the horizon that would indicate that the funding issue for subprime loans will change in the foreseeable future."

Likewise, ADESA Analytical Services foresees depressed demand for used fleet vehicles due to uncertain economic conditions and somewhat sated consumer demand, especially with so many



According to fleet manager survey respondents, 58 percent choose auctions to remarket out-of-service fleet vehicles, while employee sales was the second-most popular sales channel.

consumers "upside-down" in long-term vehicle loans. Increasingly, consumers are not qualifying for lower-interest, short-term auto loans or are opting for higher-interest loans, some running as long as 72 and 84 months, according to a dealer survey conducted by J.D. Power and Associates. Many of these consumers are upside-down in long-term loans, owing more than the vehicles are worth.

(In conjunction with this article, *Automotive Fleet* surveyed 100 commercial fleet managers to benchmark fleet remarketing programs industry wide. See charts 1-12.)

Increased inventory is another concern about the spring market. Art Spinella, vice president of CNW Marketing

Research, is bearish on the strength of the used-vehicle market in 2008. In a published article, Spinella said the used-vehicle industry will receive a "shock" this year, as a result of a 9-percent decline in used-vehicle purchasing intentions by consumers. Spinella was quoted as saying: "With the decline of (purchasing) intentions, it is possible the used-car business will see a significant contraction that would keep total vehicle sales in the 57.9 million to 58 million range."

For the first time since 1999, combined new- and used-vehicle sales dropped to fewer than 58 million units in calendar year 2007.

Gus Xamplas, vice president of re-

SLOWDOWN RESALE VALUES TO



Most fleet vehicles are purchased by subprime buyers; however, these buyers are now finding it increasingly difficult to qualify for used-vehicle loans. The slowdown in the construction market is dampening demand for used pickups, and full-size work vans.

How involved are you in the day-to-day remarketing of your vehicles?

marketing for Donlen, emphasized the impact the general economy will likely have on vehicle sales.

“Auto purchases by all buyers will be deferred — if possible — until a better economic time,” he said. “When the purchases can’t be deferred, buyers will be looking for the best value units they can acquire for the money they have to spend. With that in mind, fuel and maintenance costs will play a bigger part in the value proposition of every unit.”

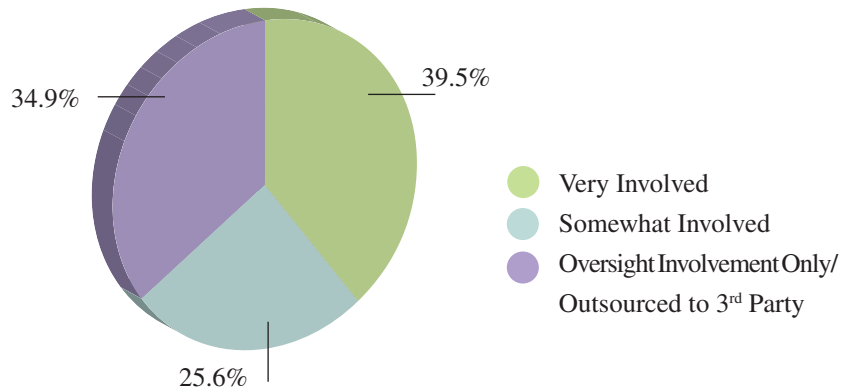
Xamplas added that dealer reluctance to acquire units at auction “on spec” can be expected as well. “Dealers will have a retail buyer in mind before making an acquisition,” said Xamplas.

Auction inventory of vehicles reached record highs at year-end 2007. “Coupled with high returning volumes of off-lease units, this will continue to put downward pressure on wholesale used-vehicle prices throughout early 2008,” said Tom Kontos, executive vice president, customer strategies and analytics for ADESA.

Another factor is that new-vehicle fleet sales were strong in the 2005 model-year and many of these units are entering the wholesale market. In addition, the volume of retail leases reaching end-of-term will increase in the 2008 and 2009 calendar years, helping to increase inventory in the fleet/lease lanes at auction.

Manheim, likewise reported a fourth quarter decline in wholesale prices. “Wholesale used-vehicle prices (on a

Chart 2



Most fleet managers are very involved or somewhat involved in day-to-day fleet vehicle remarketing. However, more than one-third indicated only oversight involvement.

mix, mileage, and seasonally adjusted basis) fell for the third consecutive month in December,” said Tom Webb, chief economist for Manheim Consulting.

According to Webb, the decline in wholesale prices over the fourth quarter is a reflection of the slower economic environment and the increased financial strain felt by many households, which in turn has led to a weaker retail used-vehicle environment.

“We experienced a larger drop in actual prices in the fourth quarter of 2007 as the market adjusted for the new model-year. However, many of our clients still experienced strong resale prices for similar 2- to 3-year-old vehicles compared to last year at the same time,” said Darrin Aiken assistant vice president of vehicle remarketing for Wheels Inc.

Construction Slowdown Fallout

The dramatic and ongoing slowdown in new-home construction has decreased buyer demand for used pickups and full-size vans. “Trucks, work trucks in particular, have been affected by the housing slowdown,

At a Glance

Factors influencing resale values include:

- Current difficulty in financing subprime customers, typical buyers of used fleet vehicles.
- Dramatic and ongoing slowdown in new-home construction.
- High cost of fuel particularly for less fuel-efficient vehicles.

which is hurting contractors, who generally buy these vehicles,” said Graham.

Manheim Used Vehicle Value Index reported a decline in resale prices for used pickups. “Not surprisingly, pickups have been one of the weakest segments in recent months,” said Webb. “That weakness intensified last December as many manufacturers had excessive inventories of new pickups. However, the decline in wholesale pricing for pickups has been across all age categories — even those not normally impacted by new-vehicle inventory levels or incentive activity.”

In past slowdowns in the wholesale market, work trucks have been generally unaffected. “When the general used-car market was soft due to high fuel prices, resale values on work trucks weren’t affected,” said Graham. “That’s the difference with today’s marketplace. Today, a broader variety of vehicles are being affected by the slowdown.”

“Medium-duty, ready-to-work trucks make up a large part of Wheels’ truck remarketing activities. As the new-home construction market has continued to decline, finding the right buyers for these vehicles has become more difficult,” said Aiken.

Also affected have been resale values for full-size vans. “The traditional work van is likewise getting caught up in the same doldrums as commercial pickups,” said Graham. “There is a large supply of these vehicles in the wholesale market.”

The economic slowdown in the general economy has also affected high-mileage vehicles. “With the tightening of consumer credit, dealers report it is getting harder for customers to get financing on vehicles with more than 80,000 miles,” said Graham. “These retail buyers are being priced out of certain segments of the used-vehicle market. They are moving to lower-priced vehicles. This is helping to depress prices. Vehicles priced at \$5,000 and under are still moving. In the past, higher-mileage vehicles, such as work trucks with 100,000 miles, weren’t affected as much. Today, they are.”

In addition to the slowdown in the construction industry, changing consumer preferences are beginning to impact pickup resale values. “The truck market has defi-

nately been affected by the economy and the lack of the construction business. However, there has also been a change in consumer buying habits and preferences as well. Consumers are beginning to second-guess whether they really need a pickup truck to drive to work, when a sedan will drive them at a lower cost,” said Aiken.

High Fuel Costs Impact Resale

For the past several years, the high cost of fuel has negatively impacted resale values for less fuel-efficient vehicles. Particularly hard hit have been full-size SUVs, especially if they are not configured appropriately to the market in which they are being sold, such as two-wheel-drive models in Snow Belt states. On average, resale values

of SUVs have declined 8 percent. However, the impact of higher fuel prices has been a two-edged sword, benefiting more fuel-efficient models such as four-cylinder compact sedans and compact SUVs.

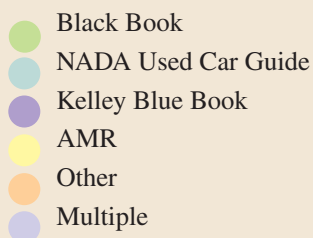
“Fuel-efficient vehicles sell well. Compacts have always been the silver lining in today’s market because they have a higher fuel economy,” said Graham.

Mid-size sedans, which represent the bulk of fleet vehicles sold at auction, continue to sell briskly, if priced to market conditions. On average, resale values for intermediate sedans are down 8 percent compared to same time last year.

Another segment experiencing a sales downturn is the minivan market. “Consumer preferences are changing when it comes

What resale guidebook(s) do you benchmark against?

Chart 3



Black Book has emerged as the most popularly used resale guidebook among commercial fleet managers.

MULTIPLE GUIDEBOOK USAGE

NADA Used Car Guide + Kelley Blue Book	22%
Black Book + NADA Used Car Guide + Kelley Blue Book	14%
Black Book + AMR	9%
Kelley Blue Book + AMR	9%
Black Book + Kelley Blue Book	8%
Black Book + NADA Used Car Guide	8%
Black Book + NADA Used Car Guide + Other	5%
Black Book + Other	5%
Kelley Blue Book + Other	5%
NADA Used Car Guide + AMR	5%
NADA Used Car Guide + Kelley Blue Book + Other	5%
NADA Used Car Guide + Other	5%

to vehicle purchases. Consumers no longer want to buy the minivan when there are a number of trendier vehicles in the resale market that can provide the same type of features. Many consumers are now looking at the crossover segment,” said Aiken.

Donlen Strategic Consulting Services, which tracks and monitors the wholesale market on a bimonthly basis, ranked the strength of the resale market by vehicle segment. “Over the previous quarter, the hard-

est-hit market segments have been near-luxury and luxury sedans, followed closely by light pickups and commercial vans, and these trends are expected to continue as the overall market softens,” said Evan McKerns, strategic consulting leader at Donlen.

Used-Vehicle Market Forecast

Two unknowns cloud any forecast of resale market conditions. The first is whether the current economic slowdown will devolve

into a recession. The second is how high fuel prices will spike this summer.

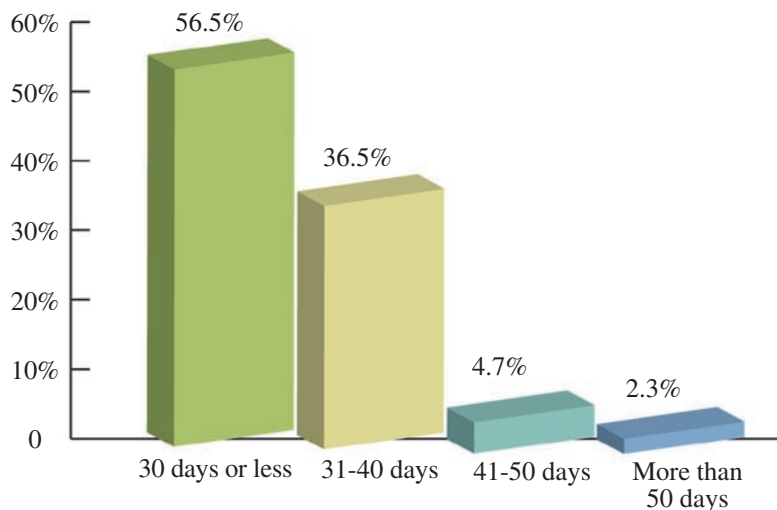
Last January, the Energy Information Administration (EIA) forecast that gasoline prices will average more than \$3 per gallon for the 2008 calendar year. This will continue to place downward price pressure on larger, less fuel-efficient vehicles.

Although resale prices are predicted to remain soft during the course of the 2008 calendar year, prices will not become depressed.

“The projection for 2008 and beyond is that the market will be very troublesome, but I don’t see used-vehicle prices

What are your average days to sale (from date vehicle is taken out of service to date sold)?

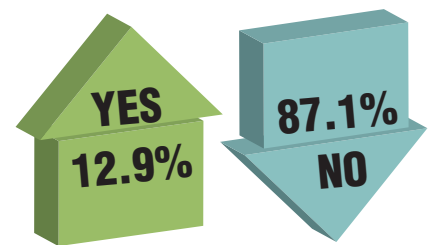
Chart 4



A majority of fleets, 56.5 percent, sell out-of-service vehicles in under 30 days, while 36.5 percent take between 31 to 40 days.

Do you also use a simultaneous online auction concurrently when vehicles are sold at a physical auction?

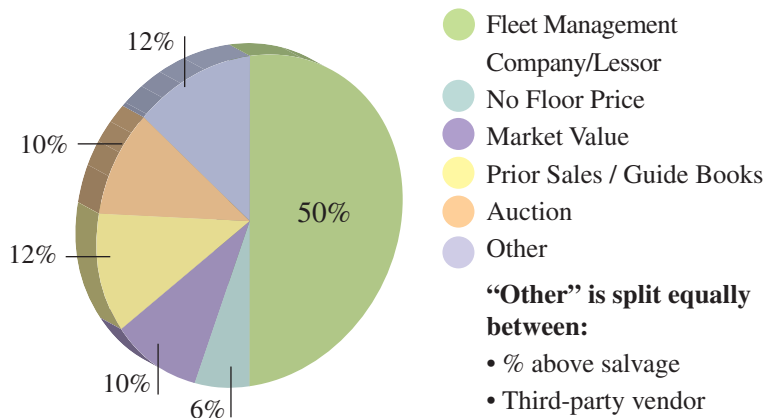
Chart 5



Simultaneous online auctions are not often used concurrently with physical auction sales.

How are floor prices determined on vehicles sold at auction?

Chart 6



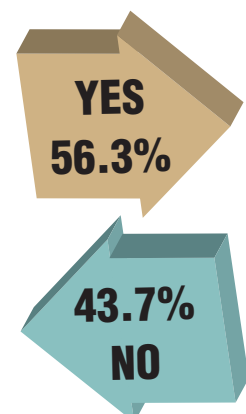
Fifty percent of fleets surveyed utilize a fleet management company or lessor to determine a remarketed vehicle’s floor price at auction.

“Other” is split equally between:

- % above salvage
- Third-party vendor
- Remaining book value
- Half of anticipated sales price
- Vehicles used as trade-in
- Fleet manager decides

Do you view condition reports of vehicles prior to resale?

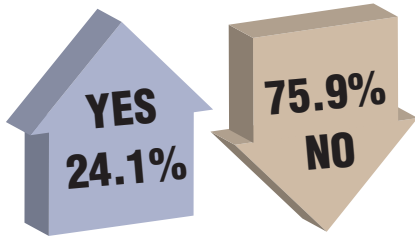
Chart 7



A majority of fleet managers surveyed review vehicle condition reports prior to resale.

Do you recondition vehicles prior to resale?


Chart 8



Most fleets do not recondition out-of-service vehicles before resale.

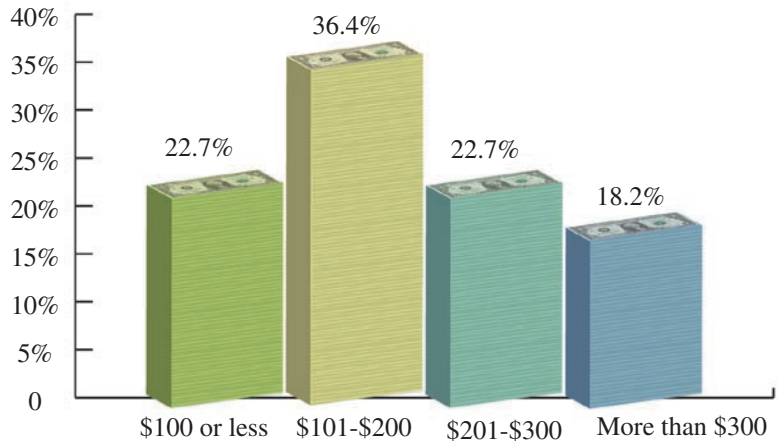
falling off a cliff,” said Graham.

A possible bright spot in the used-vehicle resale market focuses on franchise dealers. “When franchise dealers are unable to sell new vehicles, they will need to focus on their used-vehicle department. This trend supports the increase in sales we have seen to franchise dealers recently,” said Aiken.

One factor that may be beneficial to used-vehicle sales is President Bush’s economic stimulus program recently passed by the U.S. Congress. The tax rebates, targeted to lower-income individuals, will put cash-in-hand, sometime in May, of those who comprise the buying demographics for used fleet vehicles. When given a choice of making expensive repairs on an older vehicle, some may opt instead to use their rebate check as a strong down payment on a newer, higher-mileage, out-of-service fleet vehicle. 

If vehicles are reconditioned prior to resale, how much money do you spend?

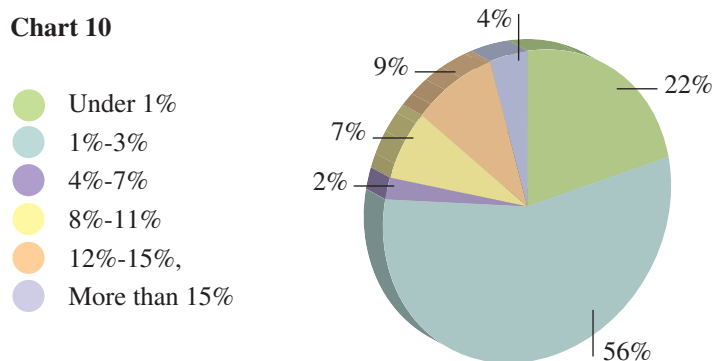
Chart 9



Of fleets that recondition vehicles prior to resale, 36.4 percent spend between \$101-\$200.

What percent of your vehicles are sold as a total loss at a salvage auction each year?

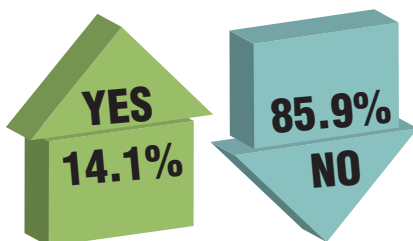
Chart 10



Fifty-six percent of fleets sell 1-3 percent of their vehicles as a total loss at a salvage auctions each year.

Do you offer an extended warranty for out-of-service vehicles sold to employees?

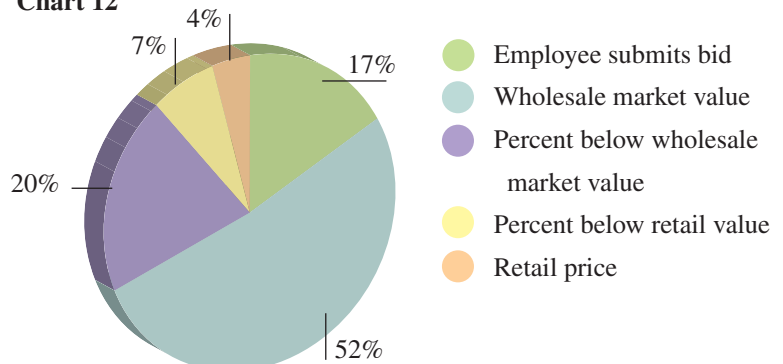
Chart 11



Only 14.1 percent of fleets offer an extended warranty on vehicles sold to employees.

How is the selling price determined for vehicles sold to employees?

Chart 12



Most often, fleets use wholesale market value to determine the selling price of vehicles offered to employees.