

Appraiser Blog

# USED CAR MARKET FACE CHALLENGES DUE TO THE ECONOMY



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## Used Car Market Face Challenges Due to The Economy

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According to a panel of vehicle finance experts, the increasing cost of a used vehicle is deterring consumers. According to David Paris, senior manager of market insights at J.D. Power, challenging economic conditions and an increase in new vehicle inventories are putting pressure on used vehicle sales.

Paris says: "We think the biggest headwinds are going to be higher new-vehicle incentives, higher new-vehicle supply, and higher interest rates,". "We also see weaker economic conditions starting to play out."

A vehicle under \$20,000 is very profitable but has vanished from the marketplace as a result of affordability concerns, which will be a key factor for the industry this year.

### **The economy**

In spite of the fact that the economy appears to be relatively healthy, some indicators, such as the savings rate, indicate potential cracks. Currently, the savings rate is about 2.3 percent, down from about 7.5 percent just a few years ago.

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It is most likely that net charge-offs will reach 2019 levels sometime in the second half of 2023. Delinquencies are the leading indicator of what happens to net charge-offs — debt that cannot be recovered by a company. When they reach that level, they will mostly move in parallel with employment levels.

As a result of inflation, consumers are seeing greater financial obligations. Whereas before, it would take 34 months for a consumer to pay off a new vehicle, it now takes almost 44 months. Since the pandemic, consumers have gotten into a bit more financial difficulty and have more obligations.

As a result, we believe consumers will switch to cheaper vehicles.

### Leasing lower

Leasing is another factor affecting the used-car market.

Paris said leasing had a market share of about 17 percent last year, down from about 30 percent a few years ago. The fact that a lot of leases haven't taken place over the last two years means that "we'll miss out on those 3-year-old vehicles, as well as those 1- and 2-year-old ones down the road." "That's a major concern."