

New Vehicle Pricing Index reveals unexpected decline in used car inflation

The latest TransUnion Vehicle Pricing Index has revealed the ongoing stagnation of used vehicle prices as new car price inflation roars ahead. This is indicative of the current tenuous state of the South African automotive industry.



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While the increase in new car prices had been largely anticipated given the volatility of the rand, the decline - albeit small - used car inflation was unexpected, according to Keith Dye, CEO of TransUnion Auto Information Solutions. The vehicle risk intelligence company publishes the VPI on a quarterly basis.

TransUnion calculates the VPI from data it receives on monthly sales returns from thousands of dealers throughout the country, as well as vehicle financing registrations from all of the major banks and vehicle finance houses.

After rising out of negative territory for the first time in more than a year to 0.83% in Q1 2014, used car inflation dropped slightly to 0.58% in Q2.

A worrying trend

"This drop may seem insignificant, but it marks a worrying trend as the used industry struggles to make up lost ground," Dye said. "Not only did the upward month-on-month price movement seen in the first quarter of 2014 reverse in Q2, used inflation appears to be on an accelerating downward trajectory once again."

At the same time, new vehicle inflation is moving rapidly in the other direction. It rose from 5.62% and 6.58% in the previous two quarters, to 7.01% in Q2 this year, staying ahead of the CPI for the seventh consecutive month.

The last time that new vehicle inflation consistently outstripped the CPI while used vehicle prices sagged was at the height of the 2008/9 recession.

However, the good news for the used market is that the trend towards the purchasing of used rather than new vehicles, which emerged in the first quarter, appears to be continuing.

After climbing to 1.53 used vehicles for every new passenger and light commercial vehicle financed in Q1, the ratio continued to move in favour of used cars in Q2 at 1.67 used vehicles being financed to one new vehicle. At the end of 2013 this ratio was at 1.25 to 1.

"We anticipate that this trend will persist as new car prices continue to rise, albeit not as sharply as they have thus far this year. Used prices are likely to keep on drifting for the next few months."

"Meanwhile overall demand for new and used vehicles is set to remain sluggish for the foreseeable future given the fragile state of consumer credit health in South Africa as indicated by the latest TransUnion Consumer Credit Index (CCI). In addition, banks are likely to maintain their tight grip on credit extension in the wake of the credit amnesty, making it even more difficult for consumers to purchase big ticket items like vehicles," Dye concluded.

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