

## UNUSUAL PRICING FLUCTUATIONS FOR UNUSUAL TIMES

By Craig Hover – Price Digest | Thursday, October 22, 2009 at 10:49AM

The pricing editors of the Automobile Red Book would like to update readers on the current state of the market, offer some insight into what we're seeing currently, and give a prediction to what we expect to see in the future.

Early in 2009, auto and light truck prices plummeted due to the weak economy, unavailability of bank loans, and an overall skepticism of the auto industry. Prices were at some of the lowest levels in history, relative to the market. Eventually, some of these problems subsided, and used prices began to gradually rise as a result.

Within the past couple of months, prices began to increase at an even greater pace. Much of this was spurred on by the Government's Cash for Clunkers program, because it appears that in addition to an increased appetite for new cars, customers were also spending money on used cars.

Meanwhile, rental companies and other fleet customers continue to keep their vehicles longer than ever before, and the number of late model used vehicles running through the auctions seems to decrease every day. Additionally, many new car dealers, specifically General Motors and Chrysler stores, lost their franchises during this time due to the terms of the "Government Bailout" event, and their big, full-service facilities were converted exclusively into used car outlets. These two events have resulted in a strain on the used vehicle market in general, and again, values went higher.

Even older used vehicles have shown some value increases, something almost unheard of even last year. First, since there are fewer late model cars and trucks, dealers and customers are relying more heavily on five-to-ten year old vehicles. Also, the Cash for Clunkers program literally obliterated many of these vehicles, and now that the program is over, the demand is spread to a smaller pool of cars and trucks.

Obviously, prices won't increase forever. And in fact, some auction prices are showing signs of stability already.

Still, after the economic stress we experienced in 2009, mated to the troubles of some manufacturers, many people that would have purchased new vehicles in the past are now looking to the used market. This should keep late-model used vehicles strong in

the near future, and older used vehicles should also be stronger than we've been used to in years past.

Red Book expects a strong showing for used cars and light trucks right up through January, barring any unforeseen changes in the market. As 2010 progresses, if the economy improves significantly, if people forget about the troubles of 2009, if car loans are easier to obtain, new vehicles could come back en vogue, and used car and truck prices may begin to normalize and steadily decrease.

If the events of 2009 taught us anything, it is that predicting where the market will go can be difficult. No one expected to see the unprecedented changes we saw this year. That's why the Red Book constantly changes with the times, bringing you the most current, up-to-date information throughout the year.