COVID-19 Market Update

12-15-2020

SUMMARY

Here is a quick recap of industry related headlines over the last week:

- Wholesale prices continued their decline last week, for the fourteenth week in a row.
- Average retail listing prices of available inventory have been essentially flat over the last two months, but overall pricing began to show signs of softening over the last three weeks. Full-Size Truck retail prices have also started to show small signs of softening; however, values remain well above last year.
- Used retail listing volume continued to increase last week, but remains at levels lower than last year – about 3.0% below prior year, and 9% below where the industry began 2020.
- “Nowcast” for annualized GDP growth rate in the fourth quarter is 11.2%, **according**[1] to GDP Now’s forecast from the Atlanta Federal Reserve.
- Weekly initial unemployment claims increased significantly, as noted in **last week’s**[2] DOL report.
- With the election behind, consumer sentiment **increased**[3] in early December “due to a partisan shift in economic prospects.”

Last Week’s Highlights from the Wholesale Market

Volume-weighted, overall Car and Truck segments both experienced continued softening in values last week, but the rate of decline decreased compared to the prior week. The overall market decreased by –0.56% this past week (compared to –0.71% the prior week). As for specifics, the overall Car segments decreased –0.80% (compared to –0.78% the prior week), and the overall Truck and SUV segments decreased this past week at a rate of –0.42% (compared to a decrease of –0.68% the prior week).

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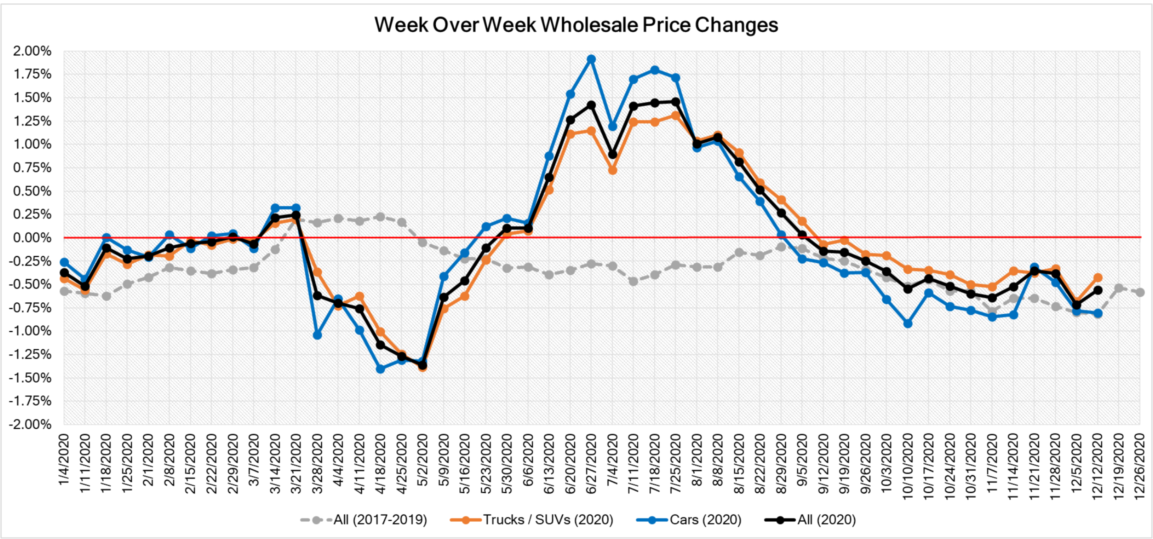
The graph below shows week-over-week depreciation rates for the entire market, including Cars and Trucks/SUVs/Vans for the last several months. We also show an average weekly change versus several previous years (grey line).



News from the Retail World (Used and New)

- Overall, used **retail prices** have been showing declines for the last few weeks. This is in response to softening **retail demand** on dealer lots across the country. Large **new car incentives** are helping to drive demand on the new side, but it is hurting the value of used vehicles, as witnessed in the recent movements in used wholesale values.
- New car production continues to struggle for many OEMs, due to absenteeism and due to supply chain shortages. A shortage of chips has the potential to impact numerous OEMs. Volkswagen is anticipating the low supplies could impact them well into 2021.
- In the UK, Honda ran into issues with completing deliveries due to congestion at ports and was forced to halt production, but is set to resume this week.
- In product news, there were some important reveals this past week:
  - Nissan was in the news for their updates to the redesigned 2021 Armada and refreshed 2021 Kicks. The Armada gets a new design and a slew of new tech and safety features, as well as Nissan's new logo. Look for it to hit dealerships in January. As for the refreshed Kicks, it gets a freshened look as well as updates to technology. It is expected to be in dealer showrooms starting in February.
  - Acura unveiled the redesigned 2022 MDX with updated interior and exterior styling, upgraded technology, and more passenger space. The redesigned MDX will hit showrooms in February with a starting price of $47,925.
  - In truck news, the Tremor package is set to return to the redesigned 2021 Ford F150 after being discontinued for the past seven years. However, this off-road capable package won't be available until next Summer.

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What Comes Next?

- We are starting to see an incremental influx of used inventory coming to the marketplace, but with weakening demand, we saw a decrease of about 15% in the auction sales rate, compared to the Summer months.
- It also appears that most of the lease returns and trade-in vehicles never make it to auctions, as grounding dealers are keeping the inventory for retail sales.
- Most lenders have re-started the process of repossessions, at least on paper, as the economy continues to feel the effects of high unemployment, but the process is slow and the number of vehicles hitting the auction lanes is still insignificant.
- All these factors contributed to the overall reduction (compared to the third quarter) in the number of vehicles sold on the wholesale market.
- With COVID-19 cases and deaths increasing substantially across the country, we expect this weakness in demand and overall cautiousness by dealers to last well into 2021.

With much weaker retail demand without a second federal stimulus, and a projected increase of used inventory, we forecast a higher than seasonal drop in wholesale prices this winter. It is worth noting that after record breaking increases in wholesale prices over the summer, we are still well above pre-COVID-19 prices, so the projected drop over the winter months will simply get us back to the baseline.

Longer Term View

Although used vehicle supply will decline significantly due to cuts in lease and fleet (both rental and commercial) sales throughout 2020 and into 2021, the economic effects of the pandemic will continue to be felt as far out as three years from now (for example, the most **recent**[4] quarterly Federal Reserve projections from September show unemployment above 4% for the foreseeable future), Black Book projects that wholesale vehicle values will decline to the pre-COVID-19 baseline in 2021 (from record highs during the summer of 2020) and will stay at these levels until at least 2023.

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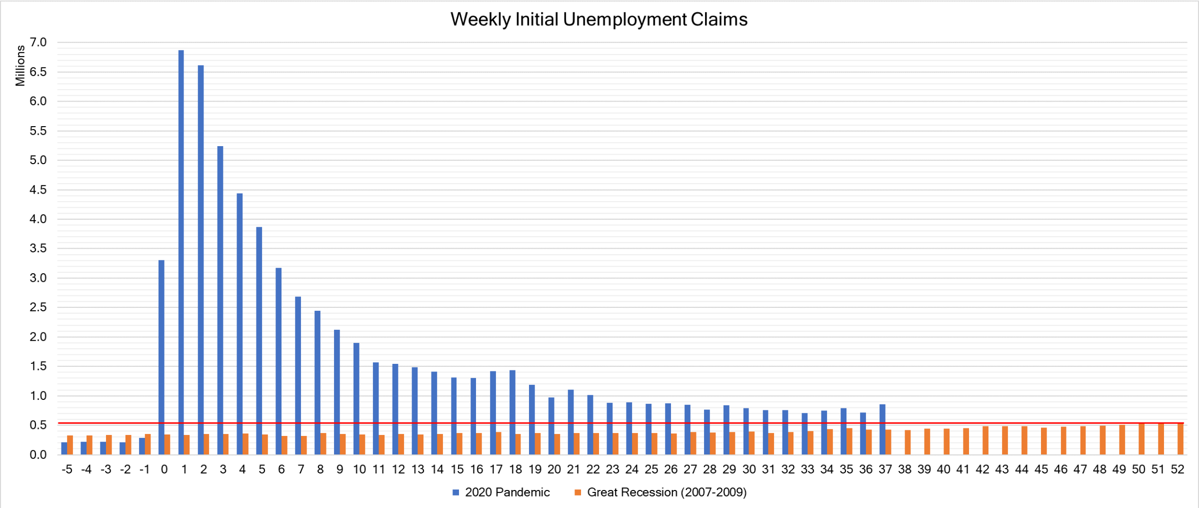
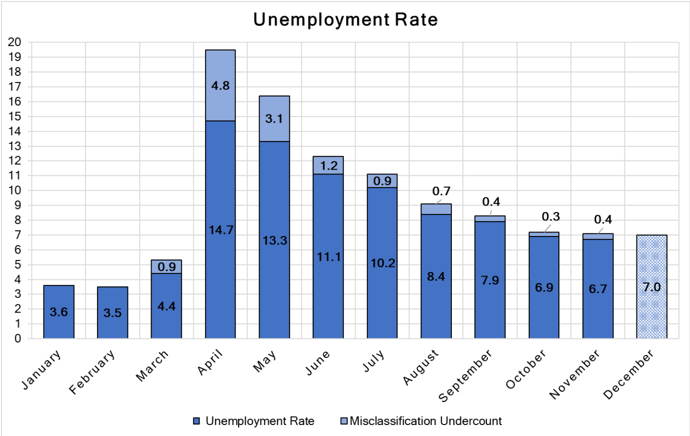
ECONOMIC CONDITIONS



Job Market

- The graph above compares weekly initial unemployment claims from the current recession against the Great Recession of 2007 – 2009. The severity and speed of job losses during this crisis is unprecedented. The horizontal (x) axis is an offset (in months) from the beginning of the recession, with week 0 being the week of March 21st.
- Last week, the Labor Department reported that the US added[5] 853,000 new jobless claims – an increase of 137,000 from the revised prior week's numbers.
- Since March, we have seen 38 consecutive weeks of record layoffs and furloughs, indicating that businesses are still struggling to start a full recovery.



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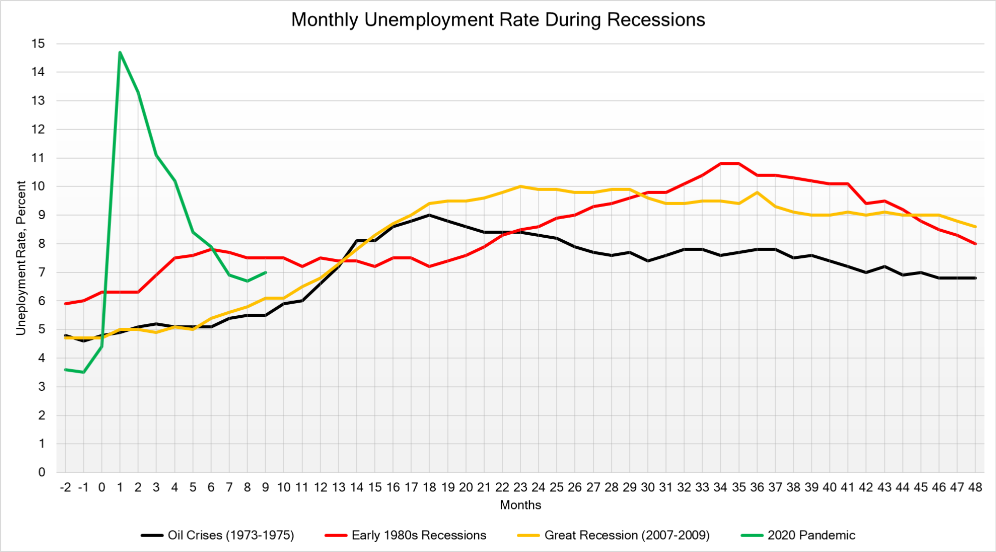
- In the early stages of the crisis, the US unemployment rate in April skyrocketed to **14.7%**[6], the highest monthly rate since the Great Depression.
- The May unemployment level decreased to 13.3% due to the success of the Federal Paycheck Protection Program (PPP) and other stimulus measures enacted in part by the Federal Reserve and Government.
- As the country and economy continued to reopen during the early part of June, the monthly unemployment numbers eased further to 11.1% and dropped to 10.2% in July.
- In August, we saw further improvement in the labor market as the unemployment rate fell to 8.4%.
- The September unemployment number dropped to 7.9% mostly due to the exit of many workers from the employment pool. Additionally, job gains slowed down significantly.
- In October and November, the economy continued to slowly recover, and unemployment rate dropped to 6.7% in November while job gains slowed down even further.
- The Labor Bureau also **noted**[7] in its reports that there was a classification error in its surveys, and the real unemployment numbers were higher for each month since March, as illustrated above.
- There is concern that without further federal stimulus, these gains will be temporary and employment numbers may deteriorate.



This recession is very different and unprecedented in the labor market – reflecting an almost instantaneous jump in unemployment with projected fast growth and recovery within several years. The graph above compares unemployment rates for the last several major recessions. The horizontal (x) axis is an offset (in months) from the beginning of the recession.

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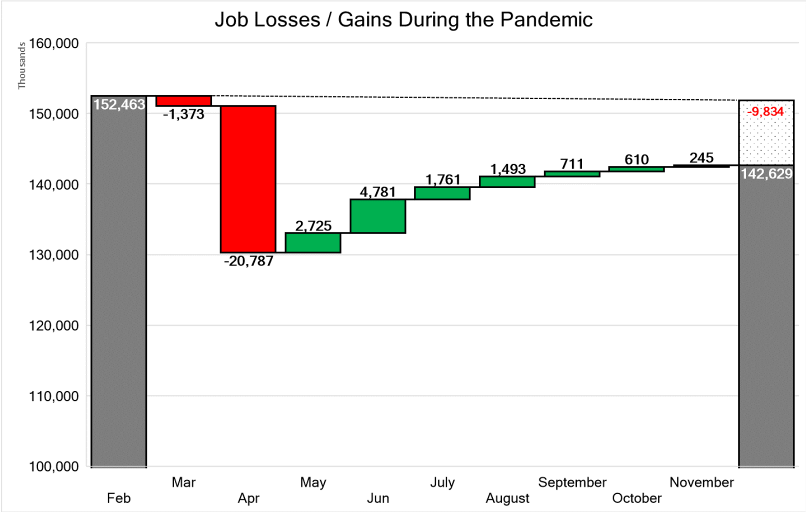
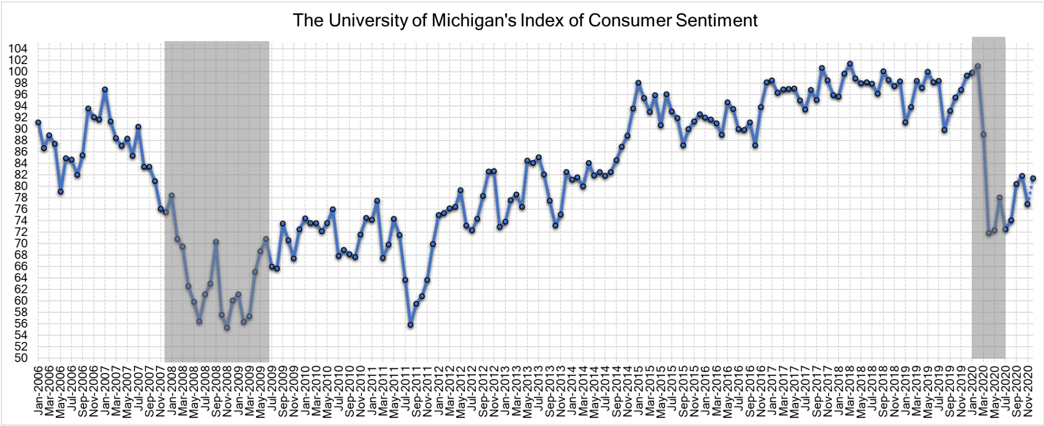


Although we have seen a reduction in unemployment claims, the initial economic shock and job losses have created a deep hole for us to dig ourselves out of. Between February and the end of November, the nation lost[8] close to 9.8 million jobs.

Consumer Confidence

Not surprisingly, consumer confidence has been on a rollercoaster over the last six months.



- At the beginning of the year, sentiment was strong - the University of Michigan's Monthly Consumer Sentiment Index in February was at 101 points[9].
- As the COVID-19 pandemic spread across the US, the Index dropped to 71.8 points in April and increased slightly to 72.3 points in May.
- During testimony by Federal Reserve Chair Jerome Powell, he noted that during the months of April and May, "stimulus checks and unemployment benefits are supporting household incomes and spending."[10]

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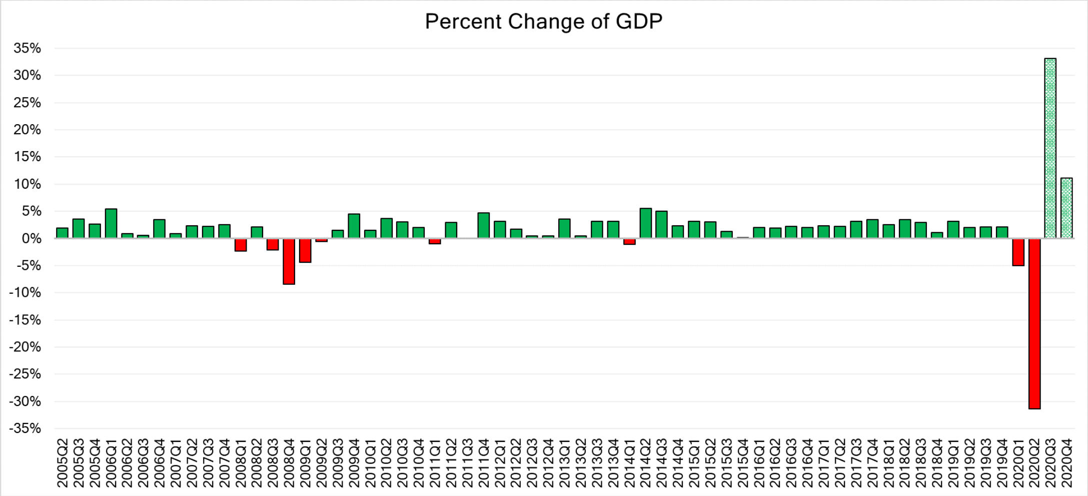
- With these one-time stimulus payments and extended unemployment benefits helping the economy, the Index for June increased further to 78.1. The gains, however, were not uniform across the country. With a significant reduction in the number of COVID-19 cases, the Northeast region led the way with a record 19.1 points month-over-month jump, while the Southern region rose just 0.5 points due to the dangerous increase in numbers of new infections and fear of further shutdowns.
- With the weakening of the economy, and the increase in new COVID-19 cases across the South, consumer confidence retracted to the lows of April in July. The University of Michigan's Monthly Consumer Sentiment Index for July decreased to 72.5 points and increased slightly in August to 74.1.
- The September Index increased further to 80.4, but still remains heavily depressed compared to pre-COVID and last September's numbers.
- Final numbers for October stood at 81.8 – a slight improvement since September and the highest point since April's drop.
- As number of cases and deaths surged across the country, consumer confidence slid to 76.9 in November.
- With the election behind, consumer sentiment **increased**[11] in early December "due to a partisan shift in economic prospects. Following Biden's election, Democrats became much more optimistic, and Republicans much more pessimistic, the opposite of the partisan shift that occurred when Trump was elected".

Gross Domestic Product (GDP)



- The Bureau of Economic Analysis (BEA) **published**[12] the third estimate of GDP in the second quarter (as of September 30th) – real GDP decreased at an annual rate of 31.4%. This was the highest drop in GDP ever recorded.
- BEA's **advanced**[13] estimate for third quarter showed an increase in real GDP at an annual rate of 33.1%.
- The current "nowcast" from the **GDP Now**[14] model [from the Federal Reserve] estimate for real GDP growth

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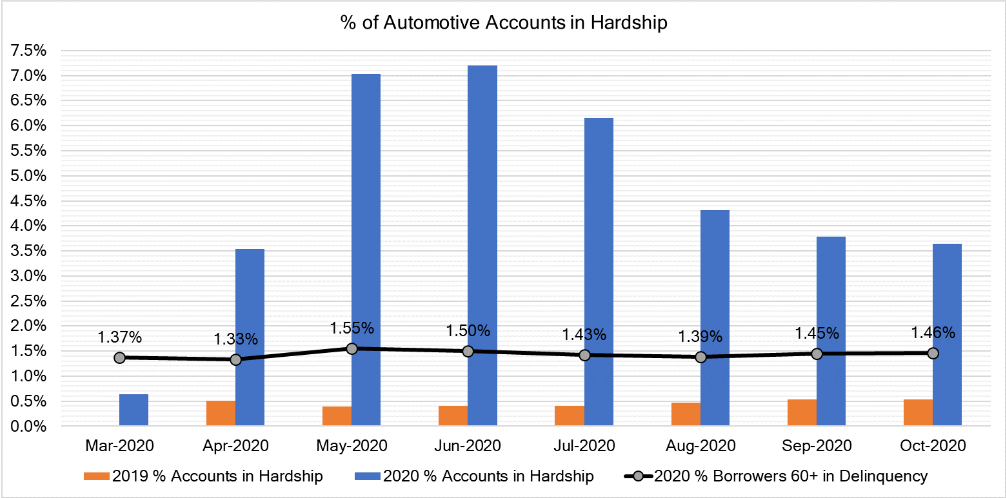
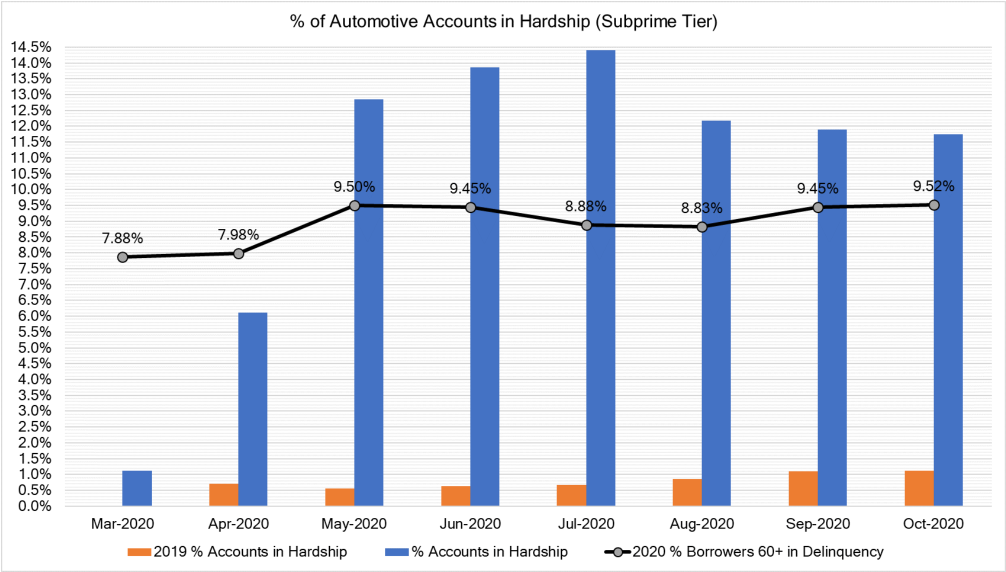
(seasonally adjusted annual rate) in the fourth quarter of 2020 was 11.2% on December 9th.

Delinquencies in Automotive Lending



The number of accounts in 'hardship' jumped substantially in April, and kept increasing through June across all risk groups, according to the Monthly Industry Snapshot by TransUnion[15]. The numbers stabilized[16] in July and improved[17] in August and September. In October[18], about 3.7% of all accounts were in hardship – this was roughly a 576% increase over last year. The increases were across all risk tiers. As deferrals expire in the upcoming months, coupled with a high unemployment rate, lenders expect a large portion of these 'hardships' to become delinquencies.

The numbers are substantially higher for subprime tiers – as of October, about 11.75% of all subprime automotive accounts were in hardship – a relative stability since August.

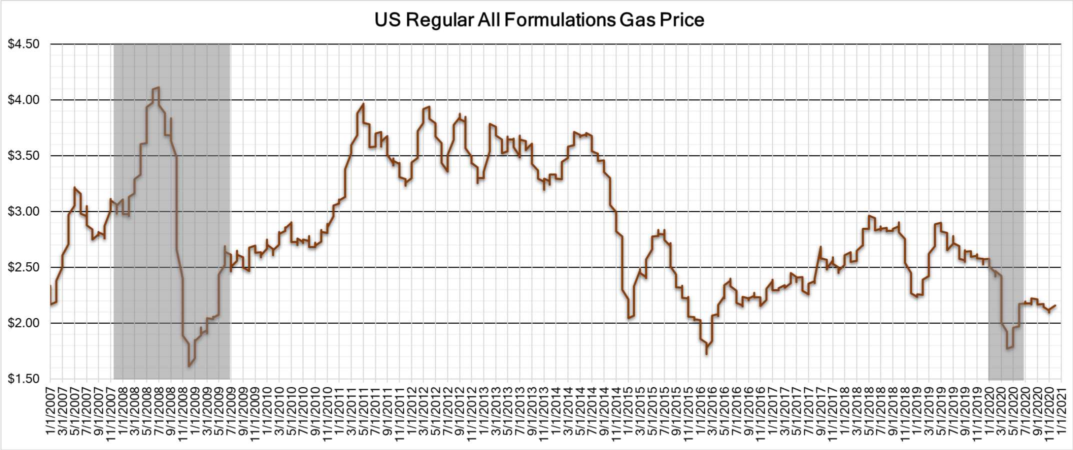


According to the "**Senior Loan Officer Opinion Survey on Bank Lending Practices**[19]" from the Federal Reserve, lenders tightened standards on auto loans during first three quarters of 2020.

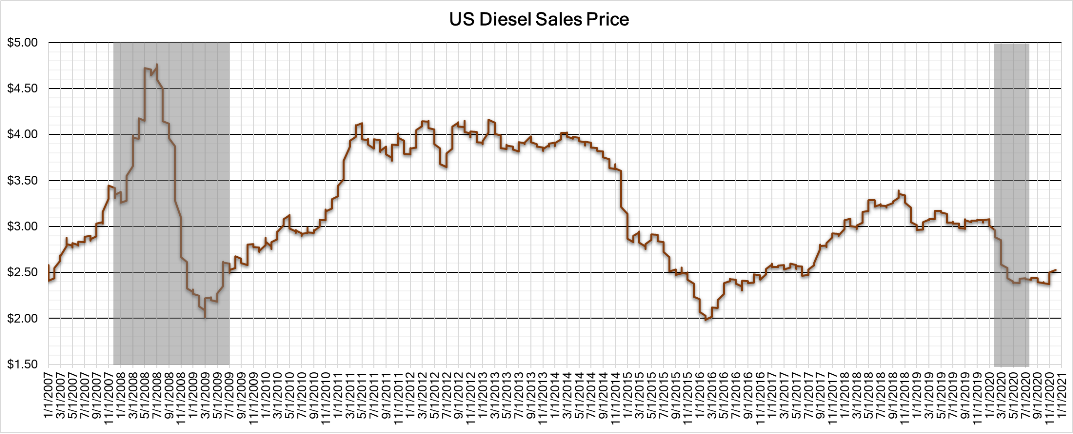
The Board of Governors of the Federal Reserve System **released**[20] results from the fourth quarter that showed even more tightening of their standards for auto loans.

Fuel Prices

Since their lowest point at the end of April, gasoline prices are up $0.38, to $2.16 per gallon last week, a four-cent increase from the prior week, according to the **U.S. Energy Information Administration**[21].



After dropping by $0.70 in the Spring, diesel prices **remained**[22] relatively flat through the Summer and Fall months, below $2.55 per gallon. Last week prices went up by three cents to $2.53 per gallon.



CURRENT WHOLESALE MARKET OVERVIEW

Auction Insights

- Remarketing strategies are widely varying right now with some remarketers finding themselves low on volume and holding firm to floors, while others are seeing volumes rise and are finding the need to aggressively sell off units. Overall, sales rates this past week increased with many remarketers ready to strike deals with dealers. The auctions with buyers and sellers physically present are able to take advantage of the situation and have successful in-lane negotiating.
- High condition scores and low mileage units continue to garner the most attention on the lanes, but as new retail units are seeing increases in incentives levels, it is starting to show signs of softening in the used market.
- Repossessions still aren't showing up in any volume on the lanes, but we are starting to see "voluntary repossessions" available in small quantities. This is traditionally a slower time of year for repossessions so the expectation is that portion of the used market will pick up in 2021.

Auction Volume

- Over the last several weeks we have seen wholesale sold volume decrease as dealers started to pull back on purchasing.
- The drops in volume were not uniform across all auctions and platforms.
- We saw a significant drop in sold volume (both month-over month, and year-over-year) in wholesale channels from September to November. There are several factors that contributed to this drop:
    - The no-sale rate increased substantially during the Fall (by about 15%), as many remarketers were not willing to adjust price floors.
    - We also saw a decrease (YOY) in available units:
        - Rental companies held back some units to cover Hurricane related rentals in September and October.
        - They sold lower volume in November as purchases of new models are being pushed into 2021.
        - Repossessions are slow to hit the market, as the process has slowed down significantly compared to pre-COVID days.
        - Dealers are holding on to more trade-ins and lease returns compared to previous years.
- The graph below illustrates the estimated year-over-year change in the monthly sold volume in the wholesale market. The summary includes all major wholesale channels, including open auctions (digital and physical), dealer-to dealer platforms, direct to dealer sales, etc.

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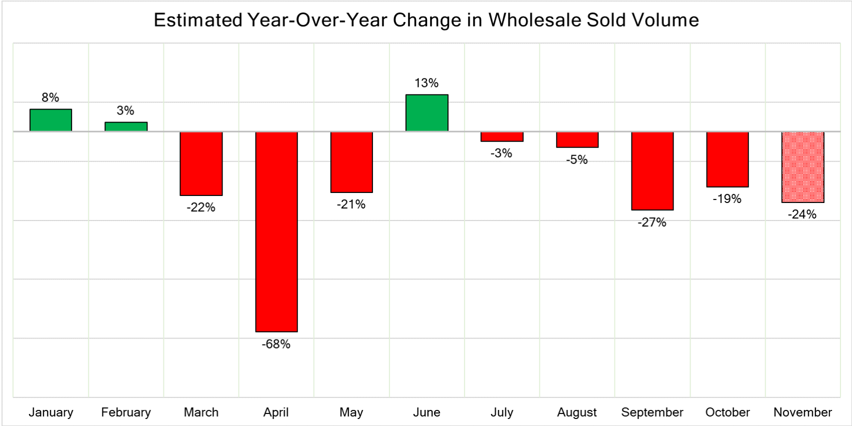
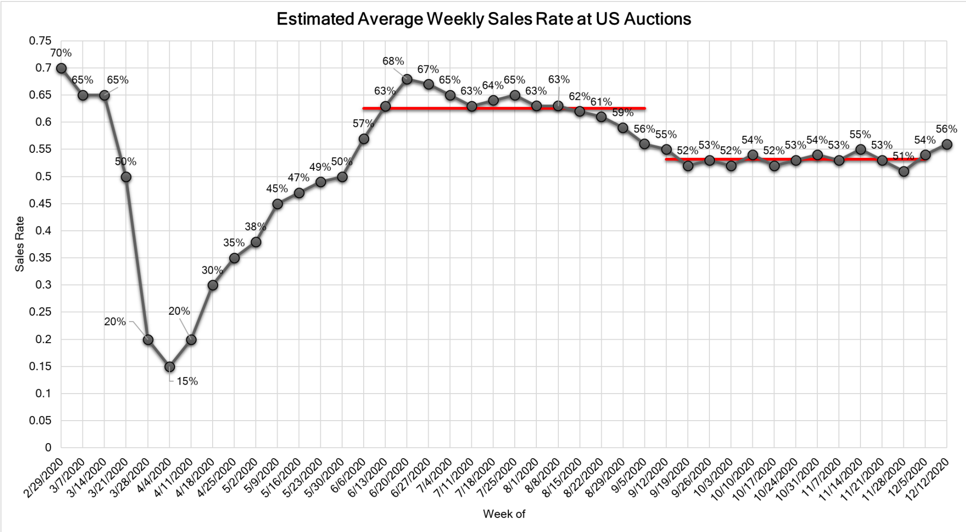


Sales Rate

- At the onset of the pandemic, shelter-in-place orders took effect and sales rates quickly tumbled into the teens.
- Subsequently, rates began climbing each week before finally stabilizing in June and July.
- After months of consistently strong sales, much of these seller's best inventory was sold, and retail demand began to soften in certain segments. As a result, sales rates started to decline in August leading up to Labor Day.
- Sales rates stabilized in September and October as sellers adjusted floors to reflect the weakening wholesale values. Heading into the Thanksgiving holiday, with COVID-19 cases sending many areas around the country back into lockdown, we saw the weaker retail demand leading to lower demand on the lanes and increases in no-sales. Post-Thanksgiving, the sales rates increased as buyers still need inventory after the successful summer months and sellers were more willing to negotiate.
- Black Book's estimate of the overall Weekly Average Sales rate is presented below.



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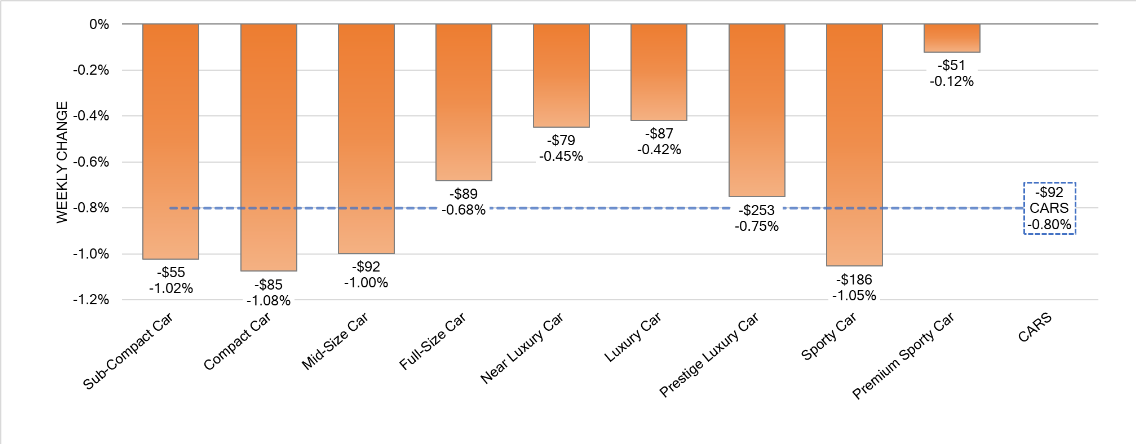
CURRENT WHOLESALE PRICE TRENDS

Current Market Level View

- Volume-weighted, overall Car segment values decreased -0.80% over the last week, a slight increase from the depreciation of –0.78% experienced the week prior.
  - Mainstream cars continue to see large week-over-week declines. Compact Cars have now seen declines for sixteen weeks in a row and the average weekly depreciation rate is a staggering -0.93%.
  - Following a traditional seasonal decline is the Sporty Car segment, the rate of depreciation has been continually increasing in magnitude each week since mid-October.
  - The niche, low volume Premium Sporty Car segment has been an outlier throughout the pandemic with much smaller weekly changes, compared to the overall market and compared to traditional seasonal behavior. Declines have only been occurring for the last eight weeks and are averaging a minimal –0.16% weekly rate of change.



- When volume-weighting is applied, the overall Truck segment (including pickups, SUVs, and vans) values declined -0.42% last week, a decrease in depreciation compared to the previous week's change of –0.68%.
  - Minivans aren't decreasing as fast as Compact Cars, but they are not far behind. This segment has now had fourteen weeks of consecutive declines and is averaging –0.70% change each week.
  - The increased demand for delivery vans brought about by the pandemic induced online shopping continues to give strength to the Full-Size Van segment which is seeing lower than normal weekly declines. This past week, the change was a small –0.16%.
  - Full-Size Truck depreciation slowed this past week (-0.46%) compared to the prior week (-0.57%), but these are declines more on the level of what we saw in the early days of the pandemic.

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BLACK BOOK

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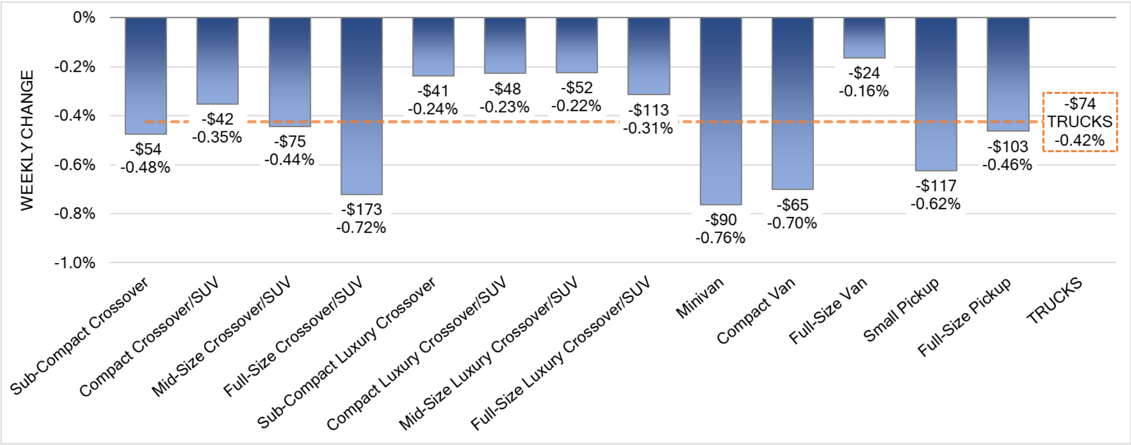
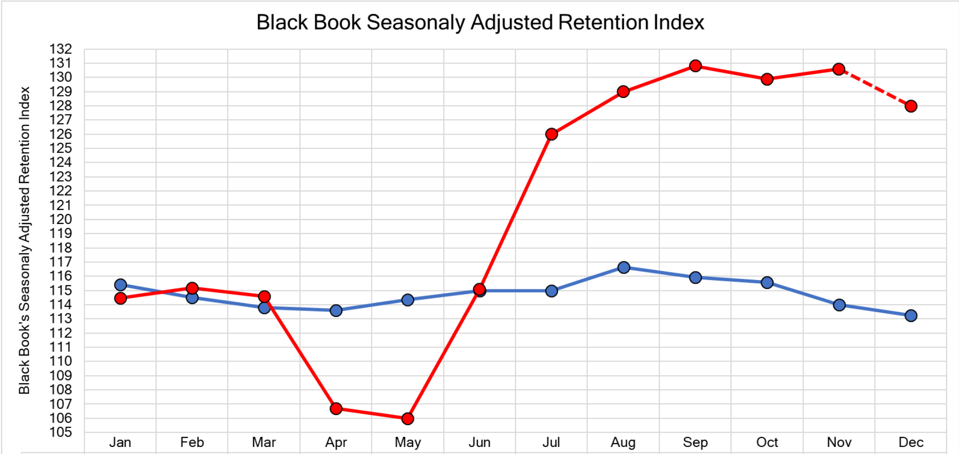


Black Book's Seasonally Adjusted Retention Index



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019	115.4	114.5	113.8	113.6	114.4	115.0	115.0	116.6	115.9	115.6	114.0	113.3
2020	114.5	115.2	114.6	106.7	106.0	115.1	126.0	129.0	130.8	129.9	130.6	128.0

The graph above compares Black Book's Seasonally Adjusted Retention Index for 2019 and 2020 calendar years. The Black Book Used Vehicle Retention Index is calculated using Black Book's published Wholesale Average value on two- to six-year-old used vehicles, as a percent of original typically equipped MSRP. It is weighted based on registration volume and adjusted for seasonality, vehicle age, mileage, and condition. The Index offers an accurate, representative, and unbiased view of the strength of used vehicle market values. It measures an 'apples-to-apples' year-over-year retention comparison.

- 2020 started slightly below 2019 levels, but the market showed early strength in February and March.
- As the US economy shut down due to the COVID-19 pandemic, we measured the highest single month drop in April of 6.9 points since launching the Index.
- As we entered July, wholesale prices continued the rebound that began during the second half of May and

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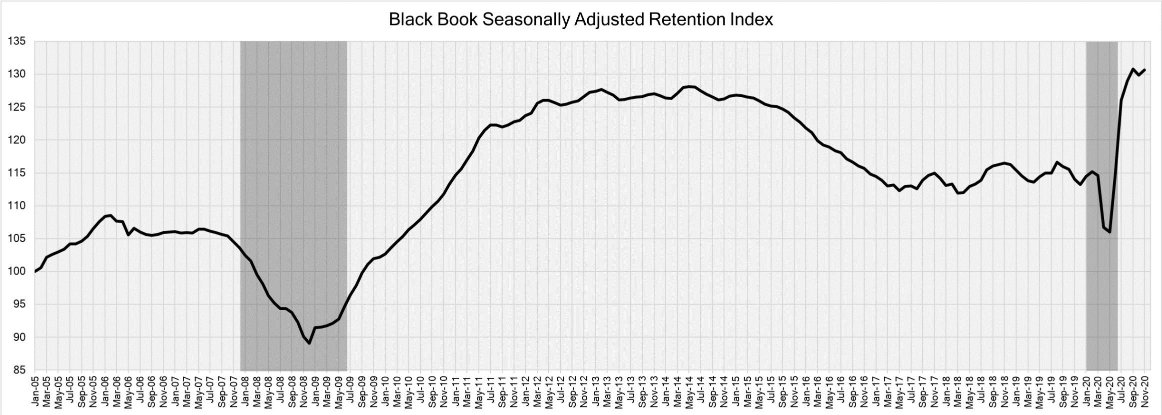
continued through the month of June, with June's Retention Index climbing back to pre-COVID-19 levels with a record jump of 9.1 points.

- Black Book's July Index value jumped above 2019 to 126.0 points as wholesale prices continued their climb.
- August Retention Index jumped further to 129.0 points – the highest retention level ever recorded since the inception of the Index in 2005.
- Our September index came at 130.8, a - 1.4% increase from August and 12.8% higher than in 2019. Market strength was driven mostly by the Full-Size Pickup segment.
- The October market Index was again helped by the strength of the Full-Size Pickup segment – Index dropped slightly (0.7%) from September to 129.9.
- In November, prices depreciated at a slower than seasonal rate which led to a small increase in the Index by 0.7 points to 130.6.
- Our "nowcast" for December shows a decrease in Index to about 128.0 points.

During the last recession (2007-2009), the Index declined by about 15 points in a span of 12 months before a recovery started. We project that the Index will decline over the next five months after experiencing the summer's strength. The graph below shows the historical trends in the Black Book Retention Index that covers the last 15 years, including the Great Recession.



USED WHOLESALE PRICE PROJECTIONS

Wholesale Price Impact Under the Most-Likely Economic Scenario

2020 In Review

- The wholesale market started the year strong from January through March, as prices increased during the first quarter.

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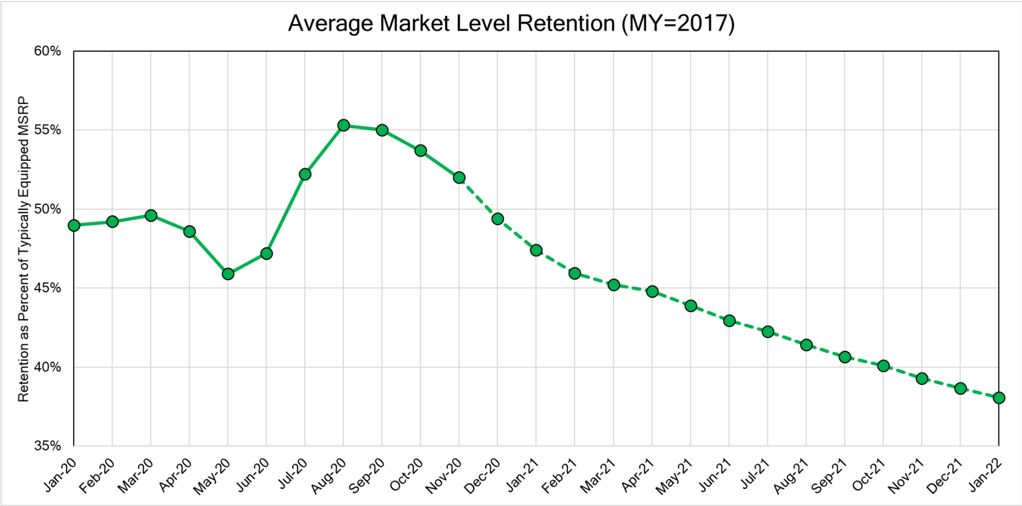
- Wholesale prices dropped significantly in April, as uncertainty over COVID-19's impact and response dampened vehicle demand. This resulted in an overall wholesale price decline of 5.9%.
- We saw a substantial improvement in prices during the last two weeks of May as many states re-opened their economies, and the monthly decrease was limited to only -1.5%.
- During the summer months, demand in the automotive market was fueled by federal government stimulus and delayed tax season. Additionally, used and new inventory shortages drove wholesale prices up.
    - In June, wholesale prices continued to increase, and the overall market appreciated by 5.7%. As a comparison, last year's prices declined by 0.9% over the same period.
    - Wholesale prices increased by a record 7.0% in July.
    - Wholesale prices continued their ascent in August and increased by an additional 2.7%.
    - Prices started to decline during the first week of September and declined by 1.0% by the end of the month. Performance varied by segment with the strength coming from Full-Size Pickups (which increased by 1.2%).
    - In October, we saw overall seasonal price declines of 2.7%, on par with previous years. It is worth noting that without the strength of the Full-Size Pickup segment, the average price decline would be steeper.
    - Overall depreciation in November slowed down a little to 2.1% due to continued strength in the Full-Size Pickup segment.

Short-Term Outlook



The graph above shows a market level weighted average projected (dashed lines) and historical (solid line) wholesale values for all 2017 model year models.

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- We project a continuous drop in wholesale prices through the winter, as the US economy suffers through the effects of COVID-19, and due to an increasing used supply. Prices will start to go back to “normal” seasonality in the second half of 2021 as the economy becomes stronger and supply shrinks.
- We also anticipate that older (>6-year-old), cheaper vehicles in average condition will not decline as much due to increased demand for these units.

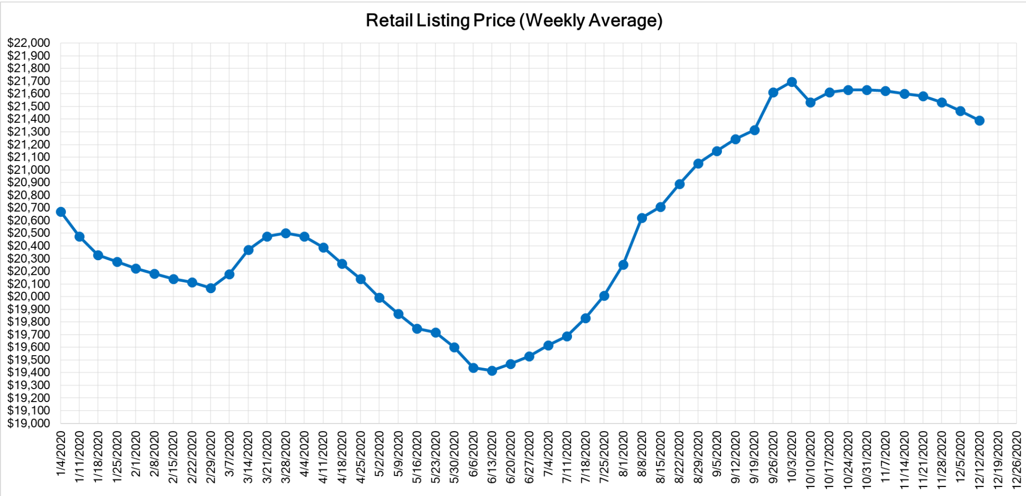
The economic effects of the pandemic will continue to be felt out to 36 months from now. We project values will return to the pre-COVID-19 baseline as used supply will decline due to cuts in retail and fleet sales throughout the remainder of 2020 and into 2021.

USED RETAIL VERTICAL

Used Retail Prices

With the proliferation of ‘no-haggle pricing’ for used-vehicle retailing, asking prices accurately measure trends in the retail space.

- From the peak in early April, until the end of June, retail listing prices decreased by about 4%.
- Starting in the second week of June, we saw an increase in used retail prices fueled by higher consumer demand due to stimulus payments, the federal Paycheck Protection Program (PPP), and limited used and new inventory.
- By early August, used retail prices rebounded to above pre-COVID-19 levels.
- We started to see some weakness and decline in retail prices in November.
- We expect used retail prices to decline this winter as demand will continue to soften in the absence of stimulus payments during a weak economy.



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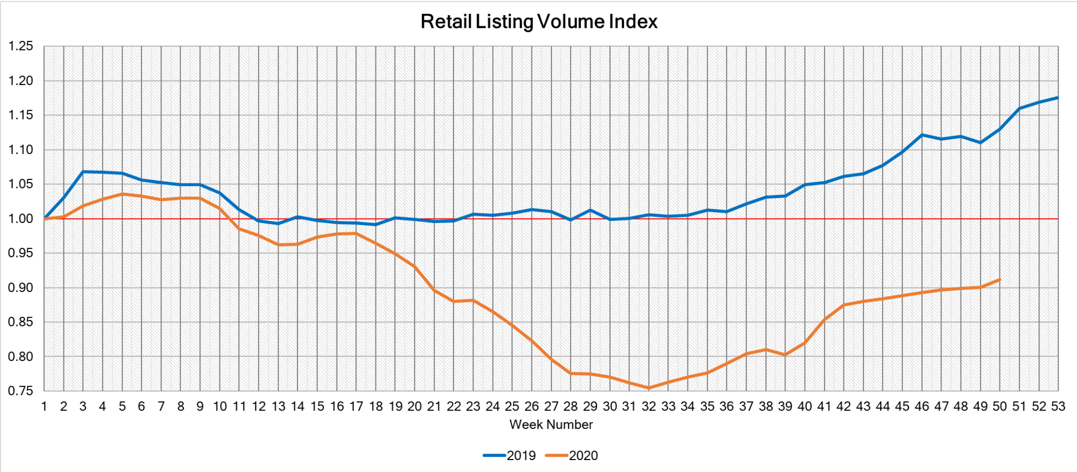
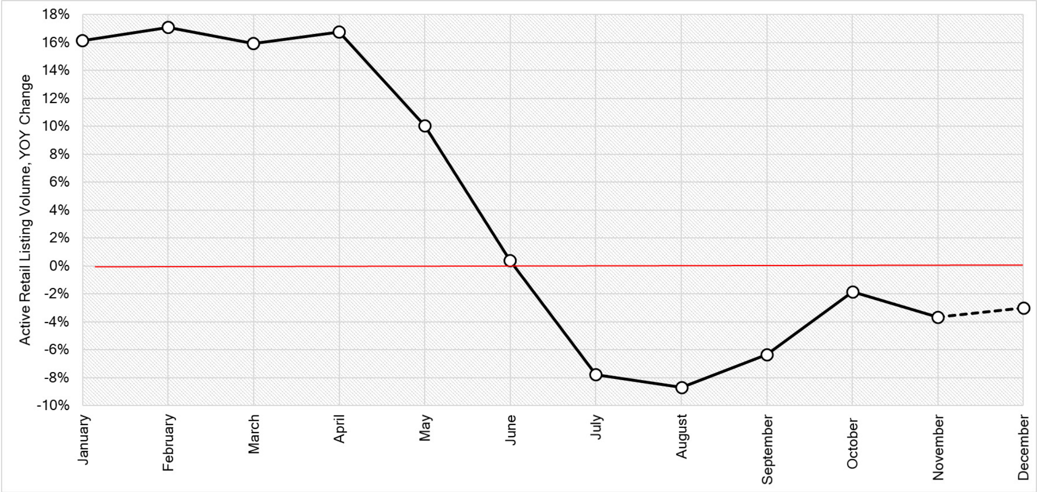
Used Retail Inventory

- Many dealers continue to report a shortage of used inventory in the wholesale marketplace. As a result, from the peak in February, we have seen a decline in the number of used retail listings by between 20% and 25%. Current inventory level is about 9% below where we started the year and slowly growing.
- The true shortage of vehicles is probably not as severe as this decline would lead you to believe, as many dealers sell some of their best inventory in the first several days before listing them online. Nevertheless, the shortage of used inventory helps keep retail prices elevated, even in the weak economic conditions.



- The graph above shows the weekly average of the number of retail listings collected by Black Book, indexed to the first week of the year. We see a continuous decline in the numbers starting at the beginning of May as the economy started to open in the states outside of the Northeast.
- The graph below shows year-over-year change in average monthly retail listings.



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COVID-19 Market Update

12-15-2020

- We started 2020 with active retail listings above previous year's levels.
- By July, the listing volume dropped to about 7% below 2019 numbers.
- August saw another drop in listed inventory to about 9% below 2019.
- In September, inventory listings continued to grow and were about 6% below 2019.
- In October, the number of listings continued to rebound and were about 1.8% lower compared to last year.
- Currently, at the beginning of December, inventory levels are about 3% lower, year-over-year.

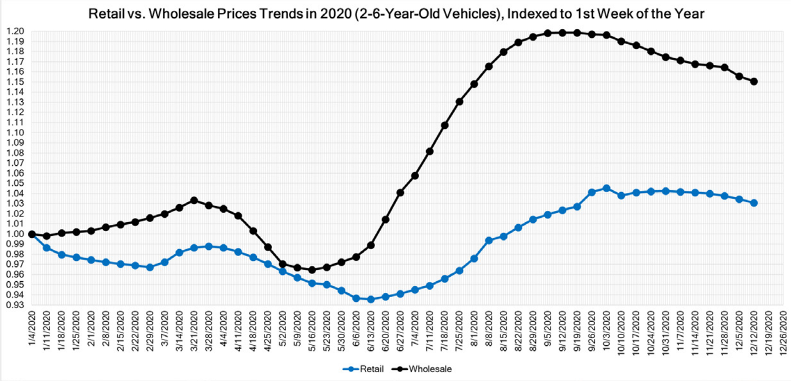
Used Retail vs. Wholesale Prices Trends

Each week, members of the Black Book automotive analyst team, data science team and executive leadership team speak with no less than 30 dealers, along with buyer and seller representatives, wholesalers and others, who represent hundreds of franchise and independent dealers nationwide. These industry experts, along with experts we speak with from leading fleet management and rental car companies, auction leadership, and other industry experts, help to clarify and connect the dots between the wholesale and retail markets, adding to the insights that our data reveals.

Since the start of the pandemic, we have been observing different trends in both wholesale and retail prices (see graph below).

- In April and May, wholesale prices declined at a higher rate compared to retail prices. As margins grew, dealers reported healthy profits on a per vehicle basis. Retail prices displayed stickiness on the way down.
- Similarly, as wholesale prices came roaring back to pre-COVID-19 levels in July and August, retail prices were slow to recover, exhibiting the same stickiness on the way up.
- As the wholesale market started to decline in September and October, we began to experience the early stages of our expectations that both wholesale and retail (outside of the Full-Size Pickup segment) prices will decline significantly over the remaining months of 2020.

The graph below captures this retail / wholesale dynamic since the start of the year. Prices are indexed to the first week of the year. The black line is Black Book's Retention Index (not adjusted for seasonality). It is calculated using Black Book's published Wholesale Average value on two- to six-year-old used vehicles, as a percent of original typically equipped MSRP. It is weighted based on registration volume and adjusted for vehicle age, mileage, and condition. The blue line is the retail index – the average listing price of available retail inventory adjusted for mileage.



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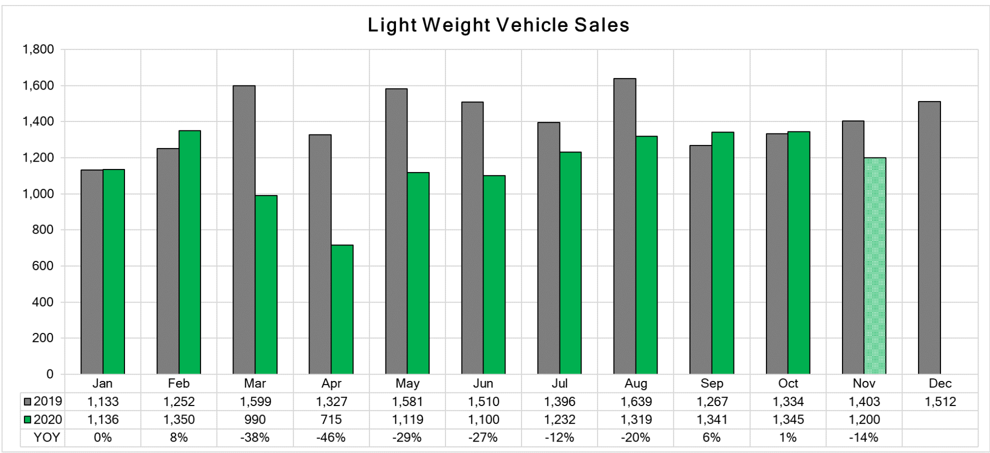
NEW VEHICLES SALES OUTLOOK

We still anticipate a significant reduction in US new vehicle sales in 2020 (both retail and fleet sales) due to a continued reduction in consumer demand. This is the result of several ongoing factors, including less miles driven due to remote work and shelter-in-place initiatives, high unemployment, and an overall feeling of uncertainty by consumers.

Overall, new vehicle sales were down **17%**[23] during the first eleven months of the year compared to last year (with a **6%**[24] YOY increase in September and 1% increase in October mainly due to strong retail sales).



Our New Vehicle Sales Outlook was updated based on stronger than expected August through October sales numbers. Due to continuous production disruptions, and much weaker demand due to the economic slowdown, we project at most 18% drop (compared to pre-COVID-19 projections) in new sales in 2020 to at least 13.9mm units in our base economic scenario.

In the longer-term, we expect new sales volume to return to pre-COVID-19 levels within five years. The table below summarizes Black Book's projections for new vehicle sales for the next several years.

Year	Pre-COVID19 Projection	Current Projection	Change vs. Pre-COVID Projections
2019		17.0mm	
2020	16.9mm	13.9mm	-18%
2021	16.9mm	15.3mm	-9%
2022	16.8mm	15.9mm	-5%
2023	16.7mm	16.5mm	-1%

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USED VEHICLE SUPPLY PROJECTIONS

Black Book projects a higher-than-expected used vehicle supply in the wholesale marketplace for the rest of 2020 due to several factors:

- Delayed lease returns resulting from lease extensions offered by OEMs – more than 560,000 additional three-year-old units in the second half of 2020.
- Extensive de-fleeting by rental car companies due to lack of consumer and business traveler demand, and financial pressure to raise cash – at least 250,000 additional one- to two-year-old vehicles were added to the market in the second part of 2020.
- Increased repossessions due to deteriorating economic conditions in addition to delayed repossessions during spring and summer months - we expect the volume of repossessed vehicles to at least double in the next six months compared to last year. This additional volume could exceed 1.0 million additional units in the next 6 months.

Short Term Lease Return Projections

When we started the year, lease returns were projected to hit a record volume of above 4.1 million units. Once the pandemic was underway and most manufacturing halted, OEMs started to encourage lease extensions in order to push returns further into 2020, when they would be able to provide replacement vehicles. As a result, we project at least 560,000 additional units in the second part of 2020 (compared to the pre-COVID-19 estimates) due to a slowdown in sales in April / May, along with expected turn-ins of the lease extensions. So far, a large portion of these units are being kept by grounding dealers and not being sent to the auctions.

Repossessions

About 1.9 million vehicles were repossessed by lenders and sold (mostly) through wholesale channels in 2019. During the beginning of the pandemic, most states put a moratorium on auto repossessions and most lenders had deferral programs to help owners through the first several months of the recession. Most of the lenders have ended their deferral programs. Our survey of lenders and automotive recovery companies suggest that the volume of repossessed vehicles will at least double in the next six months. We expect that there will be substantial challenges at every step of the process as recovery, transportation, and disposal are not fully recovered.

Rental Unit Returns

Business and leisure travel collapsed at the end of March – air travel is still down by about 60% according[25] to the TSA. We expect a significant reduction in both categories for the remainder of 2020. In addition, there is no

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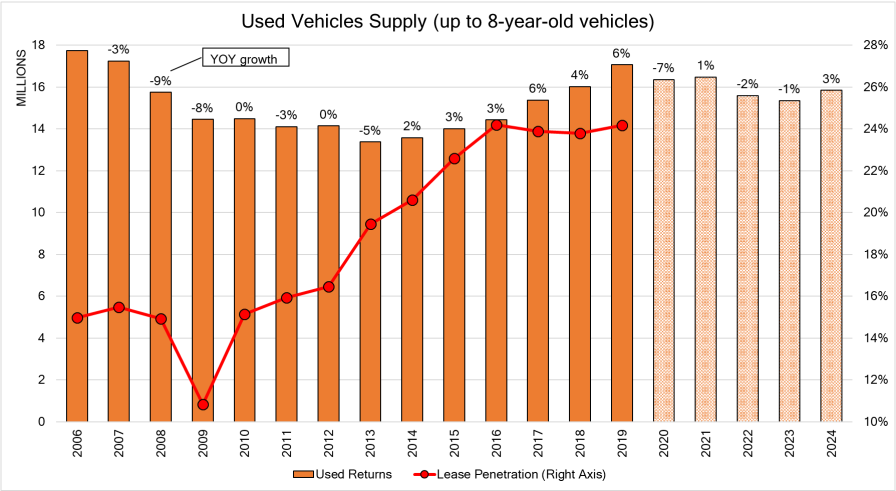
expectation that travel will return to pre-COVID-19 levels over the next several years. According to the IATA (International Air Transport Association), air travel will not return to pre-COVID-19 levels until after 2024. This puts tremendous financial pressure on rental companies that rely on air travel to reduce both their current fleet and scrutinize future vehicle acquisitions.

At the end of May, Hertz filed for bankruptcy in North America as a result of the pandemic. Hertz was able to secure a deal with its lenders that allows a gradual reduction of fleet – over 182,000 units between June and December. In addition to Hertz, other rental companies reduced their fleet during the summer and fall months to match lower demand for rentals. This practice lead to over 250,000 additional rental units hitting the wholesale market in the second half of 2020.

In the longer term (later 2021 - 2023), the drop in rental return volume will benefit the price of newer used units, as supply will be limited.

Longer Term Used Returns Projections

With the reduction in retail and fleet sales over the next several years, we project a substantial decrease of available used inventory in the years to come. The graph below illustrates the numbers of returned vehicles up to 8-years-old. This lower level of used inventory will be beneficial to used car prices as supply will be limited, helping to bolster valuations.



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About Black Book

Black Book® is best known in the automotive industry for providing timely, independent and precise vehicle pricing information, and is available to industry-qualified users through online subscription products, mobile applications and licensing agreements. Since 1955 Black Book has continuously evolved to ensure that it achieves its goal of delivering mission-critical information to its customers, along with the insight necessary to successfully buy, sell, and lend. Black Book data is published daily by National Auto Research, a Hearst company, and maintains offices in Georgia as well as the Canadian Black Book in Toronto.

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ENDNOTES

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