

Used car prices soar; New car sales lift again

New vehicle sales; Services sector; Used vehicle prices

- **New vehicle sales:** New vehicle sales totalled 95,652 units in December, up 13.5 per cent on December 2019. This is the second annual increase in the past 2½ years (since February 2018). And it is the biggest annual lift in sales in eight years.
- **Used vehicle prices:** In December, prices of used vehicles rose by 35.2 per cent compared with a year earlier – the strongest result in a series going back 21 years.
- **Purchasing manager index (PMI):** The IHS Markit services purchasing manager index rose from 55.1 to 57.0 in December. The Composite Index, which measures combined services and manufacturing output, rose to 56.6 in December from 54.9 in November. Readings above 50 indicates an expansion of activity.
- **China PMI:** The Caixin services PMI fell from 57.8 to 56.3 in December.

New vehicle sales data provides insights into business and consumer spending and provides guidance on conditions for the Autos and Components sector of the sharemarket. The purchasing manager surveys provide insights into business activity.

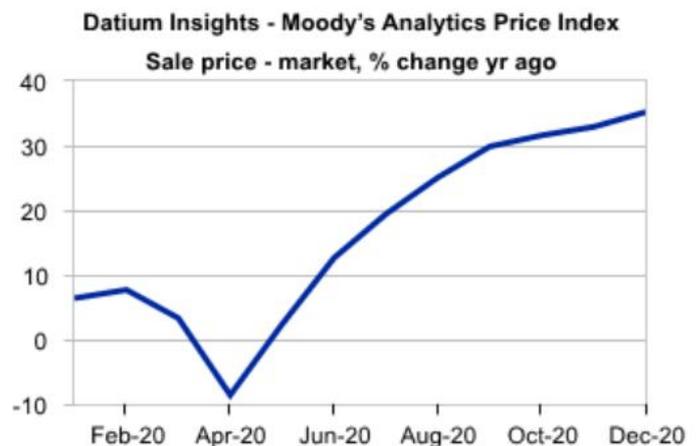
What does it all mean?

- Those in charge of purchasing decisions tend to have a good idea what is going on at their businesses. That's why a number of groups regularly survey them to get a sense of broader economic activity. And recent readings across manufacturing and services sectors have been positive. Governments in Australia, as well as the Reserve Bank, have been successful in keeping business in business and people in jobs. And with local lockdowns largely ended across the country (although many border restrictions still exist) businesses are reporting stronger demand, leading to greater demand for staff.
- One of the standouts in the Covid-19 environment has been the lift in demand for used vehicles, driving prices sharply higher. Most car owners expect to see the value of their rides slipping over time, rather than rising. But used vehicle prices are up more than 35 per cent compared with a year ago. That lift in used car prices boosts personal wealth and spending and borrowing capacity.
- The new motor vehicle market is on the recovery path. After lifting in annual terms in November for the first time in 2½ years, this has been followed up with another increase in December. And a solid increase – with sales up 13.5 per cent on the year – the biggest gain in eight years. Super-low interest rates, the government asset write-off scheme and the restriction on overseas travel are all factors encouraging business and personal buyers to update their rides.

What do the figures show?

Datium Insights - Moody's Analytics Used Vehicle Price Index

- Moody's noted: *"Demand for wholesale used vehicles remains high in Australia. The Datium Insights-Moody's Analytics Used Vehicle Price Index increased by 35.2 per cent on a year-ago basis in December. This is the highest rate for a series that goes back to 1999. Car prices rose by 31.4 per cent, while truck*



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prices increased by 46.2 per cent. Vehicle retention value, measured as price/Manufacturer Suggested Retail Price (MSRP), rose by 34.2 per cent compared with a year earlier, with the car component increasing by 28.8 per cent and the truck component rising by 42.6 per cent.”

New vehicle sales - December

- New vehicle sales totalled 95,652 units in December, up 13.5 per cent on December 2019. This is the second annual increase in the past 2½ years (since February 2018). And it is the biggest annual lift in sales in eight years.

The Federal Chamber of Automotive Industries reported:

- “The December 2020 market of 95,652 new vehicle sales is an increase of 11,413 vehicle sales or 13.5 per cent on December 2019 (84,239) vehicle sales. December 2020 had 23 selling days compared to December 2019 with 24, but this resulted in an increase of 648.8 vehicle sales per day.
- The Passenger Vehicle Market is down by 2,500 vehicle sales (-11.1 per cent) over the same month last year; the Sports Utility Market is up by 9,607 vehicle sales (24.1 per cent); the Light Commercial Market is up by 4,028 vehicle sales (21.6 per cent); and the Heavy Commercial Vehicle Market is up by 278 vehicle sales (8.6 per cent) versus December 2019.
- Toyota was market leader in December, followed by Mazda and Hyundai. Toyota led Mazda with a margin of 14,914 vehicle sales and 15.6 market share points.
- Sales across states and territories over the year to December: NSW (up 9.2 per cent); Victoria (up 8.7 per cent); Queensland (up 19.2 per cent); South Australia (up 16.7 per cent); Western Australia (up 26.4 per cent); Tasmania (up 7.6 per cent); Northern Territory (up 38 per cent); ACT (up 35.8 per cent).
- In 2020, new vehicle sales totalled 916,968, down 13.7 per cent on 2019.
- “Passenger vehicle numbers totalled 222,103 vehicles, for 24.2 per cent of the market in 2020. Total Passenger vehicles sold were down 29.7 per cent on full year 2019.
- SUVs claimed 49.6 per cent of the market during 2020, an increase from 45.5 per cent market share in 2019. A total of 454,701 SUVs were sold during the year, down 5.9 per cent on full year 2019. Light Commercial Vehicles continued to enjoy strong popularity in 2020, claiming 22.4 per cent market share. A total of 205,597 vehicles sold, down 8.9 per cent on full year 2019.”

IHS Markit Purchasing Manager indexes (PMI)

- The IHS Markit services purchasing manager index rose from 55.1 to a 5-month high of 57.0 in December. The Composite Index, which measures combined services and manufacturing output, rose to 56.6 in December from 54.9 in November. Readings above 50 indicate an expansion of activity.
- IHS Markit noted: “Australian service providers indicated that the economic recovery continued to gain momentum at the end of the year. Both business activity and new orders saw faster growth throughout December, which encouraged firms in the services sector to take on additional staff for the second successive month. Despite further evidence of inflationary pressure, businesses remained optimistic regarding the outlook for activity over the coming year.”
- “Sustained increases in both activity and demand for services buoyed Australian service providers to increase capacity for the second month running via another round of employment growth.”
- “The picture for the Australian services economy remains positive at the end of the year, with expectations for an expansion in activity remaining at high levels. However, concern surrounding the pandemic persists with the re-imposition of restrictions in southern states following a resurgence in infection rates.”

What is the importance of the economic data?

- The **Federal Chamber of Automotive Industries** releases estimates of **new vehicle sales** on the third business day of the month. The figures highlight the strength of consumer spending as well as conditions facing auto & components companies.
- **IHS Markit undertakes a survey of purchasing managers** across manufacturing and services sector. The ‘flash’ or ‘early/preliminary’ readings provide timely information on the economy. As such, the survey is valuable for investors.



Sources: IHS Markit, Australian Bureau of Statistics.

- Data analytics firm, **Datium Insights**, provide a weekly report on the used vehicle market. Datium Insights and Moody’s Analytics also compile a monthly wholesale used car price series. The data assists in gauging the strength of a key component of consumer spending and provides insights on the Autos and components sector of the sharemarket.

What are the implications for investors?

- Economic recovery is proceeding in Australia. The Reserve Bank Governor has committed to leave the cash rate at super-low levels for three years. But if economic activity lifts higher and quicker, it will be interesting to see the Reserve Bank response. The RBA tips wages and prices to remain low until the jobless rate returns to levels near 5 per cent. And that is still some way off.
- But the data released so far in 2020 has been very encouraging including the lift in activity in manufacturing and services sectors, higher job ads, increase in new vehicle sales and a record lift in used car prices.
- Contrary to popular opinion, surveys suggest that price pressures are building. This is something to watch. IHS Markit wrote: *“Latest data signalled increasing price pressures on firms operating in the Australian services economy as input prices increased for the seventh month running in December. Although softening from a two-year high in November, the rate of input cost inflation remained marked. The rise in input prices was largely attributed to greater staff costs. Businesses partially passed on higher costs to clients by raising selling prices for the second month in a row.”*

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