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## More Consumers Choose Used Vehicles in Weak Economy

As has been widely reported in the media, new vehicle sales in the United States continue to suffer due to the prolonged economic crisis. From Q1 2008 to Q1 2009, new vehicle sales dropped 35 percent. However, as vehicles fail from old age, lease terms expire, or consumers re-enter the market to get a “new set of wheels,” used cars and trucks offer a reasonable alternative in a financially challenging climate.

How is the ratio of used-to-new vehicles sold changing in a depressed economy? Which brands capture the greatest share of the used vehicle market? Where are used vehicle sales the strongest? This Polk View explores these and other questions related to the used vehicle market.

### Top Used Vehicle Brands

For some brands, used vehicles outsell new cars and trucks by a significant margin. Thirteen brands have used-to-new vehicle sales ratios that are two points or more above the industry average of 5:1. Isuzu, with a ratio of 93:1 is an anomaly, as it exited the new light vehicle market in January 2009<sup>1</sup>. Aside from Isuzu, three domestic brands (Pontiac, Mercury and Buick) have the highest ratios of used-to-new-vehicle sales, perhaps reflecting the domestic automakers’ difficulties in providing financing and selling new vehicles during 2008.

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### Shifting Ratio of Used-to-New Vehicle Sales

Traditionally, the U.S. automotive market has seen a 3:1 ratio of used-to-new vehicle sales, meaning that three pre-owned cars or trucks sell for every new one. In Q1 2009, the ratio rose to 5:1, up from 3:1 one year ago. From a sales volume view, this shift in the used-to-new ratio has occurred because year-over-year used vehicle sales dropped by just 5.3 percent while new car and truck sales declined 35 percent.

As a result, used vehicles make up a growing percentage of total light vehicle sales. From Q1 2008 to Q1 2009, the share of used vehicles out of all new and used light vehicle sales rose seven percentage points from 77.6 percent to 83.6 percent.

Figure 2  
Highest Used-to-New Vehicle Sales Ratios

Brand	Q1 2009 Used-to-New Vehicle Sales Ratio
Isuzu	93:1
Pontiac	13:1
Mercury	12:1
Buick	12:1
Mitsubishi	11:1
Ford	8:1
Saab	8:1
Chrysler	8:1
Chevrolet	8:1
Jaguar	7:1
Cadillac	7:1
Volvo	7:1
Dodge	7:1

Only brands with more than 1,000 new vehicle sales in Q1 2009 are included.

Figure 1  
Used-to-New Light Vehicle Sales Ratio



Six brands (of those selling at least 1,000 used units in Q1 2009) sold more used vehicles in Q1 2009 compared to one year ago. Suzuki’s used sales rose 13 percent, Mercedes-Benz saw a 9 percent jump and Infiniti’s used sales rose 8 percent. Hummer, BMW and Lexus all had smaller increases. Interestingly, the used-to-new ratio for all of these brands is below the industry average, meaning that used vehicle sales don’t outpace new vehicle sales as much as for many other brands.

continued

<sup>1</sup> Isuzu to Quit Light-Vehicle Market in U.S., Edmunds Inside Line, January 31, 2009



“The Rocky Mountain states have the highest used-to-new vehicle ratio (7:1), while the lowest ratio (3:1) is in the Mideast.”

### How Used Vehicles Sell Across the Country

The Rocky Mountain states (Colorado, Idaho, Montana, Utah and Wyoming) had the highest used-to-new vehicle ratio in the country in Q1 2009—7:1. Since unemployment in these states is below the national average, used vehicle purchases in this region may be driven more by personal preference than by economic conditions.

On the other end of the spectrum, the lowest ratio of 3:1 was in the Mideast (Delaware, District of Columbia, Maryland, New Jersey, New York and Pennsylvania). This is likely due to the high concentration of luxury and import brands in this region, which don't aggressively contribute to the used vehicle market.

Figure 3

#### Used-to-New Vehicle Sales Ratios by Region

Geographic Region	Used-to-New Ratio
Rocky Mountain	7:1
Southeast	6:1
Plains	6:1
West	6:1
Great Lakes	5:1
Southwest	5:1
New England	4:1
Mideast	3:1
<b>Total Light Vehicle Industry</b>	<b>5:1</b>

Across the country, used vehicle sales volumes dropped 5 percent from Q1 2008 to Q1 2009. But, some regions fared far better than others. In the West (Alaska, California, Hawaii, Nevada, Oregon and Washington), the volume of pre-owned cars and trucks sold in Q1 rose 13.6 percent from Q1 2008 to Q1 2009, the largest increase in the country. At the same time, new vehicle sales in the region fell by almost 41 percent. California, the largest vehicle market in the country, has been especially hard hit by the real estate crisis and the slumping economy<sup>2</sup>, which was a likely culprit in the shift toward used vehicles in the region. The New England region (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont) was the only other region where used vehicle sales rose Q1 year-over-year (by 1.5 percent).

The two regions with the largest decreases in used vehicle sales from Q1 2008 to Q1 2009 were the Southeast (Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia), down 12.6 percent, and the Rocky Mountain states, down 10.7 percent.

### Implications of the Shift toward Used Vehicles

The last year has certainly seen an increased interest in used vehicles, even as overall volumes of both new and pre-owned cars and trucks have fallen. While new vehicle sales are expected to start to recover over the next few years, used vehicles will likely retain their popularity for some time as the economy gradually rebounds. In fact, a recent Polk study of consumer sentiment indicated that almost three-quarters of respondents were “very” or “somewhat” likely to consider buying a used vehicle instead of a new one.

What are the implications of the shift toward used cars and trucks?

*For OEMs:* Clearly, used vehicles are more popular in some parts of the country than in others, which could impact vehicle allocation strategies when new vehicles are launched. OEMs should keep on top of changing trends in purchase of used versus new vehicles, especially in large markets like California.

*For Dealers:* Used vehicles are typically more profitable than new ones for dealers. However, poor new vehicle sales create serious issues for dealers because the lack of trade-ins causes wholesale used vehicle prices to climb<sup>3</sup>. The good news for dealers is that the average wholesale price of a used vehicle dropped in April 2009 after five months of consecutive increases<sup>4</sup>.

At the same time, OEMs typically want dealerships to focus more on selling new vehicles. In fact, 658 of the 789 Chrysler dealers targeted for closing by the newly named Chrysler Group sell more used vehicles than new<sup>5</sup>.

*For the Aftermarket:* The aftermarket also recognizes the opportunity from consumers' move to greater purchase of pre-owned vehicles. Older vehicles translate to more service needs, and more competition for dealership service bays.

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<sup>2</sup> California's Wipeout Economy, the Washington Post, March 25, 2009

<sup>3</sup> As New Vehicle Sales Fall, Used Car Prices Go Up, AutoBlog, March 8, 2009

<sup>4</sup> Used-Vehicle Price Increase Streak Ends at 5 Months, Automotive News, May 25, 2009

<sup>5</sup> Closing Day Comes, and Chrysler Dealers Aren't Happy, USA Today, June 10, 2009