

The NADA Weighs In On Increased Auto Assessment

After previous posting, I received a detailed analysis from Doug Ott, who works in governmental services at the National Automobile Dealers Association, in which he explains how the economic environment, the cost of gas, the mortgage lending crisis and the Cash For Clunkers program have all contributed to a strange phenomena in which used car values have escalated from last year to this.

Ott writes:

Normally, vehicle values tend to depreciate from month to month. Intuitively, we expect the value of any vehicle in January to be lower than the value of the same vehicle during the previous January. And that is the case this year for many vehicle segments, with the exception of SUV's and light trucks. This segment includes SUVs, light-duty trucks, minivans and the smaller CUVs. All major vehicle valuation guide books, not just NADA, show increased values for SUVs and light trucks between January 2009 and January 2010.

Several key market events, beginning as far back as mid 2008, led to higher values in the 2010 SUV and light duty truck segments nationwide.

Summary:

The key market events affecting vehicle values over the past 18 months are; the price of gasoline, the fall then rapid rise in consumer demand for SUVs and trucks, the mortgage lending crisis and the Cash for Clunkers program. The most significant issue is the cost of gas. In early 2008, vehicle values were trending as we normally expected. Then, in May, June and July, gas prices increased dramatically. The national average for a gallon of regular peaked on July 10, 2008 at just over \$4.50. Consumers began dumping unprecedented numbers of SUVs and trucks. In late 2008, the situation was so bad that dealers simply stopped taking the large vehicles in trade. By the end of 2008, SUV and truck values were at a low point. In fact, January 2009 values were actually lower than if traditional trending had occurred.

Then another major change occurred. The cost of a gallon of regular gas dropped to below \$2.00 in mid January 2009 and persisted. The huge drop in gas prices led consumers to return to the SUV and light truck market in all-time record numbers. As gas prices gradually rose throughout 2009 to an average of \$2.75+ today, consumer demand has remained strong. Strong demand generally means higher values.

What about supply? In July and August of 2009, the Cash for Clunkers program, designed to encourage new vehicle sales, was successful in removing over 400,000 used vehicles from the road. Mostly SUVs. The rules of that program required that those 400,000+ vehicles be destroyed and not returned to the used market. This further increased demand as the used vehicle supply diminished. The American people have

made it clear they prefer to drive large vehicles. That's not really news. We've known that since the earliest days of the auto industry. But the bottom line is, no one predicted, nor could have predicted, the rapid fluctuations in the cost of gas, nor in the fall and then significant rise in demand, along with the drop in supply of SUVs and trucks.

So, as gas prices fell and consumer demand increased, supply became an issue that persists today, resulting in higher than normal values in January 2010. The values continue to be strong through July 2010.

Of course, the pain of higher tax bills is not limited to just one or two states. Many states and/or counties charge personal property tax and no taxpayer who owns an SUV or truck is exempt. I, too, live in Virginia and have to pay taxes on the assessment on my 1996 Dodge RAM 1500 that has increased over 20% from January 2009. From personal experience, I know that the tendency is to feel, "I can't sell my car for the assessed value, so why should I have to pay taxes on that amount?" or, "My local dealer will only give me a fraction of the assessed value in trade." But those statements do even begin to reflect the vehicle valuation process.