A Collapse in Used Car Prices is on the Horizon

July 25, 2022 - The past couple of years have been a horrible time for people that need to shop for a used car. Supply chain issues have meant that if you want to purchase a car with all of the bells and whistles on it, a new car may not have been an option. So buyers started looking at used cars that had the features they wanted. On top of that, most loans on both new and used cars had very low, or absolutely "no" interest associated with them until early this year. That kept demand high and drove prices through the roof. But the market is now changing and there is a lot of evidence that used car prices are about to plumet.

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Just recently, someone I know sold a 15 or 16 year old Toyota with high mileage on it for about $3,300. This wasn't a car in pristine condition either. It hadn't been garaged for years and it had some mechanical issues. In a normal market, it probably wouldn't have been worth $1,000. From the looks of it, the seller probably got out at the top of the market.

That's because the default rates on used car loans are going through the roof. According to a report in ZeroHedge - a financial blog - delinquencies on used car loans in Washington, DC now stand at 23%. While that's the highest in the country, delinquencies have increased nationwide. And there is a reason for it.

Because of lobbying by dealers and manufacturers, car loans have been pretty much unregulated. According to the same report, only 4% of the auto loans offered to consumers in 2021 were reviewed for income and employment verification. An investigation found that up to 50% of those same loans may not be affordable from the buyer's perspective.

It is basically the same thing that happened in home mortgage industry in the late 1990's and early 2000's. By late 2007, that market began to collapse and it took about two years for it to start to recover. The auto industry may not be so lucky though. That's because when housing markets collapsed, there was virtually no inflation and mortgage rates were dropping through the floor. Today, we have an official government inflation number of 9.1% and the FED is raising interest rates. That's not likely to change anytime soon, and it will certainly have an impact on people's ability to purchase a vehicle.

Once car loans are 90 days delinquent, lenders can repossess the vehicle. That's already starting to happen and, with looming layoffs and hiring freezes, the trend will accelerate. Within the next few months, we're going to see a flood of repossessed used cars hit the market. So if you are thinking about looking for a new vehicle but you can hold out for a

while, you would be well served to do so. As we see it, it's about to become a buyer's market for used cars.
by Jim Malmberg
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