Kontos Kommentary
Commentary from Tom Kontos

Special Issue: Fuel Prices and Big Trucks: Are Folks being Penny Wise and Pound Foolish?

According to ADESA Analytical Services' monthly analysis of Wholesale Used Vehicle Prices by Vehicle Model Class[1], wholesale prices of full-size SUVs and pickups have fallen significantly over the last year, ostensibly because of higher fuel prices. A question arises as to whether the fall in prices for big trucks is greater than what would be justified by rising fuel prices. The analysis below shows that based solely on the rise in gasoline prices, the market may be overreacting to what many believe to be a "tipping point" as fuel prices reached the $4.00 range. As such, the bursting of the truck "bubble" may be somewhat similar to what has been seen in other markets such as housing and stocks, where shrewd opportunists are often able to capitalize on undervalued assets.

	Apr-08	Apr-07	Differ
Wholesale Used Vehicle Prices*			
Full-size SUV	$12,383	$14,045	($1,662)
Full-size Pickup	$10,397	$12,227	($1,830)
Fuel Prices ($ per gallon)**			
Gasoline (Regular)	$3.603	$2.971	$0.63
Diesel (On-Highway)	$4.177	$2.811	$1.37
# of Gallons to Breakeven			
Full-size SUV (Gasoline)			2,630
Full-size Pickup (Gasoline)			2,896
Full-size SUV (Diesel)			1,217
Full-size Pickup (Diesel)			1,340
# of Miles to Breakeven***			
Full-size SUV (Gasoline)			39,446
Full-size Pickup (Gasoline)			43,434
Full-size SUV (Diesel)			24,334
Full-size Pickup (Diesel)			26,794
# of Months to Breakeven****			
Full-size SUV (Gasoline)			39
Full-size Pickup (Gasoline)			43
Full-size SUV (Diesel)			24
Full-size Pickup (Diesel)			27

*Source: ADESA Analytical Services based on auction data.
**Source: U.S. Energy Information Administration.
***Assumes 15 miles/gallon average fuel economy for gasoline and 20 mpg for diesel.
****Assumes 12,000 miles per year or 1,000 miles/month.

As the table shows, it would take over three years to offset the year-over-year "savings" in full-size SUV values with the increased expense of gasoline over the last year. Put

another way, full-size SUVs at auction were worth $14,045 in April 2007, when gasoline was selling for under $3.00 per gallon. Their values have fallen by close to $2,000 as national average gasoline prices have risen close to $4.00. At these rates, it would take around 40 months for the increased gasoline prices to eat away the savings on the purchase price of the SUV. For completeness sake, I did similar calculations for permutations of SUVs and pickups running on gasoline or diesel. With diesel prices rising more dramatically than gasoline prices in the last year, the savings on diesel powered trucks are matched after about 20 months of diesel cost increases.

It should be noted that these calculations do not take into account the time value of money; that is, the savings on purchase prices for these vehicles are immediate, while the higher fuel costs would accrue over time. To be fair, however, the calculations also do not include any potential future escalation in fuel prices either. On the other hand, the calculations also ignore the increase in wholesale prices of compact cars, which have risen by 7.2% in the last year. The vehicles are presumably being bought in place of big trucks and their increased cost should also be considered as part of the trade-off. Moreover, diesel vehicles may be fetching even less than non-diesels, which would render the payback period above for diesel trucks conservative.

Despite their oversimplification, I hope these calculations are useful for dealers "shopping" for vehicles at auction and communicating to their customers. To the extent that savings in SUV and pickup wholesale purchase prices can be passed on to consumers, the same payback period applies to the public. Some SUV or pickup owners may wish to hold on to their vehicle based on this math, but consumers should nevertheless be made aware that if they were ever in the market for a used SUV or pickup, now may be the best time to buy one – even with higher gas prices.

[1]The analysis is based on nearly seven million annual sales transactions from over 170 of the largest U.S. wholesale auto auctions, including those of ADESA as well as other auction companies. ADESA Analytical Services segregates these transactions using the J.D. Power and Associates Vehicle Segmentation Guide to study trends by model class.