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VALUES PLUMMET

New-car deals are hurting used-car sales Dealers, lenders losing huge sums, auto broker says

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The deep discounts automakers are offering on new cars in Canada are triggering trouble in the used-car market and leading to major financial losses, a leading auto broker warns.

Mark Derry, owner of CarSense, said yesterday that what began last summer as a highly publicized comparison of vehicle prices in Canada and the United States has turned into a nightmare.

Auto-financing companies and dealers have seen the value of used cars and trucks plummet, said Mr. Derry, whose Toronto company helps clients locate and buy vehicles.

"Dealers are losing huge amounts of money on used vehicles right now," he told an industry forum on auto pricing organized by G7Research and the National Post. "They're terrified of carrying inventory."

Toyota Motor Manufacturing Canada Inc. lowered the list price of most of its new vehicles last month by up to \$8,100.

Other automakers are offering thousands of dollars worth of rebates to better reflect the strength of the Canadian dollar and woo buyers to their showrooms.

The average price to purchase or lease a vehicle fell 6.8% in February from a year ago, the sharpest decline since 1956, according to Statistics Canada.

In cutting the price of new vehicles, manufacturers have also cut their resale value.

Mr. Derry uses the example of a Toyota Sienna. The suggested retail price on a new model has been cut to \$29,400 from \$31,750.

A buyer of a one-year-old Sienna could previously expect to save \$4,000 over the cost of a new one. Now that saving has been chopped in half, he said.

"There's no way they're going to spend \$28,000 on a used one when they can buy the new one for \$2,000 more."

Many used-car dealers find themselves stuck with dozens of vehicles for which they paid much more than they're now worth, Mr. Derry said, adding that any further pressure could force the weakest of them out of business.

Finance companies that own leased vehicles are also taking on losses as the returned cars and trucks are going to auctions at drastically reduced prices, he said.

Robert Beattie, executive director of the Used Car Dealers Association of Ontario, agreed that much of the pain is being felt by finance companies, such as General Motors Acceptance Corp., which are being forced to set vehicle resale values lower.

"If there are any people that have problems with residuals, it's going to be people like that, and also the larger leasing companies" such as GE, TransportAction Lease Systems Inc. or PHH Corp., he said.

Mr. Beattie cautioned that things are not as bad as made out to be for his members, however. He said they are managing to replenish inventory and work through the situation.

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