



Used Car Prices

Dear Dr. Per Cap:

Why are used car prices higher than brand new vehicles? Is now a good time to trade in for an upgrade?

Signed,

Tahoe Dude

Dear Tahoe Dude

Not so fast. Yes, some used vehicles are fetching more as trade-ins than their brand new counterparts but not all.

We're in the midst of a global crisis caused by a shortage of semi-conductors, critical components in today's high tech vehicles, phones, and appliances. Unless you stumble on a \$20,000 puffy Dorito the chip crunch is really bad news.

Factories have been hamstrung for months causing huge slowdowns in production. Currently, there aren't enough new vehicles rolling off assembly lines to support the number of consumers eager to get back on the road since the pandemic eased.

In an effort to beef up inventories many auto dealers are placing a premium on used cars. Some are even offering trade values above the vehicle's original sales price. Of course this means used vehicles are selling for more money too. Used car and truck prices are up almost 50% from last summer as opposed to new rides which are only up about 5%.

This is a highly unique occurrence that might sound like a bonanza to someone looking to trade in an older car but it's important to understand that the premium only applies to newer models in pristine condition.

So if my uncle thinks he can trade in his old '85 Chevy Silverado with over 300,000 hard driven rez miles for more money than he bought it for, he's in for a solid state disappointment. Highly sought late model pick-ups and SUV's are also more likely to bring more as trades than sedans and passenger cars.

If your vehicle is only a year old, clean with low miles then you're in a position to bargain. However, keep in mind every vehicle purchase is a negotiation. A dealer might advertise a high trade-in value but once

you sit down they're going to consider the cost of your new vehicle, payment method, and a host of other factors which means that even with a higher trade-in you might not get the great deal you were hoping for.

Also bear in mind that once the semi-conductor shortage eases up used car prices will likely drop in value. With average loans for both new and used vehicles at almost 70 months you could find yourself upside down (owing more on a vehicle than it's worth) in the future.

So I'd be careful about trading in a lightly used vehicle just to try your hand at a little game of auto buyer arbitrage.

Ask Dr. Per Cap is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit www.firstnations.org. To send a question to Dr. Per Cap, email askdrpercap@firstnations.org.