New Car Too Pricey? Used Car Prices Are Dropping

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DETROIT (AP) — Is that new set of wheels out of your price range? Used cars have gotten more affordable, especially if you're looking for a small car or a hybrid.

Used car prices have been falling since 2011, and they're expected to decline gradually for the remainder of this year. That's good news for those joining or re-entering the workforce, or anyone else who might find a payment on a new car too steep.

There is some volatility. Prices for used cars are typically higher at the start of the year, when dealers buy cars at auctions in advance of the spring selling season. They decline as the year goes on. The price of a 3-year-old car fell 4 percent between April and June, estimates Alex Gutierrez of car-pricing company Kelley Blue Book.

Used-car dealers get many of their cars from auctions run by companies like Manheim, a division of Cox Enterprises of Atlanta. The average price for a used car at auction was $11,031 in June, down 6 percent from its peak in May 2011, Manheim reported this week. The 2011 peak was the highest price Manheim had seen since 1995, when it began collecting data.

At Manheim-run auctions, banks and auto company financing operations sell cars that have come back after leases expire. Rental car companies and car dealers also sell cars there. Dealers buy the cars, mark them up and sell them for a profit.

Auction values also help set prices for individuals who want to sell their cars at the market rate.

In 2009, new vehicle sales fell to a 30-year low of 10.4 million. Two years later, used cars were in short supply and prices got so high that it made sense for consumers to buy new.

Things have turned around. New car sales picked up starting in 2010 and now there are far more used cars in the pipeline. Buyers shopping for a 3-year-old used car can expect to pay 25 or 30 percent less than the manufacturer's suggested retail price for a current new model.

The average retail price of a used car fell by $1,000 per car in the last half of 2012. Gutierrez expects a similar decline in the second half of this year. Keep in mind that used car prices vary widely based on the age of the car and the miles it has been driven.

The price declines will be gradual. While more inventory is helping to lower prices, demand is rising as more people get jobs and need vehicles for work.

Gutierrez estimates that a 3-year-old car cost an average $19,000 in June. By comparison, a new car averaged $31,663 last month. That's up $307 — or around 1 percent — from April.

Used cars are big business. Every year around 40 million are sold in the U.S., compared with 14 or 15 million new cars.

If you're looking for a used car, check prices online and then decide whether you want to go through a dealer or through an individual. Private sellers will often give you a better deal, but dealerships offer certified pre-owned cars that have gone through inspections and may offer better warranties.

Here's what you can expect to pay right now for 2010 model-year vehicles, according to Kelley Blue Book:

SMALL CARS: Prices on the smallest and most fuel-efficient used vehicles fell rapidly between April and June as gas prices moderated and carmakers enticed buyers with deals on new models. The price of a 2010 Toyota Prius fell 15 percent over the last three months, from $18,600 to $15,800. Prices of small cars like the Honda Civic and Ford Focus are down 8.5 percent. The average price of a 3-year-old small car was $13,000 in June.

MIDSIZE CARS: The value of midsize cars like the Toyota Camry and Hyundai Sonata have been hurt by the arrival of several new or redesigned models that hit the market in the last year, including the Ford Fusion, Honda Accord and Nissan Altima. Prices for used midsize cars are down 6.9 percent to $14,503.

LUXURY CARS: Luxury cars held steady, with used-car prices falling just 1 percent to $28,692. But Gutierrez expects a steeper drop in July, when luxury vehicle values tend to fall as owners anticipate new models coming in the fall.

SMALL AND MIDSIZE SUVS: Prices of hot-selling midsize SUVs like the Jeep Grand Cherokee and Ford Explorer are down just 4 percent, to an average of $20,581. Small SUVs like the Ford Escape and Honda CR-V are down 7 percent to an average of $17,548.

TRUCKS: Pickup trucks are in demand, as small businesses replace older trucks. Prices for used full-size pickups like the Chevrolet Silverado stayed flat between April and June, at $21,854. Prices of small pickups like the Toyota Tacoma are down 1 percent to $17,119.

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