

# Car Prices Hit Record As Buyers Load In Options

Tom Krisher, AP Auto Writer

DETROIT (AP) — Americans are paying record prices for new cars and trucks, and they have only themselves to blame.

The average sale price of a vehicle in the U.S. hit \$31,252 last month, up almost \$1,000 over the same time last year. The sharp increase has been driven by consumers loading cars up with high-end stereos, navigation systems, leather seats and safety gadgets.

It's a buying pattern that began around two years ago with low interest rates that let buyers choose pricier cars while keeping monthly payments in check. And automakers have also offered cheap lease deals that include fancy options.

Add in [booming sales](#) [1] of expensive pickup trucks, and you get record high prices.

But those conditions could soon change. Although [sales](#) [2] are expected to keep rising, automakers say the next wave of buyers who replace older cars will be more cost-conscious, shunning expensive radios and cushy seats to reduce payments. Ford is starting to see that trend in pickup trucks, and is adding a lower-priced model to its top-selling F-Series line.

Most car buyers shop based on expectations for a monthly payment, with the average running around \$450, said Jesse Toprak, senior analyst with the TrueCar.com auto pricing website. Since bank interest rates run as low as 2 percent and automakers offer no-interest financing, buyers now have a choice between a lower payment or a nicer car. Unlike rising mortgage rates, shorter-term auto interest rates have remained fairly stable.

"If you can keep your payment the same and get more car, most consumers in the U.S. just get more car," said Toprak, who calculated the record average prices.

The average selling price, he said, went up about \$1,400, or 4.5 percent, in the past two years, far faster than normal.

The result is a dream scenario for automakers and car dealers: People are paying record high prices just as demand returns to levels not seen since the Great Recession.

It's also a dream for people like Zachary Bier, a 26-year-old engineer and sales representative in New York City who just leased a \$52,000 BMW 335i to replace a 3-Series with an expiring lease. He set out to match his old \$650-per-month payment with hopes of getting more features.

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For the same payment, he got metallic black paint, upgraded leather seats with red trim and stitching, Bluetooth technology to link his phone to the car, a heads-up display that projects his navigation system and other data onto the windshield, and electronic blind-spot detectors, he said.

"I guess I was surprised based on the sticker price that this car has so much more," he said. "For everything that comes on this, I feel like it's a better car."

Those who buy instead of lease also get more because low interest rates can bring lower payments. For instance, a loaded-out Ford Fusion with the Titanium package, including heated leather seats, premium audio system and 18-inch polished aluminum wheels, has a sticker price around \$31,000.

With zero-percent financing from an automaker's loan company, borrowing \$31,000 over five years would cost \$516 per month. But if interest rates rise to say 5 percent, the payment jumps to \$585. That could cause buyers to cut features to keep the price down.

Scott Fink, CEO of a small chain of Hyundai, Mazda and Chevrolet dealers in Florida's Tampa Bay area, said his Hyundai dealership in New Port Richey, Fla., sold a record 700 new cars in August. But Fink worries that incomes aren't rising fast enough to keep pace with price growth. Government statistics show personal income rose only 1 percent in the past two years, less than a quarter of the auto price growth.

And Fink fears that eventually the Federal Reserve will ease out of buying bonds, allowing interest rates to rise. Long-term mortgage rates already are up more than a full percentage point since May. So far, though, auto loan rates haven't been affected much, but Fink worries they will go up.

"We know we're a half a point or a point away from seeing a drop in sales," he said. "Every time they raise rates, it takes people out of the market."

Many in the business think prices will moderate some because people who kept their cars through the recession and now need to replace them won't load up on options.

"They tend to be more price-sensitive," General Motors Co. Chief Economist Mustafa Mohatarem said.

The message isn't lost on GM's crosstown rival, Ford Motor Co., which has seen budget-minded buyers shopping for F-150 pickups.

Eric Peterson, marketing manager for the trucks, said wealthier buyers were first to return to the market after the recession, buying expensive versions like the \$47,000 Platinum, which comes with heated leather seats, navigation, a premium audio system and other goodies.

Now, Peterson says, contractors and small business owners are hiring workers who

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also are looking for pickups. But they want something reasonably priced to haul gear and families.

Ford will try to please them this fall by adding a four-door cab to its lower-cost F-150 STX line. Previously, the STX only came with a two-door cab. The STX has features not available on a base model, like power windows, keyless entry and cruise control. It's also more stylish, with machined aluminum wheels instead of steel ones. But it doesn't have some of the more expensive options like a backup camera or a leather steering wheel.

With a starting price of \$34,240 — around \$1,500 more than the base crew, the new version sits in the fastest-growing part of the pickup market, Peterson says. Forty-six percent of full-size truck buyers spent \$30,000 to \$40,000 on a truck in July, up from 42 percent at the beginning of this year.

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