Thinking of Buying a Used-Car Now? Think Again.

Used-car prices are up a staggering 29.7% over the past 12 months

In the market for a used-car? Well, you might be in for some sticker shock based on the most recent Consumer Price Index report from the U.S. Bureau of Labor Statistics. According to the BLS, not only did the CPI show the highest overall annual inflation rate in 13 years, used-car prices climbed a staggering 29.7% over the past 12 months. And according to Cars.com, prices leapt an astonishing 14% from just the beginning of 2021.

Check out the components of the CPI over the past 12 months:

- Total Inflation: 5% increase
- Food: 2.2% increase
- Apparel: 5.6% increase
- Car insurance: 16.9% increase
- Airfare: 24.1% increase
- **Used cars and trucks: 29.7% increase**

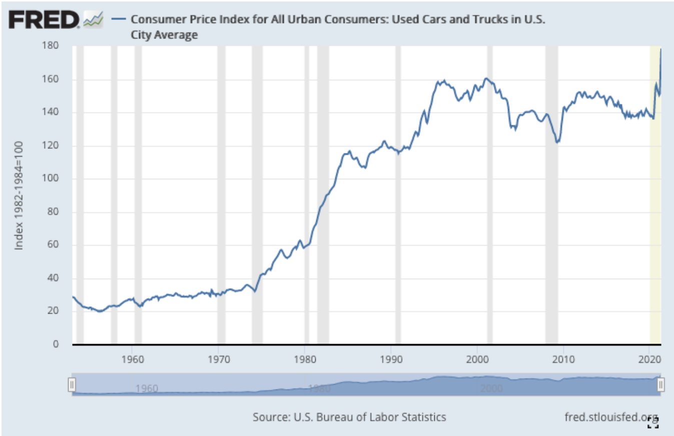
So Buy a New Car, Right?

So maybe buying a new car is the better alternative, since new cars are immune to inflation, right? Think again. In addition to some real inventory shortages, new car prices have jumped too. In fact, BLS reports that the new-vehicle index rose 3.3% over the past 12 months, which is the largest such increase in nearly a decade.

It's Not All Because of COVID

Now it's true that used-car prices were rising modestly even before COVID-19. In fact, used-car prices were marching steadily up from 2015 to 2019, with a drop in May of last year. And once the pandemic forced businesses to close, overall demand shrank, pushing prices lower – but only by about 2%.

Layer on that there is a global microchip shortage which impacts inventories of new cars, then you have a perfect storm hitting anyone looking for a used-car.



So, maybe you're better off waiting to purchase a used or new car. Then maybe your next question is whether you should buy or lease? Depending on your answer, there may be a substantial difference in what you will get for what you can afford. In addition, if you decide to buy, rather than lease, you have to consider how to arrange financing.

Lease or Buy?

One basic difference between buying and leasing is that when you purchase a vehicle you pay to own it; whereas when you lease, you pay to use it, typically for two to three years. Leasing has become popular because, compared to buying, you get more vehicle for your money. Since you only pay a portion of the total value, you can expect to make a smaller monthly payment for a given vehicle or to drive a more expensive make or model for a given monthly payment. However, there are trade-offs to consider.

Leases include many charges that may require large sums of cash at the start and end of the lease. Up-front costs may include a security deposit, a destination fee, and a registration fee. Lease-end charges may total hundreds or even thousands of dollars, for “excessive wear and tear,” excess mileage (usually up to $.25 or more per mile), and a disposition fee. If you end the lease early, expect to pay a high penalty. In addition, if you decide to purchase the car at the end of the lease, it will usually cost you more than if you had originally purchased and financed the car.

Buying may be a better choice if you plan to keep your vehicle for a long time. Usually, if you add up your financing costs over the life of a car loan and compare them to the costs of leasing and then purchasing the leased vehicle, you will find that buying may make more economic sense. Also, once you own your car, van, or truck, you are free to drive it for years without a car payment, pass it on to a family member, or sell it. You may also maintain your vehicle as you wish, modify or customize it in any way you choose, and put unlimited miles on it without penalty.

Financing Alternatives

If you have decided to buy, rather than lease, you need to decide how to pay for the vehicle. Considering the how high prices are, many people choose to finance their purchases. Just as you shopped around for your car, van, or truck, it is also worth the effort to shop around for financing. Don’t automatically finance with the dealer. Banks may also offer attractive deals. If you have a relationship with a bank, you may qualify for a reduced interest rate. Ask the car dealers you visit which banks they use, as your bank may be among them.

Bank representatives usually quote current rates over the phone, and they can tell you the monthly payment for a given loan amount at a specific interest rate and loan term. It is a good idea to get these numbers from your bank, even if you decide to finance with a dealer. This can confirm that you are indeed getting the terms to which you agreed. If the numbers do not check out, something might be amiss. A difference of a few dollars per month over the life of a loan could add up to an additional payment.

What About a Home Equity Loan?

Finally, there is one last financing option you may wish to consider. In some cases, using a home equity line of credit or home equity loan can be an economical way to finance an automobile purchase. A home equity loan may offer a competitive interest rate. In addition, the loan interest is income-tax deductible. An established equity line can also be a welcome source of financing if credit is otherwise difficult to obtain.

It Pays to Understand the Basics

Though the car buying experience may seem overwhelming, it is worth taking the time to understand the basics. The more information you have, the smoother your ride is likely to be.