



Car Shopping in the Time of COVID

Shopping for a new, used, or rental car? Be prepared for limited selection, shortages -- and a bad case of sticker shock.

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The COVID pandemic has had many unexpected consequences. A booming stock market. An overheated housing market. A glut of office space. But who would have ever thought it would have such a profound impact on buying or renting a car? Yet, that's exactly the case. Car prices have skyrocketed, delays are common, and shortages are rampant. Meanwhile, renting a car could set you back several weeks' pay -- if you can even find one. Why all this is happening is a lesson in the myriad effects of the global pandemic.

New Cars

The average price of a new car topped \$40,000 in June 2021, up 15% from a year earlier.¹ This sharp increase is the result of two factors right out of classical economics: an increase in demand and a decrease in supply. On the demand side, sales have risen because people are driving more. After months of lockdown and quarantine, Americans are using their cars again to drive to work or go on road trips. Car dealerships that were closed during the pandemic have also opened up, and they've bumped up prices to help compensate for last year's losses.

On the supply side, the widely-publicized shortage in semiconductors has constricted the output of all major car manufacturers. The chip shortage is attributed to the huge uptick in demand for cell phones and other personal electronics during the pandemic, as locked-down consumers went on a spending spree. This, in turn, crowded out orders by car manufacturers, which had already cut back in early 2020. Recent COVID-19 outbreaks in Southeast Asia, a major supplier of semiconductors, have further exacerbated the situation. In all, new-car inventories in the US were down 54% in June 2021 compared with two years earlier.²

Used Cars

The situation with used cars is even more dramatic. As of September, used car prices had risen 25% from a year earlier, and over 40% since March 2020.³

The markets for used cars and new cars are closely related. So the microchip shortage and the closure of dealerships during the height of the pandemic also affected used car sales, as many people turned to the secondhand market instead. That brought a whole new set of customers to the used car market -- ones willing to spend more money on a car.

Also impacting the used car market are rental car companies (see below), usually a major source of used cars, but which have been keeping cars longer in the face of surging demand.

And Rentals...

Rental car companies, facing a standstill in demand last year, sold off about a third of their fleets to raise enough cash to survive the pandemic. Now, with travel rebounding, rental car companies have a major shortage of cars to rent. They have also raised prices to help make up for last year's red ink. According to AutoWeek, rental car prices have increased by more than 30% since 2020, and renting a car can cost upward of \$300 a day in some locations.⁴

Tips for Buyers and Renters

All in all, buying or renting a car right now can be a frustrating experience. Not only are cars pricier, but they are in short supply. Anyone looking for a car should consider these tips.

- Shop around. Prices can vary widely from dealer to dealer for the same car. And keep an eye out for dealer or manufacturer incentives.
- Be open to different makes and models. Some are more available than others. And some have had significantly lower price increases.
- If you're putting a deposit on a model that's not currently available, make sure it's fully refundable in case you change your mind.
- If you're in no hurry, considering putting off your purchase until next year, when supply chain disruptions are expected to improve.
- If you intend to trade in your current vehicle, look for higher trade-in values. Check [Kelly Blue Book](#) or [Edmunds](#) for your car's current value.
- If your car is coming off a lease, look for a residual value that's higher than the original estimate. See the links above to find your car's current value.
- When renting, consider [TURO](#) or other car-sharing services instead of the traditional car rental companies. Also, be open to different sizes, makes, and models.

¹Road/Show, [Average new car price absurdity continues, blasts past \\$40,000](#), June 25, 2021.

²Source: Business Insider, [Why are used cars so expensive right now?](#), July 12, 2021.

³Source: Business Insider, [Used-car prices are surging - again - and it's probably going to get worse](#), September 20, 2021.

⁴Source: <https://www.wjtv.com/news/pine-belt/rental-car-prices-increase-as-shortage-continues/>