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Press Release

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NEW PHOENIX CENTER ANALYSIS FINDS RETAIL AUTOMOBILE INDUSTRY RESPONDED LIKE ANY COMPETITIVE INDUSTRY WOULD TO COVID-RELATED SUPPLY SHOCKS AND GOVERNMENT STIMULUS

Analysis finds no evidence that auto dealers engaged in price gouging or collusive behavior

WASHINGTON, D.C. — For automobile retailers (among many other sectors), the Covid Pandemic was a perfect storm: demand surged as Americans avoided public transportation and spent extra income provided by government stimulus while supply tanked as factories shut down and parts were unavailable due to the collapse of the global supply-chain. Having been hit with two "black swan" events simultaneously, new (and used) car prices increased, a consequence entirely consistent with competitive markets. This is Economics 101.

Still, when prices and profits rise, especially in the current environment, the tendency of some policymakers and ideological advocates is to point to seller market power or collusion. In a new analysis released today entitled *New Car Prices Under Supply Constraints: Competition or Collusion?* Phoenix Center Chief Economist Dr. George S. Ford takes on those claims and finds them wanting.

As Dr. Ford demonstrates, highly competitive industries—like automobile retailing—respond to positive demand-side and negative supply-side shocks in predictable ways. Prices will rise and, under some conditions, margins along with them. Margins may rise because of supply shocks, but they do so in competitive markets without collusion among producers. Also, under supply constraints, competitive and monopoly prices are difficult to distinguish and may be identical. Economic theory provides some guidance on distinguishing between the two. The key issue is whether sales are below the competitive, supply-constrained level. For new car sale, the answer is "no." New car dealers are selling every car they can get their hands on to the point buyers are often required to wait months to take possession of their purchase. Also, margins on used cars, which are free from the long-term manufacturer-retailer relationship, are stable over time, indicating competition among auto retailers is alive and well.

"The competitive automobile industry responded exactly as economic theory would predict to the unfortunate and extreme supply- and demand-side shocks of the Covid Pandemic and subsequent government stimulus," says study author Chief Economist Dr. George S. Ford. "Sadly, opportunists and those ignorant of basic economics will misinterpret these data to suit their requirements, which is also exactly as expected."

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A full copy of PHOENIX CENTER POLICY PERSPECTIVE NO. 23-02, *New Car Prices Under Supply Constraints: Competition or Collusion?* may be downloaded free from the Phoenix Center's web page at: https://www.phoenix-center.org/perspectives/Perspective23-02Final.pdf.

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