workforces – here's what to expect in the next year.

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Try as they might, businesses can't control everything that affects them. Stock markets, government regulations, labor laws and myriad other outside forces – powerful, invisible entities that pull the strings like Zeus up on Mount Olympus – dictate the way a company runs and how it evolves.

Costs and spending trends are no different. A multitude of economic factors goes into how people spend their money, which in turn influences how businesses behave.

For businesses that have mobile workforces and vehicle programs – whether a fleet,

Over the past 12 months, depreciation accounted for 36.8 percent of the total cost to own and operate a vehicle. This is a slight year-over-year increase, but is higher than two years ago, when depreciation accounted for 35 percent of total costs.

Rising vehicle prices will partially offset the impact of this trend. Depreciation is expected to increase 1 to 1.5 percent as a result, starting slowly (less than half a percent over the next few months) and increasing as the year continues.

As depreciation increases, resale value will fall, meaning businesses with fleets and company cars will get less return on their investment when it comes time to resell or trade in their vehicles.

Residual Values Will Drop

Residual values will decrease over the next 12 months by 2 to 3.5 percent as inventory in the used vehicle market steadily increases.

In 2017, the average sale price for a used vehicle dipped below levels not seen since 2011. This continues a trend of declining residual values over the past three years. When the Great Recession, which began in December 2007 and was at its height in 2009, disrupted new vehicle sales, residual values increased because people started keeping their vehicles longer.

This created pent-up demand for new vehicles that helped drive record sales volumes once people felt the economy had straightened out and their finances were back to normal. The surge in new vehicles purchased post-Great Recession now are aging out, and are being sold as used vehicles. Due to the law of supply and demand, there is now a glut of used cars on the market, which will drive the price of that commodity down.

Several factors affect residual value:

the used car market in the short term. Both business and leisure travelers have shifted away from renting cars and toward ridesharing services like Lyft and Uber, leaving car rental companies generating less revenue per vehicle.
- As a result, car rental companies are beginning to trim their fleet size to improve their profitability, adding their unwanted vehicles to the market as used cars and contributing to the used car surplus. This will place additional downward pressure on vehicle residual values.
- A mitigating factor that will temper the decline in residual values is the growing preference for SUVs and trucks versus cars. SUVs hold their value longer than midsize cars, reaching the 50-percent marker of how much they're currently worth versus MSRP later in their lifespan than midsize cars. Midsize SUVs are viewed as having more life left in them, and enjoy more consumer demand than midsize cars at every point along the mileage and aging process, which slows SUVs' depreciation rate.

In business vehicle programs, residual value is a major contributor to capital costs, working as a handshake with the upfront costs. A decrease in residual values means business won't get as much resale value for cars they bought new if they sell them in the next few years, which is an important budgetary planning consideration.

New Vehicle Prices are on the Rise

The overall average price of a new vehicle will increase moderately over the next 12 months by 1 to 2 percent. While production costs for new fuel efficiency and safety features continue to rise, new vehicle sales are expected to decline. Automakers will limit price increases in order to sustain demand.

New vehicle prices in the United States have risen steadily since 2012, with the 2017 average transaction price equal to $34,903.

Several factors affect new vehicle prices:

truck and SUV sales have increased from 45 percent of new vehicle sales in 2009 to more than 60 percent of new vehicle sales in 2016.
- In comparison, car sales have decreased starting in 2014. Fuel is forecast to remain affordable through 2018, meaning buyer preference toward trucks and SUVs will remain undeterred.
- Analysts expect overall sales to soften in the coming years. To maintain sales in the future, automakers will only pass on some of their higher production costs to new vehicle buyers.

As the price of new vehicles goes up and resale value goes down, it costs buyers more money in the long run – over the total life of the car – when they sell a vehicle and/or trade it in. This means mobile workforce businesses will pay more over the long term to replace their fleet or company vehicles.

Finger on the Pulse

Keeping tabs on these trends is critical for companies with business vehicle programs, as it helps them understand the true cost of owning and operating a vehicle, and how outside market factors affect total cost of ownership.

However, these trends are not easy to predict unless a company has time to do its own outside research, which means that sometimes a business can be behind the game. Additionally, structuring a business vehicle program that can accurately measure and account for these types of trends can be difficult, because there are so many factors to take into account.

By partnering with a reputable third party in the business vehicle industry, companies that require a mobile workforce can better understand the total cost of ownership of their company car or fleet programs, and how to better structure their fleet or reimbursement programs. A business vehicle solution provider can develop a custom program that meets their requirements and strategic objectives. These

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