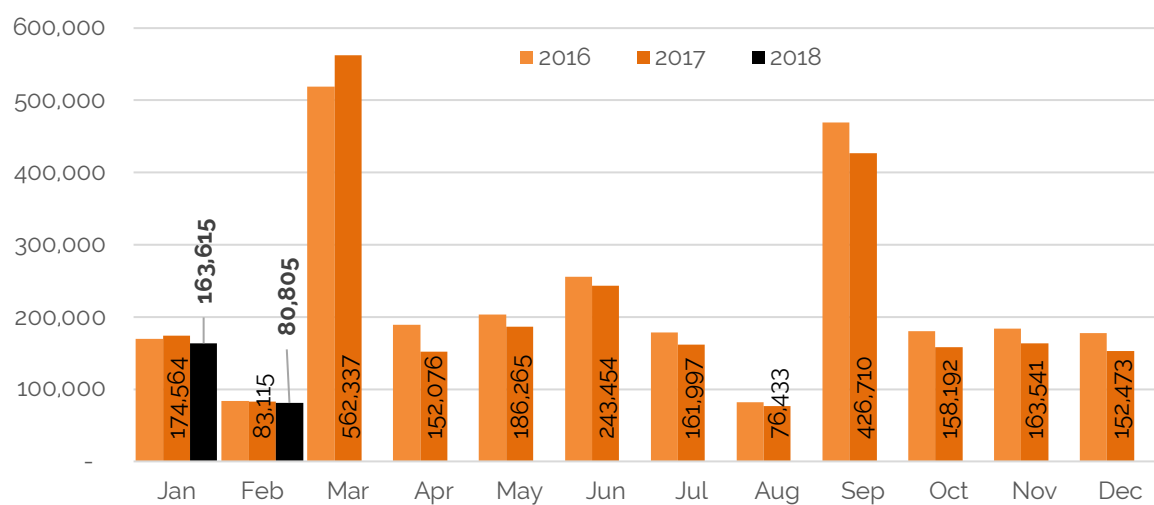


April 2018

Black Book Editorial

New Car Sales

According to figures released by the SMMT, the February new car market continued the trend of a year-on-year decline in registrations. 80,805 cars were registered in the month, compared to 83,115 last year – a reduction of 2.8%. Year-to-date 244,420 cars had been registered to the end of the month, a reduction of 5.1% compared to last year's 257,679 at the same point.

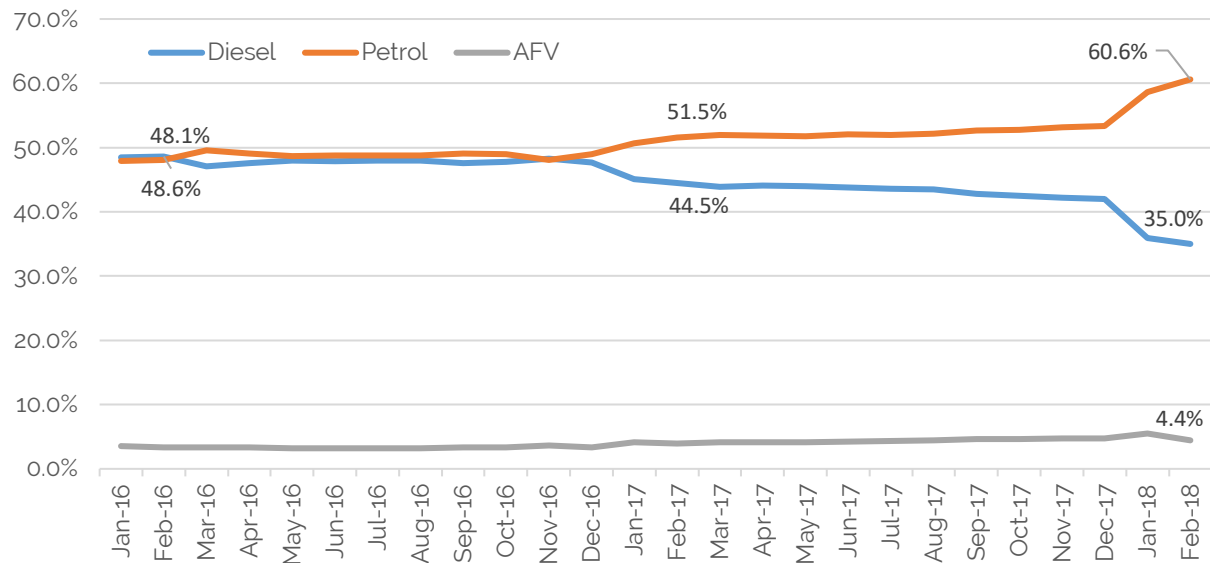


Source – SMMT

Private and Fleet and Business areas of the market were all down compared to 2017, with the former down 7.1%.

The flow of vehicles sold into the Daily Rental market, always noteworthy because of their potential impact on future used values, remained strong in February. Year-to-date Rental volumes were up 5.5%, bucking the overall registration pattern and showing that car manufacturers are still open to selling vehicles into this channel.

The share of new registrations by fuel type continued the trend of petrol increasing in popularity at the expense of diesel variants. As the graph below illustrates, petrol cars now account for 60.6% of registrations, whereas a year ago this figure was at 51.5%. Diesel share one year ago was 44.5% but is now down at 35.0% - 15 months ago there were more diesels registered than petrol. Alternatively fuelled vehicles share dipped slightly, at just under 5% of the market, showing that whilst their popularity has generally been on an upward trajectory over the past few months, it is petrol vehicles that most buyers are switching into from diesel.



Source – SMMT

The year-on-year reduction in registrations will certainly be very apparent in March and for the whole of quarter one, due to pull forward of registrations into this quarter last year, as a result of the Vehicle Excise Duty changes on 1st April 2017. It will take until at least the end of quarter 2 this year to get an accurate picture of how 2018 is faring compared to last.

Used Car Remarketing Activity

Demand from trade buyers remained as strong in March as it had been over the previous months of 2018, particularly for cap “clean” vehicles. With new car sales dwindling, franchised dealers, as well as other used car outlets, now put increased focus onto used cars to achieve return on investment. It can certainly be described as being a seller’s market over the last few weeks and months due to the dynamics of supply and demand.

The auction halls remained particularly busy during March, with stock levels struggling to quench buyers thirst for good condition cars. Conversion rates were generally high – whilst the average was close to 80%, it was not uncommon for some sales to be well in excess of 90%, particularly during the early-to-middle part of the month. Through the first two weeks of March trade prices continued where they left off in February – on an upward trajectory. By the 16th of the month, values at 3-years 60,000 miles in Black Book Live peaked at an average of 0.4% up on the previous month.

Towards the end of March, more stock started to appear from part-exchanges and fleet returns generated by the “18” plate, meaning buyers had more choice. The majority of this volume had still yet to appear by the last few days of the month, however, and buyer demand remained healthy. From the 16th onwards prices generally stabilised but did not show any particular signs of falling.

Trade Values

The average movement through March and leading to April's monthly Black Book is a 0.4% increase.

This increase in average values moving into April is not unprecedented – values have gone up at this time of year in 4 out of the last 5 years – 2017 being the exception. However, when looking at the total year-to-date movements in Black Book Live, 2018 is proving to be the strongest year since the daily “Live” product was introduced in 2012. Average values have increased by 1.2% since the turn of the year, compared to a drop of 0.7% last year. The previous strongest year was 2014 when values increased by 0.8%. The used car market is certainly showing strength – so what is leading this?

Whilst fiscal policy and popular press reports have continued to focus on diesel vehicles, most of these models have actually only depreciated in a similar fashion as in previous years. Dealers are still prepared to stock these cars and consumers still prepared to buy them. However, it has to be said that this is very sector specific – smaller diesel cars are generally not as popular as their petrol counterparts, whereas for larger models, diesel remains in demand. Also, with particular strength in prices of petrol models over the last year, and diesels depreciating as normal, many diesel models now look very good value versus their petrol equivalents. Diesel models that have increased in value over the last few weeks include the BMW 3-Series, Volkswagen Passat and certain Hyundai i40s.

The sectors showing the main areas of pricing strength continued to be city cars, superminis and lower medium sized cars, whilst convertibles are behaving as they normally do at this time of year, leading up to the spring and summer. The increase in demand for smaller vehicles is partly as a result of consumers downsizing but also a desire for petrol vehicles. Many families now actively seek to have a smaller, “run around” on their driveway, realising they do not need more than one larger car.

Looking at prices in the market over the last 12 months, some cars have actually increased in value over that time – the scale of this is unprecedented as cars are, of course, generally regarded as a depreciating asset. A 3-year old Skoda Citigo with 30,000 miles is now worth around £700 more than the same model would have been worth a year ago. There is a similar picture for many other petrol cars of this size, with the Kia Picanto, SEAT Mii and Toyota Aygo all standing out. So, if a consumer bought a 3-year old Citigo in March 2017, with 30,000 miles on the clock, drove it for a year, adding a further 10,000 miles, it would be worth close to £200 more than what they paid for it. The Mii and the Aygo are similar, whilst the Picanto would be worth almost the same as it was.

The Electric sector has also shown strength – cars such as the Peugeot Ion, Renault Zoe, Smart Fourtwo Electric and the Citroen C-Zero have followed a similar pattern. Obviously, these are city cars and electric vehicles, so are particularly in demand due to their relative affordability and the fact that consumer confidence in electric vehicles is now far more widespread. Dealers are much less reluctant to hold these cars in stock than they have been in the past and electric vehicle sales specialists are becoming far more commonplace. Certain hybrids have also performed well, but not quite to the degree that if you owned one it would have increased in value as you used it.

SUVs are an interesting sector to watch – they now account for 30% of new car registrations – a huge increase over the last 10 years, they accounted for less than 12% in 2008. This new car demand is replicated in the used car market and values have held up well recently, particularly for medium and small-sized SUVs, behaving in line with the overall market. Petrol SUV prices in the used market have

shown strength in recent months – there is strong demand and currently relatively low supply. However, with petrol registrations now outweighing diesel, more and more petrol SUVs will be entering the used car market over the coming years.

Used Cars Retail Activity

Certainly with the reduction in new car registrations, there has been a noticeable increase in used car retail activity. Whilst there are still a variety of new car finance offers available, they are not quite as attractive as they once were; the discerning buyer can get a used car deal, either PCP or outright purchase, that more than satisfies their requirements.

Whilst the wintry weather did have an impact on footfall over a couple of weekends, it merely delayed the continued strong desire for used cars. Interestingly, some older SUVs were in high demand in the days leading up to and following the recent snowfall – showing that for reasonably priced examples, these remain a seasonal purchase. Some examples include the Suzuki Jimny, Subaru Forester, Nissan Terrano II and Jeep Patriot. Expect to see this demand transposed by demand for convertibles as we head into spring.

What Next?

The other 4 main European car markets (Germany, France, Italy and Spain) continue to record growth in their new car volumes, meaning that the pressure on car manufacturers to “push” registrations into the UK is not at the same level as in previous years, when these countries were not performing so well. Exchange rates also make the UK a less profitable market for manufacturers to sell their cars in. This should allow the UK car market to return to a more natural level, with fewer “tactical” registrations. Most industry commentators, including cap hpi, and manufacturers are predicting an overall reduction over 2017. This is likely to lead to continued strength in the used car market, with less attractive new car offers on the table.

In the shorter term, traditionally the Easter holidays are a period where the used car market softens and values start to reduce. Last year the Black Book Live movement during April was a reduction of 1.6% and the average reduction over the last 5 years is 1.7%. This year, as previously mentioned, values have gone up during the first quarter – so does this mean strength will continue, or values have further to fall? It is unlikely that the appreciation in petrol vehicles values will continue, but they are unlikely to drop dramatically. Certain diesels are now looking value for money so one would expect relative stability in this area, with fairly normal depreciation rates for both fuel types. Electric vehicles are likely to outperform other areas as their acceptance levels continue to rise and more and more retailers stock them.

Overall, if, as seems likely, used retail demand remains healthy we may not see the same level of value reductions that we have seen over the past few years.

The black book team of experienced industry experts will continue to analyse the vast retail and trade dataset, along with understanding industry feedback and knowledge, to produce the most accurate reflection of daily used car values for our subscribers

black book April18 - Average Value Movements (Plate Uplift Excluded)

	1 yr/10k	3 yr/60k	5 yr/80k
City Car	0.9%	1.2%	1.8%
Supermini	0.7%	0.8%	1.1%
Lower Medium	0.4%	0.6%	0.5%
Upper Medium	(0.1%)	0.3%	0.3%
Executive	(0.9%)	(0.4%)	(0.0%)
Large Executive	(0.8%)	(0.1%)	(0.1%)
MPV	(0.4%)	(0.1%)	(0.2%)
SUV	(0.2%)	0.2%	0.5%
Electric	(0.1%)	(0.1%)	0.5%
Convertible	0.2%	1.4%	2.0%
Coupe Cabriolet	0.5%	0.9%	0.8%
Sports	(0.8%)	(0.5%)	(0.1%)
Luxury Executive	(2.1%)	(2.1%)	(1.1%)
Supercar	(0.6%)	(0.4%)	(0.1%)
Average Movement	0.1%	0.4%	0.5%

() Denotes negative percentages

Notable Movers 3yr 60k

Generation Name	Min £	Max £	Avg £
ALFA ROMEO 4C (14-)	-300	-300	-300
AUDI A8 (10-) DIESEL	550	700	635
AUDI Q3 (11-) DIESEL	250	350	281
BMW 3 SERIES (12-) DIESEL	175	350	249
BMW MINI COOPER S CLUBMAN (10-14)	150	500	380
BMW MINI ONE (14-) DIESEL	200	200	200
BMW X4 (14-) DIESEL	350	500	394
LAND ROVER RANGE ROVER SPORT (13-)	-500	-500	-500
LEXUS IS (13-) HYBRID	550	750	633
MERC AMG A CLASS (13-)	-250	-250	-250
MERC GLA CLASS (14-) DIESEL	-350	-250	-320
NISSAN LEAF (10-)	125	175	143
NISSAN X-TRAIL (10-14) DIESEL	300	350	325
TOYOTA AURIS (12-) HYBRID	200	250	232
TOYOTA LAND CRUISER (09-) DIESEL	550	900	728
TOYOTA PRIUS+ (12-) HYBRID	150	200	163
VAUXHALL ADAM (12-)	175	275	214
VAUXHALL INSIGNIA (13-17)	100	250	151
VOLKSWAGEN TOUAREG (10-) DIESEL	150	400	291
VOLVO V40 (12-) DIESEL	75	325	176