Glass's Monthly Car Market Report

May 2018

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Foreword

Welcome to Glass's Monthly Market Report for May, where we will cast our collective eye over all that is noteworthy in the new and used car marketplaces.

There was cautious optimism when the SMMT released their latest new car market statistics, which showed growth. Total sales were up 10.4% on last year, although, registrations in April 2017 were negatively affected by the VED related spike in first quarter registrations. When compared to April 2016, April 2018 is down by 11%.

Diesel again suffered sharp decline, being almost a quarter behind last year. For context, April 2017 was 27.3% behind April 2016. We cannot therefore, attribute this year's diesel performance to the VED anomaly.

The overall year to date market is now 8.8% down on last year, back from 12.4% down last month. Glass's anticipate that as we progress through 2018 the deficit in registrations will reduce further towards our predicted year-end total of 2.439m, representing a 4% fall versus 2017.

Wholesale channels continued to produce strong results, although there was evidence that demand began to weaken as the month progressed. The weakening in trade demand was within our expectations for the time of year. Rather than a sign of retail demand falling, it is likely that good wholesale supply has led to well stocked forecourts. This has allowed some buyers the luxury of cherry picking the best auction lots. Having held up well so far this year, auction hammer prices also began to soften with evidence that vendors who chose to hold out for the strongest prices experienced a drop in conversion rate.

Value accuracy continues to be a priority for Glass's. Our current accuracy, which compares May trade values with observations gathered throughout April, show that we are within 0.1% of the market.

Jayson Whittington, Chief Car Editor, Glass's

New car market – overview

UK registration growth in April down to mitigating factors

Following twelve successive months of decline, the UK new car market posted growth in April, with a surprising 10.4% leap in sales compared to the same month last year.

A total of 167,911 new units were registered, according to the latest figures from the Society of Motor Manufacturers and Traders (SMMT).Yet looking at the figures, the large growth is caused by a number of factors. The timing of Easter in 2018 meant April saw two more selling days compared to 2017, while the adverse weather in March also pushed some deliveries back into the month.

Distorted growth

However, the biggest factor in the growth during the month is the poor performance of the same month last year. This was caused when the UK government changed VED rates, meaning all except zero-emission vehicles were required to pay a flat rate of £140 (€159) per year, plus a first-year registration fee depending on emissions. With some cars, including small diesels, originally only requiring a £30 annual payment, buyers brought forward their purchases, meaning March 2017 was a record month, and April saw a large decrease.

Despite this significant rise in the month, the overall new car market remains down year-to-date, following a poor first three months. Registrations are currently 8.8% down with 886,400 units sold. Last year's figures in the first three months were also affected by the VED increase, as buyers rushed to get their purchases completed before April. While this level of decline is expected to slow over the course of 2018, political and economic uncertainty will continue to affect the market, and further instability could cause additional disruption.

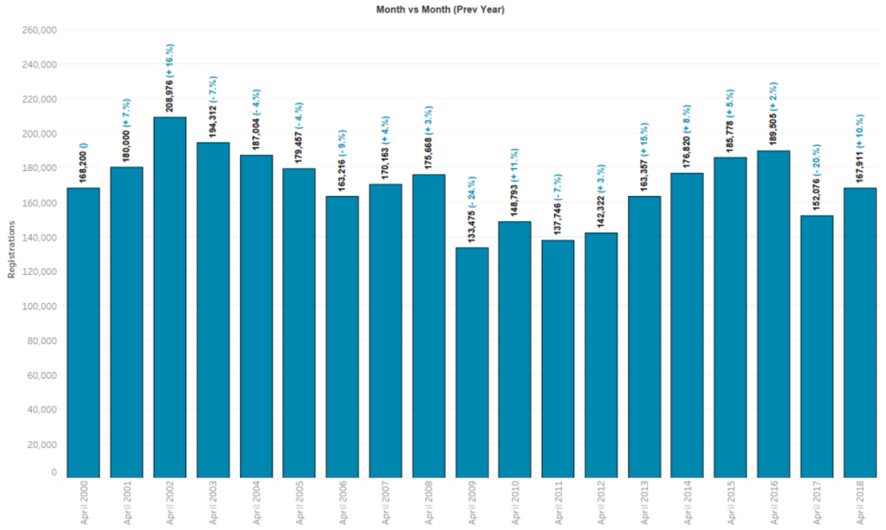
Diesel decline

The diesel sector continued its rapid decline and ended up 24.9% down compared to the same month last year. This may have been affected by new VED rules introduced from 1 April specifically for diesels, which places them in a higher VED band for their first year of registration.

The drop in diesel was made up by petrol, with demand up 38.5%, while registrations of plug-in and hybrid electric cars continued to rise, up 49.3%, thanks to manufacturer investment in a growing choice of models. Although the growth is welcome, these alternatively fuelled vehicles still account for just 5.6% of the market.

Private demand grew 26.3%, while the fleet market remained stable at 0.9%. However, business registrations saw a significant decline, falling 12.9% compared with the same month last year. Demand for supermini and dual-purpose cars saw the most significant growth of all segments, up 27.0% and 26.8% respectively.

SMMT new car registrations



Source: Society of Motor Manufacturers and Traders (SMMT)

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2040: Still waiting for that light bulb moment

Could the UK 2040 ban dramatically alter carmaker's plans?

Two UK publications claim to have seen leaked documents suggesting how far the country's ban on internal combustion engine sales in new vehicles will go in 2040, with many hybrid and plug-in hybrid (PHEV) models at risk.

British magazine Autocar and newspaper the Financial Times have suggested that the Government plan 'Road to Zero', which is set to be unveiled imminently, would ban all diesel and petrol vehicles in 2040 as part of a £2.7 billion (€3.1 billion) strategy designed to cut UK air pollution.

When announced in June last year, it was unclear whether any other vehicles other than electric would be part of the ban.

The publications now state that, as part of the Road to Zero plan, all current hybrids would also be banned from sale. The rules would state that for a car to be sold as new in the UK; it would need to be able to cover upwards of 50 miles on electric power only.

Most PHEVs on sale today are only able to cover 30 miles on average without engaging the internal combustion engine. It is estimated that 99% of vehicle models on sale in the UK today would be unable to be sold under the new plans.

Pure electric vehicles only accounted for 5.2% of UK new vehicle sales during the first four months of 2018, and manufacturers are rushing to develop the technology, while also adding to their hybrid fleets. Any new rules would force further development on carmakers, adding financial implications and diverting from other projects.

Infrastructure warning

Autocar also reports that industry leaders are unhappy that the ban is being announced by the UK Government without any details on how it will invest in UK charging infrastructure to support sales of plug-in vehicles, or how it will incentivise car buyers to switch away from petrol and diesel.

A recent poll by Autovista Group found that 47% of respondents believed national governments should be responsible for funding electric vehicle (EV) infrastructure.

One of the key issues preventing electric vehicle technology from becoming mainstream is the lack of charging infrastructure. While there are 13,000 public charging stations across the UK, in 2017 alone, 46,522 EVs and PHEVs were sold, and it is estimated there are around 130,000 plug-in vehicles on UK roads.

Now, a £400 million Government plan to build more EV charge points looks likely to be significantly delayed, dealing another blow to vehicle manufacturers. Last year, the Treasury pledged to support drivers switching to zero-emission vehicles with a fund to establish a charging infrastructure to allay range anxiety.

However, nearly 6 months later, it has emerged that the government has not started the recruitment process for an official to raise the £200m of private investment – let alone begin the process of securing the funding.

'We expect to launch the procurement for the private sector fund manager in summer 2018,' Robert Jenrick, a junior Treasury minister, said in a written parliamentary answer. He added that 'the government had been busy engaging with the private sector to ensure the fund was 'set up in the most effective way'.

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2040: Still waiting for that light bulb moment

Industry view

Mike Hawes, SMMT Chief Executive, commented: 'Industry shares government's goal of zero-emission transport and is investing billions in new technologies with nearly 50 different plug-in models already on the market.'

'Vehicle manufacturers will increasingly offer electrified versions of their vehicles giving consumers ever more choice, but industry cannot dictate the pace of change nor levels of consumer demand. Unrealistic targets and misleading messaging on bans will only undermine our efforts to realise this future, confusing consumers and wreaking havoc on the new car market and the thousands of jobs it supports.'

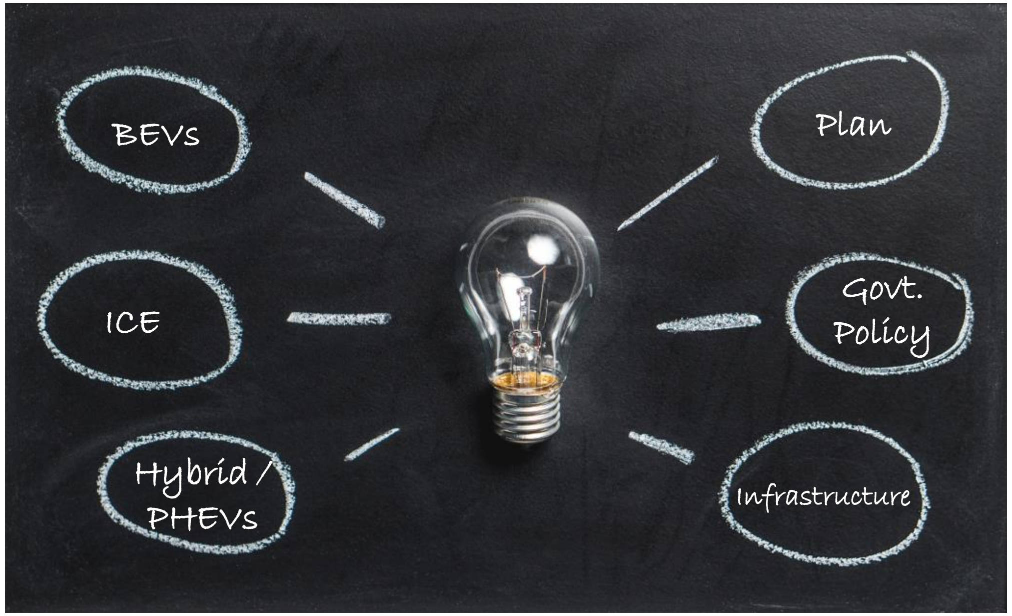
Editorial view

It is crucial to reiterate that this is a 'leaked' document and that the Department for Transport has stated the contents of media reports are untrue.

However, should a ban include many of the hybrid and PHEV models on sale today, it would be a blow to the automotive industry which is hastily preparing electric vehicles in order to meet stricter CO2 emission regulations from 2021. Many of these new models will have been relying on current hybrid technology to help. Yet now, they might be forced to develop this technology further or risk their vehicles not being sold in the UK.

Government trying to dictate to vehicle manufacturers about the vehicles they must develop is not going to go down well, especially if that government is not fulfilling its end of the bargain in developing infrastructure to support the developments.

The move will also worry a number of vehicle manufacturers who are known to be lagging behind in the race to electrification. Development cycles for the next decade and beyond are already being discussed behind closed doors, so an announcement on what the UK will require in the new automotive age is required soon.



Key:
- BEVs Battery Electric Vehicle
- ICE Internal Combustion Engine
- PHEV Plug in Hybrid Electric Vehicle

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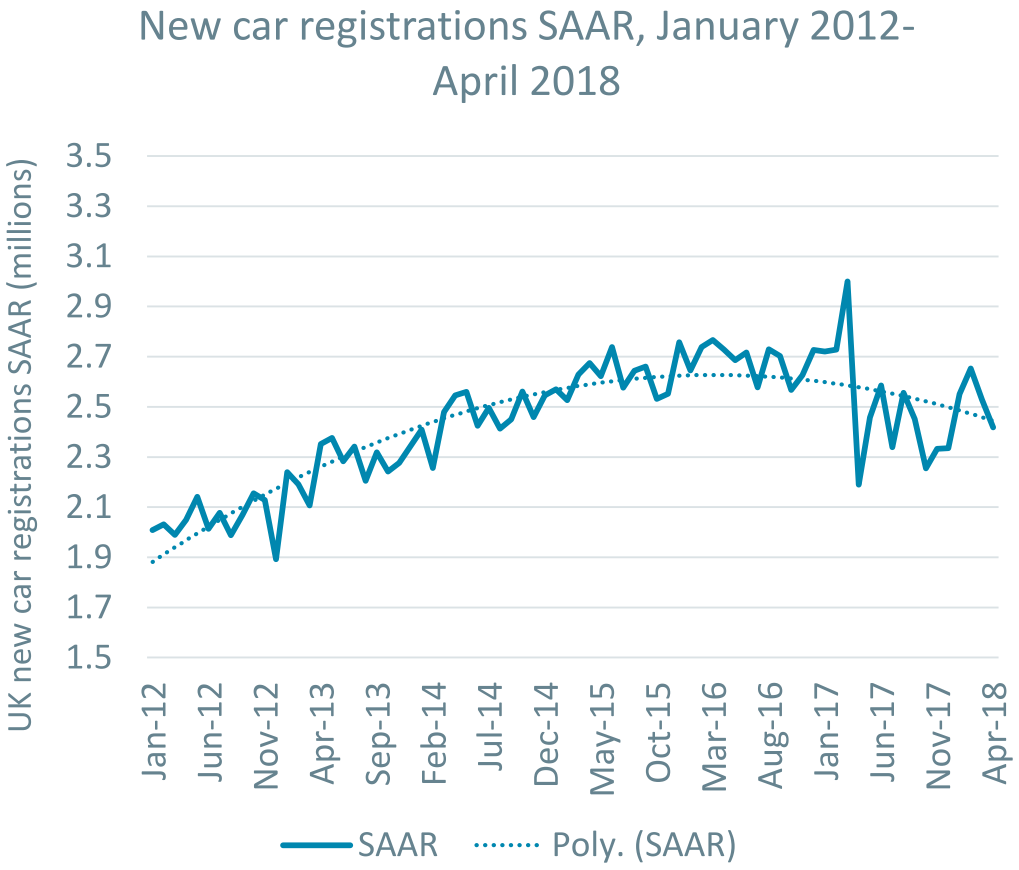
New car market –seasonally adjusted annual rate (SAAR) analysis

April saw the UK new car market grow for the first time in 12 months, and looking at it in seasonally adjusted terms, a better picture of developments across the automotive industry can be found.

Autovista Group has developed the average seasonality based on registration figures between January 2009 and December 2017, taking each month's sales as a percentage of the yearly total and calculating the average. This can then be applied to the UK registration figures for the month, giving a predicted outcome for the year.

April has an average of 6.9% of the yearly sales, compared to a high percentage in March due to new registration plates. Last year saw the first monthly decline for some years, which led to a SAAR of 2.2 million for the year, before the market recovered to 2.54 million. In April 2018, SAAR is suggesting a figure of around 2.42 million, still indicating a drop in the year on 2017.

With the economic outlook uncertain at best and the recent increase in interest rates, a recovery in demand is clearly not expected. Ultimately, SAAR analysis suggests a new car market of between 2.3 and 2.5 million units in 2018, essentially down between 2% and 10%.



- UK SAAR based on average seasonality from 2009 to 2017
- General subtle slowdown in SAAR since Brexit vote
- SAAR spiked and tumbled as old VED regime ended
- SAAR has recovered early in 2018 after weakness of Q4 2017 and broad stability is expected for the rest of 2018

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Live retail market – UK's fastest selling used cars in April

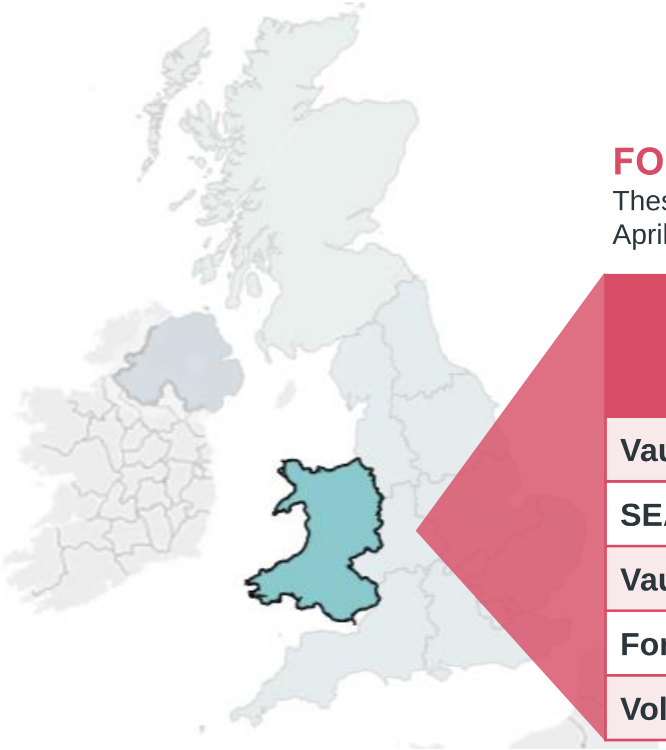
Every month we analyse our Live Retail Pricing data, powered by Radar, to tell you what the UK's fastest selling used cars were the previous month.

Based on over 8.4 million annual real trade car adverts on the UK's leading advertising portals, **with a minimum of 50 observations**, this data gives you an indication of what's selling well across the UK's used car forecourts. Our interactive online map allows you to filter the data by region or vehicle segment so you can see exactly what models are popular in your area or stock profile.

NATIONWIDE

These were the UK's fastest sellers at a national level in April (with 50 or more sales).

MAKE AND MODEL	AVERAGE DAYS TO SELL
Infiniti - Q30	18
Dacia – Sandero Stepway	28
Mazda - CX-5	30
Skoda - Yeti Outdoor	30
Ford - Kuga	31



FOCUS ON… Wales

These were the UK's fastest sellers in the Wales in April (with 50 or more sales).

MAKE AND MODEL	AVERAGE DAYS TO SELL
Vauxhall - Corsa	30
SEAT - Ibiza	30
Vauxhall - Mokka	30
Ford - Mondeo	35
Volkswagen - Polo	37

Access the full interactive map

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Used car market – overview

Used car sales in the UK suffer a drop in Q1 2018

The UK's used car market has posted a decline in the first quarter of 2018, as sales of alternatively fuelled vehicles (AFVs) showed a strong rise.

A total of 2,031,611 vehicles changed hands during the first three months of the year, down 4.8% on the same period in 2017. The data from the Society of Motor Manufacturers and Traders (SMMT) still marked the third highest Q1 level on record.

Petrol used car sales dropped by 9.7% in the quarter, while diesel cars continued their upward trend, growing 2%. The increase in used diesel sales suggests that there is still a positive legacy for used diesel sales from the new VED rates brought in last year.

The rise in used diesel sales may also be in part due to the current high supply, with some fleets and private buyers looking to switch to petrol or hybrid models. The diesel market grew rapidly between 2000 and 2015, leading UK new car sales figures for a number of years.

Growth in alternatives

The data also shows that AFV sales, which include hybrid, plug-in hybrid (PHEV) and battery electric vehicles (BEVs), surging in popularity amongst used car buyers, increasing sales by 15.9% with 24,697 vehicles selling between January and March 2018.

In particular, BEVs enjoyed a surge in popularity, with demand rising 33.8% to 2,927 units, followed by hybrids, which rose 14.1%. Together they represented 1.2% of all used car transactions in the quarter, while petrol-fuelled models took a 55.9% market share and diesel 42.8%.

The growth in EV sales could be representative of consumer appetite for the market which, in the new car sector. is beset by high prices as the technology still requires high development costs. Once prices come down, it is likely that the market will surge forward, especially as manufacturers add to their model portfolios. The numbers also suggest that fears over battery life are yet to materialise.

Colour trends

Elsewhere, colour trends closely followed the new car market, with black gaining ground to overtake silver/aluminium as the favourite used car colour, and blue, grey and white making up the rest of the top five.

Body type trends

Superminis continued to be the most popular body type, followed by lower and upper medium, and then dual purpose, which enjoyed the fastest growth in Q1, up 12.8%, with more than 206,500 changing hands.

UK Used Car Transactions:
Q1 2018 and % change on 2017

	Q1 2018	Q1 2017	% change	Year-to-date 2018	Year-to-date 2017	% change
Used cars	2,031,661	2,133,956	-4.8%	2,031,661	2,133,956	-4.8%

Used car data supporting from DVLA.

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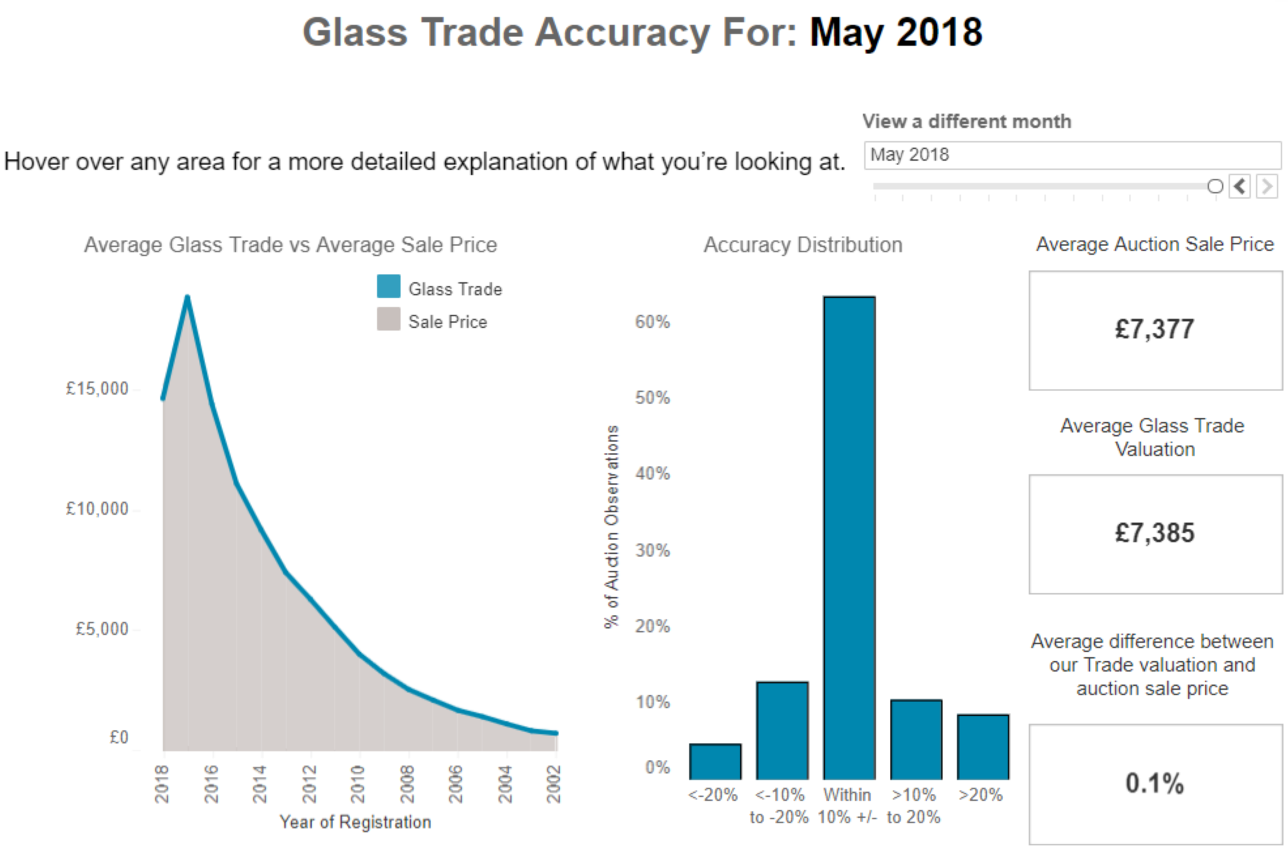
Residual values – measuring our accuracy

How accurate are our current Glass Trade values?

Glass's closely monitors the wholesale auction market and all observations gathered are used to help us to achieve our target of the Glass Trade Value being within 2% of the auction sale price. When our May values are compared to our most recent batch of auction observations, we find that we are 0.1% above the market on average.



The image to the left is a snapshot of our accuracy reporting dashboard.

Glass's subscribers get full access to our accuracy dashboard each month and filters include:

- vehicle type
- fuel type
- manufacturer.

This means subscribers can see just how accurate we are on what matters most to them.

Get full access to our valuation accuracy dashboard

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The secret diary of a forecast editor

As an Editor at Glass's who covers both forecast and used values I keep up to date with both new car launches and the used car marketplace.

My role involves travelling to manufacturer test and development facilities to see and discuss new cars at very early stages of development and then re-visiting them when the vehicles are ready to test drive.

Many of the new car previews take place prior to the actual launch of the vehicle followed by test drives of cars that are closer to full production vehicles just prior to launch. Many of the very early test drives are in camouflaged vehicles.

These preview events are a two-way discussion and are crucial to my role. Firstly, they help Glass's position the car against its peers in the UK. Secondly, Glass's aid manufacturer decision processes prior to launch with regards to trim, standard specification and colour choices to make the cars attractive to the UK customers and help maximise residual values.

It is vitally important as a forecast editor that I keep up to date with as many manufacturers as possible. To understand what vehicles are coming to the market and when as these new vehicles can have an effect on the rest of the market when they arrive.

At the other end of the scale, I visit car auctions regularly to keep up to date with trends in the used car market. Watching sales and talking to buyers, vendors and auctioneers to obtain views on used car market changes.

Paris: PSA Group

A regular workshop with the PSA Group covering quality improvements and an opportunity to see future models from the Peugeot, Citroen and DS brands. Teasers on this event included a short test drive in the very pretty new Peugeot 508, big changes to the new DS3 due next year and a test drives in the New Citroen Berlingo / Peugeot Rifter passenger carriers.

Prague: Skoda

Preview of the Fabia Facelift and the new Rapid Spaceback. The Fabia is an evolution of the current car with the changes making the car look more grown up whilst improving the overall aesthetics. Unfortunately, details of the new Rapid Spaceback are still under embargo so I cannot divulge further information.

Luton: Vauxhall

Vauxhall's first van derived car, the new Combo Life is a close cousin of the Peugeot Rifter and Citroen Berlingo. This is a logical launch considering PSA's ownership of Vauxhall. It will be down to customer preference which of the three vehicles they choose. All three are all extremely roomy and practical and multi-seat vehicles.

The secret diary of a forecast editor

Madrid: Toyota/Lexus

A viewing of the new Toyota Rav4 and Auris together with new Lexus ES Saloon at the INTA Secure Test Facility.

The new RAV4 is a step change from the old model, looking mightily impressive and available will petrol or petrol-hybrid in 2019. The New Auris, again available with petrol or petrol-hybrid drivetrains will have a 1.8 litre 120bhp petrol-hybrid engine and a powerful 2.0 litre petrol-hybrid version producing 177bhp.

One of the Lexus's biggest global sellers, the ES will launch this year in the UK. It offers all the things that you would expect from a Lexus Saloon; quiet cruising, sumptuous interior and excellent build quality.

Lisbon: NAMA (National Association of Motor Auctions)

With invitation in hand, I attended the NAMA Annual General Meeting to deliver a market presentation to an attentive welcoming audience in Lisbon. This was my first time at this excellent event where I was able to meet new automotive contacts.

Andy Cutler, Forecast Editor, Glass's

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