

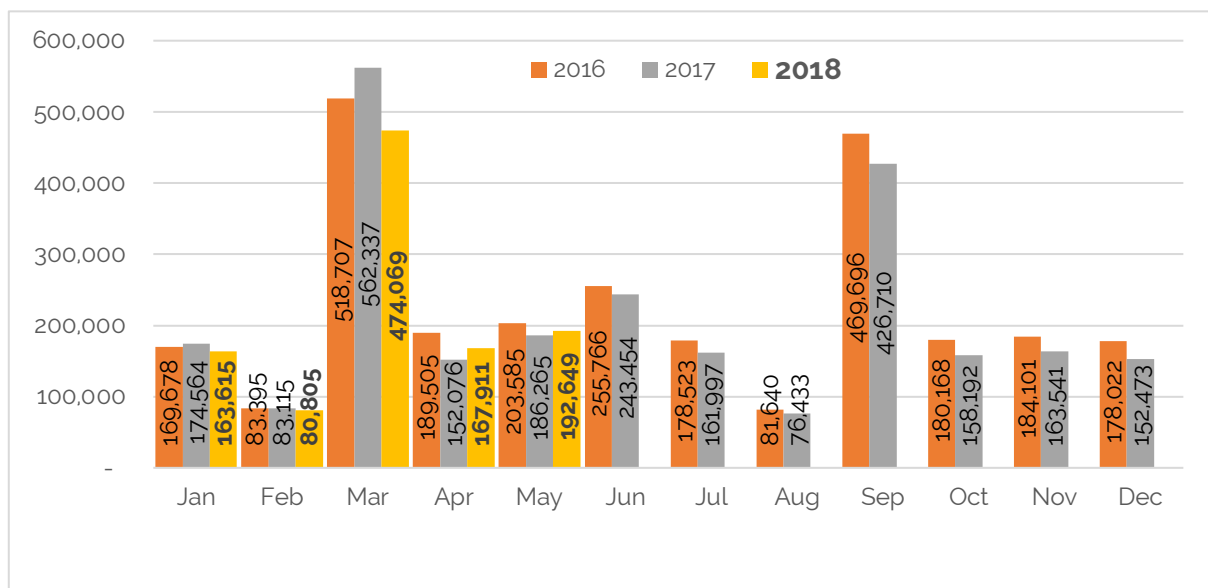
July 2018

black book editorial

New Car Sales

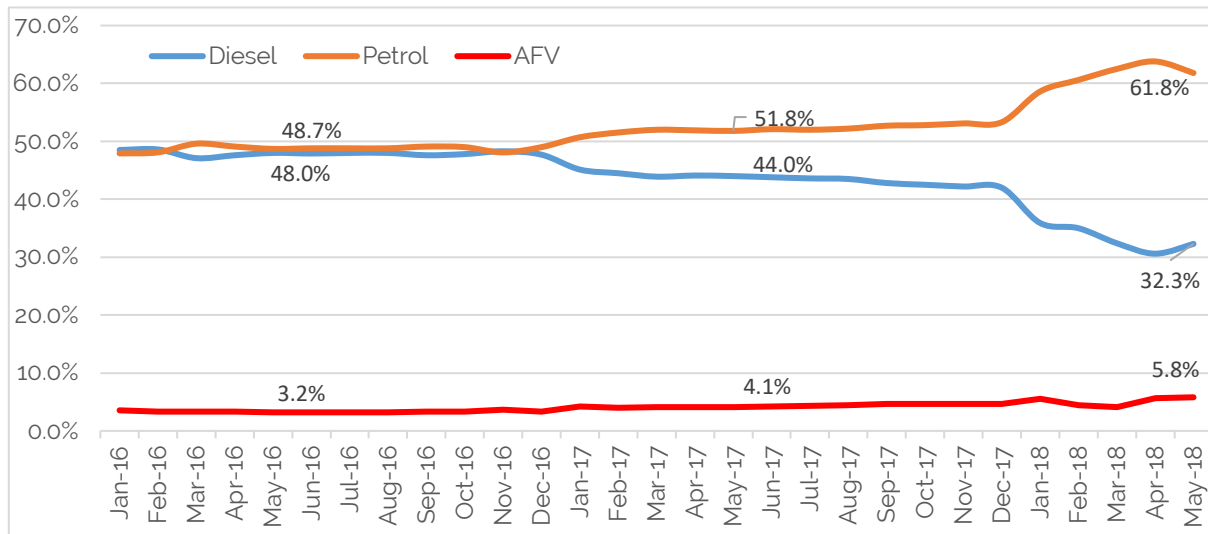
The 2018 new car market continued to rebalance in May with a 3.4% increase compared to the same month last year, with 192,649 cars registered versus 186,265 last year, according to the SMMT. Comparing the two years, there has been some retiming of registrations in 2018 because of the large number of registrations in March 2017, due to the VED changes on 1st April, and subsequent lighter months; this year has seen more stability. Year-to-date, the market is down 6.8% versus last year, with 1,079,049 registrations versus 1,158,357 at the same point last year. As each month passes the gap reduces, however, and the full year is likely to end up closer to 5% down on 2017.

Fleet and Business registrations continue to be the area feeling the main brunt of the reductions, down 7.1% and 16.2% respectively, with Private registrations down a more modest 5.7% year-to-date. In the month of May, Private registrations were up 10.1%, with the other two sectors posting reductions.



Source: SMMT

Petrol registrations continued to increase, up by 23.5% compared to May 2017, with diesels falling for the 14th consecutive month, down 23.6%. On the graph below this does show a slight recovery for diesel however, due to a very small increase in its share of the market. Alternative fuelled vehicle demand grew, up 36.1%, now accounting for a record 5.8% of the market. Plug-in hybrids were the biggest driver of this growth, up 72.7%.



Source: SMMT

Figures from the SMMT show that Daily Rental registrations in May were very similar to last year, with 23,564 cars registered. Year-to-date, however, registrations continue to be lower than in 2017, by 11.7%. This is partly due again to the large number of registrations pulled forward into March 2017 skewing the yearly comparison. There also continue to be conscious policy decisions by some mainstream manufacturers to reduce their involvement in this sector of the market, to aid profitability and protect their residual values. New car discounts to Daily Rental companies tend to be relatively high, as are the potential impacts on used car values, both due in part to the volumes involved and the shorter-cycle nature of the vehicles. These volume reductions are not across the board however and some of the manufacturers posting the largest percentage increases year-on-year are BMW, Kia, Peugeot and Land Rover. Ford, Vauxhall and Mercedes Benz have, so far, posted reductions. These latter three still make up one-third of the 2018 Daily Rental registrations between them, however.

Used Car Retail Activity

As we forecast and highlighted in last month's editorial, the World Cup has not had any impact on retail demand, with used car forecourts remaining a hive of activity, at least when England were not playing! Even the nationwide summer weather, traditionally seen as a reason for lower sales due to pursuit of more enjoyable leisure activities, did not dampened consumer's appetite for shopping for cars.

Franchise dealers continued to compete with car supermarkets slightly more so than they have previously at this time of year, feeling comfortable in the pre-owned market, where WLTP (Worldwide Light Vehicle Testing Procedure) and diesel issues are far less prominent.

Consumers seem willing to purchase "late-plate" used cars as an alternative to new. Interestingly, when tracking these "18" plate cars advertised on various websites, whilst traditionally volumes have been dominated by mainstream manufacturers, this is no longer the case, and a more premium manufacturer led the way in June, with 4 out of the top 5 being German brands. These cars can be ex-demonstrators being remarketed, but generally latest-plate vehicles advertised as used cars points towards tactical, pre-registration activity. Currently, some pre-registrations are a result of recent testing under WLTP and changes to the CO2 levels previously reported, meaning manufacturers are keen to move these cars on before September.

Used Car Remarketing Activity

There was a brief lull in remarketing activity at the end of May, but any thoughts that this was to be an ongoing trend were dispelled by a healthy start to June. With Bank Holidays, a royal wedding and cup finals seemingly slowing consumer appetite for visiting showrooms during weekends over the course of May, the first weekend of June saw a re-emergence. As a result, trade buyers were out in force to replenish stocks during the first week of the month.

Looking at the results of the cap hpi auction survey, one-third of respondents stated that conversion rates had increased in June, with just under half advising that they were the same as in May. Interestingly, 20% of auctions stated that they were not performing as well as their peers in this area. Conversion rates of slightly under 70% seem to have been the general sentiment.

When looking at demand for diesel cars, a particularly hot topic for a number of months now, 87% of the auctions responding advised that diesel demand had either stayed the same or even increased. Reassuringly for the industry, the fuel-type trends in the new car market are not being replicated in the used arena. This is important, as there remain large quantities of diesel cars to return, particularly from the fleet area. The trend to switch to petrol cars only really emerged early in 2017, so there are plenty of cars at the traditional 3-year plus age point still to return to the market. Within cap hpi's sold data, 51% of the cars are diesels, with 48% being petrol. We can see the change coming though, as for cars less than a year old, 48% are diesel, 50% petrol, whereas older than this diesel remains the dominant fuel type. Indeed, between the key 3-5 year point, diesels still account for well over 60% of the volume.

As is the norm now, it was the ready-to-retail, "cap clean", cars that were the fastest moving through the halls. High mileage vehicles, requiring heavy refurbishment or without full service history, struggled to sell. This has become more evident since new, more stringent, MOT guidelines came into play from 20th May this year.

Used Cars – Trade Values

With the cumulative black book live movement of -0.6% during June, we have now experienced a full 12 months of each month's book drops being more positive than the same month the previous year.

During June 2017, values in black book live dropped by an average of 1.4% at the 3-years 60,000 mile point, a fairly normal occurrence for the time of year. In June 2018, the average drop of 0.6% was the most positive movement in that month since 2009, when the country was recovering from a recession.

There was a slight reduction in prices during the late-May lull, but these then stabilised during the first week of the month. The feedback from the auction houses backed up these small value adjustments, with 60% of respondents stating that sold prices were much the same as in May, and 40% advising they had marginally reduced.

In percentage terms, the smaller end of the market has seen the largest drops, but even these have only been around 1%, less of a reduction than during the previous month or in June 2017. As always the devil is in the detail, and models such as the Kia Picanto and Smart Fortwo and Forfour were in demand, with values moving up once again. In contrast, the Vauxhall Adam and particularly the Chevrolet Spark have struggled in the open market and values were adjusted downwards by more than the average, around 2% and 6% respectively.

Overall, however, the appetite to buy smaller, petrol engine cars remains healthy. As mentioned earlier this year, but worth highlighting again as it remains the case, certain models have actually appreciated over the last 12 months. Petrol variants of the Nissan Micra (10-17), Renault Twingo and Skoda Citigo could have been bought as a used vehicle, driven 10,000 miles in the last 12 months and then been sold for more than they were bought for. This is a hugely unusual, almost unprecedented occurrence for what is a depreciating asset. The only times this has happened previously were during recovery periods, post-recession. This phenomenon is currently driven purely by consumer desire for small, petrol engine vehicles.

The SUV sector now makes up 20% of the sold data received by cap hpi, with increases more than likely as we move forward, as it is now makes up almost one third of new car registrations. This sector continued to perform more-or-less in line with the overall market in June, dropping on average by 0.7%. Larger SUVs again dropped by slightly more (-0.9% or almost £250 on average), however, where supply outpaced demand, some smaller models struggled to achieve previous prices – models such as the Jeep Renegade, Nissan Juke and Peugeot 2008 all saw notable value reductions in black book live during June.

On the petrol/diesel theme, as to be expected with demand for both being almost a mirror image, the percentage value movements were likewise. Petrol hybrids slightly underperformed versus the average, however it is the electric sector that was perhaps the most interesting. Certain variants of the previous and current model Nissan Leaf and the BMW i3 came under pressure during June, mainly as supply increased, and values generally reduced slightly. However, the Mitsubishi i-MiEV and Peugeot iON have lower volumes in the market, demand outstripped supply and values in black book live increased. So, whilst demand for used electric cars is on the increase, it is not yet at the levels to soak up any short-term over-supply. Remarketers need to remain watchful and mindful of this.

What Next?

With largescale increases in volumes in the used car market unlikely over the coming weeks, backed up by almost 9 out of 10 auctions feeding back that their stock levels will either decrease or stay the same during July, there is little reason to suggest any large adjustments to values.

What is clear is that there are plenty of diesel cars still to return to the market, and also that petrol vehicle's values are at an all-time high. Will both of these lead to pressure on prices? Potentially so in the slightly longer term.

In addition, in the run up to September, there is the possibility of further pre-registration activity due to WLTP – with some cars that are already built but with their CO2 emission figures increasing under the new testing guidelines making them unpalatable propositions post-1st September. These cars could well appear as cheap retail offerings, pre-registrations or they could find homes with the rental companies that are eager for more cars. Any or all of these scenarios could lead to pressure on residual values for those models affected. It is important to note however that these models are likely to be the exception rather than the rule.

Therefore, to conclude, July is likely to be more of the same, but a watchful eye will need be kept on activity over the coming months. Black book live will continue to be key for buyers and sellers alike as supply and demand are by no means uniform across the whole market.

black book July 18 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K
City Car	(0.6%)	(0.9%)	(1.3%)
Supermini	(0.4%)	(1.0%)	(1.2%)
Lower Medium	(0.8%)	(0.8%)	(1.1%)
Upper Medium	(0.7%)	(0.7%)	(1.0%)
Executive	(0.9%)	(0.5%)	(1.1%)
Large Executive	(0.7%)	(0.7%)	(0.6%)
MPV	(0.0%)	(0.1%)	(0.3%)
SUV	(0.7%)	(0.7%)	(0.7%)
Electric	0.2%	0.7%	0.0%
Convertible	0.0%	0.5%	0.7%
Coupe Cabriolet	(0.0%)	0.1%	0.3%
Sports	(1.0%)	(1.0%)	(1.3%)
Luxury Executive	(1.6%)	(0.9%)	(0.7%)
Supercar	(0.7%)	(0.7%)	(0.2%)
Average Movement	(0.6%)	(0.6%)	(0.9%)

() Denotes negative percentages

Notable Movers 3yr 60k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI Q5 (12-17) DIESEL	-400	-300	-366
BMW 3 SERIES (12-)	175	350	250
BMW X3 (10-18) DIESEL	-500	-250	-370
FORD FOCUS (11-)	-325	-50	-140
HONDA CIVIC (12-18)	-375	-50	-204
JAGUAR XF (11-15) DIESEL	-200	-100	-139
LAND ROVER FREELANDER (10-14) DIESEL	250	350	290
MAZDA 2 (10-15)	-175	-100	-145
MERC GLA CLASS (14-) DIESEL	-150	-100	-130

MITSUBISHI SHOGUN (10-) DIESEL	100	350	215
NISSAN JUKE (10-)	-375	-100	-242
PEUGEOT 2008 (13-)	-300	-225	-275
PEUGEOT 208 (12-)	-250	-100	-154
TOYOTA AURIS (12-)	-200	-100	-155
TOYOTA YARIS (11-17)	-150	-100	-123
VAUXHALL ADAM (12-)	-150	-100	-112
VAUXHALL INSIGNIA (13-18) DIESEL	-175	-125	-146
VAUXHALL MERIVA (10-18)	-250	-175	-195
VOLKSWAGEN PASSAT (11-15) DIESEL	-350	-125	-208
VOLVO V70 (07-16) DIESEL	100	150	138