

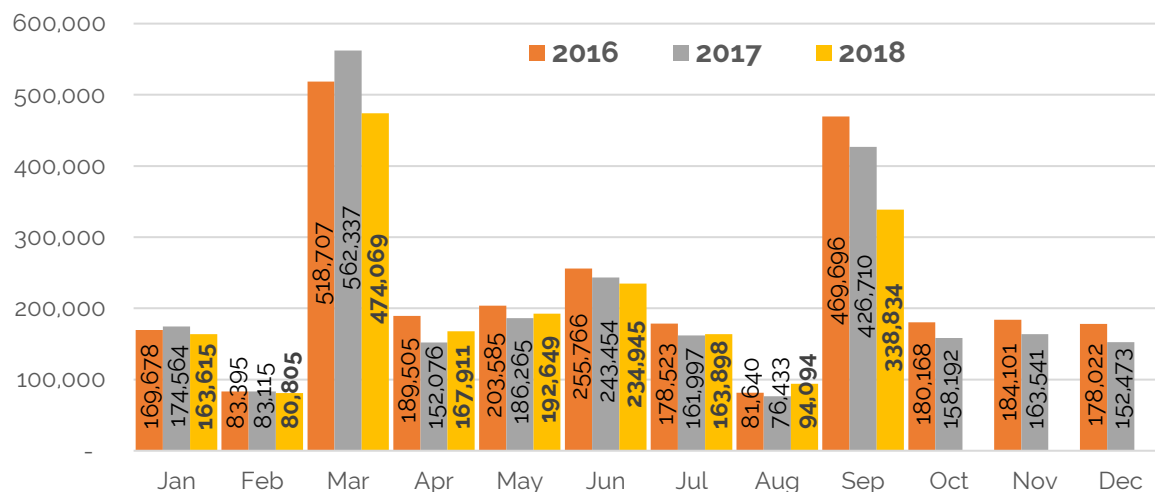
November 2018

black book editorial

New Car Sales

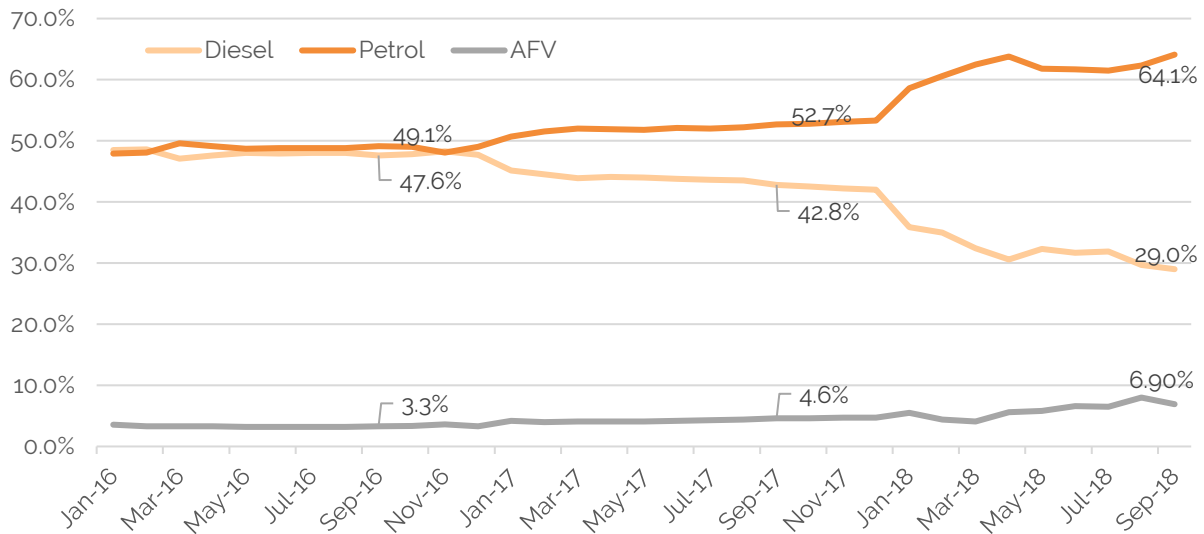
Following an interesting August with regards to new car registrations, September proved to be just as striking, for different, but related, reasons.

According to the figures published by the SMMT, the UK new car market fell by a tumultuous 20.5% in September, compared to the same month last year. 338,834 cars were registered, a decrease of 87,336 from the 426,170 last September. As with the increased registrations in August, the reason for the large reduction in September can be placed firmly at the door of the 1st September imposed deadline for the Worldwide Harmonised Light Vehicle Testing Procedure (WLTP), rather than a lack of demand. The testing backlog for these regulatory changes has caused different issues for different brands and it has certainly been a challenging period for car manufacturers and franchise dealers alike, with supply greatly affected. Indeed, some large-volume manufacturers registered less than half the number of cars than they did last September; in a plate-change month this is particularly significant and the knock-on effects on dealers' profitability are as yet not fully known.



Source: SMMT

Diesel propelled cars bore the brunt of these volume reductions – down 42.5% versus September 2017 and accounting for just 29% of registrations in the month. Petrol car registrations were also down, but only by 6.7%. Alternatively-fuelled cars were up year-on-year, by almost 4%, but they still only account for a small proportion of the market.



Source: SMMT

Volumes of cars registered to the Daily Rental sector continued to decline year-on-year, being 14.5% lower than at this point in 2017, with the majority of manufacturers reducing their activity in this lower profit sector of the market.

Used Car Retail Activity

Whilst the new car market has proved challenging for dealers, the used retail arena remained healthy for franchise dealers, independents and car supermarkets alike. With the timing of the autumn half-term being staggered, depending upon geographical location, there has been only a little let up; anecdotally demand dipped slightly towards the end of the month, but this is normal for this point of the year.

With new car supply down, many franchised dealers continued the theme from September, switching consumers into late-plate used cars.

An interesting dynamic in the used car market, however, appears to be in the higher-priced luxury and supercar sectors. Whilst lower-priced, used cars are a prudent choice for the discerning buyer, at the top end this is more of an emotional purchase for those more affluent consumers. With some concerns over Brexit and the economy in general, demand appears to have dipped in this segment over the last few weeks.

Looking at fuel-types in the used, retail market, the anti-diesel sentiment, led by government legislation, that can clearly be seen with new car registrations, is certainly not replicated. Cap hpi tracks the number of days to sell by using data from used car website sources and there is clearly a pattern that diesel and petrol cars have no difference in how quickly they sell currently. Diesel cars still have a loyal following, particularly for larger vehicles that are going to cover more miles after purchase.

Used Car Remarketing Activity

With demand in the used retail market being relatively strong and less part-exchanges appearing due to new car activity, plus competition from on-line car buying services for these part-exchanges, there has been a general requirement to purchase cars in the wholesale

market. Due to WLTP and new car instability, the franchised dealers have been more active than they normally would for the time of year.

Interestingly, however, there has been a slightly mixed picture with the car supermarkets. With prices in the wholesale arena higher than normal, some supermarkets have halted buying for a period of time. This has, in a way, opened the door for those that remained active, and thus led to slightly less competition, making buying slightly easier, particularly if they were prepared to buy older cars, requiring some refurbishment.

The cap hpi auction survey in October identified that demand increased, compared to during September, for 62% of respondents, and September was by no means a struggle either. For the first time this year, no auction companies reported that demand had dropped – the remaining 38% stating that demand was steady compared to the previous month.

By tracking volumes of sold data in the auction environment, it is apparent that volumes were down in the month of October, when comparing to the same number of working days last year. With demand being strong, this reduction can be attributed to lower supply levels in the wholesale market. Volumes were down by some 8% year-on-year and were also down almost 7% compared to September – an unusual occurrence for the time of year, but not unexpected due to the factors already covered off in this and previous editorials. 85% of respondents to the auction survey stated that volumes either were reduced or level from the previous month.

With lower supply and increased demand, it is unsurprising that 62% of respondents confirmed that conversion rates had improved, with the remaining 38% stating they were about the same, mirroring the answers to the question posed on demand – no one reported that conversion rates had dropped.

In general, the strength reported in the wholesale market throughout 2018 continued in October.

Towards the end of the month, however, it did appear that the market was slowing slightly and if the auction survey had cut off a few days later there may have been a slightly less positive viewpoint.

Used Cars – Trade Values

Over the last 5-years, the average movement in black book live during October (leading to November's figures for those subscribers to our monthly product) has been -1.6% and it has been as low as -2.2% (in 2015). This time of year is generally when deflation in used car values accelerates, due to increased supply from the plate-change month and demand seasonally reducing.

With lower numbers of new car registrations than previous years has come less retail part-exchanges and fleet and daily rental returns. The inevitability of this is that if demand stays strong, which it has for most of the month, values hold firm.

This October, however, was not immune to some deflation; however, the average drop across all sectors, of just 0.6%, was the strongest October we have witnessed. This includes during 2009 when recovery from recession was underway. When you add this to the fact that used car prices have been strong all year, these really are unprecedented times for used car values.

Of particular note is the difference between diesel and petrol deflation. As our forecast team have been predicting, with values of petrol cars having increased disproportionately in relation to diesel, a movement the other way was always likely. This last month we saw petrol cars reduce by an average of 1.0% whereas diesels have dropped by just 0.3%. As stated previously, diesel used cars generally remain in demand, with consumers seeing the benefits of the economy and torque.

This petrol/diesel comparison is well illustrated in the SUV sector. With growing volumes of petrol cars in this sector, and strong prices being achieved, it was perhaps inevitable that this strength was unsustainable. Petrol SUVs dropped by 0.6%, diesels by 0.3%, with buyers comparing prices for both fuel-types and choosing the best value for money.

As always with used car prices, and the reason why such attention to detail is paid within black book live's daily tracking, some models reduced in value by more than the average. The reasons were generally previously high prices in the market and significant volumes. Models that were thus affected in October were latest petrol models of the Ford Fiesta, Honda Jazz, BMW 1-Series, Citroen C1, Fiat Panda, Hyundai i10 and Kia Picanto.

On the positive side, a couple of electric vehicles, namely the Renault Zoe and Peugeot iOn, were in particular demand and supply levels were reasonable, so values went up in black book live, reflecting the strong prices being paid. This strength was not replicated across all electric vehicles, however.

A number of MPVs also went up in value. Volumes have reduced in this sector due to the meteoric rise of SUVs, but there are some quality cars that still serve a purpose for consumers. The SEAT Alhambra, Vauxhall Zafira Tourer and certain variants of the Ford Galaxy all performed particularly well, pricewise, in October.

As stated, demand for both luxury executive and supercars has waned since September. As a result, prices suffered and values dropped in black book live by amounts that are unusually high in these normally robust sectors. Luxury executive models dropped by 2% and supercars by 2.5% at the 3-year point. When looked at in monetary terms, these percentages equate to significant average drops of £2,000 to £2,500. Models affected included the Bentley Mulsanne, Ferrari 488 and various Rolls Royce models.

As is usual heading through autumn into winter, the majority of convertibles also dropped in value, by an average of 2.6% at the 3-year point, as demand is low at this time of year.

What Next?

The last 2 months of the year are generally challenging from a demand point of view, and values can often slide away before recovering somewhat in January. Over the last 5-years in November and December values dropped by an average of almost 2% per month.

With some manufacturer's new car volumes likely to still be reduced well into the New Year, due to WLTP, it is unlikely that volumes of part-exchanges and fleet returns are going to increase significantly during the balance of 2018.

Taking these demand and supply dynamics into account, it is fair to assume that values will likely reduce but not to the extent that they have done in previous years. The appetite of retailers to purchase for stock will continue to decline from the high levels they have been at, but volumes are unlikely to increase to any degree that will adversely influence used car prices.

It will be worth keeping a close eye on the detail, via black book live, during the next few months, however. With a number of mainstream and luxury models reducing by more than the market in October, it will be interesting to see if prices continue to fall for these or if they are experiencing a one-off realignment. There will certainly be other examples to add to this list, where volumes do return to the market and the drop off in demand affects prices.

black book November 2018 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K
City Car	(1.5%)	(1.8%)	(1.8%)
Supermini	(1.1%)	(1.3%)	(2.1%)
Lower Medium	(0.2%)	(0.3%)	(0.3%)
Upper Medium	(0.9%)	(0.2%)	(0.3%)
Executive	(1.4%)	(0.7%)	(0.9%)
Large Executive	(0.4%)	(0.1%)	0.0%
MPV	0.0%	0.1%	(0.1%)
SUV	(0.6%)	(0.4%)	(0.2%)
Electric	(0.6%)	(0.2%)	(0.2%)
Convertible	(2.3%)	(2.6%)	(2.6%)
Coupe Cabriolet	(3.0%)	(3.3%)	(2.8%)
Sports	(1.2%)	(1.0%)	(0.7%)
Luxury Executive	(2.0%)	(2.0%)	(1.6%)
Supercar	(1.5%)	(2.5%)	(2.3%)
Overall Avg Book Movement	(0.8%)	(0.6%)	(0.7%)

() Denotes negative percentages

Notable Movers 3yr 60k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI A3 (12-) DIESEL	150	300	224
AUDI Q7 (09-15) DIESEL	200	250	231
BMW 4 SERIES CONVERTIBLE (13-) DIESEL	-550	-400	-451
FORD S-MAX (10-15) DIESEL	100	150	121
HONDA JAZZ (08-15)	-425	-125	-216
JAGUAR XF (11-15) DIESEL	-550	-200	-406
LAND ROVER DISCOVERY SPORT (14-) DIESEL	-450	-350	-393
LAND ROVER RANGE ROVER SPORT (13-) DIESEL	-900	-700	-776
MAZDA 6 (13-18) DIESEL	150	200	168
MAZDA MX-5 (09-15)	-425	-300	-366
MERC E CLASS CABRIOLET (13-17) DIESEL	-700	-550	-650
MERC SLK (12-16) DIESEL	-500	-350	-416
NISSAN QASHQAI (13-18)	-250	-150	-207
PEUGEOT 208 (12-)	-225	-125	-150
SKODA OCTAVIA (13-) DIESEL	375	650	452
TOYOTA AURIS (12-18) DIESEL	125	175	153
TOYOTA PRIUS (09-16) HYBRID	350	400	375
VAUXHALL ADAM (12-)	-200	-125	-167
VAUXHALL CORSA (11-15)	-250	-100	-150
VOLVO V40 (12-) DIESEL	-225	-150	-184