

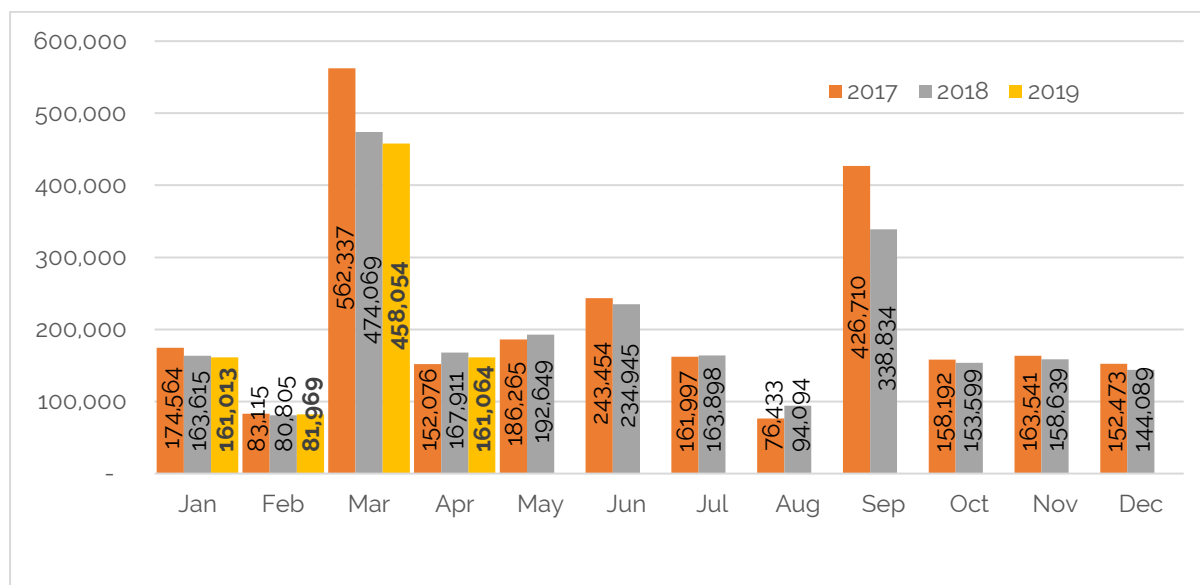
June 2019

# Car Market Overview

## New Car Sales

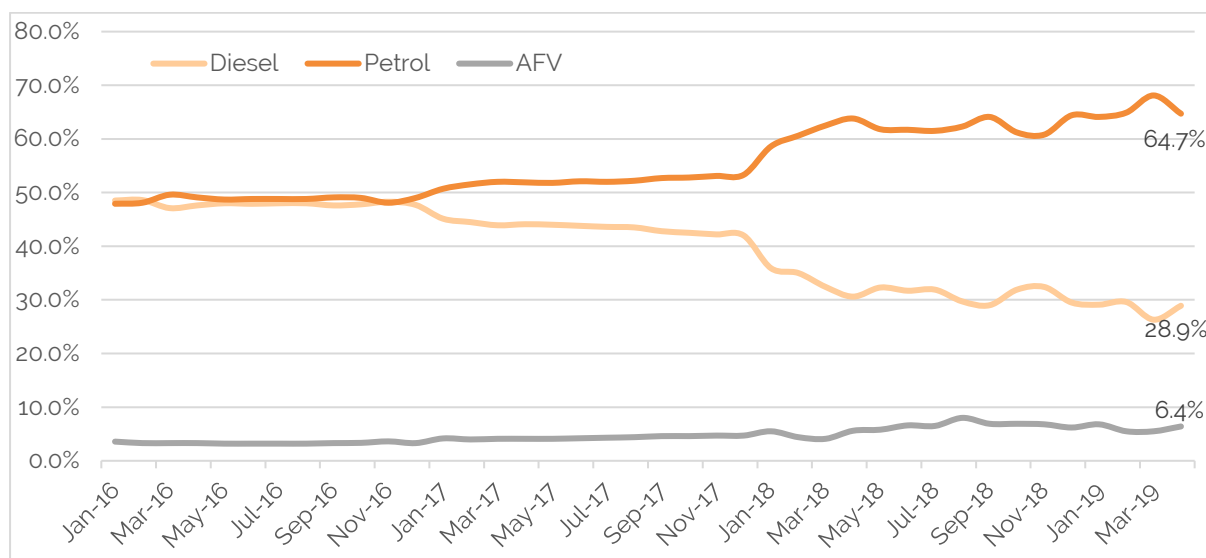
According to the figures produced by the SMMT, 161,064 cars were registered in April 2019, a reduction of 4.1% from the same month last year, when 164,911 cars were registered. Year-to-date, 862,100 cars have been registered, compared to 886,400 in 2018, a reduction of 2.7%. Private registrations were down 10.3%, whilst Fleet saw a more positive picture, up 2.9%.

There was not the usual volume of registration activity towards the end of the month, pointing towards slightly lower than normal tactical, pre-registrations, although there was plenty of this in the previous month.



Source: SMMT

Diesel registrations continued to decline, although down by 9.4%, a smaller reduction than in recent months, with 28.9% market share. Year-to-date they were down 18.4% with a share of 27.7%. Petrol registrations also declined in the month, down 3.0% but still taking up the lion's share of 64.7% (66.4% YTD). Petrol hybrids increased by 31.1% and pure electric cars by 63.3%, albeit still taking up a small percentage of the overall market.



Source: SMMT

Daily Rental registrations in April proved interesting, with volumes increasing by 20%, in a falling market. As this is one of the least profitable sales channels for manufacturers, it would suggest weak demand elsewhere as there can be a reticence to supply into this channel. Year-to-date, rental volumes are up 9%. Vauxhall remain way out in front with regards to rental cars registered so far in 2019, with the Mokka X and Insignia being the two most heavily sold. It will be interesting to see if these increases continue in the second half of the year.

### Used Car Retail Activity

The last two months have been challenging for the used car market. With the Easter break followed by the May Bank Holiday, this period is traditionally one where demand from consumers drops and this year this has been felt more acutely than in recent years.

When tracking the number of days that cars are being advertised for before they are sold, it is clear within the data analysed that up until the end of April, across the board cars were selling far quicker on average than they did during May. Year-to-date, up until 1<sup>st</sup> May, the average days to sell was around 30, in May it jumped to over 45. This is a sure sign that demand declined. There was little discernible difference in the sales rates for petrol and diesel cars.

On the franchise dealer side, where new car targets set by manufacturers have a huge impact on purchases, sales, stock levels and ultimately revenue, the main issues along with slower demand, have been the abundance of ex-demonstrators and pre-registered cars within their stock. The longer that these stay on forecourts, the greater the likelihood of price reductions and squeezing of margins. Older used cars then have to be priced relative to these 'late-plates'. Viewing "Retail Advert iQ" within the cap hpi Valuation Anywhere product can help dealers price cars in-line with current market conditions.

Car supermarkets have been slightly less affected by the drop off in consumer demand. They generally work to lower margins and do not have the same pressures as the franchise dealers. Having said that, they have still not had it easy in May with regular pricing reviews and discounting essential to keep in touch with the competition and

keep cars selling. A very different picture to this time last year when demand and prices were far stronger. However, what is happening now was not unusual at this time of year in the past, it is just that the industry has got used to good times, including high demand, over the last year or two.

For the independent retailers, May has proved to be tough due to the drop off in demand and trying to compete with the generally larger car supermarkets.

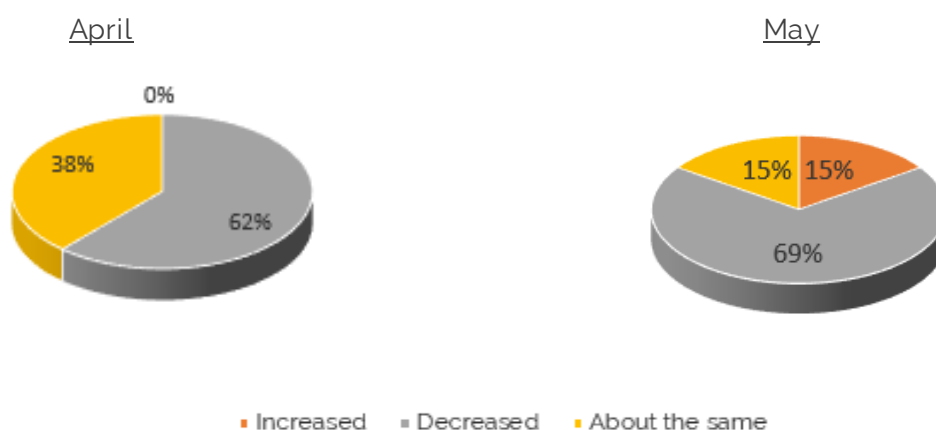
### Used Car Remarketing Activity

In the wholesale market, the tough conditions were felt just as acutely. There are high volumes in the used arena, due to cars coming back at the 3-year point in their lives, mainly from the leasing sector. 3-years ago, 2016 saw the highest number of annual registrations since 2003 – and many of these were March registrations so have reappeared over the last few weeks. Add this to the seasonal drop off in demand and it makes for a relatively tough market.

With many franchised dealers heavily stocked, they had little appetite to purchase and if they did, they could afford to be discerning. This led to manufacturers remarketing departments looking elsewhere to sell their used cars direct and this comes at a price. Both factors, however, mean less trade buyers actively seeking out cars to purchase, particularly at auction. When buyers were active they had plenty to choose from, so as is normal at those times, the cars in "clean" condition were selected, with poorer ones left on the shelf. Buyers were still not prepared to pay previous cap clean prices, even for those good quality cars – partly a consequence of retail prices also falling, so no appetite to further squeeze margins.

These factors are illustrated by the results of this months' cap hpi auction survey.

#### How does trade demand compare to the previous month?



As can be seen from the charts, the vast majority of auction respondents in the last two months have painted a fairly damning picture of demand in the halls.

#### How do your current stock levels compare to the previous month?

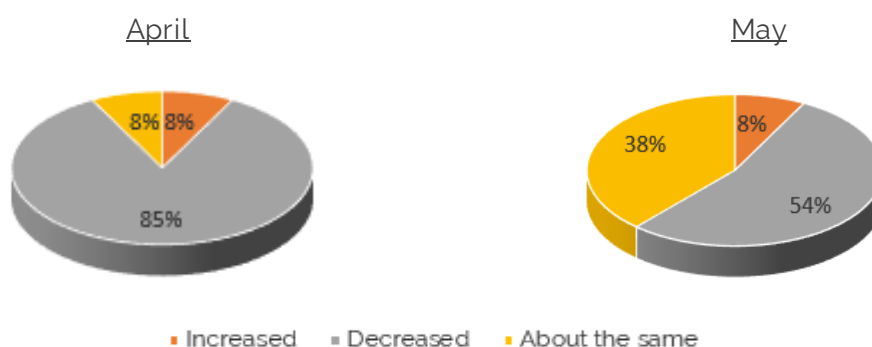
April

May



The majority still continue to report that stock levels are increasing; with less cars being sold and part-exchanges and fleet returns appearing this was inevitable. A small number did report reductions or stability, however, which could be viewed as a positive for prices moving forward.

How do conversion rates compare to the previous month?



Conversion rates continue to decrease for the majority of respondents, although this is a slightly more positive picture than last month, with at least some seeing a similar or even better picture than they did in April. However, 40-50% conversion rates were not uncommon, particularly for those vendors not moving prices in line with the market and waiting for the next month's values. At best, conversion rates were inconsistent between sales, which does mean there were at least some positive results.

**Used Cars – Trade Values**

So what did all this mean for trade values in cap hpi's Live valuations?

As has been widely reported in the recent trade press, prices were heavily affected in May, with the average reduction at the 3-year, 60,000 mile point being 3.1%, or c.£300. This is the heaviest monthly drop since December 2014 and the steepest fall in the month of May since the Live product was introduced in 2012. Off the back of a 2.3% drop during April, this is a significant realignment in most used car's values. Every model and generation is analysed on its own merits and the vast majority of cars were not immune to heavy reductions.

The mainstream sectors of city car, supermini, MPV, Lower Medium and SUV all experienced value drops in excess of the average, in percentage terms, with similar reasons for all. Upper medium (Mondeo, Insignia sized cars) fared slightly better, mainly due to lower supply and already relatively competitive prices in this sector. Even most convertibles were not immune to value drops at a time of year when they are usually on the increase, due to summer demand.

Diesel cars dropped in value by slightly more than petrol ones, but this ebbs and flows each month so there remains no overall ongoing pattern. Electric cars proved a mixed bag, with most dropping in value but the Citroen C-Zero bucked the trend and went up.

So has the market crashed? Does the industry need to batten down the hatches and expect another 2008 recession? We certainly do not envisage anything so severe. As stated in previous overviews, we are currently witnessing a realignment in pricing due to three main factors. Firstly, prices rose during 2017 and 2018, for all fuel types to differing degrees, an unusual phenomenon for traditional depreciating assets. For most of 2018, cars were worth more than their equivalents at the same age and mileage a year earlier. Secondly, supply levels into the market are currently high due to cars returning from previous registration years, exacerbated by the March plate change, pre-registrations and fleet (including rental) returns. Thirdly, demand has eased due to the time of year.

Despite the larger than usual book drops it is important to put this into context following the strength we have witnessed previously. When looking at the performance of the three example cars below the monetary movement over the last year is more-or-less what could realistically be expected in a "normal" market. It is just that values have fallen heavily over a short time period and were not subject to a steady decline over the whole year.

	CAP ID	Jun-18	Jun-19	Movement
Volkswagen Up! 1.0 Move Up 5dr	53756	£ 4,150	£ 3,675	<b>-£ 475</b>
Vauxhall Corsa 1.4 ecoFLEX SRi 5dr	66196	£ 5,275	£ 4,875	<b>-£ 400</b>
Ford Focus Hatchback 1.0 EcoBoost Zetec 5dr	65248	£ 6,550	£ 6,275	<b>-£ 275</b>

### What Next?

Whilst supply levels are likely to be higher than they were last year, with prices now realigned and demand likely to pick up, it is very unlikely that prices will continue to decline at the rate witnessed over the last two months.

Many cars now actually look reasonable value for money again and this could lead to some relative stability. Demand should pick up, although there may be some slight economic uncertainty, and a drop in consumer confidence, due to the current political climate.

The average drop in our Live valuations during June over the last 5-years has been 1.1%, at the 3-years, 60,000-mile point, with the heaviest drops during that time being 1.4% in 2015 and 2017. This year, it is likely that values will drop but at a slower rate than in May. Some feedback towards the end of May suggested a slight stabilising of the market, but this was not a universal picture. For those vendors selling to monthly cap clean, the reductions in June's figures may well stimulate buying demand.

Live valuations are very much the present and the future and over the last two months in particular, vendors adjusting to the market during the month have sold cars quicker, whilst buyers using "Live" have not overpaid by valuing to monthly figures that have already moved.

Whatever happens during these unpredictable times, cap hpi Live valuations will reflect pricing in the market in real-time.

### black book June 19 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K
City Car	(2.4%)	(3.4%)	(3.6%)
Supermini	(2.8%)	(3.8%)	(4.5%)
Lower Medium	(2.8%)	(3.6%)	(4.3%)
Upper Medium	(1.5%)	(2.3%)	(3.1%)
Executive	(1.9%)	(2.5%)	(2.8%)
Large Executive	(2.6%)	(2.7%)	(2.7%)
MPV	(2.9%)	(4.0%)	(4.5%)
SUV	(2.4%)	(3.3%)	(3.8%)
Electric	(1.3%)	(1.4%)	(1.0%)
Convertible	(0.8%)	(1.1%)	(1.8%)
Coupe Cabriolet	(0.1%)	(0.2%)	(0.0%)
Sports	(1.2%)	(1.3%)	(1.6%)
Luxury Executive	(1.5%)	(1.2%)	(0.8%)
Supercar	(0.7%)	(1.1%)	(1.1%)
Overall Avg Book Movement	(2.3%)	(3.1%)	(3.6%)

( ) Denotes negative percentages

### Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI A3 (12-19) DIESEL	-1,050	-350	-685
BENTLEY CONTINENTAL GTC CONVERTIBLE (11-19)	-5,100	-3,800	-4,150
BMW 1 SERIES (17- )	-800	-400	-576
BMW I8 (14- )	-2,800	-2,600	-2,733
CITROEN C-ZERO (11- )	325	325	325
FORD FIESTA (17- )	-300	-150	-227
HONDA CR-V (12-19)	-1,300	-800	-1,093
LAND ROVER RANGE ROVER SPORT (13-18) DIESEL	-1,000	-800	-950
MERCEDES-BENZ GLS (15- ) DIESEL	-1,900	-1,800	-1,850
VOLVO XC90 (14- ) DIESEL	-1,700	-1,000	-1,200

### Notable Movers 3-yr 60k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI A3 (12-19) DIESEL	-650	-200	-418
BMW 3 SERIES (12- ) DIESEL	-500	-275	-367
BMW MINI COOPER (13-18)	-675	-250	-379
CITROEN C1 (14- )	-325	-200	-266
FORD FIESTA (08-17)	-525	-200	-350
KIA SPORTAGE (10-16) DIESEL	-750	-475	-605
LAND ROVER RANGE ROVER EVOQUE (11- ) DIESEL	-750	-450	-578
MERC A CLASS (12-18) DIESEL	-500	-250	-343
NISSAN QASHQAI (13-18) DIESEL	-500	-250	-329
VOLKSWAGEN TIGUAN (11-16) DIESEL	-800	-475	-651