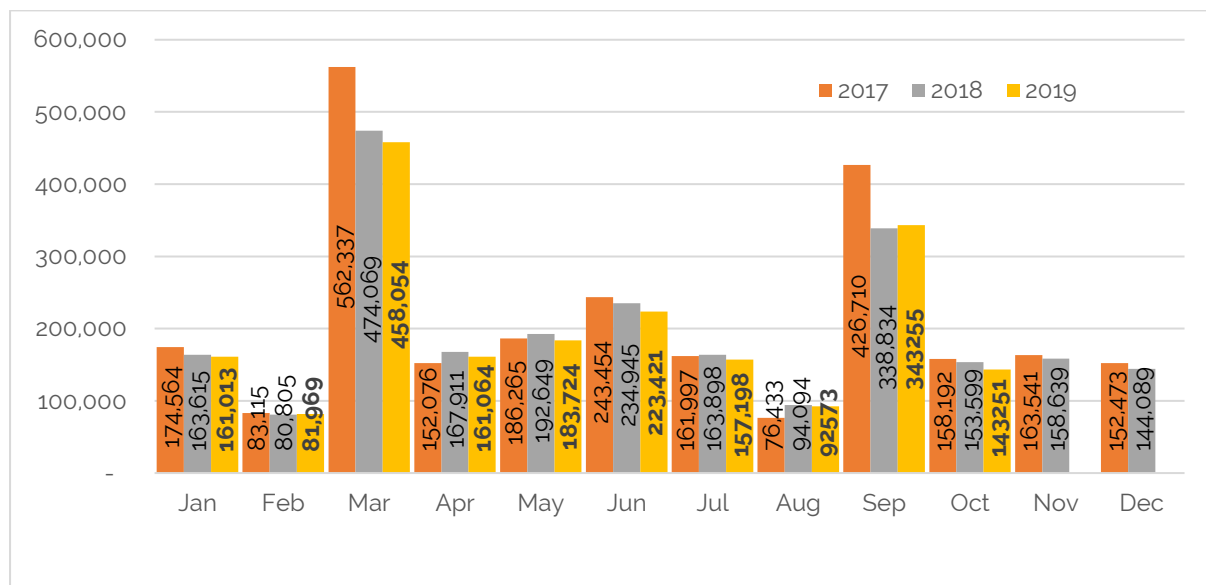


December 2019

Car Market Overview

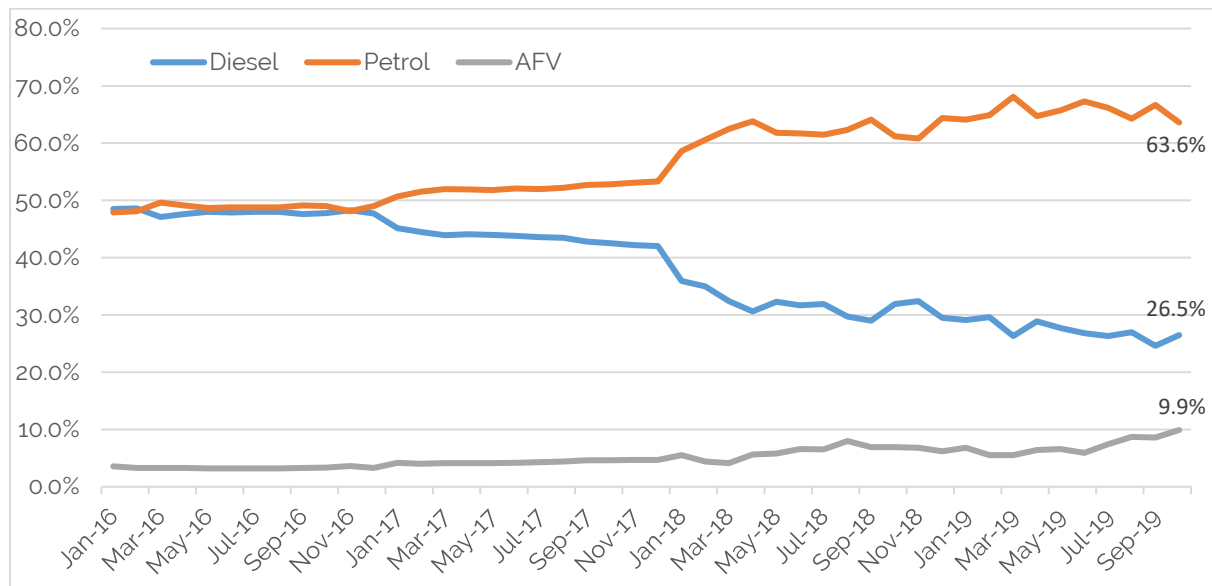
New Car Sales

October was another difficult month for car manufacturers and dealers with regards to new car registrations. According to the figures produced by the SMMT, 143,251 cars were registered, a decline of 6.7% on last years' 153,599. This was also off the back of a modest September. Private, retail demand saw the biggest drop in October, down 13.2%, whilst Fleet remained relatively stable, pointing towards concerns over consumer confidence amid some economic and political uncertainty. Year-to-date, 2,005,522 cars were registered to the end of October, down 2.9% on the same period last year. It will be interesting to see whether pre-registration activity increases over the remainder of the year, with manufacturers chasing market share and volume, retailers chasing targets and cars being pulled forward into 2019 to avoid fines for not hitting new, stringent emissions targets in 2020.



Source: SMMT

Registrations of diesel cars fell for the 31st consecutive month, when compared to the same month a year previous, down a considerable 22.7%, with petrol registrations down 3.0% (mild hybrids are included in both of these figures). Alternatively-fuelled vehicles continued their rise in popularity, with pure Electric Vehicles increasing by an impressive 151.8% (3,162 units registered in the month), Hybrid Electric Vehicles by 28.9% (7,950 units) and Plug-in Hybrids falling by just 1.7% (3,119 registered in October). AFVs are now close to 10% of the overall market in terms of registrations.



Source: SMMT

It was a relatively light month for registrations in the Daily Rental sector, as is normal for October, with demand to rent cars lower than in the summer months. BMW led the way in terms of registrations, and they remain the 3rd largest in volume terms year-to-date, behind only Vauxhall and Ford. Mercedes-Benz are close behind in 4th place. Premium manufacturers now make up 25% of the daily rental registration volume, whereas 4-years ago they were at just 16%. This is an additional 11,000 units registered year-to-date, whereas mainstream manufacturers have reduced by around 50,000 units. This is an interesting dynamic and we will be tracking to see how and if this affects values of these premium brands going forwards. Daily rental cars can often be on short holding periods and sold with higher discounts than in retail or other fleet channels, hence the potential impact.

Used Car Retail Activity

Whilst new car retail activity has been a struggle, this is not being replicated in the used car arena. November saw a very similar picture to October, with consumers still out buying used cars, without demand being through the roof. For the time of year, this is certainly positive news for dealer groups that have had a difficult time of it in 2019, whilst independents and car supermarkets are also faring well. Quarter 4 is traditionally the most difficult period for retailers, as consumers focus on the upcoming festive period. There is certainly the indication that some cost-savvy car buyers are being switched onto used vehicles rather than new, as well as a growth in the so-called "grey fleet" where company car drivers are taking a car allowance and buying a vehicle themselves, often a late-plate used car.

Looking at the retail data from our different sources, we track how long cars are advertised for on dealer websites, and it is clear that cars are still selling at around the 40-50 day point on average. Diesel cars sell slightly quicker than petrol ones still – at around 45 days (petrol being 48), although this differs by the size of the car – larger diesel cars remain in demand in the used car market and volumes are reducing and will continue to do so, helping that supply/ demand dynamic. Petrol hybrid cars sell slightly quicker than diesel ones (44 days), aided by low volumes, whereas pure electric vehicles sell the quickest of all, at an average of 39 days. This is particularly true of mainstream electric cars at a price point of below £18,000 retail.

There remains a theme of cars at the more expensive end of the market, the more luxury than necessity purchase, being slower to sell and some realignment of retail pricing has been necessary and evident of late.

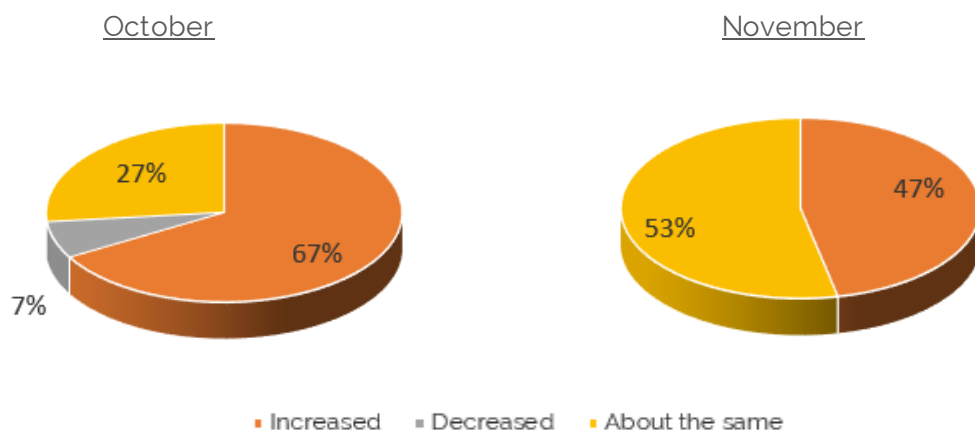
Used Car Remarketing Activity

The main theme in the wholesale arena has been low supply levels for the time of year. With September and October both being relatively light on new car volume, compared to years gone by, there has been a lack of part-exchanges and fleet returns appearing in the wholesale arena. With this lack of "self-generation" of stock, many franchise dealers have joined the independents and supermarkets in actively buying, at a time of year when in the past they have not been quite so prominent.

The best word to describe the trade market would be "stable", as has been the case for the last 3-4 months. The poorer condition cars have struggled to sell, whilst those in cap clean condition have been fairly well sought after. Feedback received at the National Association of Motor Auctions (NAMA) Executive meeting in November was particularly upbeat for the time of year, with the only real concerns being lack of supply.

The results of the cap hpi auction survey illustrate how steady the wholesale market has been.

How does trade demand compare to the previous month?



As the charts illustrate, trade demand remained as strong as it was during October for over half of respondents and improved for almost as many. Not one auction company advised that demand declined – this is very unusual for the final quarter of a year.

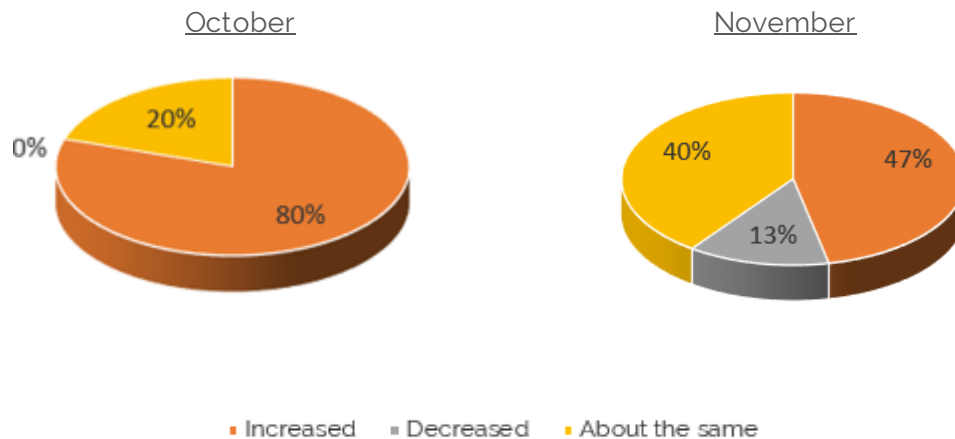
How do your current stock levels compare to the previous month?



■ Increased ■ Decreased ■ About the same

There was a slightly more mixed picture when looking at supply of cars in the auction world. With over 70% stating either parity from last month or declines, but over a quarter citing increases, it is fair to say that one would normally expect a higher proportion of respondents to have increased stock levels in November.

How do conversion rates compare to the previous month?

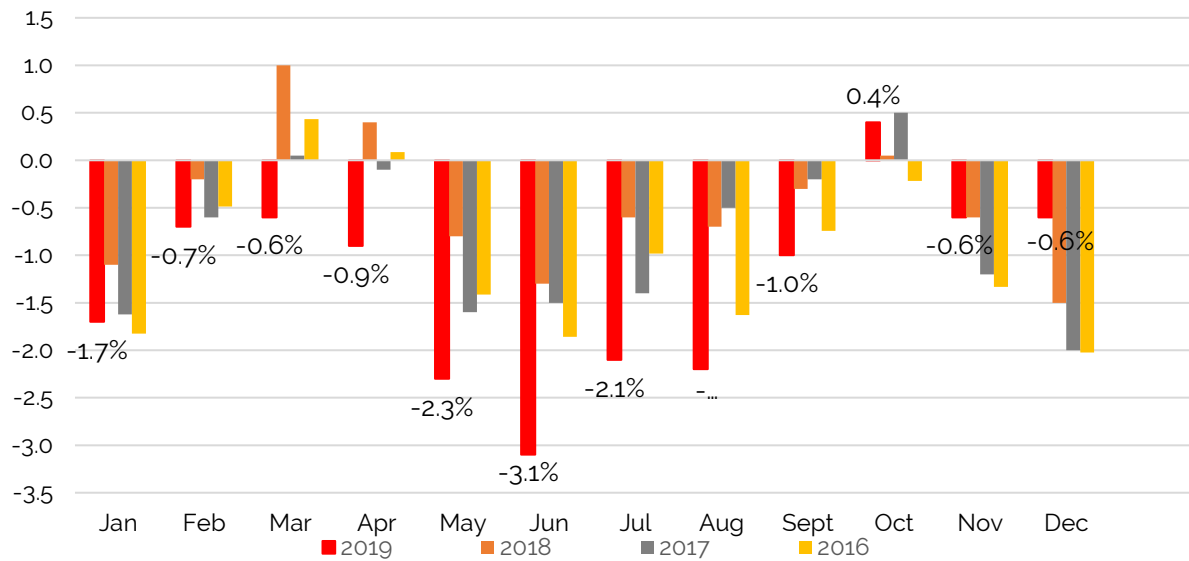


Conversion rates remain on the positive side, with the vast majority stating that conversions were either equal to those in October or even slightly improved. Steady demand and few increases in volumes certainly helped this. Most of the comments received off the back of the survey were that November continued October's theme of a very stable, healthy market.

Used Cars – Trade Values

As might be expected off the back of the commentary so far, there has been little movement in used car values in our Live valuations during November. The average movement is a 0.6% drop at the 3-year, 60,000 mile point, with younger cars slightly more affected, by -1.1% at the 1-year, 10,000 mile point. In monetary terms, this is an average drop of £100 and £250 respectively. Younger used cars are under more pressure off the back of a certain degree of pre-registration activity, particularly in September.

The following chart shows percentage value drops by month at the 3-year, 60,000-mile point:



When looking back over previous years to see what is the norm for this time of year, the average November Live drop (for Decembers monthly product) over the last 5-years has been a significant 2.3% at the 3-year point. This is due in the main to high volumes from September plate changes and a drop off in demand due to seasonal factors. The 1-year figure has been very similar at -2.2%.

As well as the aforementioned lack of supply, a further dynamic this year that has led to stability at the current time is the unusually heavy price drops experienced earlier on in the year. The much talked about realignment of prices felt from the start of 2019, which accelerated from Easter onwards, as reflected in cap hpi Live valuations, seem to have had a positive effect on the market. It was certainly an unusual early/ mid summer period, with the drops in Live from April to July equalling almost 10%. Since then, over the last 4 months, there has been less than a cumulative 2% drop. The realignments seem to have stimulated the market in a positive way.

Within the average drops going into December, as always there are variations by sector, fuel type, model and derivative, as reported in cap hpi Live valuations.

Values of petrol cars came under slightly more pressure than diesel ones once again, as proportion of supply in the market continues to increase off the back of new car registrations. Average diesel car values dropped by 0.5%, petrol ones by 0.7%. Electric cars experienced the smallest drop, at just 0.4%, helped by low supply levels overall. Some EVs were under increased pressure on price – those where supply did increase – namely the Renault Zoe, Nissan Leaf at the 2-year age point and the Jaguar I-PACE.

Looking at specific sectors, city cars actually slightly increased in value on average during November, going up by 1.2% (c.£50) overall, with Volkswagen Up!, Vauxhall Adam and Skoda Citigo being some examples of cars increasing. These small cars are more popular than ever, suiting many individuals and families as a second or third car – they are also a reasonably cheap car for dealers to stock, knowing they will not be sat on the forecourt for long without finding a buyer.

Superminis were the next strongest sector in value terms, actually posting an average of 0% at the 3-year point, although at the 1-year point, mainly due to plenty of duplication of cars in the market, values did drop, but only by around £100 (-0.8%) on

average. Some models under more pressure than others were the Suzuki Swift, Volkswagen Polo and the Mazda 2, where supply outstripped demand.

In the SUV sector, which now carries almost 25% of all volume in the used car market according to the trade data received by cap hpi in 2019, the average drop in November has been 0.6%, again much less than the norm for the time of year. Like the overall market, this sector witnessed a weaker performance from petrol variants compared to diesel ones. Retailers still seem to have a good market for diesel vehicles, whilst at the same time consumers have a little more choice of petrol derivatives.

Convertibles and cabriolets have dropped by more than the average in November, both by in excess of 3%. There is still a seasonal pattern for such cars – consumers may start buying in larger numbers in the spring so it is a little early for all but the most astute and speculative trade buyer to purchase for stock now, although they will soon be at their lowest price point for the year.

There has also been some weakness in the executive sector, as these cars have remained under pressure, despite low stock levels in the market. "Big ticket" items across all sectors remain a challenge, due to the high price point coupled with consumers not easily parting with large amounts of money currently. There is also evidence of tactical pre-registrations by some premium manufacturers, which has impacted late-plate prices. Strong new car finance offers from franchise dealers and brokers may also have had a negative impact on values.

What Next?

As we enter the final weeks of what has been a roller-coaster year for the used car market, it is likely that relative stability will reign for the next few weeks at least. It has been a tough year for many dealer groups and the realignment of pricing after a strong 2017 and 2018 did cause some issues.

Supply levels are unlikely to increase in the short-term, but consumer demand will drop away the closer to Christmas we get. Some dealers and supermarkets will remain actively buying over the next few weeks, however, as they stock up for their post-Christmas sales. This should help keep some stability in pricing. It is unlikely that the upcoming General Election will have any impact on any buying patterns, particularly as it falls in a period when demand is low anyway.

Over the last 5-years, the drop during December has been 1.7% on average, at the 3-year point. With the current market being healthy, it is unlikely that it will drop by that much this time around. The strongest December in recent years was in 2017, when average values dropped by 1.1%. There is a good chance that average Live values will drop by less than that in 2019; however, the usual supply and demand dynamics will come to the fore for individual models, so a close eye on the detail is important.

Finally, we would like to thank you for reading our market overviews in 2019 and wish all of our customers and contacts a Merry Christmas and a Happy and Prosperous New Year.

Current Car Valuations December 19 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K
City Car	0.8%	1.2%	0.9%
Supermini	(0.8%)	(0.0%)	(0.0%)
Lower Medium	(0.8%)	(0.4%)	(0.1%)
Upper Medium	(1.2%)	(0.8%)	(0.6%)
Executive	(2.1%)	(1.8%)	(1.5%)
Large Executive	(1.4%)	(1.2%)	(0.7%)
MPV	(0.9%)	(0.7%)	(0.7%)
SUV	(1.1%)	(0.6%)	(0.1%)
Electric	(0.8%)	(0.4%)	(0.3%)
Convertible	(3.3%)	(3.2%)	(2.4%)
Coupe Cabriolet	(3.6%)	(3.7%)	(3.9%)
Sports	(1.2%)	(0.9%)	(1.3%)
Luxury Executive	(1.5%)	(1.0%)	(1.1%)
Supercar	(0.7%)	(0.9%)	(1.6%)
Overall Avg Book Movement	(1.1%)	(0.6%)	(0.5%)

() Denotes negative percentages

Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI Q3 (11-19) DIESEL	100	150	107
BMW 5 SERIES (13-17) DIESEL	-650	-100	-227
BMW X5 (13-18) DIESEL	-1,100	-200	-369
FORD MONDEO (14-19) DIESEL	-200	-75	-134
KIA SPORTAGE (15-)	-250	-175	-218
MERC E CLASS (13-16) DIESEL	-200	-100	-150
NISSAN LEAF (10-18)	-575	-200	-352
PEUGEOT 2008 (13-)	-175	-100	-135
SEAT LEON (13-) DIESEL	100	175	141
VAUXHALL ASTRA (09-16)	125	350	223

Notable Movers 3-yr 60k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI A4 (15-19)	-450	-275	-358
AUDI Q5 (12-17) DIESEL	250	350	291
BMW 2 SERIES COUPE (13-)	-300	-175	-230
BMW MINI COOPER (13-18) DIESEL	125	350	233
FORD C-MAX (10-)	-275	-200	-225
LAND ROVER RANGE ROVER (13-18) DIESEL	-600	-300	-375
MERC A CLASS (12-18) DIESEL	-150	-75	-115
MERC C CLASS COUPE (15-18) DIESEL	-200	-150	-167
SKODA YETI (09-17)	250	350	295
VOLKSWAGEN CC (12-17) DIESEL	100	100	100