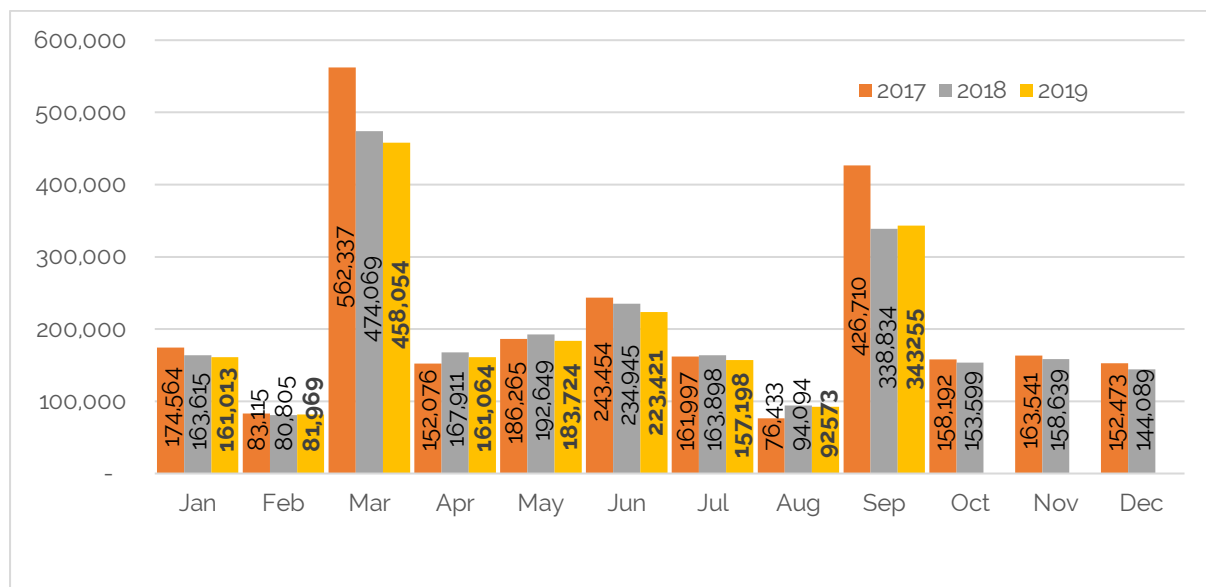


November 2019

# Car Market Overview

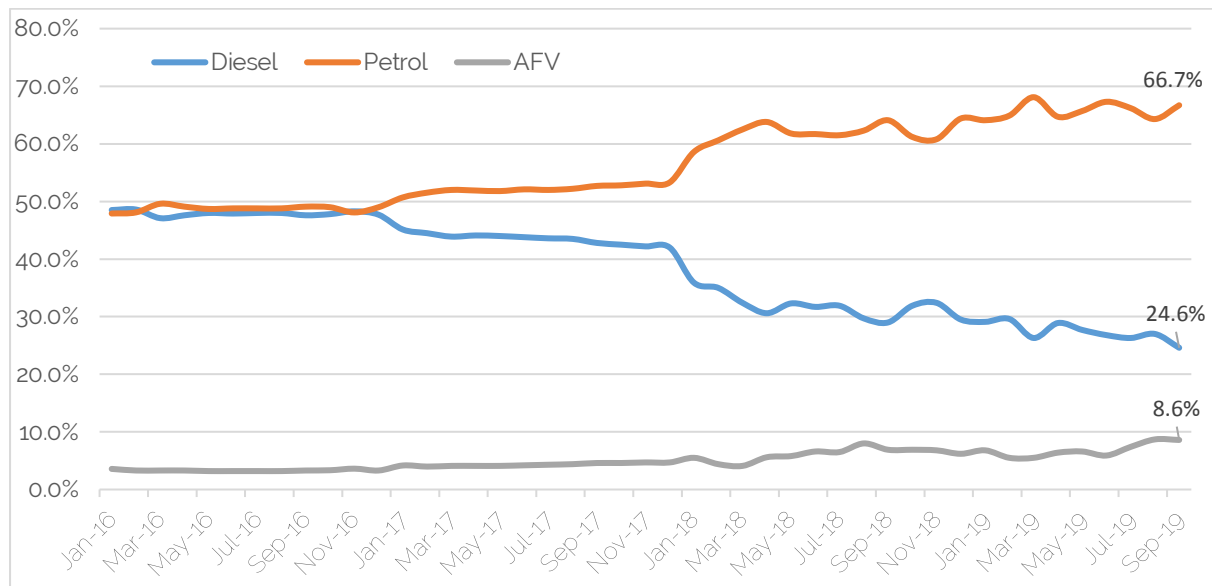
## New Car Sales

With the introduction of the new registration plate making September traditionally second only to March in terms of volume, it is always interesting to track results through the month and at conclusion. There were certainly some ebbs and flows during the period, with particularly large volumes registered by some brands during the last few days. The final figures, as produced by the SMMT, showed 343,255 cars were registered during the month, which, whilst up 13% on September 2018, was modest in comparison to previous years; September 2017 saw 426,710. Last year, the month was affected by WLTP, this year, to a certain extent, by the latest stage of this testing procedure RDE2 (Real Driving Emissions), however, there was also a drop off in demand, almost certainly due to political and economic uncertainty.



Source: SMMT

Year-to-date, 1,862,271 cars were registered, 2.5% down on the same period last year, when the number was 1,910,820. Diesel car volumes continue to decline, down just over 20% for the month and year, accounting for just 24.6% of registrations in the month and 26.8% year-to-date. Petrol volumes experienced modest growth (up 4.5%). Alternatively-fuelled vehicles continued to grow in popularity, with Battery Electric Vehicles (BEVs) up 236.4% for the month and 122.1% for the year (up 13,799 units to a total of 25,097) and both PHEV (Plug-in Hybrids) and HEVs (Hybrid Electric Vehicles) increased their share and volume.



Source: SMMT

For the first month since May, Daily Rental registrations in September were up compared to the same month a year previous, by some 7%, according to the SMMT figures. Year-to-date, registrations were up a more modest 3%, this off the back of a fairly light year in 2018. However, in amongst these unconvincing figures, some manufacturers have continued to push this low-profit sales channel, with the associated risks short-cycle business can have on future residual values, if cars returning into the used car market are not remarketed responsibly. Vauxhall remain the largest volume player in this marketplace, registering over 60% more than the next largest brand (Ford), arguably, however, both have the franchise dealer network to cope with the volumes of returns. BMW and Mercedes-Benz continue to increase their registrations, competing with their traditionally more mainstream competitors. Of course, not all cars registered will be on short holding periods with the rental companies, but for those that are, timing and remarketing channels will be key.

### Used Car Retail Activity

Similar to what was reported in September, retail demand in October has been steady, slightly slower than a few weeks ago, but there does not appear to be many consumers in the mainstream market holding off due to uncertainty over Brexit. It appears to be fairly normal for this time of year, before demand traditionally starts to dip the closer to the festive period we get.

That being said, the premium end of the market has not been quite so stable, with consumers less willing to buy, perhaps not keen on making big-ticket purchases at a time of economic uncertainty. Some realignment of retail prices has been apparent.

Mainstream cars have not been flying off the shelves, but there are certainly pockets of retailers that are doing well with regards to sales volumes, although margins are being squeezed. Of particular note in this regard is those franchise dealers tied in to volume-related bonus programmes with their manufacturers, where those manufacturers have not adjusted wholesale prices down in-line with the market over the last 6-months. These dealers cannot afford to miss their targets, nor will the consumer accept increased retail prices, so as a result margins are under pressure. Car supermarkets and independents not tied in to buying manufacturers stock can generally buy cheaper through the trade and therefore advertise them cheaper too. It is down to the franchise dealers to sell the benefits of buying from them to the retail buyer, or accept lower than desired profit margins. An interesting dynamic. Some of this can be negated

by selling part-exchanges off their forecourts rather than trading them through auctions, even if they are cars from a different brand.

Looking at different fuel-types, it is clear to see within the retail data received by cap hpi, that on average diesel cars are selling quicker than petrol ones. This is measured by calculating when an advert is posted on the internet and when it is removed, and currently diesel car adverts are being removed after 45 days, petrol ones after 48. Electric cars remain the quickest to move, generally due to the low supply levels – these adverts are being removed after an average of 39 days. Petrol hybrids sit at 44 days. SUVs sell the fastest out of all sectors, illustrating that despite high supply in the market, this is well matched by consumer demand.

### Used Car Remarketing Activity

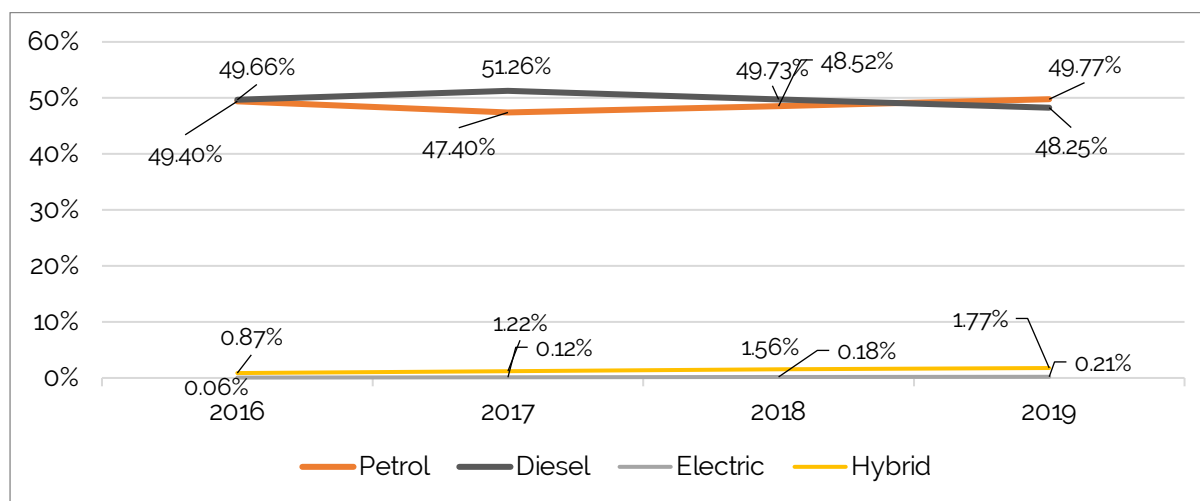
The wholesale market throughout October has witnessed some very stable and generally solid trading conditions.

Current auction volumes are remarkably low for this period of the year, when traditionally compounds and auction halls are bursting with fresh stock to remarket. Many buyers at the beginning of the month were convinced that the usual return of stock would come back in droves around mid-month, but this has not been the case and the early predictions around August time that stock would not be returning in the usual high volumes became a realisation.

Off the back of a fairly steady retail market, trade buyers have been active in replenishing stocks, but not in huge volumes. With supply down, a buying frenzy would have been difficult anyway, and what we have seen is the better condition cars selling, and the poorer ones not. In September, when the market was more buoyant, even damaged cars were finding a home.

When looking at the different volumes of cars selling in the market, it is clear that diesel cars are still out there in abundance, despite new car volumes dropping off dramatically since the start of 2017.

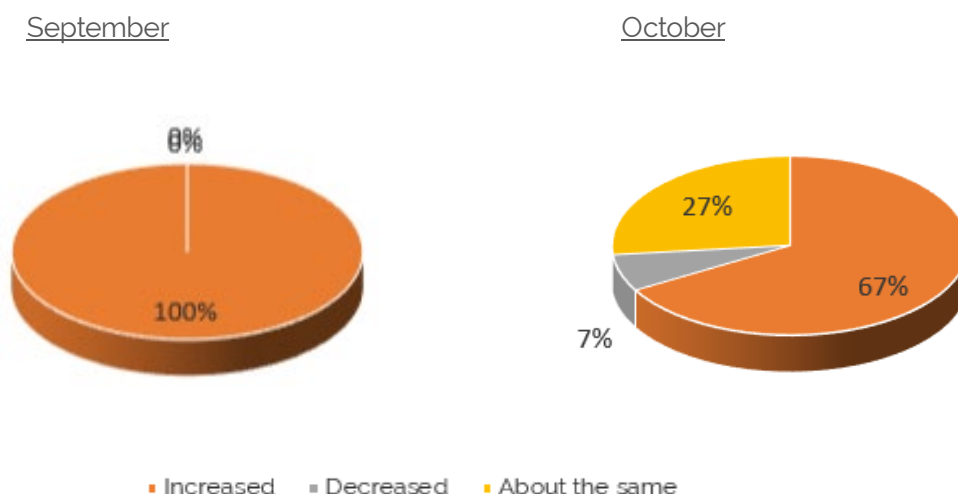
The chart below shows percentage of the trade sales volume received by cap hpi by fuel-type. As can be seen, both of the main fuel-types are well matched, although there are now slightly more petrol cars than diesels. Hybrids and electric cars remain a tiny proportion, despite doubling since 2016.



There is a different picture at different ages of cars, however. Under 1-year old the petrol/diesel split is 64% petrol, 32% diesel, 3% hybrid and 0.2% EV, whereas at the 3-4-year old range the petrol/diesel split is almost reversed (60% diesel, 36% petrol). Information that is more granular is available, on request, via our Consulting team.

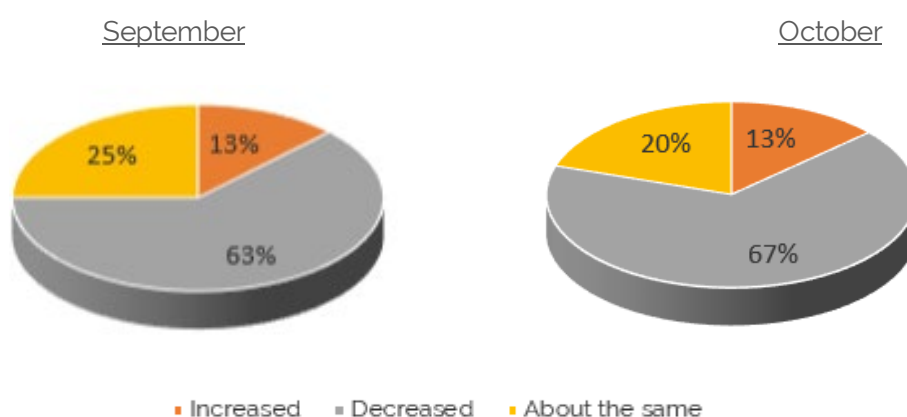
Looking into the detail of this month's auction survey, a relatively healthy picture can be seen, although not quite as strong as the position last month.

How does trade demand compare to the previous month?



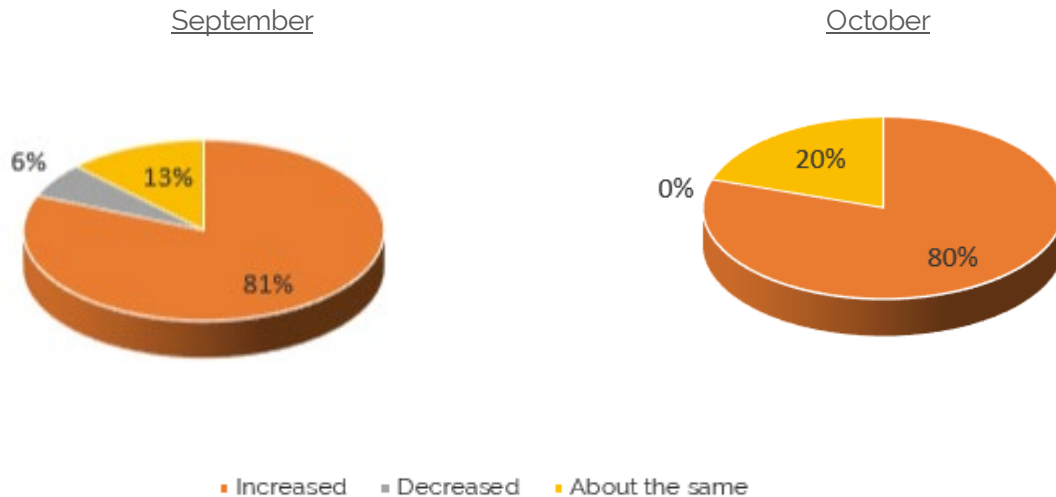
Last month, all respondents saw demand increase. It is a positive sign for the industry that two-thirds this month have seen further increases, with just a small number witnessing a decline. Fair to say any increases in demand have been fairly small, however.

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



Stock levels at the auctions continue to decline and this is an important dynamic when looking at trade values. Almost the same number of respondents, month-on-month, stated that volumes were decreasing. This is unusual for the time of year – with a relatively low registration month in September, the volumes of part-exchanges and fleet returns have been affected, plus franchise dealers retailing some of these cars rather than wholesaling them. It remains to be seen whether volumes will increase by any great degree in the short-term.

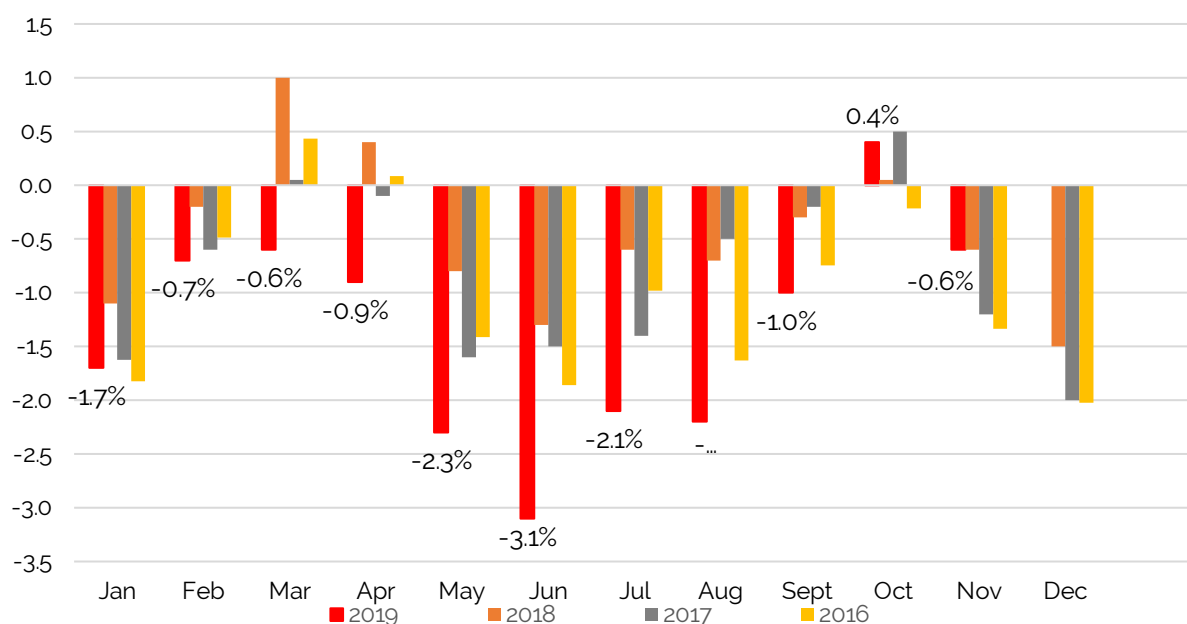
How do conversion rates compare to the previous month?



With the dynamics of decreasing supply and improving demand, inevitably comes an increase in conversion rates. Not one respondent advised that conversion rates had declined from September to October. Whilst this can be seen as a positive for the market, the lower numbers of cars on offer than is usual for this time of year must be a little concerning to some auction companies. Some of this is down to lower registrations, some may be down to the steady growth of online and direct selling.

### Used Cars – Trade Values

With low supply, slightly improved demand and increasing conversion rates, there has been stabilisation in the prices being realised in the market, not just at auction. After a difficult first 8-months of the year, September saw prices go up and, whilst October Live values have seen a slight dip over the month, of -0.6% at the 3-years, 60,000 mile point, this is the same percentage as the same month last year and less of a drop than in any other October since Live was introduced. This 0.6% drop is equivalent to just over £100 on average.



Interestingly, in-line with diesel cars selling quicker than petrol ones on retail forecourts, they have also dropped by less in trade value (-0.4% for diesel, -0.7% for petrol), illustrating that in the used car market at least, diesel cars remain in demand, particularly larger vehicles. Upper medium (D sector) cars saw a marked difference between fuel-types, with average diesel car values level, whilst petrol variants dropped by 1.1% or £250 at 3-years old.

Petrol hybrids have dropped in value similarly to diesel cars, generally outperforming their petrol equivalents, not just this month but in terms of percentage of list achieved too. These are increasing in demand in the used car market and are not just seen as desirable from a new car, company car tax point of view.

Volumes of electric vehicles continue to increase in the market, and whilst for many models supply and demand are well matched, there are a number that have been under price pressure for some time now. Some mainstream electric models that have dropped in value are the VW Golf, BMW i3 and Nissan Leaf. In particular, the Leaf has seen an increase in volumes of 2-year old product, in particular those with a 30KWh battery – supply has certainly outweighed demand. At the more expensive end, either wholesale or retail evidence or both has resulted in a drop in values for the Jaguar i-Pace, Audi E-Tron and Tesla Model X.

Almost certainly highlighting the effect an increase in pre-registration activity can have on the market, plus potentially short-cycle volumes from registrations in quarter one now returning to the market, values at the 6-months and 1-year age have been adversely affected compared to older cars, dropping by -0.9% and -0.8% respectively. In monetary terms these amount to around £250 reduction for both, with petrol values again being hit harder than diesel ones.

Small and medium sized cars have fared better than larger ones, with average drops on city cars, superminis and lower medium (C sector) cars negligible. As always, the devil is in the detail, however, and Fiat Pandas, Toyota Yaris and Citroen C3s have all dropped by more than the average at the smaller end, whilst newer variants of the Ford Focus and Kia C'eed have also dipped in value, due to some volume pressure on prices of recent plates in the sector.

SUVs and MPVs have been hit by around the average, but it is the convertible, coupe cabriolets and higher end cars that have forced that average drop down. As is normal for this time of year, both soft and hard top cars have declined in their seasonal desirability – trade buyers unwilling to buy cars that could sit on their forecourts until the spring.

At the premium end of the market, it is the 14<sup>th</sup> month in a row that supercars have dropped in value, by around £2,750 in the last month on average (3-years 60,000 miles). Luxury executive and sports cars have also been hit harder than the average, with average drops of £1200 and £750 respectively at the 3-year age point. With consumers holding off buying, there has not been much demand to replenish forecourt stocks.

### What Next?

With the nature of any Brexit deal or no deal still unknown at the time of writing, and the landscape changing daily, one could expect quarter 4 to be fairly volatile. Unknowns are not good for market stability. However, Brexit is unlikely to happen this year now and we are not predicting any adverse effect on the used car market.

The final 2-months of the year are generally amongst the weakest for used cars – November Live values, leading to December's monthly product, have dropped an average of 2.3% per month over the last 5-years. Last year, however, saw a relatively small drop of just 1.5%, although that was the calm before the storm, somewhat, as from December onwards prices dropped away more than the seasonal norm.

This year, with volumes still relatively low and showing no sign of increasing to any great degree, we could experience a similar drop to that of last November. There is certainly no reason to predict a seismic drop in the market, but retail demand will drop the nearer we get to Christmas. January sales are now commonplace amongst used car outlets and many of them will be out looking for stock over the next few weeks. This could help the market avoid some of the heavier drops in price that have happened towards the end of previous years.

Looking slightly further forward, December could see some interesting registration dynamics, with heavy fines in place from 2020 for manufacturers not hitting emissions targets. This could lead to cars with higher emissions being registered in 2019 and zero and low emission cars being delayed until the New Year.

During 2019 so far, it has been more important than ever to track values in real-time, with a particularly volatile period from March through to August. It is just as important as the year draws to a close to do likewise. As has been illustrated in this overview, different models, ages and fuel-types can vary quite dramatically in how their prices react in the used car market. To keep on top of this, keep a close eye on the Live current car valuations within cap hpi products.

### black book November 19 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K
City Car	(0.4%)	(0.1%)	(0.1%)
Supermini	(0.6%)	(0.0%)	0.1%
Lower Medium	(0.4%)	(0.0%)	0.0%
Upper Medium	(0.9%)	(0.4%)	(0.2%)
Executive	(1.2%)	(0.7%)	(0.4%)
Large Executive	(1.0%)	(0.9%)	(1.6%)
MPV	(0.5%)	(0.6%)	(0.7%)
SUV	(0.8%)	(0.6%)	(0.5%)
Electric	(1.8%)	(2.0%)	(1.7%)
Convertible	(3.0%)	(3.6%)	(4.2%)
Coupe Cabriolet	(5.7%)	(6.3%)	(6.9%)
Sports	(2.0%)	(2.2%)	(2.2%)

Luxury Executive	(1.9%)	(1.8%)	(2.7%)
Supercar	(2.3%)	(2.5%)	(2.8%)
Overall Avg Book Movement	(0.8%)	(0.6%)	(0.5%)

( ) Denotes negative percentages

#### Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI A1 (10-19)	100	250	152
BMW 1 SERIES (11- )	200	200	200
KIA CEED (12-18) DIESEL	175	300	231
KIA SPORTAGE (15- ) DIESEL	-200	-100	-167
LAND ROVER RANGE ROVER SPORT (13-18) DIESEL	-1,300	-500	-662
NISSAN JUKE (10- )	150	300	212
NISSAN X-TRAIL (14-19) DIESEL	-350	-100	-239
SEAT LEON (13- )	-400	-100	-197
TOYOTA AURIS (12- ) HYBRID	-200	-150	-156
VOLVO V40 (12- ) DIESEL	-150	-100	-124
Notable Movers 3-yr 60k			

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