

## Press Release: For immediate release

### Cazana 2020 Market Forecast

- **New Car Registrations to drop by 1.5% as the New Market Balances**
- **Used Car Sales to Increase by 2.5% in a Finance Driven Market**
- **Used Car Supply to be Become More Balanced**
- **BEV Sales Set to Show Significant Growth**
- **Realtime Retail Driven Insight Key to Maximising Profit**

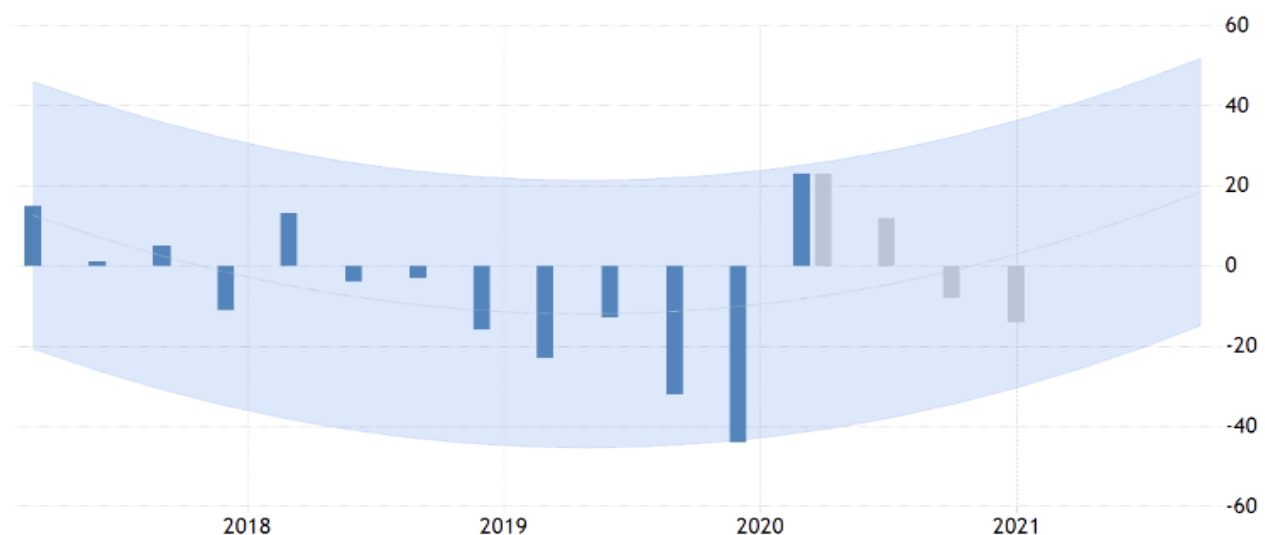
With 2019 a fast receding memory, the automotive industry is looking forward to a more balanced year. Despite a decline in new car registrations, many consider the 2.4% drop to have been a fairly good result given the backdrop of political, social and economic factors that challenged every sector of the industry and made planning and forecasting difficult whilst also pressuring margins harder than some had anticipated.

The drivers behind the 2019 performance were very clear, and concerns over Brexit and the performance of the government during the 12-month period were key to the overall economy and specifically, the industry performance. If there is any consolation to be had, then it has to be recognition that the UK automotive sector out-performed other retail sectors. Where consumers fought shy of spending money on other big-ticket items, buying a replacement car whether new or used, appeared to be less of a concern to Joe Public. This decision-making process was largely driven by enticing finance offers and the fact that many buyers whether private or fleet had been holding off changing their cars for some time and felt that they needed to make the change.

However, it was not an easy ride and it rapidly became clear that whatever the business focus, the need to look at big data to understand real market conditions is essential. As a disruptor to the market and providing factual, unedited science-driven insight, Cazana have been right in the centre of what can only be described as the beginning of a paradigm shift, where all parts of the industry acknowledge that basing their commercial strategy and vehicle pricing on manually edited data referenced on historical information, is just not good enough to stay ahead of the consumer and maximise profit opportunities.

When contemplating the coming year, the first thing to consider is the confidence levels for 2020. These will give an indication of how both consumers and businesses anticipate the journey through the coming months. The chart below shows Business Confidence from 2017 through until 2021.

**Business Confidence Forecast**

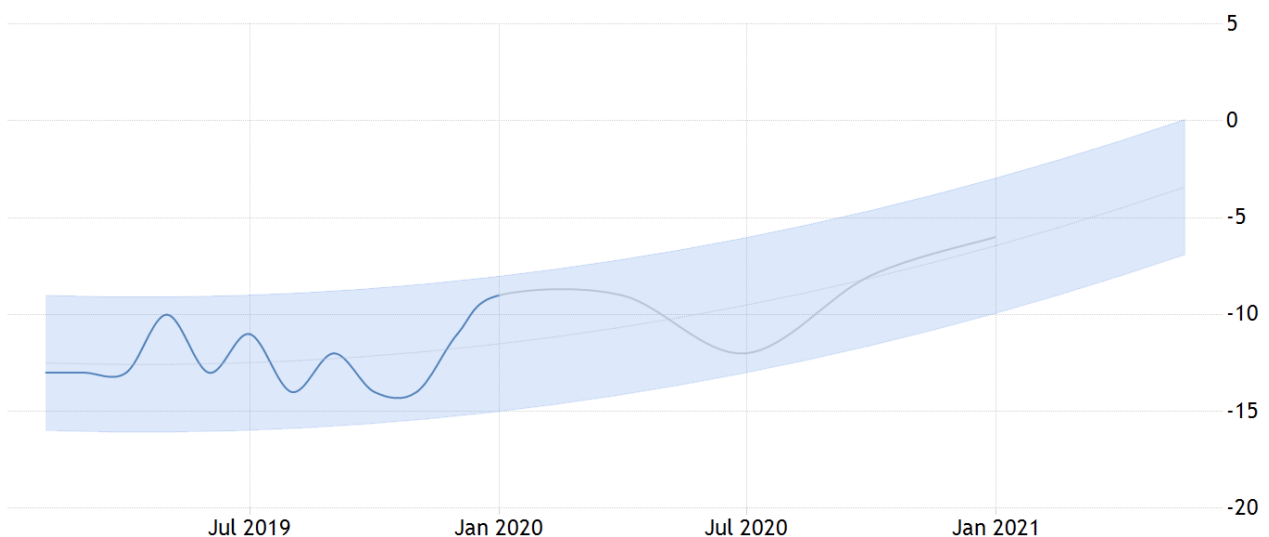


### Data Courtesy of Trading Economics

This is an important indicator for the coming year and illustrates the rising confidence in the latter part of 2019 which came as a result of the election and the subsequent knowledge that the UK would indeed complete Brexit. An interesting aspect of this chart is that confidence is set to drop again as we near the end of the year. This is due to concerns over exactly how well the government will manage to negotiate new trade deals with our European neighbours. There is also scepticism over the speed with which other world trading agreements may be negotiated.

The chart below shows the pattern of Consumer Confidence from the beginning of 2019 through until the end of 2020:-

**Consumer Confidence Forecast**



### Data Courtesy of Trading Economics

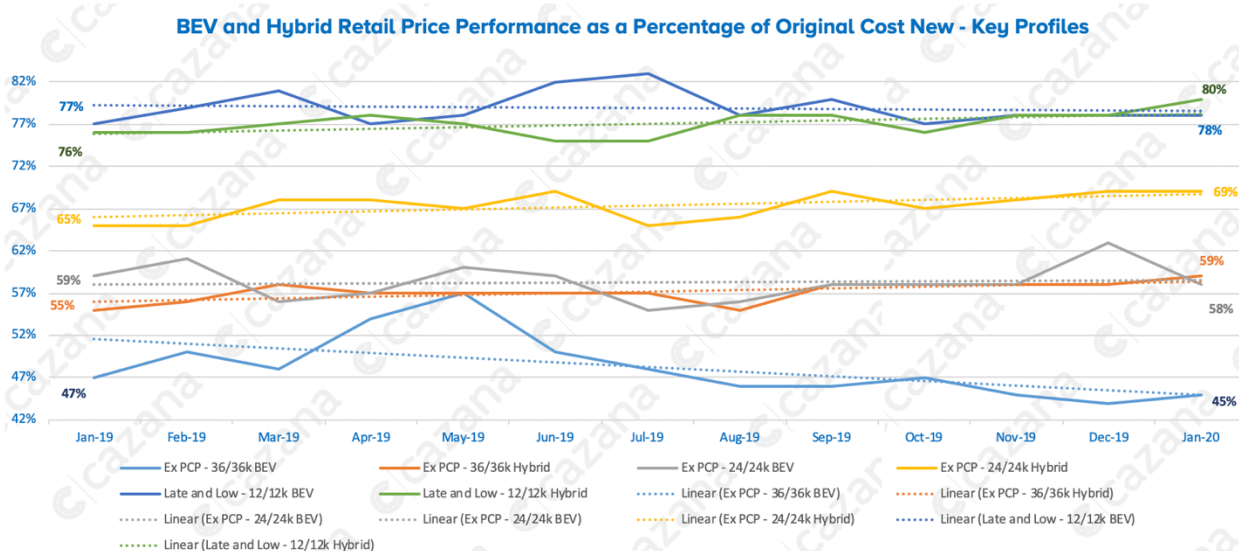
This chart shows a slightly different picture. After an eventful 2019, the first half of the year is likely to see confidence stabilise before it dips and then refreshingly rises again through to the beginning of 2021. This is a different viewpoint to the business sector and may come as a surprise to some, although it clearly shows that 2020 might well be a good year in the eye of the consumer. As such, it would be sensible to create a plan to capitalise on this sentiment, especially in the early part of the year in case predictions shift to replicate the business sector forecast as the year progresses.

It is also important to understand that despite positive forecasts, registrations and sales can only be achieved if there is the right supply of cars. 2019 saw peaks and troughs in new car supply predominantly driven by legislative requirements and the influence of European demand. 2020 looks to be a more stable year, although, this will be dependent on future legislation in the form of clean air zones and perhaps taxation, as the Prime Minister begins to push for cleaner air for all. However, the used car market is likely to have a greater supply of cars as a result of the short-term PCP and PCH activity over the last 3 years or so, which is why used car sales are likely to improve during the course of the year. Used car finance products will continue to evolve and more accurate science-based forecasting will facilitate higher future RV's and therefore better lower monthly costs. This will be necessary to keep the market moving.

The push towards the ban on the sale of fossil fuel powered cars from 2035 certainly took the industry by surprise, and later comments from the transport secretary hinting that this may come closer still have worried the industry as a whole. Whilst CAFE regulations will continue to encourage OEMs to manufacture cleaner cars in fear of financial penalty, and hybrid models become more prevalent, the real push must be towards BEVs and therein lies the problem. Expect 2020 to be packed full of new hybrid model launches but remember this is a transitional phase and these cars will swiftly be replaced by more efficient models that give better electric driving ranges. This is great but the desirability, and as such pricing of these hybrid vehicles in the used market, will fall quickly as the new technology improves and that will begin to become problematic as the reality that these cars do not meet the expectations of the consumer in the real world also hits home.

The pressure to develop better BEVs and ramp up production to provide a sustainable growth plan to meet the 2035 target, will also be a big part of 2020. However, this activity is already causing problems. Whilst building cleaner vehicles is an important goal, there has been a limited acknowledgement of the damage and pollution required to source the raw materials. In addition, the fabrication of the actual battery is not a fast process and there are already reports of a lack of the Lithium required to build them at a rapid pace. At this early stage of the adoption of the BEVs, this is not a good position to be in. The direct impact on the new car market is likely to be a shortage of product which could drive new car pricing even higher. This impact on pricing will then feed the used car market and as consumer demand improves during 2020 there is an expectation that retail and therefore trade pricing will rise for those propulsion types.

The chart below shows pricing movements for hybrid and electric cars over the last year:-



### Data powered by Cazana

The chart confirms that retail and therefore wholesale pricing is on the up for all ages of hybrid vehicles, whilst only the newest BEVs are increasing. Expect this to change during 2020 with greater demand for the newer BEVs, whilst hybrid pricing may start to fall as supply exceeds demand.

The other issue facing BEVs is the lack of a charging structure to support the volume of cars required to meet the 2035 goal. Indeed, looking more deeply, there is also the concern that the power providers will not have enough capacity to address the increase in electricity required to keep all these new BEVs charged and on the road, but for 2020 the infrastructure will see a significant increase in the number of charging points. This is essential and will prove quite difficult in urban areas, and as yet there is no real solution for the 30% or so households that have, and will not be able to have viable access to road or kerbside charging points.

Focusing a little more closely on the used car market and there are a couple of specific areas of concern for the coming 12 months. New car registrations have been falling but as part of the drive to keep momentum in the market and cars on the road by way of the explosion of PCP finance penetration in recent years, these cars may be about to bite back. Specific activity in 2017 and 2018 from most of the OEMs means that in 2020 a significant number of ex PCP cars will be heading for the used car forecourts. It is crucial to not only be aware of the impending increase in returns but also to understand that there was a significant push on certain types of cars. Therefore, in 2020, expect to see an increase in the number of Crossover SUVs and small cars at 2 and 3 years of age. Given that the new car market will be more of a challenge, there will be more used car buyers but whether they want these types of cars remains to be seen. Working with realtime retail driven data is the best way to understand how the market is shifting, to ensure the buying and retailing processes are aligned and focused on keeping stock moving as swiftly as possible with the best return. There may be some pricing soft spots in the next year!

Whilst on the subject of pricing, the last few years have seen a good level of stability, with strong used car demand keeping pricing steady. That said, at times last year, the excessive pre-registration activity required to move new car stock did result in some downward pressure on late and low mileage cars. This in itself was uncomfortable but it did impact on pricing further down the age range for a short period in September and October particularly on petrol powered cars. Should volumes of certain ages increase noticeably, then there is the danger that pricing will compress where the stock is prevalent and push downwards, thus narrowing the gap for cars on different registration plates. This is of particular concern for petrol powered cars that have already shown a period of pricing weakness in 2019. Therefore, it is important to be aware that this is likely to be a problem in 2020.

To summarise, it looks as though 2020 will be another challenging year although the rewards will be there for those who work with the latest tools and data. Working with realtime market wide insight in tandem with individual performance data is the best way to understand what the market is doing, when it is happening and how it will impact on the bottom-line performance. New cars sales will fall by 1.5% and there may be periods of uncomfortable pre-registration, particularly towards the end of the year. Used car sales will increase by 2.5%, but further development of enticing used car finance propositions will be key to success and using factual rather than subjectively edited data will give the edge required to bring the best options for the consumer to the market.

Cazana are ideally placed to help every sector of the UK Automotive industry by providing high quality realtime retail driven insight that will help improve the return on investment, increase awareness and improve profits. 2020 will be another exciting and innovative year for all.

**Rupert Pontin**  
**Director of Insight**  
**Cazana**  
**25<sup>th</sup> February 2020**