May 2020

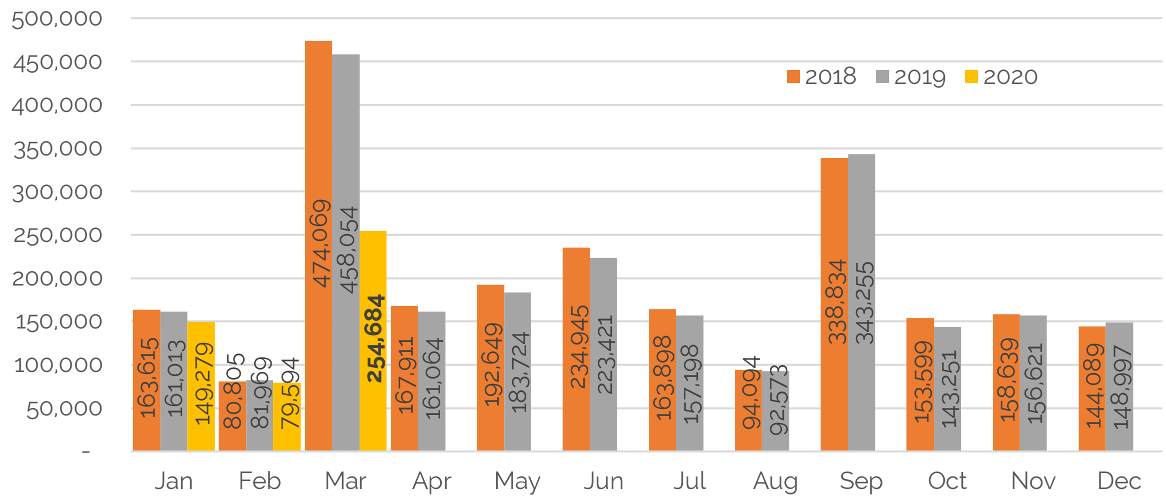
Car Market Overview

In these unprecedented times of the COVID-19 pandemic, we remain committed to keeping the industry updated on the car market. In this overview, we will advise you of the state of the new car market to the end of March and the used car market at the time of writing. All information is correct as of 24th April 2020.

New Car Sales

With the impact of the COVID-19 global pandemic accelerating during March, it was of no surprise that new car registrations were heavily affected, in what is the largest volume month of the year in normal times. As we know, many registrations take place in the last few days of the month, and the landscape changed daily in March, but particularly from the first government daily announcement on the 16th and even more so from when lockdown measures were introduced on Monday, 23rd March.

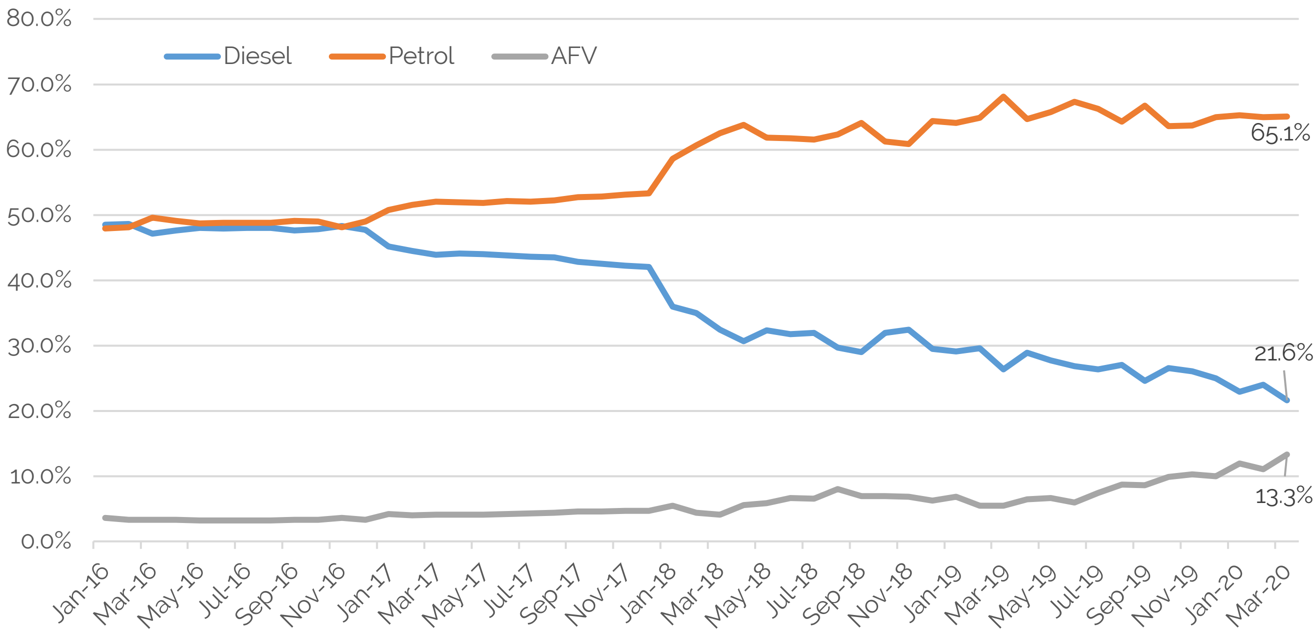
According to the figures reported by the SMMT, 254,684 cars were registered in March, down 44.4% on the same month a year previous, when the volume was 458,054. Year-to-date, 483,557 cars have been registered, compared to 701,036 to the same point in 2019. Private, Fleet and Business registrations have all been heavily affected.



Source: SMMT

To date, the new car market has almost entirely been placed on hold during this lockdown period, with essentially just cars for key workers being delivered.

Alternatively-fuelled vehicles still managed to increase their volumes compared to the same month last year and year-to-date, but would obviously have increased by more without this crisis. Diesel registrations were down 54% and petrol down 47%.



Source: SMMT

Volumes in the Daily Rental sector were heavily affected, down 65% for the month and 41% year-to-date. Daily Rental was confirmed as an essential area of the economy, but much of these companies demand is now severely reduced.

Used Car Retail Activity

Used car retail activity has been heavily curtailed since the middle of March. All physical sites remain closed and even online activity is severely muted. Orders can be placed but for the majority of April there was a grey area around deliveries being allowed. Whilst there has now been some clarity around safe deliveries being permitted, it is certainly not business as usual and the vast majority of outlets are not delivering. This is partly because of a duty of care and respecting the spirit of the lockdown, but also because many retailers are not effectively set up for end-to-end online sales in any volume – there are still a relatively large number of employees required to facilitate this. This crisis is certainly making retailers focus their attentions on making online sales core to their business earlier than they may have done otherwise.

Importantly, what is apparent is that cars for key workers are still being delivered.

When analysing UK retail advertisements – data that is purchased from a number of trusted major online sites, volumes of adverts increased around the turn of the month, due to some attractive offers by online portals to assist their customers. These volumes have stayed fairly consistent since then.

Retail advertised prices have barely moved overall in April. Retailers are being encouraged not to reprice their stock in the current climate – prices are not the reason consumers are not buying and reductions could lead to an unwelcome competitive race to the bottom. The traditional "days-in-stock" measure is less relevant than ever and is not being seen as a reason to re-price.

Used Car Remarketing Activity

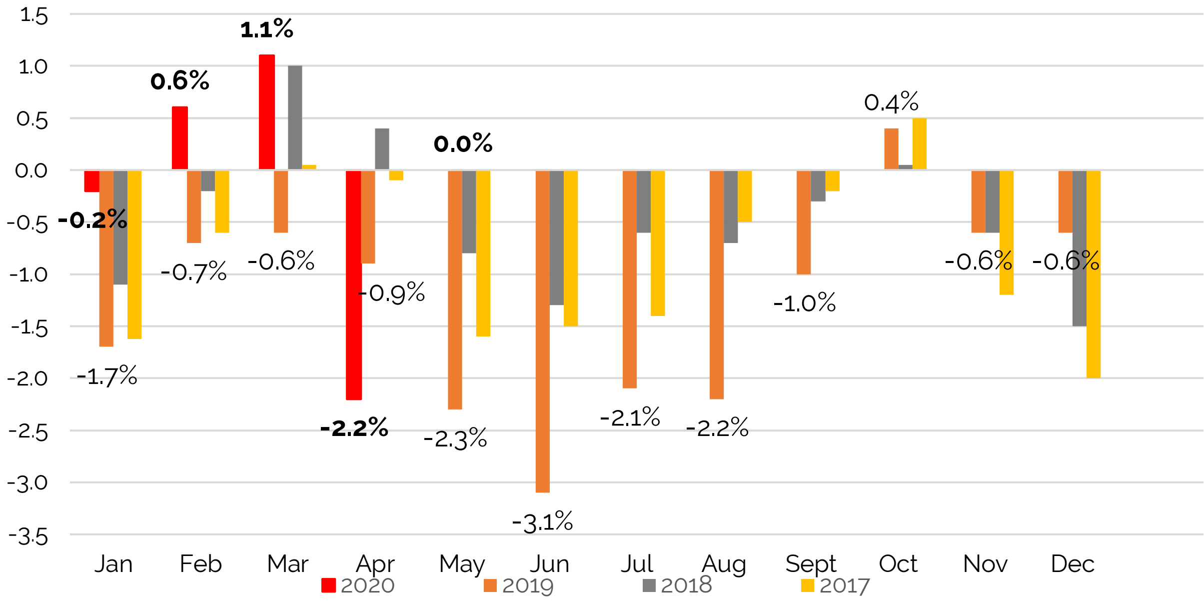
Whilst the physical auction halls have been closed since the lockdown announcement, trade, or wholesale, sales have not stopped completely. We are still receiving small amounts of data mainly from auctions and some leasing companies. So far, in April, we've seen around 3,500 cars sold in total within the trade – we normally receive around 7,000 on average *per day* – so volumes are, as we expected, down considerably, roughly at around just 2% of normal levels. We have seen a reduction in the number of valuations requested by our customers in our Valuation Anywhere product, but every weekday has still seen this in the thousands.

What we have seen in the greatly reduced trade market is a large reduction in the percentage of cap achieved. It is obviously an unnatural market out there at the moment, but the average percentage of cap in April is in the mid 80s, before taking any vehicle condition into account.

The average selling price at auction has also reduced and it is likely that when we come out of lockdown, cheaper cars are proportionally more in demand, for a number of reasons, including prudence and a reluctance to use public transport. It is unlikely that there will be an immediate desire for more expensive used cars, although used finance offers will help stimulate this.

Used Cars – Trade Values

As we stated in the April Car Market Overview, on our recent webinars and in the motoring press, we have continued with a responsible approach to valuations. From the first government briefing on 16th March to the 24th March, we continued to reflect changes to wholesale prices, as always without over-reacting. Since Wednesday 25th March, we have been analysing used car sales data as always, but NOT adjusting used values whilst there has been insufficient data to accurately portray the market. In effect, as vehicles have not been selling in quantities anywhere close to normal, we have not been adjusting values. There is therefore 0% 'movement' going into May.



Used car deflation is a fact of life, however. The older cars get, the less they are generally worth. As a result, and depending on the length of the current situation, there may be a requirement to apply an adjustment to values to take this into account. Should this action be taken within our valuations, we will communicate it to the industry.

The previous 5-year average Live drop for valuations during April is -1.4% at the 1-year point and -1.6% at 3-years. With the market showing only slight signs of softening prior to 16th March, it would be reasonable to have expected something in this region during April 2020.

Average April Live Movements (May monthly product)

	1-yr, 20k miles	3-yr 60k miles
2020	0.0	0.0
2019	(1.9%)	(2.3%)
2018	(0.8%)	(0.8%)
2017	(1.5%)	(1.6%)
2016	(1.5%)	(1.4%)
2015	(1.6%)	(1.7%)
2015-19 Average	(1.4%)	(1.6%)

However, each year the situation is pretty unique and year-to-date the used car market has been stronger than the previous 5-years, with the exception of the unusually strong year in 2018.

Using January's Live valuations as the start point, year-to-date values have dropped by 1.4% (or c.£300) for 1-year old cars and just 0.5% (or c.£60) for 3-year olds. The previous 5-year average for these periods was -2.2% (or c.£475) and -1.9% (c.£225) respectively.

The table below compares percentage value movements year-to-date with the previous 5-years and with the 5-year average.

	1-yr, 20k miles	3-yr 60k miles
2020	(1.4%)	(0.5%)
2019	(4.2%)	(4.5%)
2018	(0.4%)	0.4%
2017	(2.3%)	(2.3%)
2016	(2.2%)	(1.4%)
2015	(2.0%)	(1.9%)
2015-19 Average	(2.2%)	(1.9%)
2020 Delta to Average	0.8%	1.4%

With the current unprecedented situation and the higher than would be expected current values, there is the possibility of some value drops to come.

What Next?

At the time of writing, we are just over a week into the second 3-week period of lockdown. The situation is very fluid and it is very difficult to predict when restrictions will be lifted. There have, however, been small increases in the volumes of cars being sold wholesale this week compared to previous. More businesses are starting to deliver and auctions and storage facilities are seeking some clarity on whether they can open the doors to transporters. More auctions are opening up online sales channels too. There are a large number of vehicles ready to be moved to the next stage of their remarketing journey and this number will increase daily.

What is definite is that the lifting of restrictions will be phased. The opening of dealer showrooms and the ability to buy and sell cars is likely to be in an early part of the release of lockdown and the earlier this is, the less of an impact there will be on value movements.

Whilst there will be some pent-up consumer demand, due to finance deals expiring, not taking delivery of cars during the lockdown period or perhaps unfortunately losing a company car for whatever reason, it is unclear how quickly this will materialise.

Much will also depend on the situation regarding defleets. If manufacturers, leasing, finance or daily rental companies swamp the market with their unwanted cars, prices will no doubt fall. Much of this will depend on individual businesses requirement to raise cash and whether they are in a position to remarket their cars responsibly over a period of weeks or preferably months. The actual physical infrastructure limitations for transportation of volumes of cars may actually positively impact values at this time.

We will continue with our pragmatic approach to valuations and keep the industry abreast of what is happening in the market during this difficult period. Our team of editors are available to offer advice and market intelligence – please feel free to contact us directly. We will also keep updating the industry via webinars and press releases.

Please keep safe.

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Current Used Valuations May 2020 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K
CITY CAR	0%	0%	0%
SUPERMINI	0%	0%	0%
LOWER MEDIUM	0%	0%	0%
UPPER MEDIUM	0%	0%	0%
EXECUTIVE	0%	0%	0%
LARGE EXECUTIVE	0%	0%	0%
MPV	0%	0%	0%
SUV	0%	0%	0%
ELECTRIC	0%	0%	0%
CONVERTIBLE	0%	0%	0%
COUPE CABRIOLET	0%	0%	0%
SPORTS	0%	0%	0%
LUXURY EXECUTIVE	0%	0%	0%
SUPERCAR	0%	0%	0%
OVERALL AVG BOOK MOVEMENT	0%	0%	0%