July 2020

Car Market Overview

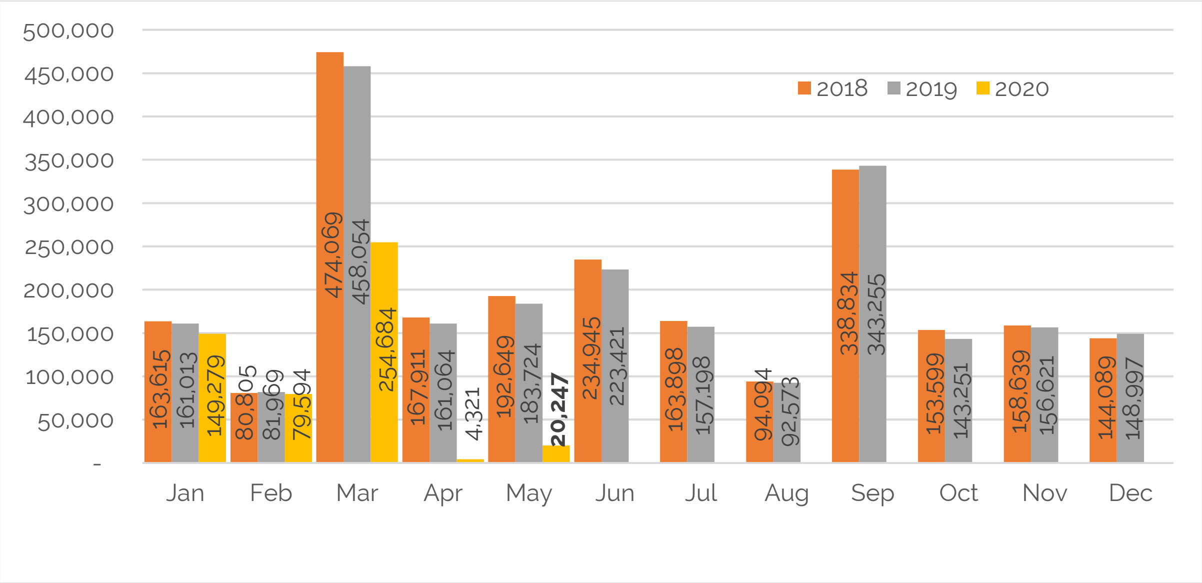
In these unprecedented times of the COVID-19 pandemic, we remain committed to keeping the industry updated on the car market. In this overview, we will advise you of registration activity in the new car market to the end of May and dynamics in the used car market at the time of writing. All information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

New Car Sales

According to the figures produced by the SMMT, 20,247 cars were registered in May, down 89% on the same month last year, when the number was 183,724. With car showrooms physically closed, and manufacturer's factories inactive prior to this and only reopening with strict safety measures in place, it was unsurprising that registration volumes were heavily affected during the month.

On a positive note, this number was almost a five-fold increase on the previous month, aided in part by safe 'click and collect' being permissible from the middle of May. The top selling car, as it was in April, was the Tesla Model 3, with 852 registrations, benefitting from contactless delivery and not requiring a physical dealership for delivery.

Year-to-date the market was down 51.4% to the end of May, with 508,125 registrations compared to 1,045,824 in the same period last year.



Source: SMMT

Just over 200 cars were registered into the daily rental sector, compared to over 24,000 in May 2019, following on from just over 30 in April (compared to 20,000 last April). This sector remained hard hit by the COVID-19 pandemic, although there have been some signs of recovery in June.

Used Car Retail Activity

1st June signalled the arrival at the light at the end of a 10-week tunnel for car showrooms, by finally being allowed to reopen by the government, at least in England. Northern Ireland followed a week later, Wales remained constrained until 22nd June and Scotland until 29th June.

The used car retail market hit the ground running from day one of reopening, if not before. The extent of which, took most by surprise. There was immediate pent-up demand from consumers that had been wanting or needing to buy during the lockdown period, plus those that were now reluctant to travel on public transport. Add to this, some members of the public looking to sell a more expensive used car and replace it with a cheaper one to realise cash, all this meant that used car outlets were busy, both online and physically. Whilst the buildings may have been closed during lockdown, in the background many outlets were still taking enquiries and orders so there was plenty of follow-up activity required.

This uplift in activity was evident in the increases witnessed in some key metrics that are exclusive to cap hpi; HPI checks, Valuation Anywhere requests and National Mileage Register checks have all increased dramatically during June, having dropped by up to 90% during April.

Many dealership, independent and car supermarket employees have remained on furlough, with a prudent approach being taken by most companies, with the government contribution important, even vital, to allow businesses to stay afloat after over 2-months of relative inactivity.

During the lockdown period of 24th March to 31st May, there was some retail activity, but this was only on a safe delivery or 'click and collect' basis, and whilst some franchise dealers were active, the majority of this seems to have been by independent dealers. As a result, when these businesses reopened physically, there was more of a backlog to clear for the franchise dealers, whilst independents were better set up to handle new enquiries. Franchises also had the added complication of new car deliveries and sales that were a hangover from the end of March.

As we predicted, smaller, cheaper cars have been well sought after, as were older premium cars, particularly those over 5-years old. Affordability, more than ever, has been paramount as an economic downturn looms.

The general picture on retail pricing is that the majority of outlets did not adjust their advertised prices by much, if at all. There has been a collective view in the market that retailers should hold firm on price, with no reason to reduce prices as demand would come back. Only a small minority broke ranks on this and it has proven to be a good decision to hold firm. Any cars that have been reduced in price by those that generally held firm have tended to be models that were already struggling to sell in the weeks prior to lockdown. If it was a good car to stock in February or March, why would it not be a good car to stock now?

Overall, the used car retail market was up and running, at speed, during June.

Used Car Remarketing Activity

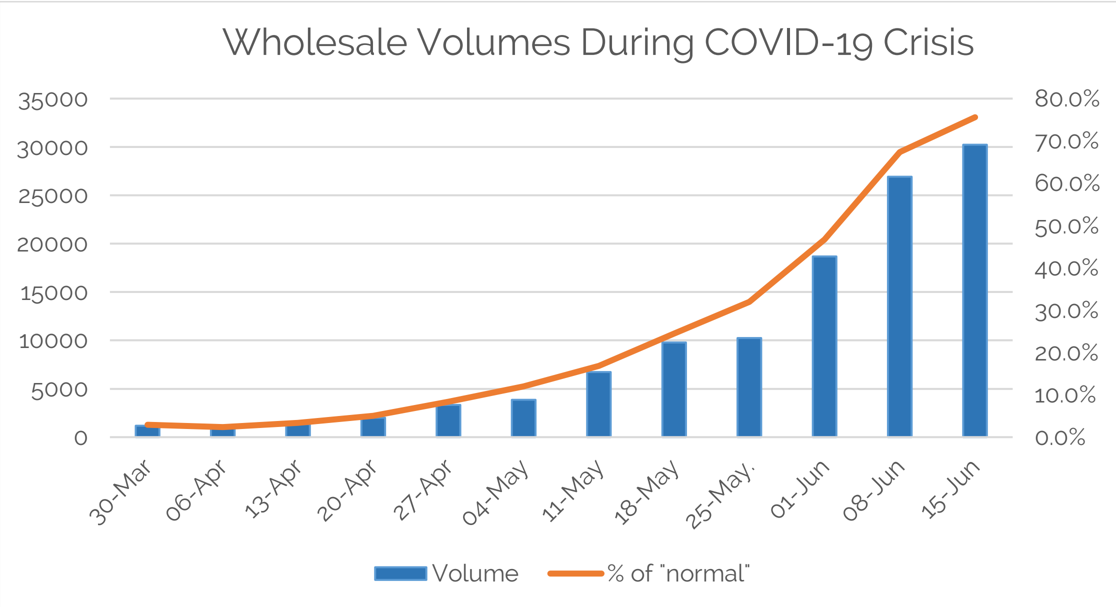
Whilst car showrooms reopened in England at the start of the month, the car auctions were not permitted to do so until the 15th, being classed along with 'non-essential retail'.

What has been apparent is that even from that date, most auction companies have chosen to continue with online sales only, concerned by what can often be a crowded area at their facilities, as well as many potential touchpoints on the premises and on vehicles. The safety of employees and customers remains the priority.

Those that have opened physically have put stringent measures in place, strictly and severely limiting numbers, cars able to be viewed but not being driven through the auction lanes, social distancing in place and no restaurant facilities. As a result, many buyers have themselves chosen to remain purely online. Will this be a permanent change in the way the majority of used cars are bought and sold? This crisis has certainly accelerated online transactions in the wholesale arena, aided considerably by the NAMA (National Association of Motor Auctions) grading system, which gives the buyers faith in the condition of cars.

So what has the picture looked like for sold volumes in the trade market?

As a reminder, during the early weeks of lockdown, volumes were severely reduced, to around 2.5% of what we would class as 'normal'. They did start to increase in mid-April, but were still well below normal levels. At the end of May, volumes were almost one-third of normal levels and by mid-June, week commencing 15th on the chart below, they had exceeded 75% of normal levels. This did not seem a possibility just a few weeks earlier.



During April and May, the majority of wholesale sales activity was through the auctions, but we have seen a steady increase from more direct sales channels in June, with leasing and rental companies selling cars in larger volumes now. The manufacturers used car sales departments were slower off the mark, but these volumes are now starting to be seen in greater numbers within the sales data.

Used Cars – Trade Values

It has certainly been an interesting period for prices of used cars, and a time when tracking values real-time has become paramount.

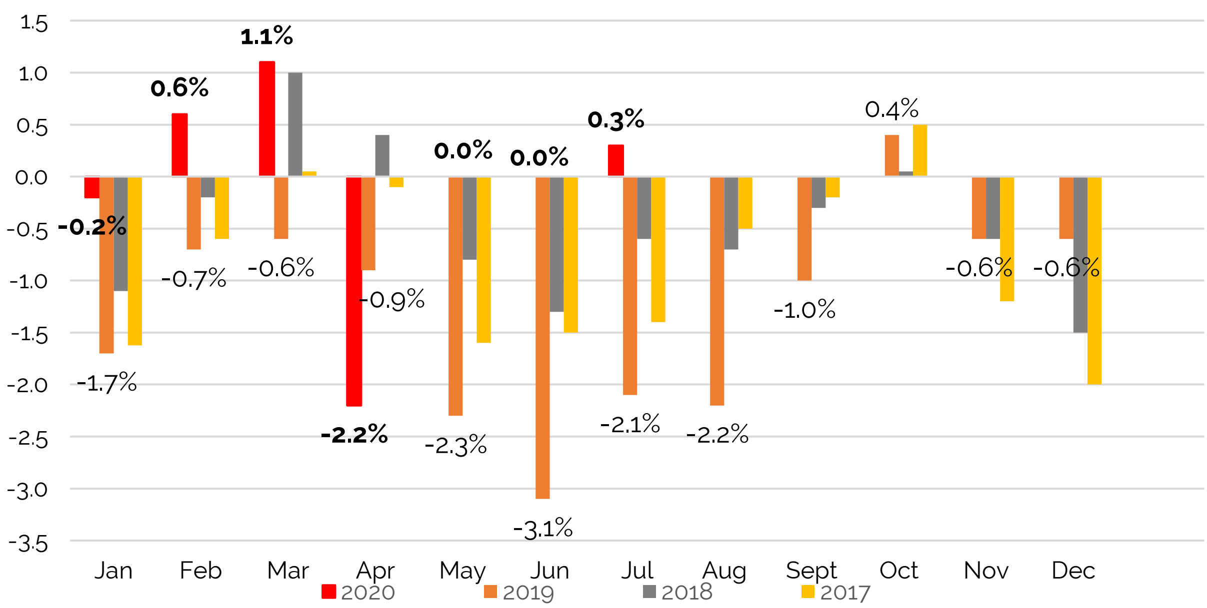
During April, due to the paucity of data and a largely inactive market, no values moved in our Live product. From 11th May, with volumes at around 17% of normal, we started to move values of cars over 5-years old. From 26th May, there was enough sold data for us to reflect prices of some younger cars, with those under 2-years old not being adjusted until after showrooms reopened.

What was immediately apparent was that prices had not crashed during the lockdown, with many models analysed by our team of editors not requiring any movement – the transaction prices were at a similar level to where they were in March.

There was certainly some volatility in the data, however, more so than in the advertised retail prices. Different wholesale vendors have had different strategies on prices through the last 2-3 months – some starting well below cap values and increasing with demand, others pricing at the same, or similar to where they were at pre-lockdown, in March. It has been particularly interesting to analyse this, by vendor.

Whilst no values were being moved in our products, we witnessed a very low percentage of cap being achieved on the low volumes of transactions. This has steadily increased, however, and now sits close to 99% of cap clean on average, for cars in all conditions at all ages. If we *had* been reflecting prices in those early weeks, cap values would have been severely reduced, by not doing so we gave the market time to recover in volume and price. This recovery was particularly apparent from 1st June as more buyers re-entered the market.

Since the end of May, there has been a two-tier market with regards to prices. Older, cheaper cars have generally increased in price, whereas cars under 2-years old have tended to either move down slightly or stay level. Of course, this has varied by age and brand, and even fuel-type, but the overall movement at the industry recognised 3-year, 60,000 mile point has been a small increase of 0.3%, the first average movement upwards witnessed for our June into July product since 2009.



Values at the younger ages have dropped slightly on average, by 0.4%, in part due to the franchise dealers not actively buying from manufacturers initially. We have seen some recovery in prices at this age, particularly from week commencing 15th June as dealers became more active. Some examples of this are Volkswagen Up! which moved down in price by 1% at the start of the month, but has since recovered, ending the month 3% positive and also the SEAT Mii and Nissan Qashqai diesel, which did similar, both also ending ahead of where they were at the start of the month.

The real success story of the last few weeks has been the strengthening prices of older cars. The average movement of 5-year old cars is 1.2% (or c.£70) up during June, whilst 10-year old cars have increased by an unprecedented average of 5.7% (c.£140), at a time of the year when values invariably drop.

Within these averages, there have been some particular winners. The Peugeot 107 at both 5 and 10-years old has increased by 10%, the BMW 3-Series Diesel and Audi A5 Coupe have increased by a similar percentage on older vehicles, averaging around £350-400 at the 10-year point. The BMW X3, pre-2010 model, has increased by almost 12% or £355 on average. Whilst these monetary amounts may not seem huge, for these increases to occur in such a short-time period is almost unheard of. These examples back up the forecast that smaller models and older premium cars would be in demand.

Convertibles and cabriolets have certainly been sought after, particularly for models over 3-years old. Prices of these good value and generally attractive cars have been helped by the sunny weather and possibly by the short-term increase in some people's disposable income, through a lack of spending on holidays and the like, during lockdown.

An interesting area of note has been regarding different fuel-types. Prices of petrol and diesel engine cars have held up well, whilst petrol-hybrid cars have generally reduced, particularly at the 3-year point. It would appear that consumers are being prudent and price is important – many of those hybrid cars cost more than their diesel or petrol equivalents. To highlight this, petrol hybrid cars have dropped by an average of 2.4% or £350 at the 3-year point, whereas petrol cars are almost level and diesel models have increased by around £50. Some examples of hybrids that have been adversely affected are the Hyundai Ioniq, Toyota Auris and Toyota Yaris.

Whilst demand has certainly been a major factor in the average price movements, shortages of supply have also played their part. The lack of new car activity, highlighted in the first section of this overview, has led to shortfall in the numbers of part-exchanges being generated. Once the stock cars carried over from March were or are sold, there is less natural source of replenishment for the franchise dealers.

Logistics issues have also become a significant problem for the industry, with delivery lead times going from around 72-hours in early March to around 15-days in June, according to anecdotal feedback. This bottleneck has clearly impacted the market, with demand far outstripping supply. It is certainly taking the transport industry some time to get back up to full capacity, with seemingly some reluctance to unfurlough employees. These delays have affected both the delivery into and out of auctions and wholesalers, meaning businesses are slow at defleeting cars for the used market and dealers are struggling to receive their goods once they have purchased. Social distancing rules have not helped this process.

What Next?

The strength of the used car market through June has taken even the most optimistic within the industry by surprise. The question "how long does this carry on for?" is one being asked far and wide at the moment, and there is no historical precedent to reference.

It is likely that a logistics bottleneck will remain for the next few weeks at least, and whilst demand may wane slightly, it is unlikely to drop considerably. For these reasons, we expect a relatively strong market to continue – although whether prices of older cars will continue to increase remains to be seen. What is more likely is a period of stability, although as in June there will be different dynamics for different brands, models and fuel-types.

Younger used cars have recovered to a certain extent since some drops early in June, but some still do look overpriced and there has been no deflation in their values over the period of April and May. With September just over 2-months away, and with it the "70" plate appearing, which should have an uplift in price compared to older plates, is there the desire to purchase "69" and "20" plates at the current prices? Some realignment would seem reasonable.

There is no doubting that the market has been strong, particularly for the time of year – the five-year average for a movement from June into July is -1.3% at 3-years, 60,000 miles, compared to this year's 0.3%. Whilst no two years are ever the same, by July in the last 5-years, the average cumulative drop was 5.1% from January. In 2020, that figure is just 0.7% down, meaning values are close to where they were at the start of the year. Looking at seasonality, this is an anomaly, even taking into account these unusual times.

Generally, the old adage "what goes up must come down" rings true with used car prices and is proven by movements in cap hpi used values over the years. Once the current pent-up demand is exhausted and the supply chain gets back up to closer to full capacity, the market is likely to see volumes appear from lease and other finance extensions. Whilst this may not happen in July, it seems almost inevitable that the current strength is unsustainable and supply will at some point outweigh demand, maybe towards the end of the summer.

Cap hpi Live valuation will continue to track the market daily and any fluctuations over the coming weeks will be reported real-time. As has happened in June, values for specific models can change in different directions over the period of days or weeks, so keeping a close eye on daily valuations is essential at this time.

Current Used Valuations July 2020 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	1.1%	1.6%	2.6%	7.3%
Supermini	(0.4%)	0.6%	1.7%	8.8%
Lower Medium	(0.3%)	0.6%	1.3%	7.3%
Upper Medium	(0.5%)	(0.1%)	0.9%	5.4%
Executive	(0.0%)	0.2%	1.0%	4.6%
Large Executive	(0.8%)	(0.4%)	0.1%	0.8%
MPV	(1.1%)	(0.5%)	(0.1%)	2.4%
SUV	(0.7%)	(0.6%)	0.3%	3.7%
Electric	(0.3%)	(0.8%)	(0.9%)	0.0%
Convertible	1.1%	2.1%	4.2%	6.9%
Coupe Cabriolet	1.5%	3.8%	4.9%	6.9%
Sports	0.8%	1.2%	1.4%	1.4%
Luxury Executive	(0.1%)	(0.2%)	(0.5%)	(0.1%)
Supercar	(0.4%)	(0.5%)	0.0%	0.4%
Overall Avg Book Movement	(0.4%)	0.3%	1.2%	5.7%

( ) Denotes negative percentages

Used Car Values July 2020 - Average Value Movements by Size

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(0.1%)	1.2%	1.4%	7.3%
MPV Medium	(1.2%)	(0.6%)	(0.1%)	8.8%
MPV Large	(1.0%)	(0.9%)	(1.0%)	7.3%
SUV Small	(0.9%)	(0.5%)	0.7%	5.4%
SUV Medium	(0.8%)	(0.7%)	0.2%	4.6%
SUV Large	(0.3%)	(0.5%)	0.2%	0.8%

( ) Denotes negative percentages

Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
BMW 3 SERIES (12-19) DIESEL	100	250	180
KIA SPORTAGE (15-) DIESEL	(250)	(100)	(178)
LAND ROVER DISCOVERY SPORT (14-20) DIESEL	(650)	(350)	(474)
MERC C CLASS (14-18) DIESEL	250	450	345
NISSAN JUKE (10-)	175	450	284
PEUGEOT 208 (12-20)	100	200	153
TOYOTA AURIS (12-19) HYBRID	(750)	(550)	(638)
VAUXHALL ASTRA (15-20)	(300)	(175)	(223)
VAUXHALL MOKKA (12-20)	(350)	(250)	(303)
VOLKSWAGEN GOLF (13-) DIESEL	200	700	339

( ) Denotes negative movement

Notable Movers 3-yr 60k

GENERATION NAME	MIN £	MAX £	AVG £
BMW 5 SERIES (13-17) DIESEL	275	500	363
BMW MINI COOPER (13-18)	200	300	259
HONDA JAZZ (15-)	(175)	(125)	(155)
JAGUAR XE (14-19) DIESEL	(250)	(200)	(230)
MITSUBISHI OUTLANDER (14-18) HYBRID	(650)	(550)	(607)
SEAT LEON (13-) DIESEL	175	300	244
SKODA YETI (09-17) DIESEL	150	275	214
SUZUKI SWIFT (10-17)	225	375	294
TOYOTA YARIS (12-17) HYBRID	(550)	(375)	(480)
VAUXHALL ASTRA (15-20)	(175)	(125)	(145)

( ) Denotes negative movement