

August 2020

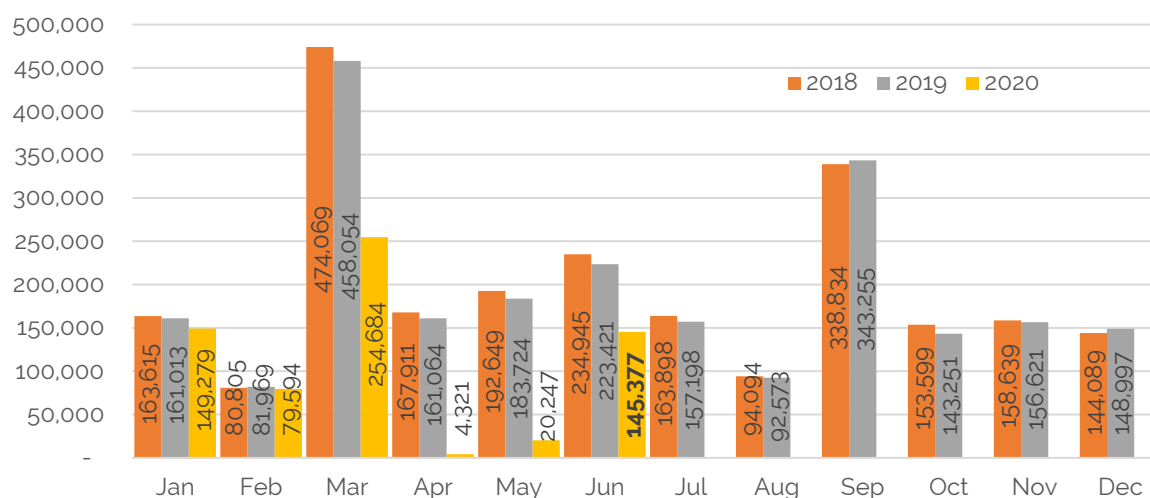
# Car Market Overview

As we enter a "new normal" following the impact of the COVID-19 crisis, there continue to be interesting factors affecting the car industry. In this overview, we will report on registration activity in the new car market to the end of June and dynamics in the used car market at the time of writing. All information is correct as of 27<sup>th</sup> July 2020.

## New Car Sales

New car registration volumes remained heavily affected by the COVID-19 pandemic. According to the figures produced by the SMMT, 145,377 cars were registered in June, a reduction of 34.9% on the 223,421 in the same month last year. Not only did this reflect the downtime of factories and logistics during the lockdown period of late-March, April and May, but also the fact that they remained behind full capacity in June, plus the economic uncertainty and delayed reopening of some English and Irish, and all Welsh and Scottish, car dealerships.

On the positive side, this volume was in excess of a seven-fold increase on the number of car registrations in May.



Source: SMMT

Year-to-date, registrations were down 48.5% to the end of June, with 653,502 cars registered compared to 1,269,245 in the same period in 2019. Private sales picked up the quickest, being 19.2% down in June, but still 44.6% lower year-to-date.

Daily Rental registrations, usually notable for the impact they could have on used car values further down the line, are now more notable as a pointer towards how well that industry is recovering. In June, registrations in this segment were down around 80% compared to the same month last year, with 4,698 cars registered compared to 23,284. Airport and leisure sectors of these businesses remain the hardest hit.

## Used Car Retail Activity

Since day one of car showrooms reopening on 1st June, the retail market has been buoyant. July continued where June left off, with little sign of a slowdown.

Whilst physical footfall at showrooms is lower than prior to lockdown, online enquiry levels have more than made up for this. More consumer research is being completed online than before, and where appointments are made, it is more than likely that the prospect is actively looking to buy. It has become more important than ever for car retailers to get all digital channels and social media working optimally – from this perspective it has forced many businesses to modernise much quicker than would otherwise have been the case.

Whilst retail customers are actively buying, there are some interesting dynamics in the market. Many consumers are being cautious with their money when changing their car, looking to realise some cash or lower their monthly payments in these uncertain times, by opting for a smaller car or an older, cheaper but more premium vehicle. On the flip side of this are those buyers that have saved money during the crisis, by receiving government funds, be it loans or grants, by not socialising during the enforced lockdown period or by not going on expensive family holidays this year. Those buyers have actually upgraded their vehicle – particularly if they take into account the savings they may well make ongoing by not using public transport. Annual rail fees in particular can cost thousands of pounds, so why not spend the equivalent monthly outgoing on a finance deal for a better car.

There remains some pent-up demand in the market, plus those consumers wary of public transport, both are keeping demand healthy.

Within the retail advertised data analysed by the team at cap hpi, it is clear that volumes have dropped slightly in July but prices have increased. Across all ages, the average percentage of list of advertised used cars has increased by around 1%, a reaction to the increased demand as well as rising trade prices requiring prices to go up to maintain margins.

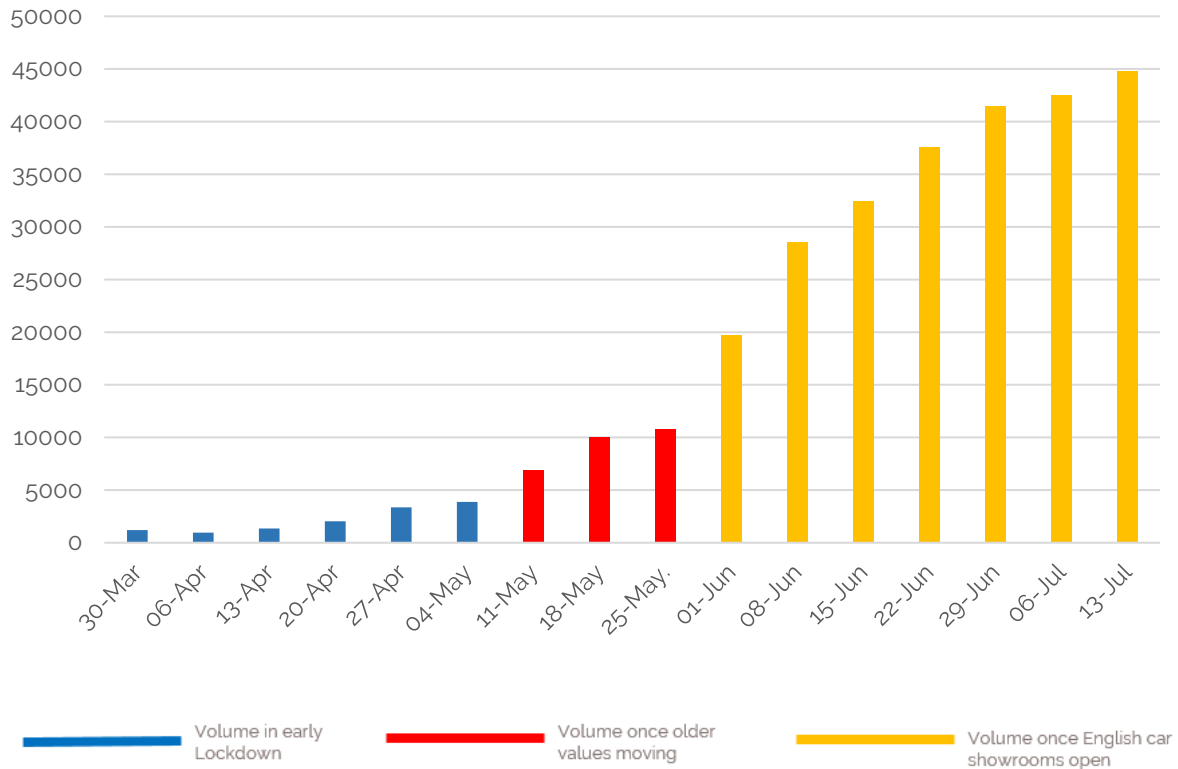
This increase is reflected across all ages and most sectors, with the exception being lower medium (C-Sector) cars staying more-or-less level and MPVs dropping slightly – neither are necessarily the flavour of the month for the consumer now. Electric vehicle prices have also dropped on average and this theme is replicated in the trade data – it appears that many buyers are still not prepared to take that leap of faith into what is deemed as unfamiliar technology, with potential unpredictable range and previously unseen repair costs. The old favourites of petrol and diesel propulsion cars currently remain the prudent and popular choice.

One of the themes that has continued from June is the increase in the number of part-exchanges being retailed rather than sold through the trade, to avoid logistics delays and take full advantage of buoyant consumer demand. With older used cars popular, many are selling the cars they would previously have sent to auction.

## Used Car Remarketing Activity

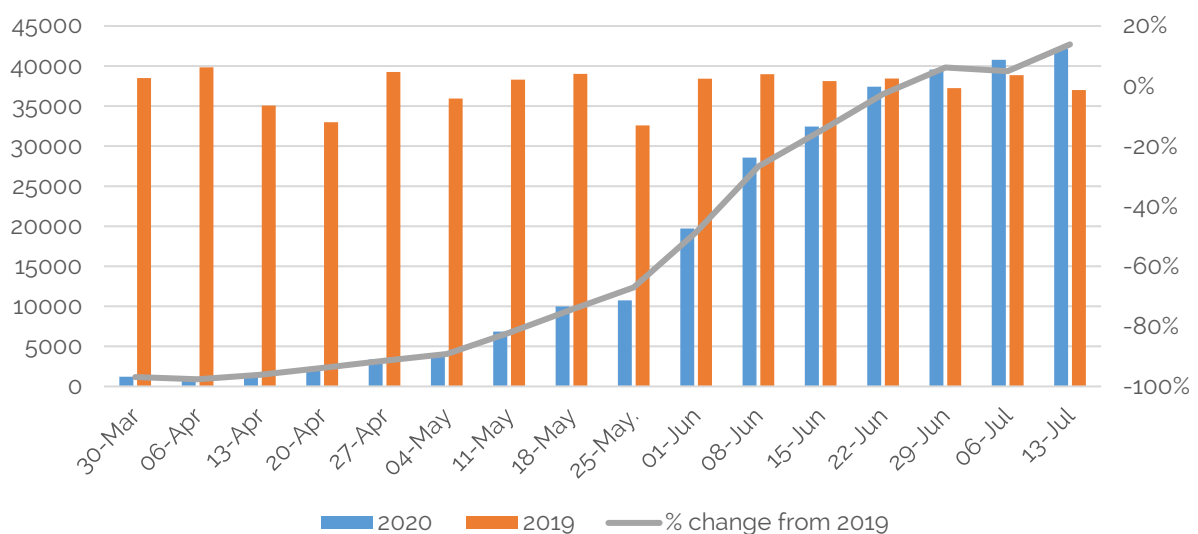
Similar to the retail market, no one could have predicted the meteoric rise in trade activity since May. The chart below shows how wholesale volumes have recovered since the start of lockdown.

Wholesale Volumes during COVID-19 Crisis



Volumes in July have been some 8% higher than in the same period a year ago, when comparing consistent suppliers of data. The below chart breaks this down by equivalent week since lockdown – any additional suppliers of data to cap hpi in the last 12-months have been removed from this analysis to show a true picture of volume differences.

Wholesale Volumes, w/c 30-March to w/c 13-July, 2019 versus 2020



As you can see, since week commencing 29<sup>th</sup> June, volumes in 2020 have been ahead of last year and in week commencing 13<sup>th</sup> July they were up 15%. These are large increases,

particularly with the previously mentioned rise in the number of part-exchanges being sold rather than traded. Conversion rates at the auctions are certainly high, assisting these numbers – there is an increase in the proportion of cars selling as well as an increase in the volumes available.

The vast majority of auction sales remain virtual only. Some have opened carefully for viewing only and a minority do have cars being driven through the halls. The larger ones remain completely online however, wary around the safety of employees and customers and keen to avoid any bad publicity from a lack of social distancing by attendees. As the volume of cars sold shows, the industry has adapted extremely well to the “new normal” and it remains to be seen when, and to what degree, most auctions do physically reopen their doors.

Of auction companies responding to the cap hpi auction survey this month, over half stated that demand was even higher than in June; the majority of the remainder stating it was to the same level. No one advised that stock levels had reduced and over three-quarters stated that conversion rates were either equivalent to or better than in June. Interestingly, there were a small number of respondents stating that prices had actually dipped in July compared to June.

Logistics bottlenecks still exist, with the generosity of the government furlough scheme seen as one of the reasons why – whilst there is money on the table, there is some reluctance to return to full capacity. However, the situation has certainly improved over the last few weeks and logistics are less of an issue than they were in June, with companies also getting more used to social distancing rules.

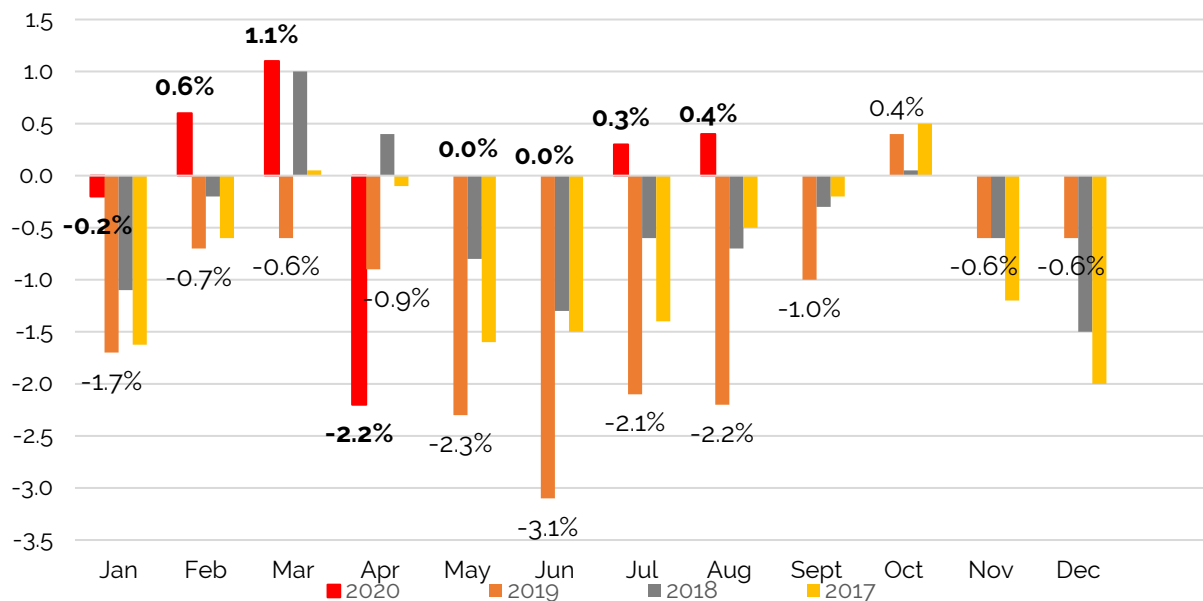
Overall, the remarketing industry is back up and running remarkably well, with many businesses selling more cars now whilst the market is so healthy, and potentially looking to sell less in the latter months of the year, when the situation is less certain. With demand from the trade more than matching that of the consumer, some remarketers are struggling to cope with the amount of enquiries they are receiving for their stock. This has certainly enabled some of those rental companies whose utilisation remains low to sell unneeded cars for good money.

### Used Cars – Trade Values

As would be expected with the positivity portrayed in this overview so far, used car values in our Live products in July have overall been positive. An unusual occurrence for this time of year, but we are obviously in unprecedented times.

As the chart below illustrates, average Live values in July (leading to August monthly figures) increased by 0.4% at the 3-year, 60,000 mile point. Similar to June, this was the first upward movement in July since the recovery of 2009.

## Monthly Movements in Live Valuations



Average values at the 1-year point stayed level and younger than this they dropped very slightly, but at all other ages there has been a small, positive movement. What we have witnessed over the weeks since 1<sup>st</sup> June was a relatively dramatic increase during June, then a stabilisation in July – it would appear that values have peaked but are remaining at or around that level for now.

As always, there are winners and losers within these averages and particular areas to note.

As in the retail evidence, MPVs have moved down slightly, bucking the trend of other mainstream sectors. However, within this sector we have witnessed some strength for smaller, diesel vehicles. The Fiat 500L, Hyundai ix20 and Kia Venga have all been popular and have increased in value – proving that this fuel-type still has its suiters, even for smaller cars. Supply volumes are low for these models of course, which helps.

SUVs now sit at 27% of the used volumes we receive, up from 20% just 2-years ago, most of this being at the expense of upper medium (D-sector) and MPVs. Supply is high but so is demand and some notable upwards movement in prices has been reflected for the Audi Q2, BMW X1 and Land Rover Evoque, amongst others. Where demand has not been so strong, values have dropped for models such as the Citroen C5 Aircross, Hyundai Kona and Kia Niro.

Convertibles have certainly been in demand over the last few weeks. In more normal times, trade values would have peaked in late-May or June and would now be heading south. During July, values have increased by 2.4%. The reasons for this can be put down to some pent-up demand, good weather, no excess supply and the previously mentioned dynamic of consumers having saved some money during lockdown and now looking to buy a desirable rather than a more sensible car, or even an extra car as a “toy”. Older, more affordable cars have increased in price the most in percentage terms, models such as the Audi A4 Convertible, the petrol variant of which has increased by a phenomenal 32% or £825 (at 10-years old) and the Audi TT Roadster, up c.11% or £1,000 at 5-years old.

Once again, prices by fuel-type have been interesting to analyse. Electric vehicles (EVs) and hybrids seem to have struggled overall – an unwillingness to pay more to be “green” at the current time. Throughout the period of lockdown, there were debates around the potential increase in demand for alternatively-fuelled vehicles (AFVs) as cleaner air became noticeable around our larger cities, due to a reduction of vehicles on the roads. However, in the short term this has not been the case due to them still looking expensive versus internal combustion engine cars. Despite their green credentials and running cost savings, feedback from the market has been that consumers currently find the premiums too expensive over a petrol or diesel vehicle, with no incentives for the used buyer, plus concerns over range still.

As more people return to their work places and clean air zones return closer to the top of the agenda, demand for EVs could increase, particularly if public transport is still being avoided. A couple of models that did increase in value, however, were the Tesla Model 3 and the Volkswagen Golf Electric, where demand continues to outstrip supply.

Overall, despite some of the dips for AFVs, trade values generally stayed firm on average in July.

### What Next?

Last month we predicted that July would be stable with no reason to expect a drop in values, but the large increases experienced in June were unlikely to continue. That is precisely what has happened.

With late-July continuing to see strong demand from consumers, we are predicting more stability still. It appears we are at the top of the peak for prices, but that peak could be quite a flat one, continuing for a number of weeks. With less consumers taking holidays abroad than usual, there is unlikely to be a large dip in demand in August.

What is clear, however, is that used car prices are high. This time last year, we were coming close to the end of a downward realignment for prices. There then followed a period of stability, then strength in the final few months of 2019, with the usual final quarter dip not happening. The first 2-months of 2020 also saw a stronger than normal market, with values increasing in both January and February. Whilst values dropped in the immediate run-up to lockdown, we have since had 2-months of no movements and then many prices increasing in June and July. All of this has meant average prices are higher than they were a year ago, when analysing the same models at the same age and mileage point. As cars age in their lifecycle, it is normal to expect them to deflate in price, but that has not happened, overall, with city cars and superminis particularly strong (12% and 8% more expensive than a year ago, respectively).

History shows us that increases in price are unsustainable over a medium to long period. Once logistics improve further and lease extensions come to an end, there could be some more volume to come back into the market, although this may be tempered somewhat by the defleeting by rental companies occurring now rather than later. However, with an economic downturn and unemployment rising, consumer confidence is likely to be affected. Big-ticket purchases could go on the backburner and for those that are still in the market, price will become even more important.

Whilst there could be some very early signs of softening prices in August, we do forecast a steady month, with possible drops to come from September onwards. This is likely to be more acute for younger, higher value mainstream and premium cars and would be exacerbated by any pre-registration activity for those brands that are more active in this area, particularly in the new-plate month of September.

As always, value movements will vary by fuel-type, model, age and even engine and trim, according to supply and demand, and will be reported in our Live valuations, which as always are a reflection of prices in the wholesale and retail markets.

### Current Used Valuations August 2020 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	0.2%	(0.1%)	0.1%	0.2%
Supermini	0.2%	0.9%	0.4%	(1.3%)
Lower Medium	0.2%	0.4%	0.2%	(1.2%)
Upper Medium	(0.1%)	0.2%	0.3%	0.5%
Executive	(0.6%)	(0.0%)	0.6%	1.4%
Large Executive	(0.3%)	(0.2%)	0.2%	1.0%
MPV	(0.6%)	(0.3%)	(0.4%)	(0.1%)
SUV	(0.1%)	0.0%	0.2%	0.3%
Electric	(1.1%)	(1.8%)	(1.8%)	(0.8%)
Convertible	1.1%	2.4%	2.6%	3.5%
Coupe Cabriolet	2.7%	3.2%	4.2%	5.6%
Sports	1.0%	1.4%	1.7%	2.9%
Luxury Executive	(0.2%)	(0.9%)	(0.9%)	(0.4%)
Supercar	(1.8%)	(1.3%)	(1.2%)	(0.4%)
Overall Avg Book Movement	0.0%	0.4%	0.4%	0.3%

( ) Denotes negative percentages

### Used Car Values August 2020 - Average Value Movements by Size

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	0.3%	(0.0%)	(0.0%)	(0.7%)
MPV Medium	(0.8%)	(0.5%)	(0.5%)	(0.1%)
MPV Large	(0.3%)	(0.2%)	(0.4%)	0.4%
SUV Small	0.3%	0.6%	0.3%	(0.1%)
SUV Medium	(0.2%)	(0.1%)	0.2%	0.4%
SUV Large	(0.2%)	(0.2%)	(0.0%)	0.0%

( ) Denotes negative percentages

### Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI A1 (10-19)	200	400	281
DACIA SANDERO (13- )	(175)	(100)	(132)
FIAT 500 (15- )	125	200	159
HYUNDAI I10 (14- )	100	175	147
LAND ROVER RANGE ROVER EVOQUE (11-19) DIESEL	350	550	471
NISSAN QASHQAI (13-18) DIESEL	100	150	116
RENAULT CLIO (13-20)	150	150	150
SEAT LEON (13- ) DIESEL	(150)	(100)	(122)
VAUXHALL MOKKA (12-20)	(350)	(100)	(316)
VOLVO V40 (12-19) DIESEL	(150)	(100)	(127)

( ) Denotes negative movement

### Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
BMW 5 SERIES (13-17) DIESEL	200	350	250
BMW MINI COOPER (13-18)	400	700	539
MERC A CLASS (12-18) DIESEL	150	350	236
MITSUBISHI OUTLANDER (14-18) HYBRID	(400)	(350)	(362)
PEUGEOT 208 (12-20) DIESEL	100	150	132
SUZUKI SWIFT (10-17)	(200)	(125)	(163)
TOYOTA AURIS (12-19) HYBRID	(650)	(475)	(558)
TOYOTA YARIS (11-17)	(175)	(50)	(138)
VAUXHALL MOKKA (12-19) DIESEL	(175)	(125)	(149)
VOLKSWAGEN TOUAREG (10-19) DIESEL	150	200	162

( ) Denotes negative movement