

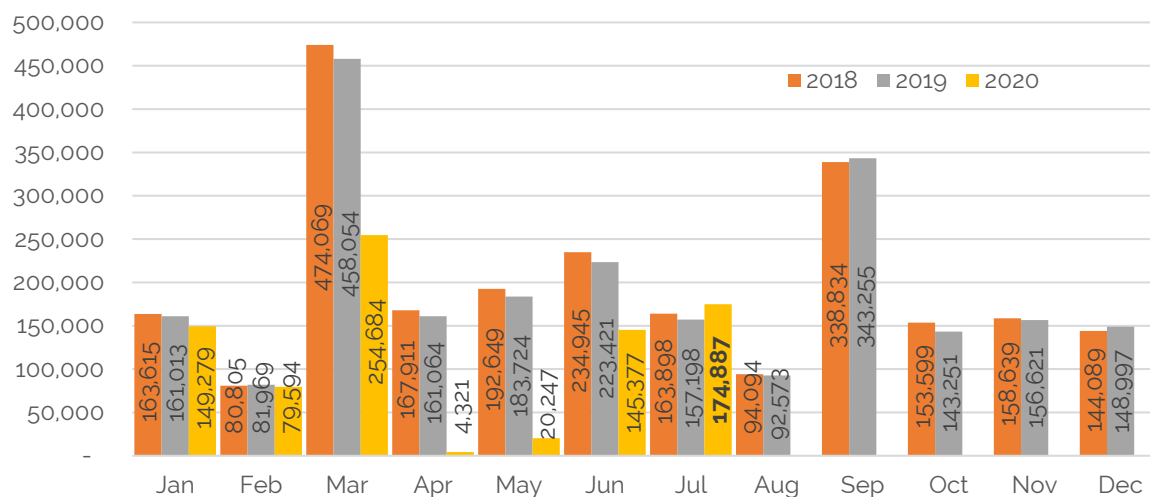
October 2020

# Car Market Overview

The automotive sector has shown remarkable resilience as the nation has continued to work to constrain the COVID-19 virus. In this overview, we will report on registration activity in the new car market to the end of August and dynamics in the used car market at the time of writing, including what may happen next. All information is correct as of 24<sup>th</sup> September 2020.

## New Car Sales

New car registrations in August 2020 showed a 5.8% decline compared to the same month in 2019, according to figures produced by the SMMT. 87,226 cars were registered compared to 92,573 a year ago. Private registrations held up the best, declining by 1.7%, whilst fleet and business registrations combined were 8.9% down. Year-to-date, 915,615 cars were registered to the end of August, compared to 1,519,016 in the same period last year, a reduction of 39.7%.



Source: SMMT

Diesel registrations continue to decline the fastest, down 31% compared to August last year (-53.6% year-to-date) with petrol car volumes down 6.1% (-41.4% YTD). Mild hybrid vehicles are included in these figures. Battery Electric Vehicles continue to grow in popularity, up 157.0% year-to-date, with a 4.9% share of the market. Plug-in Hybrid registrations also continue to grow, up 67.7% year-on-year, with a share of 3.3%. Pure hybrids take up the remainder, down 5.1% year-to-date with a share of 6.3%. Alternatively-fuelled cars now make up 14.5% of the reduced, new car market.

According to the SMMT figures, Daily Rental registrations were at 4,399 for the month, 55% higher than in August 2019, as the sector recovered somewhat due to the holiday period. Year-to-date, however, there have been 94,391 less cars registered to daily rental companies, a reduction of 62%. This will result in a lower number of late-plate, young used cars in the used car market for the foreseeable future.

## Used Car Retail Activity

In the world of used car retail, September saw another strong month – there has now been 4-months of healthy demand for used vehicles since car showrooms reopened after lockdown, on 1<sup>st</sup> June.

Some dealers reported a small dip around the end of August, partially due to the bank holiday and many consumers taking the opportunity to have a few days annual leave after a difficult few months. Once we were a few days into September, demand picked up again, both online and in person. Consumers are still buying for a number of reasons: to avoid public transport, to downsize to save money or upgrade to spend savings made over the summer period, because a finance agreement is ending or purely because they want a change.

With the new “70” plate being available in the new car market for the first time, there is always a balancing act for franchise dealers between selling new and used cars and trading or retailing part exchanges in September. There has certainly not been a reduction in the focus on selling used cars, however, as retailers continue to make hay whilst the sun shines.

Car supermarkets have also had a good time of it, some even reporting a record month in August. With internet-based retailers increasing in number, it would appear to have been the perfect time for businesses to increase activity in the online used car area.

Many retailers have tweaked their business models over the last few months as they seek to maximise all opportunities. This has included retailing more part exchanges than they would have previously, being able to sell lower value cars directly to consumers rather than sending them to the auctions – this of course may then generate a further part-exchange, which in itself can either be sold via the auction route or again, retailed. This has included franchise dealers selling more used cars from brands that they do not represent – something they may not have been confident to do in the past, or simply they had a policy that sent these back into the trade.

Many retailers have also extended their age and mileage profiles of cars they would normally deal in so that they can sell to as many customers as possible, for example selling older cars that have proved popular to those avoiding public transport and maybe buying a car for the first time.

Looking at retail pricing, within the daily data purchased from major online portals, it is clear that retailers are holding out for strong prices and that is not affecting their ability to sell. Across all sectors and ages, strong prices continue to be achieved; indeed, they have risen slightly over the last few weeks.

All of this has led to a much-needed positive few months for used car dealers, after the dark days of lockdown in March, April and May in particular. As has been the case for the last few months, we are hearing very little negativity from retailers across the UK; the positivity is clear, strong sales numbers and healthy margins are seeing retailers post incredibly good short-term results, turning a weak second quarter into a very strong third.

The big question again is how long it will last for.

## Used Car Remarketing Activity

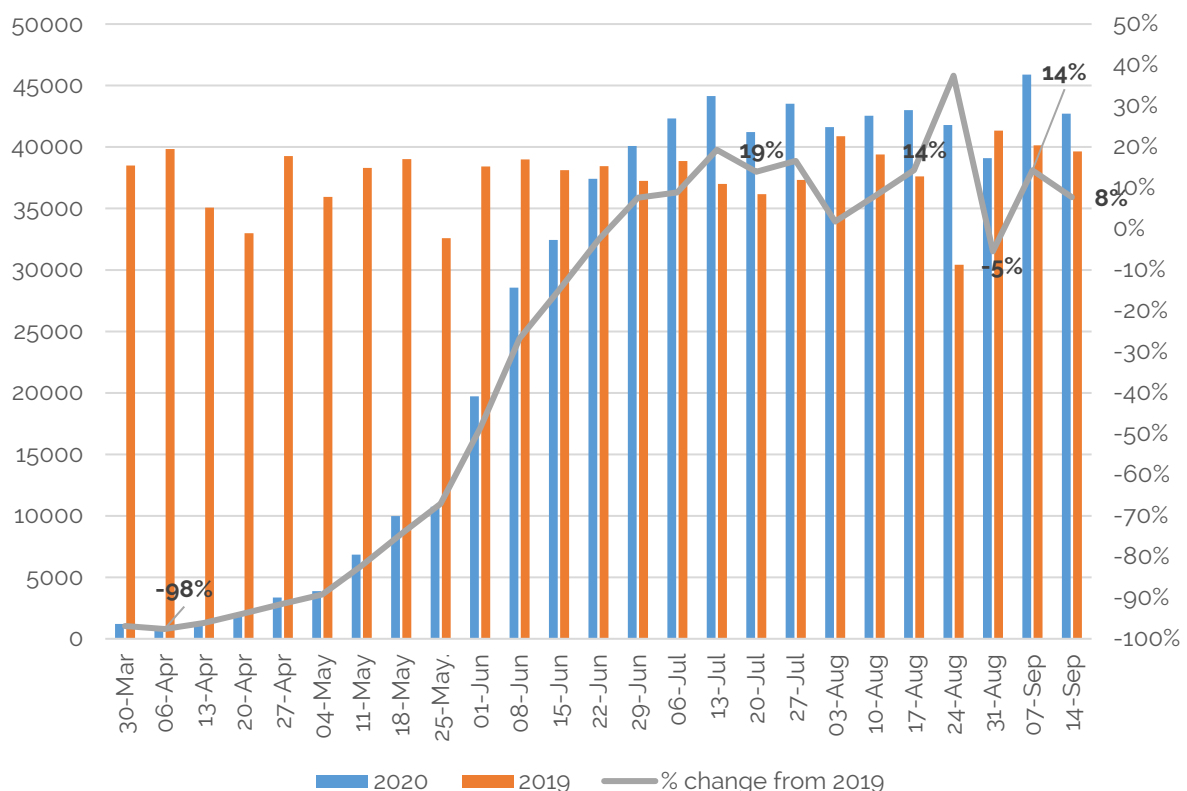
This positivity has been replicated in the trade arena as retailers have consistently sought out new stock.

The auctions have adapted particularly well to the "new normal", with the majority of units being sold online still. A few auction houses have reopened physically to some degree, be it for appointment-only viewing or some are moving cars through the lanes. Others have no plans to reopen the doors currently, with safety and bad publicity if social distancing were not maintained, at the forefront of their minds. Their corporate vendors appear content with how vehicles are selling virtually, so are not putting the pressure on to reopen, particularly with recent stricter government rules in place regarding groups, and the consequences that may follow.

The lack of physical auctions has not affected the number of cars being sold in the trade. Looking purely at auction sales volumes, they are up over 10% on the same time last year. Some have reported record sales days, weeks and even months over the summer period. These high sales volumes are driven more by strong demand and healthy conversion rates than by supply.

When looking at suppliers of trade data from all areas, not just auctions, excluding ones that we have added in the past 12-months, you can see how buoyant the overall used market has been. In August in total, volumes were over 9% ahead of the same month last year and in September, week commencing 7<sup>th</sup> saw the highest weekly volumes we have ever received. Quite an achievement for the industry, bearing in mind the number of part-exchanges being retained (so not within this data feed) and the fact that the majority of sales remain online only. The industry has adapted remarkably well.

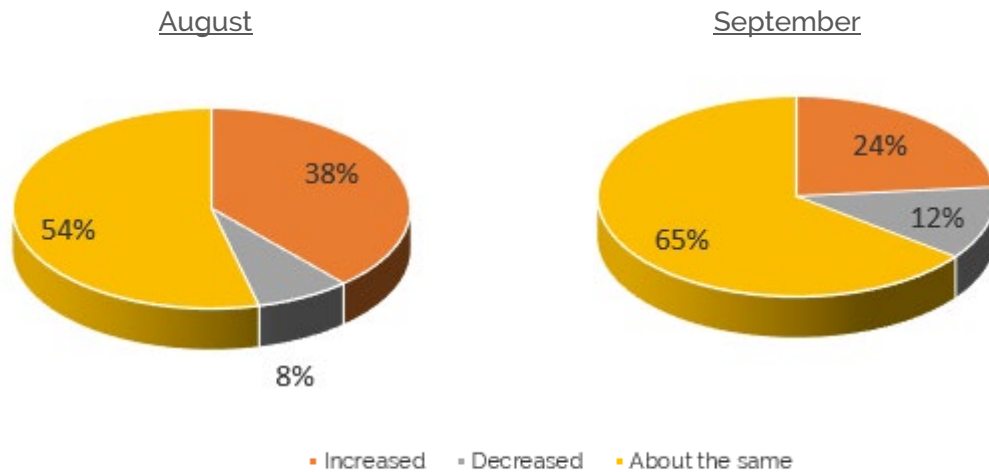
Wholesale Volumes during and since lockdown, 2020 vs. 2019



Digging into the detail of the auction companies activity over the course of September, the first set of graphs below show supply levels. As you can see, in September, less respondents have stated that their stock levels have increased than they did last month,

although still almost a quarter have painted a positive picture. It will be interesting to see next month's results, as in a normal year, volumes should increase following a new plate month, with part exchanges and fleet returns hitting the trade market.

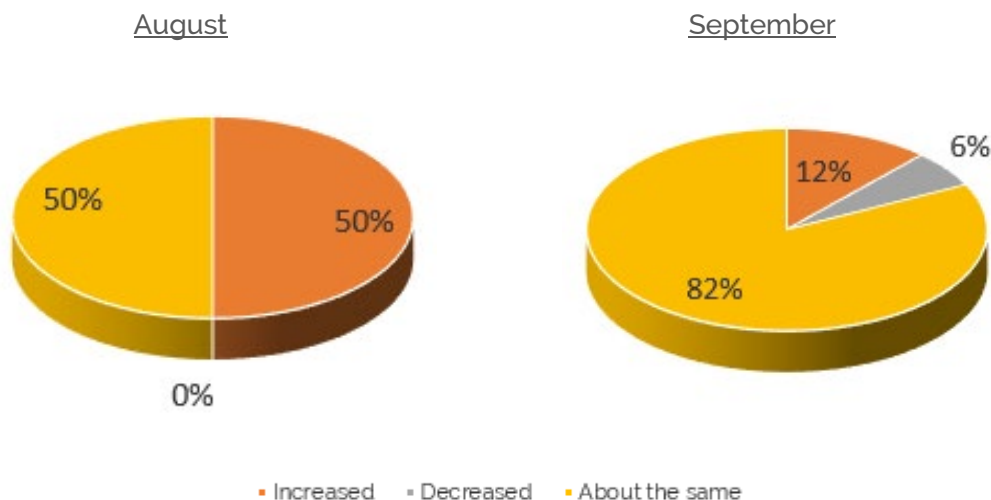
How do your current stock levels compare to last month?



Looking at demand for cars from trade buyers, last month there was a 50/50 split between those saying demand had stayed the same and those that cited increases. In September, the vast majority have said demand has stayed stable, with maybe a very early sign of the market easing for some?

It is clear, within both the sold data and auction companies' feedback, that poorer condition cars are struggling more now than they were in June and July. Good condition cars are being fought over, but those lower graded vehicles are struggling to achieve reserves in the auctions. With the market being so buoyant, it is vital not to assume that poorer quality cars can achieve cap clean. They need pricing in line with average or below values, depending on the amount of damage and any missing documentation or service history.

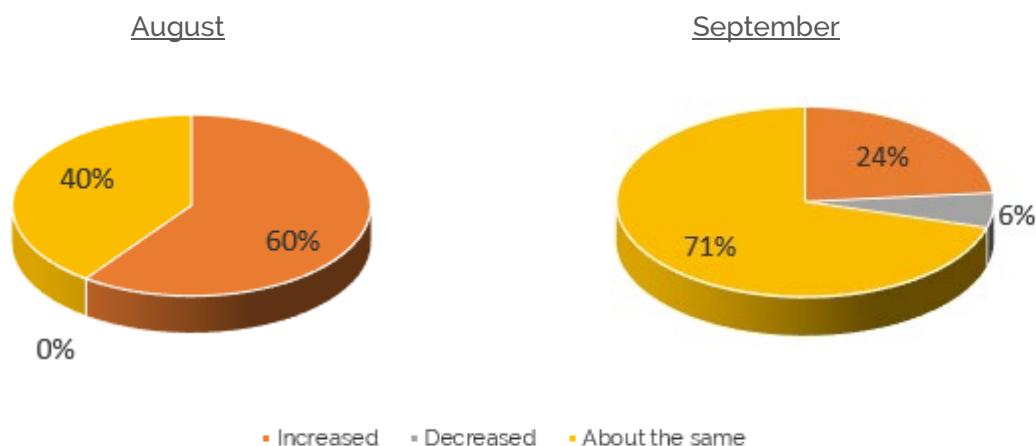
How does your current overall demand compare to last month?



Conversion rates were on the increase for the majority in August, but fast-forward a month and there is a slightly less positive picture painted, with only a quarter of respondents

stating increases, most suggesting parity, but a small number seeing a decline. Again, is the market starting, very slowly, to turn? Important to state, however, that from some feedback, conversion rates are as much as 10% above where they were this time last year.

*How do your conversion rates compare to last month?*



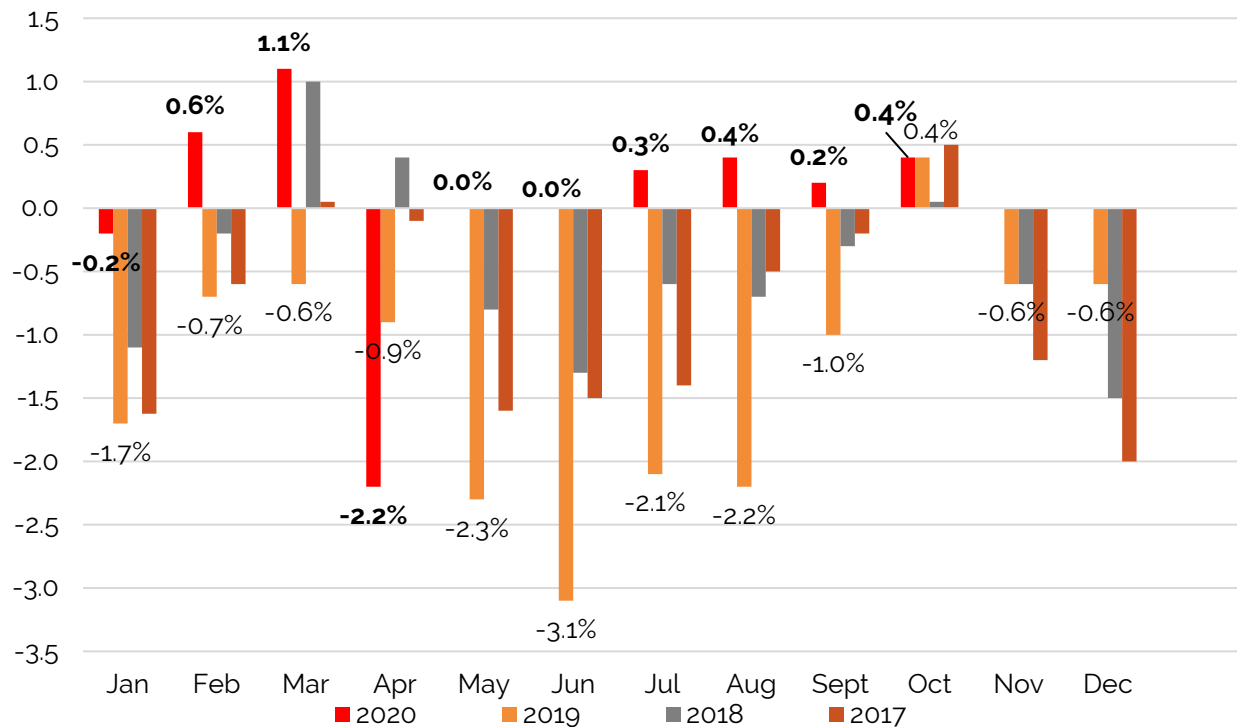
### Used Cars – Trade Values

There have certainly not been any signals within prices to suggest the market is turning, however. Despite a slight dip around the end of August, once we entered September, and definitely since Monday 7<sup>th</sup>, values in our Live product have held up remarkably well and even increased, with a number of wholesale vendors pushing their prices up as September progressed.

On average, at the 3-year, 60,000 mile benchmark point, values have once again increased over the last month, by 0.4%, or £65. This is the fourth month in a row, since no movements were made during the lockdown period, that values have increased. Indeed if you look at the whole of 2020 so far, the only monthly figures that saw a decline were a slight dip into January (based off December's Live data) and then when prices fell in the 10-days or so prior to the lockdown announcement on 23<sup>rd</sup> March (leading to April's monthly figures).

Overall, average values are over 7% ahead of where they were year ago.

*Monthly Movements in Live Valuations*



As always, averages do not tell the whole story and there have been some different dynamics within our Live values.

The continuation of a theme has been witnessed with fuel-type. Petrol and diesel cars have risen in value, on average, whilst electric cars and petrol-hybrids have reduced once more. With volumes increasing of these alternatively fuelled cars, it is not necessarily the case that declining demand is causing these price drops. It is more that supply and demand dynamics mean there is more choice for buyers and they are not willing to pay the increased premium that these fuel-types have over internal combustion engine equivalents. Sold volumes of EVs have increased twelve-fold from where they were 5-years ago, so there is no shortage out there.

Moving onto sectors, city cars have enjoyed strong demand of late and during 2020 some models like the older Fiat 500 have moved up by over 10%, with most of that coming during the period just after lockdown. So, it is no surprise to see some of these car's prices start to edge back, as dealers put a cap on trade prices paid for this type of car, to maintain margins. It has been noticeable during September that prices started to move back for city cars of 5-years and older in particular, but these are the ones that have risen the most over the last year. Some examples of cars that have dropped in value in Live over the last few weeks are the Renault Twingo, SEAT Mii and Skoda Citigo.

All other mainstream sectors have at least maintained their values, on average, with the SUV sector proving particularly popular, helping vendors to sell the high volumes of this body style that are available in the market. SUVs now make up 27% of the sold data, whereas 5-years ago that figure was just 13% - a doubling of its share. Demand is currently more than matching supply and values have risen by 1%, or £150, on average at the 3-year age point.

Interestingly, diesel SUVs continue to sell well with values rising by slightly more than their petrol counterparts, confirming that retail customers still want and like this fuel-type to fulfil

their driving needs. Strong diesel performers this month have been the BMW X5, Land Rover Range Rover Velar and the Mitsubishi Outlander.

Moving on to look at ages of vehicles, values of cars under 5-years old have, on average, stayed strong and increased by a similar percentage to that at the 3-year point (0.5%). There has been slightly more pressure on prices of older cars, but these were the ones that increased by the most, particularly in June, and they have stayed strong up until September. Even at that age, the drops have been negligible in monetary terms.

### What Next?

What happens next and how long this strength will last for are the two questions on most of the industry's lips.

The strength over the last four months has been unprecedented, as is the current situation in the country surrounding the pandemic, local lockdowns and stricter government rules. All of this makes it very difficult to call.

At the time of writing, there is no overall weakening of prices, although this can be normal for September, with volumes of cars only appearing in high amounts from October onwards. With a few days of September left, the new car market is 12% ahead of the same point a year ago, but it remains to be seen whether that will be the case at the end of the month, with supply issues and less of a desire from both sides to pre-register or place units into the short-cycle rental arena. It is likely to vary by manufacturer.

Whatever volume September brings, more of the part exchanges than normal will be retailed directly by franchise dealers, and this will likely keep auction stocks lower than is the norm for the time of year, helping to keep used values stronger than they may usually be at the start of the final quarter of the year.

A tightening of restrictions may have an effect on demand, but consumers will still be able to buy cars. There may also be an economic impact from people sadly losing their jobs, but the pointers are that people in the 18-24 age bracket are likely to be worst affected, and they are not traditional car buyers in any great volume.

As we have illustrated, prices are higher than they were a year ago and have been steadily increasing for some time. That dynamic is not sustainable in the long-term, as shown by historical cap hpi data, but at the current time, there is no evidence of a dip, so any likely downturn could even be delayed by a number of months and into 2021. Of course, there could well be some seasonal downward movements over the final quarter that are normal for the time of year.

There has never been a more important time to track Live values. Over the past 4-months, we have seen price fluctuations during the month, moving in different directions for different models. Whether the market stays strong or declines over the next few weeks, there will without a doubt be many price movements that will be reflected in our Live products.

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

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(0.1%)	(0.8%)	(1.5%)	(2.4%)
Supermini	1.0%	0.8%	(0.2%)	(1.2%)
Lower Medium	0.7%	0.6%	0.0%	(1.5%)
Upper Medium	0.3%	0.2%	0.4%	(0.4%)
Executive	0.3%	(0.2%)	0.1%	(0.2%)
Large Executive	(0.1%)	(0.0%)	0.2%	0.4%
MPV	0.0%	0.2%	(0.3%)	(0.9%)
SUV	0.7%	1.0%	0.6%	0.4%
Electric	(1.5%)	(1.5%)	(1.1%)	(2.1%)
Convertible	(0.1%)	(0.4%)	(0.7%)	(2.2%)
Coupe Cabriolet	0.1%	(0.9%)	(1.6%)	(2.0%)
Sports	0.7%	0.9%	0.8%	0.7%
Luxury Executive	(0.6%)	(0.3%)	(0.1%)	(0.2%)
<b>Supercar</b>	<b>(1.0%)</b>	<b>(0.9%)</b>	<b>(0.5%)</b>	<b>(0.3%)</b>
<b>Overall Avg Book Movement</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.0%</b>	<b>(0.8%)</b>

( ) Denotes negative percentages

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

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(0.3%)	(0.7%)	(0.9%)	(1.2%)
MPV Medium	(0.2%)	(0.0%)	(0.2%)	(1.0%)
MPV Large	0.5%	1.0%	(0.2%)	(0.4%)
SUV Small	1.4%	1.5%	0.6%	(1.3%)
SUV Medium	0.7%	0.9%	0.5%	0.3%
SUV Large	0.1%	0.6%	0.9%	0.9%

( ) Denotes negative percentages

### Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
BMW 3 SERIES (12-19) DIESEL	100	250	179
KIA SPORTAGE (15- )	100	200	177
LAND ROVER RANGE ROVER EVOQUE (11-19) DIESEL	350	400	396
MERC C CLASS (14-18) DIESEL	150	200	188
NISSAN X-TRAIL (14-19) DIESEL	400	750	551
PEUGEOT 208 (12-20)	(150)	(100)	(115)
SEAT LEON (13- ) DIESEL	(150)	(100)	(134)
SKODA CITIGO (12-19)	(175)	(175)	(175)
TOYOTA AURIS (12-19)	(450)	(350)	(392)
VOLKSWAGEN PASSAT (14-19) DIESEL	100	500	180

( ) Denotes negative movement

### Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
BMW 1 SERIES (11-19)	200	350	251
BMW MINI COOPER (13-18)	150	250	190
LAND ROVER DISCOVERY SPORT (14-20) DIESEL	300	450	364
MERC A CLASS (12-18) DIESEL	250	400	333
NISSAN LEAF (10-18)	(200)	(125)	(163)
PEUGEOT 508 (11-18) DIESEL	(200)	(125)	(164)
TOYOTA AYGO (14-18)	(300)	(150)	(217)
VAUXHALL ASTRA GTC / GTC (11-19)	(350)	(50)	(205)
VAUXHALL INSIGNIA (13-18) DIESEL	(175)	(100)	(142)
VOLVO XC60 (08-17) DIESEL	250	350	287

( ) Denotes negative movement