

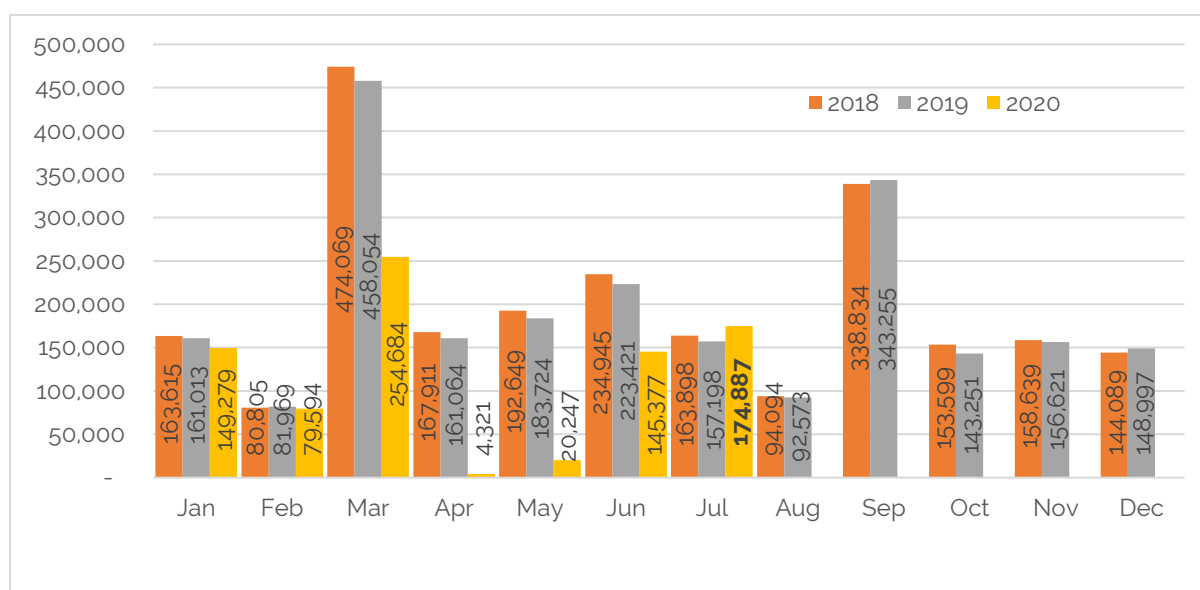
September 2020

Car Market Overview

As we continue in the post-lockdown era following the height of the COVID-19 crisis, there continue to be a number of interesting factors affecting the automotive sector. In this overview, we will report on registration activity in the new car market to the end of July and dynamics in the used car market at the time of writing, including what may happen next. All information is correct as of 24th August 2020.

New Car Sales

According to the figures produced by the Society of Motor Manufacturers and Traders, 174,887 cars were registered in July, an 11.3% increase on the 157,198 in the same month last year. Year-to-date, registrations totalled 829,389 at this point, compared to 1,426,443 in the same period in 2019, a reduction of 41.9%. Pent-up demand and attractive offers are cited as the main reasons for this uplift in the month. Many customers were prepared to purchase cars that were available immediately rather than waiting for the new plate month of September, as they may have done in previous years.



Source: SMMT

Diesel car registrations continue to decline, down 15.7% in July, whilst petrol registrations were up 7.3%. Mild hybrids are included within these figures, as they are not classed as "true" hybrids by cap hpi. Plug-in hybrids, hybrids and battery electric vehicles all continued to increase their share of the new car market.

Despite the registration increase in July, the SMMT are estimating a 30% decline in registrations in 2020, representing more than £20 billion of lost sales.

Daily rental registrations were up 75% in July compared to June as this section of the industry recovered somewhat, however, this was still a reduction of 34% on July 2019. 8,288 cars were registered in this sector, as company's rental usage increased for "staycations" and business and insurance, if not for airport bookings. Reductions in

registrations in this short-cycle arena could mean a reduction in younger used cars returning to the market later this year or early next.

Used Car Retail Activity

The used car retail market has remained robust throughout August, making it the third consecutive month, since car showrooms reopened, with remarkably strong consumer demand.

Looking at the retail advertised data received by cap hpi, it is clear that across all mainstream sectors, prices have edged up slightly on average, unsurprising since trade prices have increased overall and consumer demand is so strong. If ever there was a time to increase asking prices and maintain margins, the last 3-months has been it. These small average increases have not adversely affected days-to-sell.

August can tend to be a month when consumer demand drops, due to the holiday season. This year, there were some weeks that were better than others and there was a slight dip during the particularly hot weather, but overall demand has been better than usual for the month, keeping retailers particularly positive, despite some residual challenges. Some contacts were even reporting record weeks, not just for the time of year. There appears to still be pent-up consumer demand, buyers wishing to avoid public transport, those careful buyers downgrading and savers looking to upgrade, maybe in lieu of an expensive holiday abroad. There are certainly a number of interesting dynamics still.

One notable change in the market over the months since May has been the number of dealers retailing part-exchanges rather than sending them to auction or trading them direct. We mentioned this in last month's overview and there has, if anything, been an increase in this area. For now, even franchise dealers are realising the opportunity with cars from a brand they may not represent. In such a buoyant market, they have been able to sell cars that they would not previously have entertained on their forecourts, even for a short period.

The strong retail sales activity has not come without its challenges, particularly getting vehicles delivered to the customer. With logistics improving but still not back to normal, and some staff of transport companies still on furlough, there have been delays for many buyers receiving their cars. Realism and communication from all sides has been increasingly important.

Overall, dealers have been unable to contain their positivity at how the last 3-months have progressed for them. The main question is how long it will last for. There are, of course, longer-term financial concerns for many retail groups.

Used Car Remarketing Activity

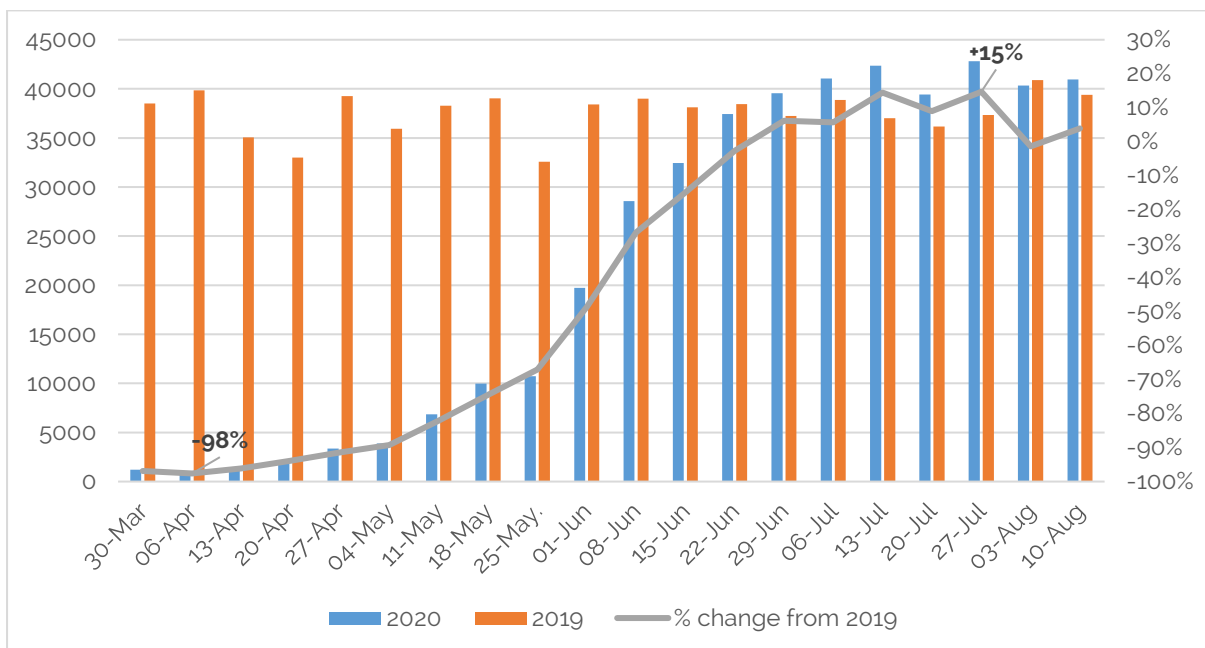
Mirroring the positivity of the retail market, unsurprisingly, the wholesale market has been buoyant too.

The majority of auction sales remain online, a decision that is being made month-on-month, with local outbreaks of COVID-19 still happening and likely until there is a vaccine. It is expected that online sales will remain the dominant force for the next months, at the very least. The term the "new normal" is prevalent in many areas of life now, but it is certainly likely to apply to the car auction industry. There are only a small minority that have reopened the doors, in a controlled manner.

Despite continued feedback around logistics issues and less availability of cars to purchase, volumes in the wholesale arena have remained high, particularly in the auction arena. We have continued to receive in excess of the c.40,000 average amount we receive per week, albeit some vendors not using the auctions do appear to have had reduced volumes from the middle of August. Fresh stock by way of part exchanges and fleet returns from September new plate activity will be welcomed by the industry.

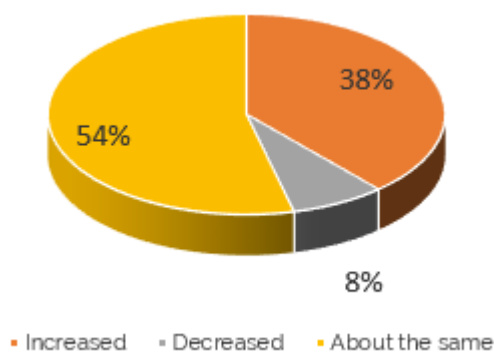
When looking purely at consistent suppliers of wholesale data year-on-year, and we have added some in recent months, it is clear that volumes remain ahead of where they were at this time in 2019. Who would have predicted that just 3-months ago? In July in total, volumes were 10% ahead of the same month last year and for week commencing the 27th they were 15% up.

Wholesale Volumes during and since lockdown, 2020 vs. 2019



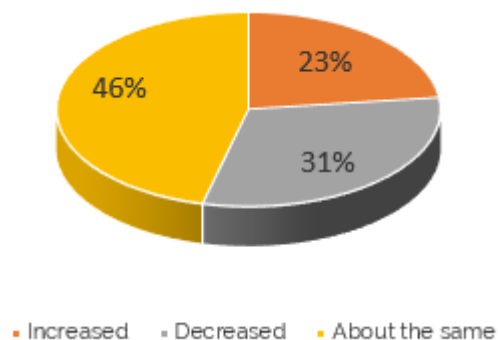
The cap hpi auction survey suggests that the auction world is still in rude health. Over 90% stated that stock levels in August were either on parity with July or slightly increased.

How do your current stock levels compare to last month?



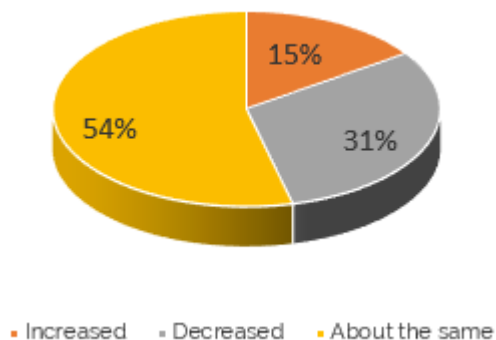
There was a slightly less positive picture painted regarding demand for cars, but still with over two thirds seeing things at least as strong as in July, although this does mean that almost a third of respondents were seeing demand drop off – some of which is likely to be seasonal though, due to the holiday period.

How does your current overall demand compare to last month?



Conversion rates remain high, reaffirming that the used car market is in a good place. However, once again, there is a slightly mixed picture and, for some at least, conversions have started to decline. It will be interesting to see if this is indeed a seasonal blip or the start of a downturn, possibly both. Still, over half are reporting at least parity with the previous month and it would be fair to conclude that, for now at least, conversion rates are holding.

How do your conversion rates compare to last month?



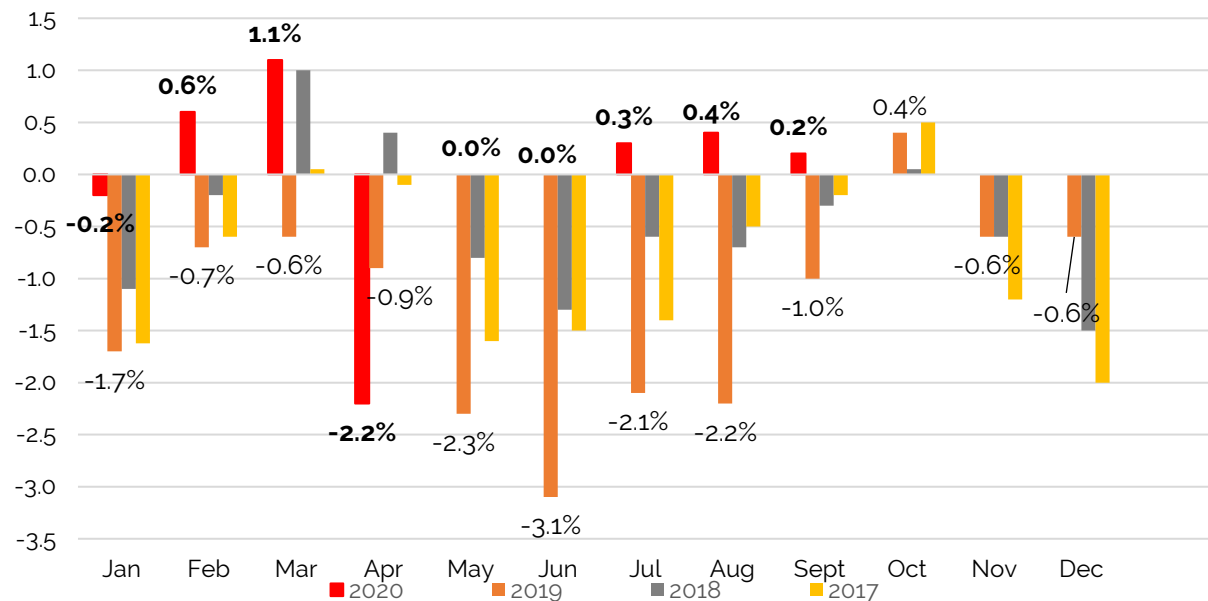
Demand has remained high for cars in good condition, but as is always the case when there is a slight decline, those cars requiring higher levels of refurbishment have struggled more. Demand for older cars has also remained healthy but it does appear as though buyers are not prepared to keep paying more for this stock.

Used Cars – Trade Values

For the third consecutive month since we moved values again during lockdown, the market has witnessed a positive movement. Values have moved up in our Live product by a minimal 0.2% at the 3-year point, which equates to around £30 on average – so in essence, a flat market. What this means is that so far in 2020, there has only been one month when values have dropped and that was during the run up to lockdown in March

(for April's monthly figures), so five months of upwards movements and two, during lockdown, where nothing moved at this age. The red bars on the graph below illustrate this and compare with reductions in previous year. Note, the small downward movement depicted in January 2020 here is the movement that happened in Live values in December 2019.

Monthly Movements in Live Valuations



What this means is that on average, used car values, when calculating the same models at the same age and mileage point as a year ago, are some 7% higher than they were last August.

Looking at the detail behind August's figures, by fuel type, both petrol & diesel values have stayed strong and moved up slightly. Electric vehicles and hybrids continue to struggle to achieve previous cap values in August and, on average, both have moved down.

For the third month in a row, values for electric vehicles have reduced, with consistent feedback from the market that EVs continue to look expensive compared to their internal combustion engine equivalents. For the volume models, price pressure continues to be around the 3-year old product coming back into the market. 2017 saw an increase of around 40% in EV new car registrations over the previous year, so it is no surprise that as more vehicles come back into the used market, values will be exposed to supply and demand dynamics. Some examples of models that have dropped in value at that age are the BMW i3, Kia Soul and Nissan Leaf.

Some hybrids that have moved down in value at the 3-year point are the Toyota Auris and Prius, Lexus LS and Mercedes-Benz S-Class. Some of this is due to a reduction in activity in the private hire industry, where demand for these vehicles has historically been strong.

Looking at specific vehicle sectors, whilst supply and demand dynamics have meant different models move differently in price, overall all mainstream sectors have behaved similarly – staying relatively stable. One area of note is within the SUV sector, where

smaller models have increased in price, whilst larger ones have been under more pressure, with plenty of availability meaning prices dropped slightly. This has been most acute at younger ages, and at 6-months old, larger SUVs have dropped by around £238 on average, whereas smaller examples have increased by around £140. There is generally a very different customer for these two sizes of SUV. The Citroen C4 Cactus, Dacia Duster and Renault Captur have increased in value the most of these smaller models.

There remains some strength in the convertible market, with values increasing again when normally, by this time in the year, they are heading in the opposite direction. Increases have slowed as the month progressed though and prices may well have peaked, particularly as the summer is almost over. Not many retailers will buy convertibles for stock with autumn on the horizon.

What Next?

What happens next is the question we have been asked the most over the last few weeks, and it is a tough one to call.

Since the unexpected upturn in June, particularly at older ages, Live values during July and August have stayed very stable, as we predicted. September will result in more part-exchanges and fleet returns hitting the market, as new car buyers opt for the "70" plate, but it is unlikely that volumes will be as high as in previous years – new car stock is not available in large enough numbers and factories were closed then reopened with social distancing in place. Supply chains are also not fully functional yet. Some retailers are unlikely to entertain as many pre-registrations as in previous years as they focus on profitability.

With this in mind, used car volumes may not be as high as in previous years, although there will lockdown lease extensions continuing to come to an end. There are also likely to be less late-plate, younger used cars for sale as rental companies have taken advantage of the strong used car market of the last few months to sell those cars that have not been required for rental business, due to the coronavirus crisis.

These reduced volumes of cars would normally lead to strong prices. However, with the furlough scheme coming to a close and an economic downturn continuing, consumers are likely to become more prudent. The pent-up demand from inactivity during lockdown will come to end, as will people buying to avoid public transport – that was always likely to be a short-term dynamic. Those upsizing due to grants or savings made during the last few months will also wane.

It is fair to assume that these economic factors will lead to some pressure on price – consumers either avoiding big ticket purchases altogether or refusing to pay high prices for cars. As stated previously, on average used car values are 7% higher than they were a year ago and this is likely to be unsustainable. The main pressure may be felt in younger, mainstream cars that do currently look expensive. Cars lower than £10,000 retail price may be less affected.

In short, predictions are that the next few weeks will remain stable, as there is currently little weakness in the market, but from the end of September and into October values are likely to come under more pressure. What is clear is that viewing valuations in real-time and keeping vigilant will become more important than ever, so as not to be purchasing cars that could be already beginning to drop in value. As always, Live

valuations in cap hpi products will report on the market daily, as monthly values can become quickly out of date.

Current Used Valuations September 2020 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	0.7%	(0.4%)	(1.7%)	(2.4%)
Supermini	0.7%	0.9%	(0.9%)	(5.1%)
Lower Medium	0.4%	0.0%	(0.7%)	(2.8%)
Upper Medium	(0.2%)	(0.1%)	(0.2%)	(1.6%)
Executive	0.5%	0.2%	(0.4%)	(0.5%)
Large Executive	(0.8%)	(0.8%)	(0.9%)	0.2%
MPV	(0.3%)	(0.2%)	(0.2%)	(1.0%)
SUV	0.3%	0.3%	0.2%	(0.4%)
Electric	(1.3%)	(1.9%)	(1.6%)	0.0%
Convertible	1.4%	1.8%	2.1%	1.0%
Coupe Cabriolet	1.6%	0.7%	0.7%	(0.7%)
Sports	0.6%	0.7%	0.6%	0.7%
Luxury Executive	(0.2%)	(0.3%)	(0.1%)	0.4%
Supercar	(1.0%)	(0.7%)	0.1%	0.9%
Overall Avg Book Movement	0.2%	0.2%	(0.3%)	(1.8%)

() Denotes negative percentages

Used Car Values September 2020 - Average Value Movements by Size

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

() Denotes negative percentages

Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI A3 (12-19) DIESEL	150	250	190
BMW 1 SERIES (11-19)	(2,550)	(2,500)	(2,525)
DACIA DUSTER (13-19) DIESEL	(100)	(100)	(100)
KIA CEED (12-18) DIESEL	(300)	(300)	(300)
LAND ROVER RANGE ROVER EVOQUE (11-19) DIESEL	200	300	239
NISSAN QASHQAI (13-18) DIESEL	250	300	283
RENAULT CAPTUR (13-20) DIESEL	175	250	203
RENAULT CLIO (13-20)	125	125	125
TOYOTA AURIS (12-19) HYBRID	(1,300)	(500)	(729)
VAUXHALL MOKKA (12-20)	(450)	(100)	(217)

() Denotes negative movement

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI Q3 (11-19)	200	350	282
BMW 4 SERIES COUPE (13-) DIESEL	300	500	369
BMW X5 (13-18) DIESEL	350	600	452
CITROEN C3 (10-16)	125	200	154
HONDA CR-V (12-19)	(150)	(100)	(128)
JAGUAR XE (14-19) DIESEL	(250)	(200)	(230)
SEAT ALHAMBRA (10-) DIESEL	(450)	(350)	(400)
SKODA YETI (09-17)	(250)	(200)	(227)
SUZUKI VITARA (15-18)	(250)	(150)	(188)
VOLVO V60 (10-18) DIESEL	250	400	302

() Denotes negative movement