December 2020

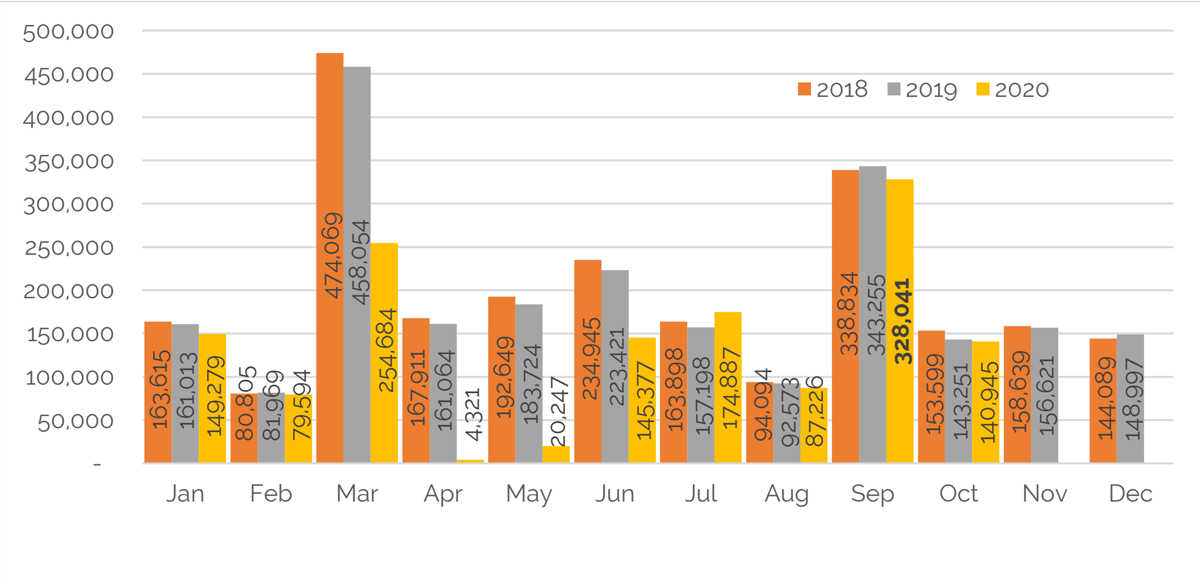
Car Market Overview

With COVID-19 cases and hospitalisations increasing nationally, a second, government enforced, lockdown was put in place in England from the 5th November, with local measures in place in the three other UK countries. It continues to be a difficult period for the car industry.

The situation is changeable week-by-week. In this overview, we will report on registration activity in the new car market to the end of October and dynamics in the used car market at the time of writing, including what may happen over the next few weeks. All information is correct as of 25th November 2020.

New Car Sales

According to the figures produced by the SMMT, 140,945 cars were registered in the UK in October, a reduction of 1.6% over the same month in 2019 and the weakest October since 2011. In Wales, where there was a "firebreak" in place, registrations were 25.5% down according to the SMMT. Year-to-date, 1,384,601 cars were registered, compared to last year's 2,005,522, a reduction of 620,921 or 31%. The SMMT has revised the forecast for the full year to 1.56m cars, which will be a shortfall of around 750,000 units compared to 2019. November is likely to be particularly hard-hit due to "lockdown 2".



Source: SMMT

Registration volumes of diesel cars were down 28.6% in the month, with a market share of 19.2% compared to 26.4% a year ago. Petrol registrations were down 5.9%, with a market share of 53.8%. Figures for both fuel-types include mild hybrids.

Battery Electric Vehicles were up 195.2% for a share of 6.6% compared to 2.2% in October 2019. Plug-in Hybrids (+148.7%) and pure Hybrids (+39.0%) both increased with market share of 5.5% and 7.8% respectively. When combined, registrations of these alternatively-fuelled vehicles exceeded those of diesel for the first time. It will be interesting to monitor progress towards the 2030 ban on all new internal combustion engine cars – a difficult target to achieve with many bumps in the road expected.

Daily Rental registrations were up almost 9% for the month, compared to October 2019, but they are still almost 50% down year-to-date, which may help newer used car values in the short-term. BMW registered the highest daily rental volume of any manufacturer in October – it will be interesting to see if this trend continues.

Used Car Retail Activity

With the announcement on 31st October that the country would enter a second lockdown from Thursday 5th November, there were obvious concerns that, with car showrooms being forced to temporarily close once more, there would be a heavy impact on the used car market. It soon become apparent, however, that this robust industry was far better established to handle the latest restrictions than they were at the end of March.

With the majority of car retailers now set up for "click and collect" and safe deliveries, plus having a proactive prospect and customer contact strategy, measures have been put in place by the majority of outlets over the months since the initial lockdown to ensure that trading can continue, despite the physical showrooms having to close. It has been reasonably argued in many quarters, that car showrooms have been made such safe environments that being allowed to stay open for visitors should have been permitted. Thankfully, from 3rd December car showrooms will physically be open once more on mainland UK, whilst Northern Ireland dealers will be having a "firebreak" from 27th November for 2-weeks.

Even with the restrictions in place, the general theme from franchise groups, independents and car supermarkets alike over the last few weeks has been that it has been well worth them staying open virtually, despite the strict rules of no customers allowed on site to conclude any part of the negotiation and no test drives permitted.

The retail sales rates for used cars from the research completed by the cap hpi editorial team has indicated somewhere between 40 to 60% of a normal November for the vast majority of businesses, a position they would readily have accepted when looking forward to the next few weeks on 4th November. Even without the lockdown, pent-up demand, consumers buying to avoid public transport, downsizing or upgrading with funds saved over the summer were never going to stay at the high levels they have been. The latter two have outlasted the other reasons for buying, however.

One of the challenges that dealers have faced has been converting enquiries into "click & collect" without the potential buyer trying the car out and there seems to have been a fair degree of success with this, albeit more difficult for older cars. Once again, the industry is taking steps forward in a virtual world and changing buyer's mind-sets a few years earlier than pre-COVID predictions.

The situations in Wales & Scotland have been more positive than England over the most recent period as Wales came out of lockdown to pent-up demand and Scotland remained under the tier system, with most car showrooms allowed to remain open.

There has been little movement in retail advertised pricing during November, with the majority of dealers holding firm, as they did during "lockdown 1". This makes it almost impossible for valuation providers that set values purely from retail to responsibly comment on the market or produce values with any degree of accuracy, unable to assist dealers with guide values to buy at.

Overall averages show hardly any downward movement; indeed some retailers have increased prices when it has been possible to do so. Of those that have reduced, it has only been where it has felt necessary; they have accepted that sales rates will be reduced for this period of time – many have loosened their days in stock metrics, realising that pricing reductions are unlikely to stimulate many of those that prefer not to use click and collect or delivery.

With most businesses using the government's furlough scheme, it has meant that they could afford to sell less cars and remain profitable in the short-term, without the same level of staffing costs.

Used Car Remarketing Activity

Similar to the retail world, the remarketing area of the used car market has worked hard to improve how they trade online over the last 8-months. As a result, activity levels have held up as well as, if not better, than may have been expected during the second lockdown. The majority of sales have been conducted online since April, with only a few auction houses reopening physically, with strict controls in place. For most, having to trade purely online has become the "new normal" so the lockdown announcement this time around did not cause concern operationally, more so there was concern over potential demand.

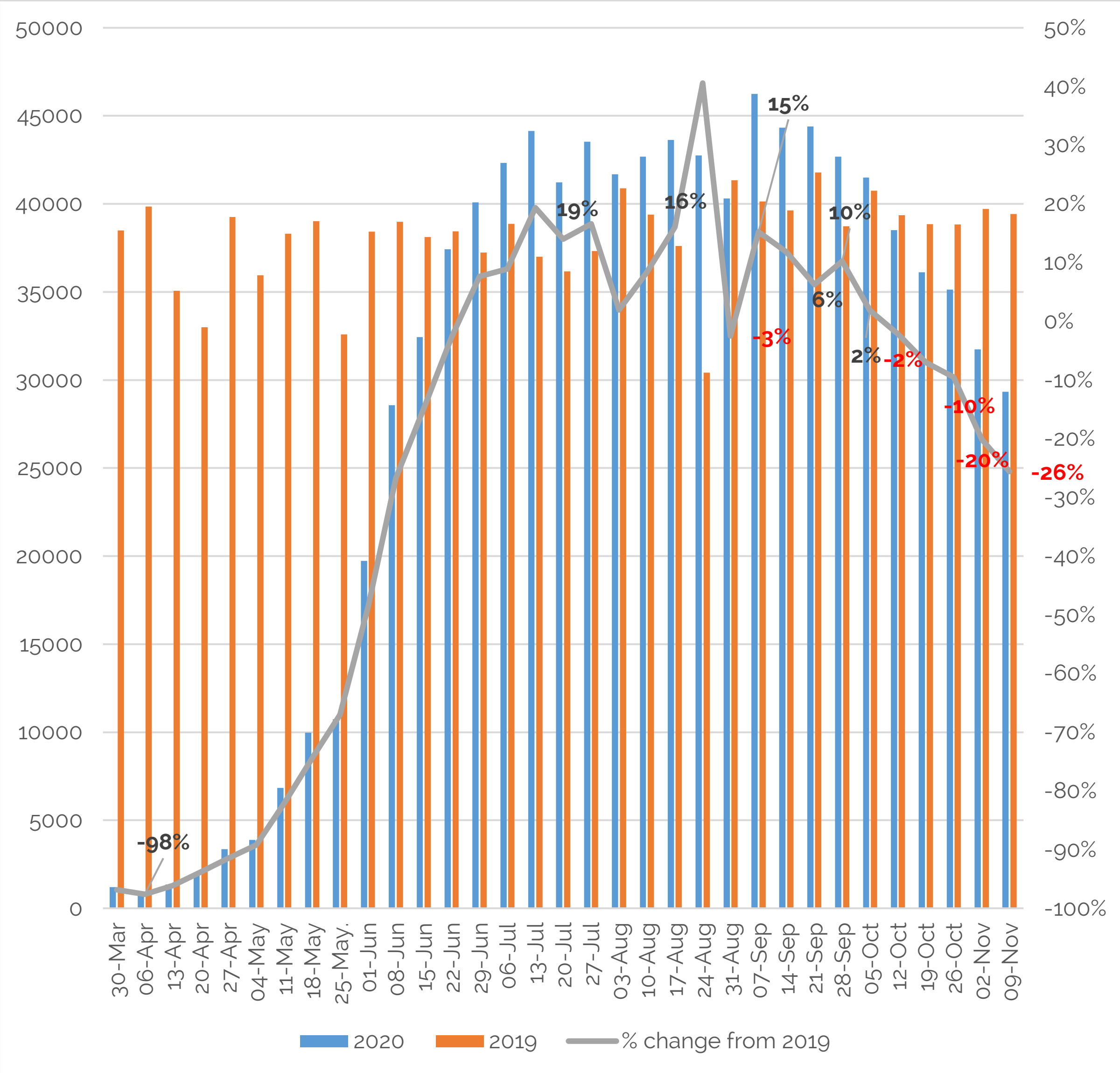
The good news is that demand, whilst not to the same level as in September and October, remained as healthy as could be expected at a time like this. Retailers have continued to seek out stock, sometimes unable to locate enough of the desirable vehicles in "clean" condition.

Some remarketers have reduced trade prices to increase their sales rates and stimulate increased demand – this has definitely had the desired effect. It has been interesting to see how other vendors have not reduced prices to the same degree and have still sold cars in reasonable volumes.

The chart below illustrates volume comparison for trade sales to the equivalent week last year, showing only like-for-like providers of data. As you can see, volumes during the spring lockdown dropped off monumentally – down 98%. The same cannot be said this time around; volumes have been dropping steadily since the peak of week commencing 7th September but there has still been plenty of activity.

Conversion rates at auction have been declining since week commencing 21st September. Buyers were wary of stocking up at previous high prices, due to concerns over consumer demand as we entered what is traditionally the weakest quarter of the year. At the same time, predictions were that the economic realities of the pandemic would hit home harder – furlough was due to end on 31st October, but has of course since been extended until the end of March.

Wholesale Volumes since initial lockdown, 2020 vs. 2019 (like for like suppliers only)



The latest cap hpi auction survey illustrates this drop off in activity.

Firstly, looking at stock levels, half of all respondents confirmed that their inventories reduced during November. This is slightly unusual for so many to report this at this time of year, as part-exchanges and fleet returns from new plate activity are usually still appearing in the market. In 2020, there have obviously been lower registrations as reported in the first section of this overview. There continue to be more retailers selling part-exchanges received to consumers rather than selling them to trade so these cars no longer appear in the auction halls.

How do your current stock levels compare to last month?

October

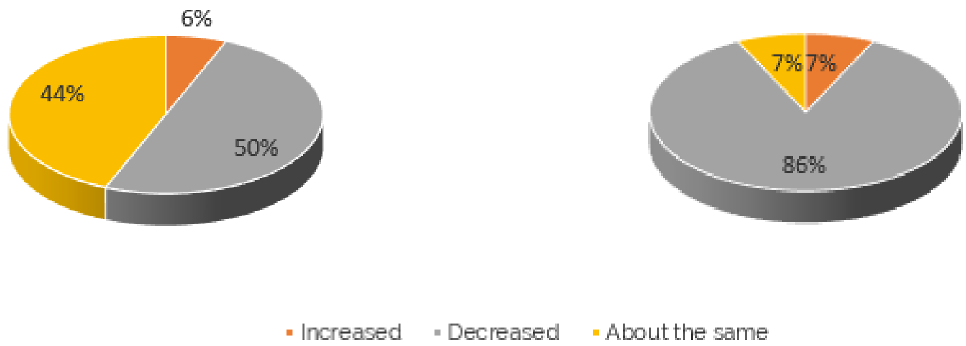
November

Unsurprisingly, demand has dropped off for the vast majority this month. With prices high and uncertainty rife, many dealers decided to back away from buying, unless there were some real bargains to be had, these generally being by buying direct from the vendor. Many businesses made the decision to furlough buyers at this time too. There have been small signs of slightly increased demand from around the 20th of the month, however, as retail groups in particular stock up for an expected increase in consumer activity in December or January.

How does your current overall demand compare to last month?

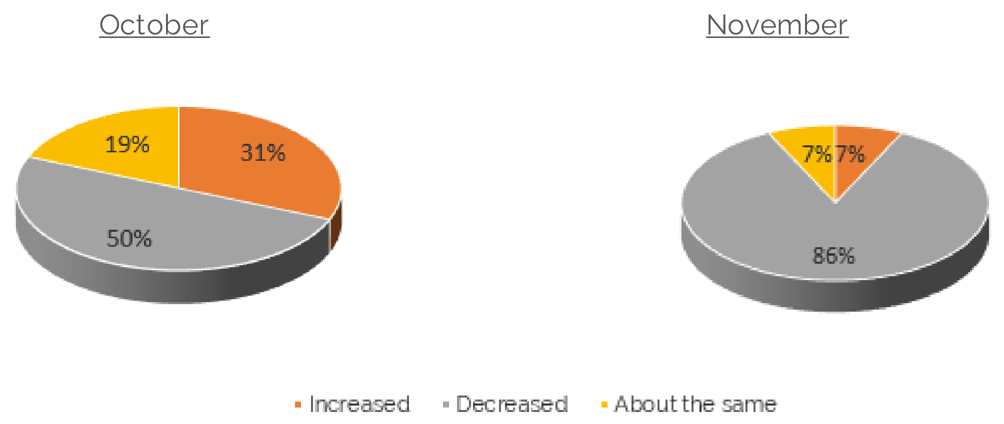
October

November



The responses to the question on how conversion rates compared to the previous month were exactly the same as for demand – the vast majority stating that conversions rates dipped during November as demand fell away. Again, we witnessed a slight pick up towards the end of the month but some of this is due to a shortage of desirable, good-condition stock.

How do your conversion rates compare to last month?



In summary, whilst activity has dropped in the wholesale market in November, it did not drop away anywhere near as much as it did during April and May and there is much positivity in the wholesale market.

Used Cars – Trade Values

It has been interesting to note the positive air in the market, whilst also analysing that wholesale prices have been dropping throughout both October and now November. This would seem to be contradictory, but can be explained.

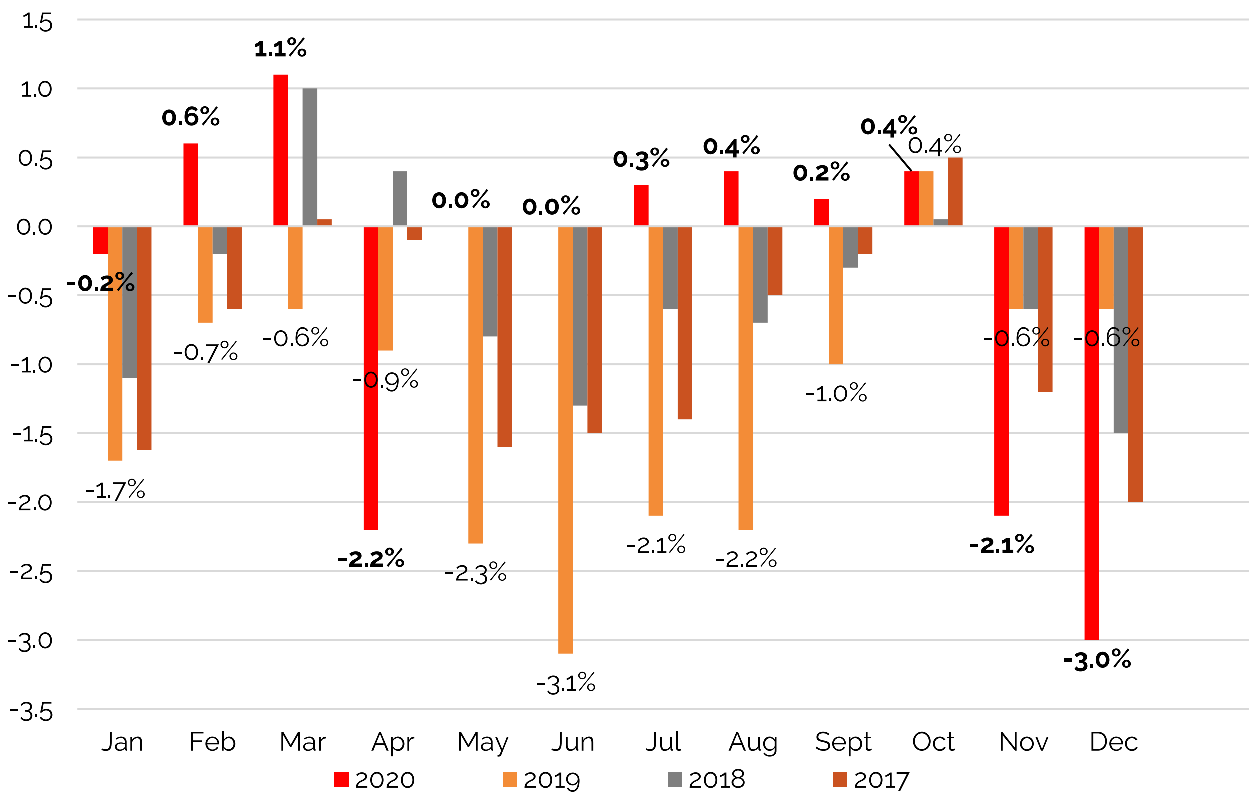
What the data has shown over recent weeks is a steady decline from previous stability. The overall percentage of cap within the trade data received dropped from around 95% in early October to around 91% towards the end of November – this is for cars in all conditions so 95% would generally mean a relatively stable market. The condition of cars is taken into account within our database, from all suppliers of vendors, with NAMA grading mapped to Clean, Average and Below for auction data. There has been a slow, steady decline in the percentage within the trade data throughout both October and November. With there being a 2.1% drop in cap hpi values from October into November, these November percentage of cap figures do illustrate a fairly significant decline in trade prices.

As mentioned earlier, there have been some cheap cars available to buy in the trade – a few vendors reduced their prices, one or two significantly, in an effort to shift stock and encourage buyers that may have been sitting on the fence. Our role is to reflect the overall market, so unless the market followed for specific models, we have not reflected prices from individual vendors.

So, why the decline in prices being paid? As we moved into November, on average used car values at the 3-year age were 5.6% higher than they were a year ago, when looking at the same model at the same mileage. There was naturally some reluctance to pay high prices for cars that may struggle to sell as we enter the slowest sales quarter of the year – even in good times, in general consumers turn their attention to the festive period rather than making a big-ticket purchase. With more uncertainty than ever as 2020 draws to a close, it is unsurprising that buyers have been unwilling to pay high prices for many cars.

This has led to a 3.0% average drop at the 3-year, 60k mile point. Compared to a year ago, however, prices are still 3.2% higher now, when most vendors would have factored in maybe a 5% decline.

Monthly Movements in Live Valuations



On the face of it, the November and December movements look severe, but you can see by the red bars on the chart above how strong prices have been over the summer, particularly compared to last year's drops. October Live values, that led to November's drop of 2.1% were the first average decline in values since March into April. November into December's decline of 3.0% is the heaviest monthly decline since May into June last year. At this time of year, a reduction in values of this magnitude is not unheard of – there were similar movements going into December between 2014 and 2017, with only the last 2-years being stronger.

As always, averages do not tell the full story.

City cars have been the models that have increased the most in percentage terms over the last year – going into November, prices were on average over 10% ahead of a year ago. As a result, they have seen the largest reduction, reducing by 3.8% at the 3-year point. In monetary terms, this equates to around £200. The Skoda Citigo, Vauxhall Adam and Volkswagen Up! have been some of the heaviest affected.

Superminis and lower medium (C-sector) cars saw the next highest drops in Live values during November, down 3.5% or c.£275 on average (3-years, 60k miles). Some mainstream models that saw significant pricing realignment were popular models such as the Ford Fiesta, Vauxhall Astra and the Honda Jazz.

MPVs dropped by around the average figure this month (down 2.9% or c.£275 at 3-years old), but despite being relatively unfashionable, particularly when compared to SUVs, they remain more expensive on average than they were a year ago. There were some particularly heavy drops in price in November, however, for models such as the Ford B-Max, Hyundai iX20 and the Vauxhall Zafira which have all dropped by between 6-8% in one month – between £350 and £650.

The SUV sector has performed slightly better than the average, down 2.7% or c.£350. Interestingly, large SUV models have performed best in this sector, due mainly to lower volumes in the market than some small and medium size models. That has led to a contrast in value movements, with models such as the petrol Ford Ecosport and the Vauxhall Mokka moving down by around a significant £500 at the 3-year point, whereas the Mercedes-Benz G-Class has not changed in price and the Toyota Land Cruiser has increased by an impressive £1200 at the 3-year point. Demand has outstripped supply for these two cars.

The premium end of the used market has been particularly interesting. It would appear that at the top end, prices have been far less affected, maybe pointing to the pandemic affecting lower income households by more than those relatively affluent consumers. Sports, luxury executive and supercar sectors have all dropped by less than 1% in November.

Looking at fuel-type, petrol hybrids continue to drop in price quicker than more traditional petrol and diesel equivalents, with buyers still reluctant to pay the premium for these cars. The Hyundai IONIQ and Toyota Auris and Yaris have been notably affected in the past weeks.

Values for electric vehicles continue the downward trend of recent months; feedback remains consistent that the used car buyer struggles to see value for money in the premium most EVs still attract over their internal combustion engine alternatives. Wholesale supply continues to increase and outstrip demand. However, with the government's recent announcement that the ban on the sale of all new petrol and diesel vehicles being brought forward to 2030, it may have a positive impact on the current used market as EVs are back on the news agenda, piquing consumer interest and entering the consideration process when purchasing their next vehicle. For now though, values continue to fall.

What Next?

There are so many unknowns, that once again what happens next is a difficult one to call. When last month's overview was compiled, the prospect of "lockdown 2" was not even seriously considered.

What is clear is that car showrooms will reopen physically in England from 3rd December; there could well be some pent-up demand from those who have not been swayed by "click and collect". There is also likely to be an increase in trade buyers stocking up for this possible December demand, but also for the likely January increase in activity.

However, to temper some of that positivity and the likelihood of price increases, as we have illustrated, prices are higher than they were a year ago. There has been a reluctance to pay high prices over recent months with so much uncertainty and the traditionally weak final quarter of the year. There are also potential factors that can have an impact – economic issues for individuals and businesses, focus on Christmas spending, the next, significant, phase of Brexit and even a bout of inclement weather.

It is likely that values will drop in December, but not by as much as they have done over the last 2-months, and then there could be some stability in January, as consumer demand should increase, all things being equal.

With the market being so volatile, it is vitally important to keep close to daily, Live cap hpi values, based off trade evidence, when making buying or selling decisions. As we have illustrated, values move in different directions for different models and fuel-types and this is going to continue, as is the volatile nature of the overall economy and used car market.

We would like to wish everyone a safe and Merry Christmas.

Current Used Valuations December 2020 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(3.1%)	(3.8%)	(4.0%)	(2.9%)
Supermini	(2.8%)	(3.5%)	(3.8%)	(1.4%)
Lower Medium	(2.5%)	(3.4%)	(3.5%)	(2.7%)
Upper Medium	(1.8%)	(2.7%)	(2.9%)	(1.7%)
Executive	(1.7%)	(2.2%)	(2.9%)	(0.8%)
Large Executive	(1.5%)	(1.6%)	(0.9%)	(0.5%)
MPV	(2.4%)	(2.9%)	(3.1%)	(2.2%)
SUV	(1.7%)	(2.7%)	(2.7%)	(1.5%)
Electric	(1.9%)	(2.6%)	(2.2%)	(0.6%)
Convertible	(1.9%)	(3.2%)	(2.9%)	(2.8%)
Coupe Cabriolet	(4.0%)	(5.1%)	(5.3%)	(4.2%)
Sports	(0.2%)	(0.7%)	(0.7%)	(1.0%)
Luxury Executive	(0.5%)	(0.8%)	(1.1%)	(0.3%)
Supercar	(0.6%)	(0.4%)	(0.3%)	(0.1%)
Overall Avg Book Movement	(2.0%)	(3.0%)	(3.2%)	(1.9%)

( ) Denotes negative percentages

Used Car Values December 2020 - Average Value Movements by Size

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(4.4%)	(5.3%)	(4.8%)	(2.6%)
MPV Medium	(2.8%)	(3.2%)	(3.0%)	(2.3%)
MPV Large	(1.4%)	(1.4%)	(2.4%)	(1.6%)
SUV Small	(2.3%)	(2.8%)	(3.2%)	(2.4%)
SUV Medium	(1.8%)	(2.9%)	(3.1%)	(1.9%)
SUV Large	(0.8%)	(1.0%)	(0.7%)	(0.3%)

( ) Denotes negative percentages

Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
BMW 3 SERIES (12-19) DIESEL	(800)	(400)	(555)
CITROEN C1 (14-)	(350)	(200)	(273)
FORD KUGA (12-20) DIESEL	(900)	(650)	(769)
HYUNDAI I10 (14-)	(325)	(175)	(243)
MERC AMG C CLASS (14-18)	250	400	318
PEUGEOT ION (11-19)	250	250	250
TOYOTA AURIS (12-19) HYBRID	(1,050)	(800)	(888)
VAUXHALL ASTRA (15-20)	(700)	(200)	(551)
VOLKSWAGEN CALIFORNIA (17-19)	1,600	2,300	1,966
VOLVO XC90 (14-) DIESEL	(1,400)	(600)	(791)

( ) Denotes negative movement

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI A1 (10-19)	(550)	(325)	(412)
BMW 1 SERIES (11-19)	(600)	(325)	(430)
FORD FIESTA (08-17)	(350)	(150)	(237)
HYUNDAI TUCSON (15-19) DIESEL	(700)	(475)	(589)
LAND ROVER RANGE ROVER (13-18) DIESEL	(1,200)	(600)	(775)
MERC A CLASS (12-18) DIESEL	(600)	(375)	(499)
MITSUBISHI OUTLANDER (14-18) HYBRID	(600)	(500)	(553)
NISSAN QASHQAI (13-18) DIESEL	(600)	(375)	(493)
SUZUKI JIMNY (05-18)	225	250	241
TOYOTA LAND CRUISER (09-18) DIESEL	700	1200	887

( ) Denotes negative movement