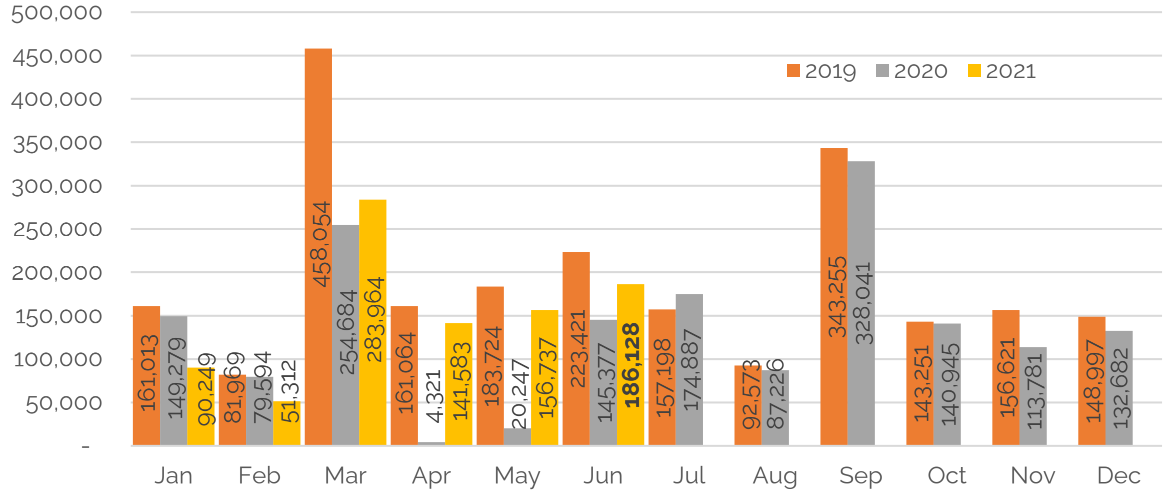
August 2021

Car Market Overview

This monthly overview provides an update on the current unprecedented situation in the new and used car market in the UK. We will report on new car registrations to the end of June and used car activity at the time of writing. All information is correct as of 26th July 2021.

New Car Sales

According to the latest figures produced by the Society of Motor Manufacturers and Traders, 186,128 cars were registered in June 2021, a 28.0% increase on the same month last year; June 2020 was the first month of dealerships reopening following the first COVID-19 lockdown. When compared to the 10-year average for June of 222,652, registrations were down 16.4%. This decrease is supply rather than demand related, with a number of pandemic related issues causing lower production, such as labour shortages due to COVID-19 cases and self-isolation related to track and trace as well as component shortages – semiconductors, steel, rubber and even foam, just some of the parts in short supply and affecting different manufacturer's production by varying degrees.



Source: SMMT

Year-to-date, 909,973 cars were registered to the end of June, up 39.2% on the same period last year, but down 26.8% compared to the 10-year average of 1,242,944.

Petrol registrations made up 59.9% of registrations in the month (60.3% year-to-date), diesel just 14.2% (17.2% YTD) and alternatively-fuelled vehicles at 25.9% share (22.5% YTD). Battery Electric Vehicles alone accounted for 10.7% of registrations in June (8.1% YTD).

Registrations to Daily Rental companies remain subdued, down 52% compared to June 2019 (up 136% compared to June 2020) and down 59% year-to-date compared to 2019.

Manufacturers are prioritising registrations in their most profitable channels, namely retail, meaning less short-cycle rental, company cars and demonstrators are being registered. They are also diverting build slots to the most profitable models due to component supply issues and removing some items from cars, allowing fewer semiconductors to be required.

Used Car Retail Activity

Despite a number of distractions for consumers over the last month, such as England's progression to the final of Euro 2020, high numbers of people self-isolating, hot, sunny weather and the school holidays, consumer demand has remained healthy.

Retailer feedback points towards just a small drop-off from the levels in May and June, something that is normal for the time of year, with enquiries and sales slightly higher than in a normal July. All retailers remain positive, hoping that the wave they have been riding since April continues. There was slight drop off over days when Euro 2020 reached its conclusion, but this was made up for after the event.

With new car supply issues leading to unpalatable lead times, some consumers are certainly switching to used cars. The financial factors leading demand still remain – accidental savers seeking out a car or upgrading due to having spent less than normal over the last 18-months due to lack of socialising or not going on foreign holidays. Also, simply looking to change a car because it is overdue or because it is an aspirational purchase. Many have realised that their car has gone up in value too, encouraging them to trade it in for a replacement, although of course they are likely to pay high prices for purchases too.

There has been a notable rise in retail advertised prices over the last few weeks, as evidenced within our retail data. In previous months, despite wholesale values increasing extraordinarily, retail prices did not keep track, making it difficult for retailers to fully comprehend the market – having to pay high prices for cars but retail data suggesting they could not price them high enough to maintain margins. With many retailers now pushing prices up, even some on cars that they could not sell for a number of days, margins have been healthy and dealers are upbeat. Volumes may be down on June, but profitability is up.

A common theme is for dealers to have concerns over the future weeks and months, both on where sufficient used car volumes will come from and whether consumer demand will experience a downturn. No one wants to be caught with cars that they have paid strong money for that they cannot sell at the required revised, premium prices.

Used Car Remarketing Activity

The main difficulty for retailers has been sourcing replacement stock at reasonable prices. With new car supply constrained, some 332,000 less registrations year-to-date than the 10-year average, and last year some 700,000 less than normal, that is over 1-million less cars swilling around in the market. The knock-on effect of this is fewer part-exchanges and fleet returns for retailers to purchase.

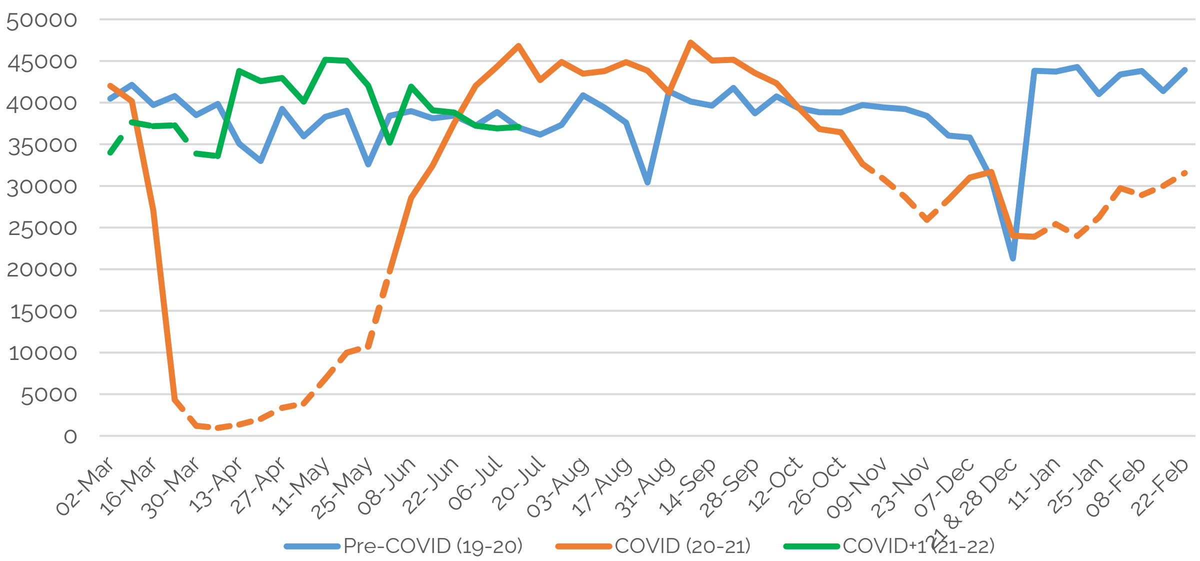
Conversion rates at auction, particularly for manufacturer and fleet sales, have remained high in July. With supply constrained, dealers are having to buy what is available to keep their forecourts as full as possible. More than ever, franchised dealers, supermarkets and independents are all competing for the same profile of vehicles, due in particular to a shortage of younger used cars. Many manufacturer and fleet sales have experienced severely depleted volumes.

With consumer demand high and supply low, this has led to retailers continuing to pay high prices for wholesale cars. They have also had to be more creative with how they source stock – competing with high offers from car buying services to ensure they get part-exchanges to be able to retail, being competitive and more active than normal on comparator sites and buying more cars than ever from private buyers.

We have started to see slightly reduced levels of sold trade data – not dramatically so, but a theme is developing nonetheless. Auction volumes are slightly lower than normal, despite conversion rates being higher, and trade sales from direct remarketers are also down, as they simply do not have new car supply to allow them to defleet vehicles.

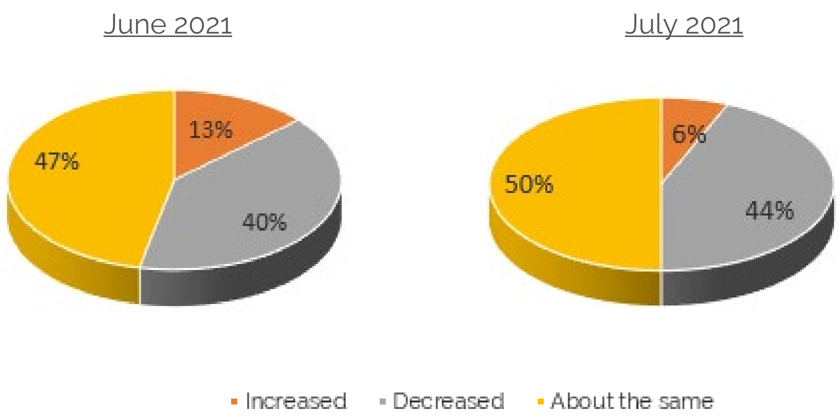
With supply low and demand high, it is unsurprising that remarketers are demanding high prices for what cars they do have available to sell.

Wholesale Volumes since initial lockdown, comparison to previous years



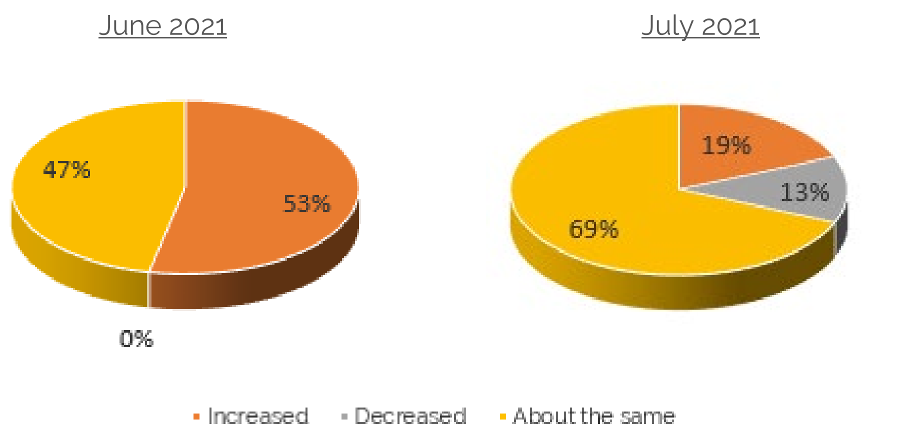
So, what are the results of the latest cap hpi auction survey?

How do your current stock levels compare to last month?



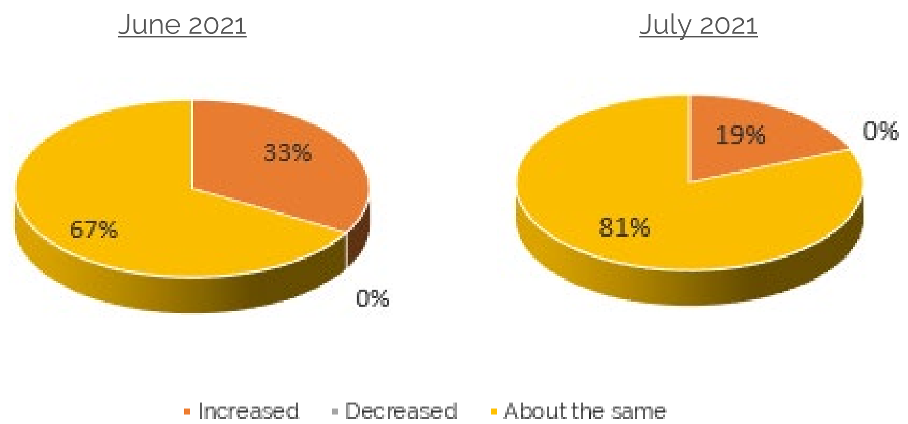
Exactly half of the respondents are reporting no change in stock levels this month with a further 44% stating that stock has actually decreased again this month, which is hardly surprising given the continued lack of returns from both the fleet and dealer sectors due to delays in new car supply.

How does your current overall demand compare to last month?



A very interesting response on demand this month, with just over three quarters of respondents reporting that demand has remained the same, 22% up on last month, but there is quite a noticeable reduction in increased demand which is down by a third. 13% also stating that they have witnessed a reduction in demand this month compared to none last month.

How do your conversion rates compare to last month?



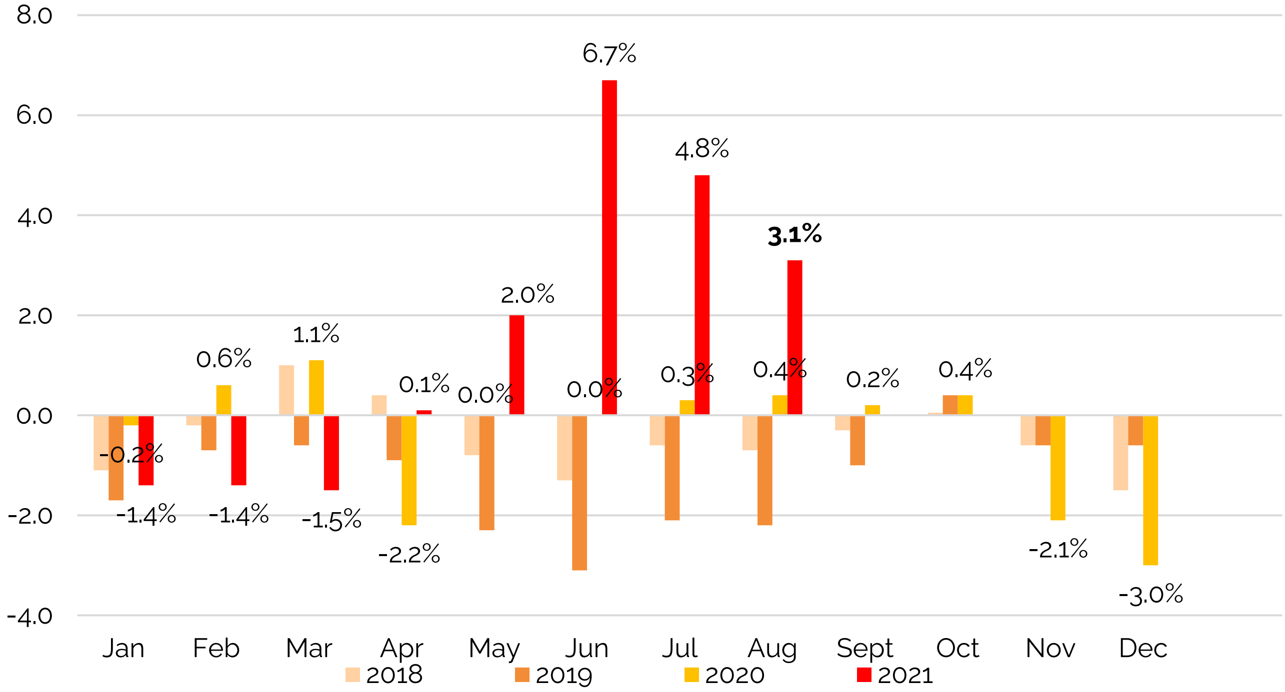
Conversion rates continue to remain consistently high with no one reporting a reduction again this month, reaffirming that the used car market is still in a very strong place and competition for stock remains healthy.

Used Cars – Trade Values

Live values in July experienced the 5th month of increases. The market continues to be in unchartered territory as the level and consistency of recent rises have simply not been experienced before, and may not be again.

July's Live values are illustrated here by August's monthly figure.

Monthly Percentage Movements in Live Valuations (3-years, 60k miles)



Values went up by 3.1% in July for August's monthly figure, the third largest increase in a single month since cap Live was introduced in 2012, first and second place being taken by the two previous month's movements. Values have now increased by an extraordinary 16.6% in the last 4-months, equating to an average of over £2,000 on a 3-year, 60,000 mile car. On 1-year old cars, the average increase has been 12.6%, or an average of around £2,500. It is interesting that despite the shortage of 1-year old cars, values have not gone up by as much as 3-year old cars in percentage terms, maybe due to their relative closeness to new car list prices.

On that theme, we are now seeing a number of car's values above what consumers would have paid for it as a new car. 1-year old, 10,000-mile Suzuki Jimnys' (no longer available as a new car), Volkswagen Californias' and a number of Porsche products, such as the 911 [991] GT Coupe, Macan, Cayman and 718 Spider are now not only retailing above the original new car list prices, but trade prices are above them too. When you look at 6-month old cars with 5,000 miles you can add the Toyota Yaris GR to that list. Extraordinary times.

Upward moves in July have continued to be across all sectors, with the majority of the month experiencing values rising steadily, with a slight acceleration from week commencing the 12th onwards. One way of looking at it though is that value increases have not been to quite the same degree in July as in the previous 2-months, but you could not describe the market as "cooling" just yet. It is interesting that the industry seems to have become used to prices going up quite quickly, almost in the same way as they did previously when values dropped during a month.

As always, the table at the end of this overview shows the average increases by age and sector, but there have been some extremely strong performers that have outshone competitors. The Dacia Sandero (+7% or £300), Hyundai i20 (+8% or £500), Ford C-Max (+5.7% or £475), Vauxhall Astra (+6.6% or £500) and Jaguar XF petrol (+10% or c.£1,500) are some very different profile of cars that have outperformed many other's value increases during July at the 3-year, 60,000 mile point.

Over the last 4-months, some of the most eye-watering increases have been on the Mini Cooper S, up an astonishing 33% or over £3,000, Audi A3 Cabriolet, again up 33% or over £4,000 and somewhat surprisingly the Vauxhall Mokka up 31% or around £2,000. There are many other examples.

It has been interesting to see commodity cars, where volumes are traditionally high, such as the Vauxhall Mokka, increase in price. Cars like this and the Vauxhall Astra, Peugeot 308, Renault Scenic to name but a few have been seen as value in the market due to previous relatively high depreciation rates, leading to comparatively reasonable prices. Simply put, there has been room for them to increase and still attract buyers.

A number of electric cars have been notable for their price increases in July. Average values of 3-year old and older vehicles have risen at a faster pace than petrol and diesel vehicles this month, with Tesla Model X and S showing some of the largest increases. With long lead times on new and an increase in the acceptance of EV technology, strong demand has been seen in the used market for these Tesla's. Of course, an increase in disposable income for the reasons now well mentioned, has also meant more consumers are considering these aspirational cars.

Other EVs, like the Kia Soul (14-19) Electric, Nissan Leaf (10-18) and Hyundai Ioniq (16-20) Electric have all seen values increase at the 3-year 60,000 mile point. Some of the older EV models are starting to look reasonable value for money now when compared to a petrol or diesel equivalent that has increased in value over recent months, particularly as EVs have generally dropped in value over the last year, at least until recently.

Pure and Plug-in Hybrids have also seen somewhat of a resurgence with their values, increasing by an average of 3.6% and 3.4% respectively. Some notable examples are the Kia Niro, Toyota Auris and the Volvo XC90.

Overall, whilst it has been another strong month for used car values, we have seen more models staying level or even some that have dropped in value in July – something that was not so prevalent in previous months.

What Next?

The summer of strength continues, as we predicted. Fair to say though that value increases each month have been higher than we expected at the start of each of them.

The following is an excerpt from June's overview, 2 months ago, and the sentiment still rings true:

"Whilst demand will likely dip from the current peaks, supply levels are still going to be lower than normal; there is no tsunami of stock waiting to appear. Registration volumes were almost 700,000 lower last year than in 2019 – those cars are lost to the used market. There are also very well documented new car supply issues, meaning less part-exchanges and fleet returns, due to component shortages, particularly for semiconductors. Currently manufacturers and dealers are switching some customers into cars that they have in stock, but what happens when those stocks dry up? Undoubtedly, many lease terms continue to be extended too.

Reports on the severity of the shortages seem to change regularly. It is clear that they differ by brand, model and even derivative, but the vast majority of manufacturers are affected. For the remainder of quarter 2, manufacturers may well have stock to be able to continue to switch customers into, which will generate those part-exchanges and fleet returns for the used market. From late June/July though, stock levels will have dwindled and the *component shortage could well be impacting supply more acutely, again dependent on the brand. The semiconductor issue could well not have done its worst yet.*

Whilst current increases in value are extremely unlikely to continue at the current rate, prices are likely to stay high without huge volumes appearing in the market. We could well be in for a strong summer for used car prices and this strength could potentially last even longer."

This was reiterated last month:

"We are predicting a summer of strength for used car prices. Demand will remain reasonably high and stock will be hard to find in the quantities required. The current increases are unlikely to be sustainable, particularly as late-plate cars head above new car list prices, but we do not expect to report on large drops in value.

There may be a return to more normal seasonality later in the year, particularly as new car supply recovers, but for now at least we are forecasting values to stay high."

There is no reason to change our view on this. Values are likely to remain high for the foreseeable future and the next few weeks may even continue to see them rise, although not to the same extent as recently.

As always, cap Live, rather than monthly, values are an essential part of the toolkit, even more so in these unprecedented times.

Current Used Valuations August 2021 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	2.9%	3.2%	3.0%	0.3%
Supermini	3.1%	3.2%	2.8%	(0.2%)
Lower Medium	3.0%	4.0%	3.1%	(1.6%)
Upper Medium	1.9%	2.7%	2.1%	(1.2%)
Executive	3.2%	3.4%	2.7%	0.2%
Large Executive	1.8%	2.2%	1.9%	0.2%
MPV	4.2%	3.7%	3.1%	0.2%
SUV	1.6%	2.7%	2.6%	0.1%
Convertible	2.7%	2.5%	2.1%	1.7%
Coupe Cabriolet	2.1%	1.7%	1.5%	1.6%
Sports	1.5%	2.4%	2.6%	1.5%
Luxury Executive	2.9%	2.3%	2.2%	0.1%
Supercar	2.1%	1.7%	0.3%	0.6%
Overall Avg Book Movement	2.4%	3.1%	2.7%	(0.4%)

( ) Denotes negative percentages

Used Car Values August 2021 - Average Value Movements by Size

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	1.7%	1.1%	1.5%	(0.7%)
MPV Medium	4.2%	3.2%	2.8%	(0.2%)
MPV Large	4.6%	5.3%	4.9%	1.6%
SUV Small	2.9%	3.4%	3.7%	(1.0%)
SUV Medium	1.4%	2.6%	2.7%	0.1%
SUV Large	1.2%	1.9%	1.2%	0.1%

( ) Denotes negative percentages

Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
FORD KUGA (12-20) DIESEL	650	850	748
HONDA JAZZ (15-20)	300	850	582
JAGUAR XE (14-19) DIESEL	500	650	612
PEUGEOT 208 (12-20)	200	225	212
RENAULT CAPTUR (13-20) DIESEL	500	850	671
RENAULT CLIO (13-20)	625	675	650
VAUXHALL ADAM (12-19)	200	200	200
VAUXHALL MOKKA (12-20)	650	700	675
VOLKSWAGEN GOLF (13-21) DIESEL	150	600	250
VOLKSWAGEN UP (12-)	125	550	196

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI A3 (12-19) DIESEL	100	900	547
AUDI A6 (11-19) DIESEL	400	800	567
BMW MINI COOPER (13-18)	425	650	533
FORD FOCUS (11-18) DIESEL	200	800	426
FORD KUGA (12-20) DIESEL	450	600	540
MERC A CLASS (12-18) DIESEL	350	1,000	575
NISSAN QASHQAI (13-18)	375	550	466
NISSAN X-TRAIL (14-19) DIESEL	350	750	542
SKODA OCTAVIA (13-20) DIESEL	450	850	605
TOYOTA AURIS (12-19) HYBRID	250	1,050	703