

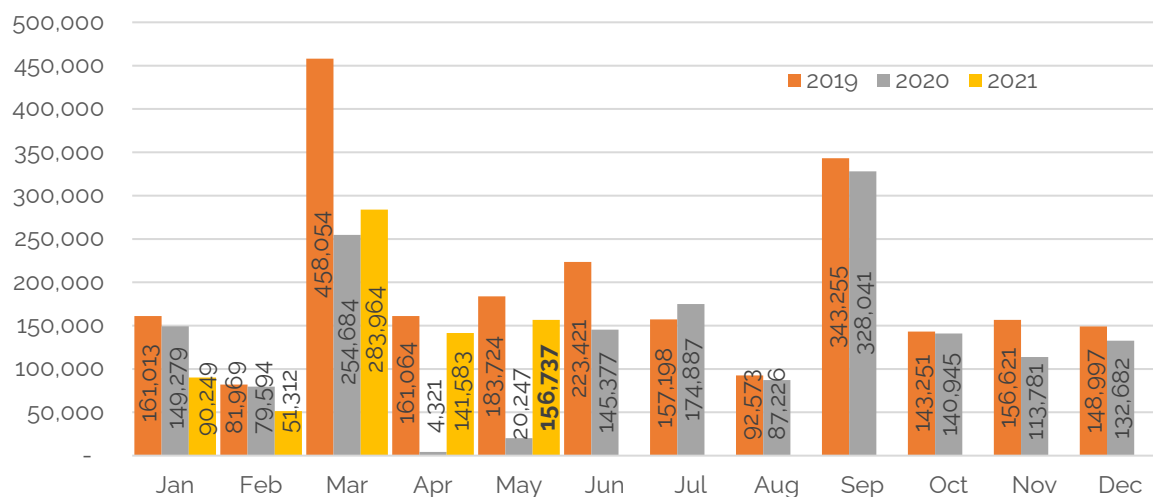
July 2021

Car Market Overview

As we continue to navigate our way through restrictions imposed, and recently extended, due to the COVID-19 pandemic, this overview continues to provide a monthly update on the unprecedented times in the new and used car market in the UK. We will report on new car registrations to the end of May and used car activity at the time of writing. All information is correct as of 25th June 2021.

New Car Sales

May was the first full month of 2021 with car showrooms physically open. According to the latest figures from the Society of Motor Manufacturers and Traders (SMMT), 156,737 cars were registered in the month, an increase of 674.1% on May last year, when car showrooms were closed, but down 14.7% on the same month in 2019. Year-to-date, 723,845 cars had been registered to the end of May, compared to 508,125 last year, an increase of 42.5%. In 2019, 1,045,824 cars had been registered to this point, 30.8% more than this year. The SMMT outlook for the year is for 1.86 million car registrations.



Source: SMMT

Petrol propelled vehicles account for 60.4% of the new car market so far this year, with alternatively-fuelled vehicles at 21.7% of registrations and diesel at just 18.0% of the market now.

Private registrations take up 44.5%, Fleet 53.7% and Business 1.9%. Within the fleet figures, registrations to the Daily Rental industry remain some way below "normal" times, with the SMMT reporting 29,120 registrations in May, compared to 43,318 in the same month in 2019. Year-to-date, there have been 75,746 less registrations in this area compared to 2019 (134,812 versus 210,558) a reduction of 36%, meaning less younger used cars hitting the market this year than in the years prior to the pandemic.

Used Car Retail Activity

June has proved to be another buoyant month for used car retail. For all of the reasons stated previously - pent-up demand following lockdowns, "accidental savers" with money to

spend, new car supply issues, new drivers still keen to avoid public transport and uncertainty over foreign holidays this summer – consumers remain active in the market.

There may have been a slight lull for some retailers over the Whitsun half term period, when the weather encouraged mini-breaks and leisure activities as an alternative to hunting out a used car, but it was only a slight and brief hiatus. Demand quickly picked up again.

If May was well ahead of budget, June was not quite so manic but still some way ahead of the same month in the majority of previous years. This time last year, car showrooms had reopened from the first lockdown and the market was brisk – traditionally though June can be more challenging.

Across all dealers spoken to by the cap hpi editorial team in June, there has been an air of positivity around sales and enquiry rates continuing to be high. Franchise dealers continue to focus more attention on used car sales; with supply issues in the new car market prevalent, used cars have never been more important to generate revenue. Independents and car supermarkets have been equally as buoyant – online and in-person footfall has been high. Demand has been strong across the board – mainstream and premium cars alike.

A continued topic of debate has been retail pricing. Throughout April, May and now June, trade prices have been increasing but retail has still not reacted to the same degree. Some dealers continue to price cars cheaper than they need to, still reducing prices of cars that have remained in stock for a few weeks or that they purchased at previous cap clean or average values that are now well out of date and surpassed.

Those dealers that have been brave have recorded strong profit margins, even when the retail research they have carried out has not necessarily suggested putting prices up would allow them to sell. Pricing has been really mixed – some reducing in price as they have always done and others increasing in line with trade prices to maintain margins or increase, even on cars that they have held in stock longer than they would like. Either way, average days-to-sell has come down dramatically. Measuring when adverts are listed and then removed within our retail data suggests this is around the 25-day mark now, down from above 40.

It has been evident for some time now that whatever cars dealers sell they cannot replace at the prices they have paid for them. The vast majority of retailers are now paying strong prices for customer's part-exchanges, competing with car buying services that have pushed their purchase prices to consumers up by eye-watering amounts – thousands of pounds on many cars over the last few weeks. All retailers are now selling more and more part-exchanges on their forecourts – generally only sending the poorer quality stock to the trade. Even some premium franchise dealers are selling older, mainstream cars to return a healthy profit.

Used Car Remarketing Activity

With stock-turn at a high amongst dealers, this has led to strong wholesale desire for cars, to replenish their forecourts.

The auctions, the two largest still operating online only, are seeing large numbers of buyers and high conversion rates. Good quality cars in cap clean condition remain sought after, and is not unusual to witness some conversion rates at 100%. Older, poorer condition cars have been harder to sell.

Direct remarketers, in other words those that do not sell all their cars through auction, have continued to push prices up and still sell in volume. Prices in excess of 110% of cap from these remarketers have been common, and whilst sales volumes have dipped from the highs of April, that is driven more by supply than by a reluctance for the trade to pay high

prices. Buyers may not like what they are having to pay, but they need to fill spaces on a forecourt and competition for stock is fierce.

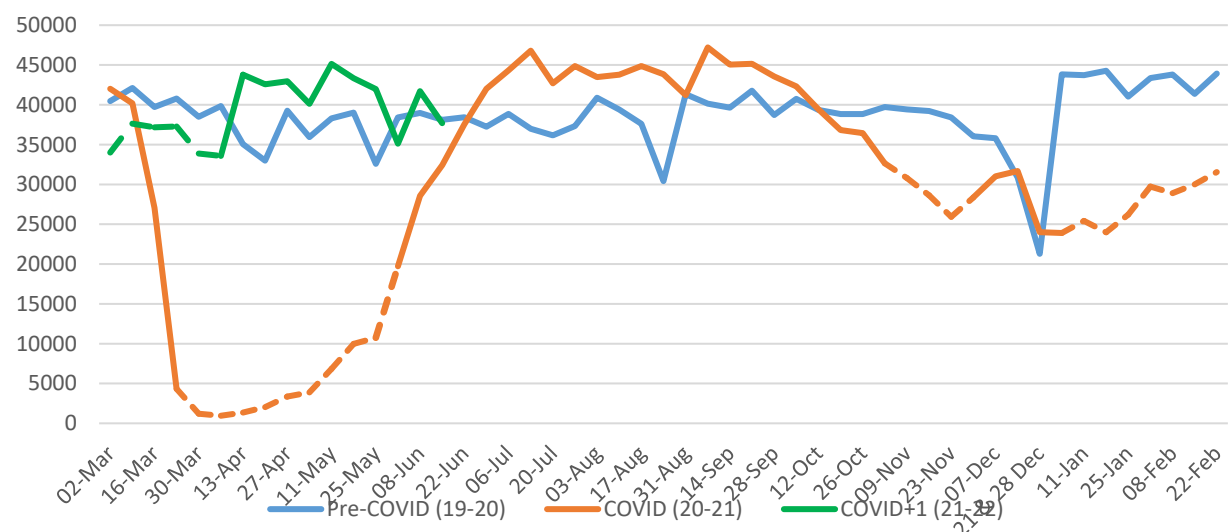
With franchised dealers more active and younger used cars scarcer than ever, some have been paying close to new car list prices for cars, particularly as manufacturers run low on used stock due to component shortages delaying new car production. The ferocity of this issue differs by brand, but all are affected to some degree; company cars and demonstrators are being extended on fleet, whilst rental companies are less able to replace their cars.

Whilst later plate vehicles have been sought after, in reality anything in good condition up to around 10-years old has attracted a large number of bidders and resulted in high prices achieved.

Overall, wholesale volumes from the over 50 sources of trade data received are at a similar level to where they were in 2019 and around 20% ahead of this time last year, when the market was recovering.

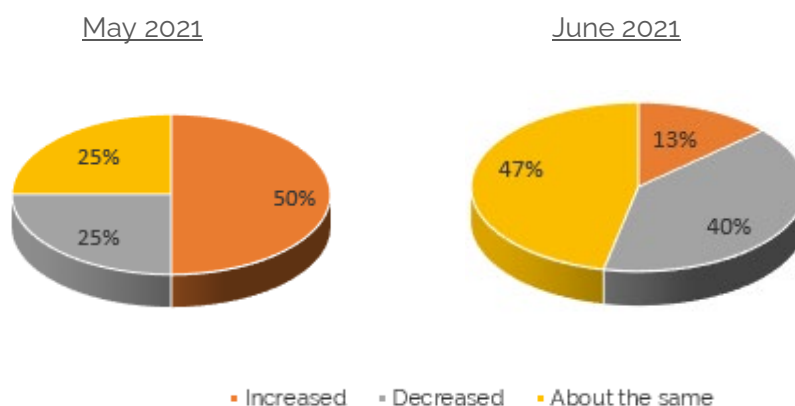
The chart below compares the last 3-years, with each point on the line being a weekly sales volume. It will be interesting to see how the next few weeks play out, with new car shortages meaning less part-exchanges and fleet returns being sold through the trade arena, but conversion rates high.

Wholesale Volumes since initial lockdown, comparison to previous years



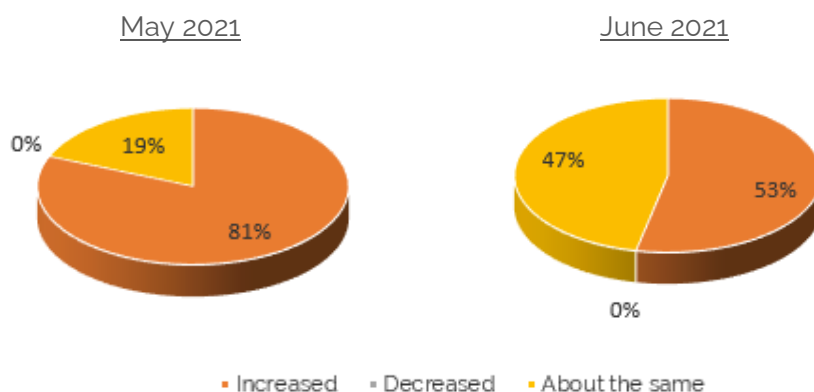
So, what are the results of the latest cap hpi auction survey?

How do your current stock levels compare to last month?



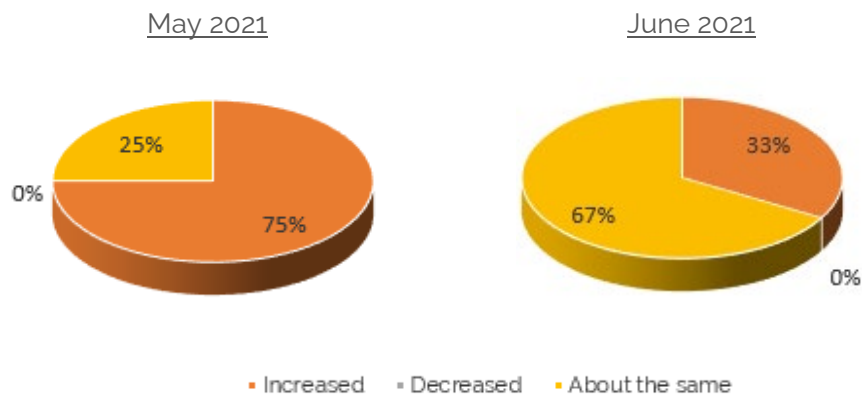
There has been a sharp reduction in the number of respondents stating stock volumes were increasing. Last month half stated their supplies were heading upwards but that is now at just 13%, with almost half stating they were level, but 40% advising of decreases. This is obviously of some concern to them and is a direct result of the shortages in the new car market generating less used car supply.

How does your current overall demand compare to last month?



For the second month running, no auction company has seen a decline in demand, for the reasons already stated. Whilst fewer are seeing increases, almost half of respondents are seeing demand at the same high levels as in May and for even more than half to still witness increasing demand is a reflection of a really vibrant used car market.

How do your conversion rates compare to last month?



Unsurprisingly, given the answers to the supply and demand questions, conversion rates have either stayed strong or even continued to increase.

Fair to say that the only real area of concern in the auction and overall wholesale world is whether they can source enough stock over the coming weeks and months to maintain business levels and satisfy demand.

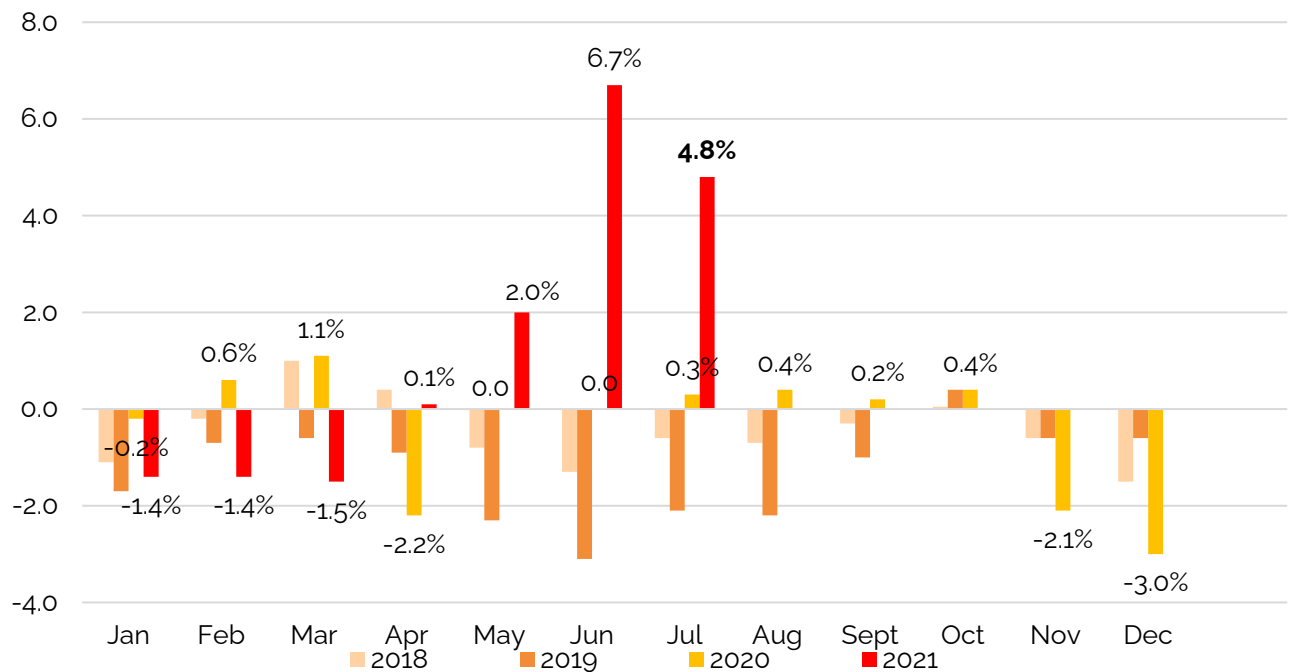
Used Cars – Trade Values

After the extraordinary increases in used car values in cap Live during May, with an unprecedented 6.7% increase, it was hard to envisage the same happening during June. We predicted prices to increase but not to the same degree.

Whilst that prediction has rung true, the size of the increases have still been somewhat of a surprise, although as June progressed it became clear that we were in for another incredible month for used car values.

At the 3-year, 60,000 mile point June has recorded a 4.8% increase in Live values. If it were not for last month's figures, this would have been more than double the previous record increase in a month. It is equivalent to over £625 average increase, meaning in excess of £1,400 in a 2-month period, or almost £1,700 in the last 3-months. It is difficult to articulate just how astounding and unusual this is. The only time we have witnessed similar was in 2009, but that was due to a recovery from heavy price drops in 2008. That is not the case in 2020/21.

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



Since our Live valuations were introduced in 2012, and indeed over the last 5-years, the average movement in June is around a 1% drop. Last year was the only upward movement witnessed in June – the COVID-19 pandemic and associated lockdowns and supply issues has thrown seasonality out of the window.

At the 1-year age point in June 2021, Live values have increased by an average of 3.8%, equivalent to £895. Last month the increase was 5.6% or £1210. So, at these ages values have increased by an average of over £2,100 in 2-months. When you then add in a £335, or 1.6%, increase during April, this is an average increase of £2,500 in trade values at 1-year old in a c.90-day period.

By age, only cars at 10-years and older have actually reduced in value as demand waned for some of the less desirable cars going through wholesale channels. The better condition cars at this age being retailed rather than traded, even by premium dealers.

All sectors have recorded increases during June, with all mainstream ones seeing at least a 4% uplift on average.

With the market being so strong across the board, it is difficult to single out specific models. But, examples of some volume models from across various sectors that have increased in value at the 3-year, 60,000 mile point are Ford Fiesta (+6% or £500), BMW 1 Series Diesel (+7% or £850), Hyundai Tucson (+10% or £1,150) and Vauxhall Zafira (+9% or £750). It is important to note that these are off the back of heavier increases last month and in usual times, values go down as models age within their lifecycle.

Looking at fuel-type, again increases in value have been across the board. Hybrid Electric Vehicles and Plug-in Hybrids, which up until the last 3-months have been dropping in price regularly and for prolonged period, are now increasing at a similar rate to petrol and diesel cars. Even Electric Vehicles, an expensive used car option with few incentives to purchase and plenty of competition from new cars, have increased in value during June, although "only" by 1.8% at 3-years and 1.5% at 1-year old. Dealers are prepared to take more of a risk than before on stocking these alternatively fuelled vehicles.

In summary, it has been another extraordinary month for used trade car values.

What Next?

The most asked question of the editorial and forecast teams at cap hpi is "How long can this strength last for?"

We are obviously in unprecedented times and the level of increases in values over the last 3-months were not predicted by anyone.

Traditional seasonality is not in play for now at least and the current supply and demand dynamics need to be viewed almost in isolation. With foreign holidays unlikely to be taken by as many consumers as in normal times and many still having increased savings in the bank, a car purchase remains high on the agenda. With new cars in short supply due to the worldwide semiconductor shortage, as well as a dearth of steel, rubber and other components, many will switch to a used vehicle. Demand may decline slightly from current levels as we move through the summer, but it will not drop off a cliff.

With new cars being in such short supply, and likely to be so for the next quarter at least, there is no bow wave of fleet returns coming through. 1-million less cars have been registered than would reasonably have been forecast over the last 18-months – these cars are lost to the used car market.

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.

As has been the case for a number of months now, retail advertised prices are inconsistent and not tracking in line with trade. Monthly trade values have also been out of date almost as soon as they are published, so tracking cap Live, our real-time values based off both trade and retail evidence is essential, more so than ever.

Current Used Valuations July 2021 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	4.2%	4.4%	3.8%	(2.8%)
Supermini	4.1%	5.0%	4.2%	(2.3%)
Lower Medium	4.3%	5.2%	4.2%	(2.7%)
Upper Medium	3.2%	4.1%	3.3%	(1.7%)
Executive	4.0%	3.7%	3.4%	0.9%
Large Executive	2.0%	2.6%	2.3%	1.0%
MPV	5.1%	5.2%	4.5%	0.2%
SUV	3.7%	4.9%	4.7%	1.2%
Convertible	4.3%	5.4%	5.7%	3.0%
Coupe Cabriolet	4.7%	5.9%	4.4%	2.7%
Sports	3.2%	3.8%	2.9%	1.9%
Luxury Executive	2.2%	1.1%	0.9%	0.4%
Supercar	1.5%	1.9%	1.8%	1.1%
Overall Avg Book Movement	3.8%	4.8%	4.1%	(0.7%)

() Denotes negative percentages

Used Car Values July 2021 - Average Value Movements by Size

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	3.3%	3.0%	3.1%	(0.2%)
MPV Medium	6.0%	5.5%	4.8%	(0.0%)
MPV Large	3.7%	4.9%	4.1%	0.9%
SUV Small	5.1%	5.9%	5.3%	2.0%
SUV Medium	3.6%	5.0%	4.9%	1.0%
SUV Large	2.1%	3.0%	2.9%	1.7%

() Denotes negative percentages

Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
BMW 1 SERIES (11-19)	1,200	1,300	1,250
BMW 3 SERIES (12-19) DIESEL	1,350	1,650	1,461
FORD KUGA (12-20) DIESEL	900	1,300	1,093
HYUNDAI I10 (14-20)	400	600	484
MERC GLA CLASS (14-19) DIESEL	1,000	1,150	1,083
PEUGEOT 308 (13-) DIESEL	900	1,150	993
RENAULT CAPTUR (13-20)	800	1,100	977
VAUXHALL MOKKA (12-20)	1,150	1,300	1,225
VOLKSWAGEN GOLF (13-21) DIESEL	600	800	688
VOLKSWAGEN PASSAT (14-19) DIESEL	600	1,550	1,103

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI Q3 (11-19) DIESEL	500	650	576
BMW 3 SERIES (12-19) DIESEL	700	1,100	905
BMW MINI COOPER (13-18)	325	850	678
LAND ROVER RANGE ROVER SPORT (13-18) DIESEL	1,200	1,500	1,375
NISSAN QASHQAI (13-18) DIESEL	550	850	726
NISSAN X-TRAIL (14-19) DIESEL	650	1,100	880
SEAT LEON (13-20)	525	1,200	741
TOYOTA AURIS (12-19) HYBRID	700	850	773
VOLKSWAGEN POLO (09-18)	200	550	265
VOLVO XC60 (08-17) DIESEL	550	1,100	820