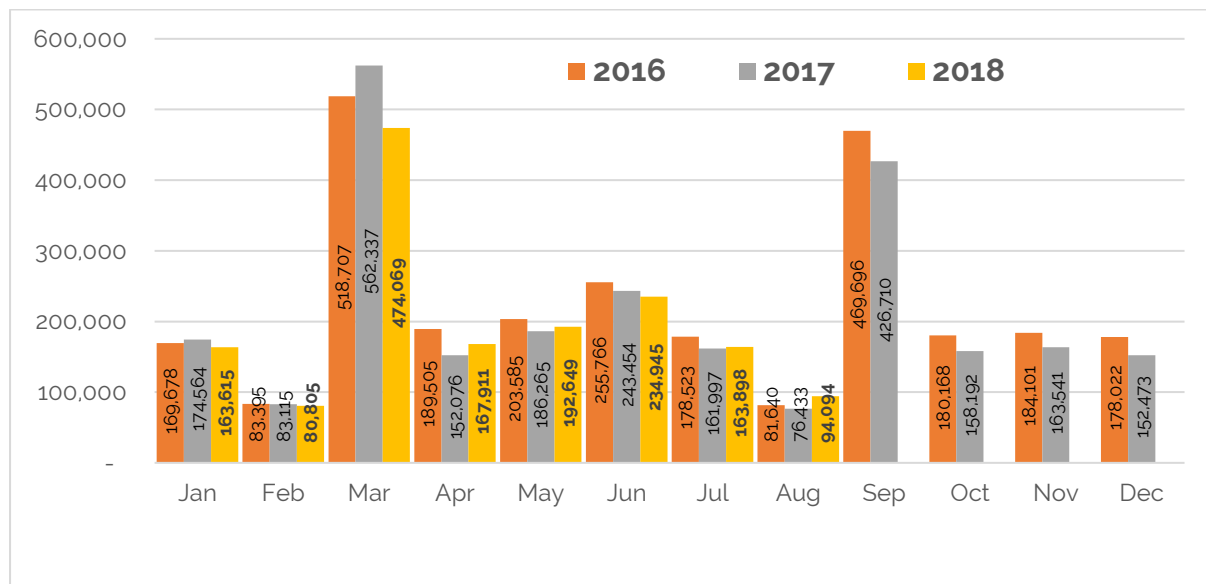


October 2018

black book editorial

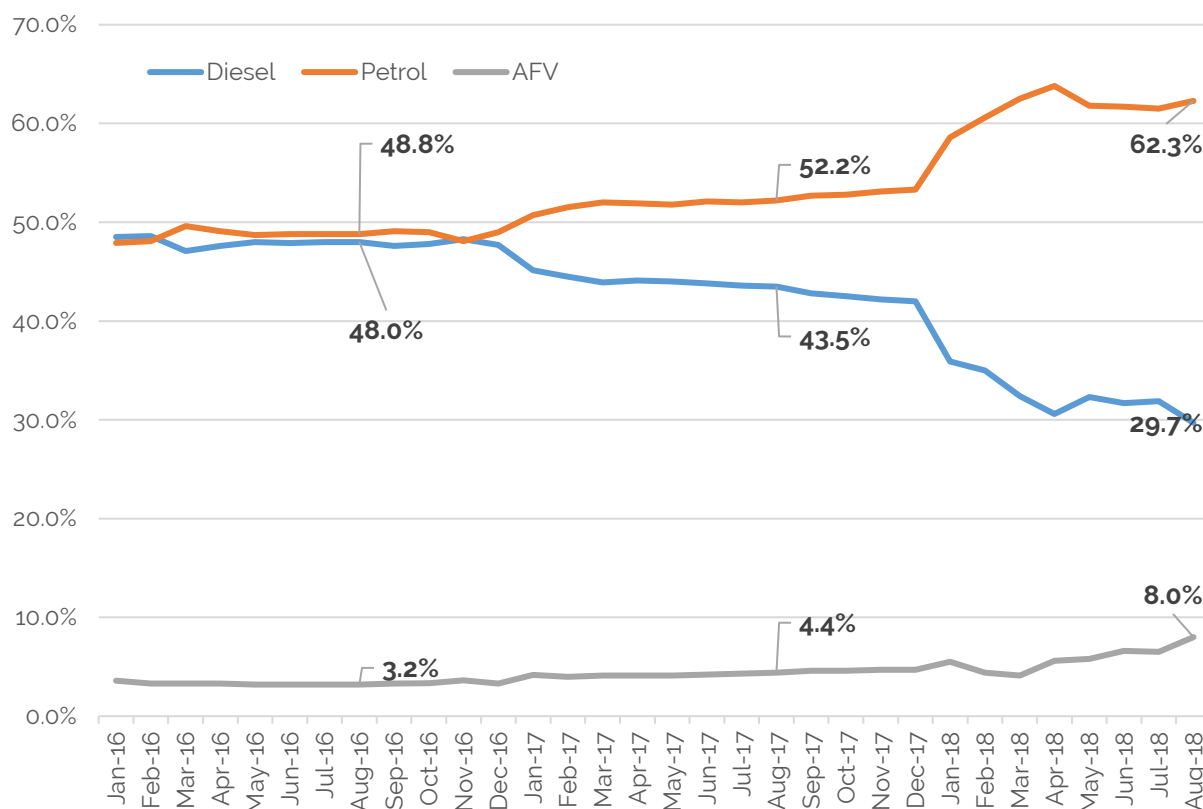
New Car Sales

August was an interesting month for new car registrations, to say the least. According to figures published by the SMMT, 94,094 cars were registered, an increase of 23.1% over August 2017, when the figure was 76,433. The main reason for the increase was due to manufacturers registering cars prior to the 1st September WLTP (Worldwide Harmonised Light Vehicle Test Procedure) deadline, rather than due to an increase in demand. Year-to-date the market is down 4.2%; it will be particularly interesting to see September's figures as some manufacturers pulled registrations forward into August and some have availability issues, with certain models not yet meeting the new regulatory guidelines.



Source: SMMT

62.3% of registrations were for cars with a petrol engine, with diesel dropping below 30% share (29.7%) in the month. Alternatively-fuelled vehicles were popular amongst registrations in August, taking a record 8.0% market share, but this needs to be put into context of a low overall registration month, plus these cars also fall under the WLTP programme. This level of market share is unlikely to be maintained in the short-term, despite the growing range of models available and increased desirability.



Source: SMMT

Used Car Retail Activity

The month of September is traditionally one where the franchised dealers focus on new, rather than used car activity, due to the new registration plate, this time "68", being introduced and with it increased demand from fleets and consumers. This September however, as has been well documented, WLTP has muddied the waters. Throughout the month, the daily registration figures were on average tracking close to 20% down from September 2017.

Certainly, for some manufacturers availability of certain models has been an issue. Dealers still need to make money so, more so than ever in a new plate month, they have focussed activity on selling used cars. Some of this has been out of necessity due to stock – with pre-registration activity in August, comes late-plate used car stock in September. Consumers calling into showrooms intending to buy a 68 plate vehicle have been pleasantly surprised to grab a bargain, albeit on one plate earlier and already with an owner on the V5, but a bargain nonetheless. The term "pre-registration", once only whispered as a necessary evil in the industry, is now becoming more well known amongst the general public, particularly the more discerning.

It was not just the franchised dealers that were busy during September. Market feedback from the independent dealers and car supermarkets was also particularly positive, with buyers out in force and some reporting the month as breaking all records for volume of sales.

Used Car Remarketing Activity

The wholesale market was also healthy through September, led by this strong retail demand and desire for stock from franchise dealers, independents and the car supermarkets alike. The

confusion over WLTP certainly fuelled some of this strength, with used cars, if anything, increasing their importance to everyone's balance sheets.

There was an interesting dynamic regarding supply into the used car market. On the one hand, late-plate volumes were higher than normal due to the August pre-registration activity – although this was not prevalent across all manufacturers. Almost to counter this volume, with new car registrations in September being lower than in previous years, the volume of fleet returns and consumer's part-exchanges has been far lower than previously. Pre-registered cars generally do not tend to be remarketed through the auction halls, so volumes there have generally been lower.

This month's cap hpi auction survey certainly backs up this sentiment. In a month where one would expect to see volumes rise towards the end of the month, almost two thirds of respondents reported that volumes had decreased, with 21% saying they were about the same and only a minority reporting an increase. There was the opposite picture for demand, with 57% reporting an increase, almost 30% stating demand stayed the same and again, only a small minority for whom demand had fallen. With these supply/demand dynamics, it is unsurprising that conversion rates increased for most (64% up, with 21% stating parity from August, 14% down) as well as sold prices (57% up, 29% about the same, 14% down). Overall, a really strong month for the auction industry.

The wholesale market is not just the auctions, however, and other areas of the business-to-business sector were also strong. If anything, there were not enough cars for vendors entering the market for them to take full advantage of high prices and healthy demand. Due to confusion over CO2 levels and thus taxation rates on new cars due to WLTP, and the non-availability of certain carlines, many fleets simply extended the current lease on vehicles, meaning less cars than would normally be expected returned to the market.

The lower than expected volumes certainly would not be described as a shortage, but with trade buyers keen to replenish, it did mean that some of the poorer condition cars, that can tend to get left on the shelf, did find homes more easily than normal. This was particularly the case due to more franchised dealers buying wholesale cars in September, so independents and supermarkets alike were prepared to pay for cars that may need some refurbishment, so as not to compete on price with the franchise network.

Used Cars – Trade Values

So what did this mean for used car values in black book live during September?

At the start of the month, there was a small softening of observed prices, but this quickly dissipated and overall there was little movement in average values during the month. At the 3-year point, the average was actually 0%, whilst newer cars have actually increased in average value, by a negligible 0.1% at the 6 month and 1-year points. Older cars have dropped slightly, but the 0.3% decrease at 5-years old only equates to £21 in monetary terms.

As always, with black book live the devil is in the detail and these averages do not paint the whole picture.

Looking at city cars, a sector of the market that has been strong for well over a year now, as consumers demand smaller, petrol-fuelled vehicles, values went up at 1-year old, by 0.4%, on average, but older, higher mileage 3-year old cars were not as desirable and fell by 0.3%. Some examples of this were the Hyundai i10, which went up by almost £100 at the younger age, but fell by £200 at the 3-year, 60,000-mile point, and the Skoda Citigo, which behaved similarly. The Volkswagen Up! was also notable in its strength at younger ages. This, once

again, is likely to be at least in part due to consumers switching from a brand new car into a late-plate used one. Superminis – the slightly larger cousin of the city car – also went up in value at those younger ages. Both of these sectors hit desirable retail price points.

Looking at larger vehicles, both SUVs and MPVs were in demand during September. These two sectors are particularly interesting at this time of year.

SUVs can increase in value due to winter being on the horizon; however, with this sector now being so large in volume and more of a lifestyle choice than a seasonal requirement, the increase in supply does tend to temper upward movements. This year, with the flow of stock into the market not being heavy in September, and demand being healthy, average values have stayed level or indeed increased slightly. Volume models such as the Ford Ecosport and Vauxhall Mokka went up in value during September, both being particularly desirable as used cars since they first came to market.

MPVs can sometimes struggle at this time of year. With the holiday season over, less demand could reasonably be expected, but that was not evident and the majority of models have increased in value. Ford and Volkswagen models within this sector performed particularly well across most ages of product.

Convertibles and Coupe Cabriolets were the sectors with notable decreases in value in September, as expected at this time of year. One contradiction to this, however, was the Audi TT Roadster, which increased in value, anecdotally due to availability issues with new cars.

Looking at fuel-type, values of diesel cars remain unaffected by the furore in the new car market and these can look reasonable value versus petrol counterparts. Diesel cars values actually increased by 0.1% during the month, with petrol slightly down at 0.1%.

Demand for electric vehicles continues to increase, as they become more and more accepted and desired by consumers. Particular strength has been seen for pure battery electric cars, as opposed to hybrids, with values increasing for as diverse models as the Renault Zoe, BMW i3 and Tesla Models S and X. Demand outstripped supply for all of these.

Overall, September was a very strong month for used car values, however that is not unusual and not all of this can be placed at the door of WLTP; last year the black book live movement during September was an increase of 0.5% at the 3-year point – this year was not quite as strong.

What Next?

The next few weeks are going to be particularly interesting; the biggest questions surround WLTP and new car supply. It is unlikely that certain manufacturers will have new car stock levels to achieve their previous volume and market share aspirations, indeed many have lowered their targets, particularly off the back of relatively high registrations in August.

Whilst used car supply will steadily increase over the coming weeks, it is likely that volumes will not be as high as they have been in recent years at this time. Many of the aforementioned lease extensions have been for weeks and months rather than days, so these cars will not be returning as used cars yet.

With retail demand unlikely to dissipate anytime soon and supply lower than normal, there is the potential for prices not to drop by as much as they have done at this point in previous years. The average drop during October over the last 4-years was 1.7% at the 3-year point,

with it being as high as 2.2% in 2015. Last year it was just -1.2% and this year there is the possibility it will not even drop by that amount.

It is fair to predict a strong, stable used car market over the coming weeks, although as always supply and demand dynamics need to be viewed at a micro level and the Valuations Editors producing black book live will as always be looking at the finite details within both trade and retail data throughout the month.

black book October 18 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K
City Car	0.4%	(0.3%)	(1.1%)
Supermini	0.3%	(0.1%)	(1.0%)
Lower Medium	0.6%	0.4%	0.2%
Upper Medium	(0.3%)	(0.2%)	(0.3%)
Executive	(0.4%)	0.0%	0.2%
Large Executive	(0.0%)	(0.5%)	(0.5%)
MPV	0.4%	0.6%	0.4%
SUV	0.1%	0.3%	0.1%
Electric	0.9%	0.9%	0.2%
Convertible	(1.1%)	(1.8%)	(2.3%)
Coupe Cabriolet	(1.2%)	(1.6%)	(2.5%)
Sports	(0.3%)	(0.4%)	(0.5%)
Luxury Executive	(0.8%)	(1.0%)	(0.4%)
Supercar	(1.0%)	(1.0%)	(0.9%)
Overall Avg Book Movement	0.1%	0.0%	(0.3%)

() Denotes negative percentages

Notable Movers 3yr 60k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI A8 (10-18) DIESEL	-550	250	-150
AUDI Q3 (11-) DIESEL	100	200	140
AUDI TT (14-)	450	550	483
CITROEN C4 (11-18)	200	300	243
FORD GALAXY (10-15) DIESEL	150	250	213
JEEP RENEGADE (14-) DIESEL	-350	-250	-282
KIA SORENTO (10-15) DIESEL	100	200	150
MAZDA 6 (13-18) DIESEL	-250	-175	-212
MAZDA CX-5 (12-17)	250	300	287
MERC C CLASS (14-) DIESEL	-350	-200	-290
MERC SL CLASS (12-)	-1,300	-1,050	-1,175
MERC SLK (12-16) DIESEL	-300	-250	-283
NISSAN X-TRAIL (14-) DIESEL	175	300	234
SKODA CITIGO (12-)	-225	-125	-172
TOYOTA PRIUS+ (12-) HYBRID	150	200	178
VAUXHALL ASTRA (09-16)	-125	-100	-113
VAUXHALL MOKKA (12-) DIESEL	75	175	105
VOLKSWAGEN GOLF (13-) DIESEL	50	300	126
VOLKSWAGEN PASSAT (14-) DIESEL	175	300	219
VOLKSWAGEN POLO (09-18)	100	200	136