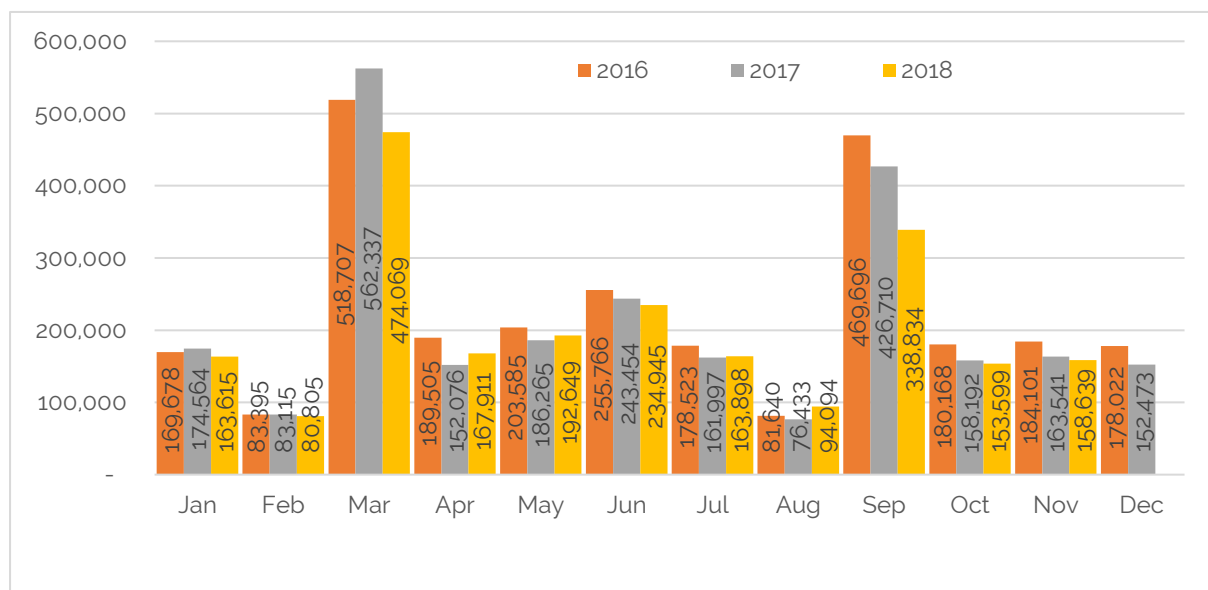


January 2019

Car Market Overview

New Car Sales

According to figures produced by the SMMT, new car registrations were down 3% in November, compared to the same month last year; 158,639 units were registered, compared to 163,541 in 2017. Year-to-date, 2,223,058 had been registered, a reduction of 6.9% from last year's 2,388,144 at the same point. It has undoubtedly been a tough few months for the car industry and the effects on supply caused by WLTP (Worldwide Light Vehicle Testing Procedure) are still being felt in many quarters.



Source: SMMT

Diesel cars continued to feel the main brunt of reductions, down 29.8% year-on-year with 31.8% of all registrations. Petrol car volumes were up 8.8%, with 62.2% of the market, and alternatively-fuelled cars up 22.0%, with a share of 6.0%.

Daily Rental registrations, important for their potential future impact on residual values, were up by 9.3% in November. Year-to-date, volumes were down 12.2% but from October onwards there was increased activity, as some manufacturers looked to use this lower-revenue sales channel to achieve volume targets and move stock. Renault and Vauxhall were particularly active over the October and November period, whilst BMW were relatively active earlier in 2018, certainly when compared to previous years. Smaller, more niche brands such as Land Rover and Mini have also increased their volumes. It will be interesting to see how the year closed for these manufacturers and

whether others also chose to sell more to daily rental companies to help boost their year-end figures.

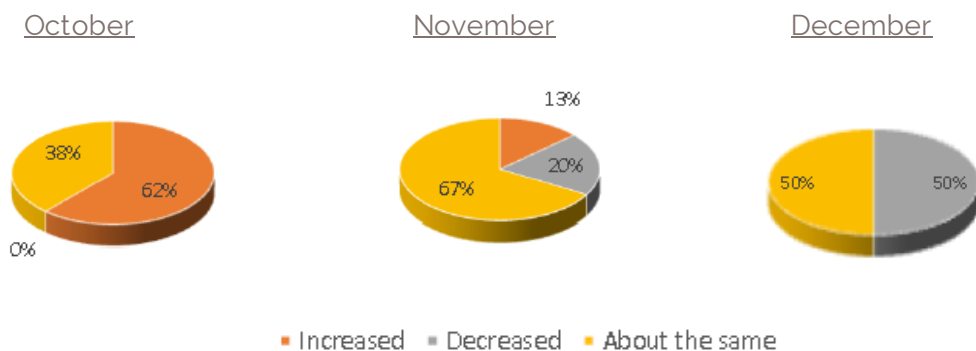
December Used Car Market

The month of December was the toughest trading month for used cars in 2018, with demand weakening considerably. To put it into context, however, this is off the back of a remarkable year and was to be expected during the festive season.

Consumer demand started to drop away towards the end of November and with it the need for retailers to replenish stock – many outlets having already purchased in preparation for post-Christmas sales; volumes of adverts on retail websites were high compared to previous months. Most trade buying was particularly selective; specification, age, mileage and condition became more fundamental.

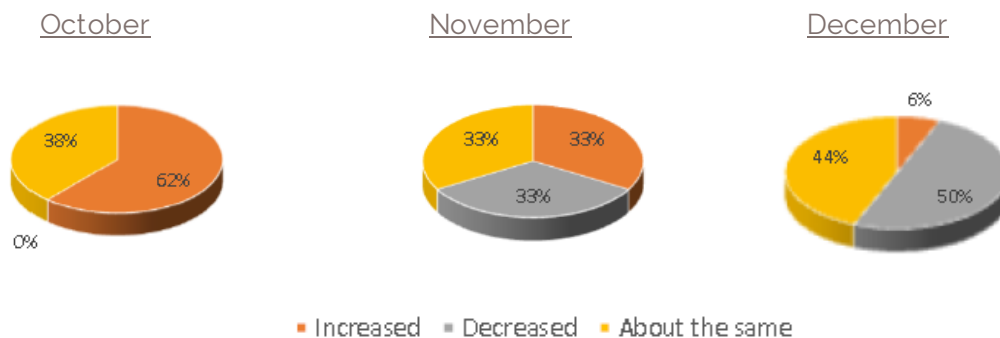
The monthly cap hpi auction survey highlighted this drop off in trade demand, and showed a clear evolution over time. In October, the majority were reporting increased demand, in November this reduced to a small minority of respondents and in December no auctions at all stated demand had increased. Half said it was about the same, half said it had reduced.

How Does your Current Overall Demand Compare to Last Month?



There was a very similar picture for conversion rates, with over 90% of respondents stating decreases or parity from the previous month and again there was a clear evolution from October.

How Do your Conversion Rates Compare to Last Month?



As a result of these dynamics, over 90% of respondents stated prices had dropped or at best stayed level during December.

Another dynamic of the December used car market was a number of vendors deciding to hang on to stock, with the aim of selling for higher prices in January. This is not an exact science or necessarily a proven formula and time will tell whether it was a wise decision. Certainly as prices have been strong all year, there may not be much room for further increases.

So what happened to cap hpi values in our live valuations during December? The average value drop of 1.9%, at the 1-year age point, was the heaviest in a month since November 2017 and graphically illustrated the shift in the supply/ demand equilibrium. However, it has to be said that as values have held up so well all year, any large drop has to be put into context of the whole of 2018.

No overall sector was immune from prices dropping, although as always, where supply was outflanked by demand, individual carlines stayed level or even went up in value: models such as the Mitsubishi Shogun, Lexus NX, Citroen C3 Picasso and Toyota Avensis all performed well but were very much the exception rather than the rule. On the opposite extreme, models such as the BMW 1-Series, Mini Cooper S, Hyundai Tucson and SEAT Leon had a downward realignment in values after a strong year.

Electric vehicles once again received a mixed reception. Models such as the Renault Zoe, Nissan e-NV200 and Nissan Leaf continued to be in demand, with prices increasing, whereas Teslas and BMWs struggled to achieve cap clean prices, resulting in downward movements during the month. The pattern continues for the more affordable electric cars to be sought after, whereas at the higher end finding buyers is more difficult.

2018 Used Car Retail Activity Summary

At this time of year, it is always timely to look back on the last 12-months for used cars. Early on, 2018 was dubbed to be potentially the "Year of the Used Car" by cap hpi (and some other important industry players!) and it has certainly lived up to that billing. Demand and prices held firm through the year and many franchised dealers joined independents and car supermarkets in increasing their activity in the used arena, in large part due to confusion and volume reductions for new car registrations. Certainly, dealers representing those brands whose volumes reduced because of WLTP conformity issues became more active with their used car retailing, in order to maintain profit levels.

Used cars have been very much the order of the day for many, including consumers that previously may have chosen to purchase new cars. Increased reliability, long warranties, attractive monthly payments and of course the price differential from new have all helped this popularity.

2018 Used Car Remarketing Activity

The remarketing area of the car industry, mirroring used car retail, proved to be particularly robust in 2018. The auction halls were generally a hive of activity and whilst the volume of sales has been down over the year, compared to 2017, this was due to lower supply rather than reduced demand.

One of the most reassuring aspects for the industry has been the fact that whilst new car demand for diesel cars declined, it stayed steady for used cars. Generally, for lower medium (C-sector) cars and larger, diesel as a fuel-type still has a part to play. Most manufacturers have reduced their diesel volumes in cars smaller than this, or removed them from production all together.

Used Cars – Trade Values through 2018

2018 was a particularly strong year for values, with a general theme of either low deflation, or even inflation in many cases, the like of which we have not experienced in the UK since 2009. In that year, the country was recovering from recession; in 2018, price increases were not due to any form of economic recovery.

The average value movement over the 12-months, across all vehicle sectors at the 1-year point, was a 1% increase, equating to just over £100. This figure is derived by comparing all generations of cars that existed at the 1-year old age point at both the start and end of the year, so excluding any newer models entering the market that may skew the figures. As cars traditionally depreciate as they age within their lifecycle, this 1% average increase was a hugely unusual phenomenon.

The biggest increase was, perhaps surprisingly, in the MPV sector where values increased by an impressive average of 5% or c.£750 over the course of 2018. Somewhat behind, but also increasing, were lower medium cars (+3% or c.£450), superminis (+2.5% or c.£250) and city cars (+1.5% or c.£100). Interestingly, SUV (-1% or c.-£450) and upper medium, D-sector, (-1% or c.-£225) cars were slightly down year-on-year, on average. Still a relatively strong performance, however, compared to previous years.

These different figures illustrate that whether it be in "boom" or "bust" times for used cars, there are varying degrees and directions of value movements for different models.

MPVs have generally fared well because supply levels have reduced over recent times due to the new car popularity of SUVs; so in the used car market if a consumer requires a versatile family car with a large carrying capacity, they have been prepared to pay more than others have previously.

The popularity of small, petrol cars has been well documented, quite often as a second or third family car, and price strength can be traced back well before 2018.

The table below shows the percentage movement, for 1-year old cars, over the course of 2018 and is put into context by the percentage of the sold trade data received by cap hpi for each sector.

	% value movement of 1-yr old cars	% share of total trade sales volume	Yr-on-yr % change in total trade sales share
City Car	+1.5%	6%	no change
Supermini	+2.5%	20%	no change
Lower Medium	+3.0%	23%	-1%
MPV	+5.0%	10%	-1%
Upper Medium	-1.0%	13%	-1%
SUV	-1.0%	20%	+3%
Other	N/A	8%	no change

As you can see, the used market is not inundated with city cars and as their popularity has increased, inflation of prices has occurred. Superminis and lower medium cars combined remain just under half of the market in volumes terms, with demand managing to outstrip supply, pushing prices up.

Even a 1% drop in values is a strong performance compared to previous years, and for SUVs, this was in conjunction with continued volume increases, so demand generally mopped up extra supply. Upper medium cars (Insignia, Mondeo, Passat sized), on the other hand, decreased in both value and volume. There is certainly a trend for consumers moving out of these cars into SUVs, which will no doubt continue.

A number of electric cars increased in value over the course of the year, in particular the Nissan e-NV200, Renault Zoe, Citroen C-Zero and Peugeot iOn all went up by around an incredible one quarter of their value. There were some notable exceptions though, such as the BMW i3 and i8, where prices were forced down before they found the majority of buyers willing to purchase.

What Next?

As a new year gets underway, there is often a feeling amongst vendors and buyers that prices go up as we enter January.

Over the last 5-years, the average value movement in our Live product during January has actually been a drop of 0.4%. Since the introduction of black book live in 2012, average values have never increased during the first month of the year; it tends to take a few weeks for the market to find its feet. At cap hpi we purely reflect factual prices in the trade and retail used market, making no assumptions, and it can be at the end of January or into February before buyers realise they may have to pay more to get the stock they desire.

So will the same thing happen in 2019? The obvious and main unknown this time around is confusion over a potential Brexit deal or no-deal in March. There are still many scenarios that could push values in either direction – a fall in consumer confidence could lead to reluctance to make “big ticket” purchases such as a car, or, in conjunction with possible new car price increases, due to exchange rates, it could lead frugal consumers to choose a used car over a new one. However, there are already signs that

expensive, executive-type vehicles and supercars are dropping in value in the used market, due to a drop in demand and lack of confidence in the economic situation.

What happens in January is also likely to vary by manufacturer. If dealers holding certain manufacturer franchises have large volumes of pre-registrations then they are unlikely to be in the market to buy much used stock.

Taking a view on all of these factors, the likelihood is of a stable first month of the year for Live values. Prices are unlikely to increase in the early days and weeks, but also downward pressure will not be too intense across the board. As in 2018 though, different sectors, manufacturers and models are likely to be under different pressures so an eye on the detail is vitally important.

Whatever 2019 may bring, we would like to wish all of our customers and industry contacts a very happy and prosperous New Year!

black book January 2019- Average Value Movements (Plate Uplift Excluded)

	1 YR/10K	3 YR/ 60K	5 YR/ 80K
City Car	(2.2%)	(2.3%)	(1.7%)
Supermini	(2.4%)	(1.8%)	(1.7%)
Lower Medium	(2.5%)	(2.3%)	(1.9%)
Upper Medium	(1.1%)	(1.2%)	(1.3%)
Executive	(1.9%)	(2.0%)	(2.7%)
Large Executive	(0.9%)	(1.1%)	(1.1%)
MPV	(1.3%)	(1.2%)	(1.3%)
SUV	(1.7%)	(1.8%)	(1.7%)
Electric	(1.0%)	0.3%	1.2%
Convertible	(2.4%)	(2.3%)	(2.2%)
Coupe Cabriolet	(2.2%)	(2.3%)	(2.2%)
Sports	(1.0%)	(0.5%)	(0.5%)
Luxury Executive	(1.0%)	(0.9%)	(0.3%)
Supercar	(2.1%)	(1.0%)	(0.2%)
Overall Avg Book Movement	(1.9%)	(1.7%)	(1.7%)

() Denotes negative percentages

Notable Movers 1yr 20k

Generation Name	MIN £	MAX £	Avg £
AUDI A1 (10-)	-400	-150	-233
BMW 3 SERIES (12-) DIESEL	-450	-250	-350
CITROEN BERLINGO MULTISPACE (08-18) DIESEL	100	100	100
FORD KUGA (12-) DIESEL	-550	-400	-481
MERC A CLASS (12-18) DIESEL	-400	-250	-339
MERC CLS (11-18) DIESEL	-850	-700	-766
NISSAN LEAF (10-18)	300	550	431
NISSAN QASHQAI (13-18) DIESEL	-700	-100	-342
VOLKSWAGEN CADDY LIFE C20 (10-) DIESEL	300	450	372
VOLKSWAGEN UP (12-)	-175	-100	-132

Notable Movers 3yr 60k

Generation Name	MIN £	MAX £	Avg £
BMW 3 SERIES (12-) DIESEL	-350	-175	-252
BMW MINI COOPER (13-18)	-475	-250	-367
FORD FOCUS (11-18) DIESEL	-375	-125	-238
HONDA JAZZ (08-15)	50	125	85
HYUNDAI I30 (12-18) DIESEL	200	300	264
LAND ROVER RANGE ROVER EVOQUE (11-) DIESEL	-600	-300	-458
TOYOTA AURIS (12-) HYBRID	100	150	121
VAUXHALL MOKKA (12-)	-475	-275	-323
VOLKSWAGEN GOLF (13-)	-1,250	-200	-468
VOLVO XC60 (08-17) DIESEL	-500	-400	-441