March 2021

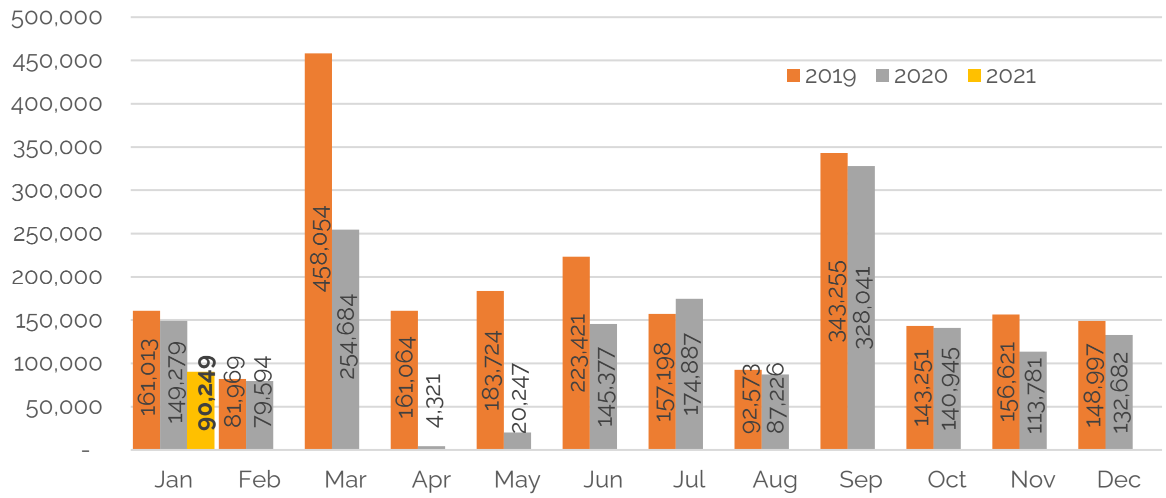
Car Market Overview

As we reach the end of the second month of the third COVID-19 induced lockdown, the car industry continues to cope well in difficult times.

In this overview, we will report on registration activity in the new car market to the end of January 2021 and dynamics in the used car market at the time of writing, including what may happen in the near future. All information is correct as of 23rd February 2021.

New Car Sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), 90,249 cars were registered in January, down 39.5% on the same month of 2020 (149,279), which was, of course, before COVID-19 started to affect the United Kingdom. The Vauxhall Corsa was the highest selling model in January, closely followed by the the Kia Sportage and Nissan Qashqai.



Source: SMMT

Diesel registrations, down 49.4% compared to January 2020, continue to feel the brunt of legislation and manufacturers focussing production on petrol and alternatively-fuelled vehicles (AFVs). Petrol volumes were down 44.8%. With mild hybrids included within these figures, the market share for diesel cars was at 19.2%, whilst petrol was at 59.6% - a huge change from the position of close to parity just over 4-years ago.

Battery Electric Vehicle (BEV) registrations increased by 54.4% on last January, with 6,260 cars, a 6.9% share of the market. Plug-in Hybrids (PHEVs) accounted for 6.8% of the market (6,124), with an increase of 28.0%, whilst pure hybrids posted a similar number, 6,826, and a share of 7.6%. AFVs continue to grow in popularity.

Daily rental registrations started the year in subdued fashion, down 74% on the same month last year, with manufacturers preferring to register cars in more profitable channels and many rental companies still badly affected by the lack of activity in their sector due to the pandemic.

Used Car Retail Activity

With Lockdown 3 entering its second month in February, there were obvious challenges for used car retailers. Car showrooms remained physically closed to the public, test drives were a grey area legally, but the vast majority of retailers worked within the spirit of lockdown and did not allow them. Therefore, the industry was open, but purely via Click and Collect or, less prominently, Click and Deliver, as was the case during January.

For most retailers, February followed a similar, but slightly improved, pattern to that of January. Enquiry rates and sales were reduced from where they would be in more normal times but, for many at least, ahead of where they predicted as we entered lockdown on 4th January, and certainly ahead of where they were in Lockdown 1. Retailers have come a considerable way since those difficult days of April and May last year.

From the feedback gained by the cap hpi editorial team in the many conversations with retailers through the month, the average activity levels range from anywhere between half to three-quarters of last February's. The average would be around 65% of 2020 or "normal" and for most, things improved slightly week by week in February. In general, premium, franchised dealers have fared the best compared to where they would normally be, as demand for high-end vehicles seems to have been less affected in percentage terms than that for more mainstream cars.

It would be easy to be downbeat about the year-on-year reduction, in what is traditionally one of the most active and fruitful months of the year for used cars. However, there were always going to be consumers put off by not being able to visit a showroom, talk face-to-face with a salesperson, look over the vehicle prior to purchase or test-drive a car. For retailers to be averaging 65% of last year's, pre-pandemic activity, is a real testament to how far they have come, in particular with their digital footprint, in just under a year.

Most retailers have held their nerve on advertised and transactional retail prices and as a result margins have increased. Whilst the temptation has been to use "days-in-stock" metrics and reduce in the traditional way, most have held their nerve and only reduced prices selectively – those cars that have been in their stocks since autumn or even earlier in 2020. Some MPVs in particular have been adjusted downwards as their popularity continues to wane. It is clear more than ever that as well as holding advertised prices, retailers are also less inclined to negotiate on transactional price than they have been in the past.

The general and sensible feeling is that the c.35% of potential buyers currently keeping their money in their pockets will be back once lockdown is eased – it is not price that is stopping them from buying.

Government initiatives such as the furlough scheme are helping the majority of retailers remain profitable during this period when their sales rates are lower than normally required.

Used Car Remarketing Activity

With furlough meaning many buyers were either on reduced working days or not working at all and retail sales rates averaging just 65% of normal, it is unsurprising that wholesale buying was also below normal levels. Many outlets were still well-stocked from December, in anticipation of a strong January, before Lockdown 3 was announced. Of course, all activity is online, although last year this did not, in itself, result in a reduction in volume.

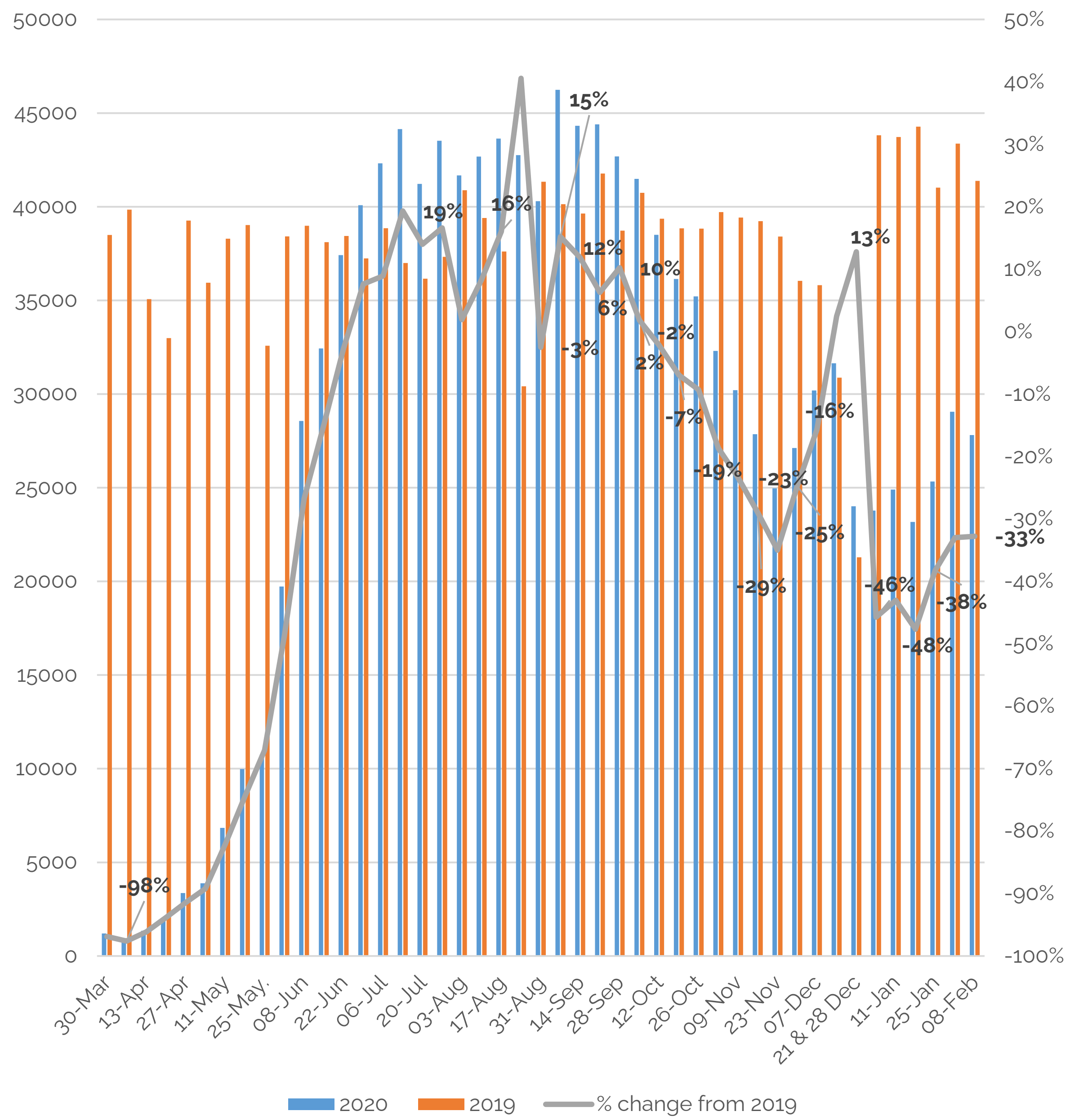
The majority of buying in February has been selective – stock in ready-to-retail, cap clean condition has sold, particularly if it was something that set it apart from the norm. Older, particularly premium stock in good condition has been well sought after.

The volume of trade data received by cap hpi, from around 50 wholesale sources, increased in February compared to January, by around 10%, as activity picked up due to retail sales rates being better than expected for some, plus anticipation of demand improving further. It is reasonable to suggest that the end of February would be a good time to buy stock, particularly if the back end of lockdown 1 last year is any barometer – prices increased, some quite dramatically, as we moved out of the strict lockdown period.

These sold volumes in February sat at 66% of the same time last year, mirroring closely what was happening in the retail market and suggesting that whilst some sold orders were being replaced, many were wary of overstocking and being too ambitious when no date for the end of lockdown had been set.

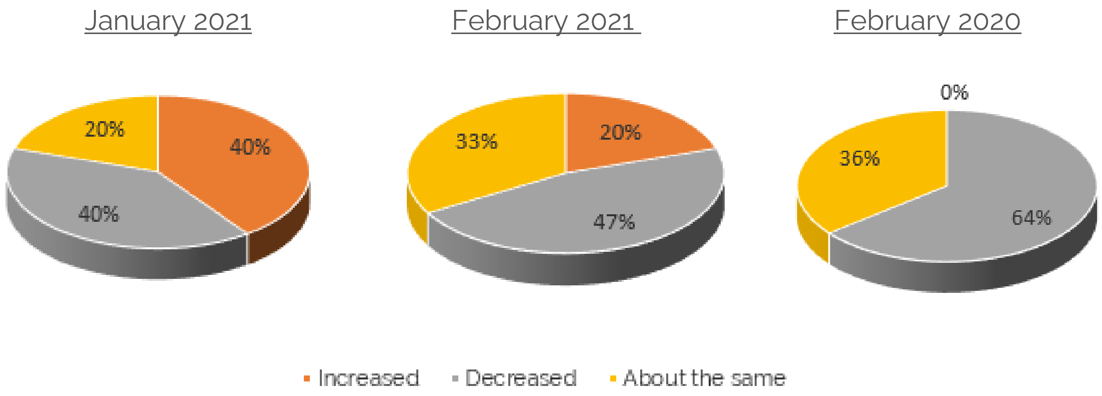
The chart below shows a comparison to the equivalent week 12-months prior. The x-axis shows “week commencing”. As can be seen, February wholesale volumes increased from January’s and were also in excess of actual volumes in November’s Lockdown 2, although there was a more heavily pronounced reduction in the year-on-year comparison in percentage terms from that second lockdown. The difference from Lockdown 1 though is quite remarkable – the various wholesalers now almost all well versed in selling online.

<u>*Wholesale Volumes since initial lockdown, comparison to previous year (like for like suppliers only)*</u>



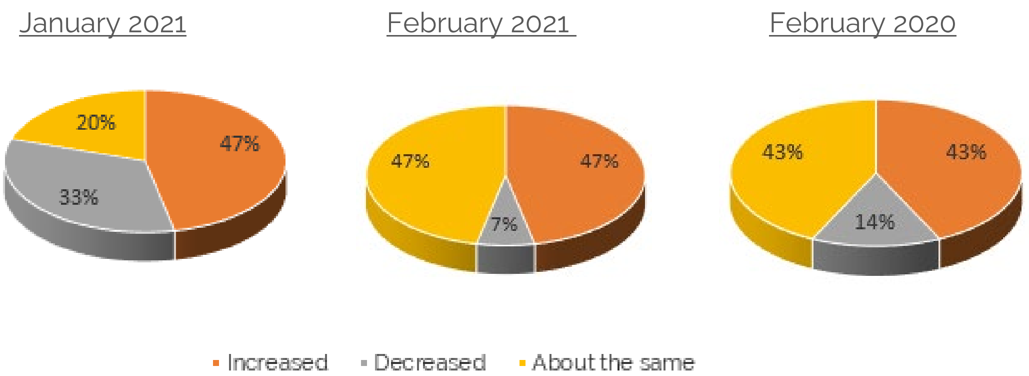
Turning to the cap hpi auction survey, to look at the three main metrics of stock, demand and conversion rates, we compare to the previous month and also to this point last year.

How do your current stock levels compare to last month?



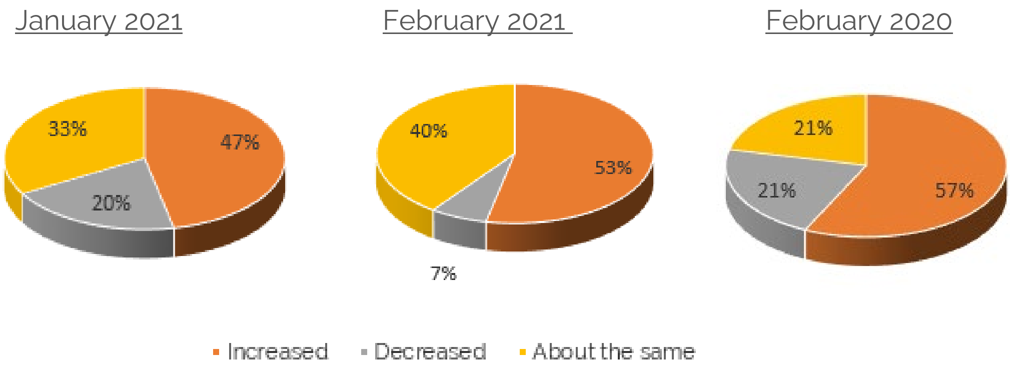
Looking first at stock levels, in January 40% of respondents stated volumes were decreasing – an even split with those increasing. In February, almost half are now stating that their stock levels are declining. There are no major logistics issues, but it is likely that reductions are due to less part-exchanges appearing in the market, due to reduction in both new and used retail activity. Those that are increasing their volumes, or staying level, are likely to be less reliant on the part exchange market, with corporate deals in place for the timely return of fleet vehicles. This time last year, almost two-thirds were stating volumes were declining – but for very different reasons than now. Last February, conversion rates were healthy and demand was outweighing supply.

How does your current overall demand compare to last month?



As already stated, demand in February has either stayed static or increased slightly as the month has progressed – buyers being unfurloughed slowly, replacing sold orders and anticipating more positive times ahead. The picture is more positive than it was in January. This time last year, there was still no sign of the difficult period to come.

How do your conversion rates compare to last month?



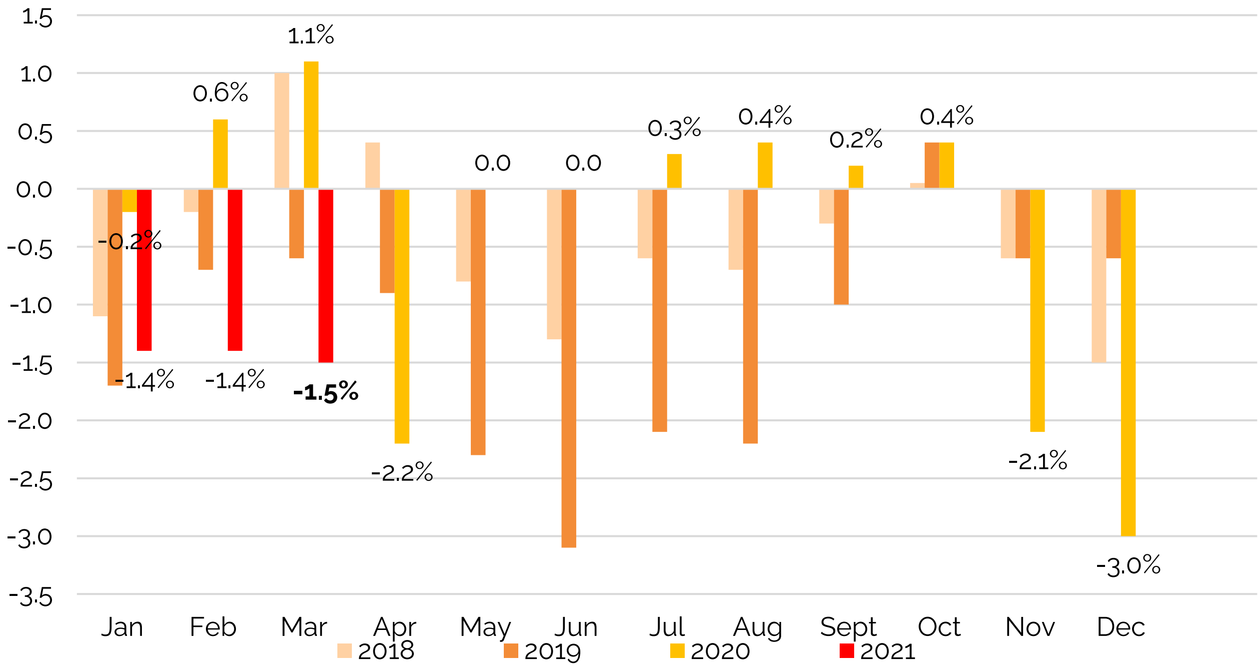
Over half of respondents to the survey confirmed that conversion rates were increasing and the majority of the remainder were seeing a similar picture to January. Only a small minority were seeing conversion rates decline. This time last year, again all looked positive for the used car, wholesale arena. Little did we know what was just around the corner.

Used Cars – Trade Values

As we predicted in January, trade values in February's Cap Live, followed a similar pattern to last month. With lockdown still in place, we were not expecting a traditional lift in the month. Over the last 10-years, the only average downward movement in values during February was in 2019 – every other year saw either a small positive movement or no change.

This time around, average values for 3-year old cars dropped by 1.5% during February, as depicted by the March figure below, for those subscribers to monthly values. This is equivalent to an average of £150 and is in in stark contrast to last year, when values increased by 1.1% at this time. It is also the 5th consecutive month of value drops, equating to 9.4%, following a strong 4-month period for values prior to that, after lockdown 1. Seemingly, market values have realigned once more. In February, 65% of models we value dropped in price.

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



Average values for 6-month and 1-year old cars dropped by 1.3% (c.£290 and £260 respectively). Despite less cars in the market at these ages than previously, due to new car registration reductions last year, a degree of elasticity from 3-year old values is clearly visible. 5-year old cars dropped by an average of 1.1% (£75), whilst 10-year old averages actually increased, by 0.6% or around £20. This bears out that older cars have been the most desirable, maybe being more of a necessity replacement, if an older car has broken down and requires replacing. Younger cars are more of a desired purchase and may be more likely to be put on hold during the current restrictions.

Looking into some of the detail behind these averages, MPVs have once again felt the brunt of a lack of demand, reducing by 2.1% or just over £200 at the 3-year, 60,000 mile age point. Values have now dropped by 10% in the last 5-months for this sector, equivalent to a significant £1,000 on average. Buyers prefer the SUV bodystyle now, plus social-distancing and lockdown rules have lessened the need for an MPV. At some point these models will look good value and price declines will slow or reverse slightly. Examples of some models that have reduced significantly over the last month are the Citroen C4 Picasso, Ford C-Max and the Volkswagen Touran.

City cars, superminis and lower medium (C-sector) cars saw the next highest drops in value during February, particularly mainstream cars where there was plenty of choice. These are the types of vehicles which many retail outlets have in duplicate, so there is less requirement to replenish stocks when one sells. Values dropped on average by 1.9-2.0% for these 3-sectors.

The two-tier market for SUVs continued in February. As has been the case for the last 5-months, larger, more expensive examples where volumes are lower have been more balanced with regards to supply and demand than the more plentiful small and medium SUVs. Examples of large SUVs that actually increased in value are the latest Jeep Grand Cherokee (diesel model), Mercedes GLE (2015-19 diesel model) and the current SsangYong Rexton. Smaller, mainstream models that reduced in price were the Citroen C4 Cactus, Ford

Ecosport and the Kia Sportage, all dropping by more than the average of 1.4% for medium SUVs and 1.8% for small.

The sports car sector remains strong, continuing a theme throughout the period since June, with only a negligible average drop in values. Models such as the Audi S4 (2016-19) and the Mercedes AMG C Class Coupe (2011-15) have both increased in value by c.3%, equivalent to c.£1,000 for the latter at 3-years old.

Over the months since June 2020 there has been a marked decline in values of hybrids and electric vehicles compared to petrol and diesel values. This does appear to have stabilised for now, however, with values of all fuel-types dropping by similar average amounts during February. This may well be a temporary respite for these alternatively-fuelled vehicles however, as many still look expensive compared to traditional internal combustion engine equivalent cars. There remains little incentive for the used car buyer and supply levels are only going to increase – demand needs to keep pace or values will drop.

What Next?

Historically, used car values in March can go in either direction, although one consistent picture is that they do tend not to move too much either way. Last year was the exception, as we entered lockdown on 23rd March and prices fell considerably in the 10-days up to that date. Easter, usually being in April, tends to be a watershed, so March can often be relatively healthy, before volumes hit in any great numbers from plate change activity that generates part-exchanges and fleet returns.

This year, demand in the new car market will remain subdued as we head into and almost certainly through March, as the industry remains online only. There are also supply issues around vehicle parts, particularly semi-conductors, that will delay new vehicle registrations even when restrictions are lifted. Volumes in the used market are unlikely to increase in the short-term, therefore.

We are expecting an increase in consumer demand for both new and used cars when lockdown is eased, which is likely to be from 12th April. It is fair to assume that if sales rates have been at c.65% in the used market, then the c.35% who have not purchased will be likely to do so over the weeks and months from that date, as well as those that are naturally in the market at that point too. This will lead to a period of pent-up demand that may well push prices up.

We do not expect this "boom" to last as long as the one experienced after the initial lockdown last year; dealers have been trading (albeit at below normal levels), transport has been relatively unaffected and last year's demand factor stemming from the avoidance of public transport is expected to have almost been exhausted.

It is likely that this period of pent-up consumer demand will be met, and slightly preceded by, a strengthening of trade values, as retailers become more active with re-stocking their forecourts, particularly as there will be less part-exchanges to satisfy retail demand.

How long the demand within the trade and retail markets outstrips supply for is open to debate. Usually, the Easter school holiday period (Easter Sunday falls on 4th April this year) heralds the start of a decline in activity and prices start to ease, but this year it may well precede the strongest period of the year.

There are, however, significant used car volumes in the pipeline: many vehicles due for return from fleets in the spring and summer of 2020 were extended for twelve months and are unlikely to be extended again. PCP replacements will ramp up. Repossessions are now legally possible again and of course there are large volumes of cars to reappear naturally from registrations in 2017 and 2018. Supply levels over the coming months are likely to exceed demand once the initial rush back into the used market is over, putting some pressure on prices.

Although based on detailed analysis, all of this involves a certain amount of conjecture and considered opinion. We are, after all, in unprecedented times and there are no doubt some choppy waters ahead. The economic effects of the pandemic will bite hard too. What is clear is that we are in for a volatile time over the coming weeks and months. The importance of cap hpi Live valuations, to maximise profitability, based on sold data as evidence cannot be over-emphasised during these difficult and unusual times.

Current Used Valuations March 2021 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(2.0%)	(2.0%)	(1.8%)	0.3%
Supermini	(2.4%)	(1.9%)	(1.2%)	0.8%
Lower Medium	(1.6%)	(1.9%)	(1.6%)	0.4%
Upper Medium	(1.7%)	(1.6%)	(1.1%)	0.4%
Executive	(0.2%)	(0.7%)	(0.1%)	1.4%
Large Executive	(1.4%)	(1.1%)	(0.5%)	0.0%
MPV	(2.1%)	(2.1%)	(2.1%)	(0.4%)
SUV	(1.2%)	(1.3%)	(0.7%)	0.9%
Convertible	(0.2%)	0.3%	0.9%	1.6%
Coupe Cabriolet	0.1%	1.3%	1.7%	1.6%
Sports	(0.2%)	(0.1%)	0.2%	0.9%
Luxury Executive	(0.0%)	0.2%	0.3%	0.4%
Supercar	(0.3%)	(0.1%)	(0.1%)	0.0%
Overall Avg Book Movement	(1.4%)	(1.5%)	(1.1%)	0.6%

( ) Denotes negative percentages

Used Car Values March 2021 - Average Value Movements by Size

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(2.9%)	(2.5%)	(2.4%)	(0.1%)
MPV Medium	(2.3%)	(2.2%)	(2.1%)	(0.3%)
MPV Large	(1.5%)	(1.7%)	(1.9%)	(0.7%)
SUV Small	(1.7%)	(1.8%)	(1.4%)	0.9%
SUV Medium	(1.1%)	(1.4%)	(0.8%)	0.8%
SUV Large	(0.5%)	(0.0%)	0.5%	1.1%

( ) Denotes negative percentages

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Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI Q5 (16-) DIESEL	(1,200)	(750)	(921)
BMW 3 SERIES (18-) DIESEL	(700)	(400)	(521)
BMW X3 (17-) DIESEL	500	1,200	1,080
JAGUAR F-PACE (15-)	(1,000)	(550)	(711)
JAGUAR XF (15-)	(1,200)	(950)	(1,103)
MERC S CLASS COUPE (14-)	1,600	1,700	1,650
NISSAN QASHQAI (13-18) DIESEL	(300)	(250)	(266)
TOYOTA PRIUS (19-) HYBRID	(600)	(500)	(540)
VAUXHALL COMBO LIFE (18-)	(650)	(250)	(477)
VOLVO XC90 (14-) DIESEL	600	800	683

( ) Denotes negative movement

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI A3 (14-19) HYBRID	(500)	(500)	(500)
BMW 4 SERIES CONVERTIBLE (13-20)	650	900	733
BMW I3 (13-)	(300)	(250)	(268)
MINI COOPER (13-18)	(250)	(150)	(178)
FORD FOCUS RS (15-18)	400	400	400
MERC A CLASS (12-18)	(300)	(175)	(235)
MERCEDES-BENZ S CLASS CABRIOLET (16-)	1,400	1,500	1,450
PORSCHE MACAN (14-19) DIESEL	(300)	(300)	(300)
SKODA YETI (09-17) DIESEL	200	350	266
TOYOTA PRIUS (15-19) HYBRID	(750)	(300)	(390)

( ) Denotes negative movement