February 2021

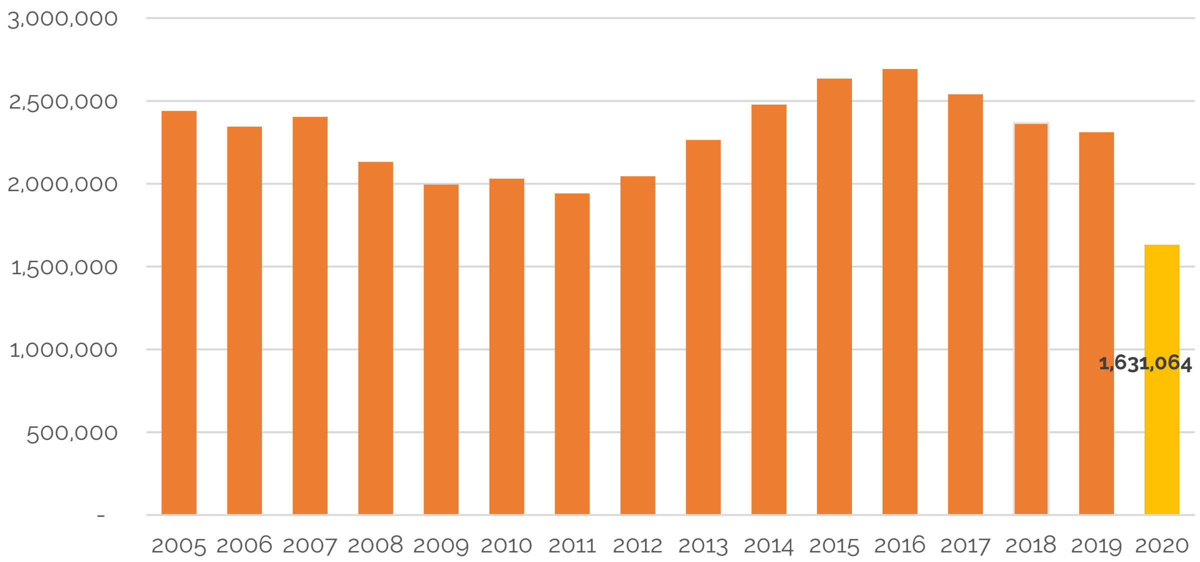
Car Market Overview

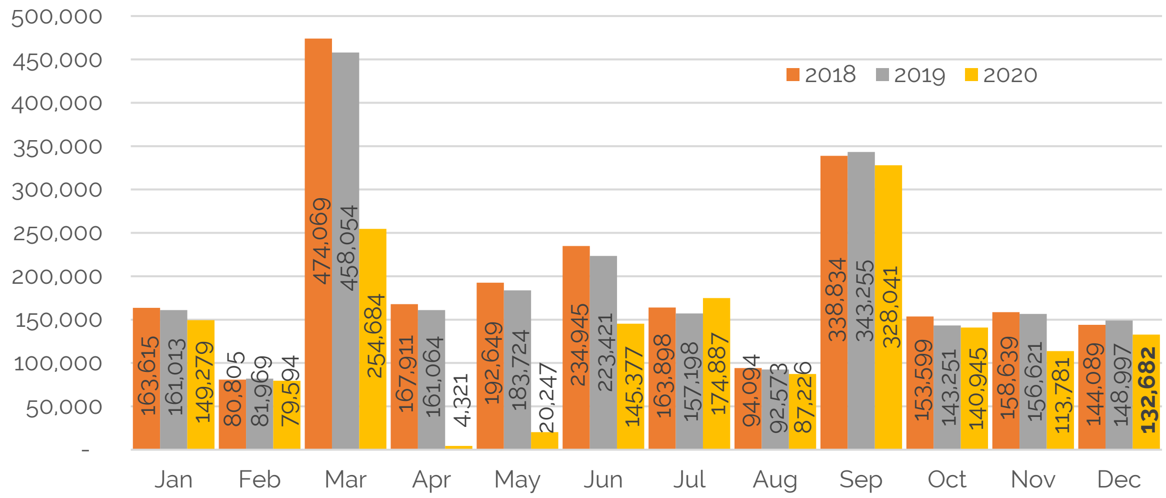
As we reach the end of the first month of the year, under tight restrictions once again due to the COVID-19 pandemic, the car industry is certainly living through difficult times. Despite the huge challenges that have been placed in its way, the majority of the industry continues to cope well and maintain a degree of business in this tumultuous period.

In this overview, we will report on registration activity in the new car market to the end of December 2020 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 25th January 2021.

New Car Sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), December car registrations, at 132,682, were 10.9% down on December 2019 (148,997). This meant that over the course of 2020, 1,631,064 cars were registered, compared to 2,311,140 in 2019, a reduction of 29.4%. The year was turbulent and difficult for the new car industry, although the adaption to pure online sales was commendable and will serve retailers well for future years.





Source: SMMT

Private registrations were down 26.6% year-on-year, with Fleet down 31.1%.

The SMMT reported diesel sales as 52.5% down in December and 55% down for the year. Petrol registrations were reduced by 37.0% in the month and 39.0% for the year. Alternatively-fuelled vehicle registrations had a ground-breaking year. Battery Electric Vehicle (BEV) volumes were 343.7% up in December, 185.9% for the year with a 6.6% share of the market (108,205 registrations). Pure Hybrids were up 44.5% in December and 12.1% for the year, with Plug-in Hybrids up 103.3% in the month and 91.2% for the year. Popularity and acceptance amongst consumers have increased in the new car market, although in December there was some tactical activity due to year-end emissions targets for manufacturers, plus some target chasing. Tesla Model 3 was the top selling model and the Volkswagen ID.3 in 4th place, illustrating the increase in EV volumes.

Daily Rental registrations in December were down 45% compared to the same month in 2019 and down 50% for the year, with over 105,000 less registrations over the year, which will mean lower volumes of young used cars in the market in 2021. All volume manufacturers reduced their numbers year-on-year. These reductions were both demand and supply led.

Used Car Retail Activity

During December, with a tiered restriction system in place, there was still plenty of positivity on how 2021 would commence for the used car market, with the first quarter of the year traditionally the most buoyant for consumer demand. It became apparent, however, that the closer to Christmas we got the more likely we were to have tighter restrictions to adhere to. On the evening of 4th January, the Prime Minister announced a third lockdown in England, mirroring restrictions already in place in the devolved nations.

With physical showrooms closed, retailers had to revert to purely "click and collect" or "click and deliver" and there was concern that this may cause demand to dry up. During week commencing 10th January, click and collect in Scotland was reviewed and there was serious anxiety that it would be banned for car retail. Thankfully and sensibly, the car industry was deemed exempt from the adjustment to the rules, and click and collect could continue. If it had been banned in Scotland, it would likely have been banned in England and Wales also. This would have severely hampered retailer's ability to sell cars in any volumes, with delivery rather than collection a slower, more labour intensive and expensive process. Some retailers are also simply not set up to deliver single vehicles in large volumes.

Even online purchasing of vehicles does still call into question what is an essential purchase under the spirit of the lockdown and this certainly delayed many from changing their vehicle. However, activity levels are at a level to make it worthwhile for car dealers to still operate.

Retail sales rates have typically been between 50% and 70% of "normal" or January 2019 levels. From research completed by the cap hpi editorial team, it is clear that this demand has ebbed and flowed throughout the month, with good days and bad, many contacts reporting more business typically during weekdays and less at weekends. There has also been a difference between franchised dealers and independents and supermarkets.

It would appear that car supermarkets business levels are closer to 50% of normal, whereas franchised dealers are generally higher. This is likely to be due to supermarkets traditionally being a place to browse for those buyers unsure which marque of car they wish to buy, whereas those that know are contacting franchised dealers. Smaller independents have found things more challenging, particularly if they do not have servicing capabilities or large outside areas to hand cars over, or a more than adequate online presence.

Whilst some retailers have adjusted prices, that is unlikely to stimulate the overall market – it is not price that is keeping sales rates lower than normal, it is adherence to the restrictions, safety concerns and the desire to see and test-drive a vehicle. Price drops, however, may attract business to some sites over their competition, which can be particularly attractive when the buyer-base is as reduced as it is.

Overall, within the cap hpi retail advertised data there is no evidence of large-scale pricing reductions. As things stand, the dreaded "race to the bottom" is being avoided. If retailers can hold their nerve, there is every chance that the up to 50% of consumers that are not buying that would normally do so, will reappear in the market, either during or after this lockdown, depending on how long it lasts for.

Used Car Remarketing Activity

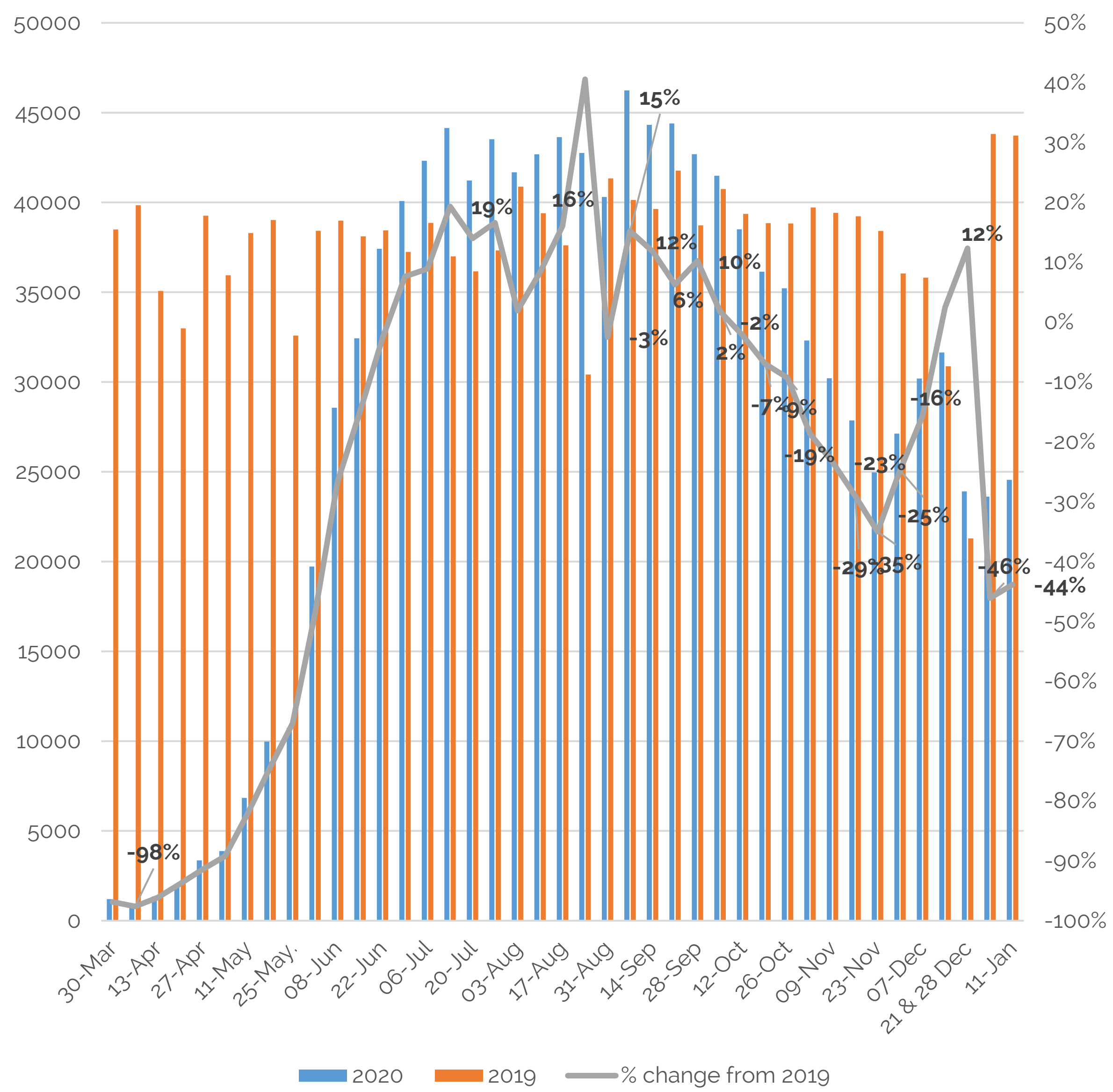
The wholesale market has also held up well during Lockdown 3. Whilst volumes have not been to the levels of a normal January, there has still been plenty of buying activity, despite many buyers being furloughed.

Perhaps unsurprisingly, with retail sales being in excess of half of where they were a year ago, the wholesale market in the first week of January was at 54% of 2019 levels. This increased to closer to 60% as the month progressed. Many retail outlets had stocked up to a certain degree in December, hopeful of a strong January for retail, but also wary that stricter restrictions could be imposed that would reduce demand, as was ultimately the case. Therefore, most wholesale activity was to replace sold orders or to buy something a bit different – there was very little speculative buying or "stocking up". There are just too many unknowns about the current lockdown and when it may end.

The chart below shows wholesale volumes, from the c.50 suppliers of trade data, that we receive, the blue bars illustrating the strong summer months of 2020, the decline from October onwards and the latest situation in January. The 2-weeks over Christmas have been amalgamated to compare with that period in 2019 and show a 12% increase year-on-year, pointing to the ability and desire to buy from auctions online, something that was far rarer a year ago.

The chart also illustrates that despite January being active for used car trade buyers, it is someway shy of this period last year, when COVID-19 was not on anyone's radar in the UK.

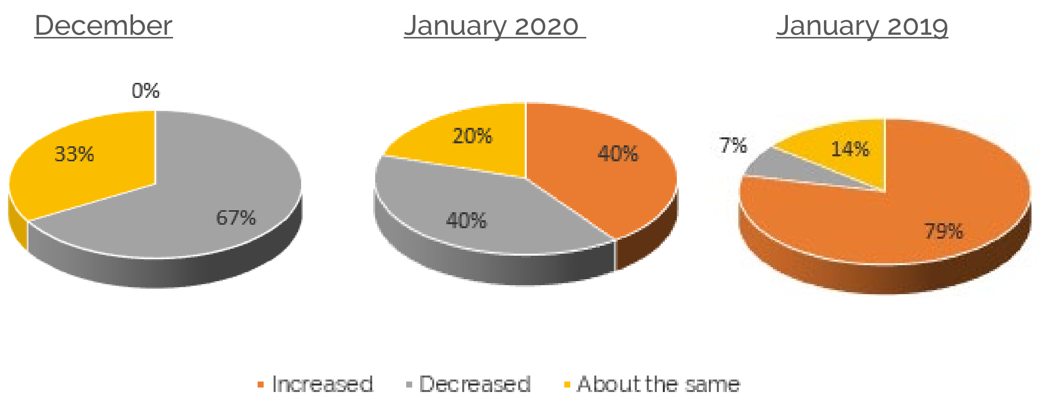
Wholesale Volumes since initial lockdown, 2020 vs. 2019 (like for like suppliers only)



Encouragingly, this decline in buying activity has not affected price too much. The percentage of cap of all data (in all conditions) received, whilst still slightly below where it needs to be for cap hpi values to stay level, has not dropped dramatically. We did witness a small drop off in price and activity when the confusion around the continuation of click and collect was in the motoring press, however.

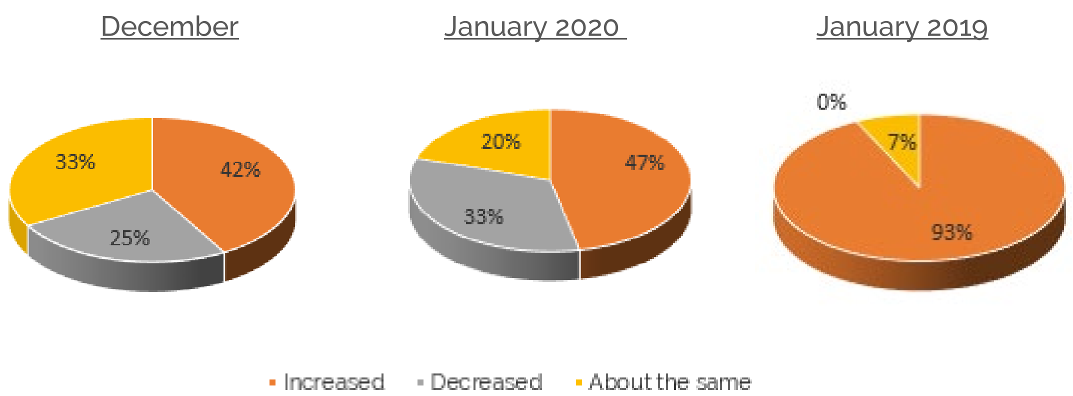
Turning to the cap hpi auction survey, to look at the three main metrics of stock, demand and conversion rates, it is clear that this January is very different to last month and January 2020.

How do your current stock levels compare to last month?



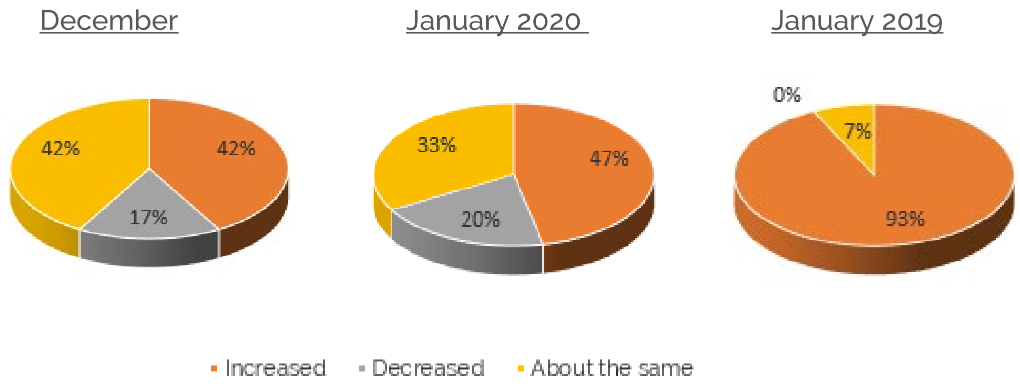
The graphs above show how stock levels last January were increasing for almost 80% of respondents, as remarketers looked to take advantage of a buoyant first quarter. This year, only 40% have advised of increases, although in December no auctions reported this. It is, however, a very mixed picture with the same number actually stating stock levels were declining. These differences between auctions are likely to be down to business models and whether the majority of stock comes from dealer part-exchanges, which will be heavily reduced from a normal January due to reductions in new and used car activity from the lockdown. Those relying more on the fleet market could be less affected.

How does your current overall demand compare to last month?



There is also a marked difference regarding trade buyer demand, when comparing to last year. In 2020, almost all respondents confirmed that demand was strong, as would be expected in January. This year, the situation is different, although it is reassuring to see that demand is still increasing at almost half of the auction houses that take part in the survey. Almost one-third, however, stated that demand had dropped off, likely to be due to that lack of speculative buying and the uncertainty over when consumer demand will improve and car showrooms be allowed to reopen.

How do your conversion rates compare to last month?



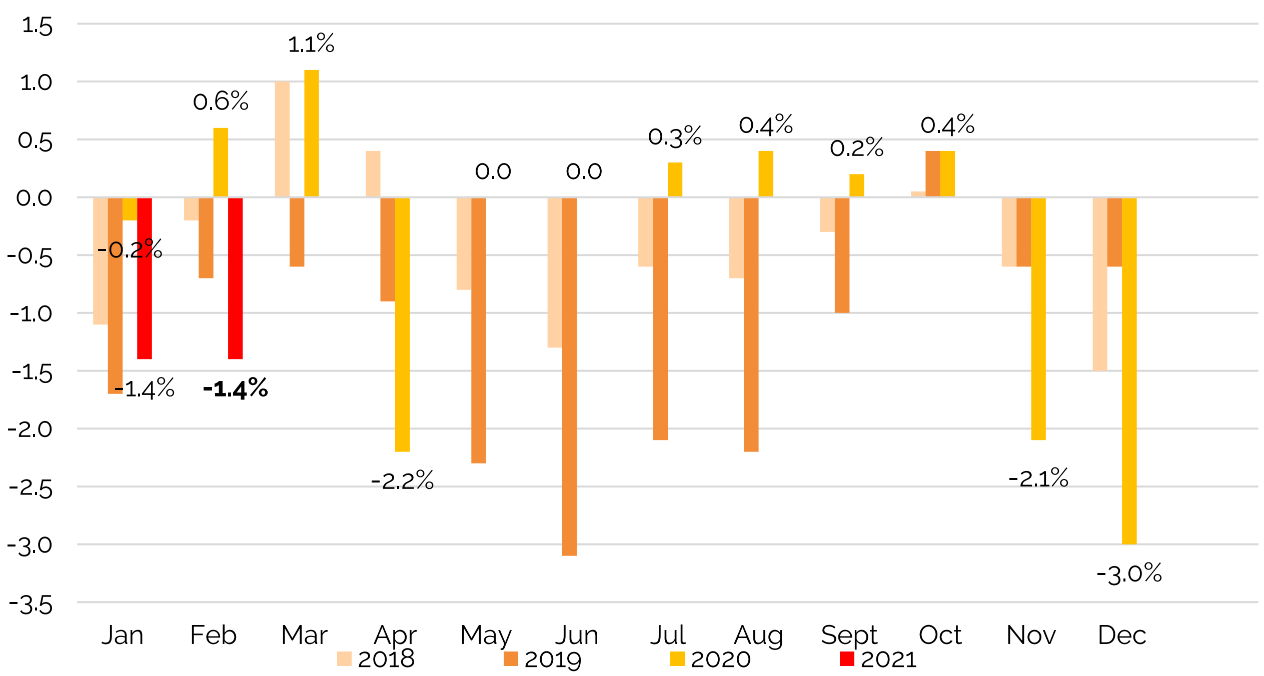
Unsurprisingly, conversion rate feedback is similar to the previous two metrics. A worse position than in January 2020 and similar to where things were in December. Again, looking to the positives, for almost half of respondents, conversion rates did increase compared to the back end of last year.

Used Cars – Trade Values

So, what has this all meant for cap hpi Live values during January?

The average value movement at 3-years during January (for February's monthly figures for those who do not subscribe to Live valuations) was -1.4%, or equivalent to a c.£150 reduction. Whilst this has been a reassuringly small movement, bearing in mind the drop off in demand, January historically has been one of the most stable months of the year for prices, with the average movement over the previous 5-year period being a negligible 0.2% drop. Last year, values increased by 0.6% during January.

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



As always, averages do not paint the full picture, with each generation of models analysed independently, there were winners and losers within the figures.

Cars younger than 3-years old saw a similar average drop in values (-1.2% on at 1-year old), but it was at the older ages that a difference was apparent. At the 10-year age point, average values increased by 0.6% - only a small amount in monetary terms (c.£25) but an increase nonetheless and some increased by far more. This was not to the same overall level as we saw in June last year, when there was a rush to buy desirable older cars, to avoid public transport to a large degree, but there was still demand, particularly for premium brands and large SUVs.

When looking into specific sectors, it is clear that MPVs have suffered the most with regards to price. Over the course of 2020, like many sectors, MPVs increased in price, helped by lower supply levels. However, it would appear that the relative difference in desirability versus a more popular SUV has caused prices to dip for many MPVs over the back end of last year and into this one. They may have also been affected by reduced demand from the private hire market. Some notable reductions at the 3-year age point are for the Ford Galaxy, SEAT Alhambra and Vauxhall Zafira, which have all reduced by in excess of 4% in January - for the Galaxy this was slightly more than £600 in one month – a significant amount.

Other volumes sectors such as superminis and lower medium (or C-sector) cars also reduced in price by more than the average, by 1.8% and 1.5% respectively, pointing to a reduced desire for the trade to purchase mainstream models for stock, when demand was so difficult to predict.

Areas of the market that did perform well were for more niche or desirable models. Sports cars continued to have strong demand relative to supply. This was a theme of last year, with the sports car sector an average of 5% up on values over the course of 2020, as consumers sought out an aspirational purchase, perhaps with money saved during lockdown, or with grants or loans received. This has been particularly true for older models and some examples of cars that went up in value during January are the Alfa Romeo Brera and Porsche Cayman, both relatively practical sports cars. Some convertibles have behaved similarly, with the Volkswagen Beetle convertible and Mercedes-Benz SLK going up in value.

Once again, it has been petrol and diesel powered cars that have dropped by the lowest amount. Electric Vehicles and hybrids dropped in value, on average, during 2020, with supply levels increasing and little desire to pay the high premium these have been priced at in the market previously, plus again a fall in demand in the private hire market. This theme has continued into 2021, with EVs dropping by 1.8% (c.£300 at 3-years old) and pure hybrids by 2% (c.£250). Some notable movers down were the BMW i3, Hyundai Ioniq and the Smart ForFour.

What Next?

What happens next in the used car market is very dependent on how long the current lockdown continues for and to what degree we emerge from it.

As things stand, it is likely that the lockdown will be in place for the whole of February and when it does end, there is likely to be a return to the tiers we saw at the end of last year.

As this editorial has illustrated, however, the used car market has remained resilient and demand for cars from consumers and the trade remains – certainly more activity than in the initial lockdown last March, April and May. There is no reason to suggest current demand levels will not be maintained and they could even increase, particularly if there are positive announcements regarding a possible end to lockdown. This is all dependent on the R-rate continuing to drop, vaccination volumes being on target and of course most importantly death rates reducing. The sad reality of over 1,000s deaths a day currently being recorded due to coronavirus should never be forgotten or ignored.

If used car demand remains at current levels, it is likely that cap hpi Live values will continue to drop in a similar manner to how they have done during January, reflecting prices in the wholesale and retail markets. Much depends, however, on whether remarketers and retailers hold their nerve on prices, prepared to wait for much of the demand to materialise, as it inevitably will. If retail prices reduce on a wider scale, then when replenishing stock, retailers will look to buy for less money, to maintain their margins. Remarketers may also get nervous if their stock levels start to build up and demand does not match it.

Overall, however, there is no evidence of large price reductions coming and when lockdown does end, pent-up demand will keep retailers busy. It is likely, however, that any demand-led increases in price could be short-lived, as increased used car supply from leasing extensions, delayed remarketing and simply volumes of cars registered 3-4 years ago returning into the market, will tip the supply/demand balance into the favour of the former.

Whatever happens over the next few weeks, it has never been more important to track daily trade prices for buying and selling, as well as retail pricing. It has been a volatile 10-months for the industry and 2021 is unlikely to offer stability as things stand.

Current Used Valuations February 2021 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(1.3%)	(1.3%)	(1.4%)	0.2%
Supermini	(1.8%)	(1.8%)	(1.5%)	1.3%
Lower Medium	(1.4%)	(1.5%)	(1.4%)	1.6%
Upper Medium	(1.4%)	(1.4%)	(1.3%)	0.7%
Executive	(1.2%)	(1.2%)	(0.5%)	(0.2%)
Large Executive	(0.1%)	(0.6%)	(0.6%)	(0.2%)
MPV	(2.0%)	(2.2%)	(2.1%)	(0.2%)
SUV	(1.1%)	(1.2%)	(1.2%)	1.1%
Convertible	(0.6%)	(0.5%)	(0.6%)	0.4%
Coupe Cabriolet	(0.3%)	0.4%	0.3%	0.1%
Sports	(0.3%)	(0.0%)	0.2%	0.6%
Luxury Executive	(0.1%)	(0.1%)	(0.1%)	0.1%
Supercar	(0.1%)	(0.1%)	(0.0%)	0.0%
Overall Avg Book Movement	(1.2%)	(1.4%)	(1.3%)	0.8%

( ) Denotes negative percentages

Used Car Values February 2021 - Average Value Movements by Size

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(1.5%)	(1.7%)	(1.5%)	0.8%
MPV Medium	(2.3%)	(2.5%)	(2.2%)	(0.4%)
MPV Large	(1.4%)	(1.7%)	(1.7%)	(0.4%)
SUV Small	(1.6%)	(1.6%)	(1.9%)	2.5%
SUV Medium	(1.0%)	(1.4%)	(1.3%)	0.9%
SUV Large	(0.7%)	0.5%	0.3%	1.5%

( ) Denotes negative percentages

Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
AUDI A5 SPORTBACK (16-20)	200	300	209
FORD FIESTA (17-)	(350)	(150)	(230)
JAGUAR XF (15-)	(1,050)	(850)	(965)
KIA SPORTAGE (15-)	(650)	(350)	(520)
FIAT 500 (15-)	(300)	(125)	(229)
MERC GLA CLASS (14-19) DIESEL	(800)	(350)	(561)
NISSAN QASHQAI (13-18) DIESEL	(400)	(400)	(400)
PEUGEOT 2008 (13-20)	(450)	(250)	(338)
VAUXHALL ASTRA (15-20)	(550)	(375)	(466)
VOLKSWAGEN GOLF (13-) DIESEL	(400)	(200)	(293)

( ) Denotes negative movement

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI A1 (10-19)	(550)	(325)	(412)
BMW 3 SERIES (12-19) DIESEL	(500)	(275)	(363)
BMW MINI COOPER (13-18)	(500)	(300)	(393)
MERC A CLASS (12-18) DIESEL	(600)	(375)	(499)
NISSAN JUKE (10-20)	(600)	(175)	(369)
SUZUKI JIMNY (05-18)	225	250	241
TOYOTA AYGO (14-18)	(275)	(125)	(206)
TOYOTA LAND CRUISER (09-18) DIESEL	700	1,200	887
VOLKSWAGEN POLO (09-18)	(325)	(125)	(208)
VOLVO XC90 (14-) DIESEL	(1000)	(450)	(566)

( ) Denotes negative movement