April 2021

Future new car market overview

Welcome to the latest version of our overview. Our aim is to bring you the best content and layout, making it easy to identify new and revised information. As always, any customer feedback would be appreciated: e-mail dylan.setterfield@cap-hpi.com

The content is structured as follows:

1. Forecast Changes
2. Market Conditions
3. Historic Forecast Accuracy
4. Forecast Methodology & Products
5. Sector Reforecast Schedule 2021

1. Forecast Changes

New model ranges added to our forecasts

Genesis G80, Genesis GV80, Mercedes-Benz EQA, Toyota Camry, Volkswagen Touareg and Volvo XC60

Model ranges to which new derivatives have been added

Audi A3, Audi A6, Ausi A7, Audi RS4, Audi RS5, Audi RS6, Audi TT RS, Audi Q5, Audi Q5 Sportback, BMW 1 Series, BMW 2 Series, BMW 3 Series, DS DS 3, Fiat 500, Fiat 500C, Fiat 500L, Fiat 500X, Ford Puma, Hyundai i20, Jeep Wrangler, Land Rover Defender, Mazda MX-5, Mercedes-Benz V Class, Nissan Qashqai, Porsche Taycan, Renault Captur, Renault Zoe, Skoda Enyaq, Volkswagen Golf, Volkswagen ID.3, Volkswagen ID.4, Volkswagen Polo, Volkswagen T-Cross, Volkswagen T-Roc and Volkswagen Tiguan.

Sector reforecasts

This month, we publish new reforecasts for the SUV sector. (As mentioned previously, Electric Vehicles are now reforecast in conjunction with their associated body style sectors).

As our forecast window moves further into the future and out of the worst of the impacts of the pandemic, there have been significant improvements to our deflation assumptions. Diesel SUVs see an improvement of approximately +4.5% for 3-year-old vehicles in the first year with increases of a similar magnitude at other ages and Petrol improves by around +3.5% for 3-year-old cars, again with similar changes at other ages. It should be emphasised that we expect a short period of higher deflation soon after April 2021 as we reach peak deflation in Summer 2021 (the bottom of the "V"), with improvement back to April 2021 levels very soon afterwards.

The average movements at 36/60 do not wholly reflect the change in deflation assumptions, because many models have seen larger reductions in used values than would have been expected since the last review. In general, there were reductions for Small SUVs and forecasts for Diesel SUVs increased. As has been the trend for some time, most alternative fuel versions either decreased or improved by less than the overall average. Further details are displayed in the table below.

The overall impact of the changes to forecasts for these sectors at 36/60k is shown below:

SIZE & FUEL TYPE	UNDERLYING FORECAST CHANGE	SEASONAL ELEMENT	OBSERVED CHANGE MARCH TO APRIL
Small SUV	-1.3%	-0.6%	-1.9%
Medium SUV	+1.2%	-0.6%	+0.6%
Large SUV	+1.4%	-0.6%	+0.8%
SUV Diesel	+2.0%	-0.6%	+1.4%
SUV Electric (BEV)	-2.6%	-0.6%	-3.2%
SUV Hybrid (HEV)	-2.2%	-0.6%	-2.8%
SUV Petrol	+0.4%	-0.6%	-0.2%
SUV Plug-In Hybrid (PHEV)	+0.5%	-0.6%	-0.1%
SUV Overall Average	+0.7%	-0.6%	+0.1%

There have also been some changes to mileage profiles in advance of a full review later in the year. Our SUV mileage profiles are now split into 'higher' and 'lower' profiles, with all Diesel models in the lower profile and Petrol and alternative fuel models split between the two. Although there are changes across the age/mileage grid, the biggest impacts are at 4 and 5 years with lower than benchmark mileage and values have generally decreased at these points. We will be publishing some separate reporting to assist customers in understanding these impacts.

The overall average change in new car forecasts for ALL cars between March and April is approximately 0.14% at 36/60, which is broadly in line with the normal expectation of the seasonal change for full year forecasts at this time of year.

Details of all 36/60k forecast values revised by ±5% can be found via the following link: **Monthly Reports**

Other forecast changes this month (in addition to sector reforecasts)

HYUNDAI IONIQ (19-) HYBRID: Reforecast following inter-product analysis of relationship between forecasts and current values, resulting in forecast decreases.

KIA XCEED (19-): Reforecast following inter-product analysis of relationship between forecasts and current values, resulting in forecast decreases.

TESLA MODEL S (19-): Walk up realignment to Long Range trims following sustained trends in used values, resulting in forecast decreases.

TOYOTA PRIUS+ (12-) HYBRID: Reforecast following inter-product analysis of relationship between forecasts and current values, resulting in forecast decreases.

Seasonality changes

In line with our gold book methodology, all other model ranges outside of the other changes listed above, have had their forecasts moved forward from month to month by seasonal factors which are differentiated by sector and fuel type and are based on analysis of historical used value movements.

2. Market Conditions

Some of the uncertainties which looked as if they could potentially affect our view of the future used car market have either resolved themselves or are now clearer. The Trade and Co-Operation Agreement between the UK and EU removed the threat of tariffs on new car prices and the Covid-19 vaccine rollout is now well underway. Dealerships are due to physically re-open on April 12th and most dealers are already seeing an increase in used car demand. The government's additional support for business has delayed the anticipated negative economic impacts and further lockdowns now seem unlikely. It is sincerely hoped that we can now start to look forward to a more stable future.

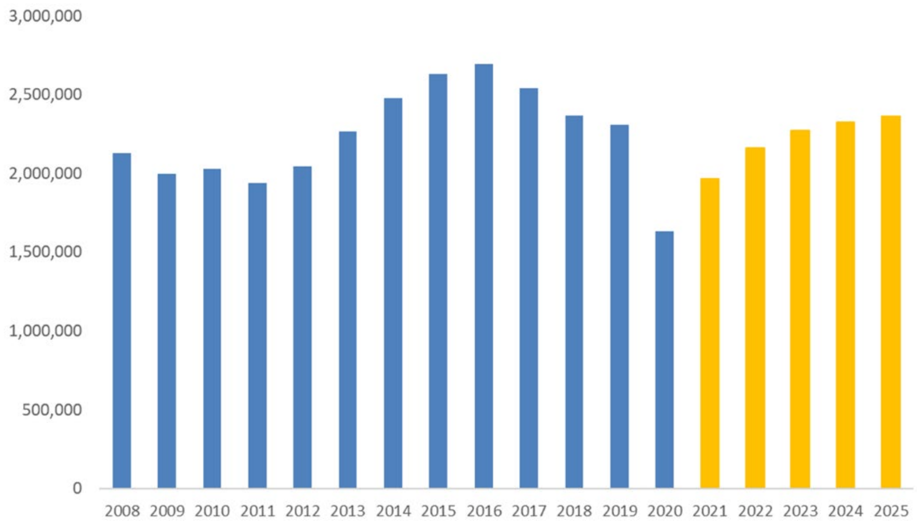
In summary, our view is that:

- Although there is likely to be a boost in remarketing activity in the lead up to dealerships re-opening and for some weeks beyond, we do not expect a repeat of the price increases seen in 2020. Dealers have been trading through click and collect/click and deliver throughout the period and any surge in used values is likely to be short-term.
- Values will fall to a low point in the second half of the year, driven by higher volumes of used supply (especially the return of extended fleet cars, and an expected increase in the number of early terminations of consumer PCP cars) coming back onto the market at a time when consumer confidence will still be low and as government support starts to be wound down.
- One-year-old vehicles will remain in relatively short supply at this time, and while this would normally help support their values, our view is that the dominant factor will be depressed consumer appetite for what will be a relatively expensive purchase. We are also seeing some pressure on prices from aggressive deals available on new cars. Therefore, their values will also be negatively impacted, albeit by less than typical ex-fleet cars.
- After the low point, values will recover over the next couple of years as the economy and consumer confidence improves, and used supply starts to reduce (helped by the shortfall in new car registrations that we are seeing now).

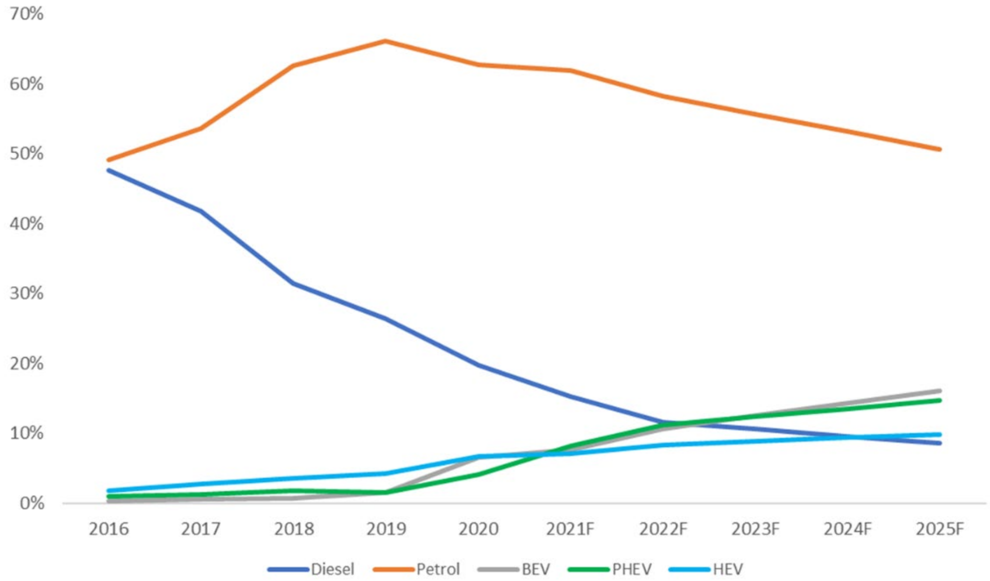
There will still be variations by sector and fuel type. We expect that smaller cheaper cars will be less impacted than larger expensive ones throughout the depressed period, as consumers remain prudent.

Supply side factors

New forecast for new car registrations from the SMMT was updated in March to 1.83mm. The chart below displays our own latest forecasts: 2021 1.902mm, 2022 2.162mm, 2023 2.270. Our forecast was revised down from 1.965mm once it was clear that dealerships would not be opening during March and remains under review. Subject to the recovery of the economy, we expect that registrations will gradually increase to a level above 2.3M registrations a year, but not reaching the peaks seen in 2016.



The chart below shows the forecast market share split by fuel type. Petrol and Diesel volumes include mild hybrids. The decline in diesel will continue but slow down since it will remain the right choice for a minority of drivers.



Growth will be led by battery electric vehicles (BEVs) which we expect to become the dominant AFV type by 2023. Post-Covid driving patterns (shorter and few journeys due to the increase of home working and online meetings) are likely to add to demand. The government's proposal to ban new ICE cars from 2030 will also be part of this increase, provided enough vehicle supply is made available and investment in charging infrastructure keep pace with demand.

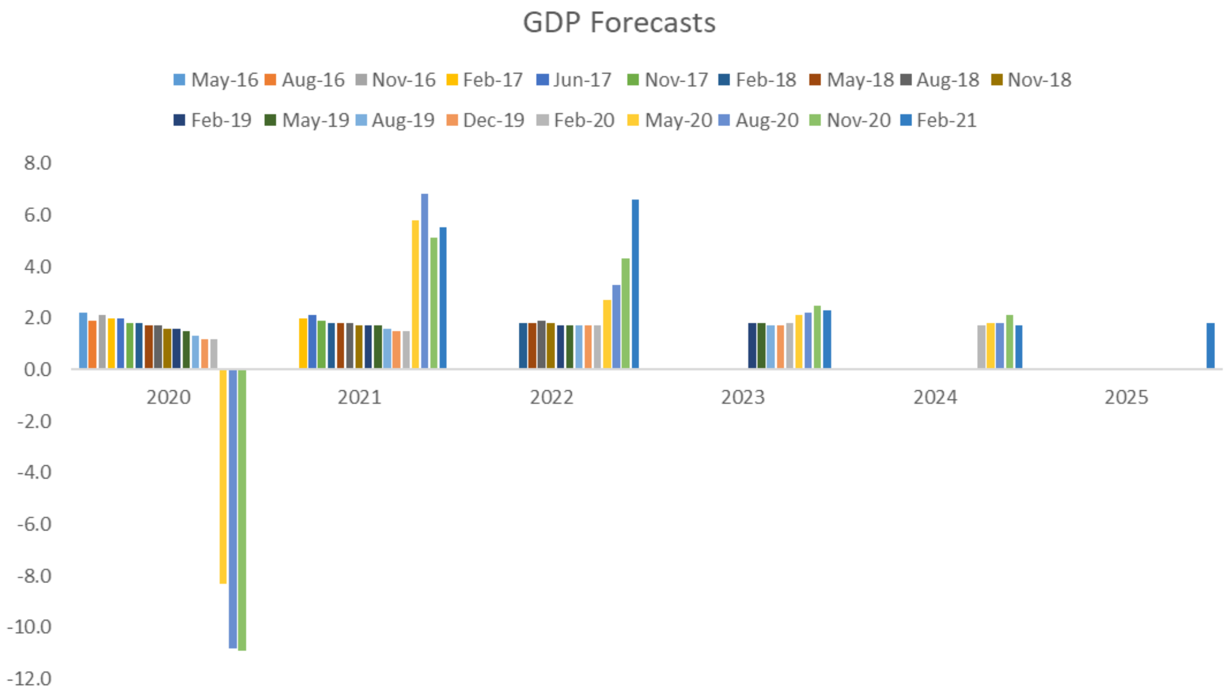
The recent shock announcement from the government regarding changes to the Plug-In Car Grant (PiCG) is expected to 'normalise' the market. We expect to see various actions from manufacturers and our view is that the impact on used values will be broadly neutral. Detailed commentary is available on our Extras Blog:

https://www.cap-hpi.com/blog

Demand side factors

Latest independent forecasts for the UK economy were published in February and show some improvement to forecasts for GDP, with the Bank of England now describing risks as "balanced". However, the increases in 2021/22 also reflect the fall in 2020 being greater than previously estimated (and continuing into early 2021), with preliminary full year figures for 2020 not published until the end of March. Longer term GDP recovery has reduced for 2023 to 2024.

The chart below shows the latest GDP forecasts for 2020-2025, alongside previous forecasts.



The latest unemployment forecasts show a longer but flatter curve, with unemployment expected to rise to between 6% and 7% over the next two years (rather than peaking this year); then taking several years to return close to pre-Covid-19 levels.

These new forecasts are broadly in line with the OBRs central economic scenario, and the latest view of the Bank of England.

Some good news is that inflation and the base rate are forecast to remain low, but our conclusion is that consumer confidence and willingness to pay for big ticket items such as replacement cars, may be limited due to the reduced growth and unemployment. A significant proportion of consumers have built up considerable savings, but many will be cautious about their future economic stability and others have reduced financial circumstances as a result of the pandemic.

3. Historic Forecast Accuracy

Since the introduction of gold book at the end of 2013, we have been able to track the accuracy of historic forecasts against current (black book) values. This tracking is longest for 12-month forecasts (tracked since January 2015) and shortest for 60-month forecasts (tracked since January 2019).

Overall, we are satisfied that accuracy results are generally been within the +/- 5% target agreed with customers but recognise that results were affected by the unexpected strength of petrol values, which started in 2017 as a result of anti-diesel press, but which fell away since late 2018, as we had always predicted. Diesel forecast accuracy has generally been within target, while petrol forecast accuracy fell outside of target during the period of strong values.

Our historic forecast accuracy then improved because of this cooling of current petrol values during 2019, and because of historic sector reforecasts that considered petrol strength now starting to flow through into the accuracy results. This flow has happening with 12-month forecasts, is happening with 24 month forecasts, and will move on to 36, 48, and 60-month forecasts in future years.

In recent months, our historic forecast accuracy was impacted by the strength of the current market after dealerships re-opened after the COVID lockdown. The pausing of the market followed by significant strength on resumption (at a time when we would normally expect to see depreciation in each month) resulted in a significant short-term shift **in accuracy.**

Therefore, the tracking charts below all show the same general patterns, with the difference to target being less for 12-month forecasts (reforecast most recently); and being more for longer term forecasts (reforecast less recently).

City Car forecast accuracy, followed by Supermini, have been most volatile over the long term, partly as a result of variable manufacturer behaviour regarding forced registrations, and partly because their low pound values result in relatively large percentage figures.

More recently, MPV forecast accuracy was affected by the strength in values due to demand outstripping supply; but the market has now normalised to a great extent, although some models have seen extreme reductions, partly due to the private hire sector being dormant.

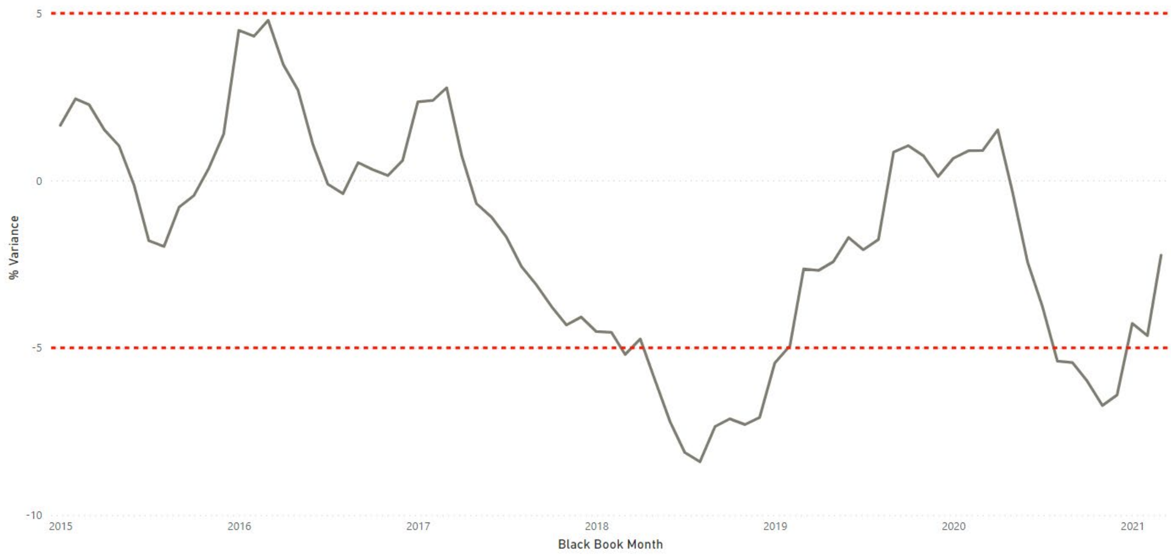
Also, Executive sector forecast accuracy has recently shown our forecasts to have been too high, and again recent sector reforecasts for Executive should improve accuracy when these flow into results.

Details are shown below for 12 and 36 months, but all details are available on request.

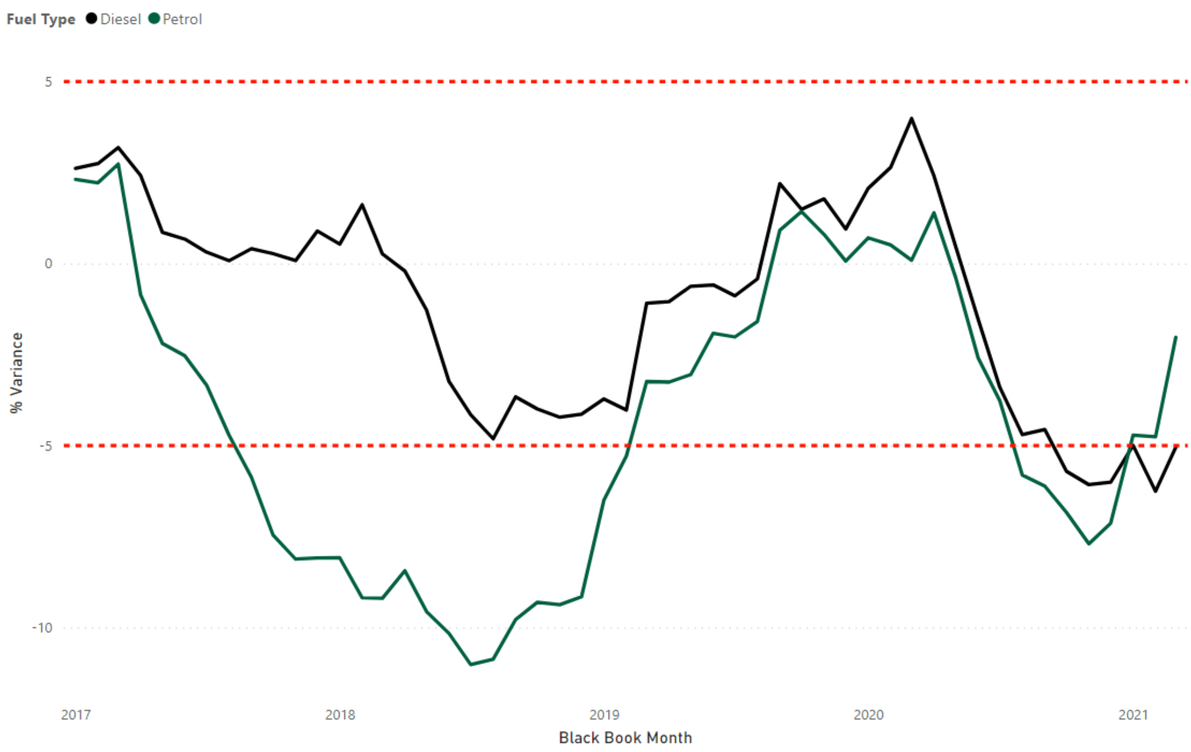
12-month results

Since measurement began our 12-month forecasts have averaged -1.7% less than used values across all vehicle ids, and the most recent results show March 2020 12/20 forecasts being -2.3% less than March 2021 12/20 used values.

Overall results:



Fuel Type Results



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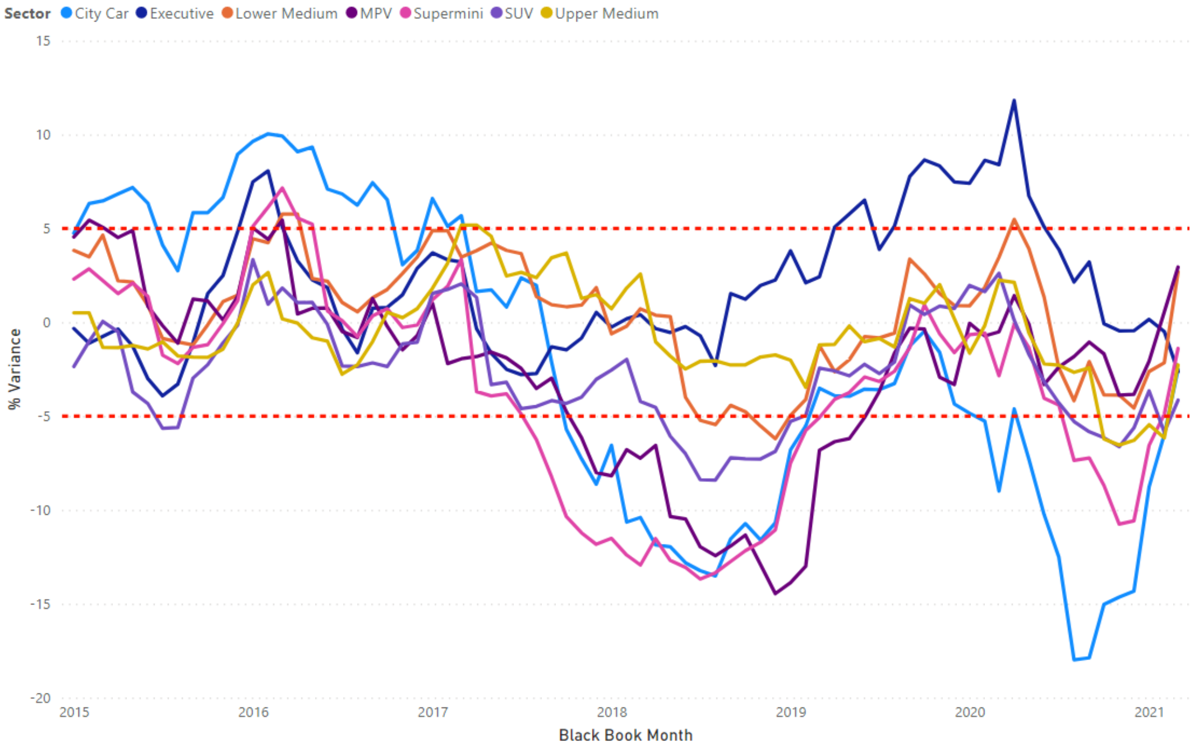
Sector Results:



The most recent results for the main sectors are as follows:

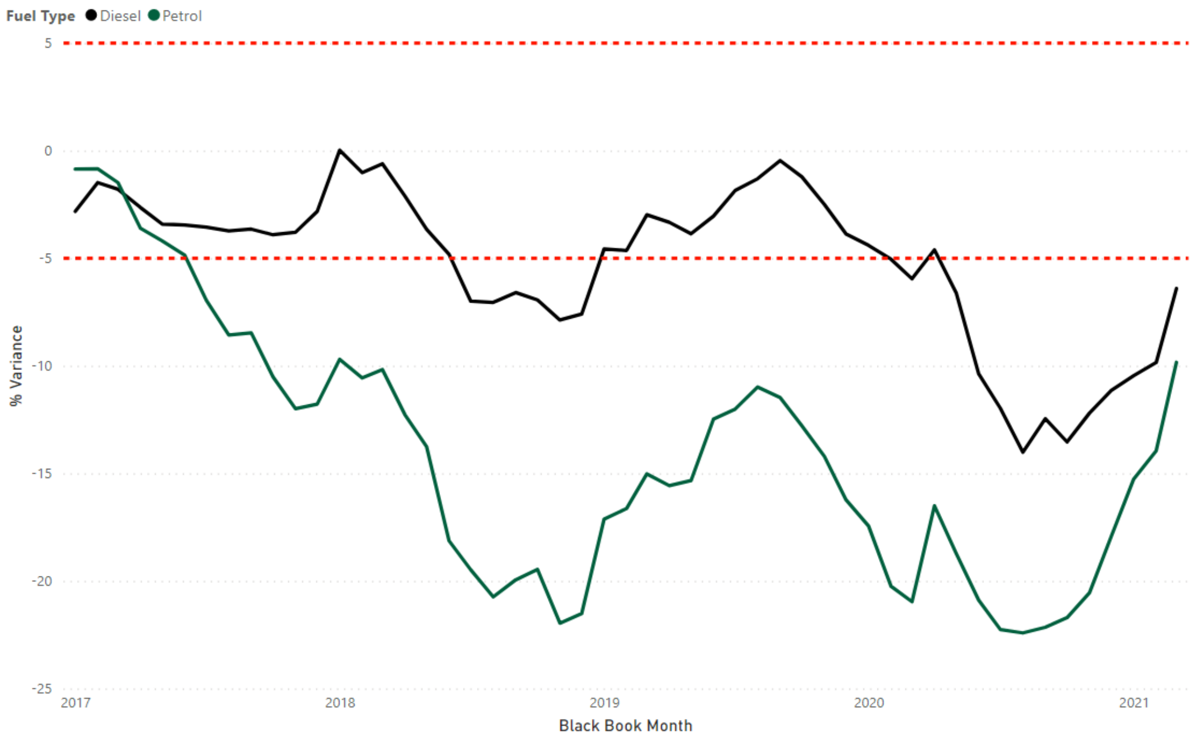
Mar-21	
City Car	-2.5%
Executive	-2.6%
Lower Medium	2.7%
MPV	2.9%
Supermini	-1.4%
SUV	-4.2%
Upper Medium	-2.3%

36-month results

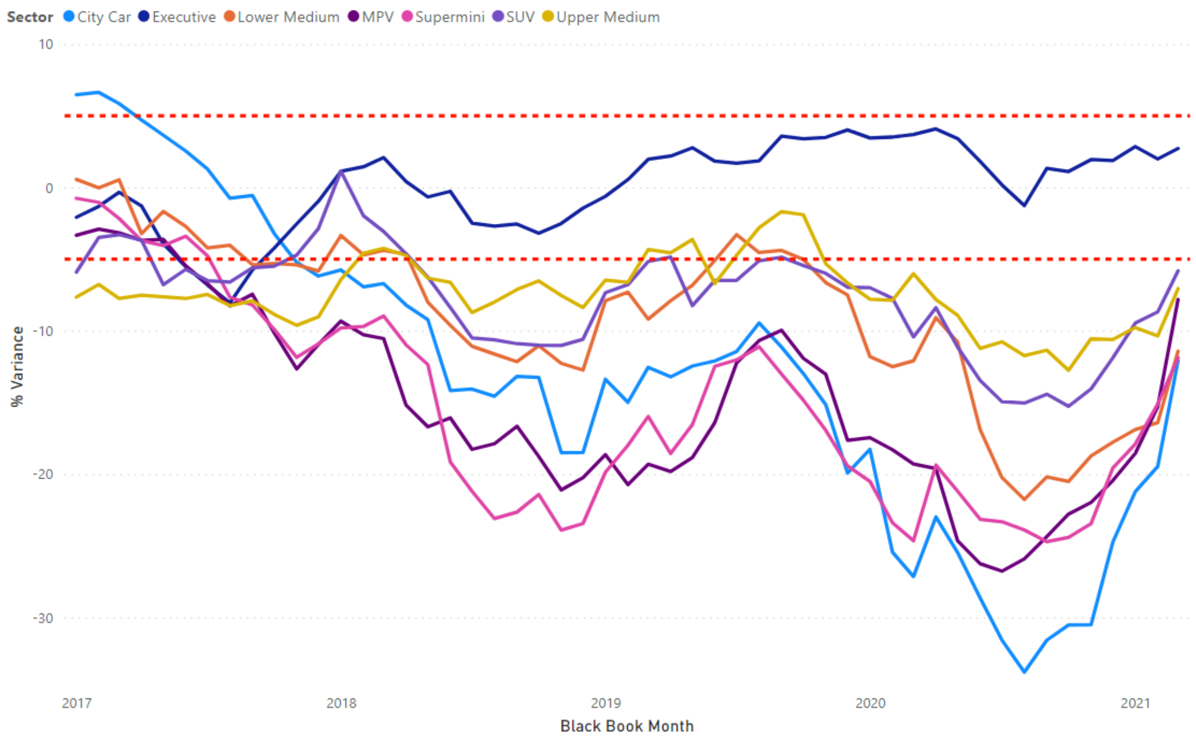
Since measurement started our 36-month forecasts have averaged -10.1% less than black book across all vehicle ids, and the most recent results show March 2018 36/60 gold book forecasts being -8.4% less than March 2021 36/60 black book.

Overall results:

Fuel Type results:



Sector results:



The most recent results for the main sectors are as follows:

Mar-21	
City Car	-12.1%
Executive	2.7%
Lower Medium	-11.4%
MPV	-7.8%
Supermini	-11.9%
SUV	-5.8%
Upper Medium	-7.1%

4. Forecast Methodology & Products

Overview & gold book iQ

Our values take current month used values as a starting point (uplifted for model changes where necessary), are moved forward according to age/sector/fuel specific year on year deflation assumptions regarding future used car price movements and are then subjected to additional adjustments by the Editorial Team. Finally, the values are moved forward by the next month's seasonality adjustments which are differentiated by sector and fuel type and are based on analysis of historical used value movements.

All these assumptions and adjustments are available for scrutiny to our customers through our gold book iQ product: complete transparency in automotive forecasting.

Changes may be actioned wherever there is reason to do so outside of the sector reforecast process and we continue our monthly inter-product analysis with our used value colleagues exactly as before.

Short Term Forecast (0-12 months)

Our short-term forecast product, (covering 0-12 months) was launched in 2014. This is a live, researched product with a dedicated editor and filled a gap in our historical forecast coverage.

Forecast Daily Feed

In December 2017 we introduced a daily feed of forecasts for new models launched onto the market, so that customers do not have to wait until the next month to receive these forecasts.

Forecast Output

Individual forecasts are provided in pounds and percentage of list price for periods of twelve to sixty months with mileage calculations up to 200,000. Each forecast is shown in grid format with specific time and mileage bands highlighted for ease of use.

All forecast values include VAT and relate to a cap hpi clean condition and in a desirable colour.

All new car prices in forecast data include VAT and delivery.

Parallel Imports

Particular care must be taken when valuing parallel imports. Vehicles are often described as full UK specification when the reality is somewhat different. These vehicles should be inspected to ensure that the vehicle specification is correct for the UK. Parallel imports that are full UK specification and first registered in the UK can be valued the same as a UK-sourced vehicle.

Grey Imports

cap hpi gold book does not include valuations for any grey import vehicles, (i.e., those not available on an official UK price list).

5. Reforecast Calendar 2021

We are accelerating our calendar of sector reforecasts, to ensure that forecasts for all sectors incorporate the latest views of the future market in this fast-changing environment. We are bringing Upper Medium and the Executive sectors into next month and then reviewing Lower Medium, MPV and the Sports/Convertible/Supercar sectors the following month. Following these reviews, we will revert to a more normal review cycle. The table below shows our revised future schedule of sector reforecasts:

Monthly Product	Sector 1	Sector 2	Sector 3	Sector 4	Sector 5	Sector 6
May-21	City Car	Supermini	Upper Medium	Executive	Large Executive	Luxury Executive
Jun-21	Lower Medium	MPV	Convertible	Coupe Cabriolet	Sports	Supercar
Jul-21	No reforecasts					
Aug-21	Small SUV					
Sep-21	Medium SUV	Large SUV				
Oct-21	City Car	Supermini				
Nov-21	Upper Medium	Executive	Large Executive	Luxury Executive		
Dec-21	Lower Medium	MPV				
Jan-22	Convertible	Coupe Cabriolet	Sports	Supercar		
Feb-22	SUV					
Mar-22	City Car	Supermini				
Apr-22	Upper Medium	Executive	Large Executive			