

June 2021

Car Market Overview

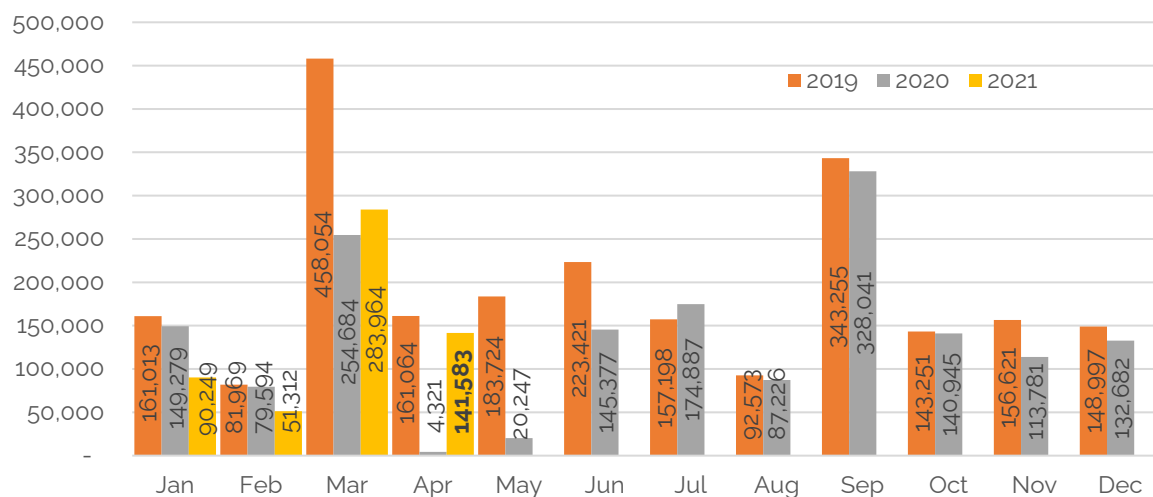
Last month we stated that it felt as though we had entered a new era for the UK car industry, with car showrooms physically reopening and hopefully the worst of the impact of the COVID-19 pandemic behind us. Since then, we have witnessed unprecedented strength for used car demand and prices, but concerns for supply in the new and used market and of course the shadow of the Indian variant of the virus being cast across the country. We remain hopeful that vaccinations will minimise any impact on hospitalisations and casualties and that life can continue to return to some degree of normality.

This overview will report on new car registrations to the end of April and used car activity at the time of writing. All information is correct as of 25th May 2021.

New Car Sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), 141,583 cars were registered in April 2021. Any comparison to the same month last year is irrelevant as April 2020 was the first full month of lockdown due to COVID-19, with even online activity severely restricted at that time. Compared to April 2019, there were 19,481 fewer registrations, a reduction of 12.1%. Obviously, for the first 11-days of April this year, showrooms remained physically closed, although they were open for online business.

Year-to-date, 567,108 cars were registered to the end of April, 16.2% up on the same period last year, when 487,878 had been registered. Compared to 2019, however, there have been 294,992 less cars registered this year to the end of April, a reduction of 34%.



Source: SMMT

Including mild hybrids, market share of diesel cars continues to decline, now at 18.3% year-to-date, compared to 22.5% at this point a year ago. Petrol registered vehicles take up 60.3% of all registrations in 2021, compared to 64.9% at this point in 2020. Alternatively-fuelled vehicles now account for 21.3% of registrations, compared to just 12.6% a year ago. Electric

Vehicles have increased from 4.0% to 7.2% of the market in that time, Plug-in Hybrid Electric Vehicles from 2.8% to 6.4% and pure Hybrid Electric Vehicles from 5.8% to 7.7%.

Daily Rental registrations were considerably higher than in April last year, for obvious reasons, but over 10,000 less than in April 2019. Year-to-date, there have been over 60,000 less cars registered into this sector than in 2019.

Used Car Retail Activity

Last month we reported strong used car retail activity, following car showrooms physically reopening on 12th April. It would be an understatement to say that this has continued into and throughout May.

Across the board, from franchise dealers to car supermarkets and independents, activity levels at all outlets have been amazingly strong, with sales rates ahead of budget and in most cases ahead of pre-COVID rates. With social distancing and limits on numbers in showrooms, there have been reports of queues out the door and sites being almost too busy.

With a degree of pent-up demand following lockdown 3 restrictions, "accidental savers" with money to spend, new car supply issues and uncertainty over foreign holidays this summer, consumer demand for used cars has remained remarkably strong.

The most interesting theme in retail over the last few weeks has been prices. Whilst trade prices have been increasing daily, the retail market has certainly been slower to react.

With many outlets still selling cars that they had purchased a few weeks ago, not all were increasing advertised prices of cars in-line with the increased demand that they were experiencing. It took some time for many to realise that they could push prices up and that it would be impossible to replace sold units for amounts similar to what they had paid for them.

There have even been reports of dealers buying from other, cheaper retail sources, as cars were priced lower than wholesale cars were selling for at the time. Many dealers were also doing all they could to be competitive on part-exchange prices paid, realising a retail opportunity was to be had, as well as buying cars from private individuals on retail websites and even calling up customers that they had sold cars to previously, offering to buy the car back, sometimes for higher than they had bought it for.

As the month progressed, most retailers did increase their prices, but there was still a squeeze on margins and some that did not increase by as much as others did, with increased profitability maybe not such a key concern to some. Retail pricing has certainly not increased at the same pace as trade.

Used Car Remarketing Activity

If the retail market has been unusual in May, in the wholesale arena, we have almost run out of hyperboles to describe the current circumstances. The word "unprecedented" has been commonly used and it is actually difficult to articulate just how unusually strong the market has been.

With new car registrations down 34% so far this year, compared to the "normal" 2019, that is almost 300,000 less part-exchanges and fleet returns swilling around in the market. With less used transactions also due to lockdown 3, that has just added fuel to the fire of low supply in the trade market.

What we have witnessed, therefore, has been many remarketers of used cars increasing their prices extraordinarily, but still selling. Many have been prepared to sell lower volumes in the expectation that buyers may balk at prices initially, but they will be back, when the cliché that they cannot sell an empty space on a forecourt hits home. We have seen many wholesalers selling cars at well in excess of 110% of monthly cap values and some manufacturers selling their cars close to 120%. Many have been increasing prices on a daily basis.

This helped to make auction cars look attractively priced, even though with increased competition they were also selling for way ahead of monthly cap figures.

With press reports of semiconductor and other car components in short supply, fuelling shortages in the new car market, franchise dealers were focussing on used cars more, and actively buying. They were having to explore non-traditional routes to source stock, as direct supply from manufacturers and rental companies reduced greatly. Buying from auctions, paying more for part-exchanges and sourcing cars directly from retail adverts as well as transacting cars at older age and higher mileage profiles than they are used to has been commonplace. Car supermarkets and independents were also actively looking to stock up, many had been reluctant to do so prior to 12th April, so were playing catch-up amid concerns that supply was only going to tighten further.

There was some initial reticence to pay high prices and we saw sales volumes actually dip during week commencing 3rd May, although there was a Bank Holiday that week which had an effect. Once retailers saw cap Live figures and realised what they needed to pay to secure stock, the market was flying once more. This gave remarketers the confidence to increase their prices.

There were some interesting comments made in conversations with retailers:

"Prices don't look right, but they are right"

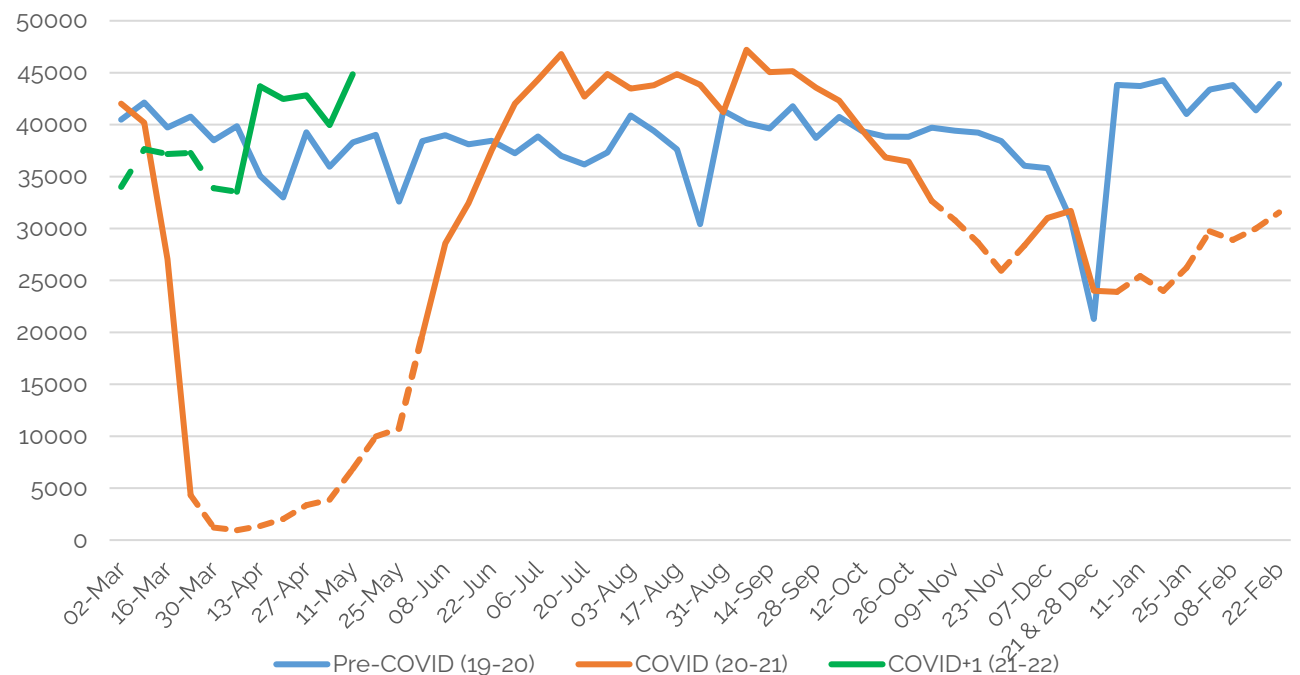
"The car that looked too expensive last week now looks good value amongst current prices"

"NAMA Grade 3 is the new benchmark for monthly cap clean"

"Yesterday's cars I didn't buy now look good value!"

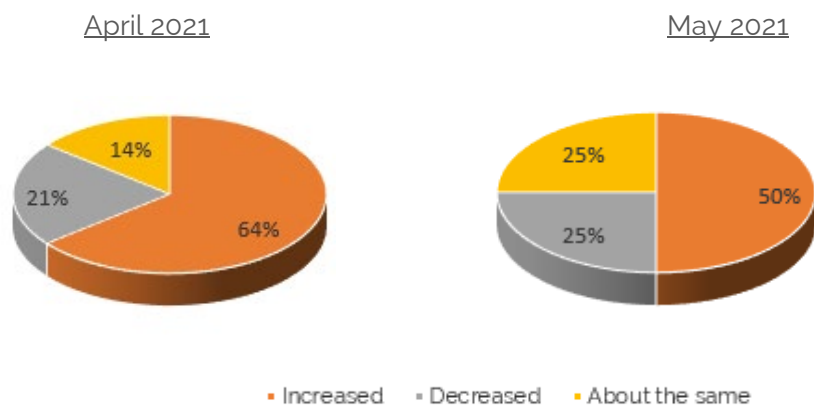
Whilst stock is certainly a concern, it is interesting to highlight that sold volumes within the trade data received by cap hpi are 17% ahead of the same week in 2019. The following chart illustrates this, with each point on the line being weekly volume. High conversion rates have been a constant theme across all auction centres and much of the increase has been led by them, rather than sales by direct remarketers, with conversion rates at 100% regularly and consistently well above 90%, particularly for fleet sales.

Wholesale Volumes since initial lockdown, comparison to previous year



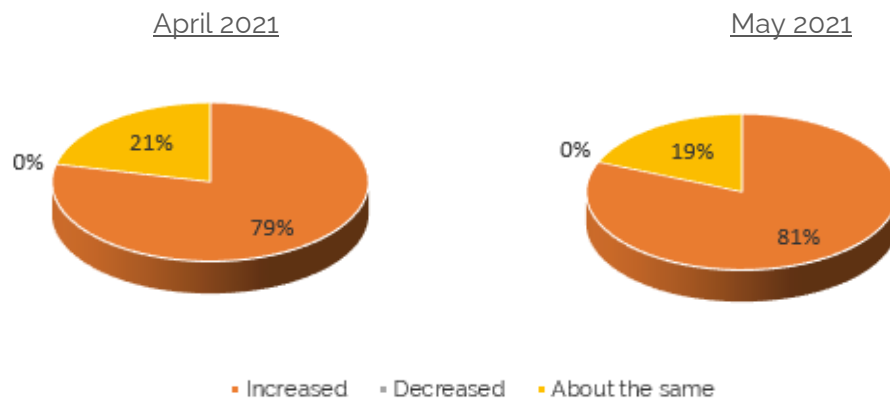
The results of the cap hpi auction survey have certainly made compelling reading this month.

How do your current stock levels compare to last month?



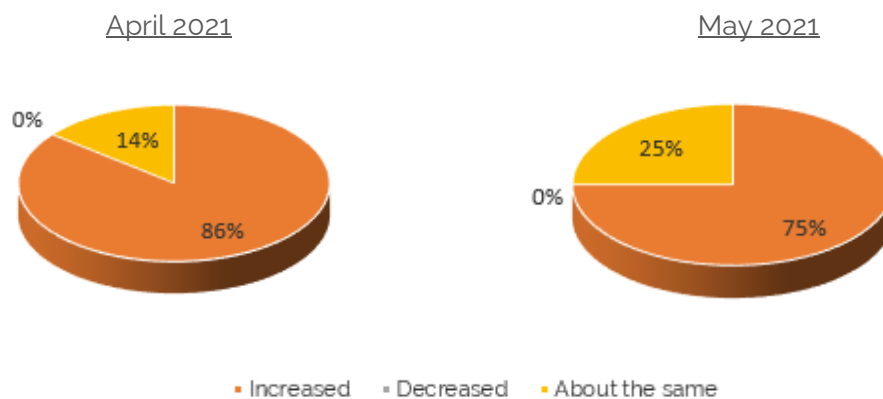
A really interesting response on stock levels, with half of those replying stating that volumes were actually increasing, despite those new car shortages and a lack of part-exchanges. As you can see though, a mixed picture, with the other respondents equally split between stocks decreasing or staying stable. These results certainly point towards some of the price rises being down to concern about future stock levels rather than current shortages.

How does your current overall demand compare to last month?



Unsurprisingly, this is the second month in a row where demand has increased for the majority and stayed level for the remainder, with no one reporting a decline as buyers actively seek out stock.

How do your conversion rates compare to last month?



Again, it was no surprise that conversion rates continued to increase for the majority during May, although perhaps a little surprising that there were less reporting this positivity than last month and more stating consistency.

In addition to these results, 88% of respondents stated that prices had increased – it is slightly surprising that this figure was not 100% in the current climate.

Used Cars – Trade Values

With all of the positivity of increased demand during May, it was always going to point towards values increasing in our Live product. What was less easy to predict, however, was just how much values would go up by.

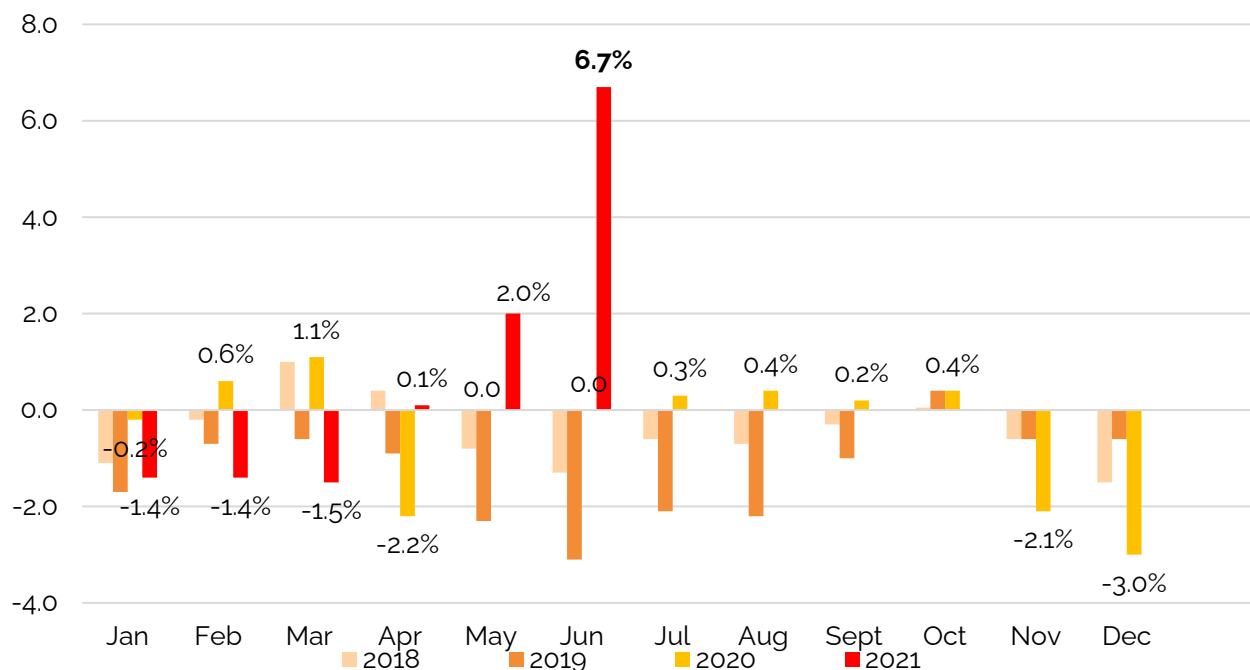
Once again, the word unprecedented has been overused in recent weeks as used car prices went through the roof, increasing daily.

Since Black Book Live was introduced in 2012, the largest movement up during a single month before this year was a 1% increase in February 2018 – generally, values drop each month as cars deflate in price as they age in their lifecycle. So, last month saw the biggest

increase since Live values were introduced and the highest increase in a month, taking the old monthly value methodology into account, since April 2009.

This month has more seen an increase of more than three times last month's record. May 2021 is likely to go down in history for the 6.7% average increase. It is difficult to stress just how large and unusual an increase that is.

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



6.7% at the 3-year age point is equivalent to an average of £825 per car. That amount of an increase on that age of car in such a short space of time in the wholesale market is quite extraordinary, particularly as values also went up by 2% during April.

The devil really is in the detail. 1-year old values have not increased to quite the same degree in percentage terms, going up by 5.6%, but this amounts to an average of over £1,200. Older cars have increased in value, but not to the same degree in the wholesale market, "only" increasing by 1.2%, or £100. Many retailers kept hold of part-exchanges to retail them, so it was poorer quality cars going trade-to-trade and this held back some price increases, although there was a desire by some to buy cars requiring refurbishment, as they were better value than cars in cap clean condition.

Every sector has seen values increase in May, not just niche sectors which in recent times have risen by more due to having more aspirational cars within them. Even many mainstream cars have risen by unparalleled amounts.

Some volume examples from across various brands and sectors are Ford Fiesta up 8.5%, which is over £1,000 at the 1-year age point, Audi A3 up over 7% (£1,300 at 1-year old, £800 at 3-years), Vauxhall Zafira up 10.4% (c.£750 at 3-years), Mazda 6 up 8.1% (c.£700 at 3-years), BMW X3 up 6.2% at 3-years old (c.1,500) and Volkswagen Tiguan Petrol up 10% or £2,400 at the 1-year point. There are many more just as startling examples.

Convertibles have continued to go from strength-to-strength with large value increases across the board, despite weather conditions being somewhat under par and the fact values

were already at a high point. Once again, it has been German product which has performed the best overall; however, most ranges have seen some exceptional increases. Most of the cars in these sectors have been improving since the first lockdown and evidence of this can be seen in the Mazda MX5 (05-09) which including some seasonal reductions during the winter months has risen by over 50% since May 2020. The theme of consumers making an aspirational, fun purchase is clear.

It has been noticeable throughout the month that cap monthly figures became out of date even before they were published. Live values kept pace with the market, increasing every single day as wholesale demand increased.

The traditional fuel-types of petrol and diesel continued to prove the most popular and saw the largest average increases (7.2% and 6.4% respectively), but hybrids and plug-in hybrids also saw a resurgence. Some of those hybrids hardest hit on price over the last year, namely Toyota Auris, Prius and Prius+, all saw prices increase by huge amounts during May, by 13%, 9% and 8% respectively, at the 3-year point, equating to £1,100, £950 and £1,000. These cars now look better value for money and are now maybe less of a risk to buy for stock, particularly with the private hire market likely to be more active now and over the coming months as restrictions on socialising ease.

Battery Electric Vehicles (BEVs) got off to a slower start for the month. Whilst other fuel types all saw values continue to strengthen straight away, this could not be said for electric vehicles. However, as the month progressed, there was an upturn in prices and values started to rise, although not at the same pace as for other fuel-types. As the month progressed, values continued to improve, as some retailers appeared to turn their attentions to acquiring alternatively-fuelled vehicles, with petrol and diesel cars price increases being unpalatable to some. Some of the volume pressure has eased from some of the tactical registrations of BEVs that took place at the end of last year as many of those cars have now sold.

What Next?

It is certainly a challenge to forecast values in these unprecedented times.

It is likely that current consumer demand for used cars will start to decline as we enter the summer, particularly if foreign travel restrictions continue to be lifted and funds are diverted towards vacations. However, even if this is the case, it will not be to the same degree as in years gone by, and many will still be in the market to buy a used car.

Whilst demand will likely dip from the current peaks, supply levels are still going to be lower than normal; there is no tsunami of stock waiting to appear. Registration volumes were almost 700,000 lower last year than in 2019 – those cars are lost to the used market. There are also very well documented new car supply issues, meaning less part-exchanges and fleet returns, due to component shortages, particularly for semiconductors. Currently manufacturers and dealers are switching some customers into cars that they have in stock, but what happens when those stocks dry up? Undoubtedly, many lease terms continue to be extended too.

Reports on the severity of the shortages seem to change regularly. It is clear that they differ by brand, model and even derivative, but the vast majority of manufacturers are affected. For the remainder of quarter 2, manufacturers may well have stock to be able to continue to switch customers into, which will generate those part-exchanges and fleet returns for the used market. From late June/July though, stock levels will have dwindled and the

component shortage could well be impacting supply more acutely, again dependent on the brand. The semiconductor issue could well not have done its worst yet.

Whilst current increases in value are extremely unlikely to continue at the current rate, prices are likely to stay high without huge volumes appearing in the market. We could well be in for a strong summer for used car prices and this strength could potentially last even longer.

What has been abundantly clear in April and May more so than ever, is that Live values, based off sold trade data as evidence, are essential for buyers and sellers alike. The retail market has simply not reflected wholesale prices to the same degree. We would encourage all customers to use cap Live values rather than monthly and to track both the trade and retail market. Supply issues in the new and used market will vary considerably by brand, model, derivative and fuel type and it has never been more important to view values in real-time.

What comes next is hard to call, but without a doubt, there will be twists, turns and potential volatility for supply and demand.

Current Used Valuations June 2021 - Average Value Movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	6.6%	8.2%	8.8%	0.1%
Supermini	8.6%	7.9%	5.5%	(1.4%)
Lower Medium	5.6%	6.8%	5.6%	(1.3%)
Upper Medium	5.5%	6.2%	4.9%	1.1%
Executive	5.5%	6.0%	4.0%	2.6%
Large Executive	1.6%	1.9%	1.9%	1.2%
MPV	5.8%	6.2%	5.7%	2.1%
SUV	5.5%	6.9%	6.3%	2.4%
Convertible	6.5%	7.2%	6.8%	5.8%
Coupe Cabriolet	10.6%	10.2%	9.6%	7.0%
Sports	2.8%	4.8%	4.0%	4.7%
Luxury Executive	0.0%	0.6%	1.0%	2.6%
Supercar	1.3%	3.3%	5.9%	2.7%
Overall Avg Book Movement	5.6%	6.7%	5.7%	1.2%

() Denotes negative percentages

Used Car Values June 2021 - Average Value Movements by Size

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	4.7%	4.1%	3.5%	0.2%
MPV Medium	6.7%	6.6%	5.9%	2.1%
MPV Large	4.4%	5.8%	6.1%	3.2%
SUV Small	6.7%	7.8%	7.0%	1.7%
SUV Medium	5.8%	7.2%	6.6%	2.5%
SUV Large	3.1%	4.1%	4.0%	2.5%

Notable Movers 1-yr 20k

GENERATION NAME	MIN £	MAX £	AVG £
BMW 3 SERIES (12-19) DIESEL	1,000	2,250	1,373
BMW 4 SERIES GRAN COUPE (14-21) DIESEL	1,400	1,900	1,621
FORD KUGA (12-20) DIESEL	1,400	1,900	1,696
HONDA JAZZ (15-20)	1,175	1,500	1,367
LAND ROVER DISCOVERY SPORT (14-20) DIESEL	1,700	3,000	2,290
NISSAN QASHQAI (13-18) DIESEL	1,400	1,400	1,400
TOYOTA AURIS (12-19) HYBRID	1,500	1,650	1,560
VAUXHALL CORSA (14-20)	575	950	731
VAUXHALL MOKKA (12-20)	950	1,250	1,078
VOLKSWAGEN GOLF (13-21) DIESEL	1,000	1,350	1,166

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI A6 (11-19) DIESEL	650	1200	935
AUDI TT (14-19)	1,200	2,350	1,618
FORD KUGA (12-20) DIESEL	1,100	1,500	1,288
FORD MONDEO (14-19) DIESEL	650	1,200	936
HONDA CR-V (12-19) DIESEL	750	1,200	1,033
JAGUAR XE (14-19)	1,100	1,650	1,238
LAND ROVER RANGE ROVER EVOQUE (11-19) DIESEL	1,100	2,050	1,709
MERC A CLASS (12-18) DIESEL	725	1,050	899
MERC GLA CLASS (14-19) DIESEL	1,300	1,500	1,382
VOLVO XC60 (08-17) DIESEL	1,200	1,400	1,327