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FOR SMARTER AUTOMOTIVE DECISIONS™

January 2022

Future used 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 on this format 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
5. Sector Reforecast Schedule 2022

1. Forecast Changes

The overall average change in new car forecasts for ALL cars between December and January is approximately +1.54 % at 36/60, which is approximately +1.2% higher than the normal expectation of the seasonal change for full year forecasts at this time of year. Average used forecasts are broadly unchanged as they are unaffected by the change in new car registration plate.

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

Sector reforecasts

This month, we publish new reforecasts for the Convertible, Coupe Cabriolet, Sports and Supercar sectors.

Similar to the reviews over the past few months, the recent extreme increases in used values have prompted us to increase the deflation expectation over the next 12 months, as the strength seen this year is not expected to be repeated. This is now generally offset by a more positive outlook for the second year of the forecast, with increasing inflation in the third year (as lower new car registrations in 2020-21 result in significantly lower used car volumes from September 2023 onwards). As we move through time, the 24-month period now is expected to see the first real impacts of lower used car supply. The overall impact for Petrol Convertibles and Sports cars is an approximate increase in deflation of between -4% and -5%, all loaded into the first 12 months, with improvements in later years. Supercar deflation increases by -2.6%, while Diesel Convertibles increase by -10% and Sports Diesel by -1%.

Average forecasts movements are displayed in the table below.

Alternative fuel types remain much more restricted in availability in each of these sectors. Petrol forecast increases are larger than diesel on average by around +1%

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

SIZE & FUEL TYPE	UNDERLYING FORECAST CHANGE	SEASONAL ELEMENT	OBSERVED CHANGE DECEMBER TO JANUARY
Convertible Diesel	+2.5%	+1.7%	+4.2%
Convertible Electric (BEV)	+2.7%	+1.6%	+4.3%
Convertible Petrol	+3.2%	+1.6%	+4.8%
Sports Diesel	+0.5%	+1.5%	+2.0%
Sports Petrol	+1.6%	+0.8%	+2.4%
Sports Hybrid (HEV)	+4.8%	+0.8%	+4.0%
Supercar Petrol	+3.7%	+1.1%	+4.8%
Overall Average	+2.2%	+1.3%	+3.5%

Forecast changes this month

The number of Interproduct changes have decreased this month, following the action already taken in previous months. Approximately 75 ranges were considered, but in some cases it was decided to make no changes to the forecasts.

In some of the examples below there were no further changes to the 36-month position, but increases were made to the 12-month position in recognition of further strength in used values that is not expected to be sustainable beyond the 12-month point.

ALFA ROMEO GIULIA (16-)
AUDI A1 (18-)
AUDI A4 ALLROAD (19-) DIESEL
AUDI A5 COUPE (19-)
BENTLEY CONTINENTAL GT (17-)
BMW 3 SERIES (18-) DIESEL
BMW 4 SERIES COUPE (20-)
BMW 4 SERIES COUPE (20-) DIESEL
CITROEN BERLINGO MULTISPACE (18-)
CITROEN BERLINGO MULTISPACE (18-) DIESEL
CITROEN C3 (16-)
CITROEN GRAND C4 SPACE TOURER (18-)
FIAT 500L (13-)
FIAT PANDA (12-)
FIAT TIPO (16-)
FORD GALAXY (19-) DIESEL
FORD MONDEO (18-) DIESEL
FORD S-MAX (19-) DIESEL
FORD S-MAX (21-) Hybrid
HYUNDAI I30 (17-)
KIA CEED (18-)
KIA CEED (18-) DIESEL
KIA PICANTO (17-)
MAZDA 2 (19-)
MERCEDES-BENZ S CLASS (20-)
MERCEDES-BENZ S CLASS (20-) DIESEL
MERCEDES-BENZ V CLASS (19-) DIESEL
MERCEDES-BENZ V CLASS MARCO POLO (19-) DIESEL
MINI COOPER (18-)
MINI COOPER (19-) Electric
NISSAN eNV200 (14-)
PEUGEOT 108 (14-)
PEUGEOT TRAVELLER (16-) DIESEL
POLESTAR 2 (19-) Electric
RENAULT CLIO (19-)
SKODA FABIA (18-)
SUBARU IMPREZA (17-)
TESLA MODEL S (19-)
TOYOTA YARIS (20-) HYBRID
VAUXHALL COMBO LIFE (18-)
VAUXHALL INSIGNIA GRAND SPORT (20-)
VAUXHALL INSIGNIA GRAND SPORT (20-) DIESEL
VOLKSWAGEN ID.3 (20-) Electric
VOLKSWAGEN TOURAN (15-)
VOLKSWAGEN UP (12-)
VOLVO V60 (18-) DIESEL
VOLVO XC40 (20-) Electric

Tesla Model S & Model X (2021----) The introduction date for the facelift for these models has now been pushed out by the manufacturer. The IDs recently created are no longer available for order and so they have been removed from forecast product. These will not return to forecast product until timings and specifications have been confirmed.

Seasonality changes

In line with our gold book methodology, all other model ranges which are outside of the sector reforecasts, have had their used forecasts moved forward from month to month by seasonal factors (without plate effect) which are differentiated by sector and fuel type and are based on analysis of historical used value movements.

2. Market Conditions

The period of extreme used car price increases appears to finally have ended. Although the used value movements in the last 2 months have been negative, they have been slightly better than average movements for this time of year in a 'normal' market and do not signal any kind of crash in values.

We are still in a situation where retail prices for many used cars are priced above cost new and there are even cases where the trade value significantly exceeds list price. Retail prices have been increasing, but much more slowly than the trade, resulting in pricing headaches for dealers, especially for those cars already over cost new. There has been some re-pricing of aged stock in recent weeks, but the fundamentals of the market remain the same – we have seen a reduction in consumer demand as is typical in the lead up to Christmas, but this should be stimulated again in January.

The various supply issues had started to ease from the peak of disruption in early September. However, there has been a second coronavirus infection spike in Vietnam and South Korea has seen the highest infection rates since the start of the pandemic (at the time of writing these may both have just peaked) and global supply chains remain fragile. Semi-conductor leadtimes have mostly stabilised, but overall improvement in component availability will be gradual.

In previous months' reports, we had mentioned concerns regarding the potential for further disruption due to new variants and Omicron has now firmly established itself in several countries, including the UK, although it is too early to tell what the final likely impact is likely to be.

In summary, our view is that:

- The UK government will do everything in their power to avoid another full lockdown, but further restrictions of some kind look inevitable in the short term. Even if another lockdown was introduced, we would expect dealers to operate at levels of business close to normal and another period of used value strength could be anticipated, although consumer confidence would likely be weaker than 2021.
- The current reductions in used values are part of a typical seasonal slowdown (albeit less severe than normal) as the used market 'pauses for breath'. Retail days to sell appear now to be around what would be expected in a 'normal' market, reflecting a slowdown in demand, but still at a healthy level for the time of year. For most sectors, our short-term forecast continues to show positive movements in early 2022, but some sectors are expected to decrease, albeit by less than average for these months.
- There are still plenty of cases where logical relationships have been broken and where nearly new used values are above list prices. These will resolve themselves in time, but values are not expected to go down as fast as they have increased. Clearly this may be accelerated if retail demand reduces in early 2022 and consumer confidence drops. Even if this is the case, however, we would still expect a gradual market adjustment over the next 12 months or so, rather than a 'mirrored' fall.

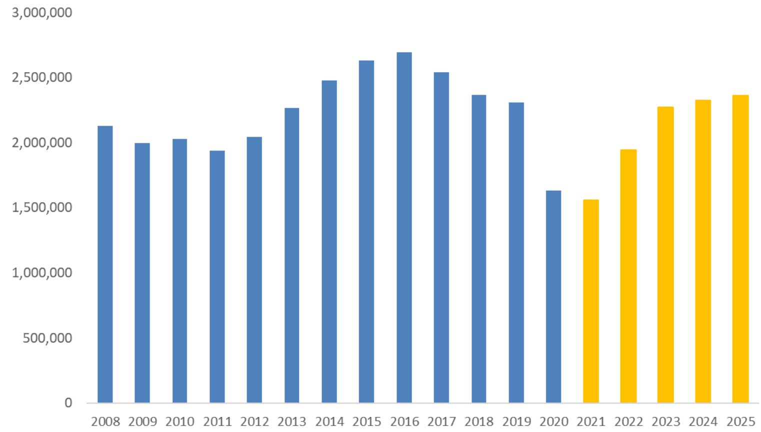
- The used value increases on some models have effectively set a new market and may not return to previous levels, but even in these cases we have tended to apply significant negative editorial adjustments during our Interproduct reviews.
- The effects of the new car supply issues (including the semi-conductor shortage) are many and varied and seem to be changing every week. In many cases, the news from OEMs changes every time we have the discussion. In many cases there are derivative specific impacts within the same model, with complex decisions regarding production allocation being reviewed on a daily basis. There are multiple supply issues exacerbating the situation and predictions from individual brands for the next few months still vary considerably and some are changing on an almost weekly basis.
- A significant factor currently contributing to lower levels of fleet returns is still fleet managers and drivers running cars for longer, due to lower mileage during the pandemic. These cars will return to the used market at some stage and we are factoring this into the phasing of our deflation assumptions for sector reviews.
- One-year-old vehicles will remain in relatively short supply for the foreseeable future, and the longer the current new car supply issues persist, the longer there will be a shortage. However, once leadtimes for the majority of models reduce, it is expected that consumers will once again hold out for the new car. However, despite the prolonged shortages of nearly new stock, the trend for some time has been for 3-year-old cars outperforming the 1-year-old market and they have not increased by as large a proportion and therefore adjustments are expected to be slightly less than for 3-year-old cars once the market settles. This is reflected in our recent forecasts.
- After the expected low point of YOY% deflation at the end of 2022, values will recover over the next couple of years as the economy and consumer confidence improves and used supply starts to reduce (helped significantly by the shortfall in new car registrations that we have been seeing since March 2020).

There will still be variations by sector and fuel type. Convertibles are falling as expected as we head towards winter and dealer demand turns to other vehicles. Similarly, many Sports models have increased by so much that any further softening of consumer demand next year is likely to result in decreases in used values by more than the market average.

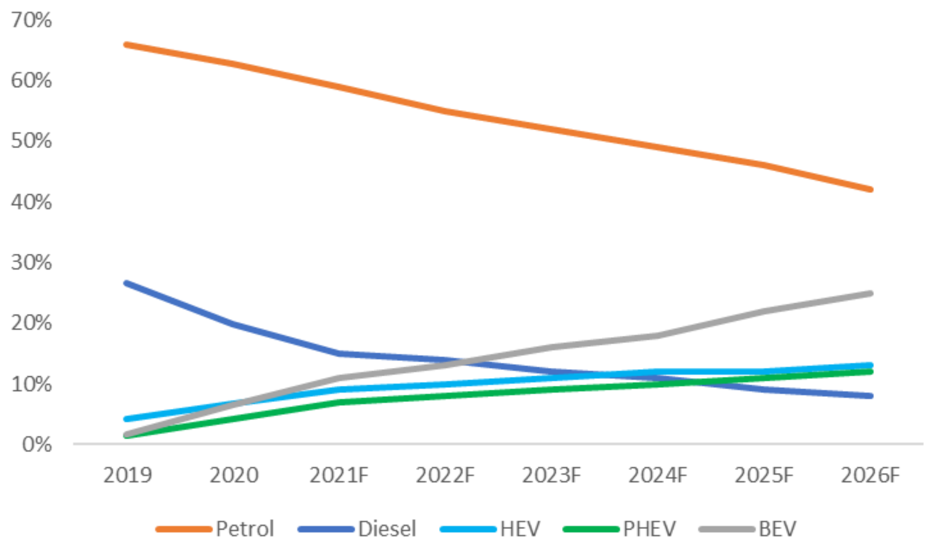
Supply side factors

The forecast for new car registrations from the SMMT was updated in July from 1.83 million to 1.820mm and in October revised down to 1.66mm. Our original forecast outlook was: 2021 1.902mm, 2022 2.162mm, 2023 2.270. Our forecast had been revised down from 1.965mm once it was clear that dealerships would not be opening during March, but the 12-month rolling total in June increased to 1.88mm and appeared on track to meet our estimate. New car supply issues impacted the July & August totals by more than expected and so our forecast was reviewed again.

After the publication of September sales data, we revised our forecast for the current calendar year to 1.560mm (although this now looks slightly conservative), -4.4% down vs.2020 and -32.5% vs.2019. 2020 and 2021 combined will now represent a shortfall of almost 1.5 million cars compared to 2019 registration levels. Supply issues will continue to subdue the new car market to an extent early in 2022, but will ease during the year and there should be a strong recovery in the second half, although some issues are likely to remain. We expect that registrations will gradually increase to a level above 2.3 million registrations a year, but not reaching the peaks seen in 2016.



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



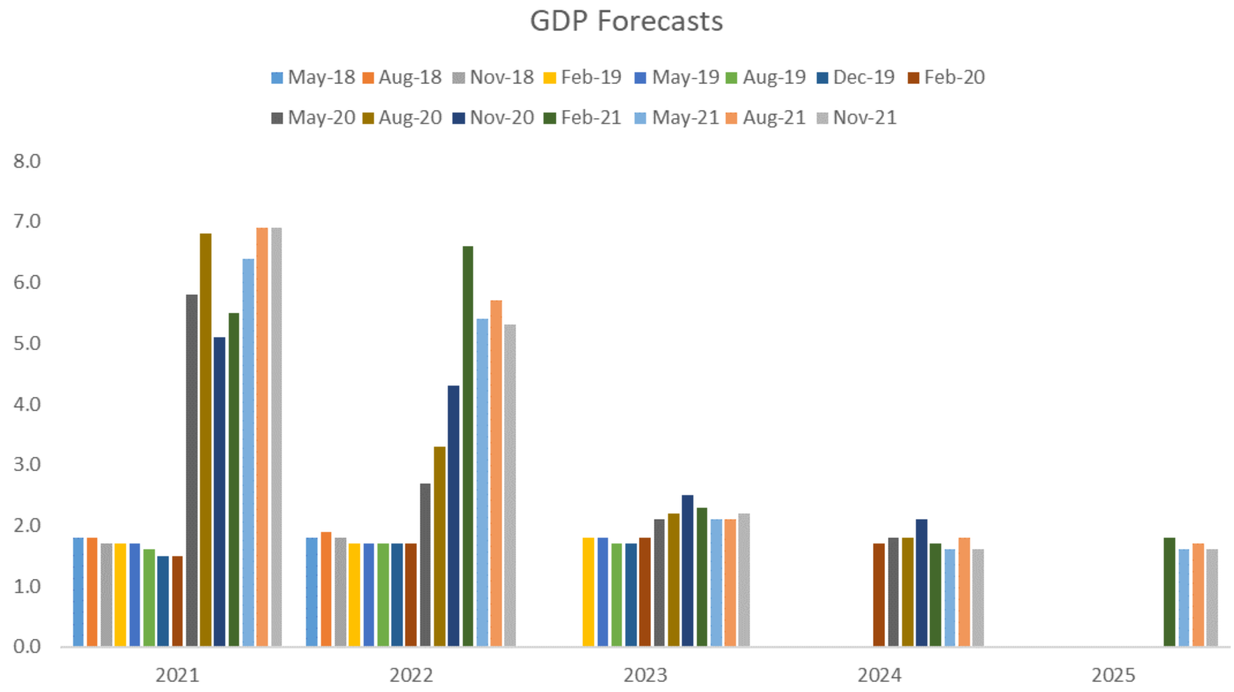
Growth will be led by battery electric vehicles (BEVs) which we expect to become the dominant AFV type towards the end of 2022. Post-Covid driving patterns (shorter and few journeys due to the increase of home working and online meetings) are likely to add to demand. The government's proposal to ban new ICE cars from 2030 will also be part of this increase, provided enough vehicle supply is made available and investment in charging infrastructure keeps pace with demand.

Demand side factors

Latest independent forecasts for the UK economy were published on 17th November and maintain the outlook for GDP this year, but with the average of +6.9% remaining slightly below the Bank of England estimate of +7.2%. The 2022 estimate improves slightly but longer-term GDP recovery remains subdued, with decreases of between -0.1% and -0.2% for 2023/4/5 compared to the August forecasts.

Although the forecast for GDP is maintained for 2021, the BoE view is now that there are "two-sided risks" in the medium term (previously they were "heavily skewed to the downside"). The outlook remains "uncertain", with their 'fan charts' as widely spaced as they have ever been.

The chart below shows the latest GDP forecasts to 2025, alongside previous forecasts.



The latest unemployment forecasts continue to show a longer, flatter curve, with unemployment expected to be close to its peak, but then taking several years to return to pre-pandemic levels.

Inflation has now reached 4.6% (compared to the original expected peak of 4.5% in 2022, although our expectation had been for it to be higher) and the BoE do not now expect it to come back below target until at least 2023. The recent increases have been driven by a combination of increased energy costs, transport and clothing, combined with the end of some government COVID-19 support measures and current labour market imbalances, some of which are almost certainly short-term. Base rates increased by 15 basis points in December and are set to increase again in the near term but are forecast to remain low by historical standards. 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 ongoing effects of the pandemic. The BoE's surveys still suggest that only 10% of accumulated savings will be spent and 75% of households do not intend to spend any at all.

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.

In the past 12 months, our historic forecast accuracy was impacted by the strength of the used market after dealerships re-opened after the first 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).

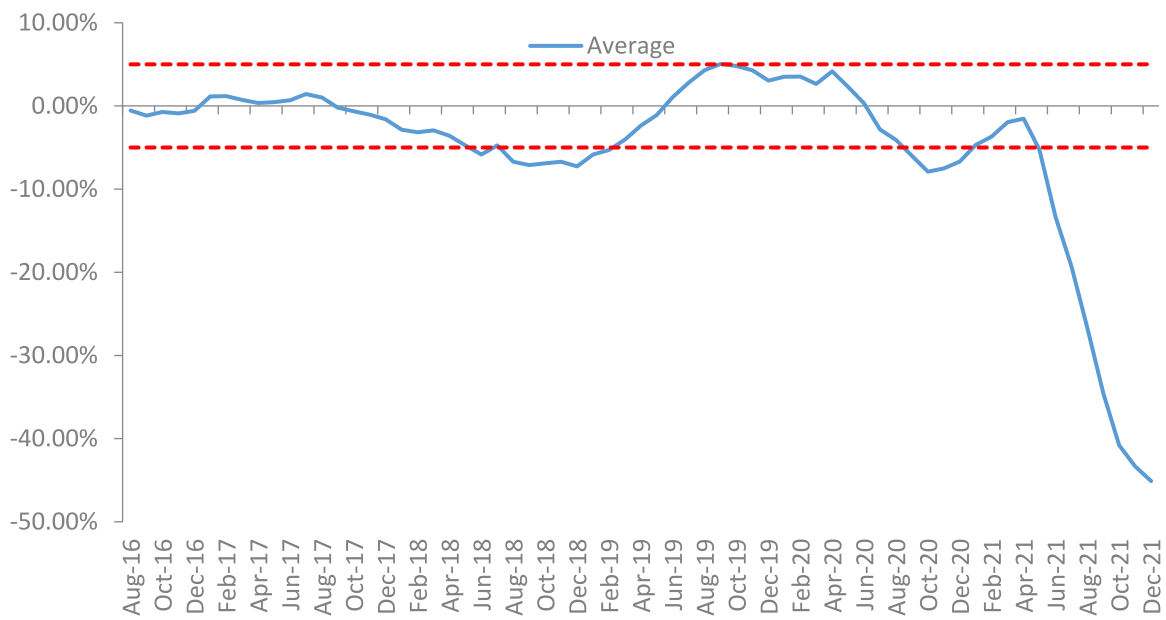
Clearly, the current unprecedented strength in the used car market is also resulting in further short-term deterioration in accuracy.

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

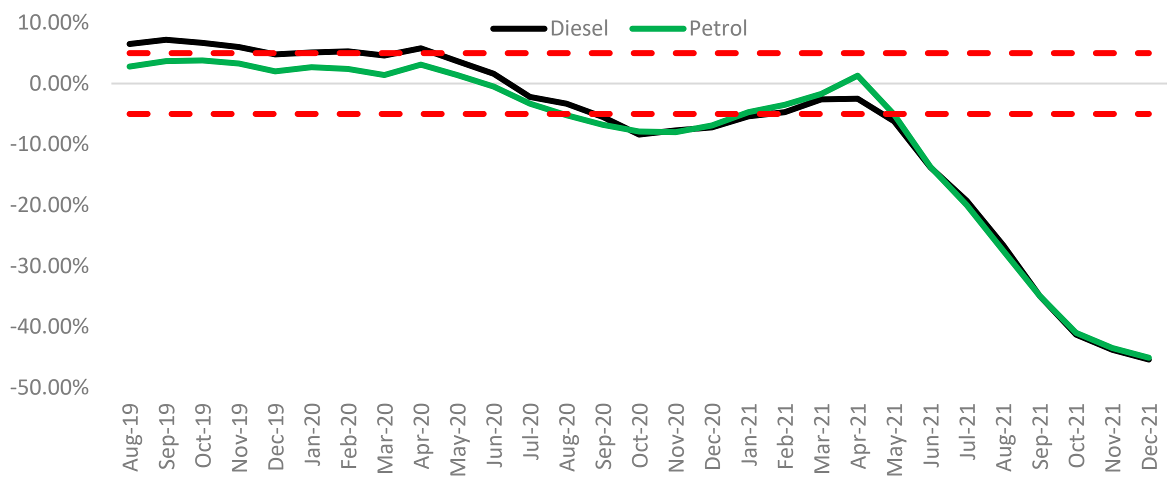
12-month results

Since measurement started our 12 month used forecasts have averaged -3.6% less than used values across all vehicle ids, and the most recent results show December 2020 12/20 gold book forecasts being -45.1% less than December 2021 12/20 used values (unsurprising following record breaking used value increases in recent months).

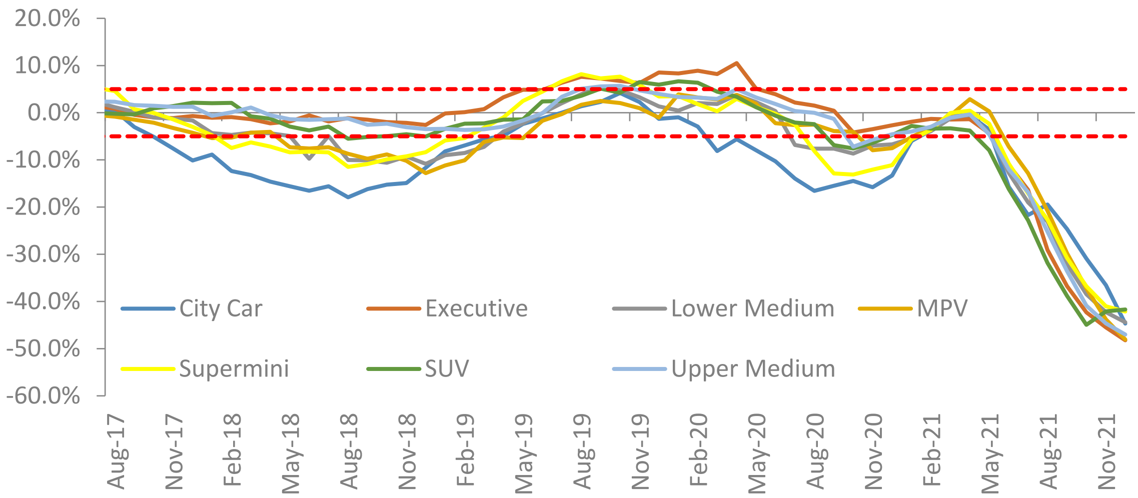
Overall results:



Fuel Type Results:



Sector Results:



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

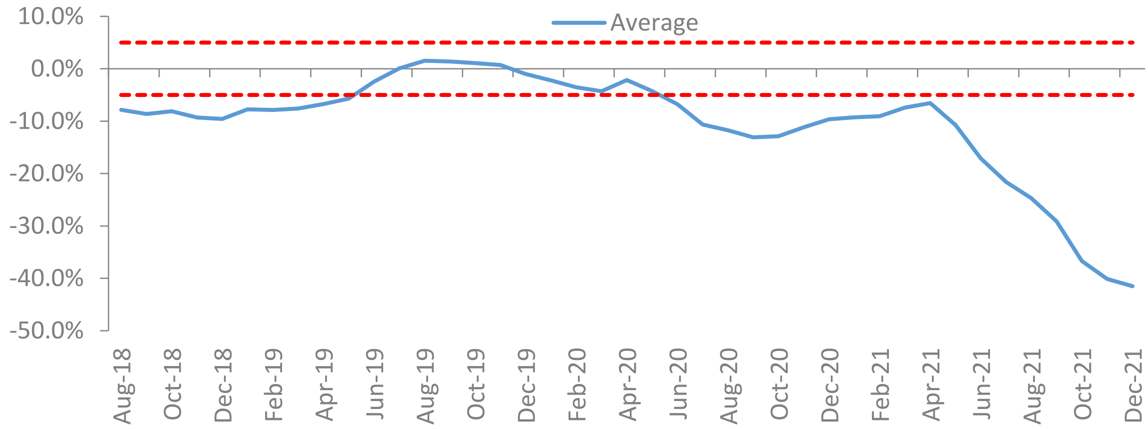
Dec 21	Average of Diff (%)
City Car	-44.7%
Executive	-48.2%
Lower Medium	-44.4%
MPV	-48.1%
Supermini	-42.1%
SUV	-41.7%
Upper Medium	-47.0%

Grand Total	-45.1%

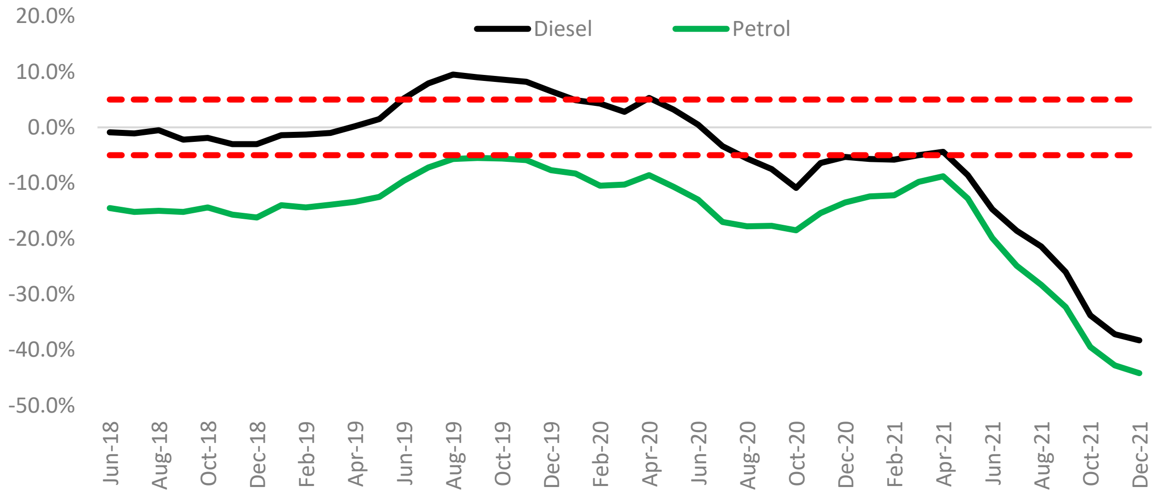
36-month results

Since measurement started our 36 month used forecasts have averaged -7.8% less than used values across all vehicle ids, and the most recent results show December 2018 36/60 gold book forecasts being -41.5% less than December 2021 36/60 used values.

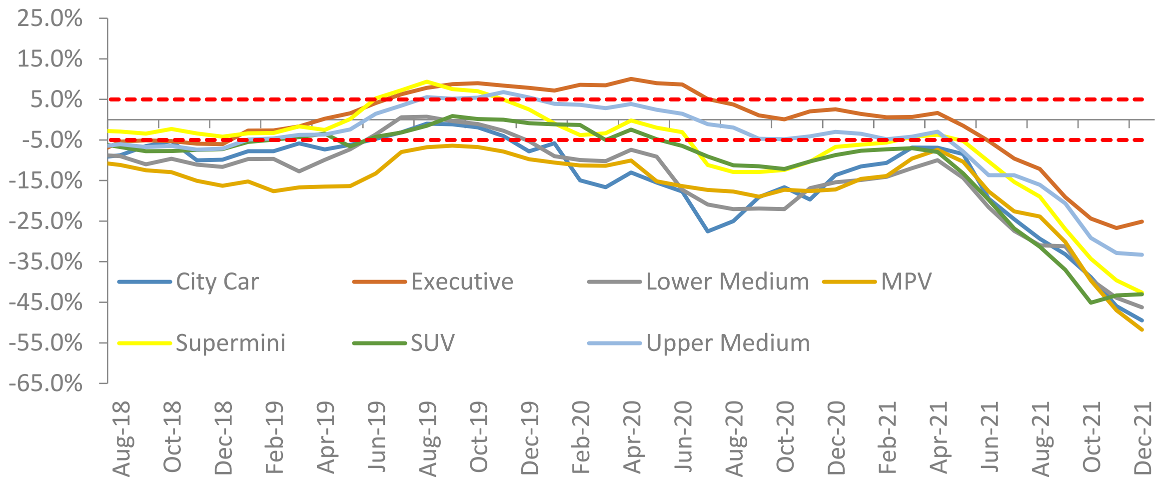
Overall Results:



Fuel Type Results:



Sector Results:



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

Dec 21	Average of Diff (%)
City Car	-49.5%
Executive	-25.1%
Lower Medium	-46.2%
MPV	-51.8%
Supermini	-42.6%
SUV	-43.0%
Upper Medium	-33.3%
Grand Total	**-41.5%**

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 2022

We previously accelerated 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. The table below shows our revised future schedule of sector reforecasts:

Monthly Product	Sector 1	Sector 2	Sector 3	Sector 4
Feb-22	SUV			
Mar-22	City Car	Supermini		
Apr-22	Upper Medium	Executive	Large Executive	Luxury Executive
May-22	Lower Medium	MPV		
Jun-22	Convertible	Sports	Supercar	
Jul-22	SUV			
Aug-22	City Car	Supermini		
Sep-22	Upper Medium	Executive	Large Executive	Luxury Executive
Oct-22	Lower Medium	MPV		
Nov-22	Convertible	Coupe Cabriolet	Sports	Supercar
Dec-22	SUV			
Jan-23	City Car	Supermini		