Car future editorial
By cap hpi

February 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 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 2022/23

## 1. Forecast changes

The overall average change in new car forecasts for ALL cars between January and February is approximately +1.35 % at 36/60, which is slightly more than the normal expectation of the seasonal change for full year forecasts at this time of year. This is a reflection of the large number of ranges which are now represented by the SUV sector which was reforecast this month. These vehicles saw small forecast increases on average as outlined below.

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 SUV sector.

As we move through time, the first real impacts on the used car market of lower used car supply also get closer. We expect this to have an effect from around September 2023 onwards, which now falls between our one year and two year positions  As a result, we have applied a small improvement to our SUV deflation assumptions of approximately +1.3% for diesel and +2.1% for petrol for the two to five year forecasts. The same impact is applied across all sizes of SUV.

We have updated our model aging analysis for SUV last month, but there is still insufficient justification for either positive adjustments for newer models, or penalties for older models and our default model aging assumptions for all fuel types remain neutral. This may seem counter-intuitive, but the data clearly does not support the type of adjustments we have in place for other vehicle sectors.

Average forecasts movements are displayed in the table below.

Smaller increases are applied to Medium-sized SUVs which are expected to remain the volume portion of the sector. Broadly speaking there are only small variations by fuel type. It should be noted that there are only four models in the Small BEV sub-sector, two of which saw small decreases in forecast, somewhat distorting the average.

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 JANUARY TO FEBRUARY |
|---|---|---|---|
| Small SUV Diesel | 2.9% | -0.2% | 2.7% |
| Small SUV Electric (BEV) | 1.2% | -0.3% | 0.9% |
| Small SUV Hybrid (HEV) | 3.1% | -0.3% | 2.8% |
| Small SUV Petrol | 3.7% | -0.3% | 3.4% |
| Small SUV Plug-In Hybrid (PHEV) | 2.8% | -0.3% | 2.5% |
| Medium SUV Diesel | 2.2% | -0.2% | 2.0% |
| Medium SUV Electric (BEV) | 2.8% | -0.3% | 2.5% |
| Medium SUV Hybrid (HEV) | 2.5% | -0.3% | 2.2% |
| Medium SUV Petrol | 2.6% | -0.3% | 2.3% |
| Medium SUV Plug-In Hybrid (PHEV) | 2.7% | -0.3% | 2.4% |
| Large SUV Diesel | 4.3% | -0.2% | 4.1% |
| Large SUV Electric (BEV) | 5.4% | -0.3% | 5.1% |
| Large SUV Hybrid (HEV) | 2.4% | -0.3% | 2.1% |
| Large SUV Petrol | 4.6% | -0.3% | 4.3% |
| Large SUV Plug-In Hybrid (PHEV) | 4.0% | -0.3% | 3.7% |
| Overall Average | 3.1% | -0.3% | 2.8% |

## Forecast changes this month

The number of Interproduct changes have decreased again this month, following the action already taken in previous months. Approximately 60 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.

| | |
|---|---|
| ALPINA B3 (20- ) | MERCEDES-BENZ E CLASS (18- ) DIESEL HYBRID |
| BMW I3 (13- ) | MERCEDES-BENZ EQV (20- ) Electric |
| CITROEN C4 (20- ) DIESEL | MINI COOPER (18- ) |
| DACIA SANDERO (20- ) | NISSAN LEAF (17- ) |
| FIAT 500C (20- ) Electric | ROLLS-ROYCE GHOST (20- ) |
| HYUNDAI IONIQ (19- ) ELECTRIC | SMART FORFOUR (20- ) Electric |
| KIA RIO (16- ) | SUZUKI SWIFT (17- ) |
| KIA SOUL (19- ) ELECTRIC | TOYOTA COROLLA (18- ) Hybrid |
| MERCEDES-BENZ AMG GT ROADSTER (16- ) | VAUXHALL CORSA (19- ) |
| MERCEDES-BENZ C CLASS (19- ) DIESEL HYBRID | VAUXHALL INSIGNIA GRAND SPORT (20- ) |
| MERCEDES-BENZ C CLASS (20- ) PETROL HYBRID | VOLKSWAGEN PASSAT (19- ) |
| MERCEDES-BENZ E CLASS (16- ) DIESEL | VOLKSWAGEN UP (12- ) |

**Fiat 500 X (2018----)** Premium for DCT transmission increased as a result of a customer query and following analysis of latest used value data.

**Fiat 500 X Diesel (2014-2019)** Premium for DCT transmission increased as a result of a customer query and following analysis of latest used value data.

**Jeep Renegade (2018----)** Premium for DDCT and automatic transmission increased as a result of a customer query and following analysis of latest used value data.

**Jeep Renegade Diesel (2018-2021)** Premium for DDCT and automatic transmission increased as a result of a customer query and following analysis of latest used value data.

**Kia Stonic (2017----)** Premium for DCT and automatic transmission increased as a result of a customer query and following analysis of latest used value data.

**Maserati Ghibli (2013----)** Premium for Trofeo, S Tributo and S F Tributo trims increased, following analysis of latest used value data.

**Mazda CX-5 (2017----)** Premium for automatic transmission increased as a result of a customer query and following analysis of latest used value data.

**Peugeot 3008 (2016----)** Premium for EAT6 and EAT8 transmissions increased as a result of a customer query and following analysis of latest used value data.

**Peugeot 3008 Diesel (2016----)** Premium for EAT6 transmission increased as a result of a customer query and following analysis of latest used value data.

**Renault Captur (2019----)** Premium for EDC transmission increased as a result of a customer query and following analysis of latest used value data.

**Vauxhall Crossland (2017----)** Premium for automatic transmission increased as a result of a customer query and following analysis of latest used value data.

**Vauxhall Grandland (2017----)** Premium for automatic transmission increased as a result of a customer query and following analysis of latest used value data.

**Vauxhall Grandland Diesel (2017----)** Premium for automatic transmission increased as a result of a customer query and following analysis of latest used value data.

## 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 changes

The period of extreme used car price increases appears to finally have ended. Although the used value movements in November and December were negative and January was flat, they have all been slightly better than average movements for the 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. Although there has been some re-pricing of aged stock in recent weeks, and some sales and marketing campaigns were needed to boost demand in early January, retail prices have remained fairly robust. Demand picked up after a slight lull at the beginning of January and is expected to remain at reasonable levels in the short to medium term.

Some countries are still impacted by the Coronavirus Delta variant, particularly in the Asia Pacific region, while others are seeing steep exponential growth in cases and the inevitable self-isolation that accompanies it. There are likely to be ongoing Covid-related impacts all across the supply chain for some time and global supply chains remain fragile. Semi-conductor leadtimes have mostly stabilised, but overall improvement in component availability will continue to be gradual.

It looks likely now that the impact of the Omicron variant in terms of deaths is likely to be significantly lower than originally expected, at least in widely vaccinated countries, but further supply disruption seems inevitable and the timing of that disruption and location of the countries impacted is likely to be impossible to predict. Further variants seem inevitable, but we assume that existing vaccines will continue to be effective against them.

In summary, our view is that:

- The UK government will do everything in their power to avoid another full lockdown, as evidenced by the recent 'Plan B' and the speed with which it was recinded. 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 recent reductions in used values were part of a typical seasonal slowdown (albeit less severe than normal). 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 through 2022 and consumer confidence drops, principally fuelled by concerns over the rise in the cost of living. 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.

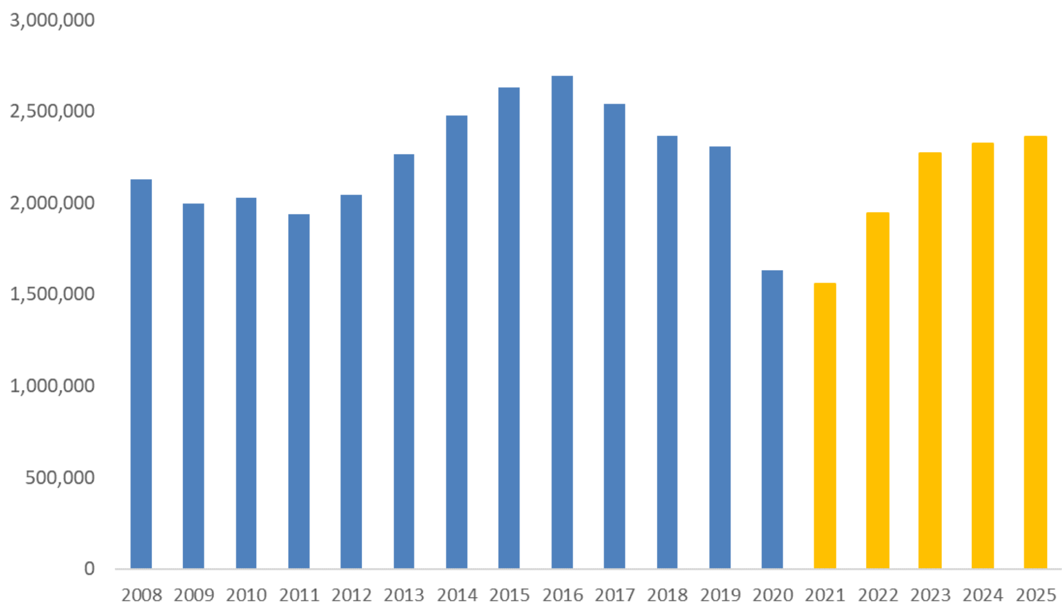
- After the expected low point of YOY% deflation towards the end of 2022, values will recover over the next couple of years as the economy and consumer confidence improves and used supply starts to reduce (helped significantly by the shortfall in new car registrations that we have been seeing since March 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. Medium SUVs have started to see some reductions in value, but Small and Large SUVs remain more robust.

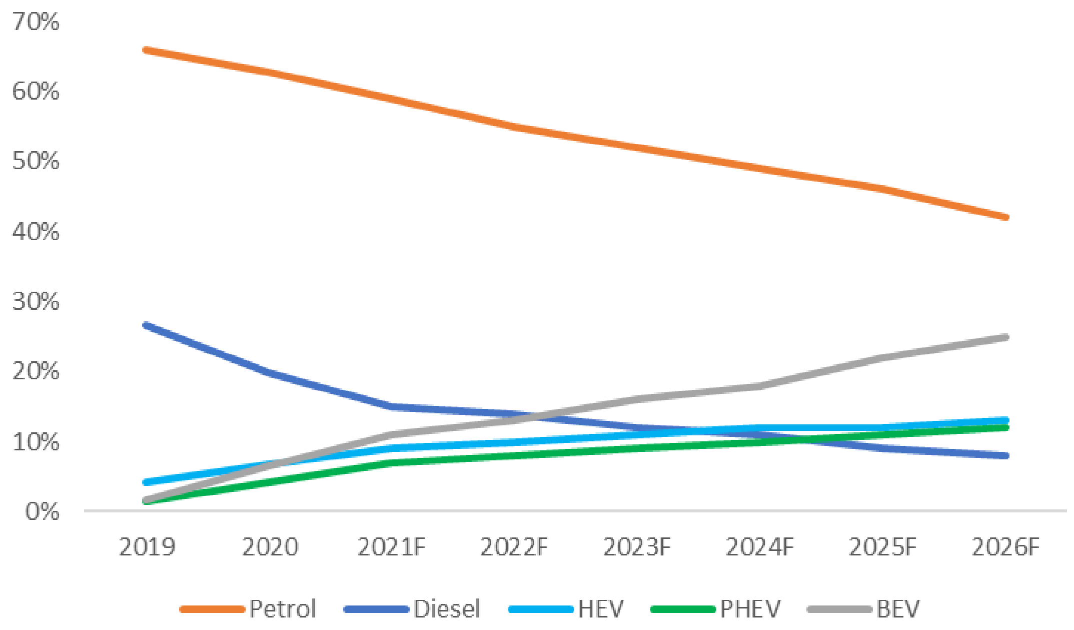
## Supply side factors

The 2021 forecast for new car registrations from the SMMT started at 1.83 million reduced in July to 1.820mm and in October revised down to 1.66mm. Our forecast followed a similar trajectory. Final results were 1.65mm – down +1.0% higher than 2020 but -28.8% down on 2019. New car supply issues will continue to limit registrations in 2022, but our forecast for this year is an improvement to 1.95mm, although this remains -16% down on 2019 levels.

Our forecast for 2022 assumes a relatively strong recovery in the second half, although some supply issues are likely to linger. We expect that registrations will gradually increase to a level above 2.3 million registrations by 2024, 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.



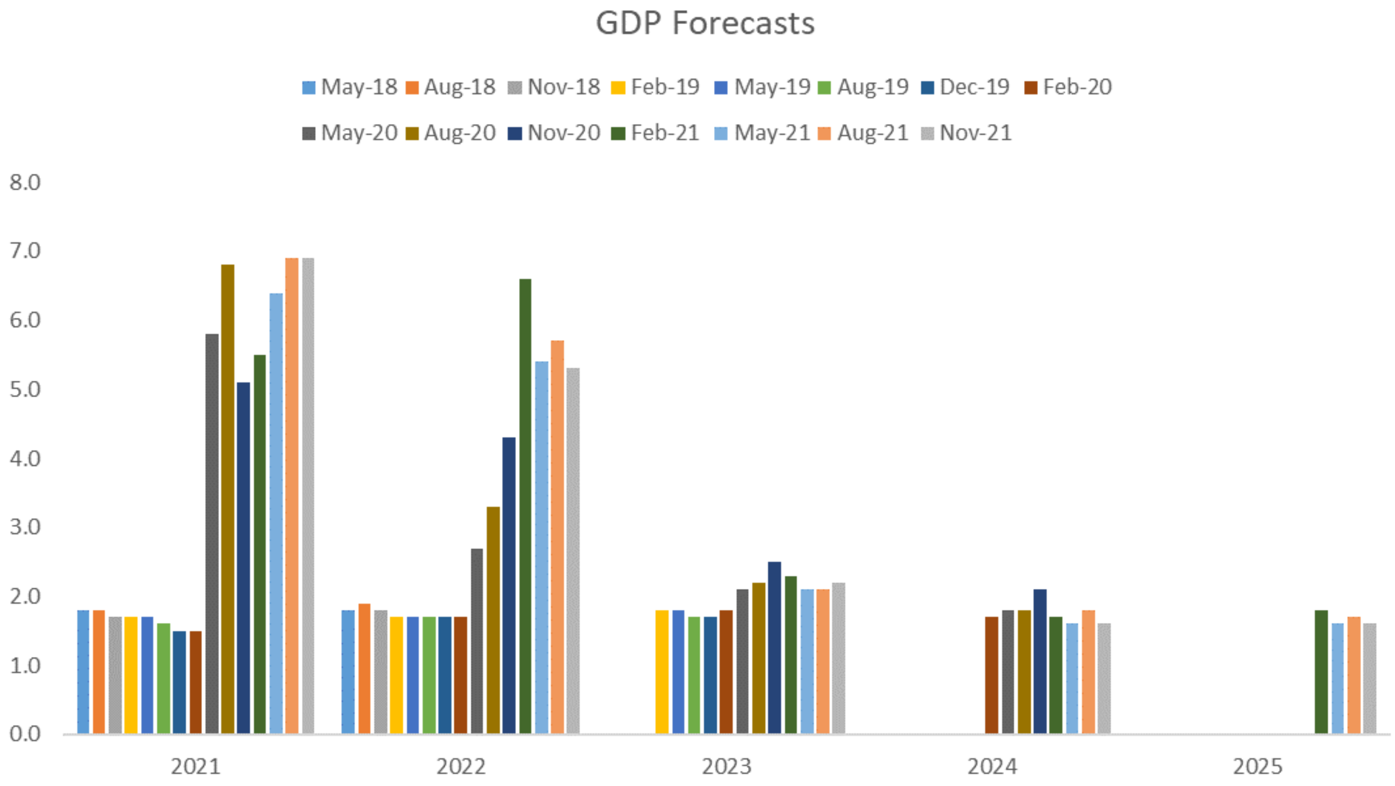

Growth will be led by battery electric vehicles (BEVs) which we expect to become the dominant AFV type towards the end of 2022. Post-Covid driving patterns (shorter and few journeys due to the increase of home working and online meetings) are likely to add to demand. The government's proposal to ban 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 maintained the outlook for GDP for 2021, 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.

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.




Unemployment has fallen relatively steeply in the past 12 months from 5.1% to 4.1% and the ending of furlough does not yet seem to have had a significant negative impact, although some impact may yet occur as workers finish working their notice periods. The latest unemployment forecasts continue to show a longer, flatter curve, with reduction in unemployment not expected to return to the steeper trajectory seen pre-pandemic.

Inflation has now reached 5.4% (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, food 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, although this may change when the next survey is released in February.

## 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).

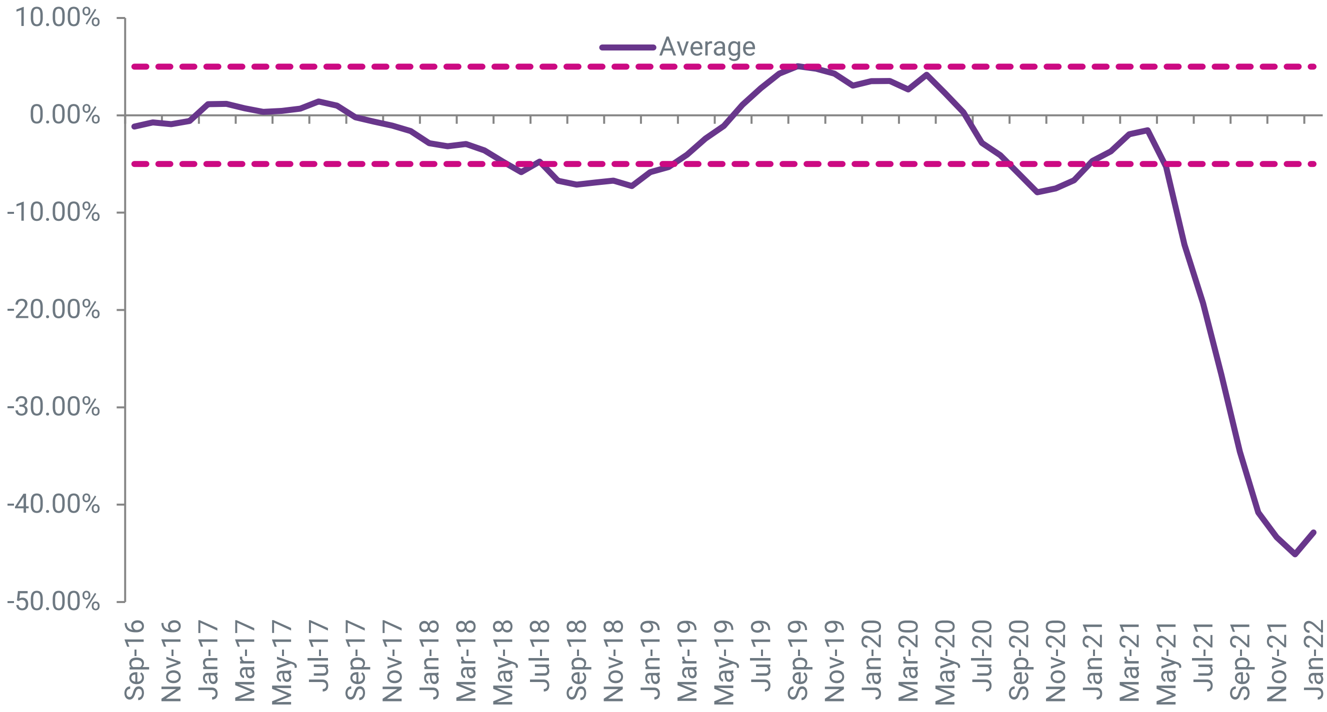
Clearly, the current unprecedented strength in the used car market is also resulting in further short-term deterioration in accuracy.

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

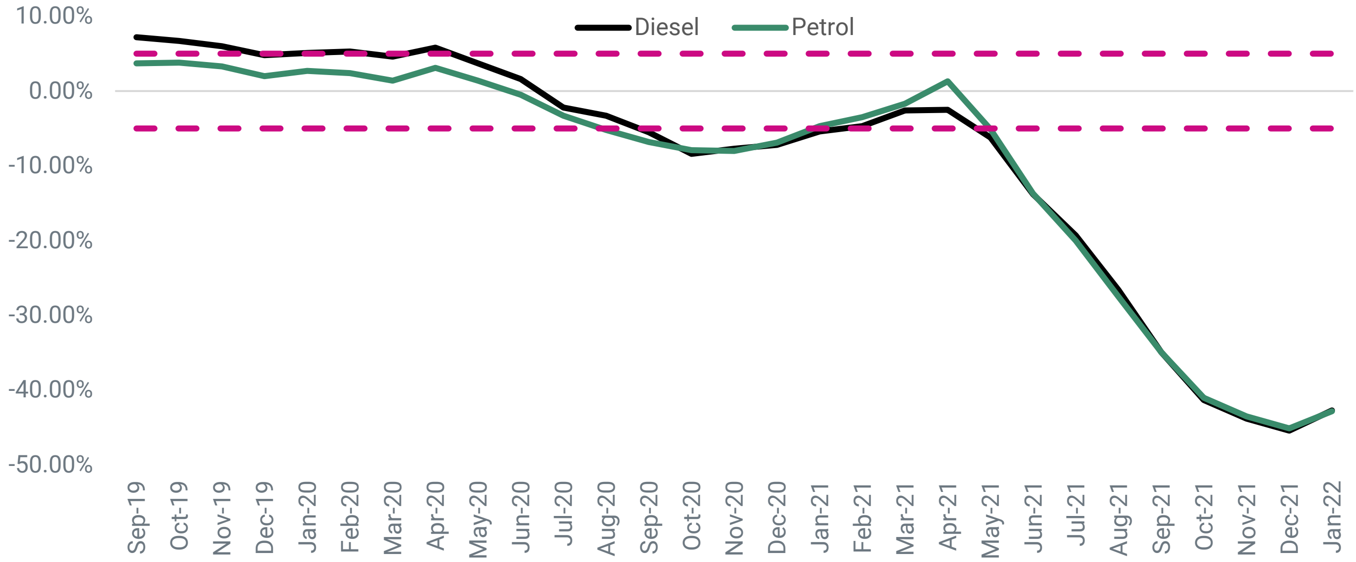
12-month results

Since measurement started our 12 month used forecasts have averaged -4.0% less than used values across all vehicle ids, and the most recent results show January 2021 12/20 gold book forecasts being -42.8% less than January 2022 12/20 used values (unsurprising following record breaking used value increases in recent months).

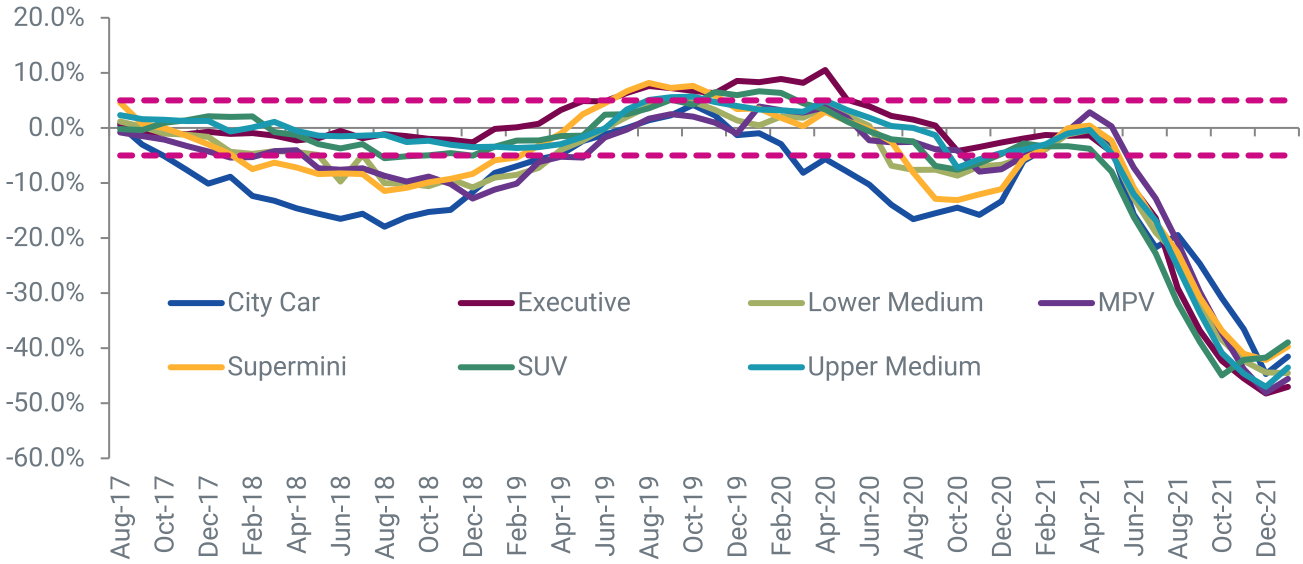
Overall results:



Fuel type results




Sector results



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

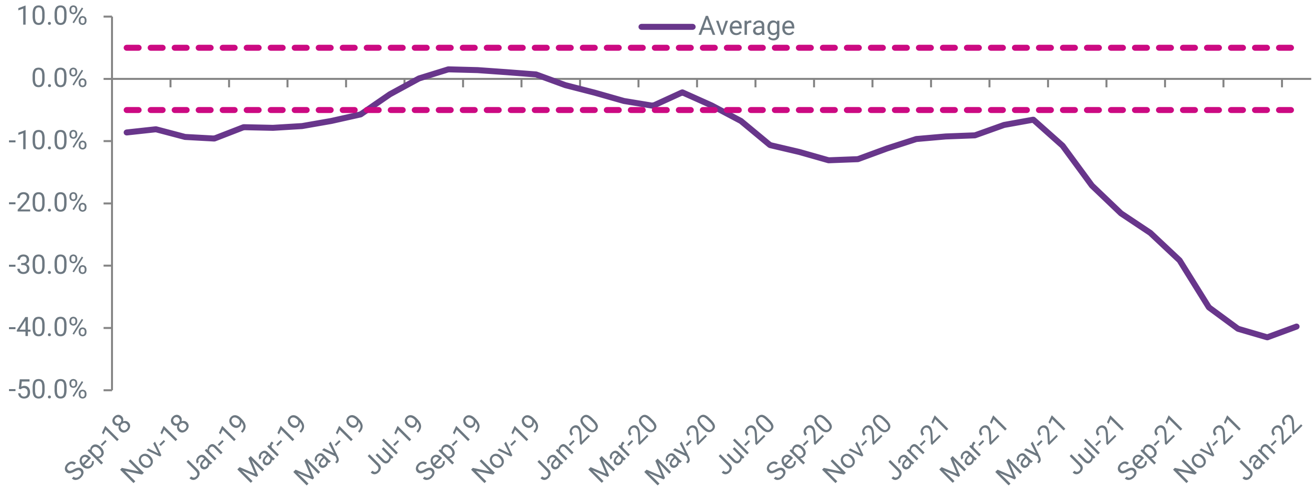
| Jan 22 | Average of Diff (%) |
|---|---|
| City Car | -41.5% |
| Executive | -47.0% |
| Lower Medium | -44.5% |
| MPV | -45.6% |
| Supermini | -39.7% |
| SUV | -38.9% |
| Upper Medium | -43.5% |
| **Grand Total** | **-42.8%** |

36-month results

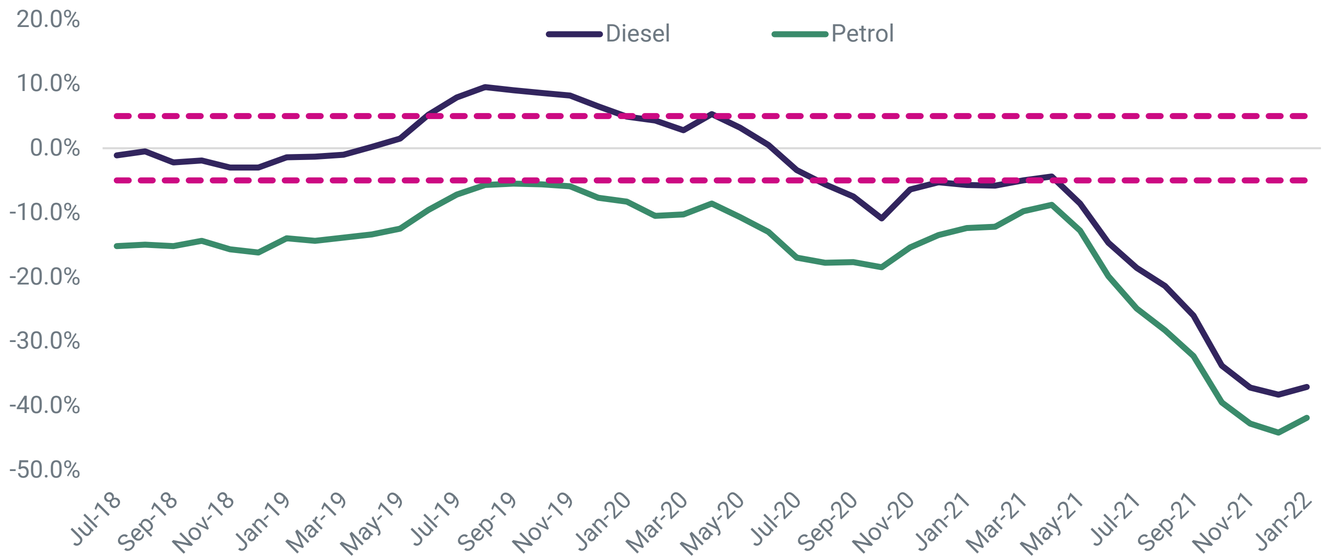
Since measurement started our 36 month used forecasts have averaged -8.3% less than used values across all vehicle ids, and the most recent results show January 2019 36/60 gold book forecasts being -39.8% less than January 2022 36/60 used values.

2021 36/60 used values.

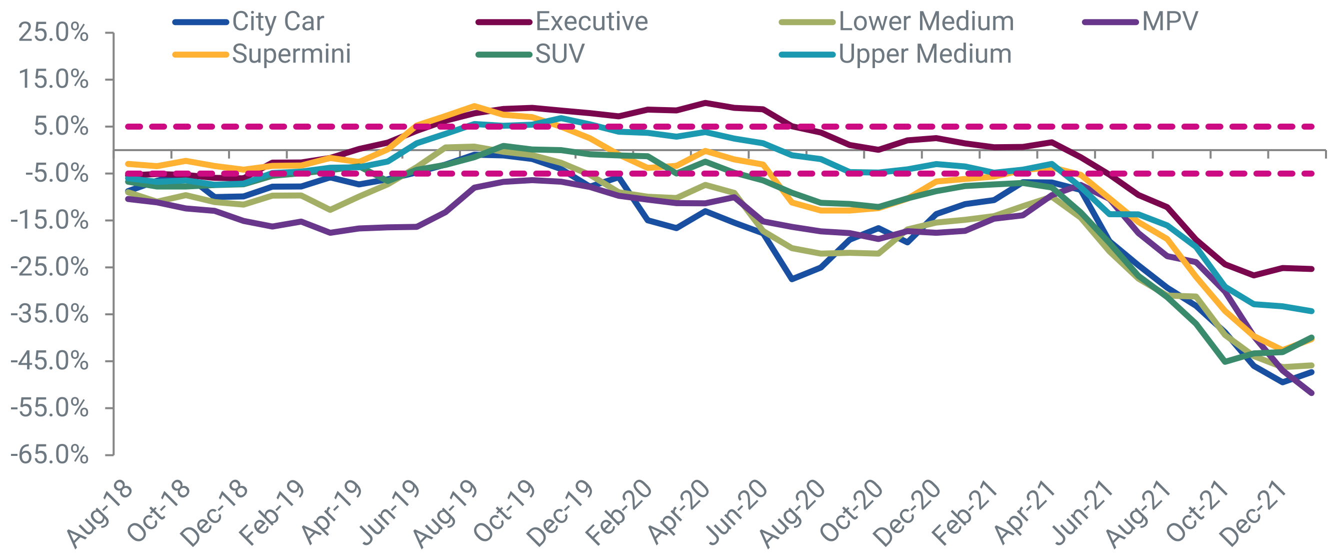
Overall results:



Fuel type results:




Sector results



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

| Jan 22 | Average of Diff (%) |
|---|---|
| City Car | -47.3% |
| Executive | -25.3% |
| Lower Medium | -45.9% |
| MPV | -43.9% |
| Supermini | -40.3% |
| SUV | -39.9% |
| Upper Medium | -34.3% |
| **Grand Total** | **-49.8%** |

## 4. Forecast methodology and products

### Overview and 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.

### 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 2022/23

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 |
|---|---|---|---|---|
| **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 | | |
| **Feb-23** | Upper Medium | Executive | Large Executive | Luxury Executive |