Solera | cap hpi
FOR SMARTER AUTOMOTIVE DECISIONS™

February 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. Headline Changes
2. Reforecast details for this month
3. Market conditions
4. Historic forecast accuracy
5. Forecast methodology
6. Sector reforecast schedule 2020-2021

1. Headlines - key changes and additions to the overview this month

Forecast changes

This month, we publish new reforecasts for the Lower Medium and MPV sectors.

It should be noted that from this month, Electric Vehicles will now be reforecast in conjunction with their associated body style sectors.

We have slightly improved our deflation assumption in all years into the future for Lower Medium as we expect the used market to begin to recover as the short-term deterioration in values peaks in Q4 2021 and the later years also reflect decreased volumes.

The overall impact of the changes to forecasts for these sectors at 36/60k is -0.23%: used value movements have broadly cancelled out the improvement to deflation assumptions and in some cases far exceeded them, although for some models not all of the used value movements have been incorporated into the forecasts where they are deemed to be short term in nature.

The overall average change in new car forecasts for all cars between January and February is approximately -0.06% at 36/60, which 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

See section 2 for more details on forecast changes.

New model ranges added to our forecasts

BMW iX3-E, Mini Cooper, Mini Convertible, Mini One and Volkswagen ID.4.

Model ranges to which new derivatives have been added

Abarth 595, Abarth 695, Alfa Romeo Giulia, Audi A3, Bentley Flying Spur, Citroen Berlingo, Fiat 500, Fiat 500C, Fiat 500L, Fiat 500X, Hyundai Kona, Hyundai Tucson, Kia Ceed, Kia Pro Ceed, Kia Sorento, Kia XCeed, Lamborghini Huracan, Mazda 3, Mazda 6, Mazda MX-30, Mercedes-Benz CLS, Mercedes-Benz E-Class, Nissan X-Trail, Peugeot 308, Porsche Boxster, Toyota Proace Verso and Volkswagen ID.3.

Market Conditions Changes

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. It now looks as though Click & Collect will remain in place for dealers through the current lockdown (apart from in Northern Ireland). The government have introduced some additional support for business and although we remain aware of the potential for further spikes in Covid infection and prolonged lockdowns, it is hoped that we can now start to look forward to a more stable future.

Our overall view remains that values will fall over the next year as consumer confidence falls and high volumes of used cars return to the market (driven by the expected return of extended fleet cars and an increase in the number of consumer PCP early terminations). This will also affect the values of younger cars (albeit to a lesser extent), due to limited price elasticity in the market and pressure on nearly new values from aggressive new car deals.

Latest unemployment data shows a rise from 4.8% to 4.9% (1.2% higher than a year earlier and 0.7% higher than the previous quarter) and is expected to show a further increase as more official data is released at the end of January. Once furlough comes to an end we also expect further significant increases. CPI had risen to 0.8% in December and although official January data has been delayed, further small increases are expected.

See section 3 for more details.

Historic Forecast Accuracy Changes

Our 12-month forecasts from 1 year ago have proved very accurate over the long-term (only 1.3% less than current Black Book values on average), although in recent months they have proved to have been too low. 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) has resulted in a significant short-term shift in accuracy due to the unexpected arrival of Covid-19 and the resulting strength of the market in the short term.

Accuracy of older longer-term forecasts continues to be affected by the unexpected turbulence in used values over the last 2 to 3 years, caused by anti-diesel press boosting petrol values to unsustainable levels, then followed by the market correction in early 2019, and now followed by the impact of Covid-19. The compound effect of all these factors has resulted in the older forecasts being significantly too low. However, the older forecast results will improve over time, as the changes made in our 5-monthly sector reviews (which picked up the turbulent market movements) start to flow into the results.

See section 4 for more details on accuracy.

2. Reforecast details this month

This month, we publish our new reforecasts for the Lower Medium and MPV sectors.

The overall impact of the changes at 36/60k, split by sector and fuel type, is as follows:

SECTOR	UNDERLYING FORECAST CHANGE	SEASONAL ELEMENT	OBSERVED CHANGE JANUARY TO FEBRUARY
Lower Medium Petrol	0.03%	-0.07%	0.1%
Lower Medium Diesel	0.47%	0.04%	0.43%
MPV Petrol	-2.6%	-0.2%	-2.8%
MPV Diesel	-0.7%	-0.2%	-0.9%

In common with other sectors, all these reforecast sectors saw increasing strength in values for the first few months since they were last reforecast (for August), and have then seen a few months of decline in values.

These movements have broadly cancelled each other out, so our starting position for the new forecasts is little changed in most cases, although selected MPV models have shown exceptional weakness in recent weeks. We believe that a substantial driver of these movements is the fact that the private hire industry has been extremely subdued over the past 12 months. In certain cases, we believe that some of the reductions will be reversed as we progress through 2021, but some permanent damage has almost certainly been done to these models and a full recovery is unlikely. As a result, there are some significant decreases on a small number of models. (See link to exceptions report towards the bottom of page 1).

Other forecast changes this month (in addition to sector reforecasts

DS DS3 CROSSBACK (19-): Reforecast following inter-product analysis of relationship between forecasts and current values, resulting in forecast decreases.

DS DS3 CROSSBACK (19-) Diesel: Reforecast following inter-product analysis of relationship between forecasts and current values, resulting in forecast decreases.

JAGUAR F-PACE (15-): Model trim walk-up change, following inter-product analysis of relationship between forecasts and current values, resulting in various forecast changes

JAGUAR F-PACE (15-): Diesel Model trim walk-up change, following inter-product analysis of relationship between forecasts and current values, resulting in various forecast changes

PEUGEOT 508 (18-): Walk-up correction for Active Premium trim, resulting in forecast decreases.

RENAULT KADJAR (18-): Reforecast following inter-product analysis of relationship between forecasts and current values, resulting in forecast decreases.

SUZUKI S CROSS (13-): 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.

3. 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. It now looks as though Click & Collect will remain in place for dealers through the current lockdown (apart from in Northern Ireland). The government have introduced some additional support for business and although we remain aware of the potential for further spikes in Covid-19 infection and prolonged lockdowns, it is hoped that we can now start to look forward to a more stable future.

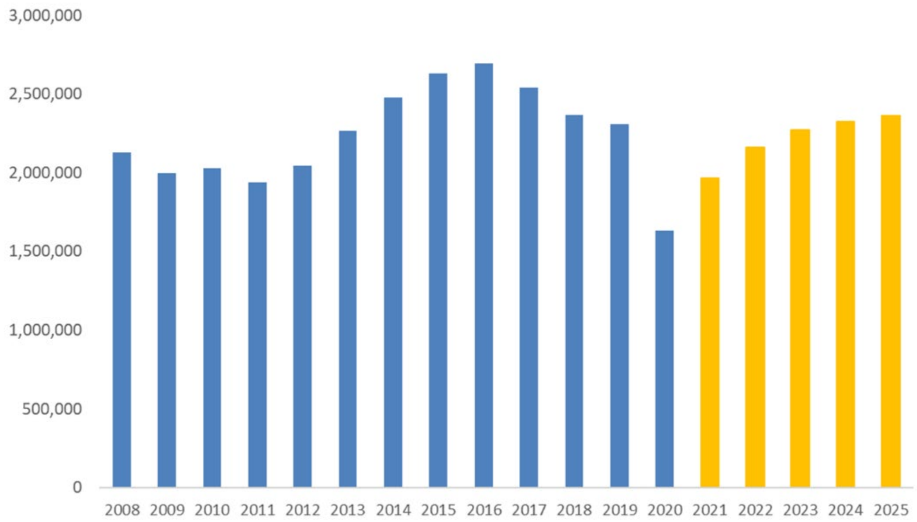
In summary, our view is that:

- The used market strength seen in the period June to September 2020 will continue to ebb away over coming months, as the normal pattern of falling values in winter months is re-established. Indeed, movements through January into February book are reductions in values approximately 1% greater than average for the time of year.
- Although there is likely to be a boost in remarketing activity once current lockdowns are released, 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 stocks are likely to remain higher than average.
- Values will fall to a low point in the second half of next year, driven by high 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.
- One year old vehicles will be 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. There may also be 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).

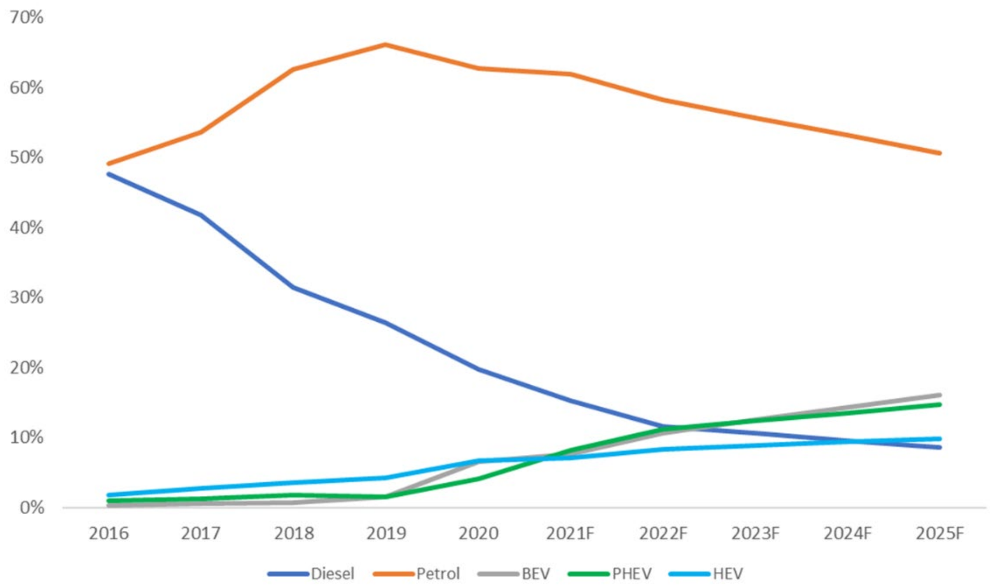
There will still be variations by sector and fuel type. We expect that smaller cheaper cars will be less impacted than larger expensive ones throughout the depressed period, as consumers remain prudent.

Supply side factors

New forecasts for new car registrations are expected to be published by the SMMT in February. The chart below displays our own forecasts: 2021 1.965mm, 2022 2.162mm, 2023 2.270. 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 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.

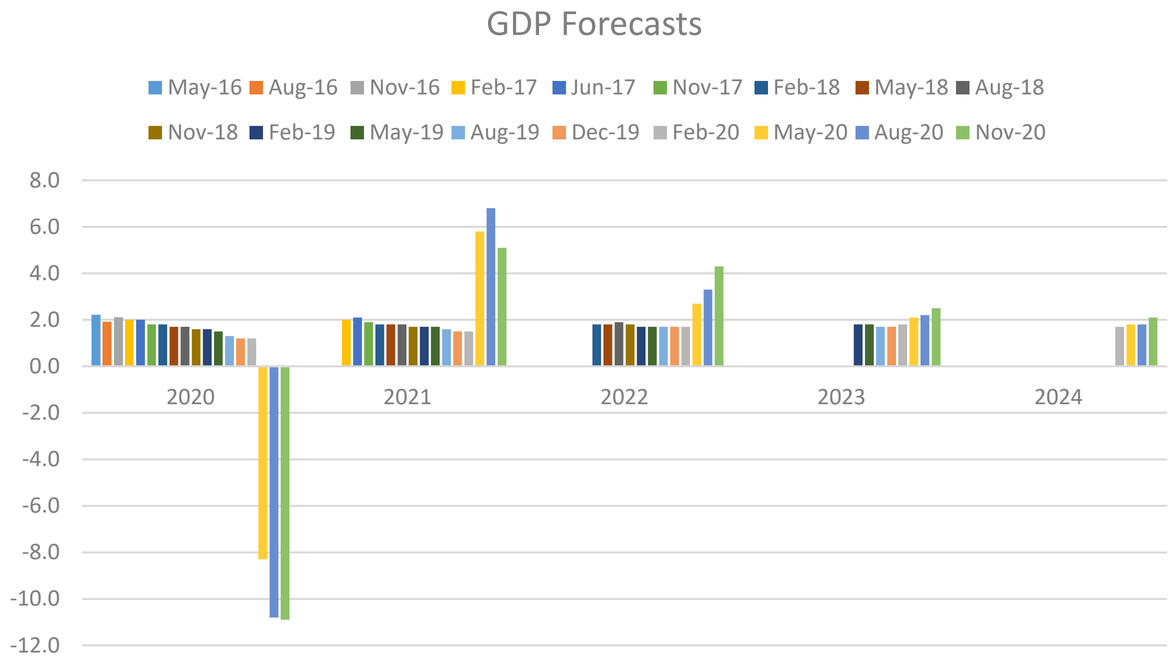


Growth will be led by battery electric vehicles (BEVs) which we expect to become the dominant AFV type by 2023. Post-Covid driving patterns (shorter and few journeys due to the increase of home working and online meetings) are likely to add to demand. The government's proposal to ban new ICE cars from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

Demand side factors

Latest independent forecasts for the UK economy were published in November and show a further worsening of forecasts for GDP and unemployment. Some of the UK GDP recovery has been deferred from 2021 to 2022.

The chart below shows the latest GDP forecasts for 2020-2024, alongside previous forecasts.



The latest unemployment forecasts are slight worse than previously, with the unemployment expected to rise to between 6% and 8% next year; and 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, will be hit due to the recession and unemployment.

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.

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) has 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.

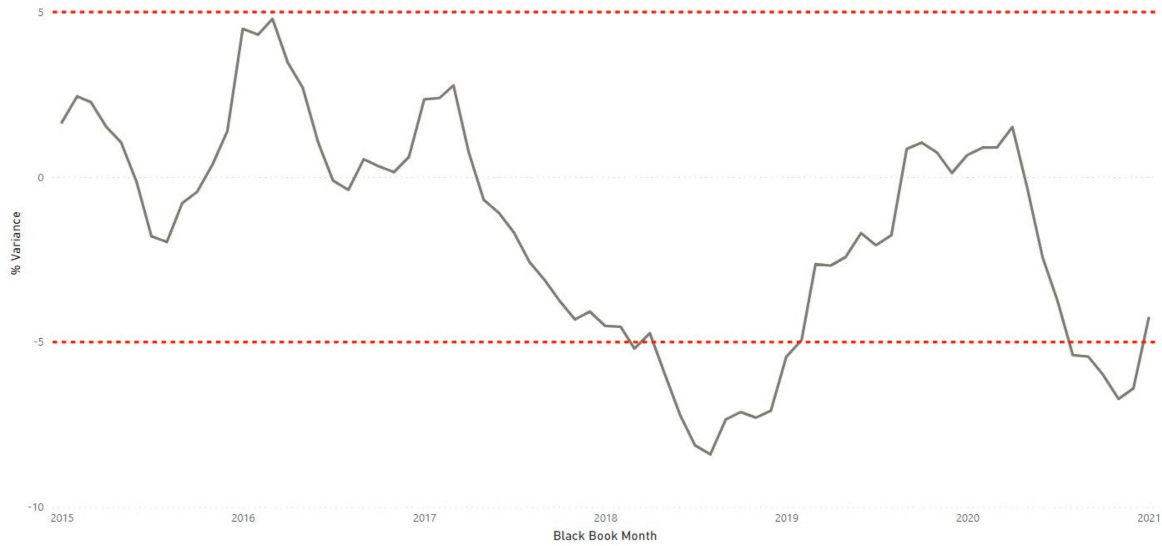
More recently, MPV forecast accuracy was affected by the strength in values due to demand outstripping supply; but the market has now normalised to a great extent, although some models have seen extreme reductions, partly due to the private hire sector being dormant.

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.

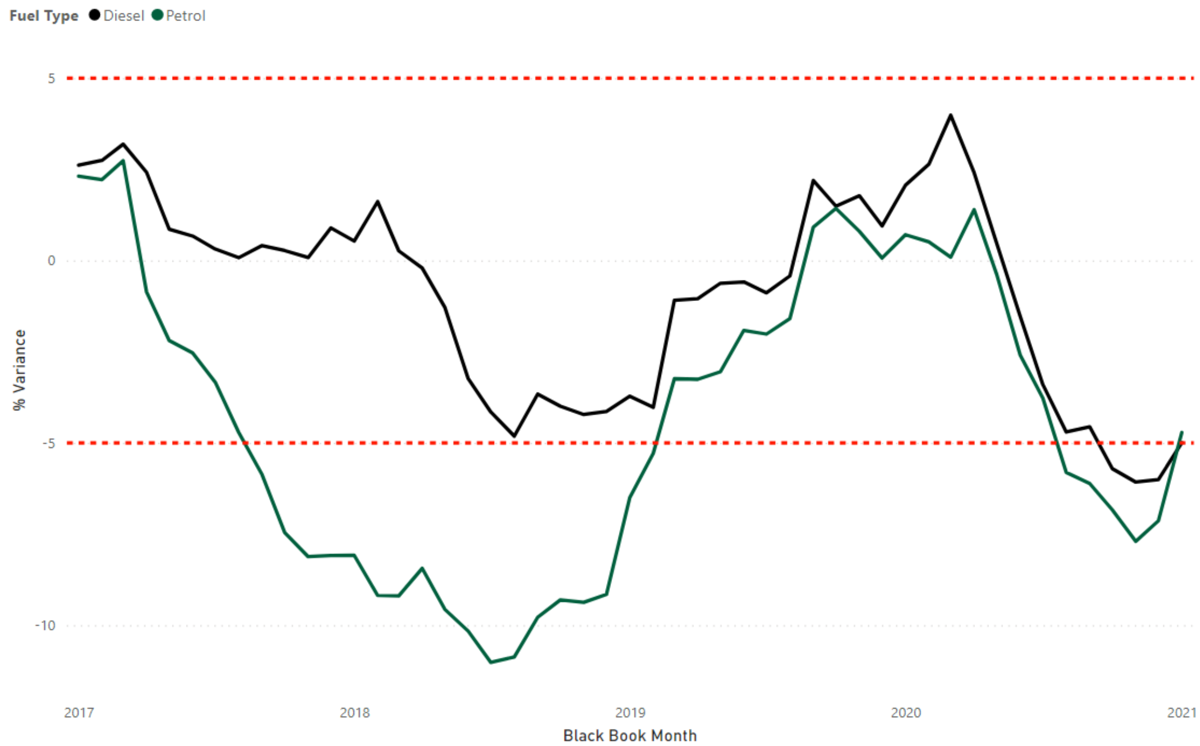
12-month results

Since measurement began our 12-month forecasts have averaged -1.3% less than black book across all vehicle ids, and the most recent results show January 2020 12/20 gold book forecasts being -4.3% less than January 2021 12/20 black book.

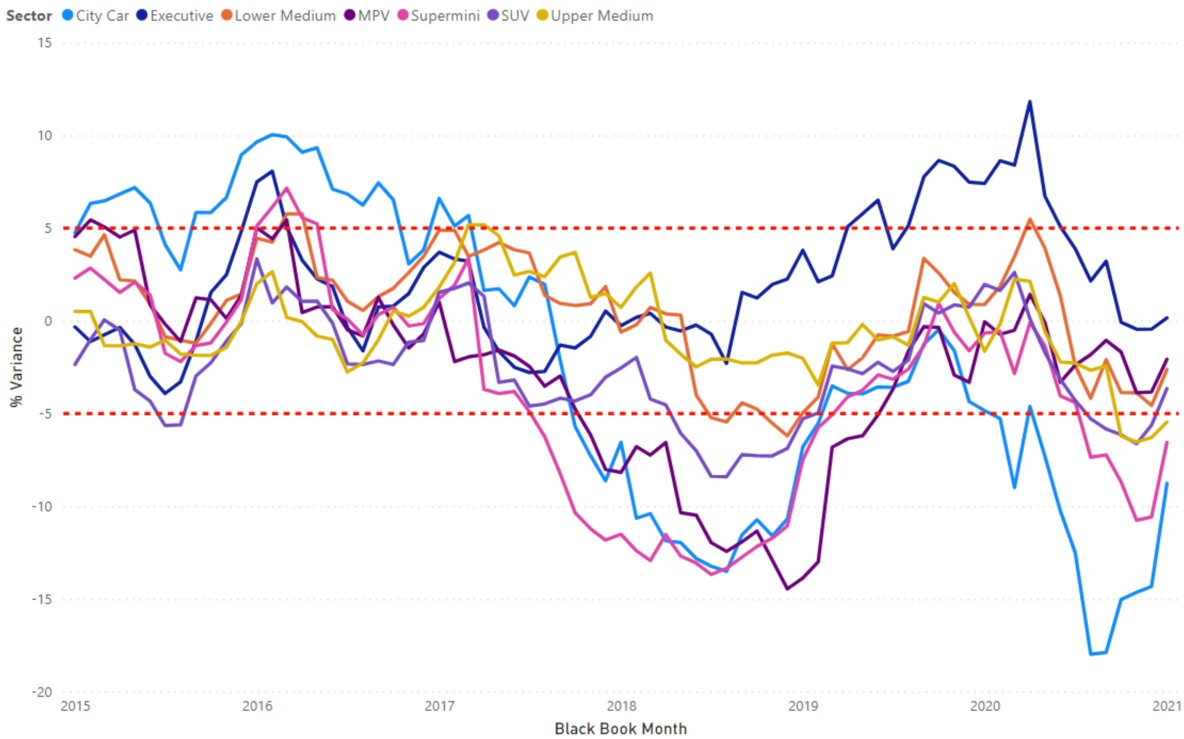
Overall results:



Fuel Type Results



Sector Results:



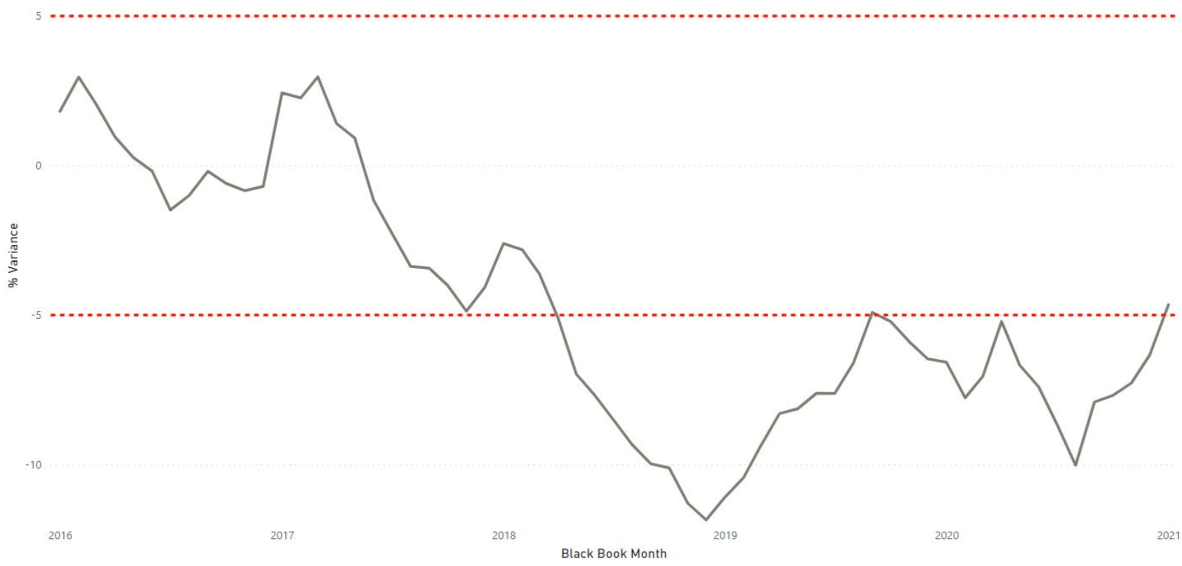
The most recent results for the main sectors are as follows:

Jan-21	
City Car	-8.8%
Executive	0.2%
Lower Medium	-2.6%
MPV	-2.1%
Supermini	-6.6%
SUV	-3.7%
Upper Medium	-5.5%

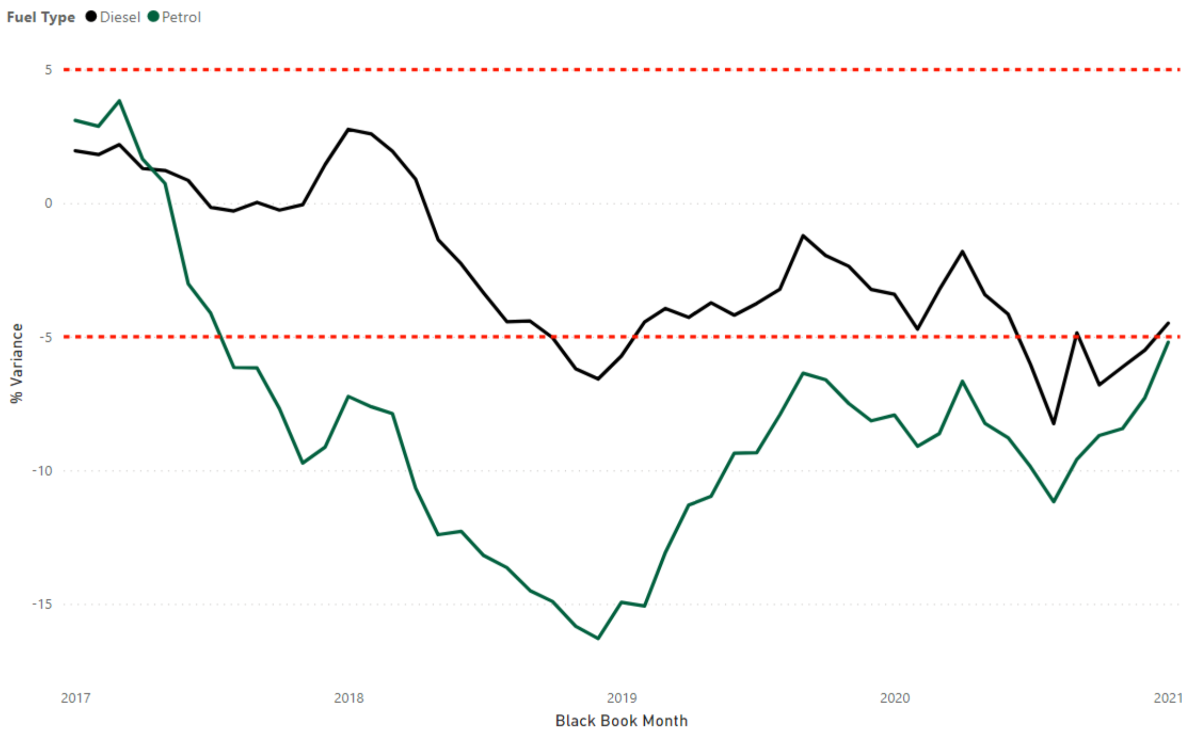
24-month results

Since measurement started our 24-month forecasts have averaged -4.0% less than black book across all vehicle ids, and the most recent results show January 2019 24/40 gold book forecasts being -4.7% less than January 2021 24/40 black book.

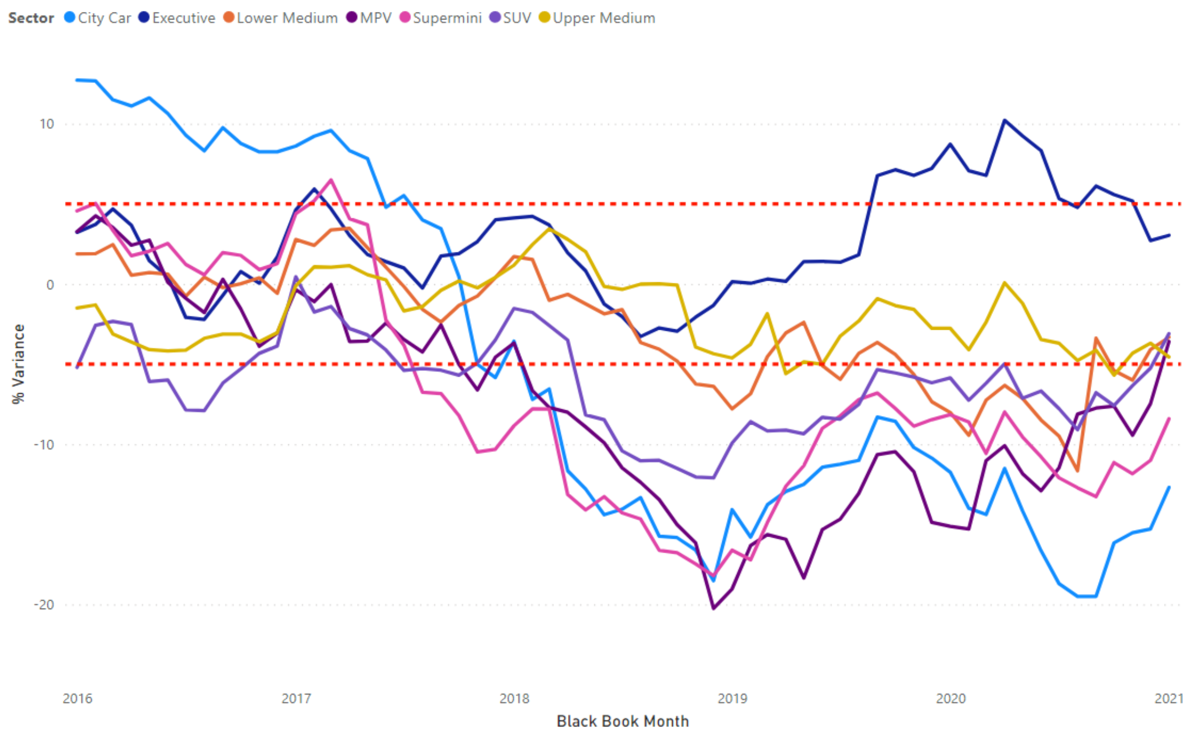
Overall results:



Fuel Type results:



Sector results:



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

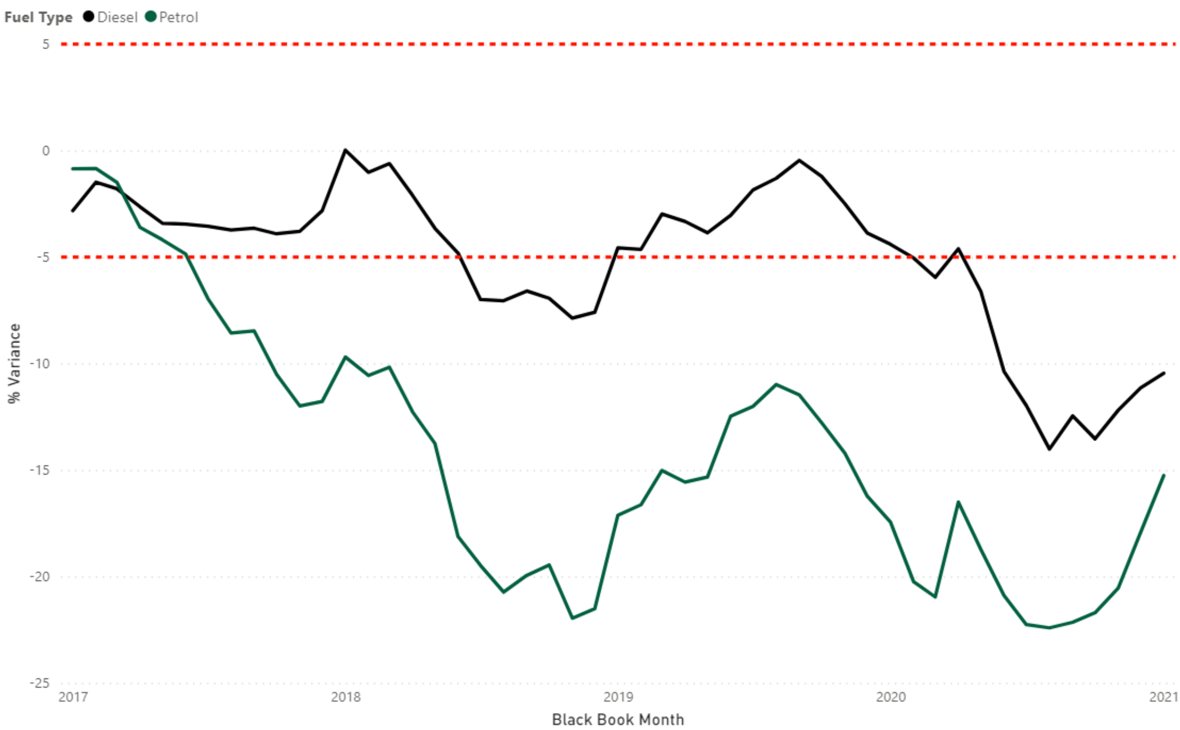
Jan-21	
City Car	-12.7%
Executive	3.0%
Lower Medium	-3.3%
MPV	-3.6%
Supermini	-8.4%
SUV	-3.1%
Upper Medium	-4.6%

36-month results

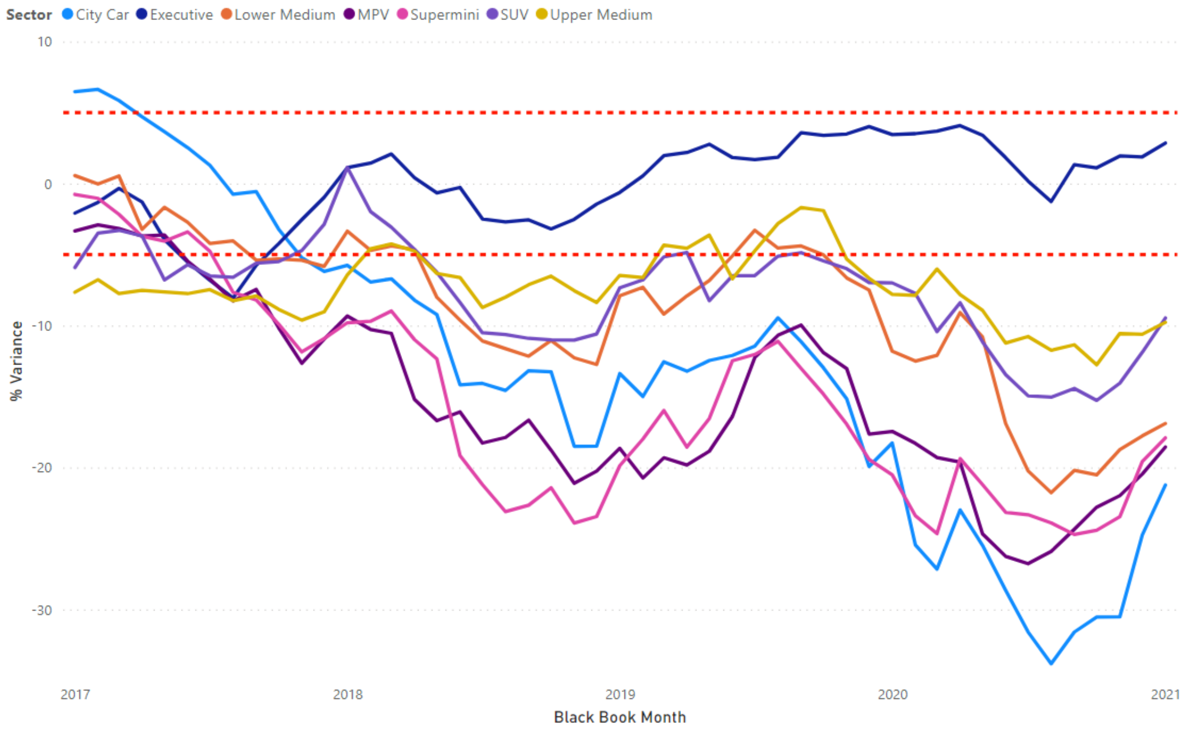
Since measurement started our 36-month forecasts have averaged -10.1% less than black book across all vehicle ids, and the most recent results show January 2018 36/60 gold book forecasts being -13.1% less than January 2021 36/60 black book.

Overall results:

Fuel Type results:



Sector results:



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

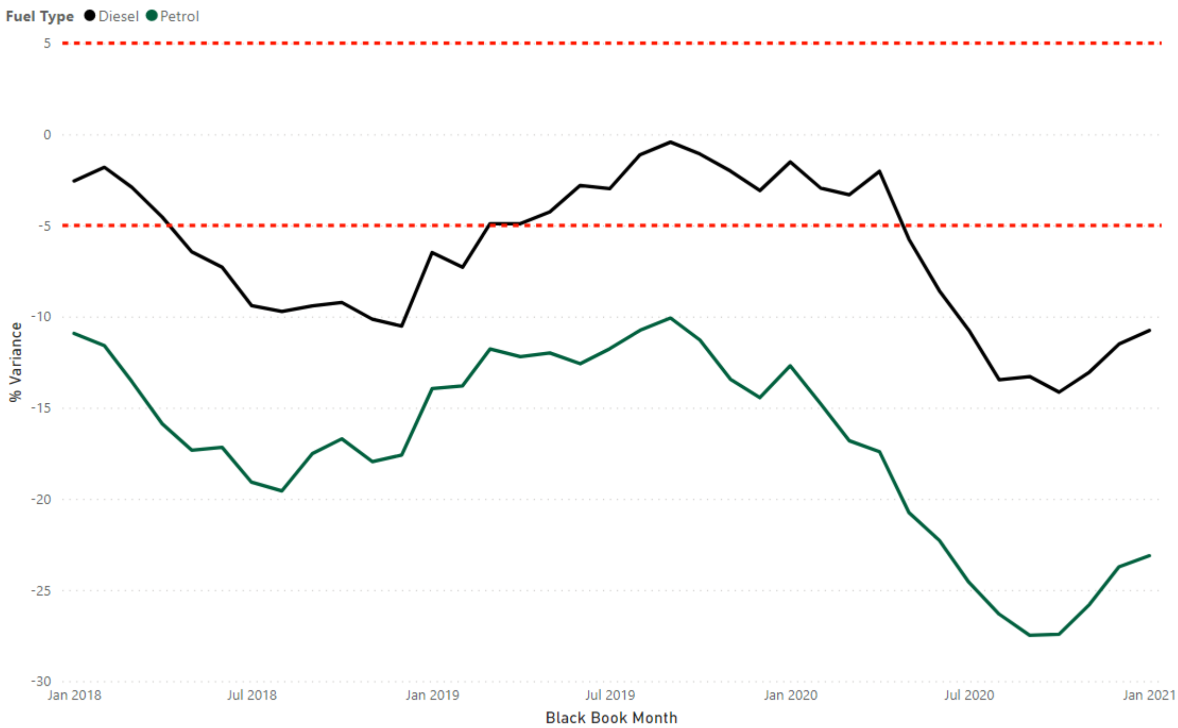
Jan-21	
City Car	-21.2%
Executive	2.9%
Lower Medium	-16.9%
MPV	-18.6%
Supermini	-17.9%
SUV	-9.5%
Upper Medium	-9.8%

48-month results

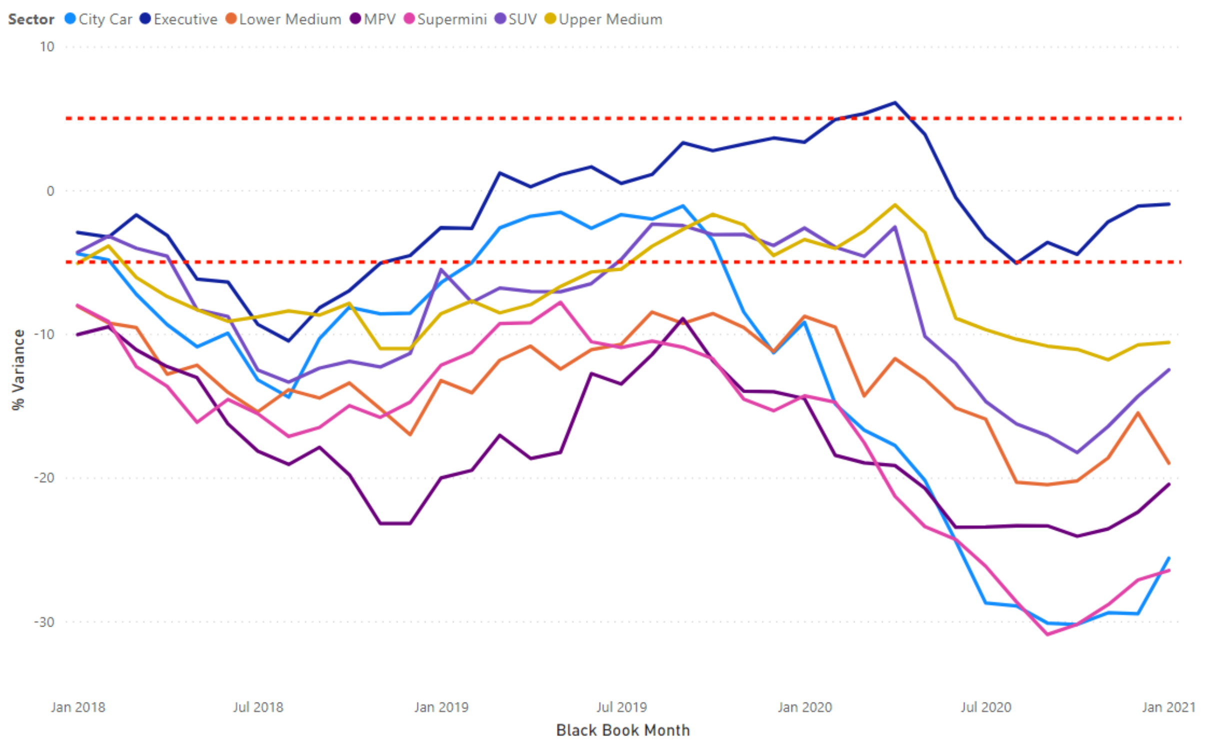
Since measurement started our 48-month forecasts have averaged -12.1% less than black book across all vehicle ids, and the most recent results show January 2017 48/80 gold book forecasts being -17.6% less than January 2021 48/80 black book.

Overall results:

Fuel Type results:



Sector results:



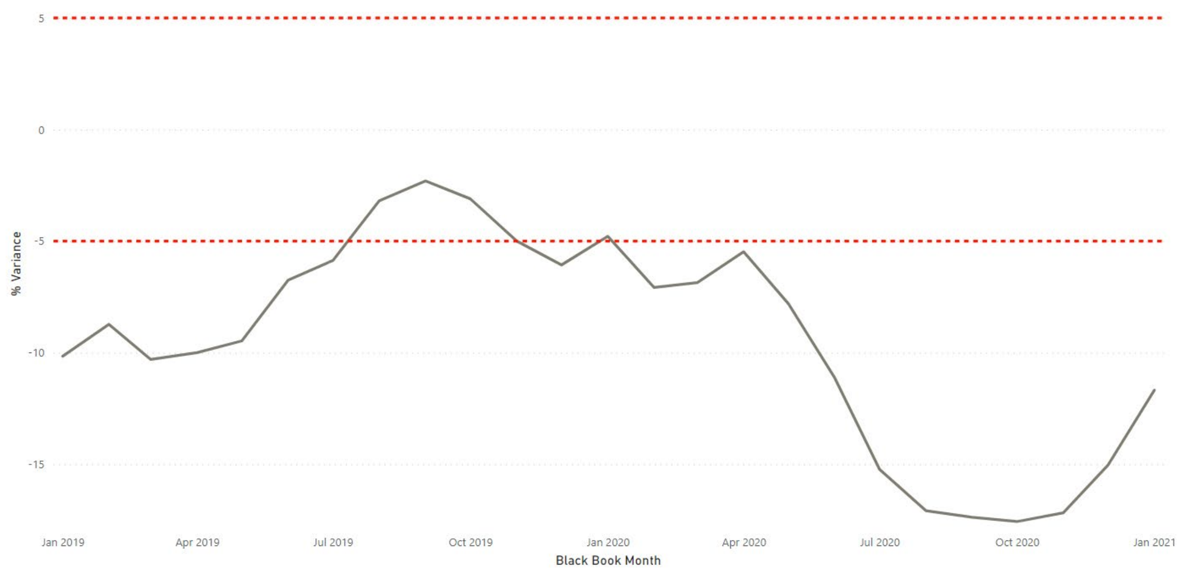
The most recent results for the main sectors are as follows:

Jan-21	
City Car	-25.6%
Executive	-1.0%
Lower Medium	-19.0%
MPV	-20.5%
Supermini	-26.5%
SUV	-12.5%
Upper Medium	-10.6%

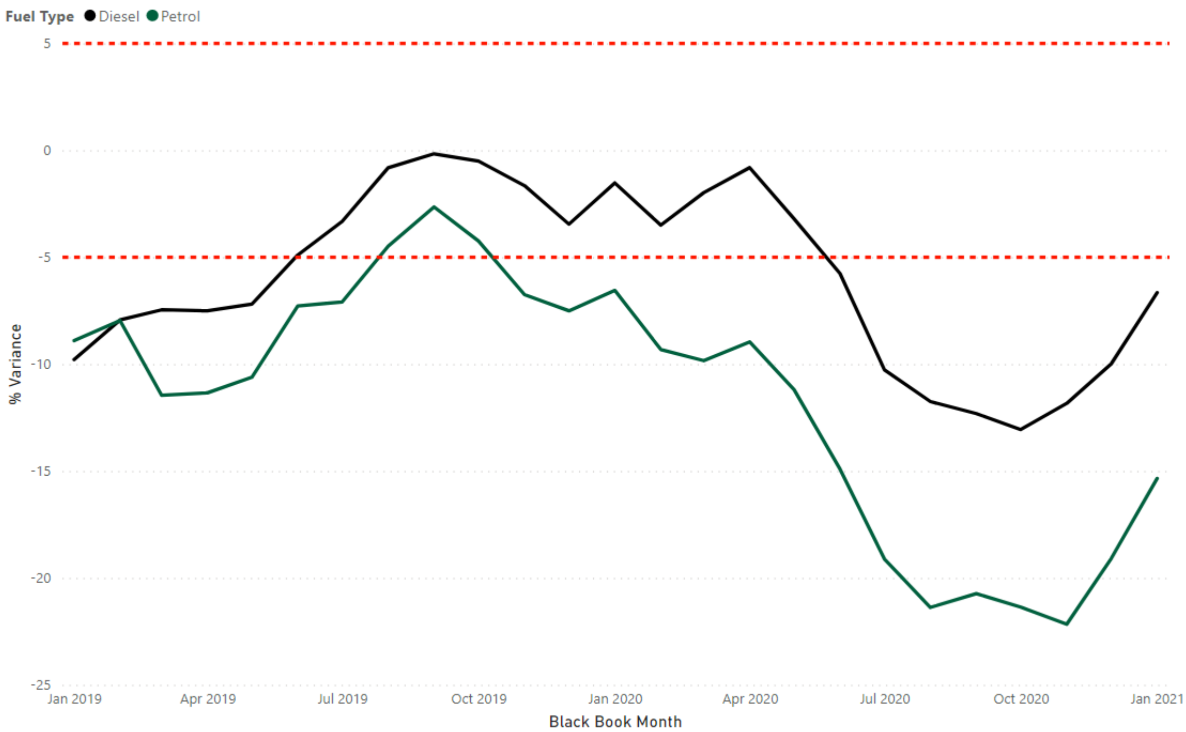
60-month results

Since measurement started our 60-month forecasts have averaged -9.4% less than black book across all vehicle ids, and the most recent results show January 2016 60/100 gold book forecasts being -11.7% less than January 2021 60/100 black book.

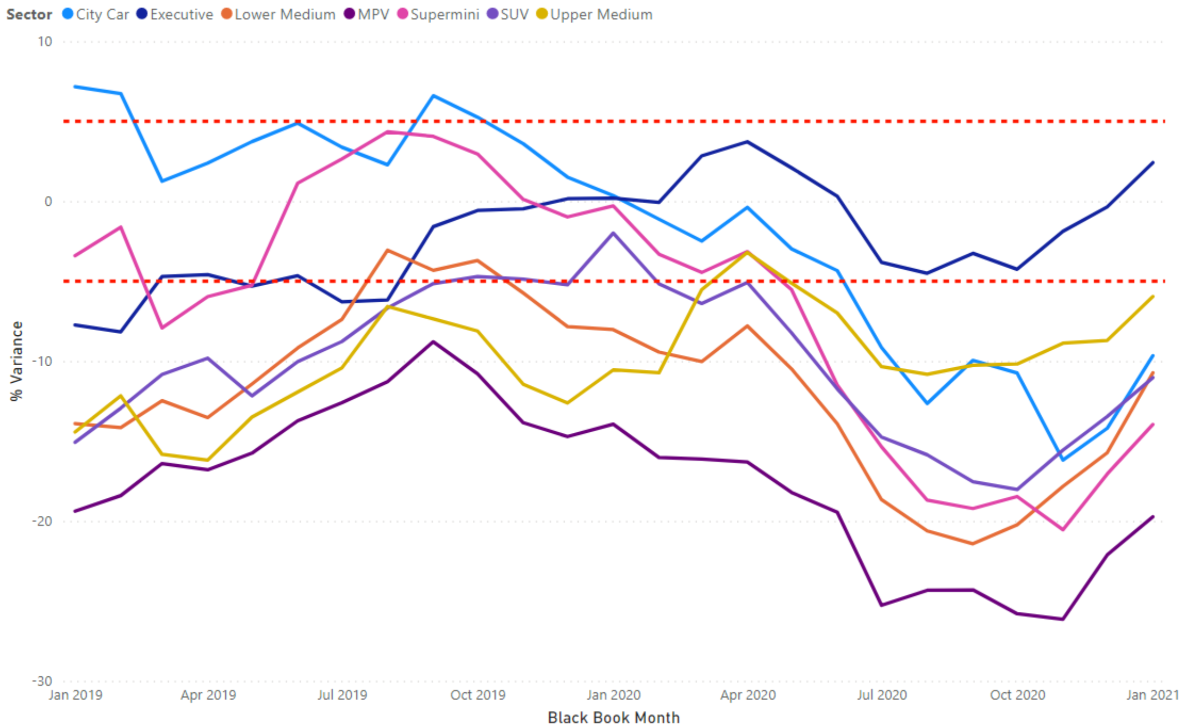
Overall results:



Fuel Type results:



Sector results:



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

Jan-21	
City Car	-9.7%
Executive	2.4%
Lower Medium	-10.7%
MPV	-19.7%
Supermini	-14.0%
SUV	-11.0%
Upper Medium	-6.0%

5. Gold Book Methodology:

Overview

All our future residual values are based on the gold book methodology. Our values take current month black book 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 black book movements.

All these assumptions and adjustments are available for scrutiny to our customers through our gold book iQ product. For years, our customers asked for transparency in automotive forecasting and we delivered a ground-breaking product to provide exactly that.

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. This has intensified following the availability of our short-term forecast data (0-12 months), which incorporates detailed exception reporting at a cap hpi ID level and has been used increasingly to manage the relationships between used and forecast values.

Forecasting Model Development - gold book iQ

gold book iQ was launched in December 2013 and gives unparalleled transparent insight into the assumptions used to produce our forecasts.

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

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 gold book 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).

6. Reforecast Calendar 2020-2021:

The table below shows the cycle of sector reforecasts completed so far 2020-2021

Monthly Product	Sector 1	Sector 2	Sector 3	Sector 4
Feb-20	SUV	Electric		
Mar-20	Upper Medium	Executive	Large Executive	Luxury Executive
Apr-20	MPV	Convertible	Coupe Cabriolet	
May-20	No Sectors			
Jun-20	No Sectors			
Jul-20	No Sectors			
Aug-20	All Sectors			
Sept-20	No Sectors			
Oct-20	No Sectors			
Nov-20	SUV			
Dec-20	City Car	Supermini	Electric	
Jan-21	Upper Medium	Executive	Large Executive	Luxury Executive
Feb-21	Lower Medium	MPV		

The table below shows our expected future cycle of sector reforecasts.

Monthly Product	Sector 1	Sector 2	Sector 3	Sector 4
Mar-21	Convertible	Coupe	Sports	Supercar
Apr-21	SUV	Cabriolet		
May-21	City Car			
Jun-21	Upper Medium	Supermini	Large Executive	Luxury Executive
Jul-21	Lower Medium	Executive		
Aug-21	Convertible	MPV	Sports	Supercar
Sep-21	SUV	Coupe		
Oct-21	City Car	Cabriolet		
Nov-21	Upper Medium		Large Executive	Luxury Executive
Dec-21	Lower Medium	Supermini		
Jan-22	Convertible	Executive	Sports	Supercar
Feb-22	SUV	MPV		
		Coupe		
		Cabriolet		