May 2021

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 2021

1. Forecast Changes

Sector reforecasts

This month, we publish new reforecasts for the City Car, Supermini, Upper Medium, Executive, Large Executive and Luxury Executive sectors. (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. The approximate improvements for 3-year-old vehicles in the first year are as follows (with increases of a similar magnitude at other ages):
City Car +2%
Supermini Diesel +4%, Petrol +3%
Upper Medium Diesel +4.5%, Petrol +3.5%
Executive Diesel +6%, Petrol +5%
Large Executive +5%
Luxury Executive +4%

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. As has been the trend for some time, most alternative fuel versions either decreased or improved by less than the overall average.

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 APRIL TO MAY
City Car Electric (BEV)	-4.3%	-2.0%	-2.30%
City Car Petrol	-5.1%	-2.0%	-7.1%
Supermini Diesel	+1.1%	-1.5%	-0.5%
Supermini Electric (BEV)	-3.1%	-1.5%	-4.7%
Supermini Hybrid (HEV)	-2.3%	-1.5%	-3.8%
Supermini Petrol	+1.9%	-1.5%	+3.5%
Upper Medium Diesel	+1.2%	-1.2%	0.0%
Upper Medium Electric (BEV)	-2.0%	-1.0%	-3.0%
Upper Medium Hybrid (HEV)	-0.9%	-1.0%	-2.0%
Upper Medium Petrol	+0.6%	-1.0%	-0.4%
Upper Med Plug-In Hybrid (PHEV)	-1.1%	-1.0%	-2.1%
Executive Diesel	+1.8%	-1.0%	+0.8%
Executive Hybrid (HEV)	+3.2%	-0.5%	+2.6%
Executive Petrol	+1.5%	-0.5%	+0.9%
Executive Plug-In Hybrid (PHEV)	-0.4%	-0.5%	-1.0%
Large Exec Diesel	+2.3%	-0.9%	+1.4%
Large Exec Electric (BEV)	+0.5%	-1.0%	-0.5%
Large Exec Hybrid (HEV)	+6.4%	-1.0%	+5.4%
Large Exec Petrol	+2.7%	-1.0%	+1.7%
Large Exec Plug-In Hybrid (PHEV)	+3.7%	-1.0%	+2.7%
Luxury Executive Petrol	+4.6%	-0.6%	+4.0%
Overall Average	-1.1%	-1.2%	+0.1%

There have also been some minor changes to seasonality profiles, the main impact of which is a reduction in the plate uplifts applied in January, March and September. Some amendments to mileage relationships for Luxury Executive models were also applied, with the result being a reduction in forecast values at low mileage for ages greater than 4 years old.

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

Dealerships physically re-opened on April 12th and there has undoubtedly been a significant increase in used car demand in the past week, although the initial few days of opening brought mixed feedback. Several supply issues have extended new car delivery lead times and a combination of fewer trade-in vehicles and delayed fleet replacements have contributed to the current strength. 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.

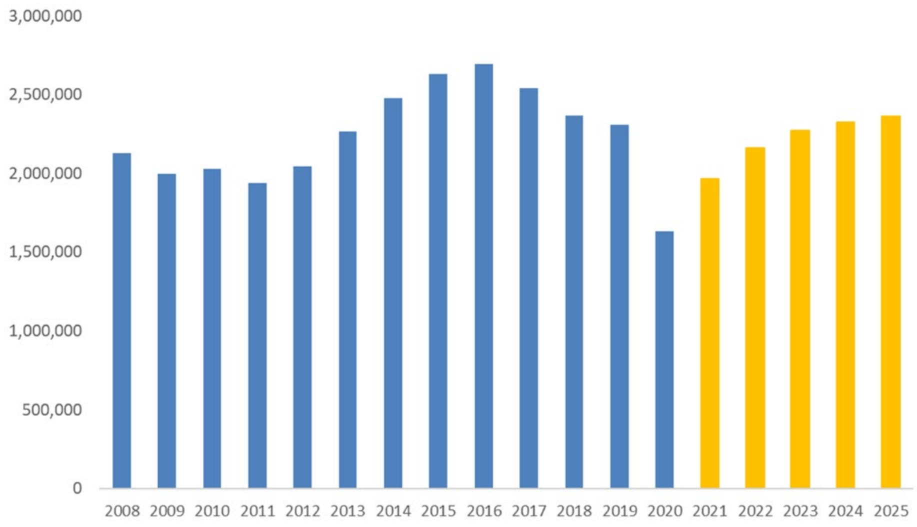
In summary, our view is that:

- Although the current strength in the used market is expected to last for several weeks, we do not expect a repeat of the sustained price increases seen in 2020. Dealers were trading through click and collect/click and deliver throughout the most recent lockdown period and this surge in used values is likely to be short-term as the pent-up demand is satisfied.
- Values will fall 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).

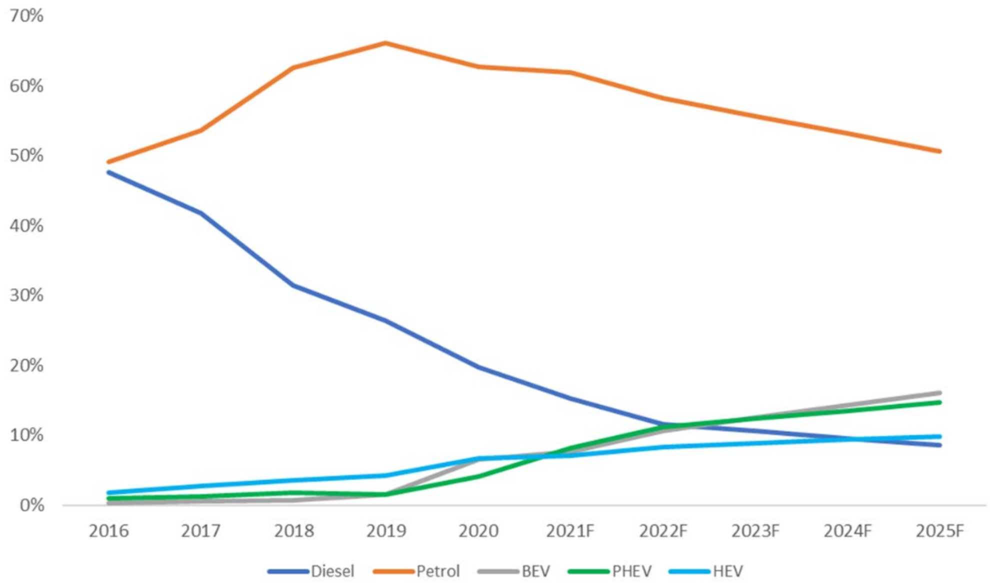
There will still be variations by sector and fuel type. We expect that smaller cheaper cars will be less impacted than larger expensive ones throughout the depressed period, as consumers remain prudent.

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 – February was slightly below plan and March was slightly above, so the year to date total remains on track to meet our estimate. 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.

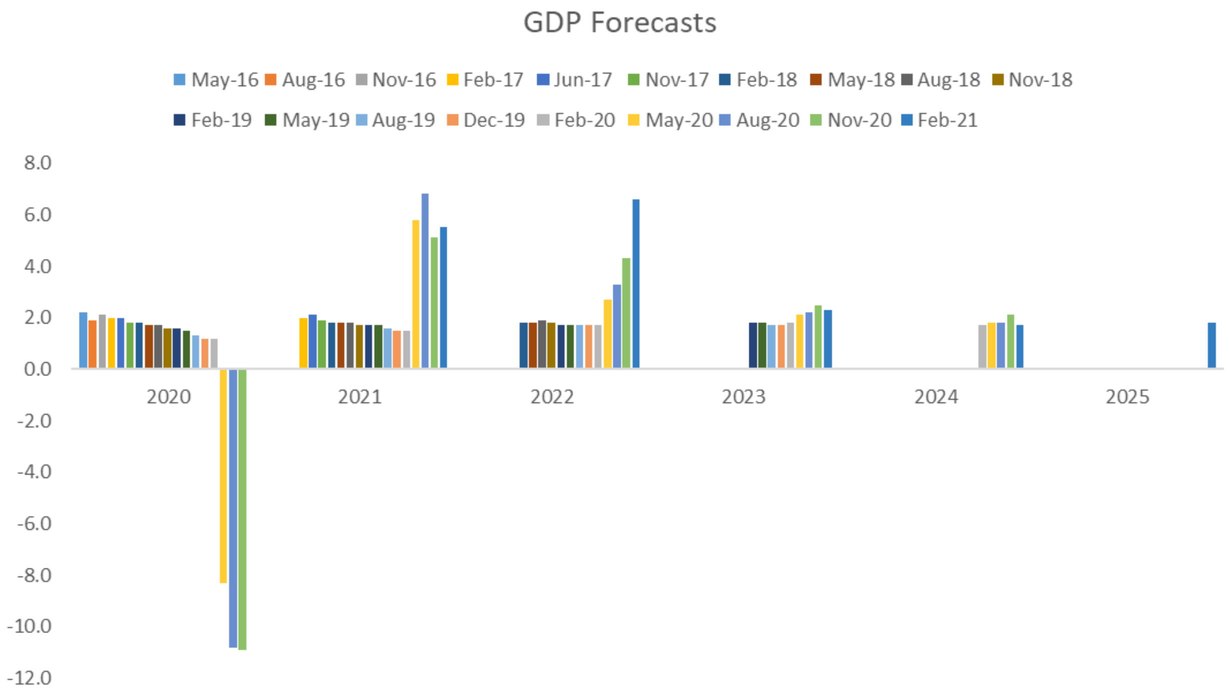
The recent changes to the Plug-In Car Grant (PiCG) are expected to 'normalise' the market. We are already seeing the expected actions from manufacturers and our view is that the impact on used values will be broadly neutral. Detailed commentary is available on our Extras Blog:

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 and 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 used 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 have generally been within the +/- 5% target agreed with customers, but recognise that results have been affected by the unexpected strength of petrol values throughout 2017 and 2018 as a result of anti-diesel press; then the downturn in values during 2019 which we predicted; and now followed by the impact of 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.** As a result, our used forecasts have tended to be more accurate on average for shorter terms than longer terms, where the impact of our regular sector reforecasts will take longer to flow into the accuracy results.

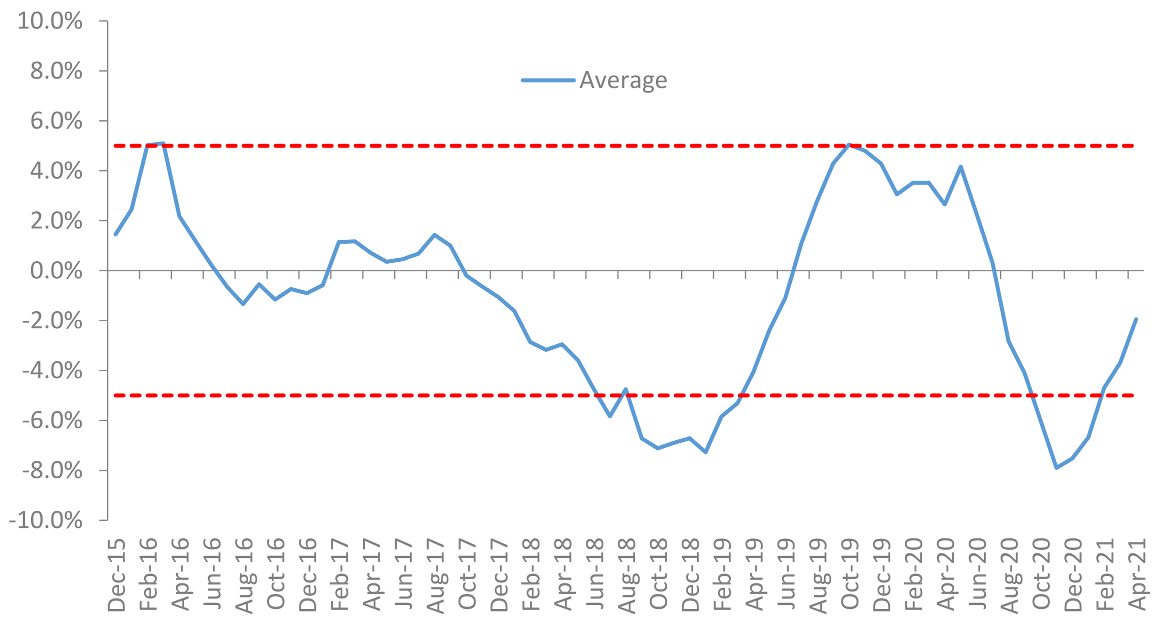
At sector level, City Car and Supermini have proved to be the most difficult to forecast, partly because variable manufacturer forced registration activity has impacted used values in an unpredictable way, and partly because of the positive impact on values caused by recent interest in small clean petrol cars.

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

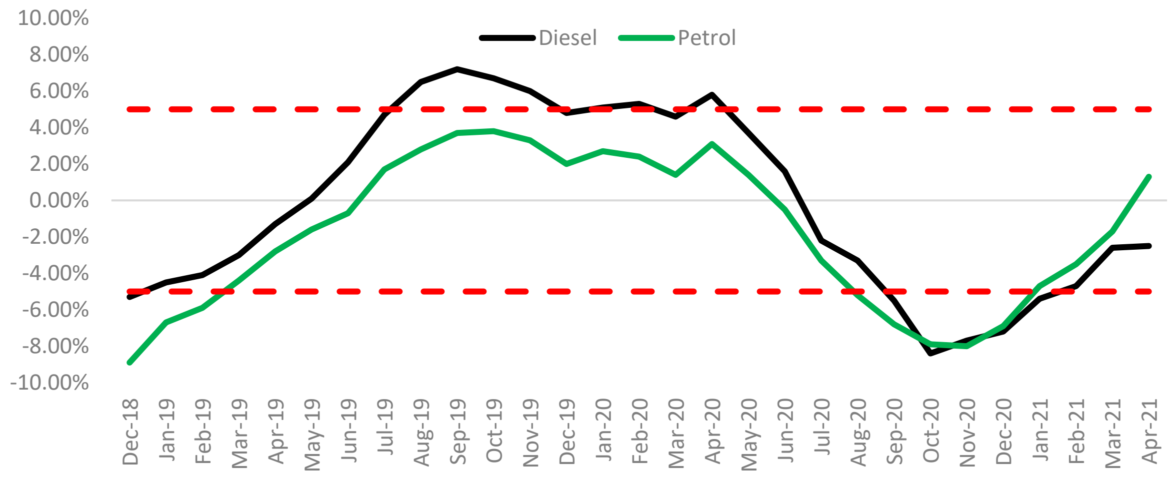
12-month results

Since measurement started our 12 month used forecasts have averaged -0.9% less than used values across all vehicle ids, and the most recent results show April 2020 12/20 gold book forecasts being -1.5% less than April 2021 12/20 used values.

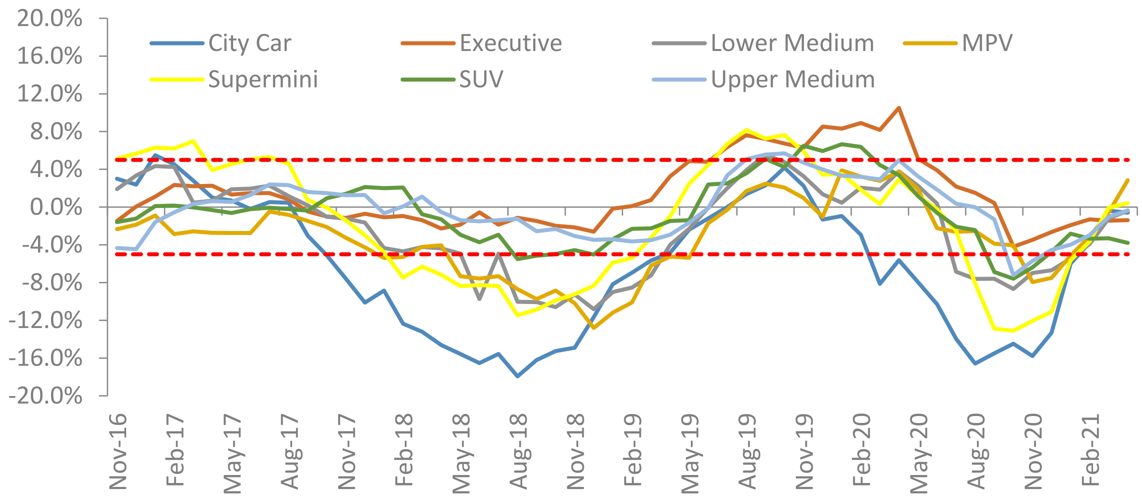
Overall results:



Fuel Type Results:



Sector Results:



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

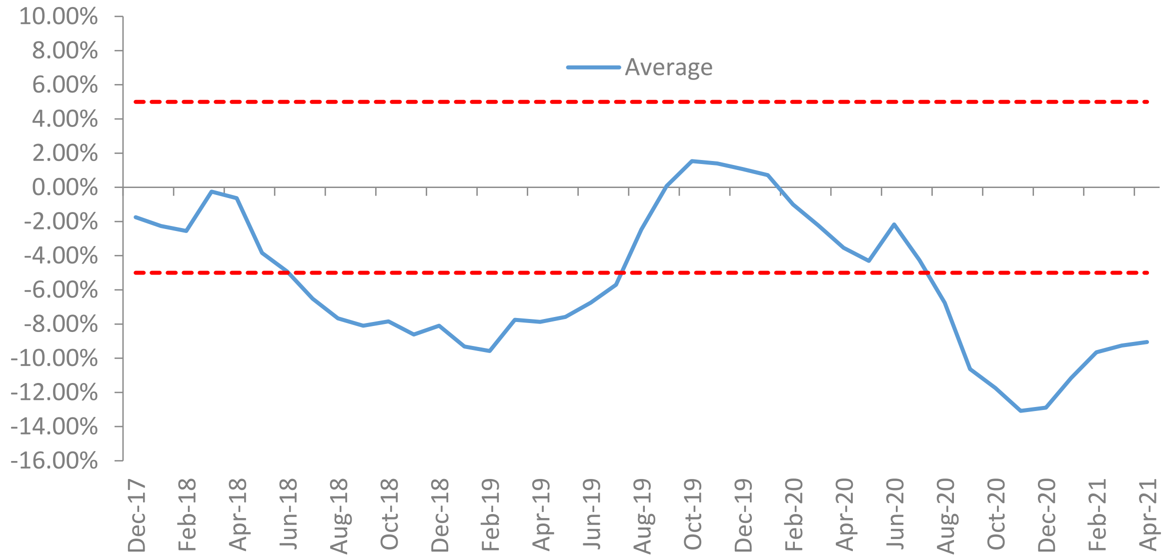
Row Labels	Average of Diff (%)
City Car	-0.6%
Executive	-1.4%
Lower Medium	-0.4%
MPV	2.9%
Supermini	0.4%
SUV	-3.8%
Upper Medium	-0.4%

Grand Total	-1.54%

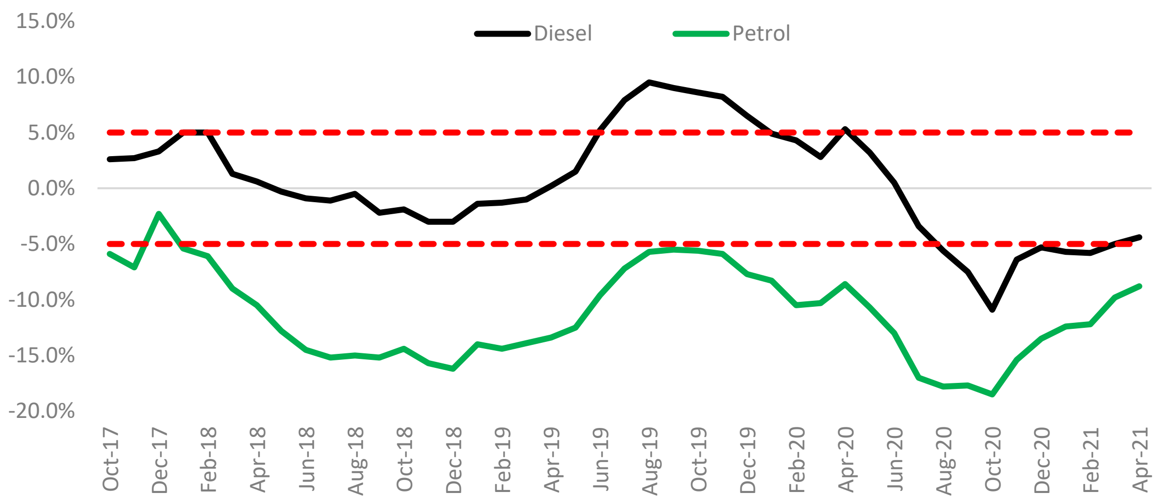
36-month results

Since measurement started our 36 month used forecasts have averaged -4.7% less than used values across all vehicle ids, and the most recent results show April 2018 36/60 gold book forecasts being -9.0% less than April 2021 36/60 used values.

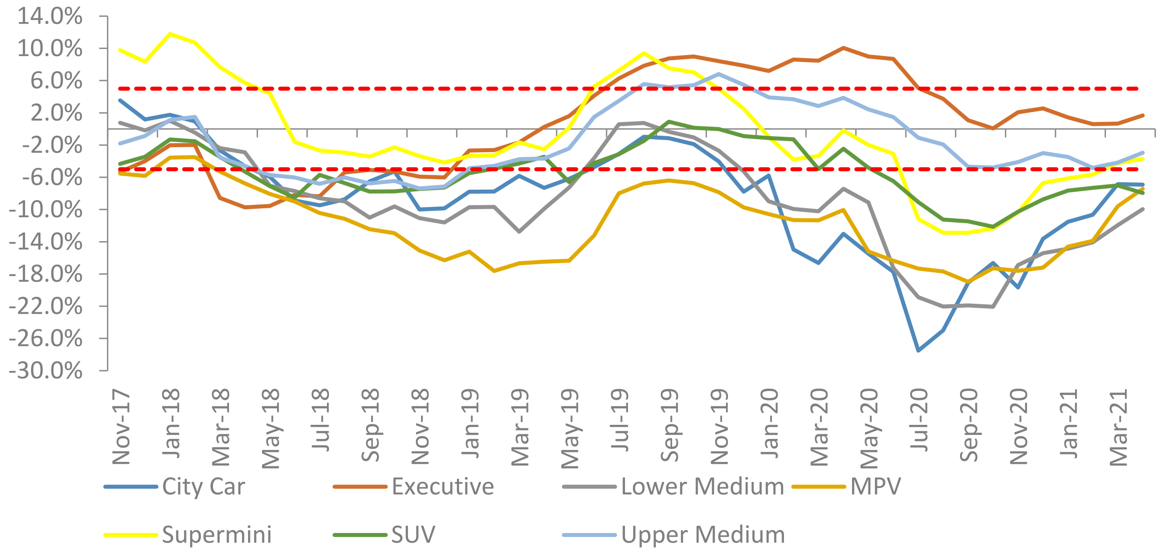
Overall Results:



Fuel Type Results:



Sector Results:



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

Row Labels	Average of Diff (%)
City Car	-6.9%
Executive	1.7%
Lower Medium	-10.0%
MPV	-7.4%
Supermini	-3.7%
SUV	-8.0%
Upper Medium	-3.0%

Grand Total	-6.6%

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).

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5. Reforecast Calendar 2021/22

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 the Sports/Convertible/Coupe Cab/Supercar sectors into next month and then no sector reforecast will take place the following month. We will then split the SUV sectors before reverting 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
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			
May-22	Lower Medium	MPV				