March 2022

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. Forecast Changes
2. Market Conditions
3. Historic Forecast Accuracy
4. Forecast Methodology & Products
5. Sector Reforecast Schedule 2022/23

1. Forecast changes

New model ranges added to our forecasts:

BMW 8 Series, BMW M8, Dacia Jogger, Jeep Grand Cherokee, Mazda 2 Hybrid and Renault Megane E-Tech.

Model ranges to which new derivatives have been added:

BMW 2 Series, Citroen Berlingo, Dacia Duster, Fiat 500X, Ford Focus, Jaguar E-Pace, Jeep Renegade, Land Rover Range Rover, Nissan Leaf, Polestar 2, Porsche 911, Porsche Cayenne, Porsche Macan, Porsche Taycan, Renault Captur, Renault Clio, Skoda Fabia, Toyota Yaris, Vauxhall Corsa and Vauxhall Mokka.

The overall average change in new car forecasts for ALL cars between February and March is approximately +3.23 % at 36/60, which is broadly 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

Sector reforecasts

This month, we publish new reforecasts for the City Car and Supermini sectors.

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. However, the current market for smaller cars is at a record level, with year over year inflation of approximately +40% (as we predicted a few months ago). As a result, we have applied changes to our deflation phasing, with an overall deterioration caused by increased deflation in the next 12 months, outweighing improvements in years two and three.

On an individual model level, it has been difficult to balance the expected fall from the current record price levels with the likelihood that smaller cars may be in demand during a cost of living squeeze and the fact that supply for some models is likely to be constrained for some time as some manufacturers prioritise production of other, more profitable, models.

We have also reviewed premiums for automatic transmission across both sectors, with many models seeing larger premiums. This is based on an assumption that (in general) auto premiums will return to levels seen in 2019, although this actually implies a reduction (significant in many cases) from the current used value market position.

Average forecasts movements are displayed in the table below. It should be pointed out that there are only five BEV Supermini models and the changes made to Honda e and Mini Cooper have slightly skewed the average change.

SIZE & FUEL TYPE	UNDERLYING FORECAST CHANGE	SEASONAL ELEMENT	OBSERVED CHANGE FEBRUARY TO MARCH
City Car Electric (BEV)	2.6%	3.7%	6.3%
City Car Petrol	3.2%	3.7%	6.9%
Supermini Diesel	3.7%	4.1%	7.8%
Supermini Electric (BEV)	2.4%	4.2%	6.6%
Supermini Hybrid (HEV)	1.3%	4.2%	5.5%
Supermini Petrol	1.3%	4.2%	5.5%
Overall Average	1.7%	4.1%	5.8%

Forecast changes this month

The number of Interproduct changes have decreased again this month, following the action already taken in previous months and the number of forecast changes made is now close to normal levels. Approximately 70 ranges were considered, but in many 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.

AUDI A6 (19-) HYBRID
CUPRA LEON (20-)
FORD MUSTANG MACH-E (20-) Electric
KIA SOUL (19-) ELECTRIC
LAND ROVER RANGE ROVER EVOQUE (20-) Hybrid
MERCEDES-BENZ EQA (21-) Electric
POLESTAR 2 (19-) Electric
SKODA ENYAQ (20-) Electric
VOLKSWAGEN CARAVELLE (19-) DIESEL
VOLKSWAGEN GOLF (20-) HYBRID
VOLKSWAGEN PASSAT (19-)
VOLKSWAGEN TOUAREG (18-)
VOLKSWAGEN T-ROC CABRIOLET (20-)
VOLVO V60 (19-) PETROL HYBRID

Hyundai i30 N (2017----) N and N Performance trims split out into a separate range due to latest market research revealing a different depreciation pattern from the standard range. Forecasts increased as a result.

Kia Ceed (2018----) Premium for 138 bhp engine increased from £75 to £225. This also increases forecasts for 158 and 201 bhp engines by the same £ amount, 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

We seem to be in a 'holding period' at the moment. The period of extreme used car price increases finally came to an end and 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. February's downward movement of -0.3% at 36/60 (excluding plate change) was fairly typical for the time of year and +1% better than last year, however, several sectors of the market have become price sensitive, with higher value vehicles harder to sell and prices for older cars have continued to rise.

We are still in a situation where retail prices for many used cars are priced above cost new and there are still 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 has stayed at reasonable levels after a slight lull at the beginning of January and is expected to remain so in the short term.

The Omicron variant now appears to be impacting some countries in the Asia Pacific region, renewing the likelihood of further short-term supply disruption due to the inevitable increase in self-isolation and staff absence. 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 has clearly signalled that they will avoid another full lockdown at all costs and will continue to operate under as few restrictions as possible.

- The recent modest reductions in used values are normal for the time of year. Retail days to sell appear now to be around what would be expected in a 'normal' market, reflecting a slowdown in demand from previous levels. For most sectors, our short-term forecast continues to show positive movements in the coming weeks, but some sectors are expected to start to decrease.

- 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 still contributing to lower levels of fleet returns is 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).

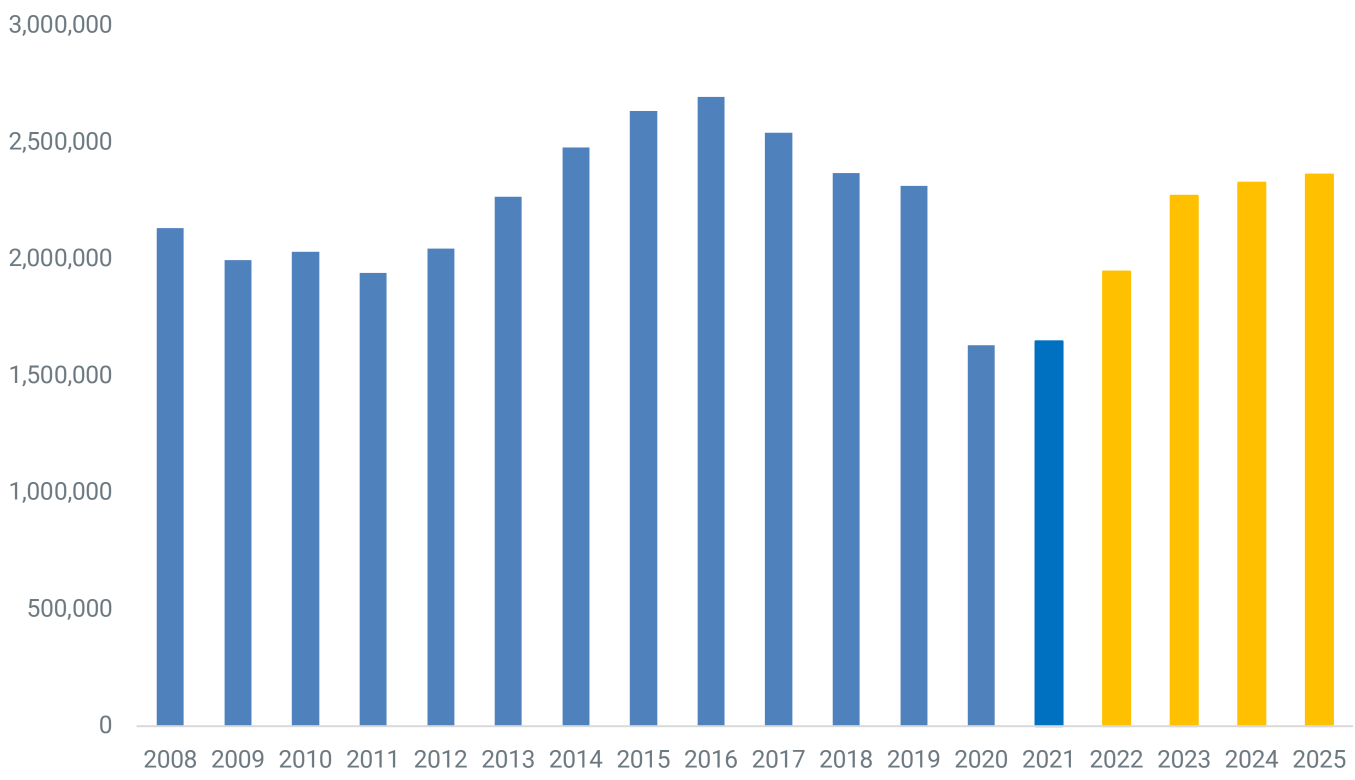
Supply side factors

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.

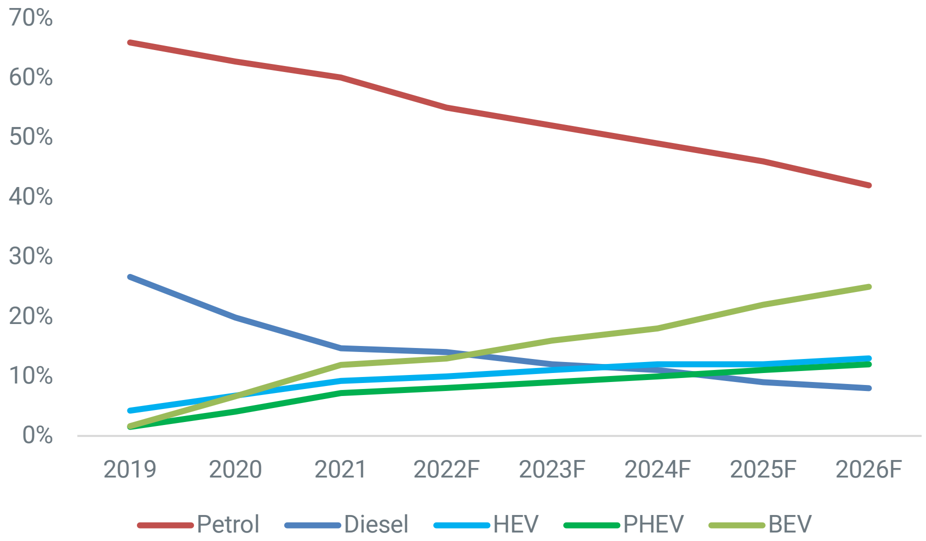
Our forecast for 2022 assumes a relatively strong recovery in the second half, although some supply issues are likely to linger. We expect that registrations will gradually increase to a level above 2.3 million registrations by 2024, but not reaching the peaks seen in 2016.

Car future editorial

By cap hpi



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.



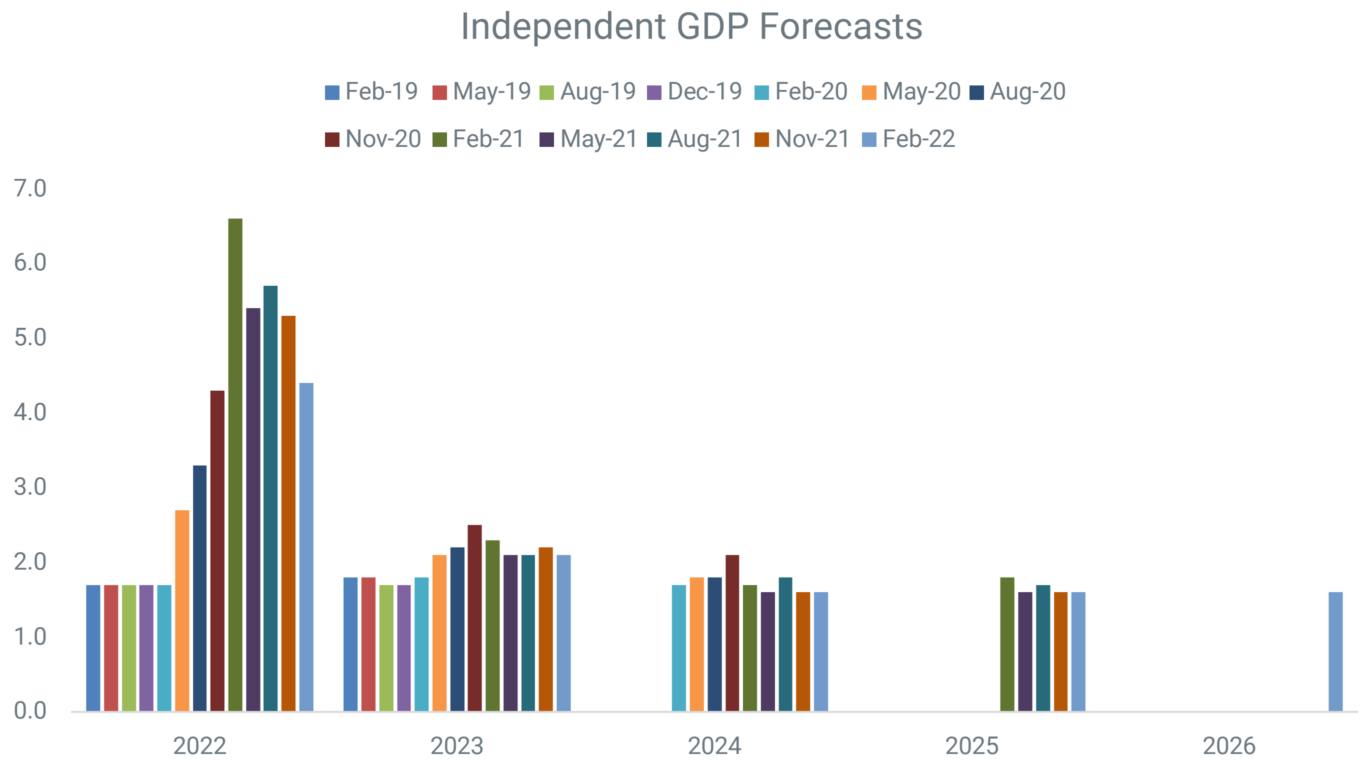
Growth will be led by battery electric vehicles (BEVs) which we expect to become the dominant AFV type towards the end of 2022. Post-Covid driving patterns (shorter and few journeys due to the increase of home working and online meetings) are likely to add to demand. The government's proposal to ban 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 16th February and showed a significant downgrade on the outlook for GDP for 2022 compared to November, from +5.3% to +4.4%. The Bank of England estimate is more conservative at +3.75%, but assumes deflation decreasing more quickly than the independent forecasts and being back below target by early in 2024. The 2023 independent estimate worsens slightly but longer-term GDP recovery remains unchanged, with GDP forecast flat at +1.6% for 2024/5/6.

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 seem to have had a significant negative impact. The latest independent unemployment forecasts are basically flat for the next few years, but the Bank Of England show a gradual increase from current levels and close to pre-pandemic levels by 2024.

Inflation has now reached 5.5% (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 early 2024, whilst other forecasters think it will take longer. The recent increases have been driven by a combination of increased energy costs, everyday household goods, food and clothing, and current labour market imbalances, some of which are almost certainly short-term. Base rates increased by a further 25 basis points following an increase of 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 February survey still suggests 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.

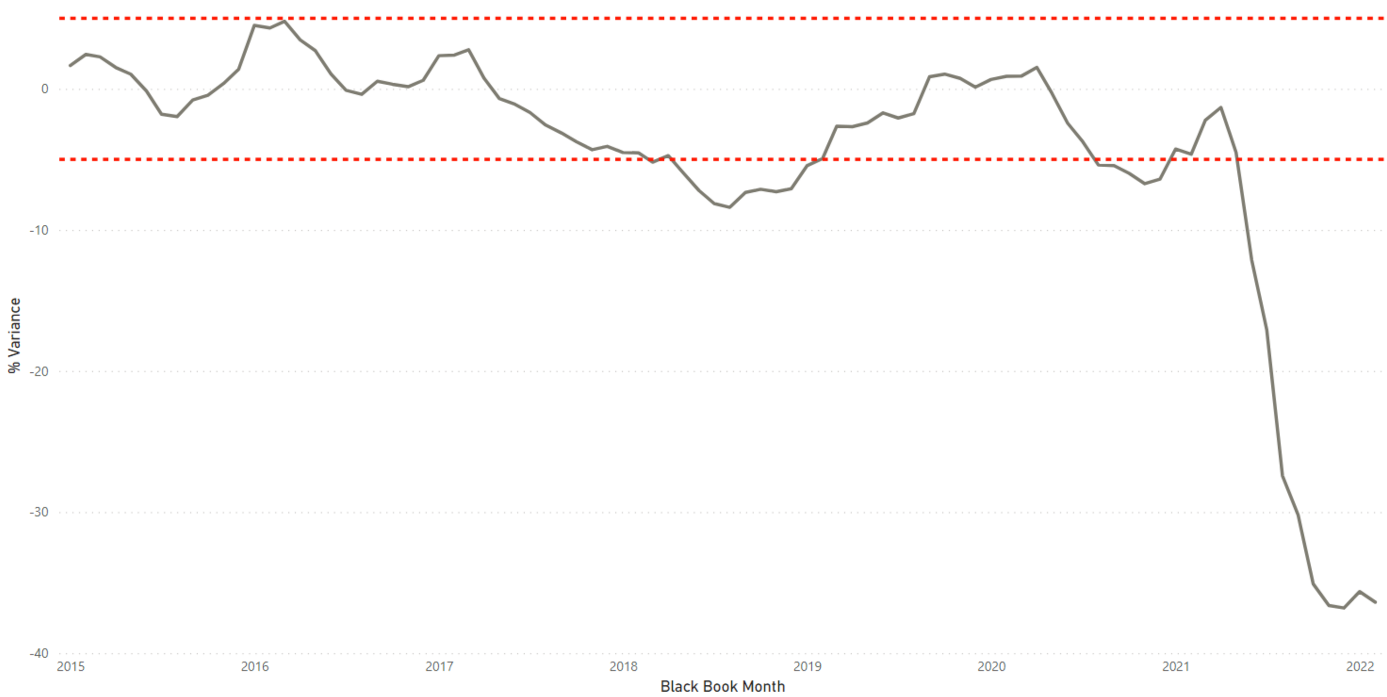
12-month results

Since measurement began our 12-month forecasts have averaged -4.7% less than used values across all vehicle ids, and the most recent results show February 2021 12/20 forecasts being -36.4% less than February 2022 12/20 used values (unsurprising following record breaking 36/60 used value increases of over +30% within six months).

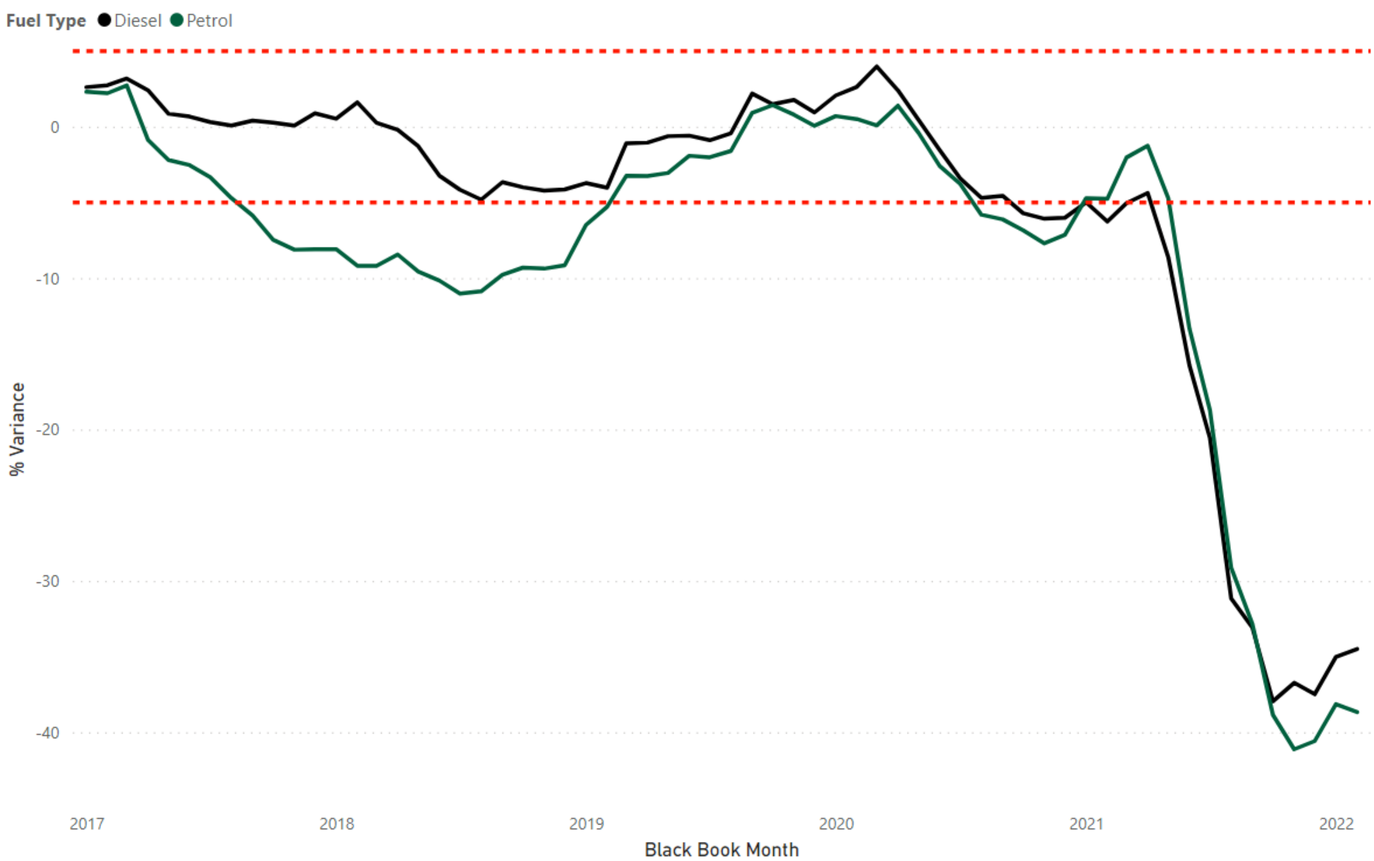
Car future editorial

By cap hpi

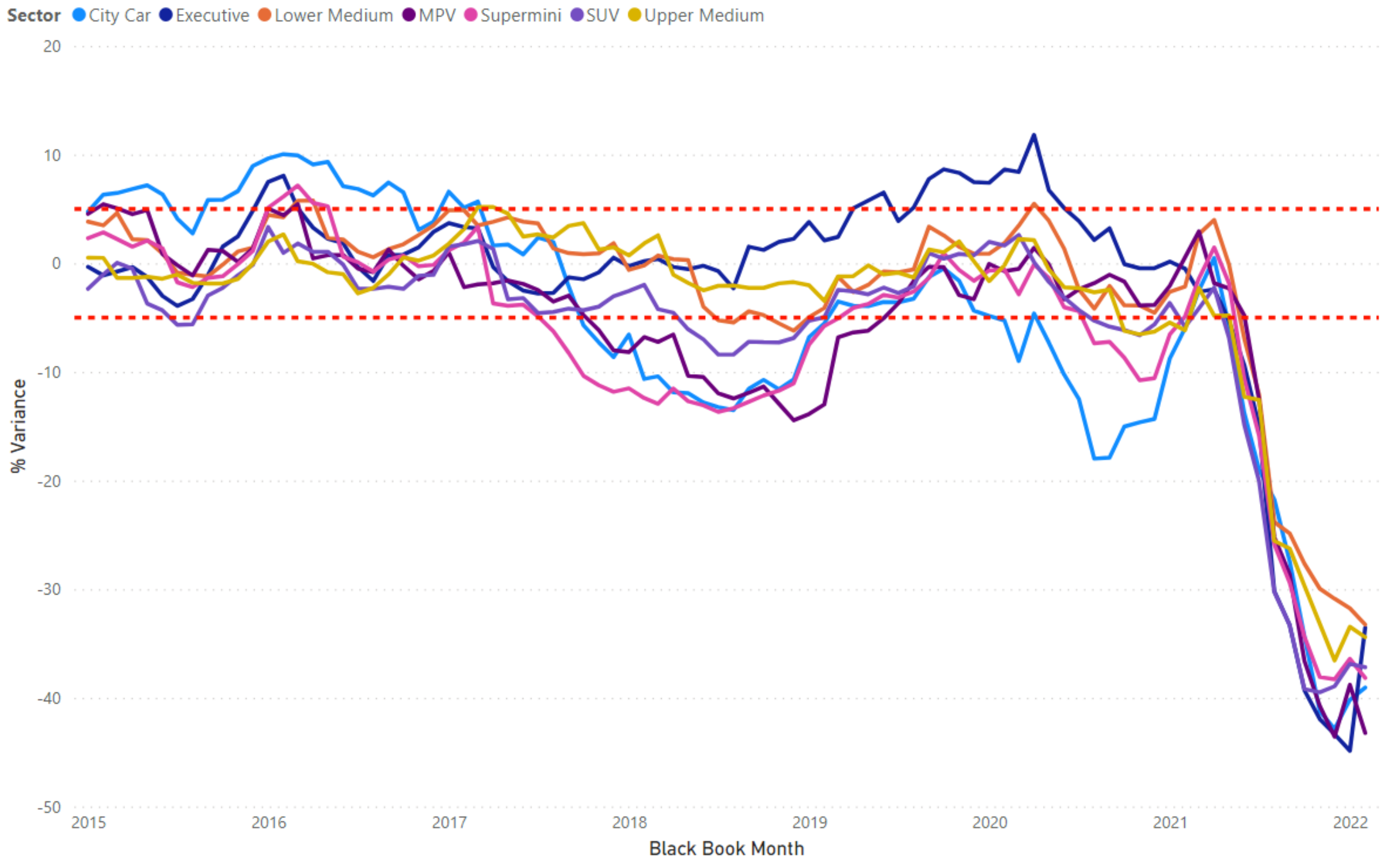
Overall results:



Fuel type results



Sector results



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

Feb 22	Average of Diff (%)
City Car	-39.0%
Executive	-33.5%
Lower Medium	-33.3%
MPV	-43.2%
Supermini	-38.2%
SUV	-37.2%
Upper Medium	-34.4%
Grand Total	**-36.4%**

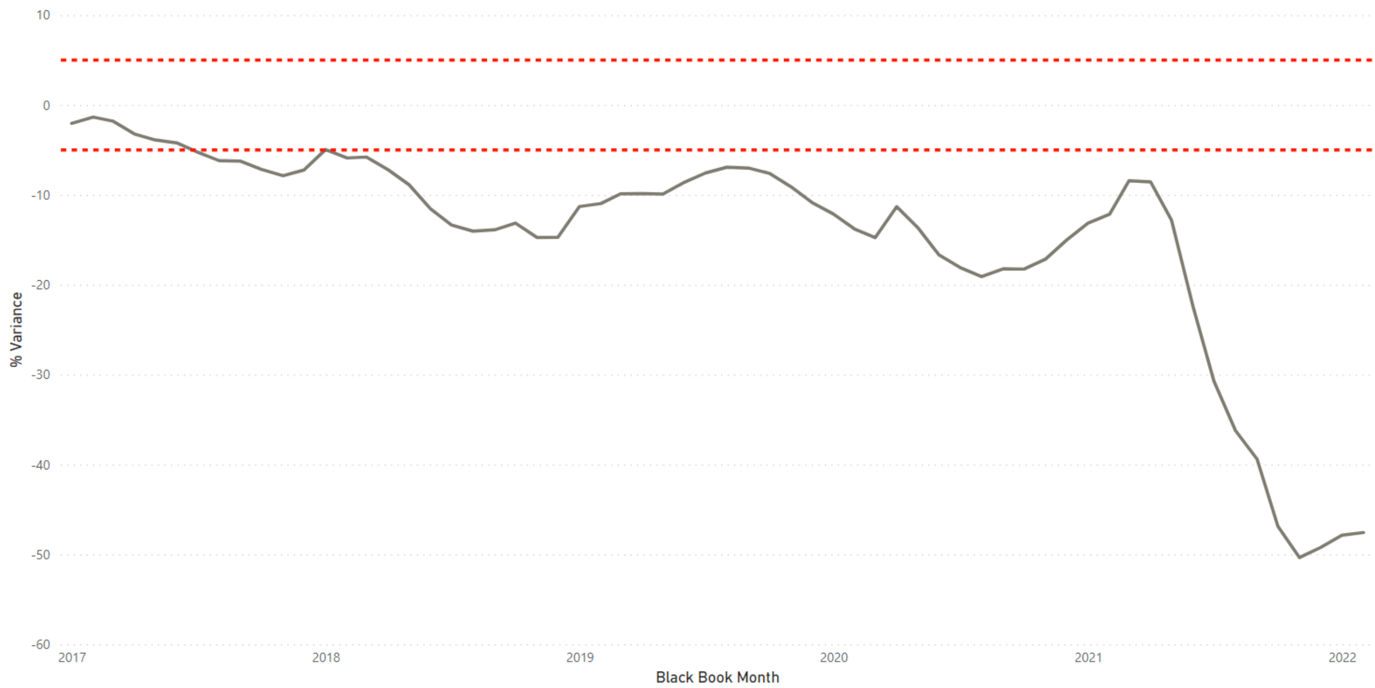
36-month results

Since measurement started our 36-month forecasts have averaged -14.6% less than black book across all vehicle ids (with the average now skewed by recent results). The most recent results show February 2019 36/60 gold book forecasts being -47.6% less than February 2022 36/60 used values

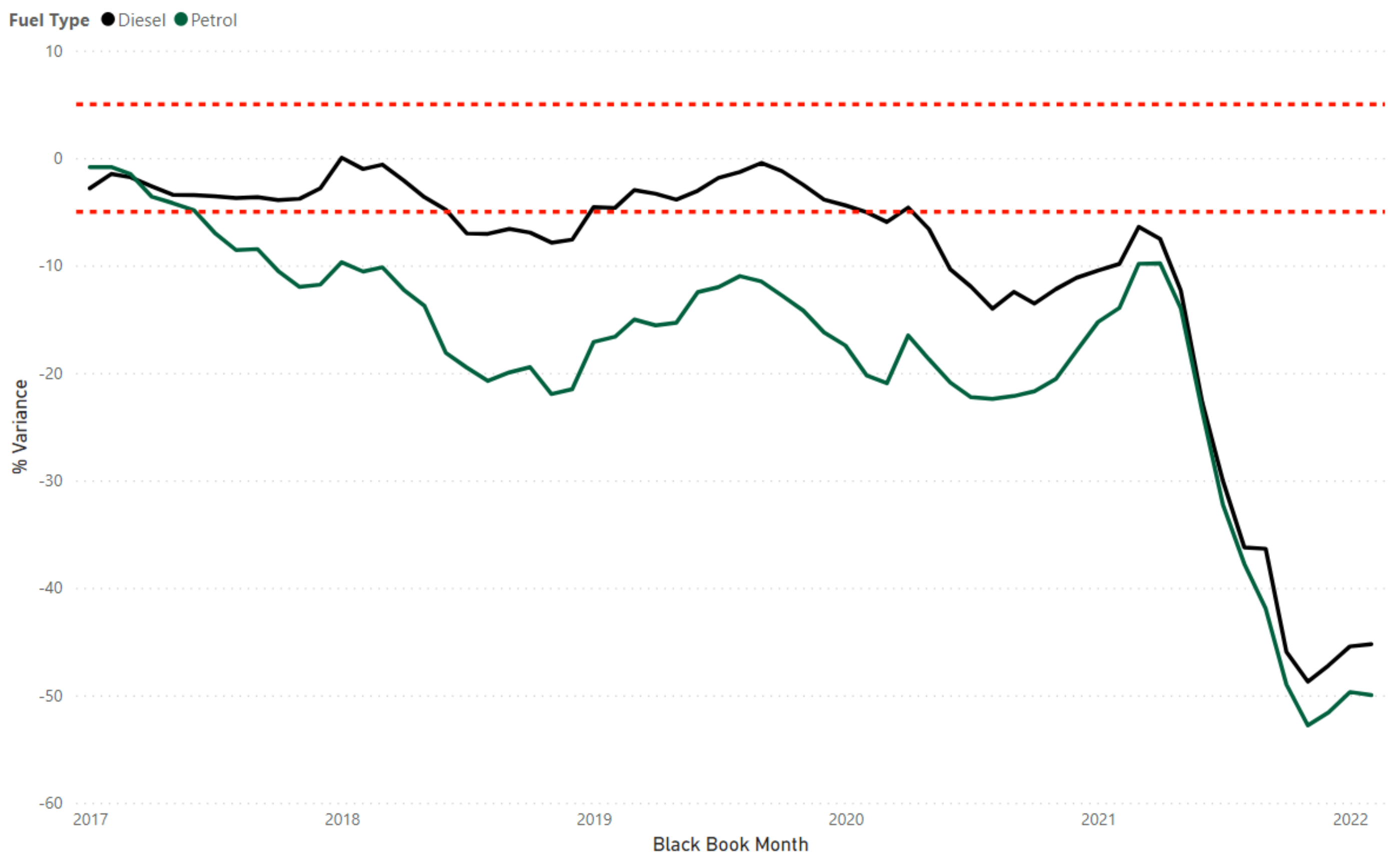
Car future editorial

By cap hpi

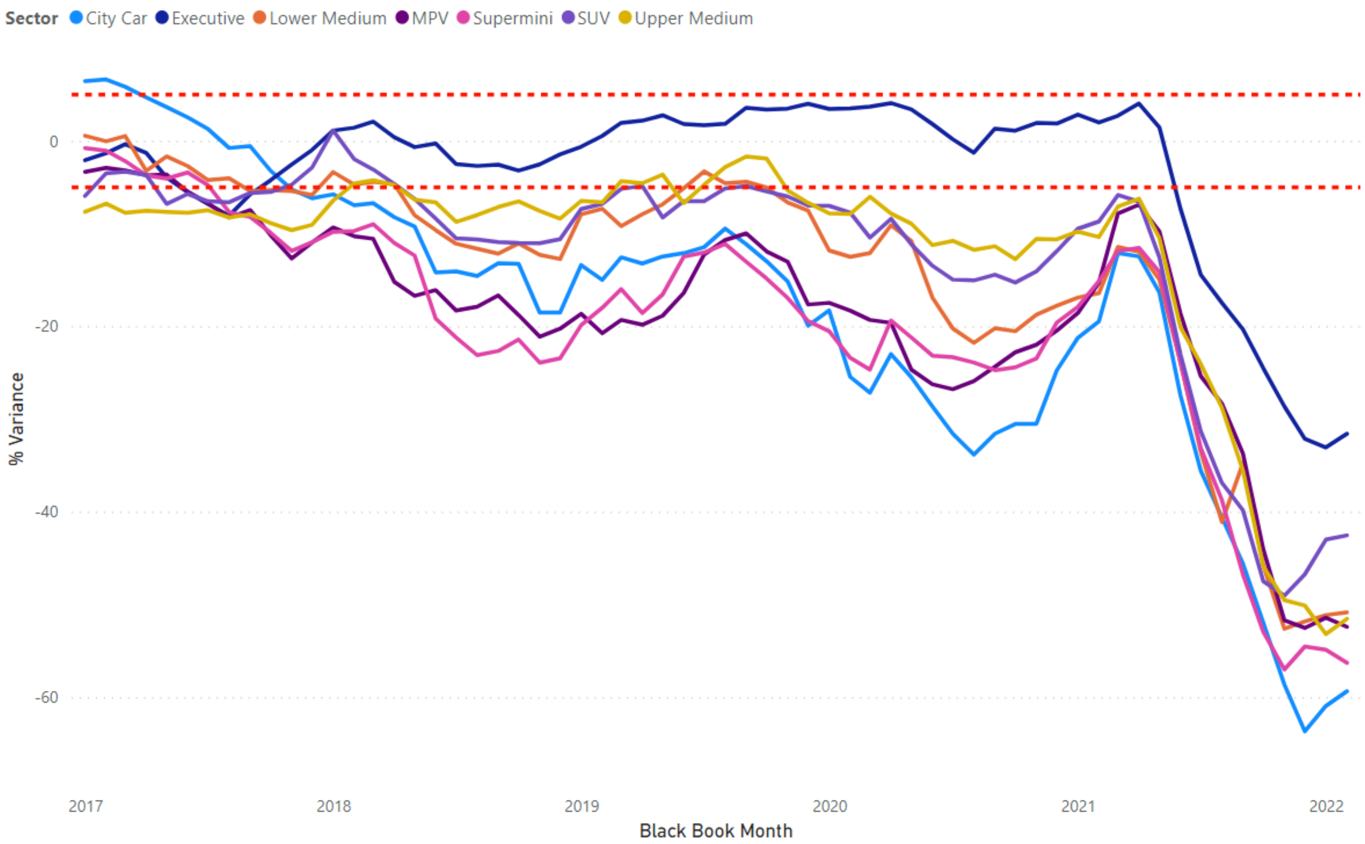
Overall results:



Fuel type results:



Sector results



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

Feb 22	Average of Diff (%)
City Car	-59.4%
Executive	-31.6%
Lower Medium	-50.9%
MPV	-52.4%
Supermini	-56.3%
SUV	-42.5%
Upper Medium	-51.5%
Grand Total	**-47.6%**

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

The table below shows our future schedule of sector reforecasts:

Monthly Product	Sector 1	Sector 2	Sector 3	Sector 4
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
Mar-23	Lower Medium	MPV		