

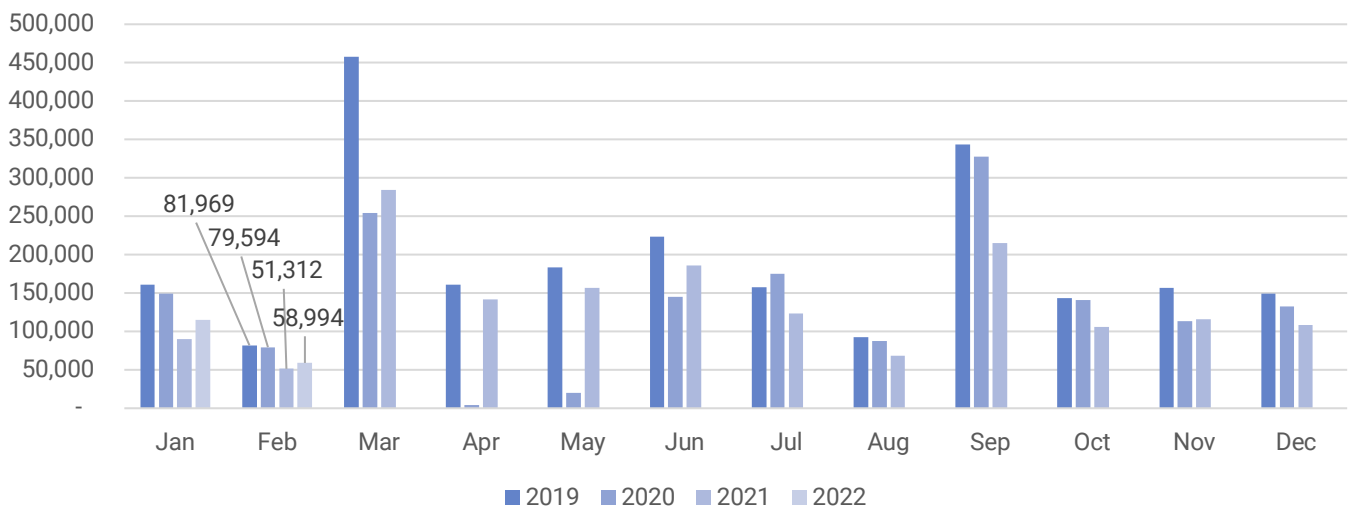
April 2022

Car market overview

This monthly overview provides an update on the current new and used car markets in the UK. We will report on new car registrations to the end of February 2022 and used car activity at the time of writing. All information is correct as of 26th March 2022.

New car sales

According to the figures published by the Society of Motor Manufacturers and Traders (SMMT), 58,994 cars were registered in February 2022, up 15.0% on the lockdown-affected same month in 2021, but 25.9% below pre-pandemic February 2020. Year-to-date, registrations were 23.0% up on the same period last year but 24.7% down on 2020.



Source: SMMT

Private registrations were 30% up compared to the same month last year, with Fleet just 2% ahead, as new cars continue to be diverted to the most profitable retail channels. This dynamic is slowly changing though as year-to-date, Private registrations are +51.8% and Fleet just +0.5%, so February was slightly more geared towards the latter than January. Indications from daily registration figures in March suggest that more cars are finding homes in corporate fleets than over previous months. Daily Rental registrations remained severely curtailed in February, however, down 83% compared to the same month last year.

New Battery Electric Vehicles continue to increase in popularity, with an increase in volume of 196.3% compared to a year ago, and taking a share of 17.7% in the month (14.33% year-to-date). Alternatively-fuelled cars realised a share of 37.3% in February (33.9% for the year so far), compared to diesel at just 9.8% (10.1% year-to-date). Petrol registrations took up 52.9% share in the month and 56.0% for the year. Petrol and diesel registration figures here include mild hybrids.

Used car retail activity

The used retail market has been more difficult in March than at any time over the last year. There was the normal seasonal slowdown in the run up to Christmas as a comparison, but the first few months of the year are traditionally a buoyant period for retailers.

Car editorial

By cap hpi

The majority of dealers have witnessed a slowing down of activity over the last few weeks, although it has been mixed and some have fared better than others. The general theme, however, is that demand waned as the month progressed and was not as strong as expected in March or as buoyant as at the start of this year.

There are a number of reasons for the drop-off in demand. Cost of living concerns have played the biggest part, with a continued decline in enquiries and sales of those expensive-looking cars around the £15,000-£35,000 area. Cheaper cars have still been sought after, popular for those consumers downsizing or requiring a car out of necessity, and buyers of more expensive cars have more disposable income so are less affected by costs rising elsewhere in their lives. In the middle ground, where cars have risen so much in price over the last year, there is more reticence to buy. With travel also opening up more so than at any point since the COVID-19 pandemic began, consumers may have to choose between a holiday and a new car, with the former getting the vote in a lot of cases. There is also the spectre of COVID loans to start paying back, although the government did introduce some flexibility on these in February.

Many online car-buying services have reduced their offers to consumers too, keen not to overpay and stock-up on cars that may not sell quickly or could fall in value. This can also have a detrimental effect on consumers' car buying behaviour.

The horrendous events in Ukraine have also added to consumers' angst. It feels churlish discussing such a humanitarian disaster in terms of car buying, but the shock of scenes in the news and subsequent knock-on effect of fuel prices certainly plays a part in peoples psyche. Our thoughts go out to all those affected and we hope for a swift, positive end to the conflict.

The increased cost of purchasing cars is playing a part in demand now too and we have witnessed some reductions by retailers trying to coax customers onto their physical or virtual sites, particularly if cars have been in stock for a number of months. Dealers are having to work hard for almost every sale, which was not the case last year when almost anything they had on their forecourts sold quickly. Reducing retail prices still seems to be the preferred choice rather than sending cars to the trade.

Even with margins declining slightly with this activity, there are still profits being made, and retail values remain far in excess of where they were at the start of last year.

In general, franchise dealers seem to be more upbeat about the market than car supermarkets and independents, helped by part-exchanges generated from the new car activity from the "22" plate.

In summary, used cars are still selling, but not at the anticipated levels. Dealers are striving to keep cars moving hence those aforementioned reductions on price have been necessary. It has been "back-to-basics" for many retail outlets. In many previous years, consumer demand drops around the Easter holidays – this year it feels as though this gentle decline has happened earlier, for the reasons stated above.

Let us not forget, however, that the country is in a far more positive place than it was almost exactly 2-years ago, as we entered lockdown for the first time, with sites closed, online sales minimal and uncertainty prevailing.

Used car remarketing activity

With retail demand more muted in March, there was a similar picture in the remarketing world. Many dealers remained reluctant to buy in bulk, wary of overstocking and paying high prices when the market seemed to be on the cusp of a downturn. There was still activity, but it has certainly been more considered over recent weeks.

Many remarketers have far fewer cars to sell than in previous years. With new car supply severely curtailed, we continue to witness vastly reduced volumes from fleets, particularly rental companies, and manufacturers.

Car editorial

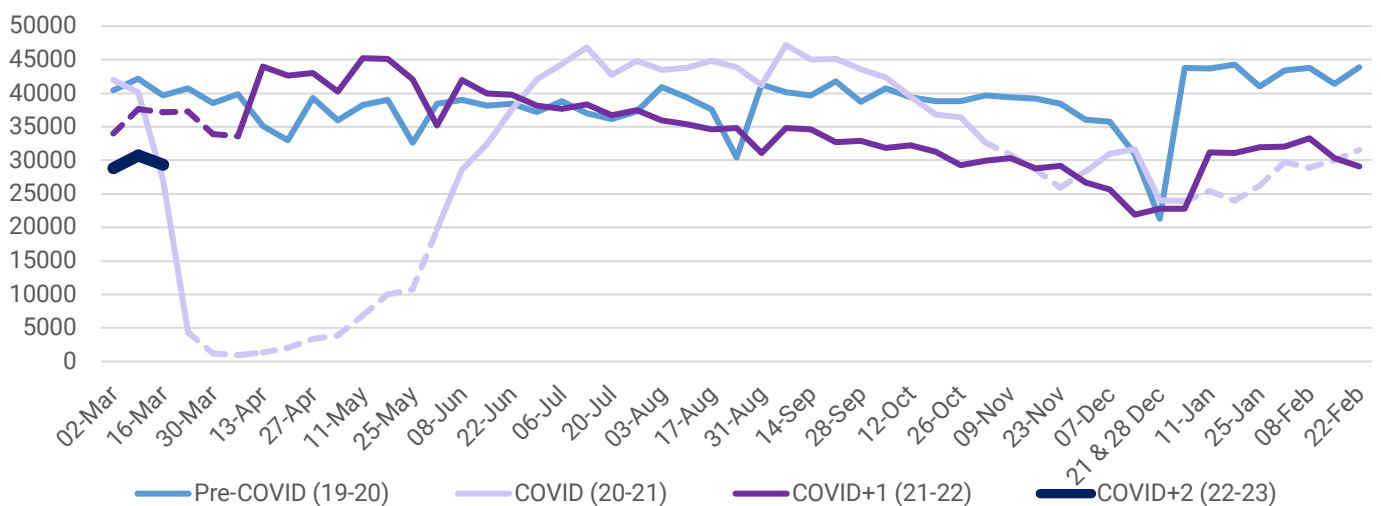
By cap hpi

The performance of the auction houses was mixed through the month. At the start of March, vehicles in the market below £12,000 remained in relatively strong demand whilst cars above this amount were more challenging. As the month progressed, even these cheaper vehicles started to become tougher to sell as confidence in the market was reducing. Conversions from dealer auction sales ranged between 70% to 90% while the fleet and leasing sales conversion rates in some cases were in the 50%. The volume of people logging on and watching sales also dropped and many were just watching and not engaging. Physical attendances also dropped away as the month progressed. Dealers are still buying but have become more selective.

Some vendors, particularly those with volume, have adapted their expectations and lowered reserve prices on cars and this did lead to some increases in conversion rates from the middle of the month, but at the expense of percentage of monthly cap performance. Those that did not lower their reserves suffered some particularly low conversion rates, to the levels not seen for many months.

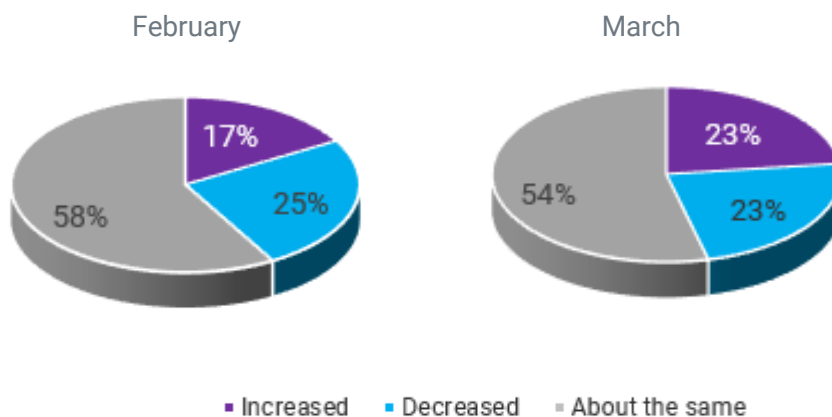
The volume of trade data remains some way below pre-COVID times, led by lower supply due to new car reductions, now reduced demand, and also retailers holding onto a larger proportion of part-exchanges to retail rather than trade.

Wholesale volumes since initial lockdown, comparison to previous years (dotted lines denote lockdowns)



The results of the March auction survey make particularly interesting reading.

How do your current stock levels compare to last month?

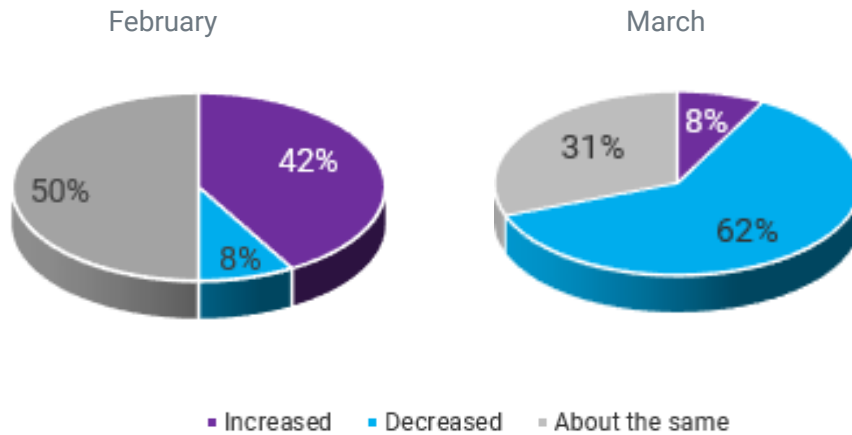


Car editorial

By cap hpi

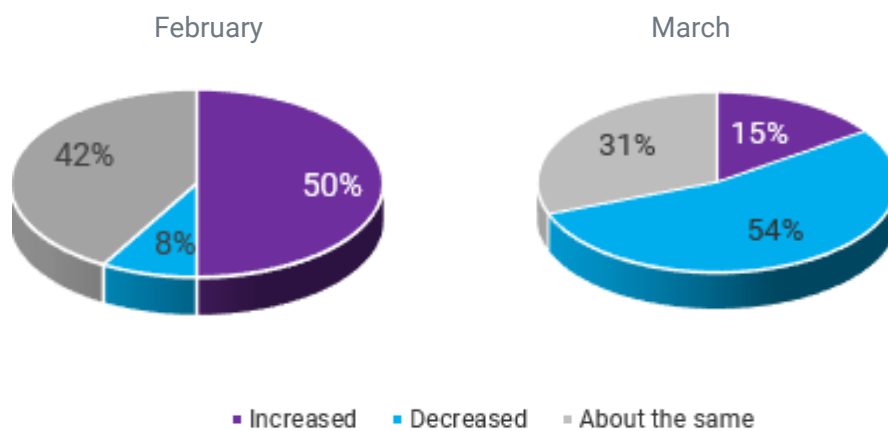
Somewhat surprisingly, bearing in mind we are in a new-plate month, the majority of auctions have not seen an increase in stock levels from the previous month. It will be interesting to see if this is just a lag or a trend

How does your current overall demand compare to last month?



With both consumer and dealer appetite for cars dropping in March, 62% of auction respondents confirmed that demand had decreased, with almost a further one-third stating it was the same as in February. This is a clear sign of a downturn in the used market.

How do your conversion rates compare to last month?



Unsurprisingly, conversion rates have dropped for over half of auctions this month, with most of the remainder citing parity with the previous month. Those that had seen increases were the ones selling cars at those cheaper price points, where demand has remained relatively stronger than for more expensive cars.

These are some of the most pertinent results we have ever seen from our auction survey. Next month's will be eagerly anticipated to see if these trends continue.

Used cars – trade values

With the picture painted in this overview so far, it will come as no surprise that Live values dropped during March. There was a steady decline in the early days of the month, but an acceleration from the end of the first week or so.

As the chart below illustrates, values dropped by a significant 2.1%. With the exception of March 2020, when the nation entered into lockdown, this is the heaviest drop witnessed in March (for April's monthly values) since cap Live

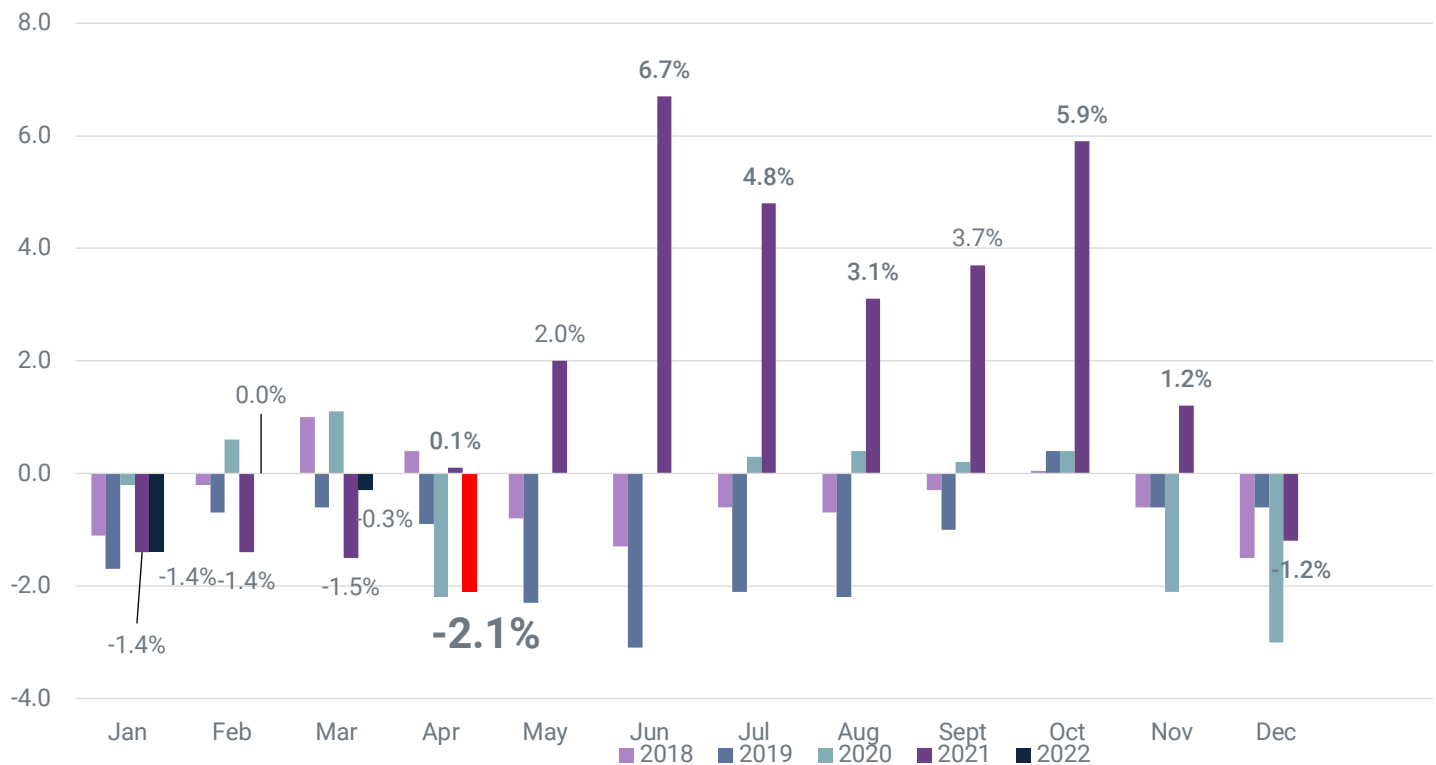
Car editorial

By cap hpi

was introduced in 2012. In the last 5-years, we have only moved values by this magnitude in a single month on 7 out of 60 occasions.

Having said that, we have never been in the situation where values increased by c.30% over the previous 14-months, so this drop does have to be put into context. Prices have not crashed and remain relatively high. A realignment was always likely, particularly as a number of cars remain above new car list prices, even at 1-year old.

Monthly percentage movements in Live valuations (3-years, 60k miles)



Digging into the detail, all of the mainstream sectors dropped in value. Lower medium (C-Sector), SUVs and upper medium (D-sector) cars experienced the heaviest drops in percentage terms, falling by an average of 2.3%, equivalent to between £350-450. Medium and small SUVs actually fell by 2.8%, with some notable drops for the Audi Q3 (-6% or c.£1,100), Ford EcoSport (-4% or c.£500) and Mazda CX-3 (-4% or c.£575). SUVs have previously risen by an average of 27.2% over the last 12-months, so even with these reductions, they remain well ahead of where they were a year ago.

Price-points remain key for all sectors, with average values dropping by 2.5% (c.£325) between £10-15,000, 2.3% (c.£420) between £15-20,000 and 1.8% (c.£450) between £20-30,000. Cars under £5,000 have only dropped by 0.8% or less than £50, whilst above £50,000 they have dropped by just 0.2% or c.£225.

MPVs have held up the best over recent months, indeed at the start of the month they were an average of 36.5% up compared to the same time last year and the strongest performing sector, due to their relative price position compared to SUVs and resurgence in popularity. In March, even they were not immune to the changing market dynamics, however, reducing by an average of 1.9% or c.£300 at the 3-year point. Some of the largest movers were the Citroen Berlingo Multispace Diesel, down 6% or c.£600, Ford Grand C-Max, down 5% or c.£600 and one of the biggest success stories of the last year, the Vauxhall Zafira, down 6% or c.£750. The prices dealers and consumers are prepared to pay for these types of cars do appear to have peaked now.

Car editorial

By cap hpi

Whilst the city car sector has dropped this month, it is by the smallest amount in both percentage and monetary terms, reducing by 1.2% or c.£90 at the 3-year point. With consumers concerned by both cost of living and fuel price increases, city cars are a prudent purchase for dealers and individuals alike. Whilst cars such as the Peugeot 108 and SEAT Mii have dropped in value by between 2 and 3%, the Hyundai i10 and Toyota Aygo have actually seen small increases, of an average of 1% (c.75) and 0.5% (c.£50) respectively, proving that they remain popular even though the sector has increased in value by an average of 36.4% over the last 12-months.

Looking at more niche sectors, one would have expected some seasonal increases for convertibles and sports cars in normal times. Whilst the month started with some small upward movements these were gradually reversed as the overall market changed. There have been exceptions with cars that have been in relatively low supply such as the Audi A5 Cabriolet Petrol increasing in value at all ages, but by as much as 5% or c.£600 at 5-years old. Low supply and improved weather may halt some of the overall reductions. There has been some price weakness on some of the larger engine cars, such as AMG product, perhaps not surprising given their high values and the increasing fuel costs. Some older Porsche cars have also seen similar reductions for the same reasons such as the Porsche Cayman down 4% or £1,181 at 5-years old.

All fuel-types have experienced average value reductions in March, a month that has seen petrol and diesel fuel prices hit record highs. Whilst some retailers have reported a spike in consumers searching for EVs, this has not filtered down to the used wholesale market yet. In general, it has been a mixed month for battery electric vehicles, with younger used cars seeing smaller reductions than vehicles over 3-years old. Examples of two of the most significant downward movers at 3-years old are the Jaguar I-PACE (-5.5% or c.£2,200) and the Tesla Model X (-7% or c.£4,500), with the trade seemingly unwilling to stock these cars at previous prices. The latter may well be being affected by ready availability of new Tesla Model 3 and Model Ys.

What next?

Last month, our prediction was:

"It is likely that March will continue on a similar vein to February, although drops in value could be slightly more acute than we have seen so far this year. That being said, we are definitely not predicting a price crash – there is simply not going to be enough used supply in the market to cause this. We are likely, however, to continue to see some retail price realignments by dealers as cars are not flying off the shelves."

It is fair to say that the market has been weaker in March than we expected, with the cost of living squeeze being more acute than anticipated and the war in Ukraine developing. We have forecasted values to subside over the coming months, but the reductions have started to accelerate around a month earlier than we anticipated.

It was always likely that the increase in prices since last March were unsustainable and some value would no doubt come out of those cars. That said, we have not and are not predicting a price crash. Retail demand is unlikely to dramatically increase, however, although the consumer does get used to new normals relatively quickly, as the last 2-years have shown.

Volumes in the used market are likely to increase, off the back of March new car activity, which will be at reduced levels to normal but similar to those of March 2021. With volumes increasing, prices high and consumer demand potentially drifting away over Easter, there is likely to be a similar situation as we have witnessed in March, with values continuing their downward trajectory. Important to keep remembering though, used car prices are generally thousands of pounds above where they were a year ago. A realignment could reignite some demand and prices are likely to remain somewhat ahead of where they were at the start of 2021.

As continues to be proven, different models move by different amounts and even in different directions price-wise, during a month and with so much uncertainty over consumer confidence, it is wise to keep a close eye on daily, real-time movements in our cap Live product.

Car editorial

By cap hpi

Current used valuations April 2022 - average value movements

| | 1 YR/10K | 3 YR/60K | 5 YR/80K | 10 YR/100k |
|----------------------------------|---------------|---------------|---------------|---------------|
| City Car | (1.1%) | (1.2%) | (1.3%) | (0.6%) |
| Supermini | (1.9%) | (2.0%) | (1.5%) | (0.7%) |
| Lower Medium | (1.5%) | (2.3%) | (2.6%) | (1.0%) |
| Upper Medium | (1.1%) | (2.3%) | (2.6%) | (1.5%) |
| Executive | (1.9%) | (2.7%) | (2.9%) | (2.5%) |
| Large Executive | (0.8%) | (0.8%) | (0.8%) | (1.9%) |
| MPV | (1.1%) | (1.9%) | (2.0%) | (1.4%) |
| SUV | (1.3%) | (2.3%) | (2.9%) | (2.2%) |
| Convertible | (0.8%) | (0.7%) | (0.9%) | 0.5% |
| Coupe Cabriolet | 0.1% | 1.1% | 0.5% | 0.1% |
| Sports | (1.1%) | (1.5%) | (1.9%) | (1.5%) |
| Luxury Executive | (1.0%) | (1.2%) | (0.2%) | (0.8%) |
| Supercar | (0.1%) | 0.3% | (0.0%) | (0.1%) |
| Overall Avg Book Movement | (1.3%) | (2.1%) | (2.3%) | (1.3%) |

() Denotes negative percentages

| | 1 YR/10K | 3 YR/60K | 5 YR/80K | 10 YR/100k |
|------------|----------|----------|----------|------------|
| MPV Small | (0.7%) | (0.1%) | 0.3% | 0.2% |
| MPV Medium | (1.8%) | (2.3%) | (2.4%) | (1.4%) |
| MPV Large | 0.0% | (1.4%) | (1.7%) | (2.2%) |
| SUV Small | (2.0%) | (2.8%) | (3.2%) | (2.2%) |
| SUV Medium | (1.4%) | (2.5%) | (3.1%) | (2.0%) |
| SUV Large | (0.1%) | (0.9%) | (1.8%) | (2.9%) |

() Denotes negative percentages

Car editorial

By cap hpi

Notable Movers 1-yr 20k

| | MIN £ | MAX £ | AVG £ |
|---|---------|---------|---------|
| BMW 2 SERIES ACTIVE TOURER (14-22) DIESEL | (1,600) | (850) | (1,210) |
| BMW 4 SERIES GRAN COUPE (14-21) DIESEL | (1,000) | (750) | (853) |
| CITROEN C4 CACTUS (14-21) DIESEL | (700) | (600) | (650) |
| MERCEDES-BENZ E CLASS (16-) DIESEL | (1,100) | (500) | (756) |
| PEUGEOT 308 (13-21) | (500) | (250) | (359) |
| SEAT ALHAMBRA (10-20) DIESEL | (1,200) | (950) | (1,085) |
| SEAT LEON (13-20) | (1,500) | (450) | (655) |
| SKODA OCTAVIA (13-20) DIESEL | (1,150) | (700) | (821) |
| VOLKSWAGEN GOLF (13-21) DIESEL | (1,250) | (900) | (1,116) |
| VOLVO XC90 (14-) DIESEL | (1,800) | (1,600) | (1,733) |

() Denotes negative value

Notable Movers 3-yr 60k

| | 1 YR/10K | 3 YR/60K | 5 YR/80K |
|--|----------|----------|----------|
| BMW 5 SERIES (17-) HYBRID | (1,150) | (1,050) | (1,100) |
| HONDA CR-V (12-19) DIESEL | (900) | (500) | (700) |
| HONDA JAZZ (15-20) | (550) | (150) | (305) |
| HYUNDAI TUCSON (15-19) DIESEL | (900) | (550) | (742) |
| LAND ROVER RANGE ROVER VELAR (17-) DIESEL | (1,800) | (100) | (1,114) |
| MERCEDES-BENZ B CLASS (12-19) DIESEL | (750) | (350) | (518) |
| MERCEDES-BENZ GLC (15-19) DIESEL | (1350) | (1100) | (1247) |
| MITSUBISHI OUTLANDER (14-18) HYBRID | (1,250) | (1,200) | (1,225) |
| SEAT ARONA (17-) | (550) | (300) | (383) |
| SKODA SUPERB (15-19) DIESEL | (650) | (350) | (516) |

() Denotes negative value