

March 2020

# Future new car market overview

Welcome to the latest version of our overview, previously known as the 'gold book new car editorial'. 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 [andrew.mee@cap-hpi.com](mailto:andrew.mee@cap-hpi.com)

The content is structured as follows:

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

The overall average change in new car forecasts between last month and this month is approximately +3.6% 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.

This month, we publish new reforecasts for the Upper Medium, Executive, Large Executive and Luxury Executive sectors. There have been no changes to our future market deflation assumptions. The overall impact of the changes to forecasts for these sectors at 36/60k is +2.7%.

Details of all values revised by  $\pm 5\%$  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

Honda e, Mercedes-Benz GLB, Mercedes-Benz GLC, Mercedes-Benz GLC Coupe, Seat Leon and Volvo XC40 Electric.

### Model ranges to which new derivatives have been added

Alfa Romeo Giulia, Aston Martin Rapide, Audi A5, Audi RS5, BMW 1 series, BMW X1, BMW 3 series, BMW X3, BMW X4, Jeep Wrangler, Maserati Levante, Maserati Quattroporte Maserati Ghibli, Mazda CX-5, Mini Cooper, Peugeot 2008, Renault Captur, Suzuki S Cross, Suzuki Swift, Suzuki Vitara, Volkswagen Golf, Volvo XC40, Volvo XC60 and Volvo XC90.

### Market Conditions Changes

We left the EU on the 31st of January and are now in the transition period to agree new trading agreements. We do not expect the UK car market too be significantly impacted during this period.

New independent economic forecasts were published on the 19<sup>th</sup> of February, but are little changed from the previous December forecasts. GDP is forecast to rise slightly in future years; inflation and unemployment rates are forecast to remain broadly unchanged from current levels.

New inflation rate figures show a small increase in CPI to 1.8%.

New unemployment rate figures continue to show a 45 year low of 3.8%.

SMMT figures for January 2020 show UK new car registrations were down -7.3% against January 2019, with diesel down -36% to 19.8% market share. A disappointing start to the year for the new car market, but we expect improvement as the year progresses.

The used car market on the other hand continue to perform very strongly.

See section 3 for more details on market conditions changes.

### Historic Forecast Accuracy Changes

Our 12 month forecasts from 1 year ago continue to be very accurate, and with very little variance between diesel and petrol.

Accuracy of older longer-term forecasts continues affected by the unexpected turbulence in used values over the last 2 years, caused by anti-diesel press boosting petrol values in particular to unsustainable levels, followed by the market correction in early 2019. These older forecast results will improve over time, as the changes made in our 5-monthly sector reviews 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 Upper Medium, Executive, Large Executive, and Luxury Executive 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 FEBRUARY TO MARCH
Upper Medium Petrol	-0.8	+4.3	+3.5
Upper Medium Diesel	+1.0	+4.3	+5.3
Executive Petrol	-4.3	+3.5	-0.8
Executive Diesel	-1.4	+3.3	+1.9
Large Executive Petrol	-3.5	+4.0	+0.5

Large Executive Diesel	-3.7	+4.2	+0.5
Luxury Executive Diesel	-1.8	+3.1	+1.3

For all of these sectors, we have not changed our future market deflation assumptions, so the forecasts all reflect the changes in current market values since the previous reforecast five months ago, and an element of further model aging into lifecycle.

#### Upper Medium Sector

For this sector new car registration volumes have been falling steadily over the years, reducing the used supply. This has helped support values and we expect this situation to continue into the future.

#### Executive Sectors

Although these too have experienced declining registration volumes, used values have come under pressure due to continuing Brexit uncertainty affecting the desirability of large ticket items. We believe this situation will continue into the near future.

#### Reforecast History for these sectors

The tables below summarise the 36/60 forecast changes for these sectors in the previous two sectors reforecasts, to provide some historical context against which to compare the latest reforecasts.

Book Month	Sector	Underlying Forecast Change	Seasonal element	Observed Change vs previous month
Oct-19	Upper Medium Petrol	-0.7	0.1	-0.6
Oct-19	Upper Medium Diesel	-1.3	-0.1	-1.4
Oct-19	Executive Petrol	-7.1	-0.6	-7.7
Oct-19	Executive Diesel	-1.6	-0.4	-2.0
Oct-19	Large Executive Petrol	-6.3	-1.0	-7.3
Oct-19	Large Executive Diesel	-7.1	-0.8	-7.9
Oct-19	Luxury Executive Petrol	-1.2	-0.1	-1.3
May-19	Upper Medium Petrol	-0.8	-1.3	-2.1
May-19	Upper Medium Diesel	-2.3	-1.5	-3.8
May-19	Executive Petrol	-4.3	-0.8	-5.1
May-19	Executive Diesel	-3.4	-1.2	-4.6
May-19	Large Executive Petrol	-1.5	-1.4	-2.9
May-19	Large Executive Diesel	-0.9	-1.1	-2.0
May-19	Luxury Executive Petrol	-0.4	-0.8	-1.2

## Walk-up changes within these sectors

As part of the sector reforecasts published this month, we have also reviewed and amended walk-ups on the following models, to align them to the latest black book research. Many of these changes were to a significant number of walk-ups, some of which were positive and some negative, so it is not possible to list all the detail within this document.

Sector	Generation	Comment
Executive	AUDI A6 (18- ) DIESEL	50 TDI engine walk-up reduced
Executive	BMW 8 SERIES (18- )	40i engine walk-up increased
Upper Medium	HYUNDAI I40 (11- ) DIESEL	Tourer body style increased
Executive	JAGUAR XF (15- )	Sportbrake body style increased
Executive	MERC E CLASS (16- ) DIESEL	Full walk-up realignment
Executive	MERC E CLASS (18- )	Full walk-up realignment
Large Executive	PORSCHE PANAMERA (16- )	Full walk-up realignment
Luxury Executive	ROLLS-ROYCE PHANTOM (03- )	Full walk-up realignment
Upper Medium	SKODA OCTAVIA (13- )	Full walk-up realignment

## Other forecast changes this month (in addition to sector reforecasts)

### Aston Martin DBS Coupe

Reforecast ahead of schedule, following inter-product analysis of black and gold book value relationships, resulting in decreased forecasts.

### Audi RS5 Coupe

Reforecast ahead of schedule, following inter-product analysis of black and gold book value relationships, resulting in decreased forecasts

### Audi RS5 Sportback

Reforecast ahead of schedule, following inter-product analysis of black and gold book value relationships, resulting in decreased forecasts

### BMW 8 Series Convertible

40i engine walk-up increased, resulting in increased forecast.

### BMW M2 Coupe

Reforecast ahead of schedule, following inter-product analysis of black and gold book value relationships, resulting in decreased forecasts.

### Ferrari 812 Superfast Coupe

Reforecast ahead of schedule, following inter-product analysis of black and gold book value relationships, resulting in decreased forecasts.

### Ferrari GTC4 Lusso Coupe

Reforecast ahead of schedule, following inter-product analysis of black and gold book value relationships, resulting in decreased forecasts.

### Land Rovers Discovery Sport Petrol IDs 92486

Walk up correction from 5 to 7 seats after further information received from manufacturer, resulting in increased forecasts.

Mazda MX-5 RF Convertible

Reforecast ahead of schedule, following inter-product analysis of black and gold book value relationships, resulting in decreased forecasts.

McClaren 600LT Spider

Reforecast ahead of schedule, following inter-product analysis of black and gold book value relationships, resulting in decreased forecasts.

Mercedes AMG GT Coupe ID 89040

Pro trim walk up correction, resulting in increased forecasts.

Seat Leon Hatchback and Estate Petrol

Reforecast ahead of schedule, following inter-product analysis of black and gold book value relationships, resulting in increased forecasts.

Seat Leon Hatchback and Estate Diesel

Reforecast ahead of schedule, following inter-product analysis of black and gold book value relationships, resulting in increased forecasts.

Toyota Yaris Petrol

Walk Up amendment to Y20 trim to align with the latest black book analysis, resulting in increased forecasts.

Vauxhall Grandland X Petrol

Walk up amendment to Elite Nav, Elite Nav Premium and Business Edition Nav, resulting in increased forecasts.

Vauxhall Grandland X Hybrid

Walk up amendment to Elite Nav, Ultimate Nav and Business Edition Nav, resulting in increased forecasts.

Vauxhall Grandland X Diesel

Walk up amendment to Sri Nav, Elite Nav, Elite Nav Premium, Business Edition Nav and Ultimate Nav, resulting in increased forecasts.

Volvo XC 40 Petrol

Full walk up review, resulting in increased forecasts.

Volvo XC 40 Diesel

Full walk up review, resulting in increased forecasts.

### Seasonality changes

In line with our gold book methodology, all other model ranges which are outside of the sector reforecasts and 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 black book movements.

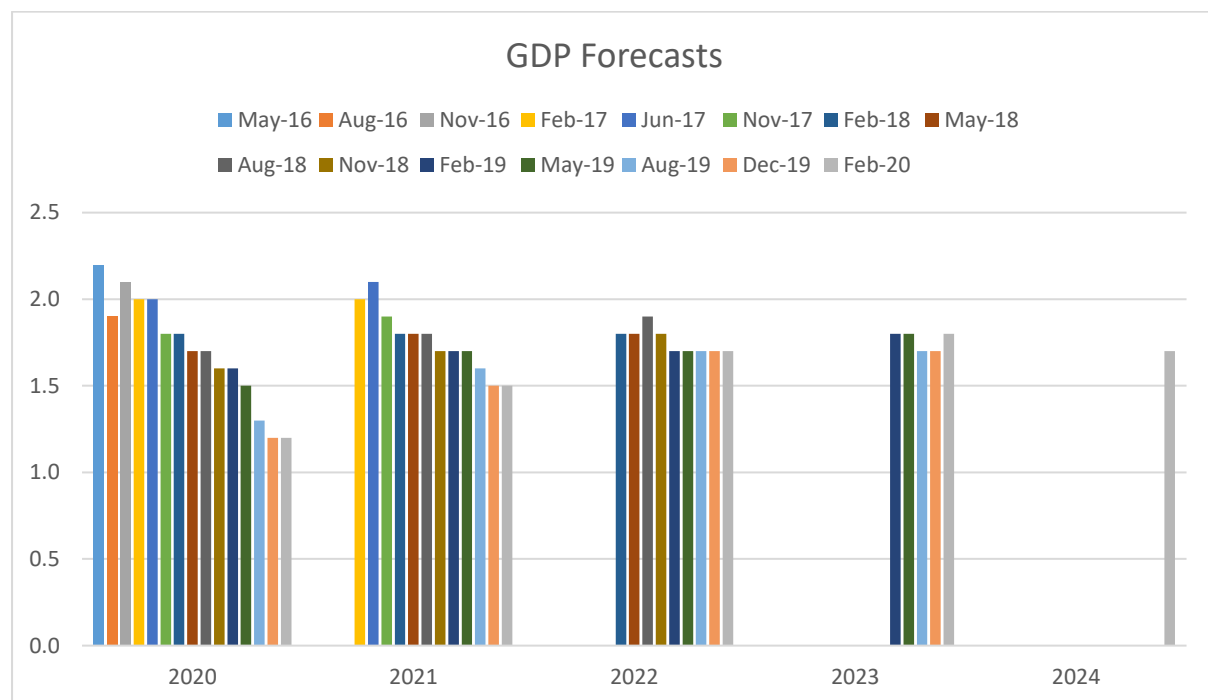
### 3. Market Conditions

## The economy

We left the EU on the 31st of January and are now in the transition period to agree new trading agreements. This is expected to be concluded by the end of 2020, but it may be extended. The transition period means that there is likely to be little or no significant Brexit impact on the UK car market during 2020.

New independent economic forecasts were published by HM Treasury on 19<sup>th</sup> February and remain positive.

GDP is forecast to slowly increase in future years.



These forecasts are consistent with the recent history of GDP growth, and with the trend in quarterly growth since 2016, with the UK economy continuing a trajectory of consistent but sluggish growth.

Not all ages and sectors of vehicle are directly impacted by GDP, but for those that are then in some cases lower future registration volumes will offset reduced GDP.

CPI is currently running at 1.8% (February 2020); and the average of the latest independent forecasts (February 2020) are for it to remain around 2% over the next 5 years.

Unemployment is still currently running at a 45 year low of 3.8% (February 2020); and the average of the latest independent forecasts (February 2020) are for it to remain under 4% over the next 5 years.

Interest rates are expected to remain low, with the latest independent forecasts (February 2020) predicting a modest rise from 0.75% today to 1.55% by 2024.

Wage growth reduced slightly during the second half of 2019 after reaching an 11 year high, but remains above inflation. With unemployment continuing to fall, these conditions should continue to provide a positive impetus to the overall economy.

Oil prices are seeing medium term volatility due to a number of global concerns. The various trade tensions have undoubtedly had an impact and we are now faced with the additional issues of an impeachment trial in the US and the potential spread of Coronavirus, which could have significant effects on both the Chinese economy and global travel. We expect to see a continuation of short-term peaks and troughs for the near future, which obviously hampers strategic planning for many businesses.

Forecasts for future house price increases vary dramatically by sector and especially by geography. The uncertainty that followed the EU Referendum was followed by a period of stability in the lead up to the General Election and UK house prices rose over the last month at the fastest rate on record for the time of the year, with an accompanying increase in the volume of properties sold of +7.5% year over year. The longer term outlook is for sustainable growth, albeit clearly at a more modest rate than seen at present.

### Supply outlook

Exchange rates are a major influence on the profitability of the UK new car market and they strongly influence eventual used vehicle volumes. Sterling rates against the Euro reduced from around 1.43 in late 2015 to around 1.14 by late 2017, where they have broadly remained. This has limited manufacturers' scope for heavy discounting and forced registration activity in the UK. The rate has improved to closer to 1.20 since the Election, but it remains to be seen whether this is a short-term reaction or longer-term change, which may improve UK profitability for car manufacturers.

New car registrations in other key European markets continue to grow, with the ACEA reporting provisional figures of a 1.2% increase in 2019 across the EU to more than 15.3 million units. Excluding the UK, there were increases in the largest markets apart from Spain (-4.8% but improving through the second half of the year). Almost all markets have seen a decrease in diesel cars, with alternative fuels increasing, but with petrol substituting for the vast majority of the lost diesel share. The expected effects on vehicle supply is that diesel lead times will decrease or remain stable, while electric vehicle volume may well be diverted to markets other than the UK.

Mainly as a result of the exchange rate position, UK new car registrations have fallen since 2016:

2016:	2.69M
2017:	2.54M (-5.7% reduction)
2018:	2.37M (-6.8% reduction)
2019:	2.31M (-2.4% reduction)

Diesel registrations have seen the heaviest fall, with market share down to 25.2% in 2019, compared to around 50% at its peak only a few years ago.

Looking to the next few years, and subject to the final outcome of Brexit, we expect the total UK market to stabilise, and then possible start to grow slowly if GDP forecasts materialise and exchange rates remain relatively stable.

The shift out of diesel will continue, but the rate of decline will slow down as we reach the hard core of drivers for whom diesel makes sense, and there could be return to diesel from some drivers who switched to petrol but have not liked the increase in fuel costs. Petrol will remain the dominant fuel type, with an increasing proportion including mild hybrid technology to reduce CO2 and improve consumption.

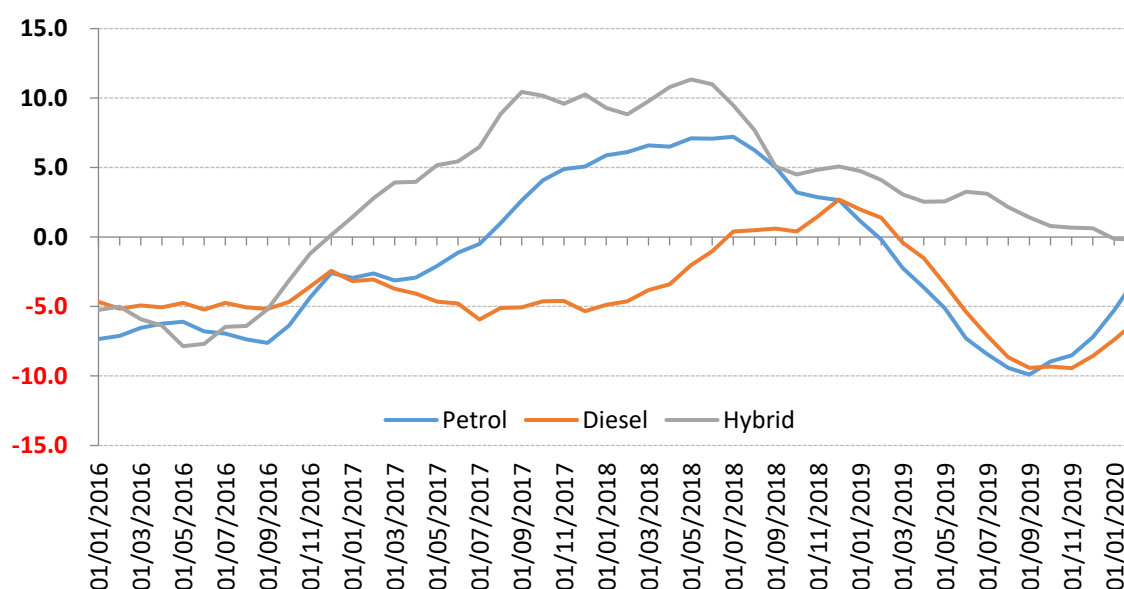
There should be increased take-up of alternative fuelled vehicles but this is very dependent on battery production and supply; and on taxation incentives and charging infrastructure. The new zero BIK rate for Battery EVs in 2020 is welcome, and should boost sales if battery supply can be met.

### Demand outlook and impact on future used values

Contrary to the new car market where diesel share has declined sharply since 2016, used diesel values have continued to generally hold up well over the same period (broadly in line with our historic future deflation assumptions) as demand has continued to meet supply. There was a temporary peak in strength in late 2018 when WLTP interrupted new car and part exchange supply, and then a market correction downturn after this.

Petrol and hybrid values were particularly strong (exceeding our historic future deflation assumptions) up to late 2018, as buyers sought an alternative to diesel where available. We always considered this strength to be unsustainable, and in 2019 this proved true with a market correction. There is still some remaining strength in hybrid cars, where volumes remain low.

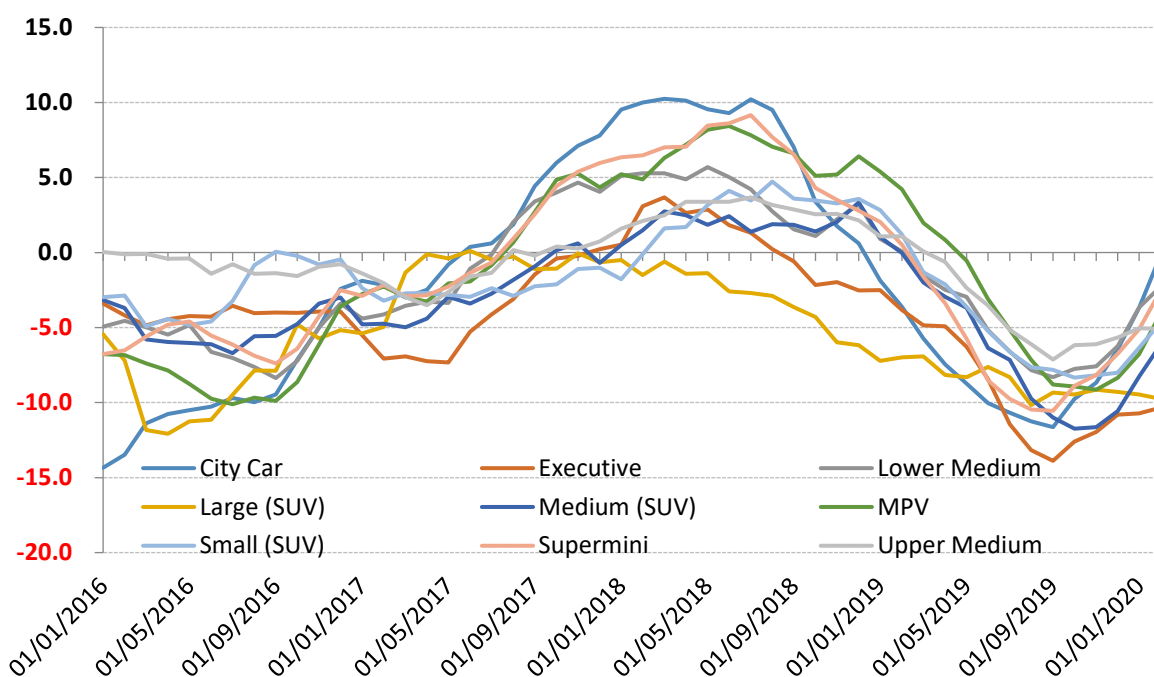
The following chart shows the average year-on-year percentage change in value of the same model (cap id) at 36/60k, split by fuel type.



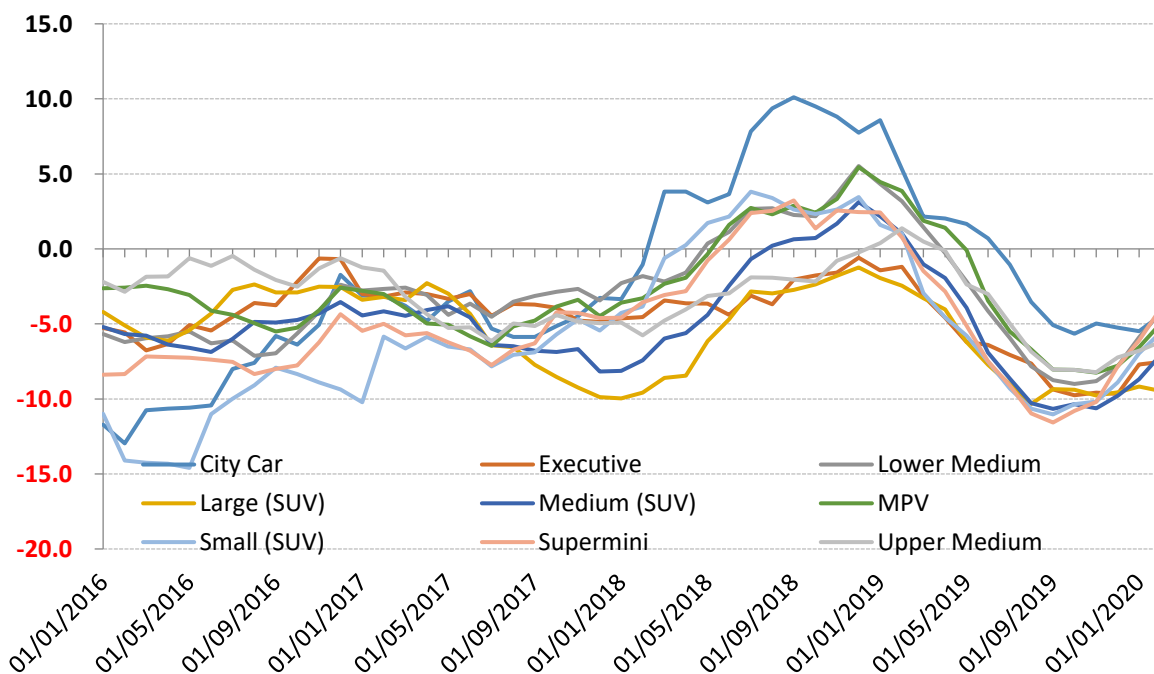
As we predicted, the worsening of YOY deflation in 2019 has now turned a corner, and as we move through 2020 we expect deflation to continue to improve.

In the main vehicle sectors, petrol values have shown similar YOY trends since 2016, as shown in the following chart:





Similarly in the main vehicle sectors, diesel values have also shown similar YOY trends since 2016, as shown in the following chart:



Looking to the next few years, we expect the supply/demand equation to re-stabilise across all fuel types, subject to the outcome of Brexit. Our forecast assumptions are for year-on year deflation broadly in the range of -3% to -6% per annum, varying by sector and fuel type.

There will be an increase in supply of used diesel cars coming onto the market until late 2020, as a result higher registration volumes up until 2017. However we expect demand will meet this supply, unless there is widespread implementation of city charging zones for diesel cars in this period, or significant government legislation changes affecting the running costs of diesel cars. We do not consider either of these actions to be likely in that timeframe.

#### 4. 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 have been affected by the unexpected strength of petrol values which started in 2017 as a result of anti-diesel press, but which has fallen 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 has now 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 in to 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.

Therefore the tracking charts below all show the same general pattern of returning to improving results, 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 results in relatively large percentage figures.

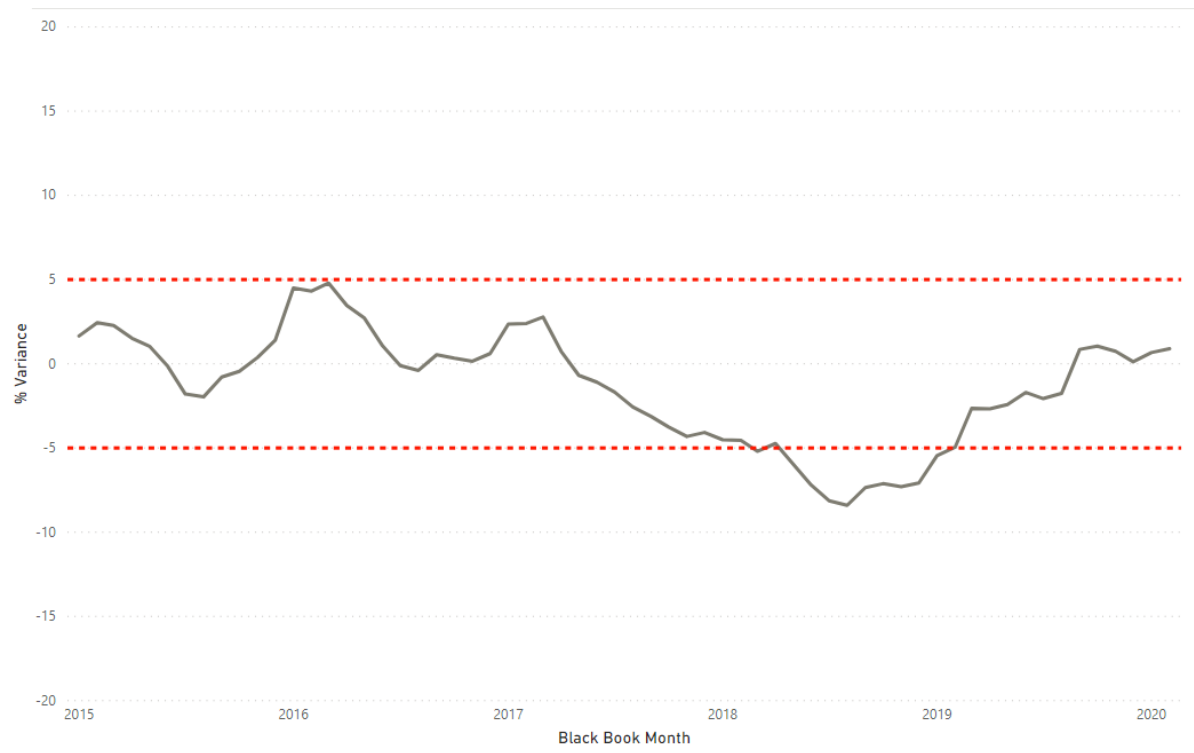
More recently, MPV forecast accuracy has been affected by the strength in values due to demand outstripping supply; but sector reforecasts have considered this, and will flow through into improved results in the future.

Also recently, Executive sector forecast accuracy has shown our forecasts to be too high, and again recent sector reforecasts for Executive should improve accuracy when these flow into results.

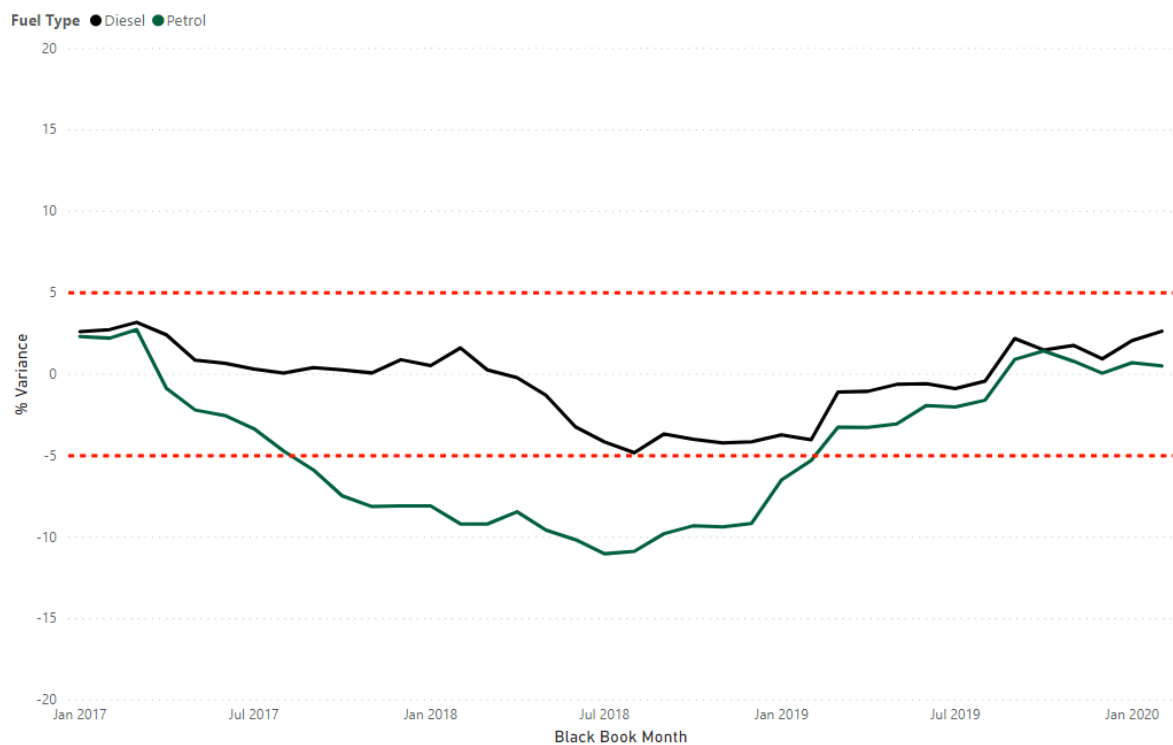
#### 12 month results

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 February 2019 12/20 gold book forecasts being 0.9% more than February 2020 12/20 black book.

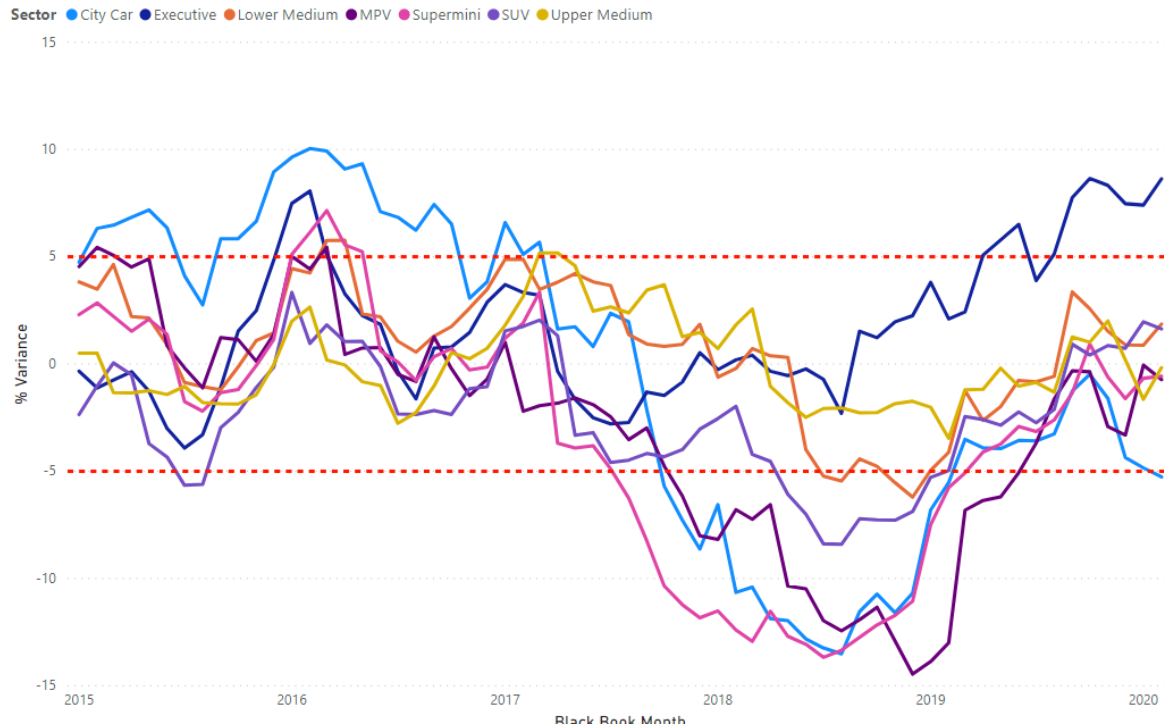
## Overall results:



## Fuel Type Results



## Sector Results:



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

Feb-20

City Car	-5.3%
Executive	8.6%
Lower Medium	1.9%
MPV	-0.7%
Supermini	-0.6%
SUV	1.6%
Upper Medium	-0.2%

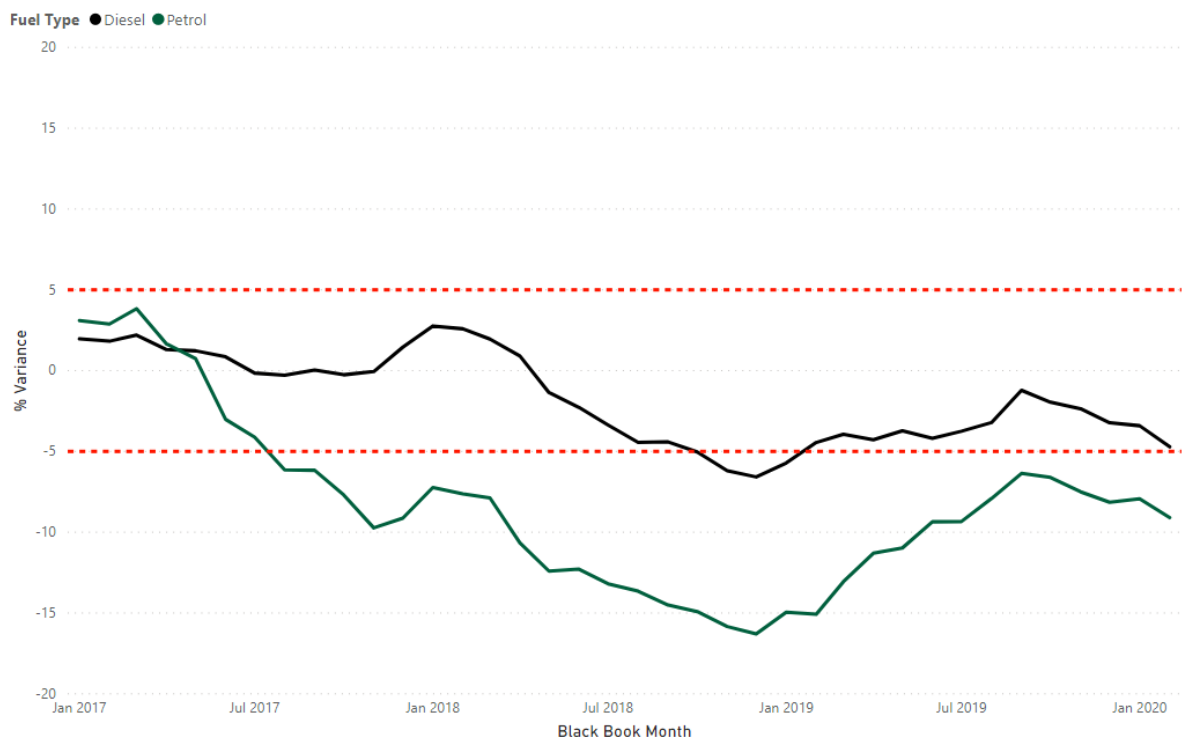
### 24 month results

Since measurement started our 24 month forecasts have averaged -4.1% less than black book across all vehicle ids, and the most recent results show February 2018 24/40 gold book forecasts being -7.8% less than February 2020 24/40 black book.

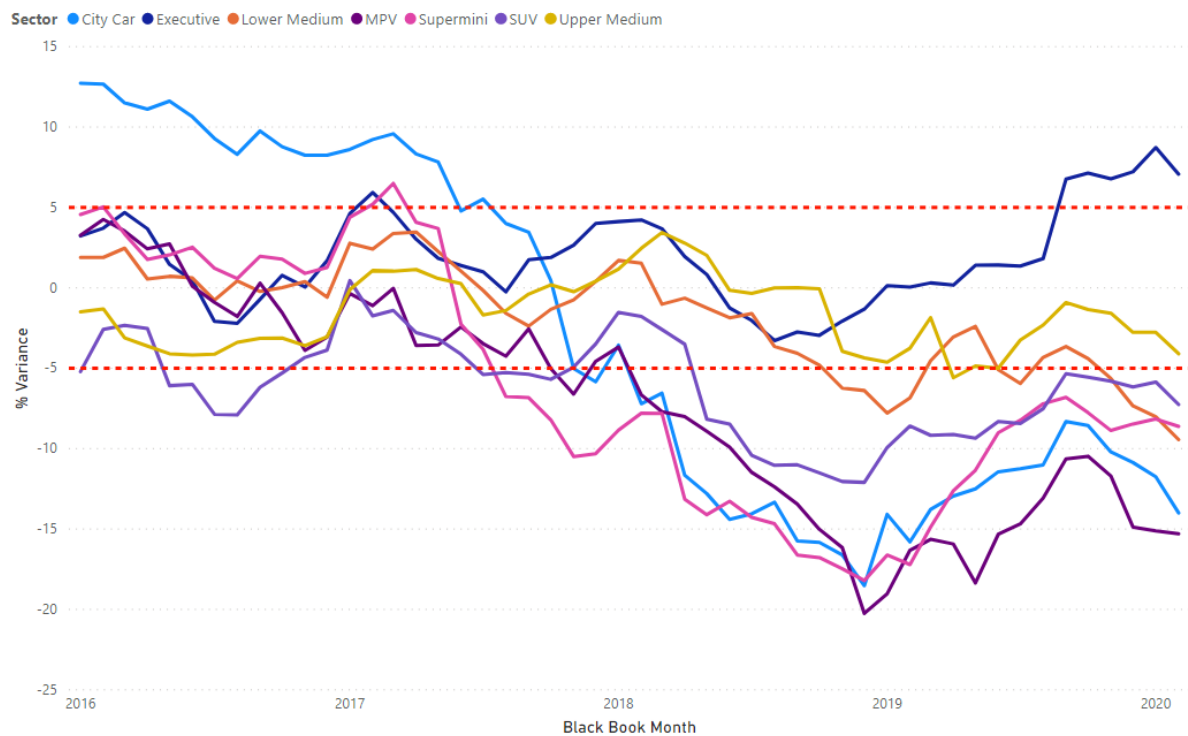
Overall results:



Fuel Type results:



Sector results:



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

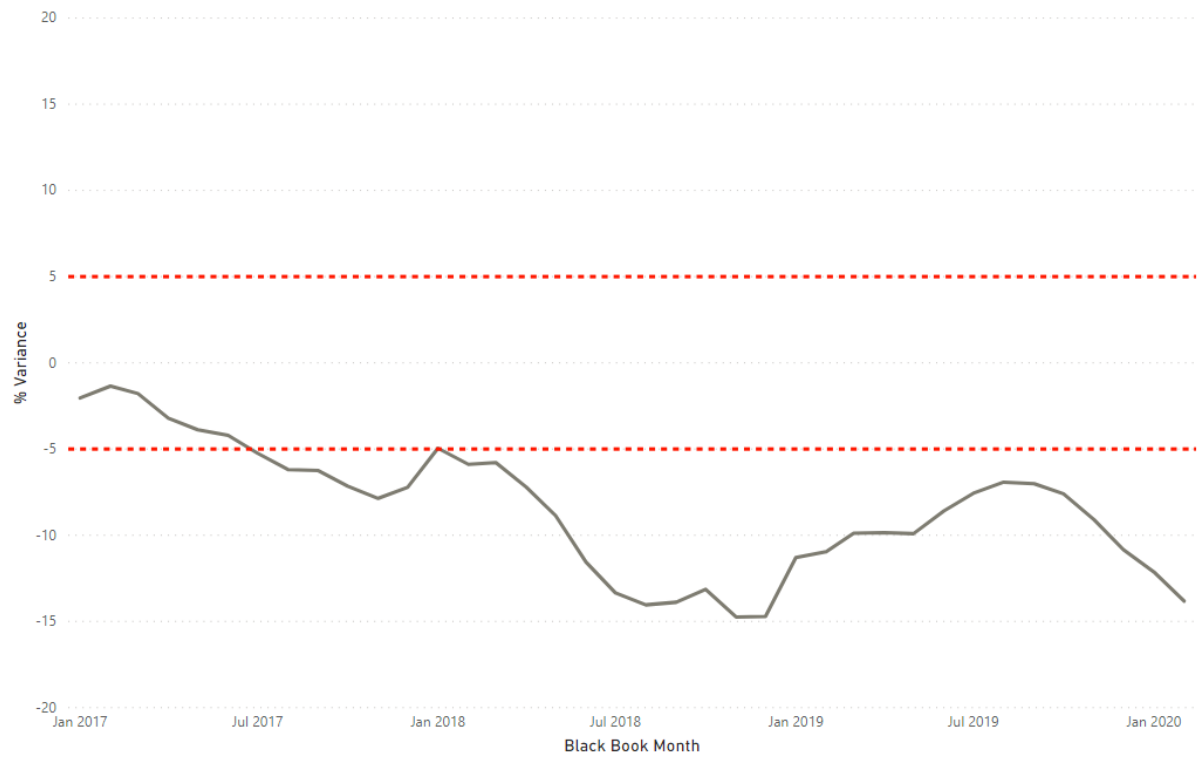
Feb-20

City Car	-14.0%
Executive	7.1%
Lower Medium	-9.4%
MPV	-15.3%
Supermini	-8.6%
SUV	-7.3%
Upper Medium	-4.1%

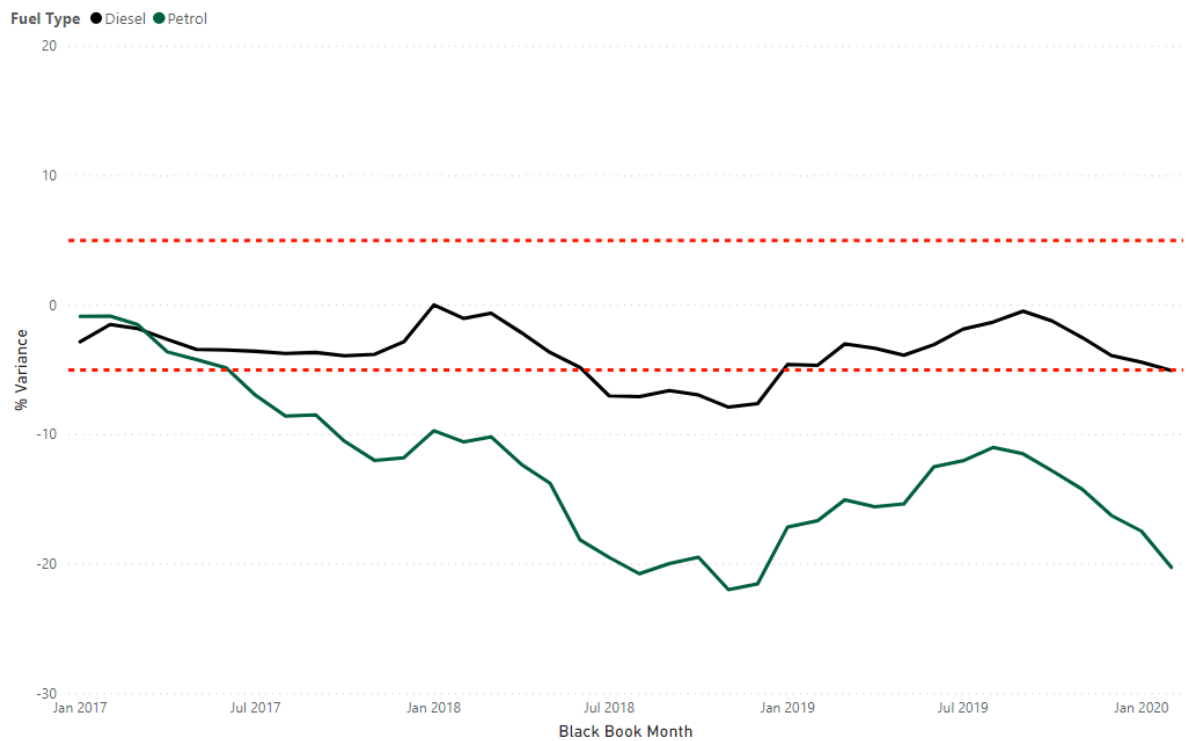
### 36 month results

Since measurement started our 36 month forecasts have averaged -8.4% less than black book across all vehicle ids, and the most recent results show February 2017 36/60 gold book forecasts being -13.8% less than February 2020 36/60 black book.

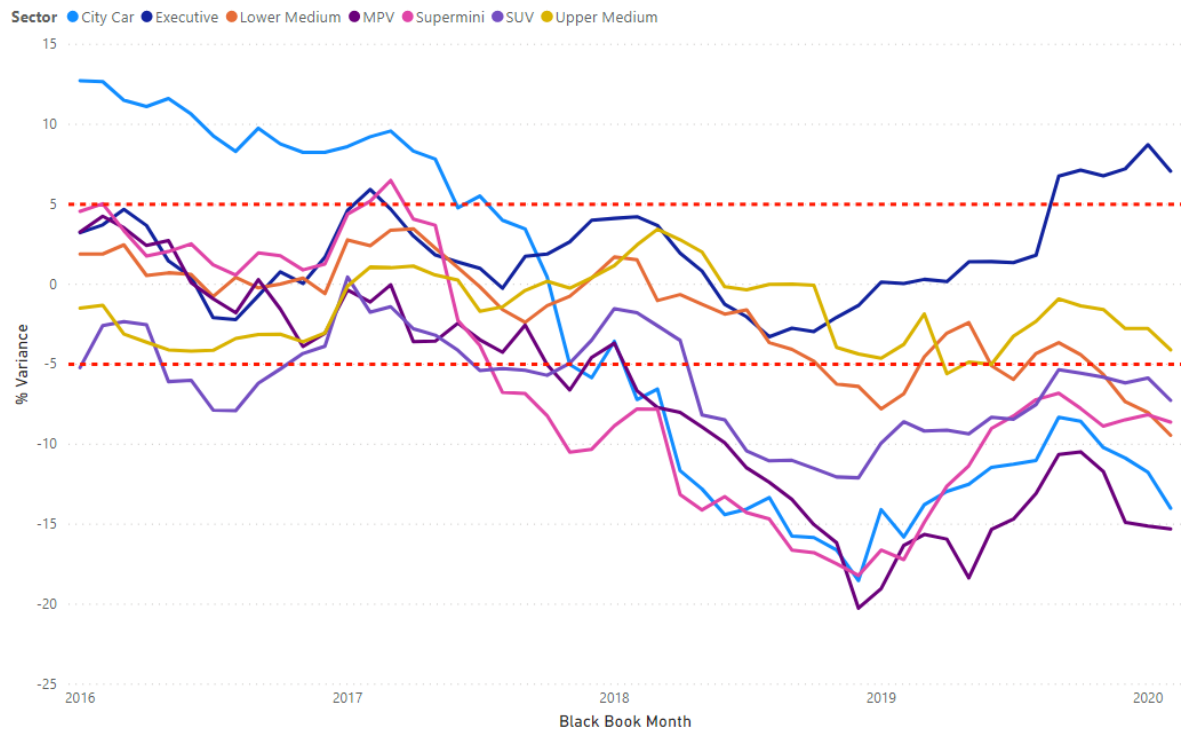
Overall results:



#### Fuel Type results:



#### Sector results:



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

Feb-20

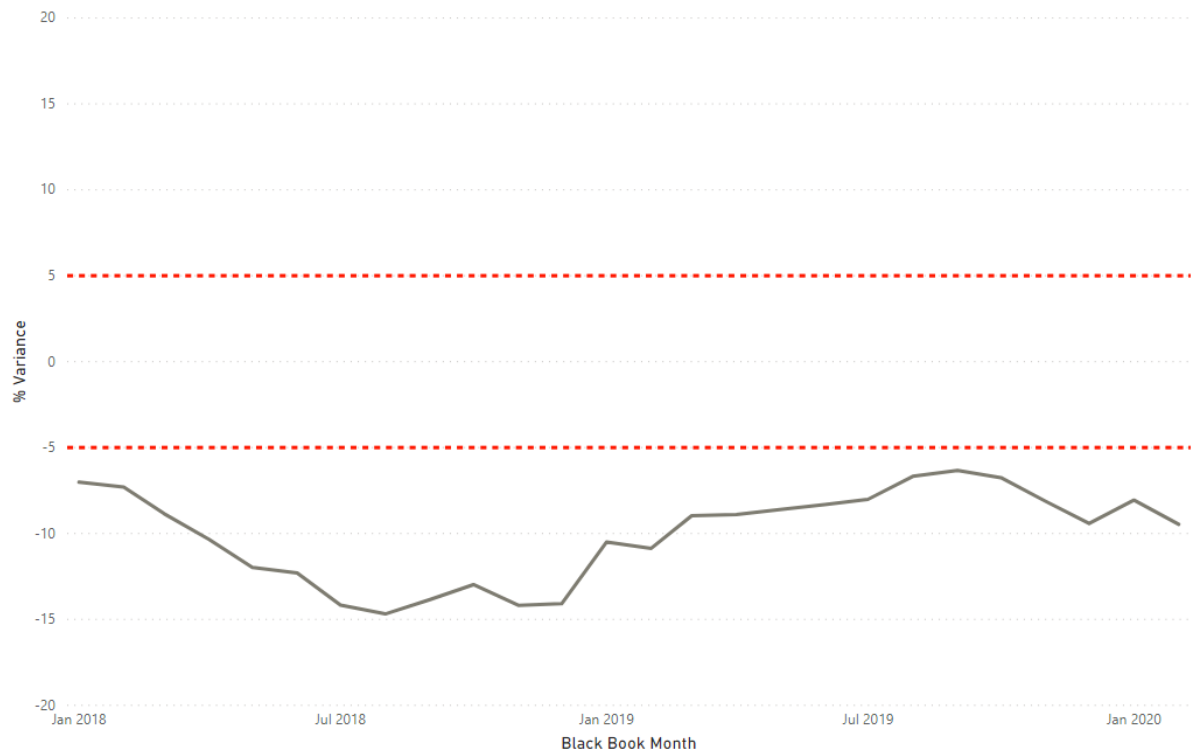
City Car	-14.0%
Executive	7.1%
Lower Medium	-9.4%
MPV	-15.3%
Supermini	-8.6%
SUV	-7.3%
Upper Medium	-4.1%

### 48 month results

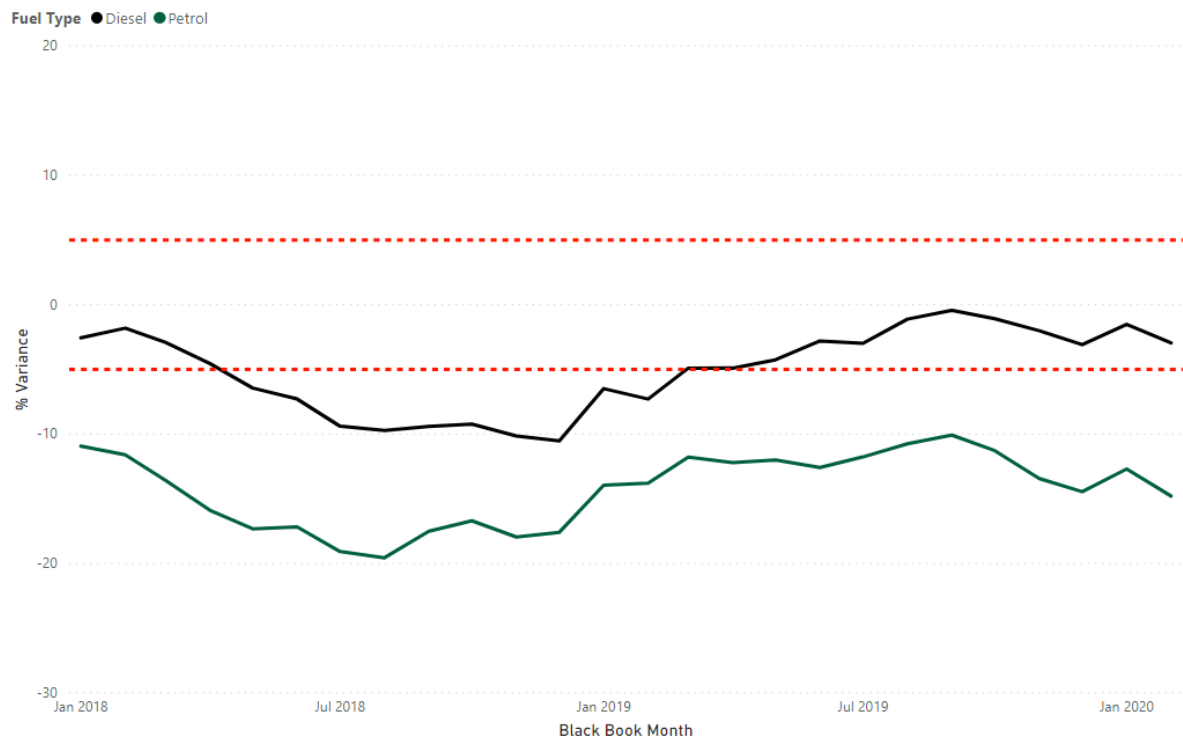
Since measurement started our 48 month forecasts have averaged -10% less than black book across all vehicle ids, and the most recent results show February 2016 48/80 gold book forecasts being -9.5% less than February 2020 48/80 black book.

Overall results:

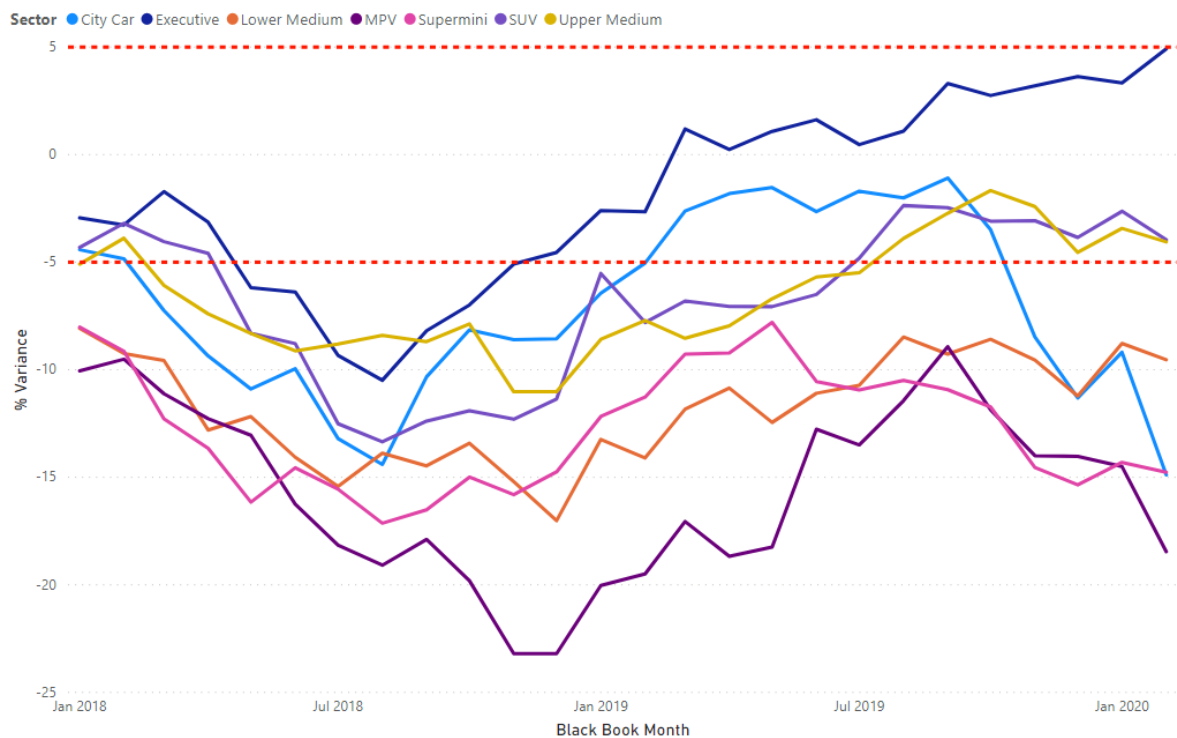




### Fuel Type results:



### Sector results:



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

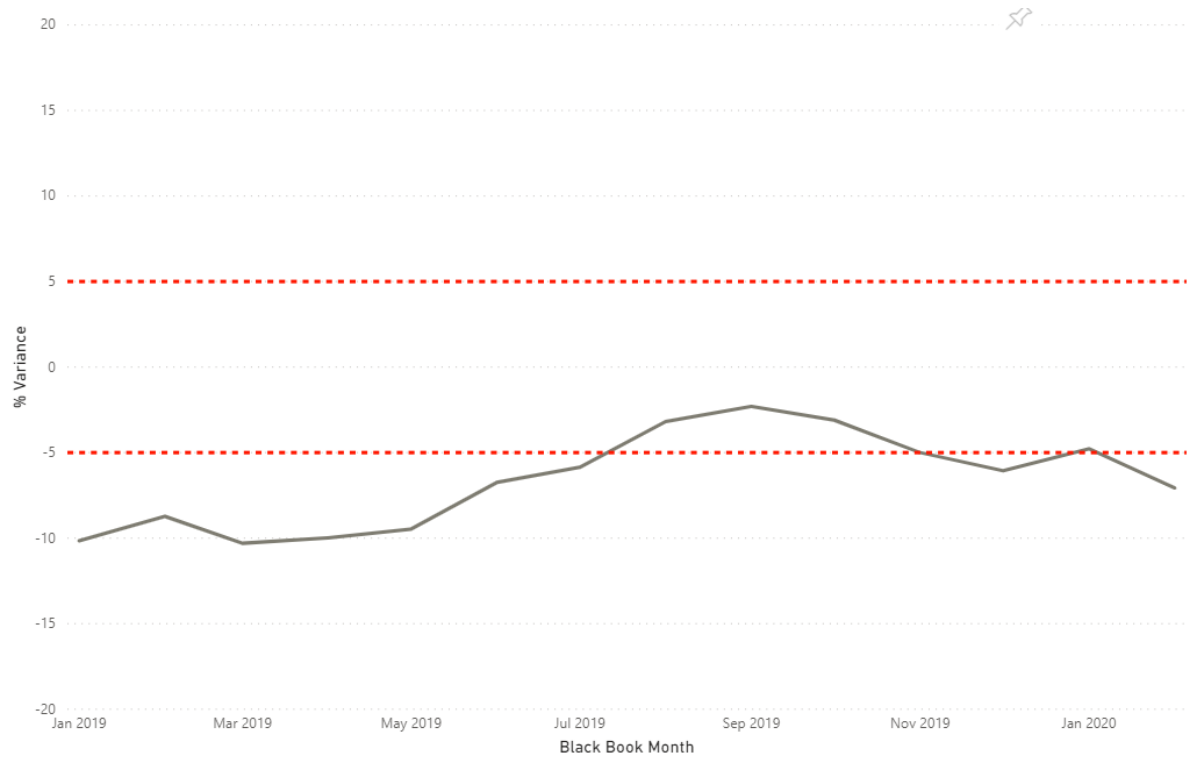
Jan-20

City Car	-14.9%
Executive	4.9%
Lower Medium	-9.5%
MPV	-18.5%
Supermini	-14.8%
SUV	-4.0%
Upper Medium	-4.1%

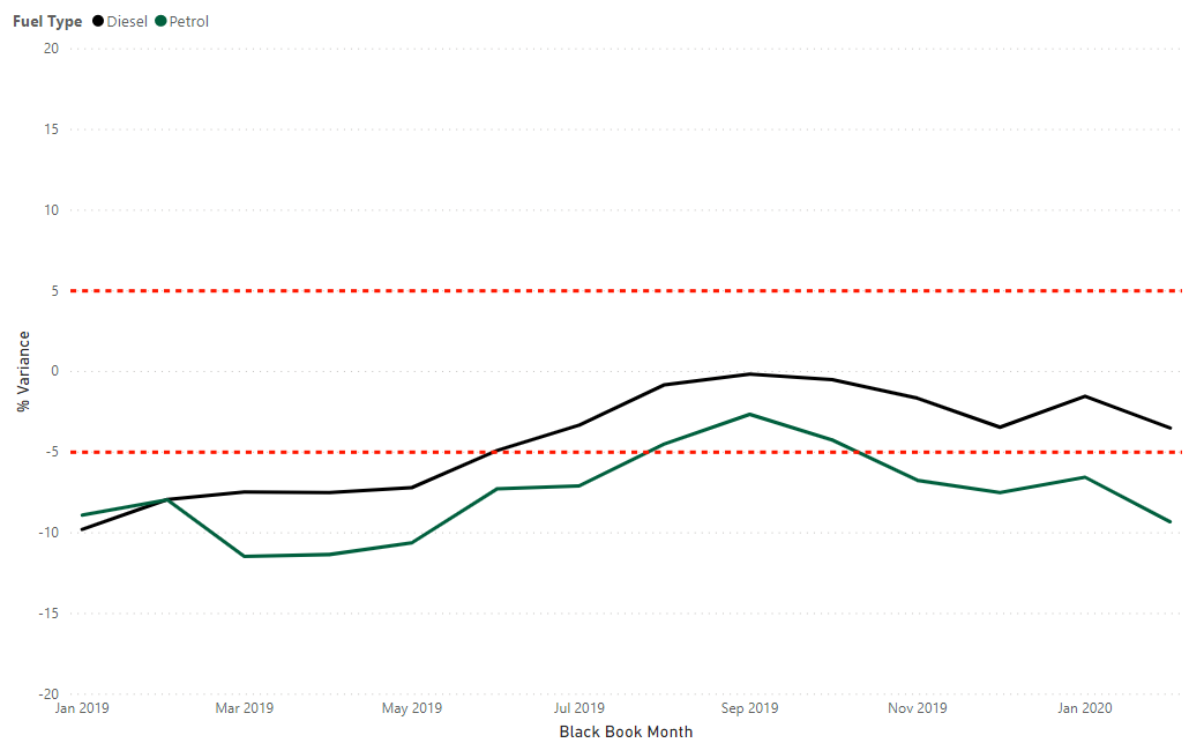
### 60 month results

Since measurement started our 60 month forecasts have averaged -6.6% less than black book across all vehicle ids, and the most recent results show February 2015 60/100 gold book forecasts being -7% less than February 2020 60/100 black book.

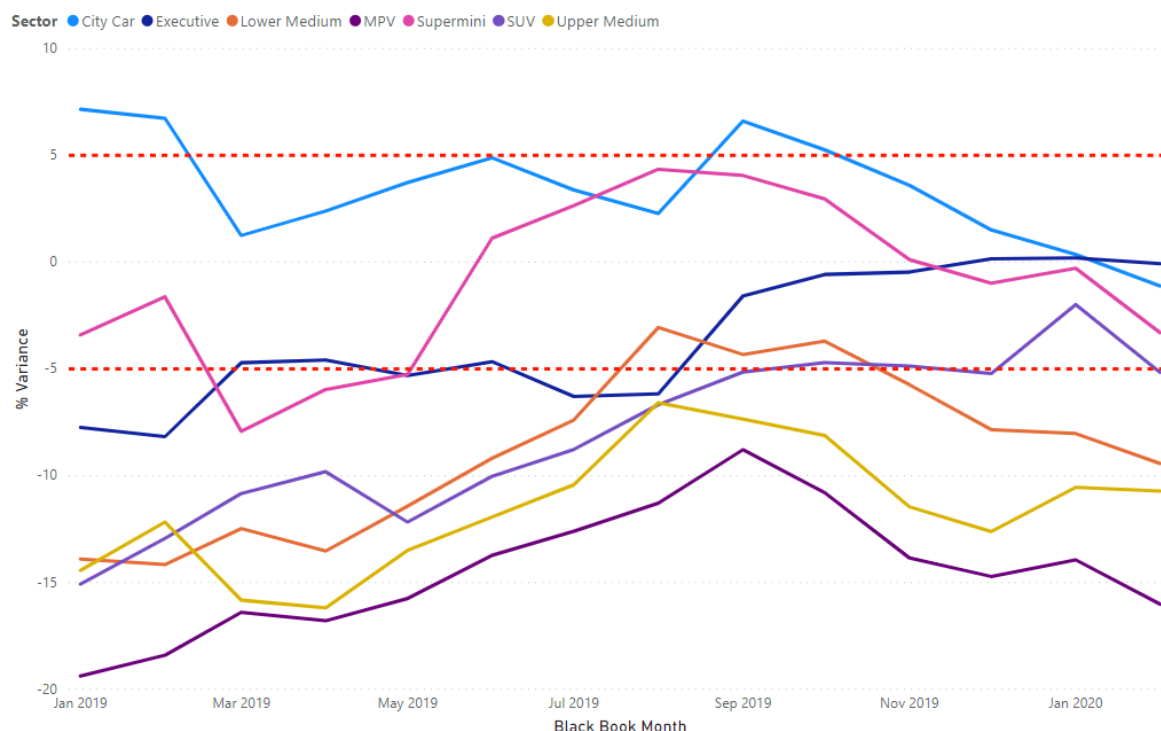
Overall results:



Fuel Type results:



Sector results:



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

Jan-20

City Car	-1.1%
Executive	-0.1%
Lower Medium	-9.4%
MPV	-16.0%
Supermini	-3.3%
SUV	-5.2%
Upper Medium	-10.7%

## 5. Gold Book Methodology:

### Overview

All of 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 of these assumptions and adjustments are available for scrutiny to our customers through our gold book iQ product. For years our customers have been asking for transparency in automotive forecasting and we have delivered a groundbreaking product to provide exactly that.

With an increasing number of customers subscribing to gold book iQ, we are entering into a range of debates and discussions around both our overall forecasting methodology and individual elements of the forecasts for particular vehicles. This is expected to evolve over time into a 'virtuous circle', with the feedback looping back into the forecast process and delivering continuous improvement. We are embracing a new era of customer communication, with a greatly improved quality of interaction and debate around our forecast values.

Changes may be actioned wherever there is reason to do so outside of the sector reforecast process and we continue our monthly Interproduct analysis with our black book colleagues exactly as before. This has intensified following the availability of our short term forecast data (gold book 0-12, now available to customers), which incorporates detailed exception reporting at a cap hpi ID level and will also be used increasingly going forward to manage the relationships between black book and gold book.

### 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, gold book 0-12, (also marketed as black book +12) was launched shortly afterwards. This is a live, researched product with a dedicated editor and fills a gap in our previous forecast coverage.

Following feedback on our gold book iQ product, from September 2016 we have added more detail into the commentary for each model range reforecast in sector reviews.

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:

Monthly Product	Sector 1	Sector 2	Sector 3	Sector 4
<b>Apr-20</b>	MPV	Convertible	Coupe Cabriolet	Luxury Executive
<b>May-20</b>	Lower Medium	Sports	Supercar	
<b>Jun-20</b>	City Car	Supermini		
<b>Jul-20</b>	SUV	Electric		
<b>Aug-20</b>	Upper Medium	Executive	Large Executive	Luxury Executive
<b>Sep-20</b>	MPV	Convertible	Coupe Cabriolet	
<b>Oct-20</b>	Lower Medium	Sports	Supercar	
<b>Nov-20</b>	City Car	Supermini		
<b>Dec-20</b>	SUV	Electric		Luxury Executive
<b>Jan-21</b>	Upper Medium	Executive	Large Executive	
<b>Feb-21</b>	MPV	Convertible	Coupe Cabriolet	
<b>Mar-21</b>	Lower Medium	Sports	Supercar	