November 2014

This is the CAP guide to future residual values for new cars. 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 FUTURE RESIDUAL VALUES INCLUDE VAT AND RELATE TO A CAP CLEAN CONDITION AND IN A DESIRABLE COLOUR

CAP Gold Book Forecasts – November 2014

New ranges:

Audi TT Roadster, BMW Alpina D4 Convertible, Jaguar XE, Kia Rio, Kia Venga, Lexus RC F, Mitsubishi Shogun, Mercedes-Benz C Class AMG, Skoda Fabia and Smart ForTwo.

There are numerous additions to the following model ranges:

Alfa Romeo Giulietta, Aston Martin V12 Vantage, Aston Martin Vanquish, Audi TT, BMW 2 Series Active Tourer, BMW X6, Citroen Berlingo Multispace, Citroen C3, Citroen C4, Citroen C5, Citroen DS5, Dacia Sandero, Ford Focus, Kia Carens, Kia Cee'd, Kia Soul, Mercedes-Benz C Class, S Class, Peugeot 308, Nissan Juke, Nissan Qashqai, Porsche 911 Carrera, Skoda Roomster, Tesla Model S, Volkswagen Golf, Volkswagen Polo.

Comment

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 assumptions regarding future used car price movements and are then subjected to additional adjustments by the Editorial Team. All of these assumptions and adjustments are now 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 ground-breaking 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.

The overall average change between the new Gold Book forecast and the previous Gold Book forecast is approximately -1.8% at 36/60, which is broadly in line with expectations of the seasonal change between October and November values for full year forecasts (reflecting newer registration plates). Values are moved forward from month to month by seasonal factors which are differentiated by sector and fuel type and are based on historical Black Book movements.

This month, we publish our most recent reforecasts for the MPV, Convertible and Coupe Cabriolet sectors. The overall impact of the changes at 36/60 is set out below:

Sector	Underlying Forecast Change	Seasonal Element	Observed Change Nov vs Oct
MPV Petrol	-1.2	-2.1	-3.3
MPV Diesel	-0.8	-1.8	-2.6
Convertible Petrol	-1.3	-3.9	-5.2
Convertible Diesel	-1.7	-4.5	-6.2
Coupe Cab Petrol	-2.7	-4.8	-7.5
Coupe Cab Diesel	-1.8	-4.7	-6.5

Generally, the changes are I line with expected model aging patterns. There are only a small number of ranges currently included within Coupe Cabriolet and the average movement is highly skewed by reductions to Mercedes SLK Roadster. The movements on SLK are in line with reductions observed in Black Book values since our last review of the sector (-10% since May).

Full details of all changes and accompanying commentary can be viewed by customers through Gold Book iQ.

Reforecast Calendar 2014/15

Monthly Product	Sector 1	Sector 2	Sector 3	Sector 4
Dec-14	Lower Medium	Sports	Supercar	
Jan-15	City Car	Supermini		
Feb-15	SUV	Electric		
Mar-15	Upper Medium	Executive	Large Executive	Luxury Executive
Apr-15	MPV	Convertible	Coupe Cabriolet	
May-15	Lower Medium	Sports	Supercar	
Jun-15	City Car	Supermini		
Jul-15	SUV	Electric		
Aug-15	Upper Medium	Executive	Large Executive	Luxury Executive
Sep-15	MPV	Convertible	Coupe Cabriolet	
Oct-15	Lower Medium	Sports	Supercar	
Nov-15	City Car	Supermini		
Dec-15	SUV	Electric		

Please note that some changes were made to our reforecast calendar earlier this year, which informs customers exactly which sectors are due to be reforecast and when. The alterations to the schedule were partly as a result of feedback from customers to ensure that Upper Medium vehicles are reviewed at the same time as Executive vehicles. Other changes will also continue to be actioned wherever there is reason to do so outside of the sector reforecast process and we will continue our monthly Interproduct analysis with our Black Book colleagues exactly as before. The main focus of our Interproduct analysis is now our subsidiary relationships thus improving the relationships in both current and future values due to the increased focus and analysis.

Changes To Forecast Values

Aside from the sector reforecasts, there have been a number of changes this month and these include changes to the following ranges:

Changes made to several ranges following Interproduct analysis between Gold Book and Black Book:

Audi A3, BMW 6 Series, Peugeot 208 Petrol (1.6 THP and XY, GTi, GTi Premium trims),Subaru BRZ, Toyota Prius.

Positioning on Corvette Stingray and Lamborghini Hurracan was adjusted following the latest used retail price analysis from Black Book.

Significant changes were also made to Mercedes M Class subsidiary relationships for SE Executive trim following a correction of the new vehicle specification data from the manufacturer.

Estate premiums were increased for VW Passat in line with Black Book analysis and peer vehicle comparisons.

Commentary to accompany all changes and full details of all assumptions used are available to subscribers through Gold Book iQ.

Details of all values revised by ±5% can be found via the following link: Movement Reports.

Forecasting Model Development – CAP Gold Book & Gold Book iQ

Gold Book iQ was launched in December 2013. The feedback from customers to date has been extremely positive and we believe CAP Gold Book iQ represents a new benchmark in truly market leading forecasting. More details are available here:
http://business.cap.co.uk/products-and-services/gold-book-iQ

The answers to some Frequently Asked Questions on Gold Book and iQ are also available on our website:
http://business.cap.co.uk/gold-book-iq/gold-book-faqs

During November 2013 we also ran a series of Webinars to further explain Year Over Year % Deflation (YOY%) , exactly how it relates to our new forecasting process and some further insights into Gold Book. Recordings are available from the CAP website:

http://business.cap.co.uk/gold-book-iq/gold-book-deflation-webinars

Gold Book Forecast Accuracy

Gold Book is now almost a year old. In December, we will have the data to enable us to measure the first results in terms of forecast accuracy. Our initial estimates based on current Black Book values are very encouraging indeed and we will be sharing results with customers before the end of the year. We aim to take advantage of our new methodology to implement a 'virtuous feedback loop', with each element of the forecast examined to determine how best to further improve our future value forecasts. Keep watching this space…

Outlook for 2014/15

As predicted, we have seen something close to a return to normal depreciation patterns for 2014, after 2012 and 2013 were characterised by unusually low levels of depreciation due to low levels of supply of used cars. Our research has shown that three and four-year-old prices for many vehicle sectors are closely linked to the level of fleet registrations (+5.4% in 2013), either overall or for the individual vehicle sector and these will also tend to be driven by business need (rather than the availability of offers which had driven the exceptional new car retail growth in 2013). Although fleet registrations increased in 2010 and 2011 compared to 2009, they remain below levels seen in the years before the economic crisis.

As leasing returns increase and more nearly new cars return to the used marketplace, values are expected to decrease in line with previous seasonal aging patterns. Even though new car volumes have risen significantly in the past 12 months, sales look set to remain below the pre-recession years. Although much heralded in the press, the rate of retail growth is now slowing, whereas fleet registrations continue to grow at an increasing rate.

Used vehicles are therefore likely to remain in relatively short supply overall for the medium, so we do not expect to see significant decreases in three or four-year-old values in the next 12 months over and above typical model aging patterns, with supply and demand broadly in balance. Our forecasts incorporate the effect of increased registrations on individual sectors, with variation in the level of impact and which part of the market the sectors are sensitive to.

Demand Outlook

The trend for positive news regarding the UK economy continues, but the outlook remains one of a sustained period of modest growth, despite a rather rosier picture being painted by the (often unreliable) IMF and increases to the Bank of England estimates. The intense debate within the Bank of England committees continues regarding how much spare capacity there is in the economy and it remains uncertain how far productivity should be expected to rise. Our view is that much of this is related to changes in the structure of the labour market concerning part-time working, job sharing, zero hours contracts, contracting and self-employment. Making decisions on interest rate changes based on % unemployment is far less reliable than it has been in the past and we are currently investigating whether we can integrate any additional labour market metrics into our regression modelling (currently % unemployment is one of 15 labour market metrics studied).

On this basis, interest rates are expected to remain low for the medium term. An initial rate rise of +0.25% this year now seems unlikely (although 2 members of the MPC recently voted for a rate rise), and an increase of +0.25% early in 2015 may well be actioned as late as Q3 (compared to our original assessment of +0.5% in Q1 2015), although continued weakness in the Eurozone and the UK's current account deficit may trigger earlier stimulus. Any significant increases in base rates seem unlikely until there is a combination of recovery in wage growth and increases in rates of inflation. Having already been deferred on a couple of occasions, the reversal of Quantative Easing is not expected "for some time".

GDP growth of 0.9% for Q2 and 0.7% for Q3 2014 (implying annual GDP of 3%) remains positive, but remain subject to potential downward adjustment by the time that the final figures are established. There remains a probability that it will continue to slow in the final quarter of the year as the impact of the release of pent up demand works itself out. Our original forecast of total GDP for 2014 of between 2.5% and 3% looks likely to prove accurate. There will also be changes to the way GDP is calculated from September, which may impact on some of the historical data (especially for the period between 2008 and 2009). Consumer Price Inflation fell again by more than anticipated and has now fallen from 1.9% to the current 1.2% this year, although upward pressure may bring CPI inflation back closer to 2% before the end of the year as some temporary effects are reversed. Wage growth remains stubbornly stagnant, as the labour markets continue the slow transition from recession to growth, with the prospect of the squeeze on disposable incomes stabilising. However, it may take some time for the impact of higher household incomes to filter through into the overall economy.

Consumer and Business Confidence continue to slowly increase as we had expected, with associated increases in overall business investment, particularly in the large corporate sector. Much of the previous export growth was driven by the service sector, but this has slowed in recent months and there have also been increases in manufacturing and domestic car output. Much of this activity reflected the shift in export focus from the Eurozone to emerging economies and this is likely to continue, despite fluctuating Eurozone demand (see below), although exports still remain below the long term average.

House prices were boosted by the government's Help To Buy schemes, although forecasts for future price increases vary dramatically by sector and especially by geography. The overall impact should be an eventual increase in disposable income for a small proportion of the population, provided interest rates remain low. Funding For Lending appears to have had little impact in the SME sector, although availability of credit is slowly increasing and at a stable cost, the net result being small increases in investment and employment from the sector.

Supply Outlook

New car registrations for 2014 remain above our original target. Although the retail market has taken a back seat to fleets sales as we predicted, the favourability to our forecast is partly driven by increases in short cycle registrations across the industry since March, with several manufacturer showing significant year over year increases in YTD volumes which were not anticipated. Daily rental companies had been virtually starved of volume of new cars in the past few years as some manufacturers switched their focus to profit per unit (from pure market share) at the expense of short cycle volume. This is taken into account in Gold Book through our differentiated YOY% deflation assumptions, but provided that short cycle volumes do not ramp up considerably in the final weeks of the year, we would expect to see little additional overall impact on 1 year old values and beyond. The bulk of the cars registered at the peak during March and April are likely to hit the used market during January/February and we expect demand to be sufficient to soak up the extra volume. If we see further increases in short cycle registrations at the end of this year we will be making some specific forecast adjustments which will be outlined in Gold Book iQ. Some manufacturers had shared their plans with us to increase short cycle volume and have overhauled their remarketing strategies to enable them to manage this effectively and without harming residual values.

Exchange rates are a major influence on the profitability of the UK new car market and they strongly influence eventual used vehicle volumes. As Sterling looked to be climbing towards the ‘tipping point’ of €1.30 during 2012, there were serious concerns that the UK new car market was going to be flooded with vehicles as the new car markets stalled and then shrank in mainland Europe. However, by the end of January 2013, the pound was trading at around €1.16 and stayed relatively stable through 2013, typically trading between €1.16 and €1.18. Although at one stage rates briefly crept up to around €1.22, they remained fairly steady at around €1.21 for the next 3 months, before quite a steep rise during May (albeit only to €1.23). Analysis of recent trending still suggests that it may be slightly overvalued at the current rate of €1.27, although October has seen considerable variation (between €1.284 and €1.241). We expect a more gradual increase over the next 3 years, with the rates expected to stabilise in the near future.

The UK economic situation looks likely to offset the continued weakness in the Eurozone and Sterling looks set to remain at a level in the short term which limits manufacturers’ scope for heavy discounting in the UK. However, the longer the Eurozone takes to recover, the more attractive the UK market will look to manufacturers seeking to make up for missing volume elsewhere. Although new car sales in Europe have been showing some signs of recovery, particularly in Germany and Spain, (with Spain also officially coming out of recession), the economic results remain disappointing, especially in Germany. Western Europe as a whole remains up over 2013 year to date, but economic improvement is needed to sustain this through 2015. There should be a significant release of pent up demand once momentum is regained. Mainland Europe sold around 1.7 million fewer cars in 2013 than in 2011 – roughly equivalent to the entire current markets of Austria, Belgium, Denmark, The Netherlands and Sweden combined.

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 Gold Book does not include valuations for any grey import vehicles, (i.e. those not available on an official UK price list).

New Prices

All new car prices in Gold Book include VAT and delivery.