Gold Book New Car

January 2015

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 – January 2015

New ranges:

Fiat 500X, Fiat Doblo, Hyundai Genesis, Hyundai i20, Jeep Renegade, Lexus NX, Mazda Mazda2, Renault Zoe, Suzuki Celerio and Toyota Prius+.

There are numerous additions to the following model ranges:

Citroen DS3, Citroen DS4, Hyundai, i10, Infiniti Q50, Jaguar XF, Kia Carens, Kia Cee'd, Kia Rio, Kia Soul, Kia Sportage, Kia Venga, Land Rover Range Rover Sport, Smart ForTwo, Suzuki Swift and Volkswagen Polo.

Gold Book Forecast Accuracy

Gold Book is now over a year old! As a consequence, we now have the data to enable us to measure the first results in terms of forecast accuracy. Overall, our average difference between December 2013 12/20 Gold Book forecasts and December 2014 Black Book values was a **weighted average of -1.6%** (-1.2% for Used Gold Book). That is to say that Black Book values were slightly higher in 2014 than we had predicted back in 2013. Although this is just one data point, we are naturally very pleased with these initial results. We will be taking 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 the accuracy of our future value forecasts, while also reducing variation. The differences for the major vehicle sectors are outlined below:

Row Labels	Average of GB Diff (%)
City Car	-0.1%
Executive	-1.3%
Lower Medium	0.6%
MPV	-0.3%
Supermini	-2.1%
SUV	-6.4%
Upper Medium	-3.1%
Total Average	**-1.6%**

Although we are well within our general customer target of +/-5% for almost all of these sectors, the one which is further out is SUV. That will come as no surprise to anyone who has had to set residual values on these same vehicles. The SUV market is still developing and remains fragmented and highly unpredictable – we attempted an exercise in the middle of 2014 to segment the sector further, but the data implied splitting out to at least 12 different new sectors, all of which would have been too small for satisfactory market analysis. We will continue to revisit our assumptions and expect SUV accuracy to improve moving forward. It should also be remembered that we received some criticism a year ago for our Gold Book SUV forecasts being too high!

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 +3.5% at 36/60, which is broadly in line with expectations of the seasonal change between December and January 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 analysis of historical Black Book movements.

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

Sector	Underlying Forecast Change	Seasonal Element	Observed Change Jan vs Dec
City Car Petrol	-2.2	4.0	1.8
City Car Diesel	-1.5	4.2	2.7
Supermini Petrol	-0.6	3.9	3.3
Supermini Diesel	-0.6	3.9	3.3

The reductions to City Car forecasts are slightly greater compared with expected model aging patterns, although in many cases we have considered a proportion of the most recent falls in Black Book values to be temporary and have made positive editorial adjustments accordingly. Although the changes to Supermini look fairly benign on average, it should be noted that there are larger negative movements for many of the volume vehicles. These would have been even greater if we had not taken a similar view to the most recent market movements as we did for City Car (see above). There is also an impact from the ranges which contain a large number of individual IDs – our average Supermini master vehicle movement was -1.1%, more in line with expected model aging patterns.

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

Reforecast Calendar 2015

Monthly Product	Sector 1	Sector 2	Sector 3	Sector 4
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.

Next month we will also be publishing our updated input factor forecasts out to 2019 within Gold Book iQ. These will be integrated into forecast values on a sector by sector basis as we also revisit the underlying regression relationships. Additional commentary is also being added to the deflation adjustment profiles.

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:

BMW 4 Series Gran Coupe Petrol, Citroen C3 Picasso Petrol & Diesel, Fiat 500L Diesel, Peugeot 3008 Petrol & Diesel.

Also as a result of our interproduct analysis, adjustments to the subsidiary relationships ("walk-ups") were also made for some vehicles within the following ranges:

Ford Tourneo Connect Diesel, Jeep Grand Cherokee Diesel, Kia Carens Petrol, Landrover Range Rover Evoque Diesel, Renault Megane Coupe Petrol.

VW Golf Hybrid (CAP ID 66791 – 1.4 TSI GTE 5dr DSG) was repositioned against the GTD (previously benchmarked to Diesel GT).

Mercedes C-Class Diesel Hybrid Estates (CAP IDs 66737 to 66742 inclusive) have been corrected for a product build system error, resulting in significant forecast increases.

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.

Outlook for 2015

As predicted, we saw 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 (although they may now be approaching their ceiling).

In the coming months, used car supply is expected to increase from the low levels experienced in the recent past, however 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 now 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. 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 still 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. Despite 2 members of the MPC continuing to vote for a rate rise, an increase of +0.25% 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 still trigger earlier stimulus. Any significant increases in base rates seem unlikely until there is a combination of significant recovery in wage growth and increases in rates of headline inflation. Having already been deferred on several 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 were also changes to the way GDP is calculated which were applied from September, which has had an impact on some of the historical data (especially, but not exclusively, for the period between 2008 and 2009). Consumer Price Inflation decreased slightly to 1.2% from 1.0% last month, but upward pressure may bring CPI inflation back closer to 2% in the first half of 2015 as some temporary effects are reversed. Although we have seen the first rise in wages in real terms for some time, 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. It will inevitably 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 will come in above our original forecast and even above our revised forecast made back in May. 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 in Q2 2014. 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. We do not expect December 2014 to be as strong as the exceptional results from December 2013, but should short cycle volumes and forced registrations ramp up considerably in the final weeks of the year, we may see additional impact on 1 year old values and beyond. In this case, we will be applying specific model adjustments in Gold Book at the 12 month point which will be outlined in Gold Book iQ. The bulk of the cars registered at the peak during March and April 2014 are likely to hit the used market during January/February next year, but we expect demand to be sufficient to soak up the extra volume. 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 was rising against the Euro 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, before increasing this year. Our recent view that Sterling was overvalued at a rate of €1.27 has been shown to be true, with rates now down to between €1.25 and €1.26, despite some short term spikes. We expect a more gradual increase over the next 3 years, with the rates now looking to have stabilised. However, the pound continues to perform worse against the US Dollar, signalling that recent apparent strength was caused more by weakness in the Eurozone than any underlying strength in Sterling.

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 continue to show some signs of recovery, the economic results remain disappointing, especially in Germany and France. Western Europe as a whole remains up over 2013, but only from a very low base and 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.