Gold Book New Car

May 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 – May 2015

New ranges:

DS DS 3, DS DS 4, DS DS 5, Ford Galaxy, Jaguar XF, Mercedes-Benz GLE, Mercedes-Benz GLE Coupe and Peugeot 208.

There are numerous additions to the following model ranges:

Audi A3, Audi A4, Audi A4 Allroad, Audi A5, Audi A8, Audi Q5, Audi S4, BMW 2 Series, BMW 2 Series Active Tourer, Citroen Berlingo Multispace, Citroen C4, Citroen C4 Picasso, Fiat 500, Fiat Punto, Land Rover Range Rover Evoque, Lotus Elise, Mercedes-Benz C Class, Peugeot 2008, Peugeot 3008, Peugeot 308, Peugeot 5008, Peugeot 508, Renault Captur, Renault Clio, Renault Grand Scenic, Renault Megane, Renault Scenic, Renault Scenic XMOD, Renault Twingo, Skoda Superb, Smart ForFour, Toyota Aygo, Toyota Verso, Vauxhall Astra, Volkswagen Golf, Volkswagen Polo, Volkswagen Scirocco and Volkswagen Tiguan.

This month 885 CAP IDs have been added to new forecast product – equivalent to 9% of the April new car forecast database.

Gold Book Forecast Accuracy

As Gold Book is now over a year old, we have the data to enable us to measure our results in terms of forecast accuracy. Overall, our average difference between the initial 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 at the end of 2014 than we had predicted back in 2013.

In April 2015 these results continue to be maintained, with the overall **median difference across all IDs just -1.2%**. Although this is still the early stages, we are naturally extremely pleased with these initial results. We are 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 latest forecast differences for the major vehicle sectors are outlined below:

Sector	Ave GB Diff%
City Car	2.9%
Executive	-2.4%
Lower Medium	0.8%
MPV	1.9%
Supermini	1.7%
SUV	-0.3%
Upper Medium	-3.2%
Grand Total	**-1.2%**

We are well within our general customer target of +/-5% for every major sector, with all within approximately +/-3%. In our initial results back in December, SUV had been notable for an inferior level of accuracy, but following atypical seasonal Black Book movements during the month of December, this moved in line with the remainder of the major sectors.

Our used market deflation (YOY%) assumptions, differentiated by age, vehicle sector and fuel type are still broadly in line with the current market at almost every point.

In June we will be able to publish our first results at the 18 month point and all indications are that it will show a level of accuracy which is both approximately in line with the 12 month positions and is expected to be superior to the results which would have been obtained using either a straight line interpolation or a depreciation based methodology between the 12 and 24 month forecasts.

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 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 -2.3% at 36/60, which is slightly more than the expectations of the seasonal change between April and May values for full year forecasts. This is mainly due to the sector reforecasts on the Lower Medium sector (see below). Outside of the sector reforecasts, 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 Lower Medium, Sports and Supercar sectors. The overall impact of the changes at 36/60 is set out below:

Sector	Underlying Forecast Change	Seasonal Element	Observed Change May vs Apr
Lower Medium Petrol	-3.8	-2.1	-5.9
Lower Medium Diesel	-2.7	-1.7	-4.4
Sports Petrol	1.7	-1.1	0.7
Sports Diesel	-1.0	-0.9	-2.0
Supercar Petrol	2.3	-1.2	1.1

The results above partly reflect the impact of the revised YOY% deflation assumptions, incorporating the latest Gold Book forecasts for the relevant input variables. There have been significant reductions in Black Book values in the Lower Medium sector since our last review, but some of these have been deemed to be temporary in nature and a number of positive editorial adjustments have been applied.

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

Reforecast Calendar 2015/16

Monthly Product	Sector 1	Sector 2	Sector 3	Sector 4
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		
Jan-16	Upper Medium	Executive	Large Executive	Luxury Executive
Feb-16	MPV	Convertible	Coupe Cabriolet	
Mar-16	Lower Medium	Sports	Supercar	
Apr-16	City Car	Supermini		
May-16	SUV	Electric		

Changes may 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. This has intensified following the availability of our Short Term Forecast data (0-12 months, soon to be launched to customers), which incorporates detailed exception reporting at a CAP ID level and will also be used increasingly going forward to manage the relationship between Black Book and Gold Book.

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:

Citroen DS3 and Citroen DS5 (all fuel types) were reforecast in advance of the DS brand introduction. There were also adjustments made to the walk up (subsidiary) relationships for Citroen DS3 (Diesel), Citroen DS3 Cabriolet (Petrol and Diesel) and Citroen DS4 (Petrol) on the basis of the latest Black Book research.

The premiums were reduced for the retractable panoramic roofs on Citroen C1 (Airscape), Peugeot 108 (Top) and Toyota Aygo (Airwave).

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.

Overview for 2015

Link to January press article:
http://business.cap.co.uk/press-releases/cap-hails-gold-book-forecast-success-and-foresees-faster-car-depreciation-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 (+8.0% in 2014), 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 and early 2014). Fleet registrations have been increasing since falling in 2008/9 and although they currently remain below the highest levels seen in the years before the economic crisis, we are predicting a record year for 2015. The record March registration figures were very close to our prediction and our full year forecast remains unchanged.

As leasing returns increase and more nearly new cars return to the used marketplace, values are broadly expected to decrease in line with previous seasonal aging patterns, with positive impact from the improving economy mitigating the effect of increased supply. Even though new car volumes have risen significantly in the past 12 months, overall sales look set to remain below the highest levels seen in the pre-recession years. Although much heralded in the press, the rate of retail growth has slowed considerably, whereas fleet registrations have continued to grow at an increasing rate (although the growth rate appears to now be approaching its 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 remaining 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.

Over the next 12 months, the biggest threat to used prices is the short term pursuit of forced registrations by manufacturers, fuelled by temporarily high exchange rates and lower than expected new car volumes across the Eurozone. Although the majority are much more focussed on residual value protection than they were several years ago and tend to manage disposals much more responsibly than in the past, we have recently made some targeted reductions to specific models due to the volumes involved and will continue to monitor the situation closely.

Demand Outlook

The outlook for the UK economy 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 continuing to investigate whether we can usefully 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 some members of the MPC maintaining support for a rate rise, an initial increase of +0.25% may well be actioned as late as Q1 2016, although continued turmoil 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.

Recent press stories regarding CPI falling to an historic level of 0% need to be balanced against the fact that the headline metric has been heavily influenced by short term decreases in food and energy/fuel prices. The impact of oil prices recovering from their recent low have yet to fully filter through and “Core CPI” (excluding energy and food prices) was reduced from 1.2% in February to 1.0% in March, primarily driven by reduced clothing prices. Even if official CPI briefly turns negative in the next couple of months, price stagnation is highly unlikely to lead to genuine deflation as demand is expected to remain positive.

Wage growth has now decreased slightly to +1.6% (from +1.8%), but remains relatively healthy and if earnings continue to outstrip price inflation as expected, then that will continue to provide a positive impetus to the overall economy.

Having already been deferred on several occasions, the reversal of Quantative Easing is not expected “for some time”.

Our mid-year forecast of total GDP for 2014 of between 2.5% and 3% proved to be fairly accurate with the latest GDP growth of 2.6% for 2014, but this remains subject to further potential adjustment. GDP slowed as predicted in the final quarter of the year, as the impact of the release of pent up demand worked itself out. 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). Our forecast for GDP by the end of 2015 is 2.6% in line with the average of the independent forecasts published by HM Treasury.

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.

The General Election in itself is not expected to have any significant impact on used car prices, but of course there remains the possibility of future effects linked to possible legislation from any future government: https://soundcloud.com/cap-automotive/dylan-setterfield-explains-why

Supply Outlook

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New car registrations for 2014 came in at 2.476 million - above our original forecast (2.24 million) and even above our revised forecast made back in May (2.45 million). Against our expectations, December 2014 turned out to be considerably stronger than the exceptional results from December 2013, but short cycle volumes and forced registrations were a significant factor for certain manufacturers in the final weeks of the year. We expect to see additional impact on 1 year old values in the future and have already applied a number of specific model adjustments in Gold Book at the 12 month point which will be outlined in Gold Book iQ.

Exchange rates are a major influence on the profitability of the UK new car market and they strongly influence eventual used vehicle volumes. The announcement regarding the commencement of Quantative Easing by the ECB and the ongoing bail-out discussions in Greece combined to cause short term weakness in the Euro. We expect rates to continue to adjust downwards in the coming months, followed by a more gradual increase in the Sterling rate against the Euro over the next 3 years. However, the pound continues to perform poorly against the US Dollar, clearly signalling that recent movements were caused more by weakness in the Eurozone than any underlying strength in Sterling. The latest economic results from Germany are pointing towards a resumption of growth there, driven by domestic demand and improved confidence and this is likely to have a knock on effect on several of the Eurozone economies. France has seen an improvement in their deficit and may well increase their official GDP forecast upwards from the current level of +1% for 2015 (although unemployment is continuing to increase), while business activity in the Eurozone is currently at a 4 year high, with positive GDP expected for Q1 2015.

The UK economic situation looks likely to offset the continued weakness in the Eurozone and Sterling is expected to return to a level in the medium term which may limit manufacturers' scope for heavy discounting in the UK later in the year. However, the potential for further turmoil in the Eurozone is significant and the possibility remains that the UK market will continue to look attractive to manufacturers seeking to make up for missing volume elsewhere, particularly in France. The EU as a whole was up over 2013 (12.55 vs 11.88 million units), but this is from a very low base and economic improvement is needed to sustain this through 2015. It should also be noted that almost a third of the 670,000 unit increase was from the UK. The initial results for 2015 have been encouraging, showing simultaneous growth in the biggest 5 markets for the first time in several years. There will be a significant release of pent up demand once momentum is finally regained in the other major markets. Mainland Europe sold around 1.7 million fewer cars in 2013 than in 2011 – roughly equivalent to the entire 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

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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.