

Automotive Market Insight Report

An Experian report



July to December 2008

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Managing Director, Experian Business Information
and Automotive
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Introduction

Introduction from Kirk Fletcher

Managing Director, Experian Business Information and Automotive.



By the end of 2008, the country was in recession and this has had a significant impact on the car market. Indeed, after the property market, there is no other sector whose fortunes are so closely linked to the state of the economy. A car, after all, is the major big ticket item and if consumers are struggling with their finances, then the purchase of a car is the activity most likely to be put on hold¹.

During the final six months of 2008, sales in both the new and the used car sectors fell dramatically. The significant increase in inflation at the beginning of 2008 played a role, as well as the increase in prices on essentials, such as food, utilities and car fuel. Although the inflation rate finally eased towards the end of the year², as did car fuel prices, the damage had been done. Although consumers were not necessarily worse-off and constantly looking to bargain-hunt³, they had become increasingly aware of the prices of goods and services and were more disciplined about spending money.

Yet, dealer feedback in the second quarter of 2009 is pointing towards a more positive start than expected.

The second Automotive Market Insight Report from Experian provides all those businesses with a related interest in the automotive industry with an in depth view on all the factors that affected it – positively and negatively - during the final six months of 2008. By bringing together the wealth of data insight held across Experian's various businesses on both the business and consumer landscapes, this report informs and predicts and is an essential read for any decision-maker working in the UK's automotive industry.

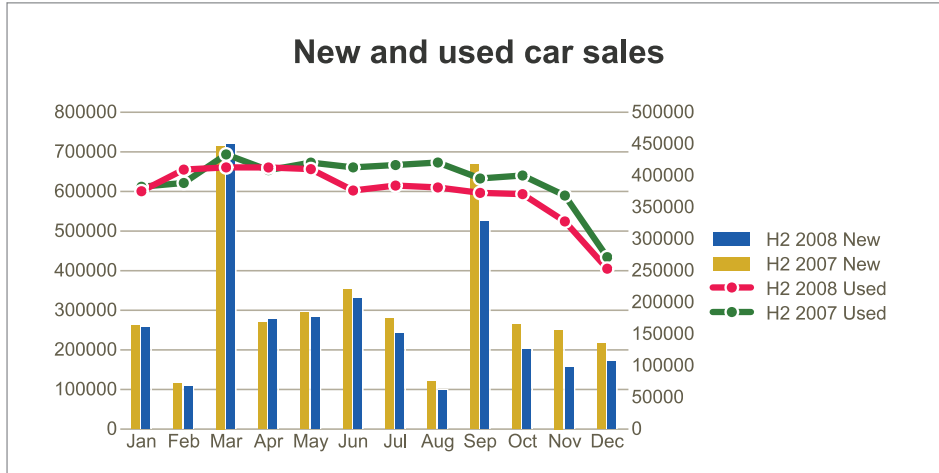
¹ Experian CreditExpert Consumer Survey (2008)

² Experian Future Foundation – Future Economic Prospects (February, 2009)

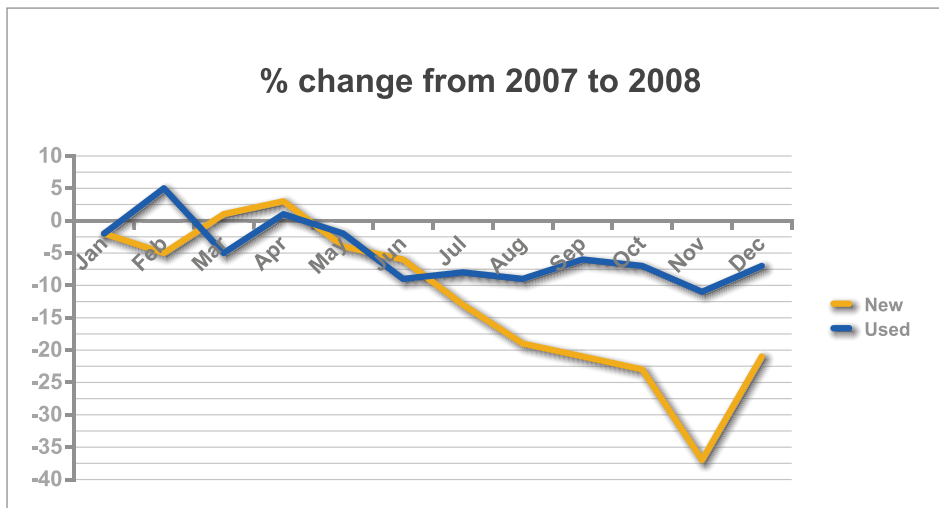
³ Experian Future Foundation - Premium and Low Cost Pricing (February, 2009)

Vehicle Sales Analysis

Sales of used cars during the second half of 2008 were down by 8.0 per cent, compared to the same period in 2007 - the biggest fall in sales since 2005 when the downturn first began for this sector. Sales of used cars suffered the most in November (down 11.1 per cent on November in 2007). In the new car sector, however, sales saw a more marked decline, falling 22.2 per cent during the second half of 2008, with November being the month to see the worst drop in sales compared to the same month in the previous year (down 36.8 per cent).



Source: Experian MarketView Online, DVLA and SMMT



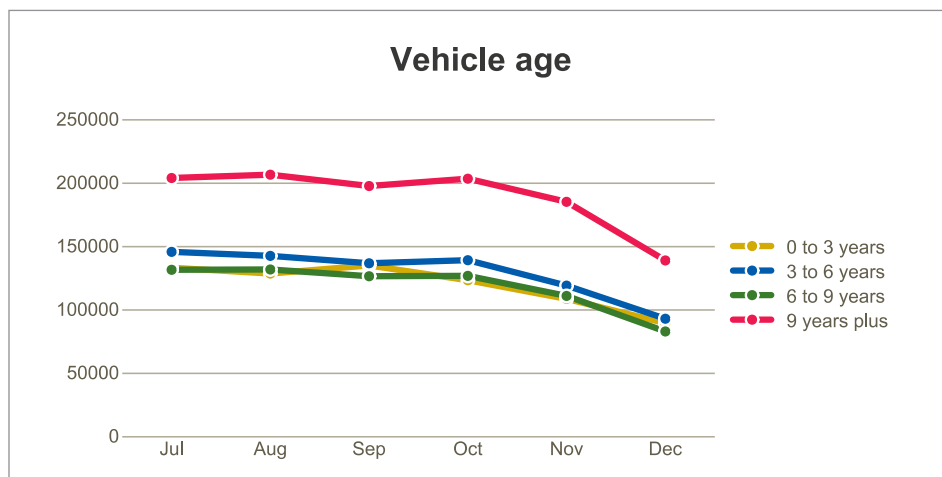
Source: Experian MarketView Online, DVLA and SMMT

Vehicle age

More consumers turned their focus to lower priced used cars during the second half of 2008 and the latest statistics reveal that while all car age groups suffered a fall in sales those that were least impacted were the older age groups. Younger aged vehicles, in the 3 to 6 year age group in particular, saw a far steeper fall in sales.

Age	H2 2008	% change from H2 2007
0 to 3 years	718934	-8.9
3 to 6 years	776966	-10.3
6 to 9 years	711418	-4.8
9 years plus	1136620	-8.0
Total	3343938	-8.0

Source: Experian MarketView Online and DVLA



Source: Experian MarketView Online and DVLA

Vehicle type purchasing trends

The biggest casualties of falling used car sales during the second half of 2008 were vehicles with larger engines, in particular the luxury, executive, upper medium and SUV segments.

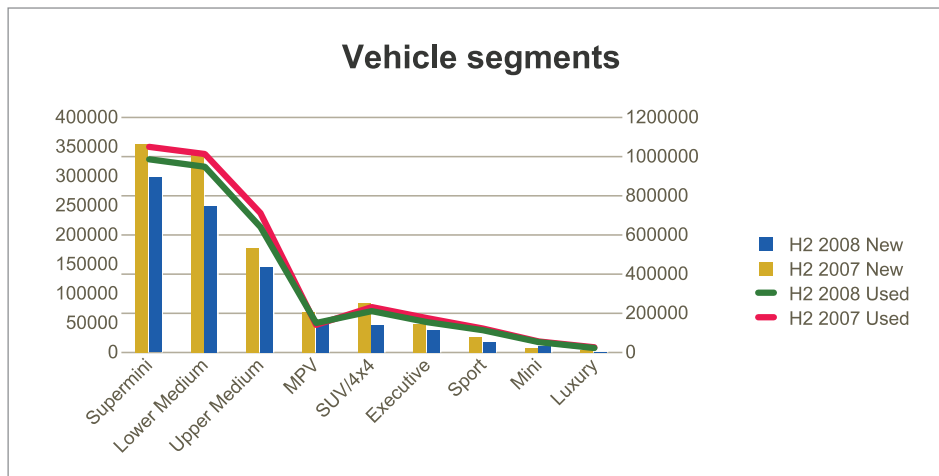
The used MPV segment, however, was the only segment that continued to see an upward trend in sales. Apart from significant sales of new arrivals in the MPV segment, such as the Ford C-Max and the Mercedes B Class, those MPVs moving fastest in the used car market were the Ford S-Max, Mercedes-Benz Viano and the Volkswagen Touran.

The used SUV segment, which was the vehicle type to receive the most negative media attention, suffered a smaller drop in sales than expected compared to other vehicles with large engines.

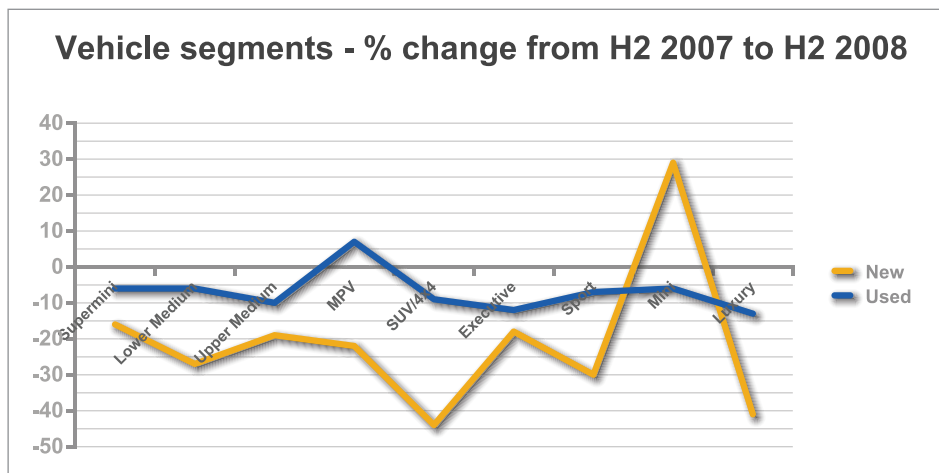
In contrast, the backlash against the SUV segment in the new car market was far greater as concerns about higher road tax with new bandings grew in buyers' minds. Sales of this segment fell by 43.6 per cent – the biggest drop in sales for any new car segment during the second half of 2008.

Furthermore, the MPV segment, which had been enjoying increasing sales in the used car sector, saw sales fall by 21.6 per cent in the new car sector.

The only segment in the new car market to see an increase in sales was the mini segment – up 29.4 per cent.



Source: Experian MarketView Online, DVLA and SMMT



Source: Experian MarketView Online, DVLA and SMMT

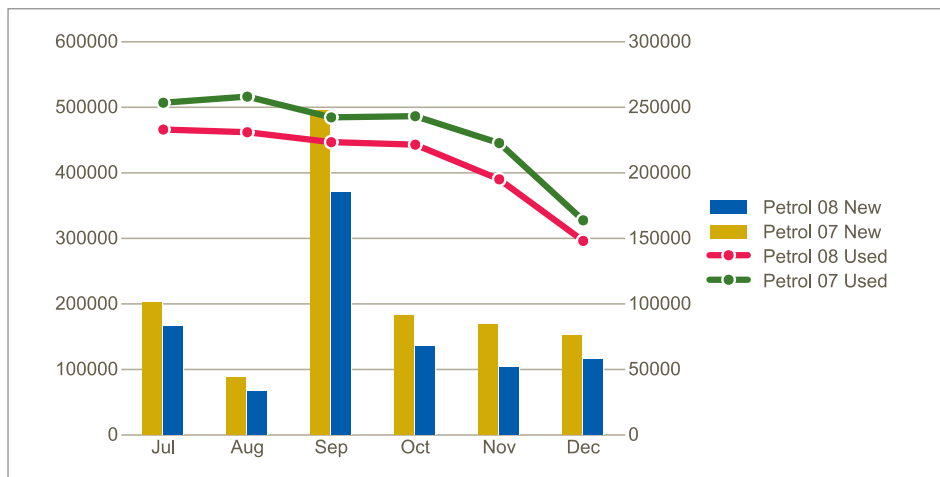
Fuel type

The final six months of 2008 recorded the first drop in sales of diesel cars in both the new (down 17.8 per cent) and used car sectors (down 3.5 per cent).

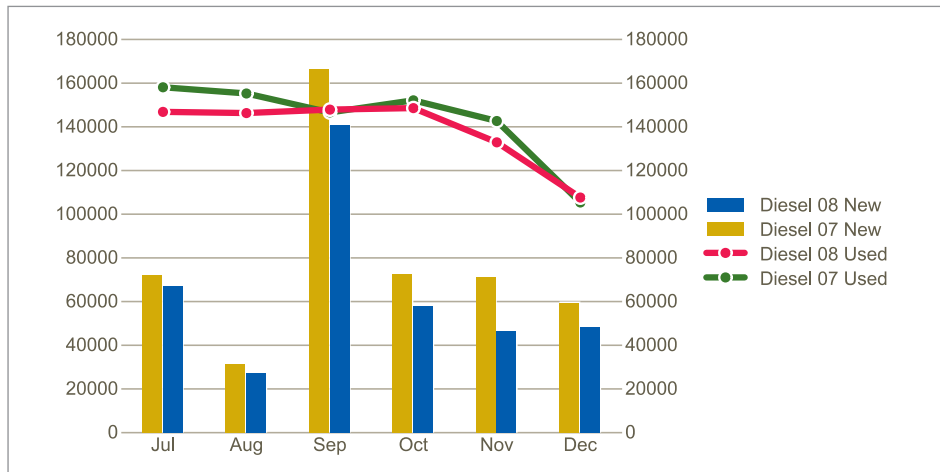
The most notable activity has been among used electric car sales. Although total sales over the final six months of 2008 of this fuel type increased by 16.8 per cent, the month on month movement reveals a more interesting picture. Significant sales of used electric cars during the first half of the year continued into July and August (August 2008 sales were up 190.0 per cent on August 2007). However, in September, sales began to fall drastically. By December, sales of electric cars were 87.9 per cent lower than in December 2007.

Fuel	H2 2008 used	% change from 2007	H2 2008 new	% change from 2007
Petrol	2504275	-9.5	485,100	-25.5
Diesel	830117	-3.5	392,248	-17.8
Hybrid	3031	39.9	6,756	-15.0
Electric	403	16.8	100	-45.4
Unspecified	6112	-7.3	112	-33.3
Total	3343938	-8.0	884,316	-22.2

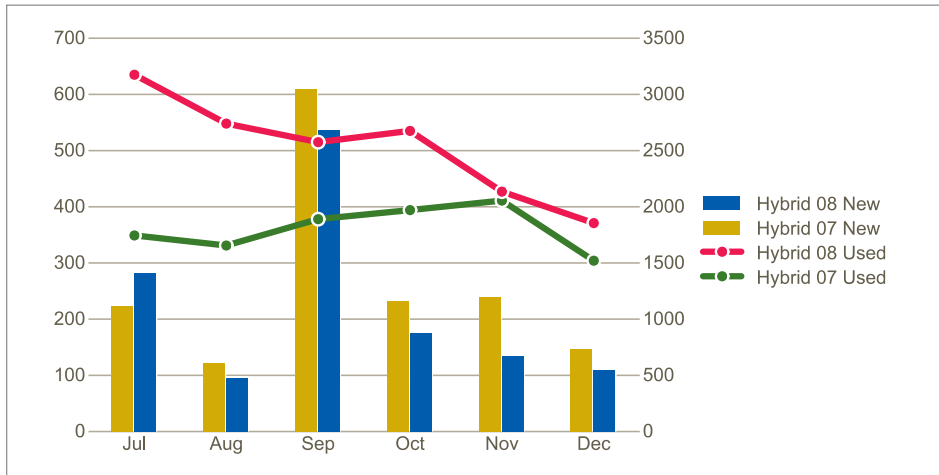
Source: Experian MarketView Online, DVLA and SMMT



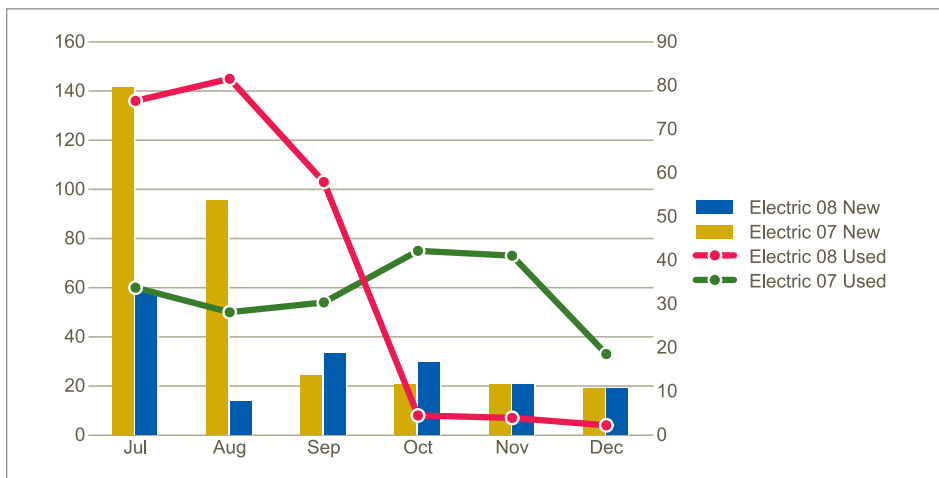
Source: Experian MarketView Online, DVLA and SMMT



Source: Experian MarketView Online, DVLA and SMMT



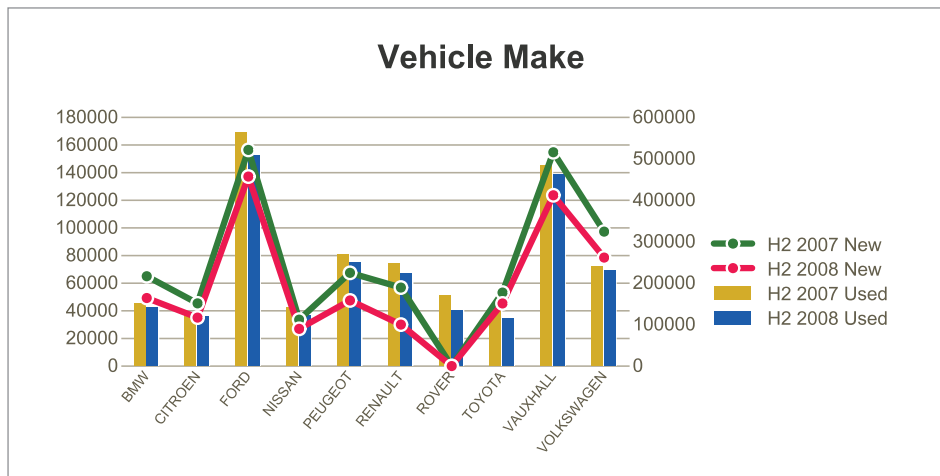
Source: Experian MarketView Online, DVLA and SMMT



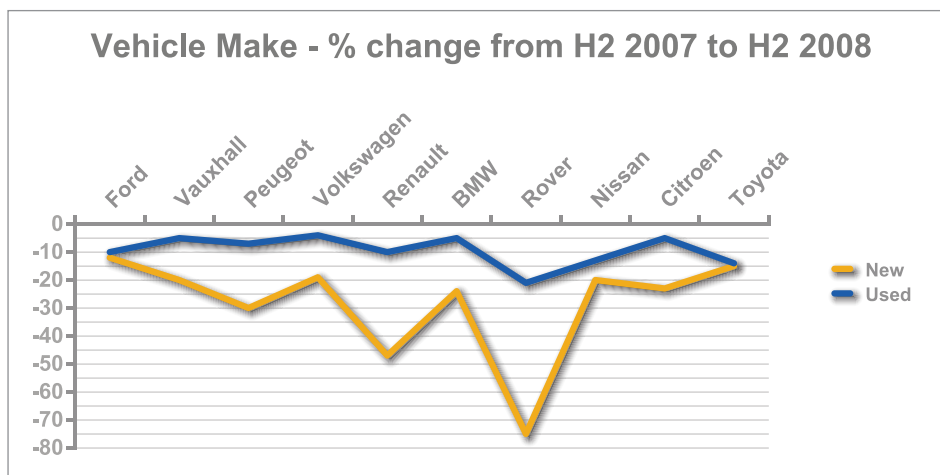
Source: Experian MarketView Online, DVLA and SMMT

Make

Of the top ten selling used car makes by volume, the biggest fall in sales (after Rover) came from Toyota, followed closely by Nissan. In the new car market, Renault suffered the biggest fall in sales (down 47.2 per cent).



Source: Experian MarketView Online, DVLA and SMMT



Source: Experian MarketView Online, DVLA and SMMT

Model

Of the top ten selling used car models by volume, the Ford Focus was the only model to see sales rise during this period. This was quite the opposite in the new car sector, where sales of the Ford Focus fell drastically. The Vauxhall Corsa demonstrated the strength of superminis in the new car sector as the only top 10 performer to increase in year on year sales.

Used model	H2 2008	% change from H2 2007
Vauxhall Astra	149877	-0.1
Ford Fiesta	140393	-12.3
Vauxhall Corsa	140353	-2.0
Ford Focus	123455	6.7
Volkswagen Golf	101395	-6.4
Ford Mondeo	91443	-15.4
Renault Clio	90650	-10.7
BMW 3 Series	87811	-7.2
Vauxhall Vectra	87011	-4.7
Fiat Punto	70062	-10.2

Source: Experian MarketView Online and DVLA

New model	H2 2008	% change from H2 2007
Ford Focus	1 01,593	-19.96
Vauxhall Corsa	99,574	5.8
Ford Fiesta	94,989	-7.66
Vauxhall Astra	90,641	-20.39
Volkswagen Golf	65,029	-5.54
Peugeot 207	53,462	-20.43
BMW 3 Series	49,088	-16.15
Ford Mondeo	44,150	-7.64
Vauxhall Zafira	43,169	-9.71
Vauxhall Vectra	42,556	-16.56

Source: Experian MarketView Online and SMMT

Changes in the Wider Market

Inflation and GDP growth

The country saw a dramatic rise in inflation over the first nine months of 2008, bringing the consumer boom that had been experienced in 2007 to an end in early 2008. Inflation was driven by the steep rise in food and energy prices, which also caused consumer confidence to stagnate during April, May and June, before plummeting in the second half of 2008. This led to the economy contracting by 0.6 per cent in the third quarter of 2008, the first quarterly decline since 1992.

The dramatic increase in inflation, however, ended just as abruptly in the final quarter of 2008, when oil prices plummeted and VAT was cut. During this period, retailers promoted extensive discounts. However, consumer sentiment was depressed, unemployment had risen strongly and severe strains persisted in the financial sector. The annual decline in UK house prices accelerated at the end of 2008 to around 16 per cent⁴. Mortgage approvals and home sales were near record low levels. The UK economy had clearly entered its first recession since the early 1990s and the situation is continuing to deteriorate steadily.

Conditions will be very difficult throughout 2009, when the GDP is expected to shrink by 2.6 per cent, the worst outturn since 1946. Recovery will be delayed until 2010 when pick up is forecast to be a very modest 0.4 per cent⁵.

UK	07	08	09	10	11-15
National accounts (% change real terms)		Avg			
GDP	3.0	0.8	-2.6	0.4	1.8
Consumer spending	3.0	1.6	-2.1	0.0	1.6
Investment	7.2	-4.0	-6.5	-0.4	2.1
Government	1.7	3.4	2.4	1.0	0.3
Exports	-4.2	1.2	-2.5	0.2	2.2
Imports	-1.6	1.2	-1.9	0.9	1.7
Other indicators					
Employment (% change)	0.8	0.2	-2.3	-1.7	0.3
Unemployment (% workforce)	5.3	5.8	7.7	9.3	9.2
Consumer prices (% change)	2.3	3.6	0.4	2.3	2.1
Fiscal balance (% GDP)	-2.5	-4.4	-7.2	-7.3	-6.2
Current account balance (% GDP)	-2.8	-1.8	-2.9	-3.4	-3.3
Bank rate (% p.a.)	5.5	4.7	1.1	2.3	4.1
10 yr bond yield (%p.a.)	4.9	4.6	3.5	4.4	5.4
Exchange rate (US\$ per £)	2.00	1.85	1.56	1.61	1.69

Experian Limited 2009

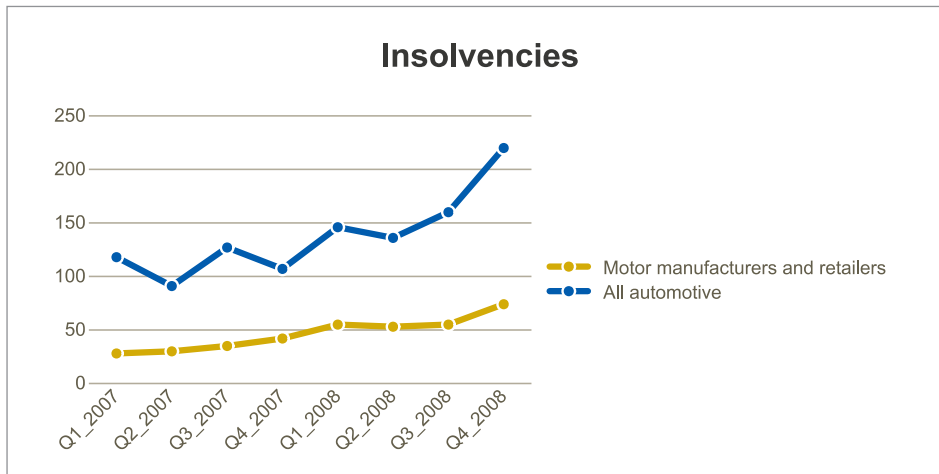
⁴ Nationwide and Halifax (2009)

⁵ Experian UK Country Report (January, 2009)

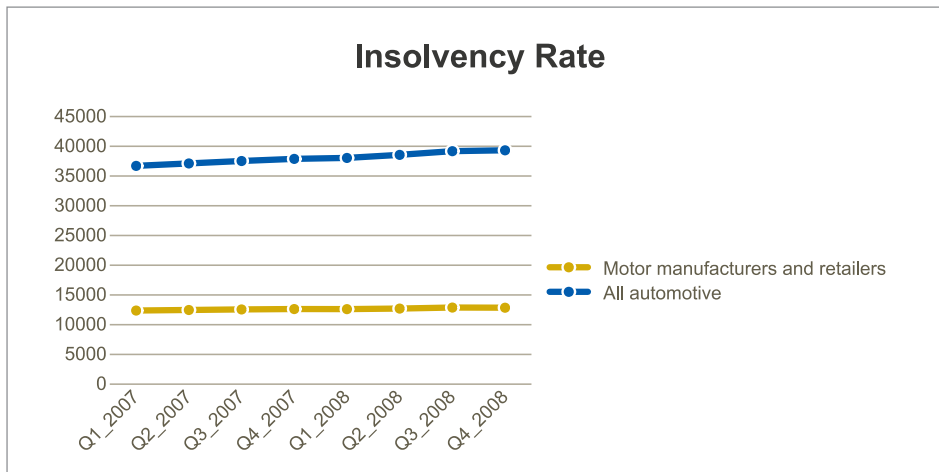
Insolvencies

During the second half of 2008, the total number of automotive businesses that failed rose by 62 per cent from 234 in 2007 to 380 in 2008. Within this figure, the number of manufacturers and dealers that failed during this period rose by 68 per cent from 77 in 2007 to 129 in 2008, as some of the leading motor retailers responded to the market by closing less profitable dealerships.

However, it is important to bear in mind the number of business start ups. Automotive business failures have been rising, but when measured against the growth in the total number of automotive businesses, the failure rate has remained fairly flat. A focus on start-ups is needed to prevent an increase in the future.⁶



Source: Experian pH



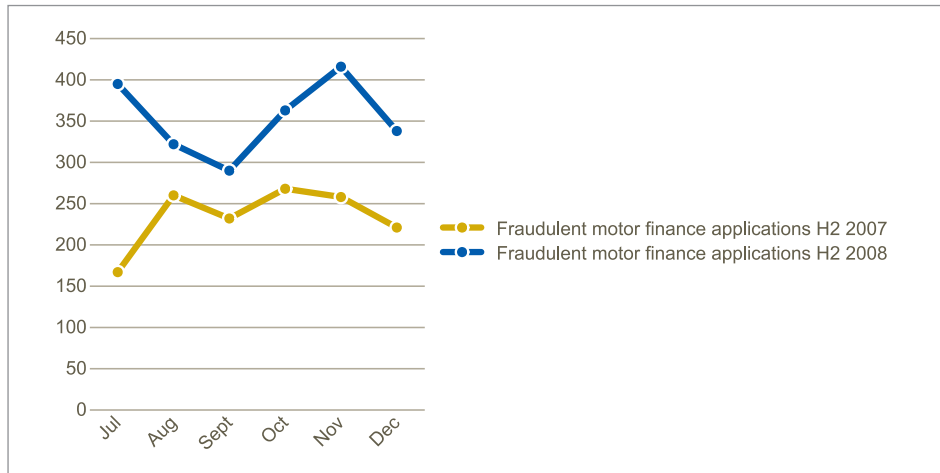
Source: Experian pH

⁶Experian pH (2009)

Fraud

The focus for those seeking credit is now on the availability rather than the cost of credit, which has, in turn, stimulated fraudulent activity.

By the end of the second half of 2008, the number of fraudulent applications for motor finance detected by Experian had increased by 51 per cent compared to the number of fraudulent applications detected during the second half of 2007. The total value of those detected fraudulent applications during the final six months of 2008 had reached £25.4 million, 43 per cent higher than in the previous year.⁷ The total number of applications that were made for motor finance during this period, however, had fallen by 10.8 per cent.⁸



Source: Experian and National Hunter

⁷ Experian and National Hunter (2009)

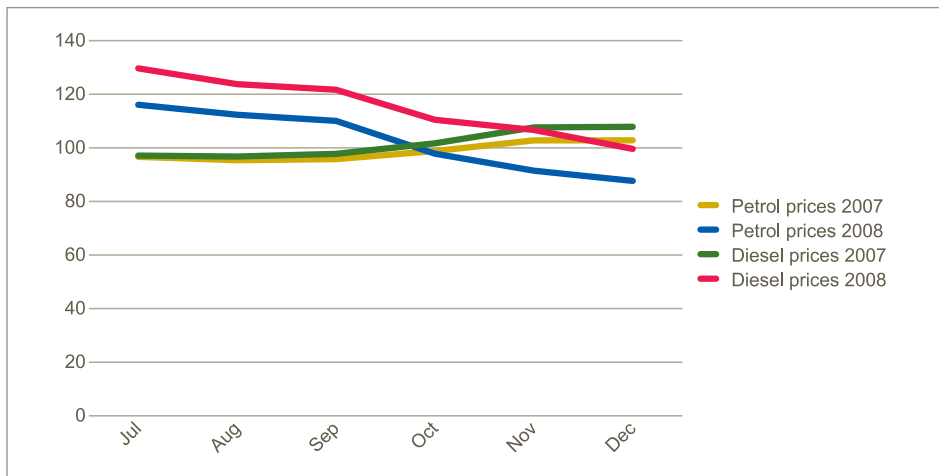
⁸ Experian and the FLA (2009)

Factors Influencing Consumer Behaviour

Fuel costs

Oil prices had been surging upwards towards the end of 2007 and reached record levels during 2008. By July, the price of petrol was 20 per cent higher than in July 2007, while diesel was 34 per cent higher. However, by the end of December, petrol prices had fallen to 15 per cent lower than in December 2007, while diesel was 8 per cent lower.⁹ Looking forward, despite the steep rises in 2008, by the end of 2009, fuel prices are set to fall by 6.7 per cent, and further still in 2010 by 2.3 per cent.¹⁰

The effect of rising fuel prices in the earlier part of the year has been greater focus on fuel efficiency. The average motorist will not proportionately reduce the amount of driving they do in response to increases in costs, because driving for many households is a necessity rather than an optional pleasure. Therefore, fuel efficiency is likely to become an ever more prominent agenda given the enduring concerns about climate change. Meanwhile, the pattern of demand for certain types of cars (fuel efficient or even electric and hybrid) will be shaped by future movements in the oil price.¹¹



Source: Experian Catalyst

⁹ Experian Catalyst

¹⁰ Experian Economic Forecasting

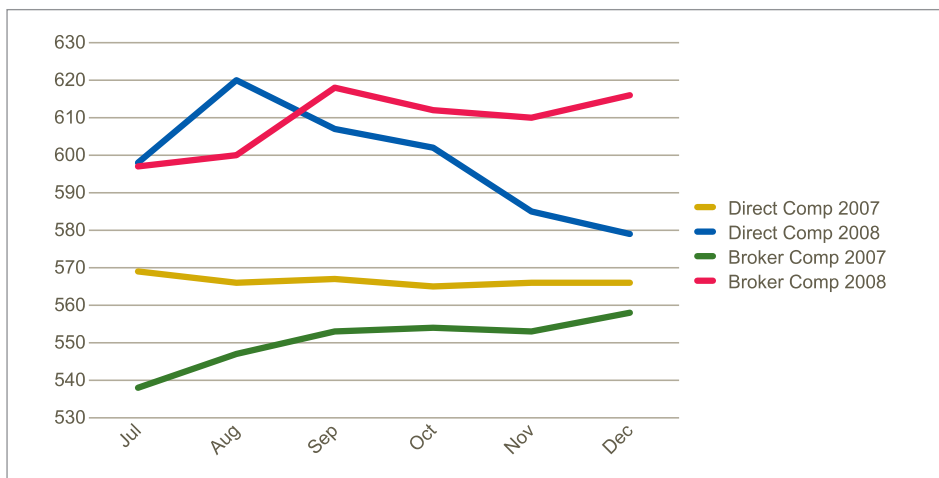
¹¹ Experian Future Foundation – The Car Market (January, 2009)

Insurance premiums

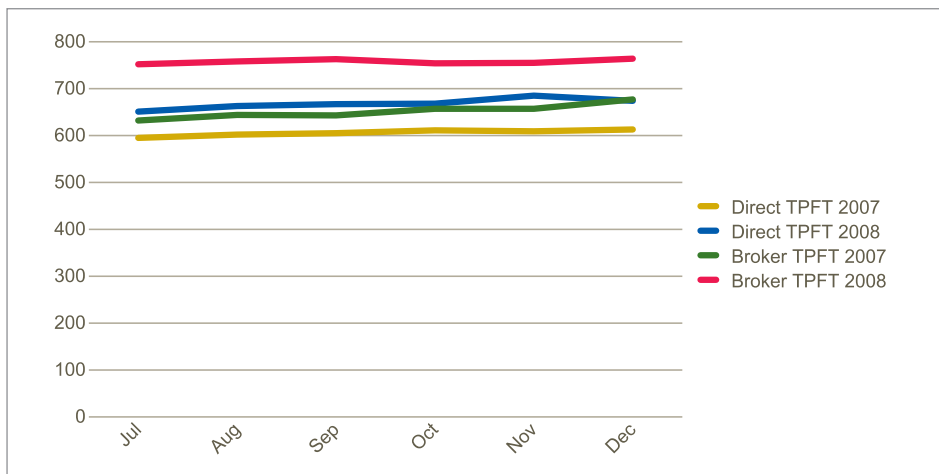
Although comprehensive motor insurance premiums in the direct channel had been falling towards the end of 2008, they were still higher than in the previous year. Comprehensive motor insurance premiums in the broker channel were also higher than in the previous year, but, unlike the direct channel, had continued to rise towards the end of the year. The key change during this period was that broker premiums overtook direct prices for the first time in years.

Third party, fire and theft (TPFT) motor insurance premiums continued to rise at a steady rate throughout the year in both channels.

Online activity for car insurance was significantly reduced, suggesting that consumers were also conducting fewer searches for car insurance during the second half of the year.¹²

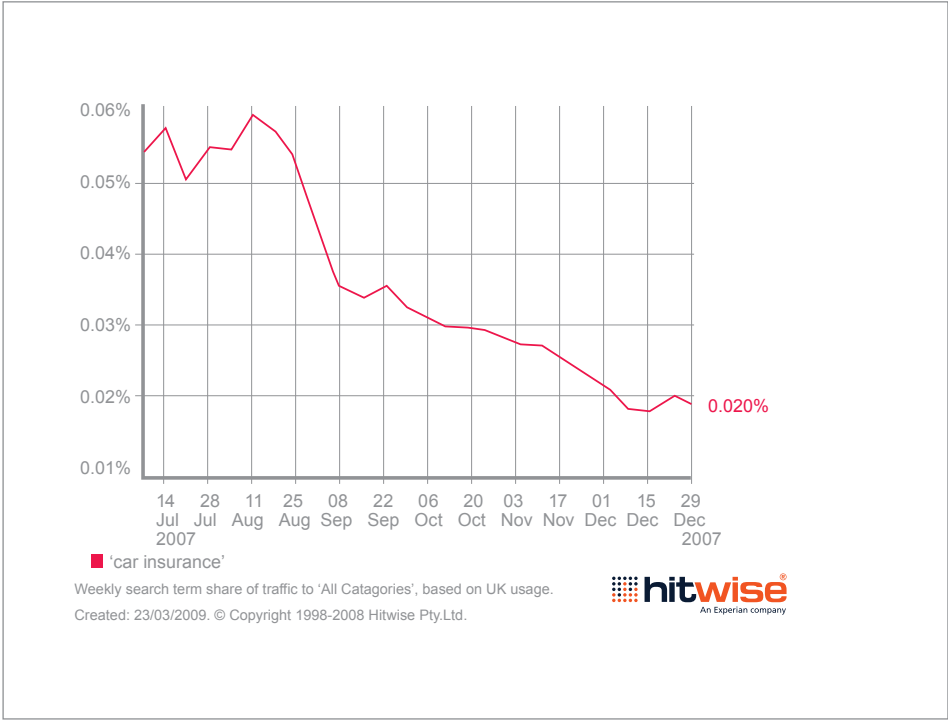


Source: 'Comprehensive' motor insurance premiums from Experian WhatIf?

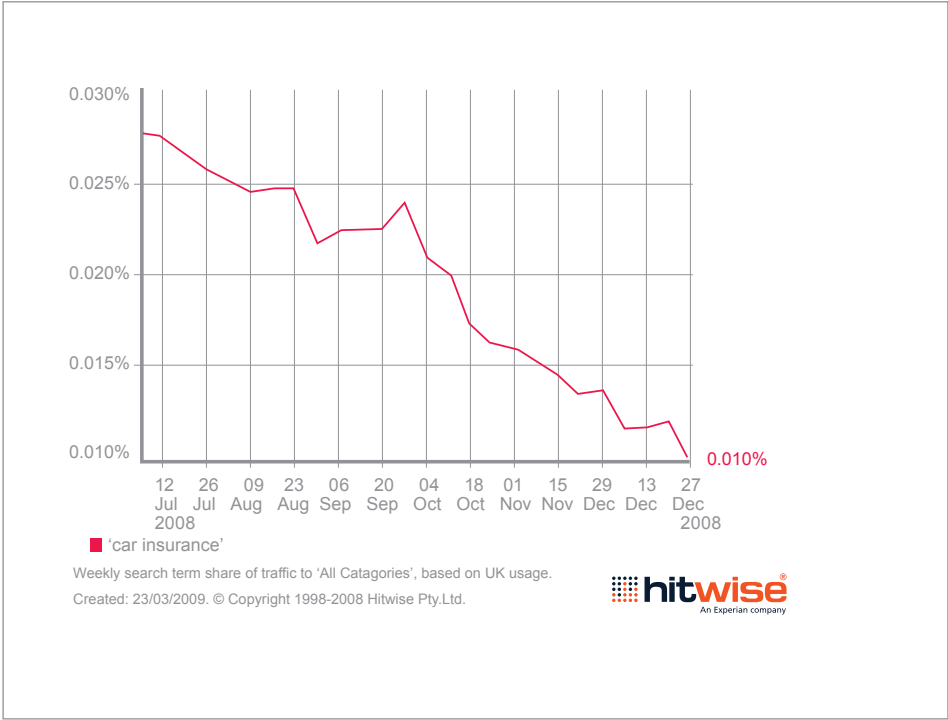


Source: 'Third party, fire and theft' motor insurance premiums from Experian WhatIf?

¹²Experian Hitwise (2009)



Source: Hitwise, an Experian company

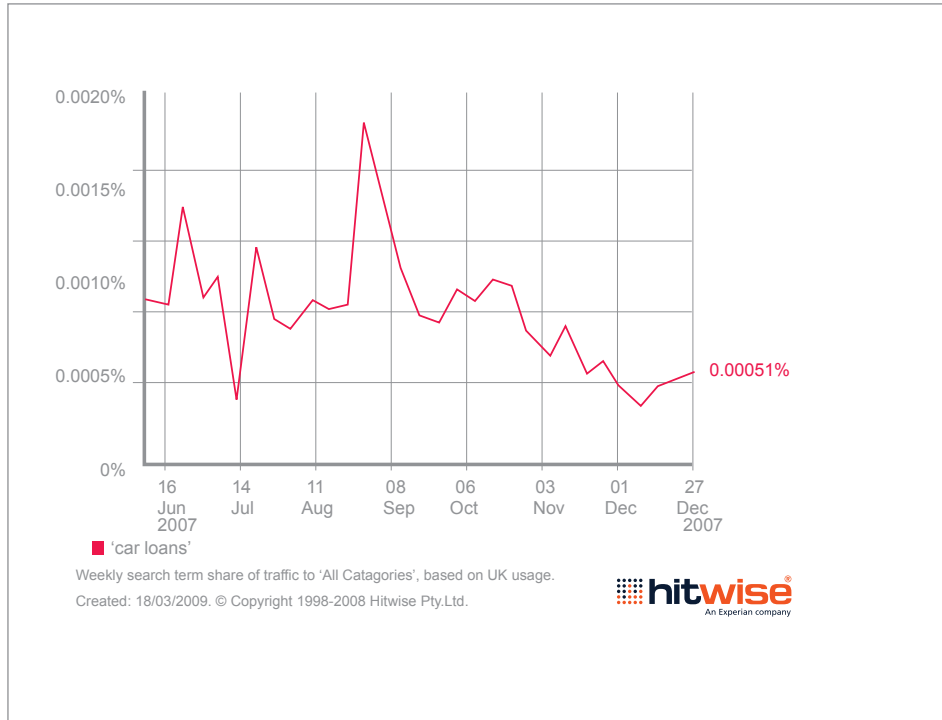


Source: Hitwise, an Experian company

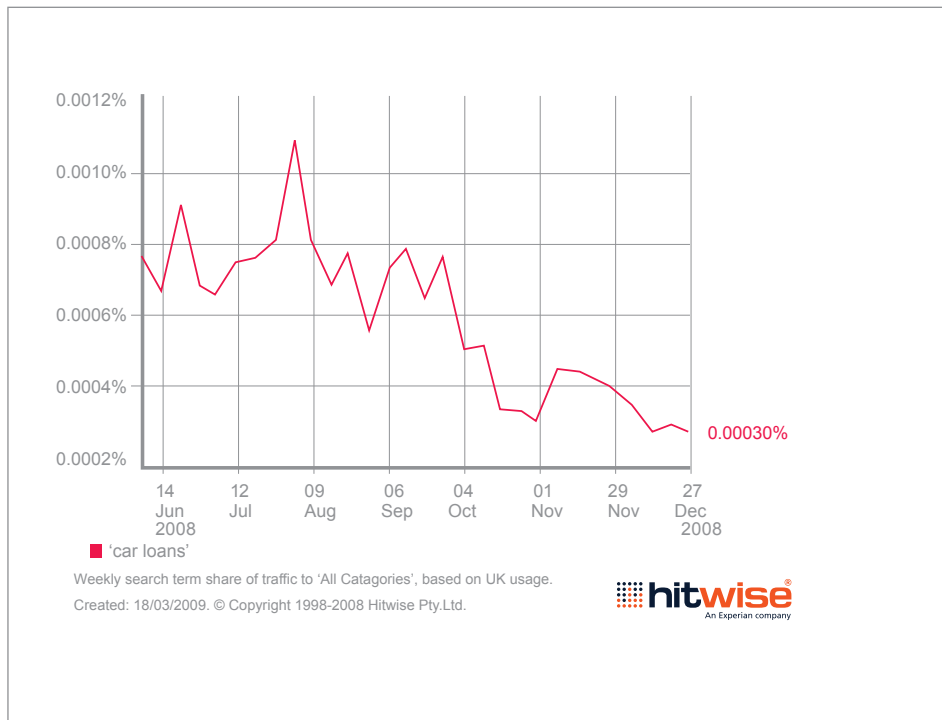
Motor finance

The number of motor finance agreements that were taken out in the final six months of the year was significantly lower than in the previous year, as credit crunch conditions and greater caution among over-extended borrowers took hold.

Online search activity for car loans also reduced significantly during this period as fewer people searched for the best finance deals on cars. However, the website that was the main focus for much of the online search activity for car loans that did take place was the comparison site, moneysupermarket.com.



Source: Hitwise, an Experian company



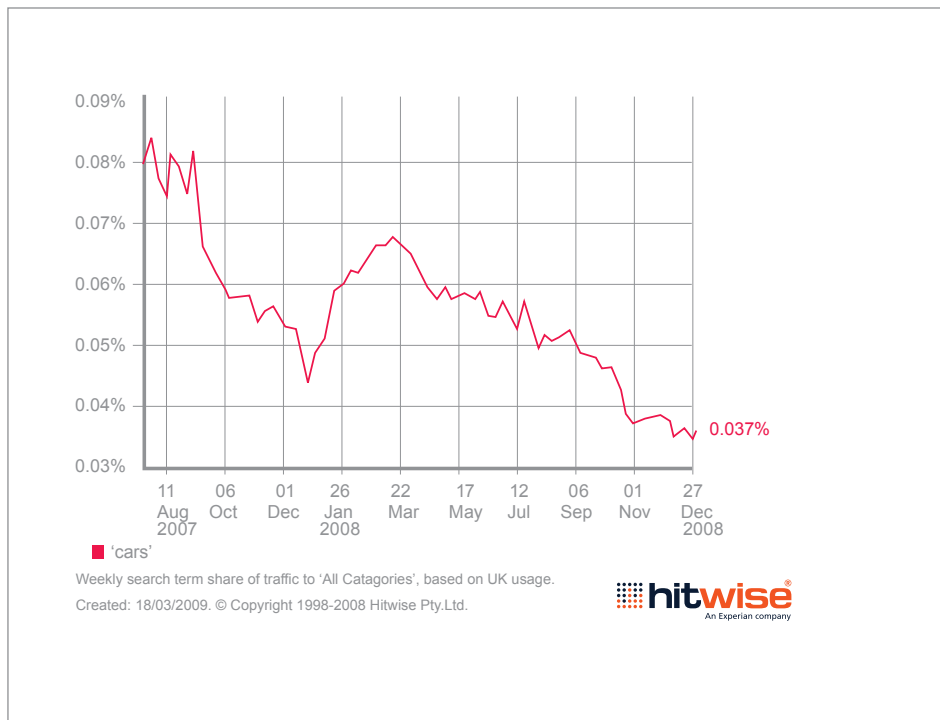
Source: Hitwise, an Experian company

The Internet

Although consumers can now use the Internet to buy a car from the comfort of their homes, the number of cars purchased online is still relatively small. Just 2 per cent of Internet users bought a car online in the last six months of 2008 and this figure has been growing very slowly over time.¹³ The number of consumers that have been carrying out online searches for the term 'cars', has generally fallen over the past year.¹⁴

Two growth areas that have had great impact on the automotive industry are price-comparison websites and online performance reviews. They are contributing substantially to consumers' final choices. This is particularly the case when it comes to car finance and car insurance. The most popular consumer website for both car finance and car insurance is moneysupermarket.com, which offers the full spectrum, from price comparisons and reviews, to car hire and insurance, breakdown assistance and vehicle checks.¹⁵

As a result, consumers seeking low prices have never been more empowered and this is one of the key differences between the current recession and the last one.



Source: Hitwise, an Experian company

¹³Experian Future Foundation –The Car Market (January, 2009)

¹⁴Experian Hitwise (2009)

¹⁵Experian Future Foundation –The Car Market (January, 2009)

The environment

Even during a time of economic slowdown, environmentalism in the car market is growing in importance. For example, in October 2008, the UK government began planning a £100m scheme to trial electric cars and vans in cities.¹⁶ Furthermore, although sales of these alternatively-fuelled vehicles are still relatively small, the market is seeing more eco-friendly and innovative new models being launched and they are receiving positive attention. This includes, for example, the Toyota Prius, the world's first mass-produced hybrid car, which increased by 75.3 per cent in sales in the used car sector during this period.

Consumer confidence

The natural and rational reaction to a recession is to fret, and millions do. However, the majority of people do not become any worse-off during a typical recession. While most consumers know that they are unlikely to lose their jobs, they are still going to work towards maintaining healthy savings (or cancelling their debts) just in case.¹⁷ It appears that perceived threats to personal and financial wellbeing are far more important now than ever before and are playing a key role in the economic slowdown.

Less than half of adults believe that their own personal finances will worsen over the next six months, but 90 per cent have actually changed their financial behaviour and consumption habits. Expectations of what is yet to come are driving change in consumer behaviour.¹⁸

Yet, research also shows small pockets of resistance to change. For example, there has been greater attention on smaller, more economical cars and the increasing costs of running a bigger vehicle. The cost of running a car is an important factor for more than two thirds (67 per cent) of British car owners. However, only a quarter would look for a car that offered better fuel economy as their next purchase.¹⁹ Not only does this suggest that despite their concerns most consumers believe that they can afford to run the cars that they are already driving, but it also reveals that even in an economic downturn, there is still a reluctance to downgrade. Consumers can still be tempted to spend.

The fact remains that sales are falling as more consumers plan to delay their purchases. Fifty-one per cent of car owners admitted that they anticipated keeping their car for a longer period of time, while 47 per cent did not see themselves extending the time frame within which they have always changed it.²⁰

¹⁶ Experian Future Foundation – The Car Market (January, 2009)

¹⁷ Experian Future Foundation - Premium and Low Cost Pricing (February, 2009)

¹⁸ Experian Quarterly Insight Report (2009)

¹⁹ Experian – Car Owner's Attitudes (January, 2009)

²⁰ Experian – Car Owner's Attitudes (January, 2009)

Outlook

2009 is set to be the year that presents the automotive industry with some of the most challenging trading conditions since 1991. Overall, car sales are forecast to remain low for as long as the economy is struggling. Consumer demand is expected to continue to fall this year, undermined by fragile confidence, depressed incomes, a weak housing market, sharply rising unemployment and tight credit. However, there have been some positive developments, such as the significant reduction in interest rates, fiscal stimulus measures and a sharp drop in inflation.²¹

Furthermore, not all consumers react in the same way to a downturn and those that can be persuaded to spend can be filtered out and targeted. Consumers are, after all, more empowered now than ever before and the Internet, namely price comparison websites and online performance reviews, have made this possible. It is one of the key differences between the current recession and the last one.

Recent news of falling new car sales has dominated the media, but new car sales are dwarfed, in volume terms, by used car sales. With fewer new cars coming onto the market, the used car market may be a key area to watch. Those consumers still determined to purchase a 'new' car are turning their attention to lower priced, older cars.

There is no doubt that conditions in the used sector are tough too, but dealers are reporting a steady demand, with some seeing improved margins. In fact, we are a few months into 2009 and feedback from used car dealers and auction houses indicates a better than expected start to the year. We have also seen a significant increase in activity directly linked to used car sales from the services that we provide to the industry. This increase in activity can be viewed as a strong indication of how sales are currently performing.

The recent introduction of the scrappage scheme, which aims to encourage consumers to trade in their old cars for more fuel efficient new ones, may give the new car sector the much needed stimulus it has been waiting for. If successful, the scheme will also boost the environmental agenda. Furthermore, with the government's announcement to support and subsidise electric car use, there could be growth in demand for both hybrid and electric vehicles in the new and used sectors.

Nonetheless, real signs of recovery are not expected until 2010.²² Until then, the current state of the economy will continue to force some interesting changes in the automotive industry and among car buyers. The more resilient businesses will be the ones that use insight to gain a better understanding of current trends, as well as to predict the likelihood of future movement.

What will remain of the industry in its current form is yet to be seen, but one thing is clear. One of the most powerful tools at the hands of businesses today is information – information on specific markets, geographic regions, consumer types and the wider economy. This report is one step in the right direction, offering automotive businesses a taste of the insight that can be achieved.

²¹ Experian Future Foundation –The Car Market (January, 2009)

²² Experian Economic Forecasting (2009)

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