

HEADLIGHT

Shining a light on the car finance market

WINTER/SPRING 2017



“A change of gear”

55%

of brokers report growth over the last six months in the new car market

59%

reporting growth in sales of used cars

We should expect

5-10%

decline in new car registrations throughout 2017

This in turn will lead to
GROWTH
in the used car market

79%

identify low interest rates as the driving force behind market growth

STRONG GROWTH

expected in electric and hybrid vehicles, with decline forecast for diesel



JULIAN RANCE
Head of Paragon
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paragon car finance

Winter/Spring 2017

HEADLIGHT

Strong start to 2017

Welcome to the latest edition of Paragon Car Finance's Headlight Survey, shining a light on the UK car finance market and gathering the views and opinions of the UK's largest motor finance brokers.

January saw headlines made when the SMMT issued the latest new car registrations data. With nearly 175,000 new registrations, January's figures were the highest we've seen in more than ten years. Is this buoyant market reflected in our latest survey however?

55% of the brokers we surveyed reported finance applications for new cars over the past six months as being up on the same period last year. The used car market has also seen growth, with 59% of brokers reporting an increase in applications on last year's figures. Just under a third (32%) of brokers expect further growth in new car finance applications over the coming six months with 59% expecting applications to remain stable. 45% expect further growth in the used car market however, compared to 41% who expect the market to remain static.

So, what is driving these trends?

Despite some interesting political developments throughout the second half of 2016 – and the impact these developments had on financial markets and confidence – central banks have thus far resisted any significant upping of interest rates. A resounding 79% of our brokers

reported low interest rates as being the driving force behind the buoyant car finance market. Likewise, economic news since Brexit has been better than expected, driving confidence. In our latest survey, brokers have reported confidence amongst consumers as having nearly recovered to pre-Brexit levels.

It is worth remembering however that the car market is cyclical and the beginning of the year always sees a spike in registrations as a new vehicle purchased in January will hold value better than one purchased in the previous year. Similarly, although the post-Brexit economy has thus far performed well, significant risks remain including major elections in the Eurozone and the negotiations to define a new trading relationship between the UK and the EU.

Weak sterling is also likely to put a degree of upward pressure on new car prices, and our own data shows a slight, but definite upward trend on monthly payments. All of this will serve to dampen the new car market over coming months, and we should expect a contraction in 2017 of around 5% - 10%, which should lead to growth in the used car market.

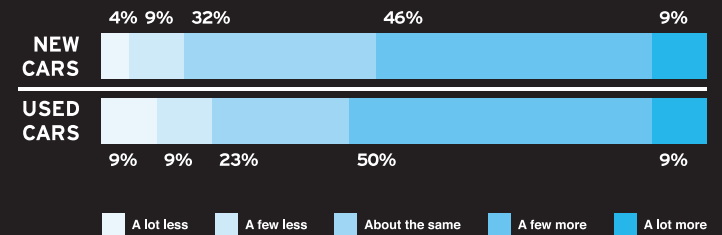
Very many thanks to everyone who took part in our survey. As always, your insight provides a valuable gauge with which to monitor market sentiment during interesting times.

The new car market may have plateaued but room for manoeuvre remains in the used car market



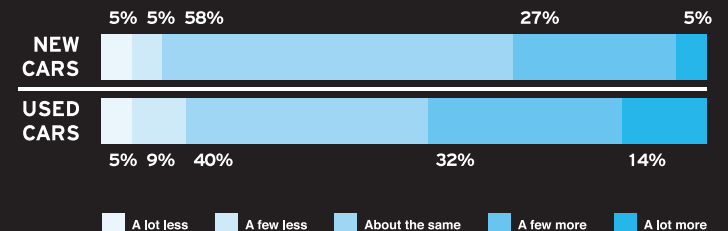
New car registrations hit a 10 year high in January, and this seems to be reflected in our latest survey. Asked how the number of finance applications proposed in the last six months compare to the same time last year nearly half (46%) of our brokers reported an increase in applications for new car finance, with 9% reporting a significant increase. These figures were even more pronounced in the used car market with half of brokers reporting an increase in finance applications, and a further 9% reporting a significant increase.

Car finance applications in last six months

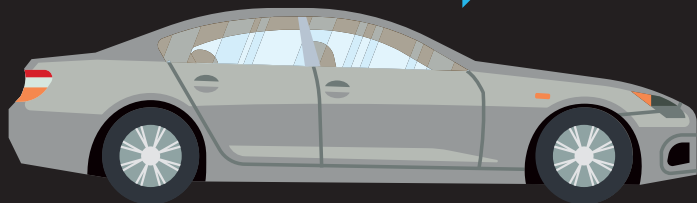


Despite 2017 getting off to a strong start however, we will likely see some reduction in demand for new cars through the rest of the year, with growth focused in the used car market. 32% of the brokers we surveyed expect applications for used car finance to grow over the next six months, with 14% expecting significant growth. This compares to 32% overall who expect growth in new car finance applications in the first half of 2017.

Car finance applications proposed in the next six months

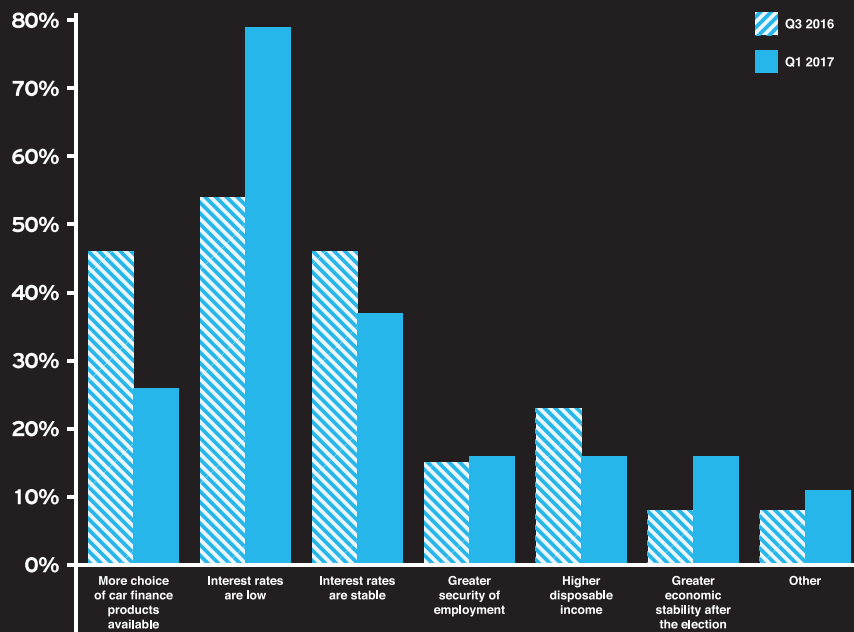


Low interest rates drive market forwards



Low interest rates remain the driving force behind strong car buyer confidence according to brokers. 79% of respondents cite low interest rates as contributing to buyer confidence, up from 54% in our last survey. Signalling possible future uncertainty in the market however, the proportion of those stating that higher levels of disposable income are driving the market has reduced from 35% in Q1 2016, to 16% now. Likewise, the proportion of brokers stating employment security as a factor has reduced significantly from 47% in Q1 2016 to just 16% currently.

Factors driving the market

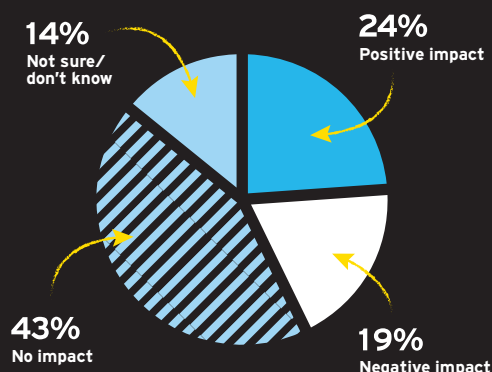


Online Finance Solutions put pressure on business models

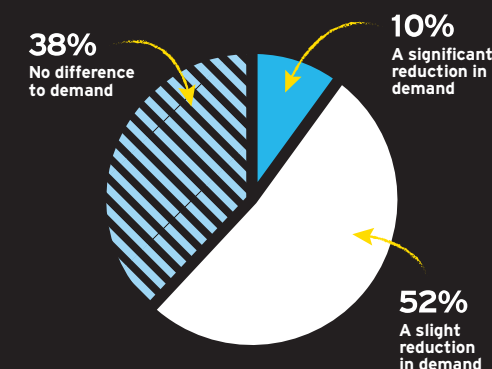


Asked about the impact that online finance solutions are having on their businesses, 19% of respondents indicated that they believe the impact to be negative. 24% of respondents however were more optimistic, seeing a positive impact. Looking to the future however, 52% of the brokers we surveyed expect online finance solutions to lead to a reduction in demand for their business. A further 10% expect this reduction in demand to be significant. Brokers did highlight some of the positive impacts that online solutions will have however, such as faster decisions and quotes and greater efficiency. It is clear that online solutions are here to stay, the question for brokers is how can they adapt?

Impact of online finance solutions now



Impact of online finance solutions future



Confidence returning to 'business as usual' following Brexit uncertainty



Following a significant drop in broker perceptions of car buyer confidence in our last survey, there has been a bounce back in the latest data to near pre-referendum levels. The average confidence score given by our brokers has risen from 5.9 to 6.9, after falling from 7.4 in Q1 2016. This bounce can largely be attributed to better than expected economic news in the months following the vote to leave the EU and a continuing low interest environment, making it easier for customers to raise car finance.

Confidence

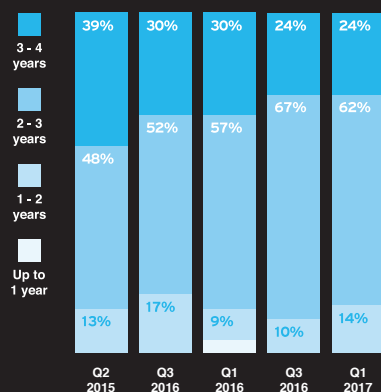


Customers continue to change cars



The average length of time customers keep cars remains on a gradual, but definite, downward trend in the latest survey. Just under a quarter (24%) of brokers we surveyed reported customers as keeping their cars for between 3 and 4 years, down from 30% during the same period last year, and 39% in Q2 2015. Brokers report a corresponding increase in those keeping cars for 2-3 years, from 57% in Q1 2016 to 62% currently. There has also been growth in those changing cars within 1-2 years from 9% a year ago to 14% currently. This is indicative of a healthy market, fuelled by low interest rates and a reduction in customers using large deposits to purchase vehicles.

Length of time keeping cars

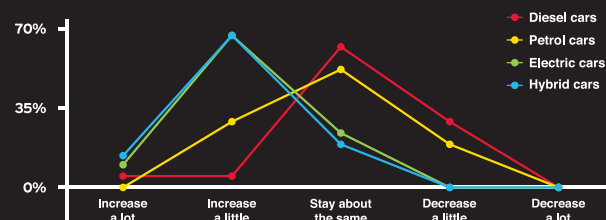


Clamour for action on diesel car pollution boosts fortunes of hybrid market

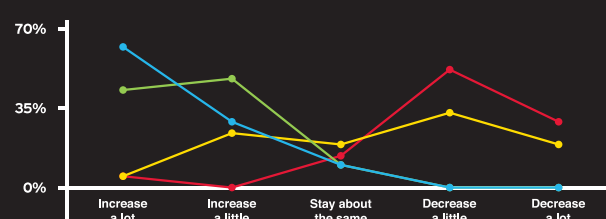


Pollution has been making headlines recently, with the air in Britain's cities regularly exceeding recommended safe levels. With pressure for government action around diesel vehicles growing, 29% of those we surveyed expect sales of diesel vehicles to reduce in 2017. Looking forwards over the next five years the figures are even more stark with more than half of respondents (52%) expecting diesel sales to reduce a little and a further 29% expecting diesel sales to reduce significantly. On the other side of this coin, 77% expect an increase in sales of electric vehicles over 2017, and 81% expect growth in the hybrid car market. These figures are even more pronounced when looked at over five years, with 91% and 89% of respondents respectively, expecting growth in sales of electric and hybrid vehicles.

Expected vehicle sales by category in 2017



Expected vehicle sales by category in five years



About Headlight Survey

The Paragon Car Finance Headlight Survey is a six monthly survey of the UK's top 30 vehicle finance brokers operating across the UK. It includes a wide range of brokers, including those who arrange business for car dealers and specialist vehicle retailers as well as brokers who arrange finance with customers directly.

About Paragon Car Finance

Paragon Car Finance is a trading style of Paragon Bank PLC, a British bank with a specialist lending focus. Launched in February 2014, Paragon Bank applies its specialist lending expertise to offer competitive finance packages for customers in a range of carefully selected UK finance markets.

Paragon Bank is a wholly owned subsidiary of The Paragon Group of Companies. Established in 1985, The Paragon Group of Companies is best known as the UK's leading specialist buy-to-let lender and consumer finance Group. A FTSE 250 company, the Group has over £12.3 billion of assets under management and has helped more than one and half million customers with their finances.

Paragon Group was an active lender in the car finance market between 1998 and 2008, originating in excess of £900 million of business via 2,100 dealers and funding over 100,000 cars.

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