



HEADLIGHT

Shining a light on the motor finance market

'Fuel for thought'

54% of brokers expect growth in used car finance over next six months

Confidence up on same period last year, but down slightly on Spring 2017

Diesel under pressure while hybrid and electric market expected to grow

Autumn / Winter 2017





paragon

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HEADLIGHT

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Fuel for thought

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

Headlines have been made over the summer by two issues which have had a significant bearing on broker opinion in our latest survey. With air pollution in the UK's cities regularly exceeding recommended levels, pressure has been mounting for action and, in response, the government put forward a consultation, including a plan to phase out diesel cars by 2040. Interestingly, for some this is kicking the issue into the long grass and 72% of our survey respondents feel that the current lack of policy certainty is impacting the market.

Underlining the complexity of the issue however, our brokers are divided on what action should be taken – with lukewarm support for a scrappage scheme and strong opposition to further congestion charging. One thing is clear however, our brokers expect significant market growth for hybrid and electric vehicles and there is support for the idea that more should be done to create the infrastructure to accommodate alternative fuel vehicles.

The other issue weighing on the market has been the proliferation of PCP finance deals, with the FCA expressing concern that they may be causing 'a lack of transparency, potential conflicts of interest and irresponsible lending in the motor finance industry' and kicking off exploratory work to better understand who's using the products and assess the sales process. Whilst we can expect continued hyperbole around this issue until the FCA report back, our brokers note that the popularity of PCP products remains undented for now. In fact, 62% say they've seen growth in the use of PCP to purchase new cars recently, with 35% reporting an increase in PCP in the used car market.

Given this backdrop, what is remarkable is brokers' relatively resilient take on car buyer confidence - up on the same period last year but down slightly on Spring 17 with new car sales now tailing off as the market reaches saturation and growth coming from used car sales.

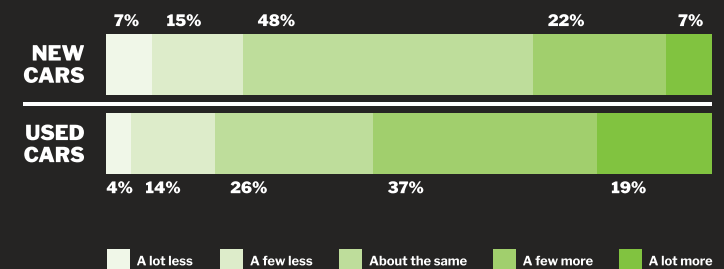
Very many thanks to everyone who took part in our survey. As always, your insight provides a valuable gauge with which to monitor market sentiment during interesting times.

Growth now coming from the used car market

Following a surge in new car finance applications in late 2016 – early 2017, we have seen a softening in demand for new car finance over the last six months, with growth now concentrated in the used car market. Asked to describe demand for new car finance over the past six months, just under a third (31%) said they'd seen an increase in applications on the same period last year. This figure is down from 54% who reported increased demand in our last survey.

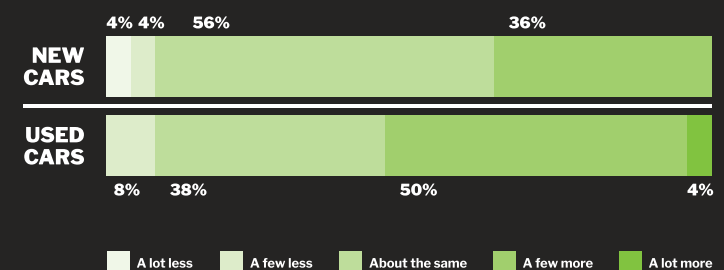
With the new car finance market easing off, growth over the last six months has been concentrated in the used car market. More than half (56%) of brokers reported growth in the used car market in our latest survey, with 19% reporting 'a lot more' demand.

Change in car finance applications Jan-Jun 2017



Looking forward, brokers are reasonably optimistic about how the market will perform over the coming six months. 36% of brokers expect new car finance applications to increase over the coming six months, compared to 32% in our previous survey. In the used car market, 54% expect to see growth, compared to 46% in early 2017.

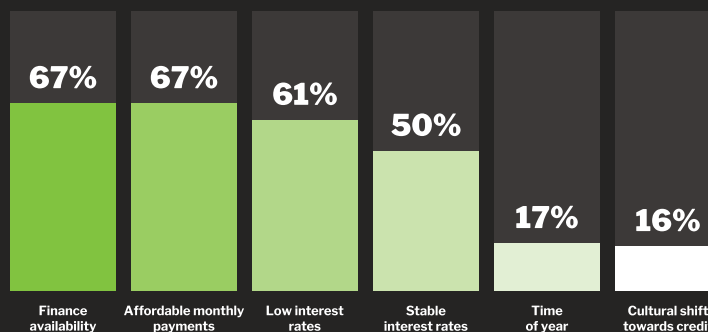
Anticipated change in car finance applications Jul-Dec 2017



Increasing access to credit drives the market

Asked what factors are underpinning buyer confidence at the moment, 67% of respondents identified better access to consumer finance products as being the key factor. Reflecting the competitive market, 67% also identified low monthly repayments as being key to driving consumer interest. Other factors identified by respondents included low and stable interest rates, and seasonal factors.

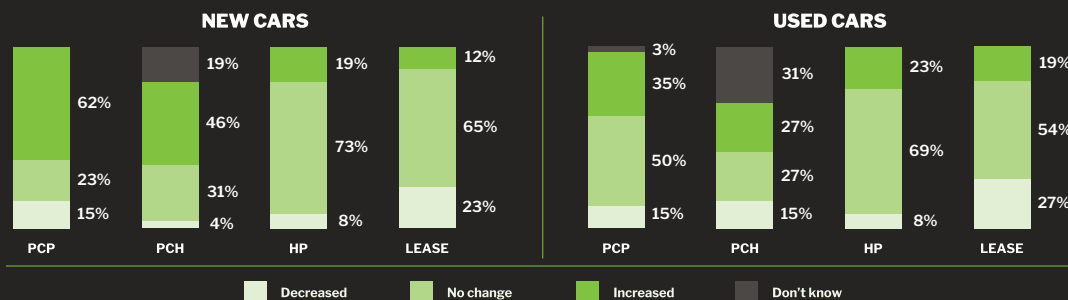
Factors underpinning car buyer confidence



PCP, end of the road?

Personal Contract Purchase (PCP) deals have made headlines recently with Government and regulators fearing that growth in this market represents a potential source of instability in the credit market. What's clear from our survey however is that PCP products continue to grow in popularity with consumers, with 62% of respondents indicating that PCP deals have increased in the new car market over the past six months. Furthermore, more than a third (35%) have seen PCPs grow in the used car market also.

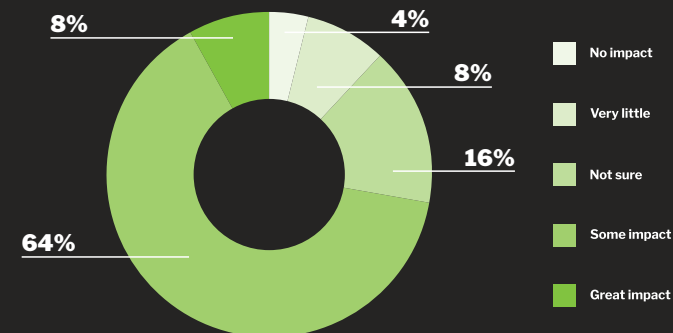
Demand for car finance products Jan-Jun 2017



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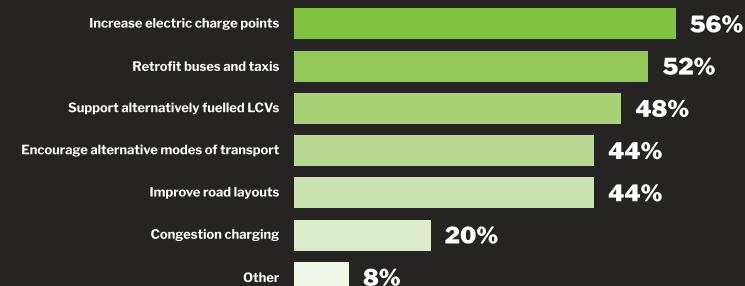
Political pressure continues to build around the issue of diesel emissions, with politicians of all stripes promising tougher action on pollution and the Government pledging to phase out diesel cars over coming decades. While there has been much debate on this issue, there has so far been little concrete policy. 64% of respondents to our survey said that this uncertainty was impacting the car market somewhat with a further 8% saying it was having a significant impact.

Impact on car market from uncertainty around emissions policy



Asked what measures policy makers should take on the issue, more than half of respondents (56%) said that electric car infrastructure should be improved with 48% stating there should be greater support for alternatively fuelled vehicles. 44% also believed there should be greater efforts to encourage the use of public transport while just 20% believe in the roll-out of further congestion charging.

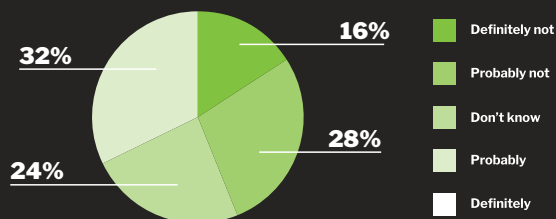
Preferred action from local authorities to reduce NO₂



Fuel for thought - continued

Asked specifically whether the Government should implement a scrappage scheme for older vehicles, opinion was divided. 32% said there should 'probably' be a scrappage scheme, while 28% said probably not. In the middle, 24% of respondents said they didn't know – indicating that a potential scrappage scheme has only lukewarm support.

Should a diesel scrappage scheme be introduced?



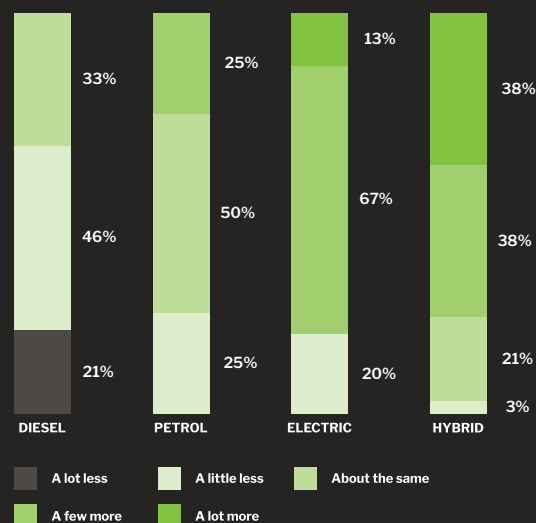
Alternative fuel market expected to grow

Unsurprisingly, on the back of plans to phase out diesel, our brokers expect the market for alternative fuelled vehicles to grow over the next 12 months, as diesel's share of the market decreases.

46% of respondents expect diesel sales to decrease moderately over the course of the year, while a further 21% expect a significant reduction. Our brokers expect petrol vehicles to absorb some of this market capacity, with 25% of respondents expecting an increase in sales of petrol vehicles while 50% expect the petrol vehicle market to remain steady. The big winners from diesel's decline however, are expected to be hybrid and electric vehicles. 67% of brokers expect a 'few more' electric sales over the coming 12 months, while 13% expect a significant increase. 38% expect moderate growth in the hybrid market, and a further 38% expect significant growth.

This is likely to have been boosted by the fact that, alongside Government plans to phase out diesel, several large manufacturers have also announced they will be switching all production to electric and hybrid vehicles over coming years.

Volumes by fuel type - next 12 months



About Headlight Survey

Paragon's 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, from those who arrange business for car dealers and specialist vehicle retailers to those who arrange finance with customers directly.

About Paragon

Paragon provides motor finance for cars, LCVs, motorhomes and caravans through approved intermediaries and registered dealers.

Paragon Bank PLC a subsidiary of the Paragon Banking Group PLC which is a FTSE 250 company based in Solihull in the West Midlands. Established in 1985, Paragon Banking Group PLC has over £12 billion of assets under management and manages over 450,000 customer accounts.

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