Bank of Ireland Sectors Team
Motor Sector Insights and Outlook

January 2022

Bank of Ireland

Classification: Green

2021 in Review

Level 5 COVID restrictions were in place for the first 4.5 months of 2021. Motor dealers continued to open for vehicle aftersales, an essential service, and consumers could visit dealers to have maintenance carried out.

For new and used vehicle sales, dealers engaged with customers remotely and operated a "click and deliver" service. By the end of H1 2021, combined sales of new cars and vans were ahead 27% compared to H1 2020 and 16% behind H1 2019. Considering the restrictions in place, this was a phenomenal performance by the Irish motor sector.

Some consumers postponed taking delivery of new vehicles until restrictions were lifted and this led to a strong start to the second half. For the first time, registrations of new passenger cars in July exceeded registrations in January of the same year highlighting a release of pent up demand in the month. Encouragingly, new car registrations in the month of July were c. 7% higher than in July 2019 (pre-pandemic).

International travel resumed in July and rental car companies began to increase their fleets again. Fleets for the hire drive market were substantially reduced during the pandemic as car rental operators sold cars in order to increase liquidity and maintain viability.

In July, hire drive registrations represented c. 15% of new car sales in the month. This is line with historic trends as hire drive sales typically account for about 15% of annual new car sales. Overall in 2021, the hire drive channel accounted for 7.6% of new car registrations (v. 3.3% in 2020).

New vehicle supply issues, caused by global supply chain challenges, started to bite in the second half of the year. Nonetheless, by year end, new passenger car registrations increased almost 19% year on year to 105k units. Compared to pre-pandemic levels, new car sales were 10.4% lower than sales in 2019 (117k units). New car sales in the UK increased 1% but declined 2.4% in the EU with supply challenges particularly impacting the second half of 2021.

Light commercial vehicle registrations (LCV) increased by 32.3% year on year to 28.7k units. New van sales were 13.4% higher when compared to 2019 and highlights strong demand for commercial vehicles throughout the pandemic.

Used Supply Tightening

It has been widely reported that used car values increased in 2021 due to a shortage in supply. In their Q4 2021 report, DoneDeal reported "used car prices are now 56% higher on average since the onset of Covid-19 in early 2020". This is as result of a number of factors including; increased taxation relating to and lower volumes of used imports, high levels of consumer demand, increased vehicle registration tax (VRT) for new cars and a lower new car market due to COVID.

These factors have led to tighter used car supply and pushed up used car prices over the course of the year. This is not just an Irish phenomenon but is replicated around the world due to a shortage of used cars. Motor Trade Publishers Ltd provides an example in their January 2022 editorial highlighting a 2019 car has approximately the same value in January 2022 as it did in January 2021.

Post-Brexit, dealers continue to import used vehicles where value is present, however rising residual values in the UK and tighter supply there have significantly impacted volumes imported to Ireland. In 2021, used car imports declined 20.5% year on year to 63.6k units and were 44% lower when compared to peak levels in 2019. This reflects the impact of Brexit, changes to VRT for used imports and tightened supply in the UK.

Historically 95% of used imported cars were sourced from the UK, however the share imported from the UK fell to 74% in 2021. Used cars sourced from Japan doubled by volume and share increased to c. 15% of total used car imports in 2021. The run rate increased to c. 30% in the last 3 months of 2021 as dealers seek out alternative sources for used vehicle supply.

	FY 2021	FY 2020	FY '21 v. FY '20	**FY 2019**	**FY '21 v. FY '19**
New Cars	**104,932**	88,325	+18.8%	**117,109**	**-10.4%**
New Vans	**28,741**	21,732	+32.3%	**25,336**	**+13.4%**
Combined Sales[1]	**133,673**	110,057	+21.5%	**142,445**	**-6.2%**
[1]thereof, Hire Drive	***9,076***	*3,791*	*+139.4%*	***19,118***	***-52.5%***
Used Imports	**63,617**	79,969	-20.5%	**113,926**	**-44.2%**

Budget 2022 Outcome

A revised vehicle registration tax (VRT) structure, for new cars and used imports, was introduced in Budget 2021. VRT is based on C02 emissions and the revised VRT structure resulted in higher VRT/retail prices for Irish consumers. Government introduced the new 20-band tiered structure with rates ranging from 7% to 37% effective from 1st January 2021.

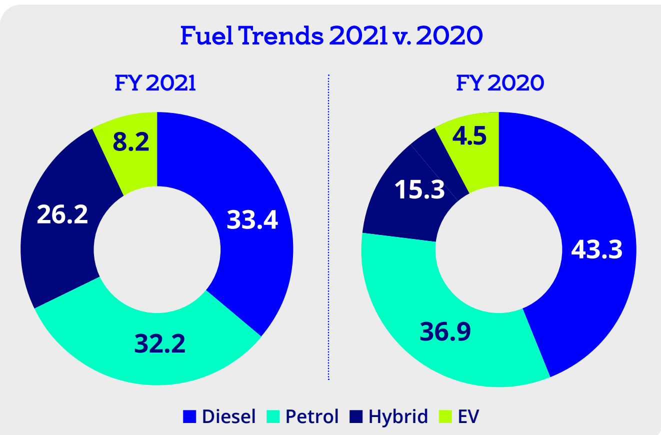
After just 12 months in operation, further amendments to the new VRT system were introduced in Budget 2022. VRT rates increased between 1% and 4% for bands 9 – 20, though the majority will endure a VRT increase of 1%. Rates did not change for vehicles that fall into VRT bands 1 – 8. The revised structure will see VRT rates ranging from 7% to 41% and is effective from 1st January 2022.

The motor sector was vocal in expressing its disappointment and frustration with these tax changes arguing that increased retail prices will hamper growth in new car sales and the goal to remove older more polluting cars from our roads. VRT increases brought about by the Minister over the last two years provides an insight into government direction and potential future policy changes. Encouragingly, VRT relief for battery electric vehicles (BEV's) was extended for an additional two years to the end of December 2023. The SEAI purchase grant for BEV's also continues. The SEAI purchase grant for plug-in hybrid vehicles was unfortunately discontinued on 31/12/2021 and no further reliefs are available for these models.

The government announced its intention to invest €35bn into Transport over the course of the next decade. It will need to lead by example by replacing State fleets with new electric vehicles. In doing so, it will help reduce vehicle emissions but will also provide a source of used electric vehicles to meet growing demand by consumers when EV's owned by the State are resold in the years ahead.

Accelerating EV Demand

In 2015, the combined share of electric vehicles and hybrids was less than 2% of new car sales in Ireland. By 2020, this share had increased to almost 20%. The take up of these engines further accelerated last year with the combined share of EV's and hybrids representing over 34% of new car sales in 2021. Although the share of diesel cars has fallen each year since 2015, its popularity remains strong in Ireland. Ireland has the highest share of new diesel cars sold in the EU at c. 33%; this compares to c. 9% in the UK and c. 21% in the EU for the period Q1-Q3 2021.



Sales of electrically chargeable vehicles (ECV = BEV[2] + PHEV[3]) ticked up across the EU this year. Attractive consumer incentives offered by governments, principally in Western Europe, coupled with greater choice of vehicles have further accelerated consumer demand for electrically chargeable vehicles.

The share of new ECV's registered in Ireland has more than doubled in the space of a year to 15.7% in 2021 and is predicted to grow to in excess of 20% in 2022 depending on supply.

	2021		2020	
Engine Type	**EU***	**ROI**	**EU**	**ROI**
[2]BEV (battery only)	**7.6%**	**8.2%**	**5.4%**	**4.5%**
[3]PHEV (plug-in chargeable hybrid)	**8.6%**	**7.5%**	**5.1%**	**2.8%**
Total ECV (total electrically chargeable)	**16.2%**	**15.7%**	**10.5%**	**7.3%**

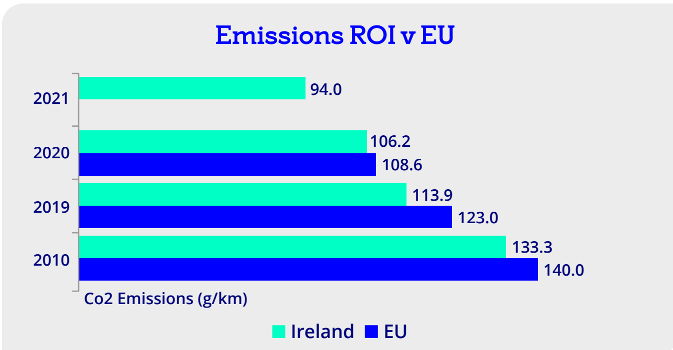
*ACEA EU data Q1-Q3 2021. (ROI Full Year 2021)

Ambitious EV Targets

In Q4 last year, the Irish government published the Climate Bill and refreshed the Climate Action Plan (CAP) first published in 2019. In the latest CAP, the 2030 target for electric cars was increased by 5k to 845,000 – a minor change but a significant and ambitious target increasing from c. 45,000 on Irish roads today. The state is also targeting a further 95,000 eVans by 2030. The SEAI predicts that if these EV targets are met, it will amount to a 50% reduction in C02 emissions for all of Transport in Ireland.

Transport accounts for c. 20% of Ireland's Greenhouse Gas Emissions and cars account for about half of this figure (i.e. 10%). Car manufacturers must also meet a revised C02 emission target of 95g/km per vehicle sold; this revised baseline was set in 2021 and will reduce again in 2025. A proposal was tabled by the European Commission last July to reduce the 2021 baseline by 55% in 2030 and to legislate for a ban on the sale of new cars with internal combustion engines by 2035.

C02 Emissions (New Cars Registered)



The Irish government has previously indicated that Ireland would ban the sale of new cars with internal combustion engines by 2030, however, if EC legislation passes as proposed, it is more likely that we will be bound by this legislation. Nonetheless, it is the current ambition of government is to increase BEV's on our roads and ban new registrations of internal combustion engines by 2030.

The proposed ban applies to new cars registered and that vehicles currently licenced can continue to be driven. There are c. 2.2m cars licenced on Irish roads today and replacing the entire fleet will take time. In the meantime, the sector continues its transition offering greater choice of new low and zero emission vehicles. New cars with petrol, diesel and hybrid engines will be sold alongside electric vehicles until at least the end of this decade.

Market Growth Needed

In order to achieve EV targets set out in the 2021 CAP, the new car market needs to grow. The state can support this transition by offering improved consumer incentives to accelerate BEV sales and bridge the price gap until retail prices of BEV's align with the internal combustion engine (ICE).

Charging Infrastructure Improving

The ESB recently addressed an Oireachtas Committee on the Environment and Climate Action in December. They advised that Ireland now has about 1,350 charging points managed by a variety of providers. The ESB is currently upgrading its charging network with €10m funding provided from the Climate Action Fund. They explained that 264 legacy 22kw chargers have already been replaced or upgraded.

These chargers are geo located so that EV drivers are within 35kms of the nearest charger. Many new electric cars currently on the market in 2022 are capable of a range of 400-500kms. This will help mitigate against range anxiety previously expressed by consumers shopping for a new car. Coupled with longer ranges, the national infrastructure will benefit from fast-charger upgrades this year. Fifty-two 50kw fast-chargers will be upgraded with completion expected during Q1 this year. These will provide an 80% charge in 45 minutes.

The ESB will also provide fifty-six 150kw high powered hubs that can charge multiple vehicles at once and will provide 100kms of range in 6 minutes. 17 of the high powered hubs will be complete in Q1 this year with the balance due for completion by 2023. The ESB advised that all faulty chargers have been replaced and the network now operates at 98% reliability. Going forward we can expect further investment by the State in the charging network as announced in the 2021 CAP.

Most charging will happen at home and the ESB estimates that c. 80% of electric vehicles are charged at home. This is fine if you have your own driveway. Government now intends to address charging points in apartments, on street charging and the workplace to ensure all citizens have access to charging points.

Outlook

The motor outlook remains optimistic and we continue to support this important sector. In 2021 new car retail sales were almost on a par with 2019 levels if we exclude the hire drive sales channel. Hire Drive companies are now actively replacing fleets and this will be supportive to the overall car market in 2022.

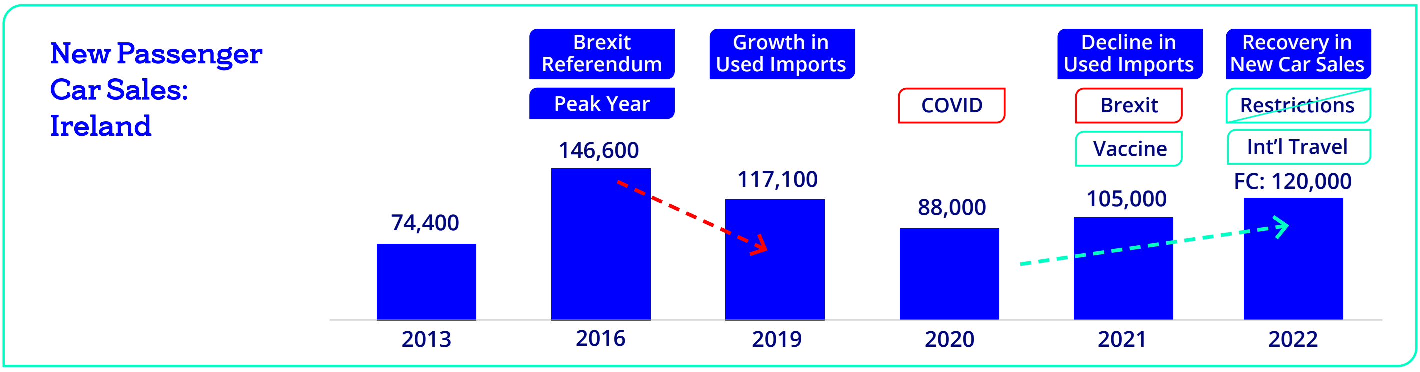
Demand for electric vehicles continues to rise and ECV sales could be in excess of 20% of new car sales in 2022 subject to supply being available to meet consumer demand. New van sales continue to be strong, with high demand for delivery vehicles.

New vehicle supply issues will likely impact volumes in Q1 2022, however global supply is expected to improve from Q2 onward. The Irish market experiences a second peak in July each year, and improved supply in Q2 could bring about a stronger Q3 than seen in recent years. Market seasonality is likely to differ this year as a result of these supply constraints. Nonetheless the sector is predicting growth in new car sales, potentially back to pre-pandemic levels, to circa 120,000 new cars in 2022.

Supporting our Customers

The sector is transitioning to low emission and electric vehicles over the course of the next decade and we fully support our partners as the sector continues its transition. Bank of Ireland Finance (BIF) is partnered with 15 motor franchises and these franchises represent c. 44% of annual new vehicle sales. We note increased activity in motor dealer acquisitions in 2021.

Consolidation of single operators into larger dealer groups is likely to continue in 2022 and may accelerate. Refinance opportunities will present themselves from time to time and we welcome the opportunity to discuss these needs with both current and new customers.



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Stephen joined Bank of Ireland in 2018 and brings over 20 years Motor Sector experience developed in both Retail and National Distributor positions. He comes to us direct from industry having previously been employed as General Manager for a multi-franchised retail motor group for 7 years. In addition to a first class honours BA in Business Studies (Hons) from Griffith College Dublin, Stephen holds a Certificate in Transport Engineering from Dublin Institute of Technology.

Sources: Society of the Irish Motor Industry (SIMI), European Automobile Manufacturers' Association (ACEA), Sustainable Energy Authority of Ireland (SEAI), Motor Trade Publishers Ltd, Climate Action Plan 2021, Automotive News Europe, DoneDeal Q4 2021 & 2022 Outlook.