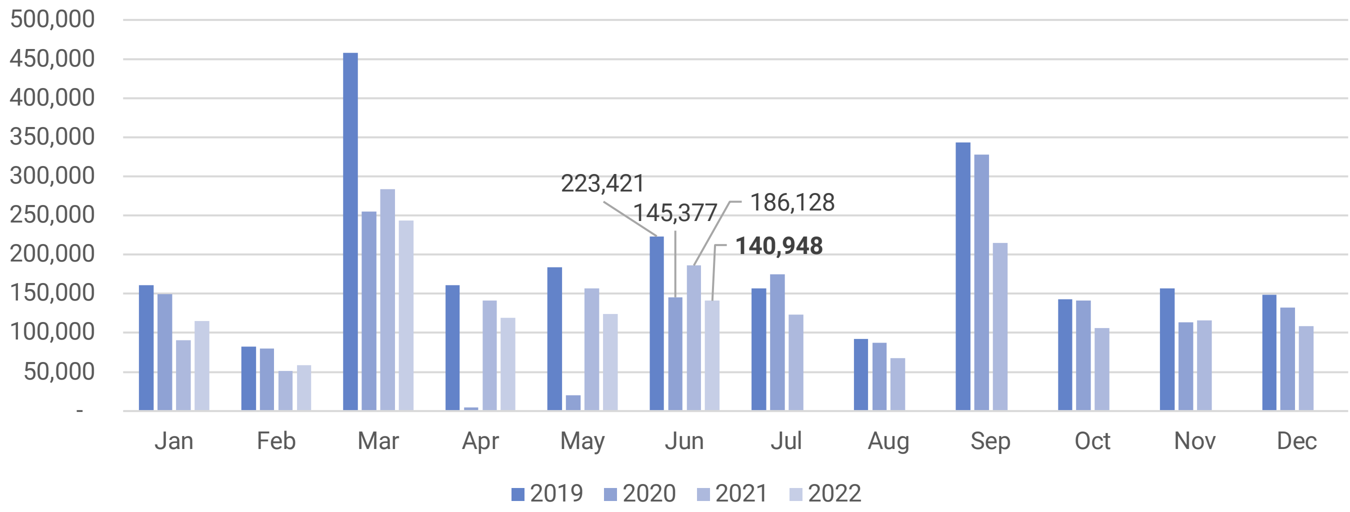
August 2022

Car market overview

This monthly overview provides an update on the current new and used car markets in the UK. We will report on new car registrations to the end of June 2022 and used car activity at the time of writing. All information is correct as of 26th July 2022.

New car sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), 140,958 cars were registered in June, a reduction of 24.3% on last year's 186,128. This year saw the lowest June registrations since 1996, as component supply issues along with COVID-related restrictions in the Far East adversely affected car production. Year-to-date, volumes were down 11.9% to the end of June (802,079 versus 909,973) compared to last year.



Source: SMMT

The fleet market again felt the brunt of the reductions, down 27.6% for the month (26.4% year-to-date), but even private registrations, which were up 4.2% for the year, were down 21.7% in June. Daily Rental companies continue to register low volumes, with an almost 80% reduction compared to last June and over 20,000 units less than in June 2019. Year-to-date, more than 125,000 fewer cars have been registered to this channel than in the same period in 2019, which was of course pre-COVID. In the whole of 2020, there was a 105,000 shortfall and in 2021 over 137,000, compared to 2019, so significantly fewer "young" used cars appearing in the used car market than in pre-pandemic times.

Turning to fuel-type, electric vehicles continue to grow their share, with registrations up 14.6% for the month, with 22,737 registrations and up 56.0% year-to-date (115,249 cars registered). Plug-in Hybrids were down 36.5% (7,714 units registered) in June and 11.9% (51,263) for the year, whilst pure hybrids were down 7.3% (14,978 units registered) in the month, but up 26.3% for the year so far, with 91,602 total registrations. Diesel cars, including mild hybrids, declined again and were responsible for just 10.6% of the total in June (10.4% for the year). Petrol-powered cars, including mild-hybrids continue to take the lions share with 57.2% of registrations in June and 57.4% for the year.

Overall, a severely depressed new car market, due entirely to supply issues, but some positivity for alternatively fuelled vehicles.

Used car retail activity

Retail activity throughout July has remained largely unchanged from June with consumer demand still lower than hoped and budgeted for, but stable-to-slightly positive for many, although dealers are still having to work hard in order to maintain similar levels of consumer engagement/enquiries and sales.

It is also worth mentioning that there have not been any reports of any significant drops in activity due to the recent hot weather and record-breaking temperatures.

What is clear is that some areas of the market are under more pressure than others. The sub £7,000, or “budget” end of the market is being reported as much more challenging now, when compared to more normal times. This could be mainly down to the squeeze on the cost-of-living where any previous surplus in household funds is now being spent on bills and/or everyday essentials, rather than buying or replacing a car. The £20,000+ or “middle” part of the market is certainly much more complex and paints a very mixed picture overall, as sales success rates can vary hugely across the retail market. Consumers looking to buy in this area of the market will be extremely cost conscious and will have hunted out the best cars and most attractive deals on offer. Key factors such as, headline finance rates, competitor pricing, model availability, vehicle size or type and even fuel type have been key in gaining initial consumer interest. The reported “sweet spot” still remains around £10,000 - £12,000 mark, a continuing theme from the past couple of months, but again consumers will have been very cost conscious. At the opposite end of the market, the more expensive and prestige type vehicles are still selling well and returning healthy margins. The rise in the cost-of-living can be far more easily absorbed by the more affluent household, so this area of the market remains much more resilient and less affected.

It has also been reported that retail consumers are now becoming much more aware of the newer vehicle technologies within the market, due to the rising costs in fuel prices. Enquiries for alternative fuelled vehicles are now on the rise as consumers look to save money on running costs whilst future proofing their latest purchase.

Overall, retail pricing remains relatively stable with no real evidence of heavy discounting taking place in order to draw consumer interest. There is a view that adjusting prices will make no real difference to current sales rates, it’s just useful in helping to shift those sticky vehicles that may have been lingering for a while. The reasonably low levels of discounting being applied can only be described as “normal” behaviour, but it’s a bit of a quandary even doing so as it is difficult to replace them.

Margins are still being reported as “healthy” across the market but just not as good as they were previously. Keen pricing from some online retailers has been noted and this could negatively impact some dealer’s margins across the more plentiful models in the marketplace, and for those who carry out price checks on a more regular basis.

As we now move into the school holiday period it will be interesting to see what impact this has on retail demand as many potential consumers begin to head off on their summer holidays, and potentially for the first time in 3 or 4 years. Historically (pre-pandemic), the summer period is generally a quieter time for most dealers, so we could see a slightly more muted retail market in comparison to the last few weeks. Dealers will need to continue to work extremely hard to achieve similar levels of business over the coming weeks.

Used car remarketing activity

The wholesale market still finds itself in the highly unusual dynamic of low supply AND low demand but can be described overall as “steady”. This again is a continuing theme from the past couple of months, and with both new and used car supply not likely to increase in the short to medium term, this could now be described as “normal” for the current times.

Procuring habits throughout July have been very similar to both May and June where dealers are still being very selective with what they will purchase, and only filling gaps rather than stocking up in any larger capacity. This is not surprising to hear when retail is still reported as being down against plans or budgets.

Cars in Clean condition with good mechanical reports are still the most desired within the market, and this is where the majority of the competition remains, with prices often exceeding cap Clean. Vehicles in Average or Below condition with chequered service records and showing more mechanical issues, are the ones which can cause headaches for some vendors. These are the vehicles that need to be carefully considered upon receiving bids due to the rise in preparation costs, back ordered parts supply and increased holding costs due to downtime. These cars do sell but simply on price when taking into consideration all of the above.

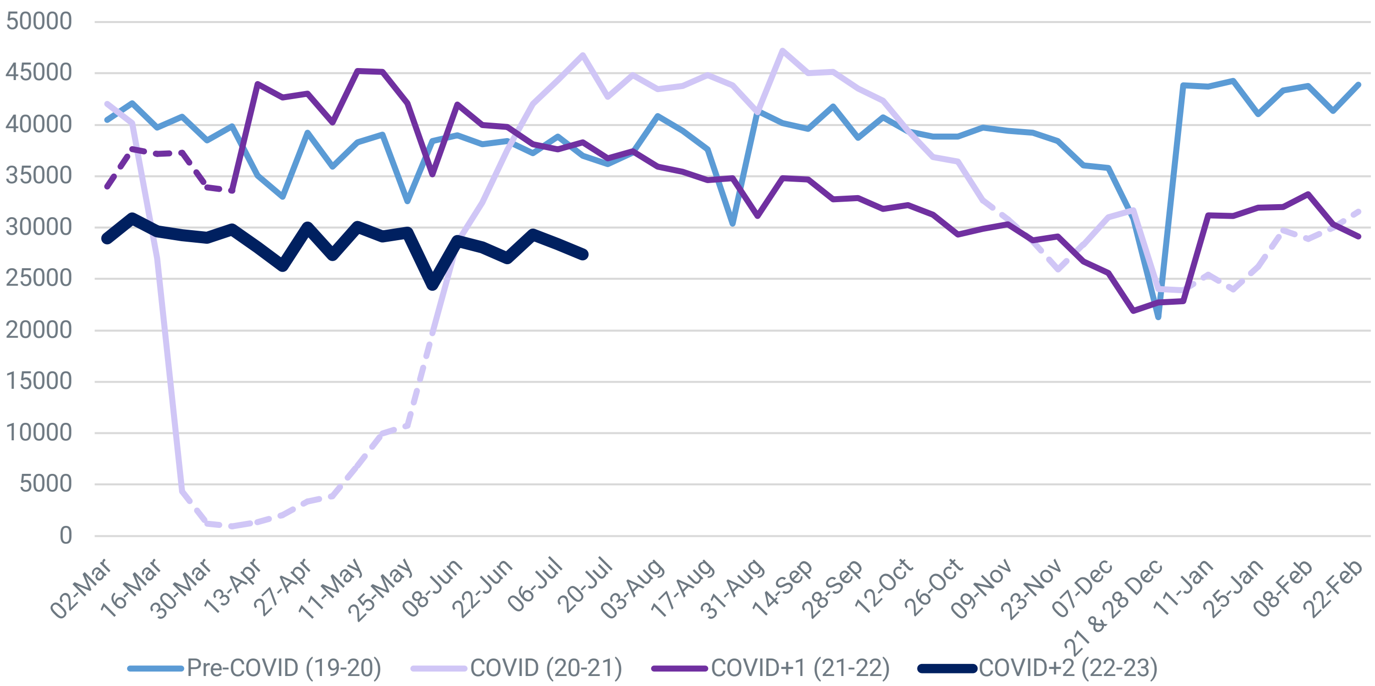
The lease sector continues to outperform the rest of the market with generally higher cap performances and conversions. This is due to offering vehicles at the younger age points and possibly in better condition – both cosmetically and mechanically – and at lower supply levels. Conversions have been ranging from 60% to 80%, depending on the stock mix on offer, and cap performances have also been good across the board.

Direct remarketers are also still achieving high returns this month, and with low supply of new and used product likely to remain curtailed, this is set to continue until new car supply returns to some sort of normality. These abnormally high selling prices are down to holding a high level of engagement from both franchise dealers and the rental sector. Rental companies continue to be highly active within wholesale and retail arenas and are paying strong money for stock, again due to having very little or no new car availability, and used cars now becoming the lifeblood for this sector.

The dealer PX market is a much more mixed picture overall with varying performances across board. Conversions are anywhere between 40% - 60% as an average, but it is the poorer condition and high mileage cars that are becoming increasingly more difficult to offload. Again, everything has a price and will sell if you have appraised the vehicle correctly prior to offering.

As the chart below shows, volumes of wholesale data remain well below previous years. These numbers are the new normal bearing in mind the problems in the new car market generating lower amounts of fleet returns and part exchanges. We are unlikely to see increases anytime soon.

Wholesale volumes since initial lockdown, comparison to previous years (dotted lines denote lockdowns)

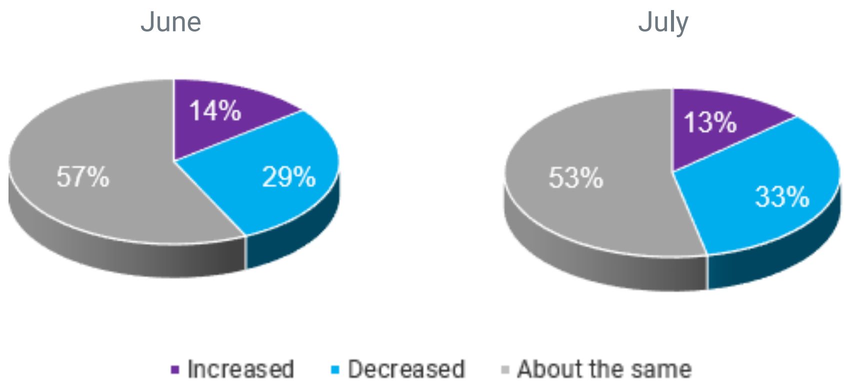


Car editorial

By cap hpi

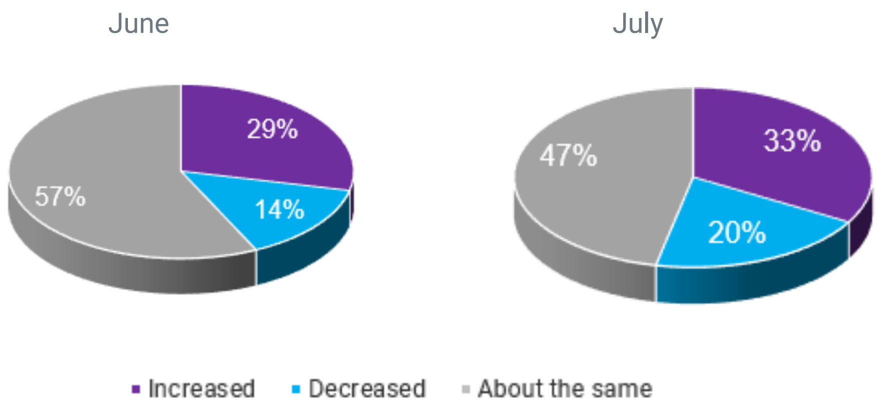
The cap hpi auction survey continues to be an interesting measure of the wholesale market:

<u>How do your current stock levels compare to last month?</u>



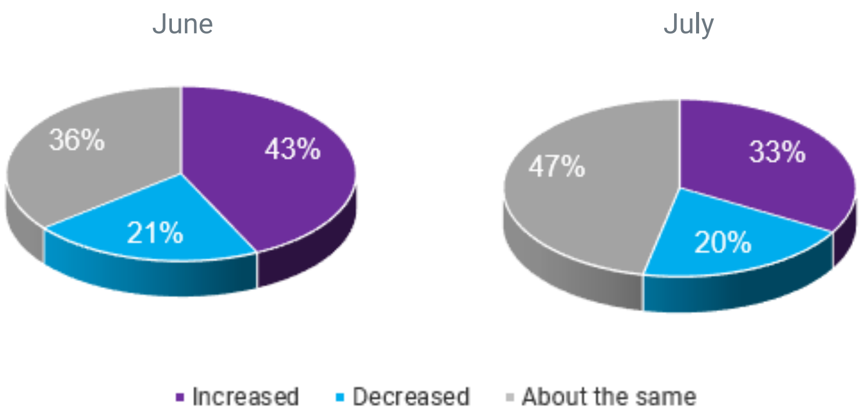
An almost identical result this month compared to June. Supply levels seem to have become more consistent over the past couple of months, although still very low when compared to more normal times.

<u>How does your current overall demand compare to last month?</u>



Again, a very similar response to last month regarding overall demand, which goes with the “steady” market theme mentioned already. 80% of respondents reporting as it being roughly on par with June.

<u>How do your conversion rates compare to last month?</u>



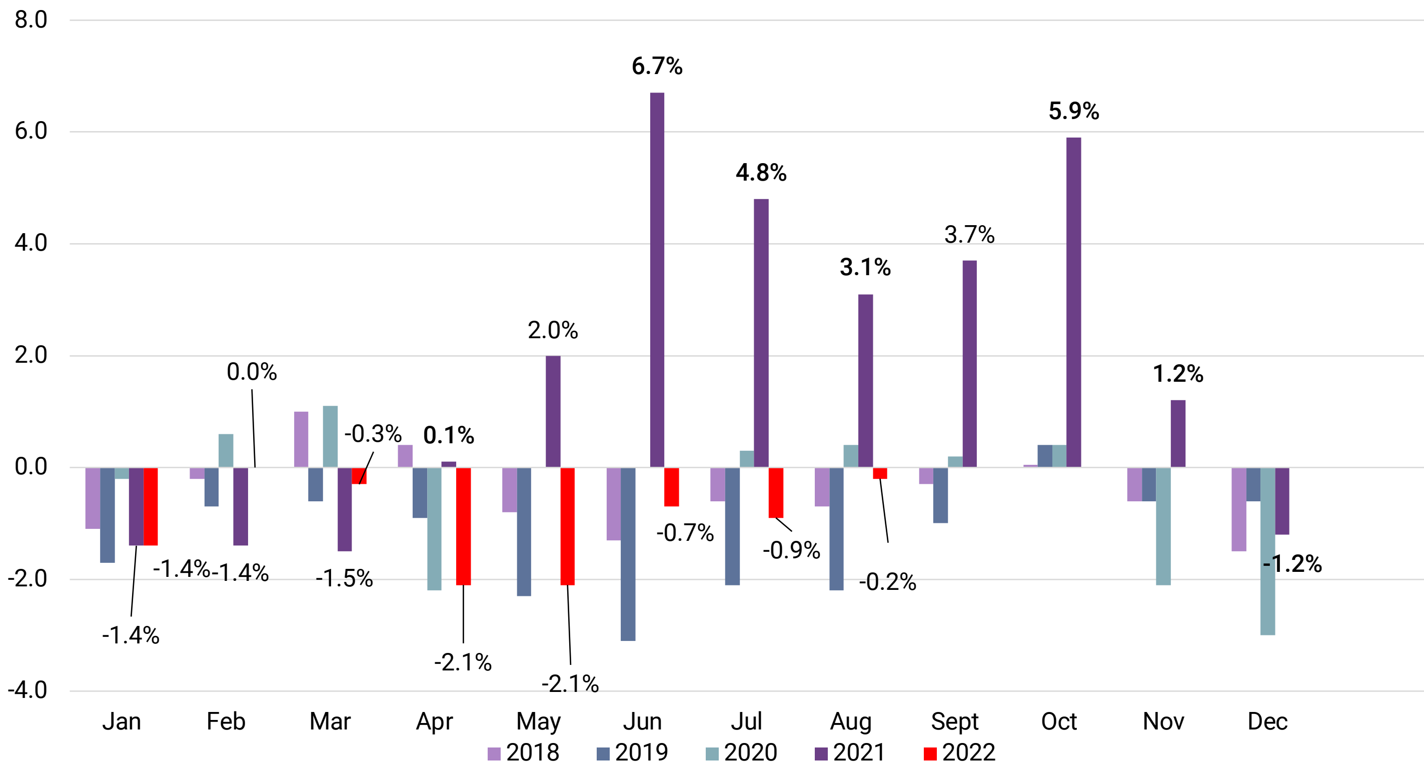
Conversion rates have also become more consistent over the past couple of months with nearly half of the respondents reporting no change, and a third reporting increases. Only a fifth reported a decrease which has also not changed from last month.

Used cars – trade values

Demand continues to be well matched with supply and July's Live values reflect this with only a very small decrease this month. The average movement at 3-years 60,000 miles was -0.2% down, equivalent to c.-£10. This follows the -0.9% drop in June. Both months have seen a much lower than normal reductions for the time of year and the plateauing we have previously reported continues.

Excluding last years unprecedented increases and the first COVID affected year of 2020, the average drop in July since Live was introduced in 2012 has been -1.1%. This will be the strongest July to August movement since 2009. It is important to remember that values do generally drop, and especially at this time of year, so to see another below average drop in values highlights the highly unusual marketplace we are currently in.

Monthly percentage movements in Live valuations (3-years, 60k miles)



Looking at the different age points, values for younger cars remain strong with the 1-year-old position increasing by +0.1% or +c.£60. Stock is still difficult to procure at the younger age points, and for most brands, so it is not surprising to see an increase this month. The further out we move in terms of vehicle age, the decrease in values become slightly more acute. At 5-years old, the movement is -0.6% or (c.-£40) and -2.1% or (c.-£80) at 10-years. This again highlights a much more challenging market for the older cars where conditions are generally poorer and the lack of desire to stock them at the present time.

Broken down into price bands, vehicles under £5,000 have dropped -2.6% (c.£80), £5,000 to £10,000 is down -1.1% (c.-£80) as is £10,000 - £15,000 down at -0.3% (c.-£40). We then start to see a more positive position building from the £30,000 to £50,000 price band, where it has increased, confirming that cost of living may not be affecting the more expensive end of the market, as I've previously alluded to.

Focusing on fuel types, diesel has seen the biggest decline and across most vehicle sectors this month when compared to other power trains. This has been a continuing trend over the past few months. Diesel has moved down 0.4% (c.-£40) at 3 years but is flat at the 1 year point. Diesel may now not be the first choice of fuel type for some retail buyers, but it will still appeal to a lot of consumers who need to return higher MPG, and especially for those buying larger vehicles. Petrol is also slightly down at -0.1% at 3 years but is also flat at 1 year. It's the alternative-fuelled- vehicles (AFV's) which have performed positively this month. Battery Electric Vehicles (BEV) has increased by 0.7% (c.£40) at 3 years, Hybrid (HEV) has increased by 0.9% (c.£150) and Plugin Hybrid (PHEV) is up 0.9% (c.£200). This suggests that the newer vehicle technologies are now being embraced by both the retail consumer and the dealer networks. Some examples of these at 1year old: BMW i3 up 3.0% (£900), Hyundai Ioniq Electric up 3.1% (c.£750), Kuga Hybrid up 4.0% (c.£1,150) & Toyota RAV Hybrid up 3.3% (c.£1,100).

In terms of sector moves, SUV's have fallen the most by -0.7% (c.£125) at 3-years old. Broken down by size: Large is down -0.9% (c.-£340), Medium down -0.6% (c.-£90) & Small down -0.6% (c.£60). Some examples of models dropping this month are: Range Rover Sport, Jeep Grand Cherokee, Ford Kuga, Hyundai Tucson & VW T-Cross. Convertibles did increase the most this month and by 1.3% (c.£270) which is highly unusual so late in the year. All the remaining sectors have only moved marginally (positively or negatively) at 3yrs. For example, City Car has again increased 0.2% (c.£15), Lower Medium –0.1% (c.£8), MPV is flat, and Supermini is -0.3% (c.-17).

What next?

Last month, our prediction was:

"There is little to suggest anything other than more of the same over the coming weeks. July does see the holiday season ramping up, however, so this could very well lead to a further decline in demand, but there are no signs of supply increasing. It is likely that the status quo of these two main dynamics that affect values will remain."

The summer holiday period could be a quieter time for both the retail and wholesale markets, and with such low levels of supply coming back into the used market, there is no reason to believe we will see anything other than a continuation of stable values. Therefore, we could see similar movements to the last 2 months for August, with September being very similar until/unless new car volumes arrive in volume. This is not likely to be anywhere near as high as a "normal" September, though will vary by manufacturer.

Alternative fuelled vehicles are likely to remain in high demand and clean condition stock will continue to achieve high interest and good returns. It will also be interesting to see if rental companies remain as active as they have been or if they will ease off buying now.

Lastly, following some detailed analysis we've carried out within our data feeds over the past 6 months, we will be increasing the gaps between our Clean – Average – Below valuations. Our sales data has shown that the gap for the Average to Poor condition vehicles has been widening over this period. These changes will be applied in the coming weeks and we will notify our customers once this has been completed.

Current used valuations August 2022 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	0.2%	0.2%	0.3%	(0.5%)
Supermini	0.3%	(0.3%)	(1.0%)	(2.8%)
Lower Medium	0.2%	(0.1%)	(0.8%)	(2.2%)
Upper Medium	0.4%	(0.3%)	(0.7%)	(2.7%)
Executive	(0.1%)	(0.3%)	(0.6%)	(1.7%)
Large Executive	0.2%	0.3%	(0.2%)	(1.5%)
MPV	0.3%	(0.1%)	(0.4%)	(1.7%)
SUV	(0.2%)	(0.7%)	(1.3%)	(3.1%)
Convertible	1.4%	1.3%	2.2%	(0.6%)
Coupe Cabriolet	0.2%	0.7%	1.2%	0.4%
Sports	0.1%	0.4%	0.2%	(0.9%)
Luxury Executive	1.1%	0.4%	0.3%	(0.3%)
Supercar	0.5%	0.9%	0.9%	0.9%
Overall Avg Book Movement	**0.1%**	**(0.2%)**	**(0.6%)**	**(2.1%)**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(2.9%)	(2.6%)	(1.8%)	(3.1%)
MPV Medium	(0.3%)	(0.3%)	(0.7%)	(2.2%)
MPV Large	1.2%	0.9%	1.0%	0.2%
SUV Small	(0.2%)	(0.6%)	(0.8%)	(4.6%)
SUV Medium	(0.0%)	(0.6%)	(1.5%)	(3.0%)
SUV Large	(0.4%)	(0.9%)	(0.9%)	(3.3%)

( ) Denotes negative percentages

Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
BMW 2 SERIES CONVERTIBLE (14-21)	600	800	653
DACIA SANDERO (13-21)	(500)	(325)	(443)
FORD MUSTANG (15-)	850	1,300	1,096
MERCEDES-BENZ S CLASS (13-21) DIESEL	1,000	1,200	1,112
MINI COUNTRYMAN (17-) HYBRID	850	1,000	894
NISSAN GT-R COUPE (09-)	800	3,700	1,500
PEUGEOT 3008 (16-)	200	450	347
SKODA KODIAQ (16-)	(300)	(200)	(243)
VOLKSWAGEN GOLF (13-21) DIESEL	(300)	(200)	(250)
VOLKSWAGEN TOURAN (15-)	(800)	(700)	(756)
BMW 2 SERIES CONVERTIBLE (14-21)	600	800	653

( ) Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
BMW 4 SERIES COUPE (13-20) DIESEL	150	200	166
BMW I3 (13-)	550	600	572
FIAT 500X (14-19) DIESEL	(200)	(175)	(187)
FORD MONDEO (14-19) DIESEL	(350)	(200)	(274)
NISSAN QASHQAI (13-18) DIESEL	(300)	(300)	(300)
PEUGEOT 208 (12-20)	(400)	(125)	(190)
PORSCHE MACAN (14-19) DIESEL	(250)	(250)	(250)
RENAULT ZOE (13-20) ELECTRIC	600	700	650
TOYOTA C-HR (16-20) HYBRID	400	550	480
VOLKSWAGEN GOLF (14-20) ELECTRIC	450	450	450

( ) Denotes negative value