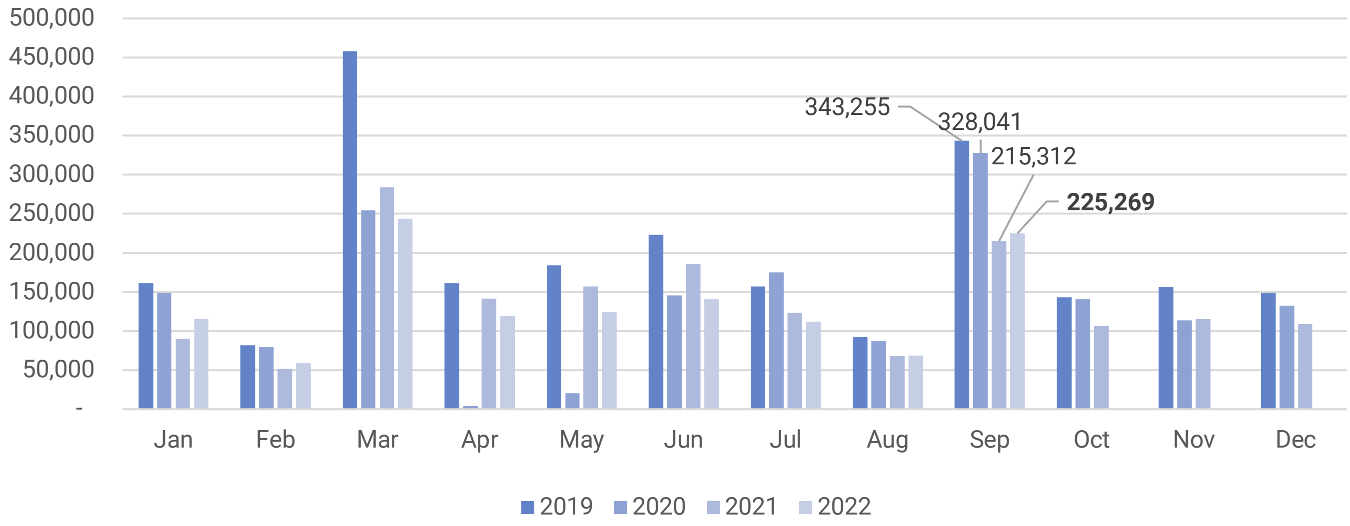
November 2022

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 September 2022 and used car activity at the time of writing. All information is correct as of 25th October 2022.

New car sales

According to the figures published by the Society of Motor Manufacturers and Traders (SMMT), 225,269 cars were registered in September, an increase of 4.6% over the same pivotal, plate-change month last year, but 34.4% behind September 2019. Supply issues continue to hinder the fulfilling of customer orders, more for some manufacturers than others. Ford certainly had a relatively successful month, taking the number one spot for volume and registering almost double the number of cars than they did last September (20,735 versus 10,786). Volkswagen took second place, with 18,996 car registrations, 16% higher than last year's 16,434, whilst Toyota were third, but with a 10% reduction on last year's figure (15,298 versus 16,940).



Source: SMMT

Year-to-date, overall volumes remain 8.2% lower than last year, with 1,208,368 cars registered compared to 1,316,614 to the same point.

Fleet registrations recovered somewhat in the month, with 101,760 cars registered, a 12.5% increase on last September's 90,445, whilst Private registrations were down 3.6% (116,165 versus 120,560). Year-to-date, however, Fleet remains 19.1% below last year, with a share of just 44.6%, Private being 2.3% up with a 52.9% share. The Business sector takes the balance with a 2.5% share and an increase of 18.5% year-on-year.

Daily Rental registrations, within the fleet sector, increased slightly compared to last September, but year-to-date they sit 69% below last year, equivalent to an almost 48,000-unit shortfall, and versus pre-COVID 2019, they are down 88% or c.158,000 car registrations. Manufacturers continue to prioritise the more profitable sales channels.

Looking at fuel-type, 38,116 Battery Electric Vehicles (BEVs) were registered in September, for a share of 16.9%. This was the second highest month ever for this fuel-type. Year-to-date, 175,614 BEVs were registered, with a 14.5% share. Petrol cars continue to take up the lion's share at 57.4% (693,285 year-to-date), whilst diesel sits at just 10.1% of the market, with 123,081 cars registered. The balance is taken up by hybrids (11.8%) and plug-in hybrids (6.1%).

Used car retail activity

Despite all the economic doom and gloom in the news, the Prime Minister resigning and the UK government generally doing its best to self-implode, retail demand for used cars has held up reasonably well. October can be a tricky month to navigate for dealers, as demand traditionally drops away, but any dips this year seem to be due to little more than the usual seasonality.

As last month, the picture is a little mixed, with some dealers downbeat when seeing demand drop off and others relatively happy considering the huge economic uncertainty and increases in inflation and interest rates. There have also been good weeks and bad weeks so not always a clear pattern.

Used cars remain a necessity and/or a prudent purchase for many consumers, so the levels of demand being experienced have by no means dropped off enough to cause alarm bells to ring, although what comes next is concerning many. Cars under a sweet-spot of around £12,000 are selling the quickest, including those with diesel engines, as well as city cars. There does seem to be a reduction in the aspirational purchase though and there has been some downward pricing action taken by retailers on these higher-end and seasonal cars.

Retail pricing overall is an interesting one, as some drops have been necessary to attract buyers and keep stock moving. It is essential to keep a close eye on retail pricing in the market and cars that have been in stock for a few weeks are certainly being reduced – this is nothing new, just very different to last year. If cars have been in stock longer than the last Prime Minister was in office for, perhaps it is time to review pricing.

Even with reductions, however, many cars remain unsold and, when looking at the potential to replace them if they did sell, it is increasingly difficult to see where the margin is; a number of comparable cars are being advertised close to trade selling prices. Selling finance, insurance and receiving a desirable part-exchange are increasingly vital to retailers when selling a car and trying to make a reasonable profit.

With new car registrations seeing the biggest volume since March, part-exchanges were generated for franchise dealers, meaning they were slightly more upbeat than car supermarkets and independents, with self-generated stock vitally important due to lower volumes in the wholesale market due to the impact of the pandemic on registrations.

In summary, October has been fairly steady by way of demand, slightly down on September, with margins being increasingly squeezed. Retailers are certainly having to work harder in all areas of stocking, pricing and overall selling, but given the economic turmoil in the country, there remains an air of positivity.

Used car remarketing activity

Quite often the retail and wholesale markets will mirror each other during a month. If cars are flying off the retailers' shelves they need replacing and in contrast, if sales rates are slow, fewer replacements are required. In October, however, despite the retail market being slower than in September, remarketing activity was strong.

Cars in cap clean condition remain in high demand, with buyers instructed not to purchase cars that require high levels of refurbishment or particularly mechanical parts. There is a shortage of technicians and uncertainty around how long some parts will take to arrive, due to the conflict in Ukraine and continued zero-COVID policies in the Far East leading to temporary closures of factories that produce many components for the modern car.

It has been somewhat surprising that the wholesale market has been so strong in recent weeks. There is certainly caution amongst retailers, bearing in mind the economic concerns across the nation, but they continue to buy whilst being careful not to overstock. With volumes in the market some 20% lower than at the same point in 2019, which of course was pre-COVID, even with dealers buying fewer than they would normally, there are less cars to fight over, particularly when taking those self-set rules on refurbishment. This has kept prices high. Damaged stock certainly requires some realism on price, however, particularly when cars have been unsold for a number of weeks.

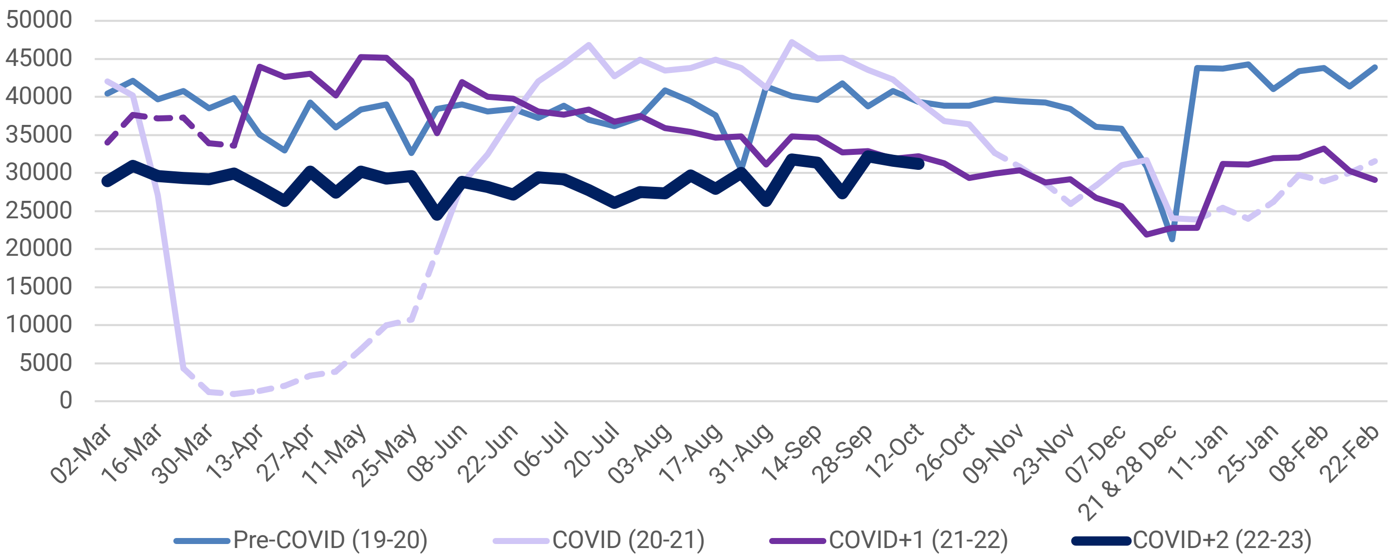
Cars of a particular price-point have been sought after and with consumers potentially looking to downsize or downgrade once more, it is not surprising that retailers are looking to the cheaper end to stock. Many diesel cars now look better value-for-money than other fuel-types – despite increasing in value in 2021, they have reduced more this year than all others – petrol, hybrids and electric vehicles. The latter have been more of a struggle to sell this month –

volumes are increasing and prices are high. It is more of a risk to stock a high value electric car in the current climate – many consumers still see them as a slightly unknown quantity, and with tough economic times on the horizon, maybe now is not the time to take the plunge. Retailers are being risk-averse.

Auctions are still fairly positive overall with conversions in excess of 80% not uncommon. Fleet returns have become the most challenging now due to the age and mileage profile meaning they tend to be higher priced. There are also more of these coming on sale due to new registrations generating cars to swap. The volume of cars being sold direct from fleet and leasing sources has continued to increase in September, whilst auction sold volumes have also picked up, but not to the same degree.

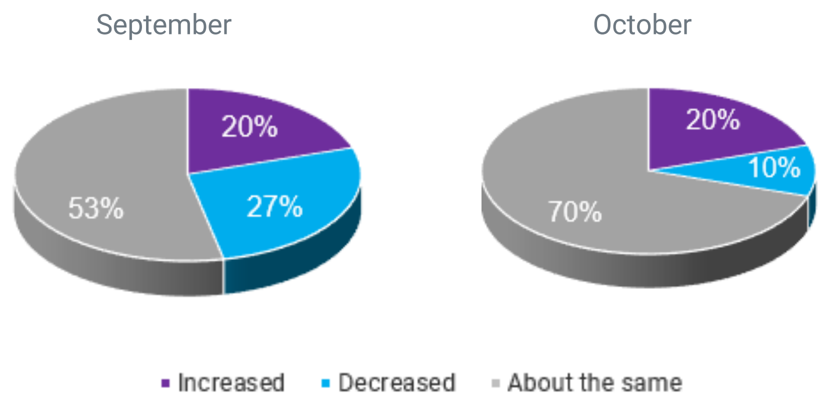
For the first time this year, wholesale sold volumes are almost on a par with where they were in 2021, although they remain some 20% lower than pre-COVID, due to lower registrations and more dealers retailing larger numbers of part-exchanges. Each point on the lines below is a weekly volume, with the time period running from March on the left to February on the right, to take into account when COVID first impacted in 2020.

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



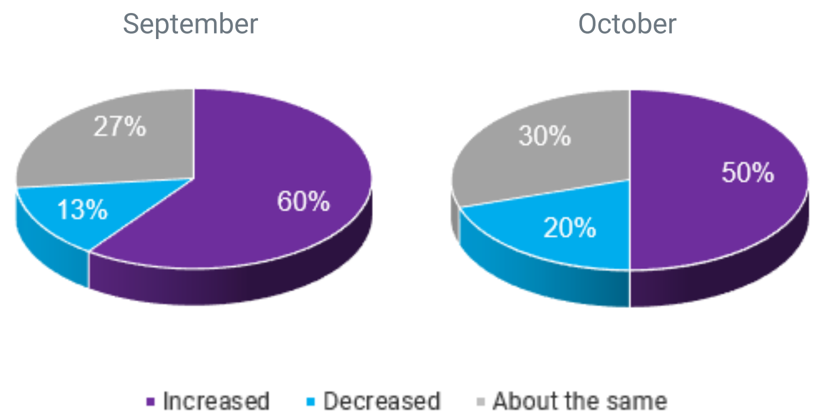
The cap hpi auction survey has registered some positive results in general this month:

How do your current stock levels compare to last month?



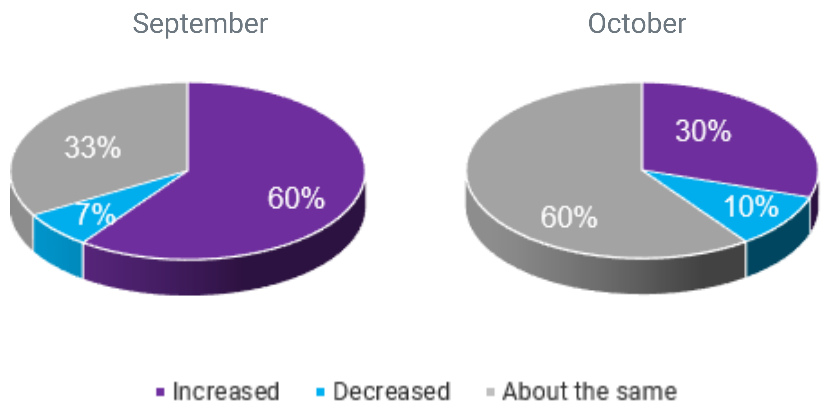
In a month following a plate-change, it is perhaps unexpected for stock levels to only have stayed level for the majority, with fleet returns and part-exchanges being on the increase. On the positive side though, 90% of respondents have not seen decreasing stock levels.

How does your current overall demand compare to last month?



Demand has continued to increase for half of respondents, with almost one-third stating it is similar to September. Again, this is a pretty positive picture, although not as strong as this time last year when many dealers were stocking up in preparation for what they hoped would be a buoyant January.

How do your conversion rates compare to last month?



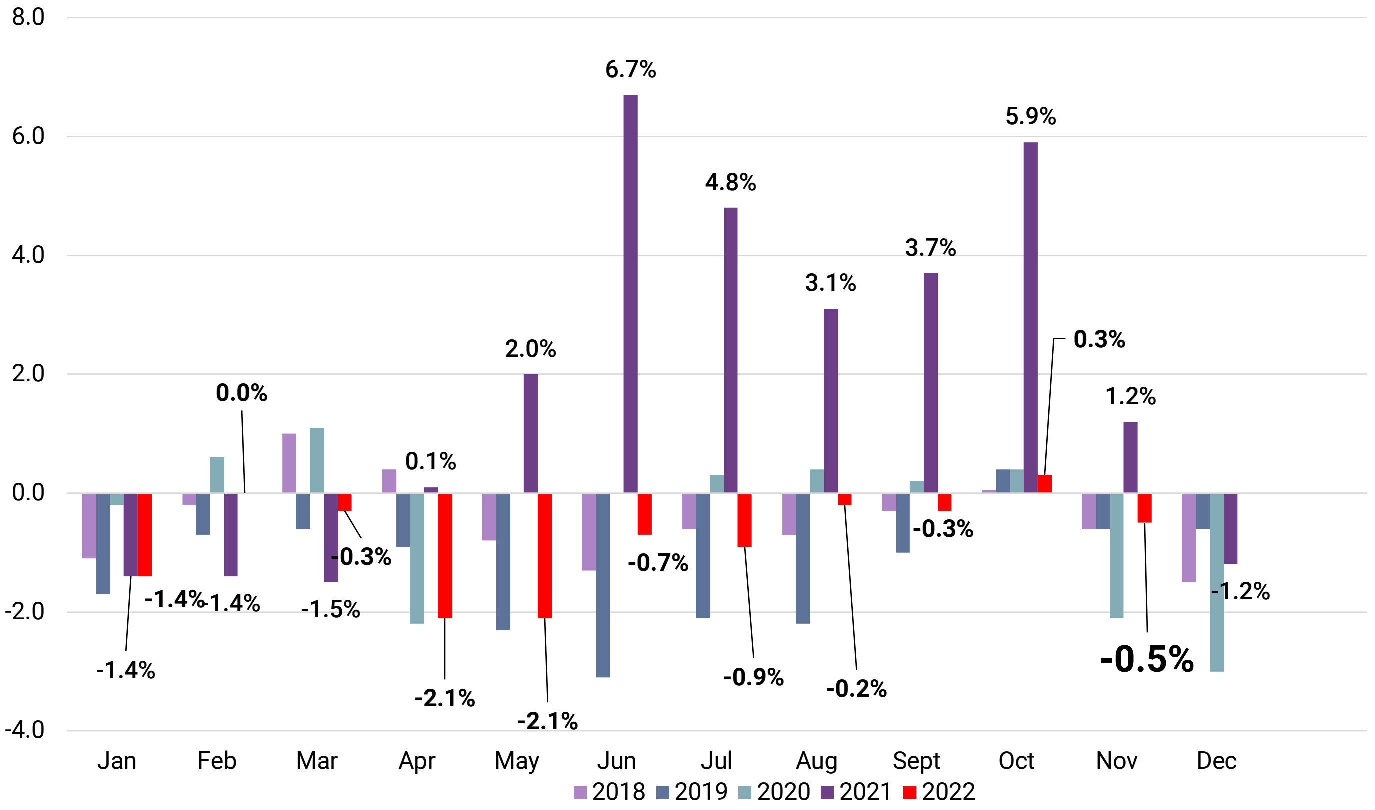
Conversion rates have remained pretty static for the majority of auctions, but again almost one-third have seen them improve, meaning that 90% of respondents are seeing either parity or a better picture than in September. Anecdotally, the auctions are in a good place – they would like more stock but sales rates are healthy.

Used cars – trade values

October Live values moved down by an average of 0.5%, equivalent to c.£140, at the benchmark 3-year point, this off the back of a 0.3% *increase* in September. Whilst wholesale demand has been healthy, prices do remain high and there has certainly not been the appetite to overpay, meaning values did not go up overall.

However, it is important to remember that values do tend to drop. As models become older in their lifecycle and supply and demand dynamics dictate, monthly value reductions are the norm. This 0.5% drop actually portrays a strong month in the wholesale market. Last year was an extraordinary year, and values increased by 1.2% in October, but apart from that, every year since Live was introduced in 2012 has seen a reduction in the month, with the smallest reduction being in 2018 and 2019, when they dropped by 0.6%. In the 6-years prior to that, the average reduction was 1.5%, and the highest a drop of 2.2% in 2015. So, as you can see, in comparison this October has been a strong one.

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



There has been a similar story at younger vehicle ages, with values dropping by an average of just 0.4% (c.£170) at the 1-year point. 5-year old cars dropped by 0.6%, or £89, whilst older price-point cars were the strongest, reducing by an average of just 0.1% or c.£20.

As always, the devil is in the detail, and it feels as though our team of editors have never worked harder, only to see average values stay relatively level!

City cars continue to be the strongest sector, with a 0% “movement” in October. As mentioned previously, they are a prudent purchase for the consumer and desirable stock for a retailer and values have been on an overall upward trajectory since 2020. Models such as the Smart ForFour, Skoda Citigo and Fiat Panda have increased by some 60% in the last 3-years when comparing a 3-year old car then to now, equating to around £3,000. Some notable increases have been applied in October to the Fiat 500, Hyundai i10 and Vauxhall Adam, all increasing by c.2% and around £150 on average.

The MPV (-0.2%) and Upper Medium (-0.2%) sectors were the next strongest, with negligible average movements, although again digging into the detail is required as there have been values moving in different directions for different cars, although certainly the cheaper end of the Upper Medium sector has been strong.

SUVs have dropped by 0.5% on average at 3-years old, which is similar to drops experienced in both July and August – September saw a small increase. October has seen a slight underperformance of some larger SUV models, as trade buyers of higher-valued luxury cars are being careful and not wanting to find themselves overstocked as we enter a potentially difficult period for used cars. Many of these have been resilient over previous months, but some examples of fallers in October are the Aston Martin DBX, down 2% or c.£2,000, BMW X5M down 2% or £1,200 and Porsche Cayenne, also down 2% or c.£1,050 at 3-years old.

Turning to fuel-type, this has arguably been the most interesting area of the used market in October. Not many would have predicted that values of diesel cars would hold up the best in the month, dropping by just 0.3% (c.£77) at 3-years old. Followed by hybrids at 0.6% (c.£110), petrol by 0.7% (c.£180) and plug-in hybrids by 0.6% (c.£225). Electric Vehicles have dropped by a larger 1.3%, equating to £460. As already stated in this commentary, consumers aspirational purchases have declined, and EVs could be included in this category. Adding to this are some keen new car offers making a used purchase not a clear-cut decision, plus with the price of electricity increasing, individuals certainly need to do the maths to see if an EV is the best choice for them financially. With these considerations in mind, and used prices particularly high, retailers are baulking at buying EVs in volume for stock and certainly at overpaying, particularly as volumes available have increased. In 2021, the percentage share of sold data we received for EVs on cars under 3-years was just under 2%, it is now over 8% and increasing all the time. This is sold data so points towards strong demand, but buyers can only purchase used cars if they are available to buy, of course.

With these volume increases, it is no surprise that some models have come under pressure. Plus, EVs used values are way ahead of petrol and diesel equivalent vehicles and some even over the cost of a new car, which is generally unsustainable. As a result, some of these vehicles have now started to see values realign.

Last month we reported that we received more disposal data for the Tesla Model 3 than in any other month this year and whilst sold volumes have eased slightly in October, values have still moved down 5.9% or c.£2,100 this month, that after dropping by 2.6% or almost £1,000 in September. Additionally, Tesla Model Y values have reduced by c.4.9% (c.£2,850) in cap Live in October, as their volumes have grown. Despite the reduction for the Model Y, however, newer used examples still remain over the cost of a new one, which again would appear to be unsustainable.

Pressure on Electric Vehicles has not been isolated to Tesla product, with BMW i3, Audi Q4 E-Tron Estate, Nissan Leaf, VW ID.3 and Volvo XC40 Electric all dropping by more than the average.

With more volume to come and prices high, there could be interesting times ahead, particularly for more expensive EVs.

What next?

Last month, our prediction was:

"As used supply levels increase from new-plate activity over the coming weeks and demand drops away in the final quarter, there is likely to be some movement down. However, October may well be fairly stable, with November and December tougher."

It has never been more difficult to predict the medium-to-long term for used car values, but it is also not easy to state what will happen in the next 2 months. Who knew that the last Prime Minister would last just 44 days in office or that economic policies would be written, announced and then reversed in just a few weeks.

Supply levels remain around 20% below where they were in pre-COVID times though and this has been holding values up for some time. Over 2-million less cars have been registered than would have been expected without the pandemic, meaning there are going to be far less cars swilling around in the used market for years to come.

Falling used car footfall is being described as "seasonal" but there is also a fear that this is the start of a real decline in consumer spending, based on the fast rise in the cost-of-living. It is important to remember that values historically reduce in the last quarter of the year, as the focus turns to Christmas spending, but what is unclear is to what extent they will reduce this year. It is not uncommon for values to drop by 2-3% in November and between 1-2% in December, but volumes are lower this year. Value drops are highly likely, but could well be less than those seasonal norms.

As we have seen in October, the devil really is in the detail and keeping close to Live trade and retail values is an absolute must over what could be a difficult few weeks.

Current used valuations November 2022 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	0.1%	(0.0%)	(0.2%)	1.2%
Supermini	(0.1%)	(0.5%)	(0.0%)	1.9%
Lower Medium	(0.4%)	(0.4%)	(0.4%)	0.3%
Upper Medium	(0.2%)	(0.2%)	(0.3%)	0.1%
Executive	(0.7%)	(0.6%)	(0.8%)	0.3%
Large Executive	(0.2%)	(0.9%)	(0.9%)	0.2%
MPV	(0.1%)	(0.2%)	(0.1%)	(0.2%)
SUV	(0.3%)	(0.5%)	(0.7%)	(1.0%)
Convertible	(2.8%)	(3.0%)	(3.3%)	(4.2%)
Coupe Cabriolet	(3.2%)	(3.6%)	(5.1%)	(5.0%)
Sports	(0.9%)	(1.3%)	(0.9%)	(0.8%)
Luxury Executive	(0.4%)	(1.0%)	(1.1%)	(1.5%)
Supercar	(1.3%)	(1.0%)	(0.8%)	(1.2%)
Overall Avg Book Movement	**(0.4%)**	**(0.5%)**	**(0.6%)**	**(0.1%)**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(2.1%)	(0.8%)	1.1%	0.6%
MPV Medium	(0.2%)	(0.2%)	(0.4%)	(0.2%)
MPV Large	0.2%	(0.0%)	0.1%	(0.4%)
SUV Small	(0.4%)	(0.8%)	(1.0%)	(1.0%)
SUV Medium	(0.3%)	(0.3%)	(0.5%)	(1.2%)
SUV Large	(0.4%)	(0.8%)	(0.8%)	(0.4%)

( ) Denotes negative percentages

Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
DACIA SANDERO (13-21)	(600)	(325)	(458)
FIAT 500 (15-)	175	300	236
FORD ECOSPORT (17-)	(350)	(250)	(300)
FORD FOCUS (18-22)	(250)	(150)	(187)
HYUNDAI TUCSON (18-21)	150	250	195
KIA SPORTAGE (15-22)	(300)	(200)	(245)
MERCEDES-BENZ A CLASS (18-)	(500)	(200)	(321)
PEUGEOT 3008 (16-)	200	850	560
VOLKSWAGEN POLO (17-)	(200)	(100)	(160)
VOLKSWAGEN TIGUAN (16-) DIESEL	200	400	285
DACIA SANDERO (13-21)	(600)	(325)	(458)

( ) Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
HYUNDAI I10 (14-20)	100	200	147
MERCEDES-BENZ GLA (14-19) DIESEL	(600)	(500)	(535)
NISSAN JUKE (10-20)	(425)	(225)	(293)
PEUGEOT 2008 (13-20) DIESEL	(600)	(425)	(500)
RENAULT CLIO (13-20)	(200)	(175)	(183)
SKODA OCTAVIA (13-20) DIESEL	275	500	378
TOYOTA AURIS (12-19)	(400)	(300)	(344)
VAUXHALL CORSA (14-20)	(275)	(150)	(211)
VAUXHALL MOKKA (12-19) DIESEL	300	375	357
VOLKSWAGEN SHARAN (10-21) DIESEL	400	550	513

( ) Denotes negative value