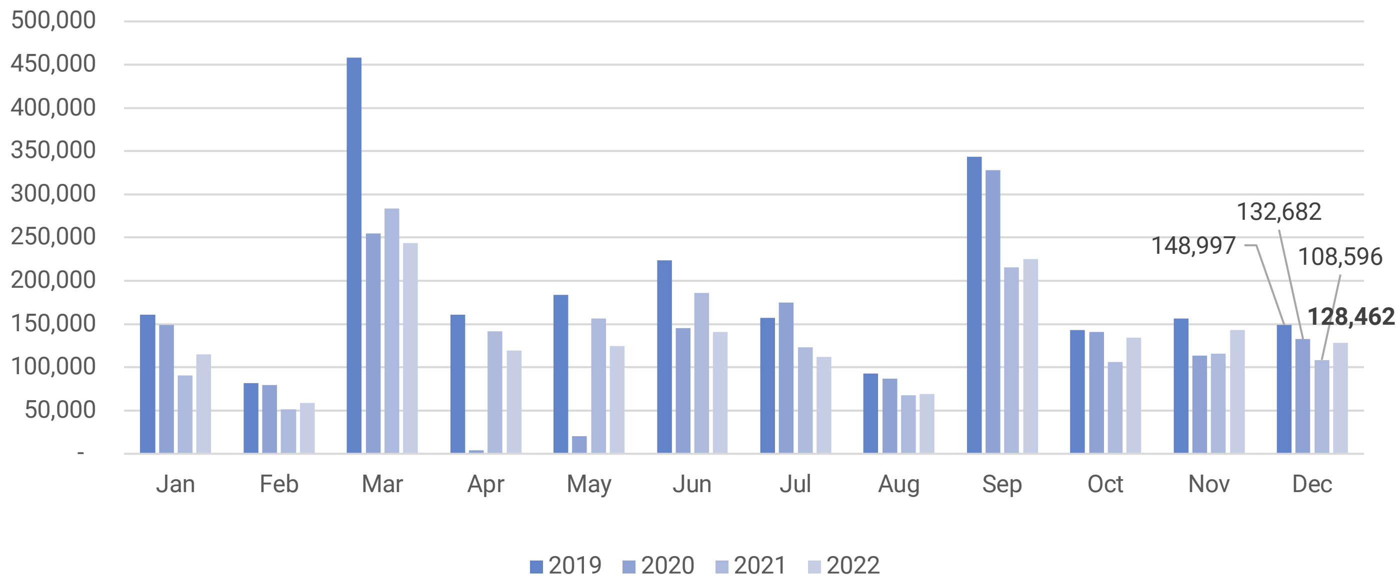
February 2023

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 December 2022 and used car activity at the time of writing. All information is correct as of 26th January 2023.

New car sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), the UK new car market recorded its fifth consecutive month of growth in December, with an 18.3% increase on the same month in 2021, ending with 128,462 registrations. This was a 13.7% (20,535 unit) reduction on pre-pandemic December 2019, however. For the full year, there were 1,614,063 car registrations, a 2% decline on 2021 (1,647,181) and 30% lower than in 2019, when 2,311,140 cars were registered. The second half of the year was stronger than the first but still far behind pre-COVID levels.



Source: SMMT

Fleet registrations in December were at 69,702, an increase of 42.9% over last year's 48,786 units, although for the full year, they remained below 2021, by 7.5% (750,839 versus 812,030). There is recovery in this sector, with manufacturers registering a higher proportion to businesses than they have previously, as supply constraints ease somewhat, but also consumer demand is not as healthy as it was earlier in the year. Daily Rental registrations remain severely curtailed, however, down 61% year-on-year and -86% compared to 2019. Private registrations were down 7.4% for the month and up 2.0% for the year.

Battery Electric Vehicles (BEVs) claimed their largest ever monthly market share in December (32.9%), as manufacturers chased government environmental targets and some closed off quarterly and yearly volume and market share aspirations. Tesla was the top-performing manufacturer in the month, with an 8.6% market share compared to a 2.1% market share for the full year. The Model Y was the top-selling model in December and third highest for the year. BEVs ended the year with a 16.6% share of the market (267,203 registrations).

Petrol registrations ended the year at 902,174 with a market share of 55.9%, with diesel registrations at 155,324 and a share of 9.6%, both include mild hybrids in the figures. Pure Hybrids also outperformed diesel, with 187,948 cars registered and a share of 11.6%. Plug-in Hybrids saw 101,414 cars and a share of 6.3%.

Volumes of car registrations are expected to improve in 2023, but still not close to pre-pandemic levels. We are forecasting a volume of c.1.85 million.

Used car retail activity

Whilst traditionally used car retail activity in January is buoyant, there was a degree of uncertainty, concern and conjecture amongst dealers and the industry on how January 2023 would fare, with cost-of-living and economic uncertainty so high on the nation's agenda. It was thought unlikely that the traditional post-Christmas high levels of online browsing for a used car would occur, with such an uncertain and potentially difficult year ahead, financially. Used cars are often a necessity, however, and can be a prudent purchase.

So, whilst the period directly after Christmas was relatively quiet, retailers were pleasantly surprised once January got underway, certainly once the first week of the month passed. That initial week was steady, but over the weekend of 7th and 8th January, retail activity really picked up, setting the tone for the rest of the month. It is fair to say that sales activity has surpassed expectations for the vast majority, and as one retailer group representative put it, it has been "surprisingly buoyant" and seemingly difficult volume targets are likely to be achieved.

The cheaper end of the market has been the most fruitful, with cost-of-living concerns and maybe an element of rail strikes encouraging consumers to either downsize or buy a good-value car to get about in. The sub-£15,000 sector has been strong and once you get below £8,000 even stronger. The more expensive you look, at the more aspirational end, there has not been so much activity. Although it has still been steady. Overall, retail prices have increased from December into January.

One key element for the consumer to consider has been the fuel-type of their next purchase. With manufacturers focusing on producing and registering alternatively-fuelled vehicles (AFVs) for the last few years, in particular battery electric vehicles (BEVs), these cars are now coming back into the used market in higher volumes.

But, a huge feature of the last few months, and January in particular, has been a lack of desire by the consumer to buy them, preferring to stick to internal combustion engine (ICE) vehicles for a number of reasons. Firstly, and perhaps most importantly, many BEVs are expensive in comparison to petrol and diesel equivalents, sometimes the same model being £10,000 more with an electric propulsion. Secondly, range anxiety remains an issue, or at least concern on where they are going to charge and how long it will take on longer journeys – the cold weather not helping as this generally diminishes the available range. There were a number of unfavourable press reports surrounding queues of 2-3 hours over the Christmas period, particularly at motorway service stations. Thirdly, there is the cost to charge. With prices of electricity having increased and fossil fuels reducing over recent months, it is no longer clear-cut that it is cheaper to charge your BEV than it is to fill up your ICE car, particularly if not predominantly charging at home. It can cost upwards of £70 to charge at a motorway charge point. Few take the total cost of ownership fully into account.

Also thrown into the argument are new car prices and finance deals for electric vehicles. With used examples being expensive, sometimes close to or even over new car list prices, the decision for many of those that do wish to "go electric", is to buy new rather than used, particularly as new car lead times continue to reduce and monthly payments can be similar or even favourable to the used offering. With Tesla announcing large reductions to their Model 3 and Model Y new car list prices overnight on 12th/13th January, this has added to the uncertainty of buying a used EV, not just a used Tesla, although it also helps make a new one affordable to more people.

As well as some EV angst in the used market, one other fly-in-the-ointment is the effect of interest rates on finance deals. The days of 0% deals are long gone, and higher interest rates have to be factored into the deals. Those that have managed to offer low rates and/or finance contributions have seen an instant impact. There are also reports of higher attrition rates for finance applications, with an increasing number finding they are not deemed eligible by some funders.

Overall, however, January has surpassed expectations and the year has started well for retailers. Those carrying larger stocks of EVs will have their concerns and are likely to have to reduce prices to make them more attractive, if they have not done so already, but in general the market for ICE vehicles is strong. Replenishing stock at palatable money now becomes the focus.

Used car remarketing activity

The buoyant retail market for ICE cars has led to the requirement to replenish stocks, particularly as many dealers had held off buying in bulk in the final quarter of 2022, due to that uncertainty on how January would be for them.

The holiday period was one of the strongest ever reported by those auctions that traded, helped of course by the willingness since the start of the COVID pandemic of buyers to purchase online, but it was just steady at that time, picking up as January progressed. Trade sold volumes were up almost 25% on last year over the festive period.

Conversion rates at auction have typically been around 80% and sometimes higher, particularly from the second week of the month onwards. Condition has been less of a concern than in recent months and the cheaper end of the market has been particularly strong, sometimes seeing cars sell for amounts that made it exceedingly difficult to see where the margin for the retailer is, bearing in mind retail advertised prices of similar vehicles. Dealers that have been sending their cheaper, poorer condition cars to auction have been delighted by the profits they are making and the speed they are selling them at.

Fleet and leasing remarketers have held out for strong money, despite many of them seeing more new cars now being diverted to them, with new car retail activity not quite so buoyant, and used car stocks growing accordingly. Supply does not predominate demand just yet, however, although dealers and supermarkets alike are being careful not to overstock, tending to pick off the vehicles they are confident they will sell.

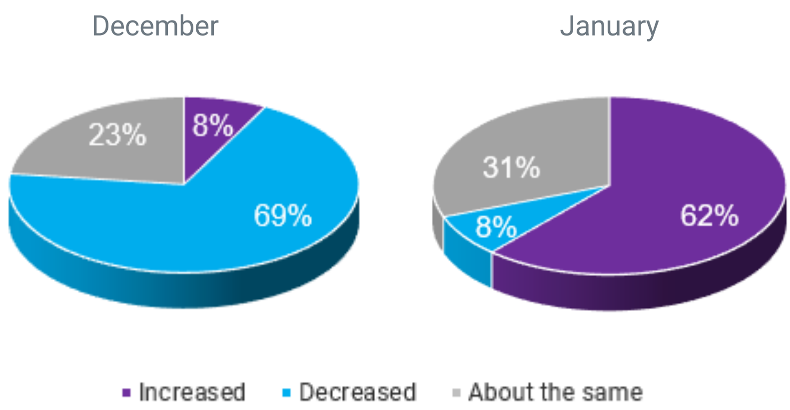
Of course, bearing in mind what is happening in the retail world, this wholesale strength does not include electric cars. Conversion rates for this fuel-type have been at around the 20% mark, far lower than the overall market, and even these vendors selling the c.20% of cars have had to take some pain on price. Many retailers have introduced buying bans on EV product, with the risk of them sitting on their forecourts for an unpalatable period just too high to buy at almost any price.

Tesla product has been one of the most challenging, with their new car activity so healthy, higher volumes coming back into the used market, high prices and then the new car pricing announcement. As a result of this volatility, used buyers have been risk adverse. They are not alone with low conversion rates though, and maybe some of these issues facing Tesla in the used market have flowed onto demand for other EV product.

Overall, however, the wholesale market has been strong, with remarketers and auctions pleasantly surprised on how January has worked out for them. Like the retail world, there was plenty of uncertainty on how the year would start, and a “normal”, strong January was certainly not a given, with the economic uncertainty and cost-of-living concerns prevalent. The used car industry is a robust one and mid-month wholesale volumes, whilst still some way below pre-COVID levels, were c.16% up on the same period last year.

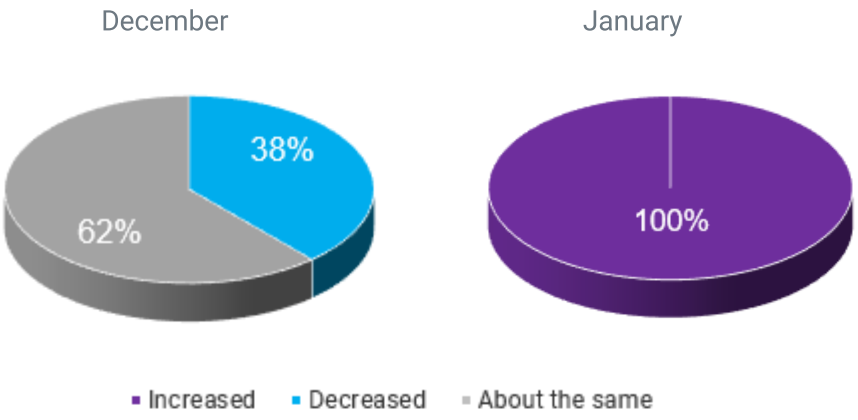
Turning now to the cap hpi auction survey, which this month has posted some remarkably consistent results.

How do your current stock levels compare to last month?



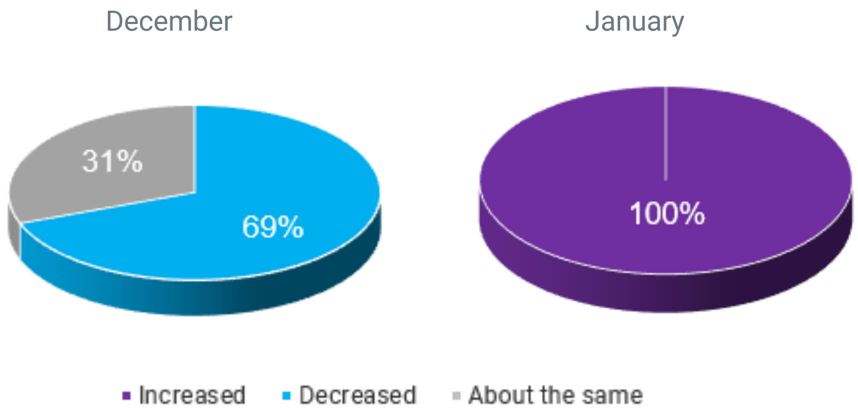
Over 60% of respondents reported stock levels had improved in January, with a further 31% stating parity with December. Only a small minority saw a decrease. This is testament to the increased activity in both the new and used retail markets generating more cars to be sold through the auctions. A welcome picture, bearing in mind volumes in 2022 were some way below normal.

How does your current overall demand compare to last month?



All the respondents to our survey reported that demand in January was better than it was in December. This was by no means guaranteed as we ended last year, but a welcome picture for the auctions, with both online and physical activity having a real buzz about it for the first time in a while. Last year was good, but this feels better. Last January, just 60% of respondents reported an improvement and there has not been a month where all auctions have reported an improvement since we started the survey.

How do your conversion rates compare to last month?

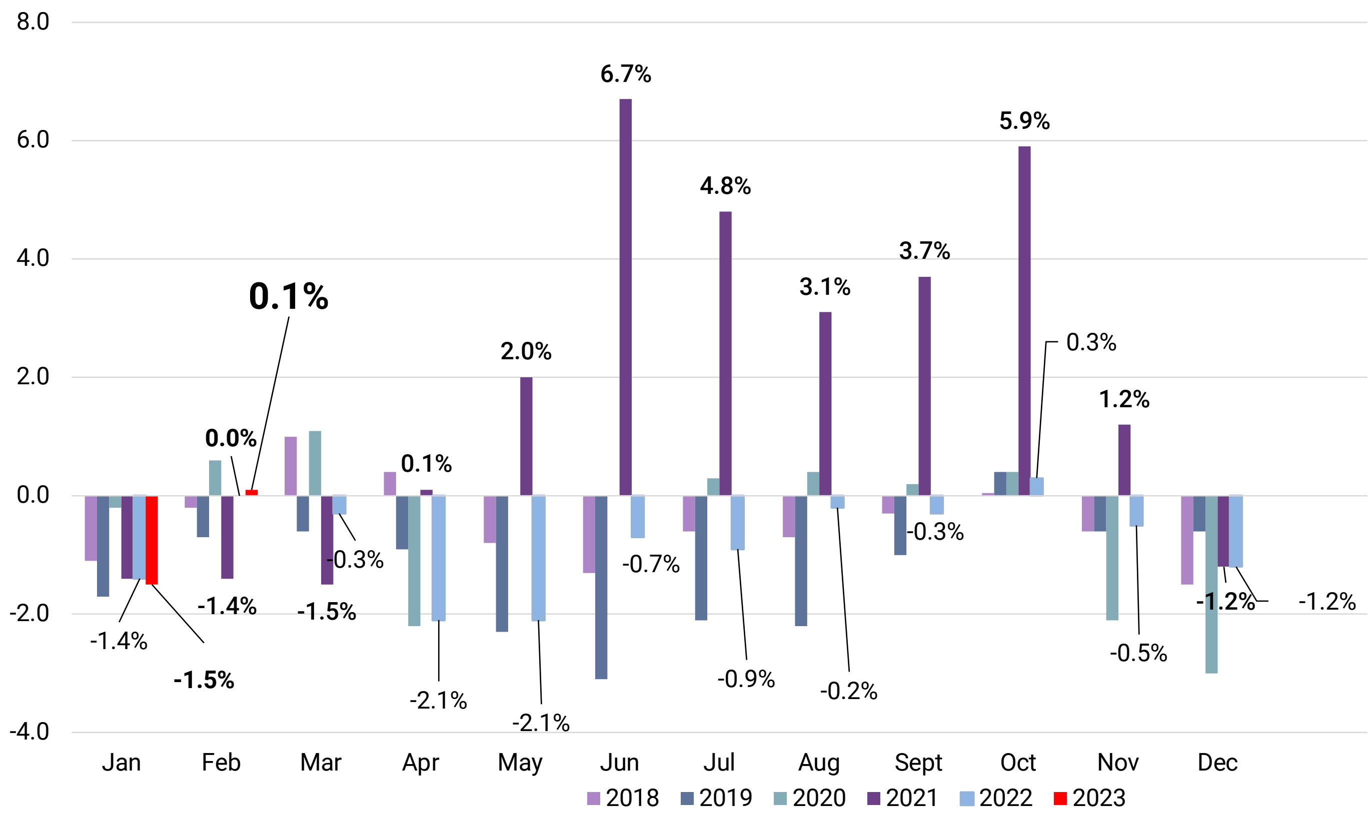


And mirroring demand being high, conversion rates have also improved for all. This time last year, again 60% of respondents reported an improvement. Long may this trend continue.

Used cars – trade values

Whilst the overall average figure for 3-years, 60,000 miles values within our Live product is 0.1% up over the course of January, this by no means tells the full story of a fascinating month for used car values. Initially, values dropped as we reflected the post-Christmas period and the first week of the month. From that point onwards, values started to strengthen for ICE cars, with the average over the course of the period from 9th January slowly turning from a negative figure to a small positive one by the time we cut off Live for our monthly customers. Once again, the benefit of Live has been notable, with prices changing regularly through the month.

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



At younger ages, values have weakened by an average of -0.7%, equivalent to c.£350, with some of these cars too close to new car list prices, and weakening as new car supply has improved. However, when you look purely at petrol and diesel car values, this figure reduces to a -0.2% average, or just over £160.

It is when you analyse older car values that you see the real strength in the market. At 5-years old, values increased by 1.5% (c.£100) in cap Live and at 10-years old by 3.1% (c.£120). And looking at this by price band, cars under £5,000 increased by 4.0% (c.£120), £5,000-10,000 by 2.4% (c.£160) and £10,000-15,000 by 1.0% (c.£115). Once you go above £20,000 there were small negative movements, but nothing untoward for ICE vehicles at least.

And that takes us on to fuel-type, and in particular electric vehicles. Whilst petrol and diesel vehicles have both experienced small increases at the 3-year age point, electric vehicles have seen a dramatic decline, dropping by an average of 6.6% (c.£2,050) in the month. Unsurprisingly, given the retail and trade sentiment, on top of large increases in volumes returning to the market (there has been an 800% increase in the number of used EVs within the sold data received in 2022 compared to 2018), there have been some incredibly large drops in value for many models.

When analysing a number of our data sets, we can see that the auction days in stock for electric vehicles continues to grow, as in December EVs were tracking at a little over 20 days in stock, to January where this has increased to 27 days, for comparison petrol and diesel vehicles sit at 11 days. The average number of sales attempts for EVs at auction continues to be greater than ICE vehicles at 2.6 attempts vs 1.4 attempts, this backs up the feedback from auctions that conversions remain very low for this fuel-type.

Although there continues to be a spotlight on the performance of used Tesla product in today's market, most EVs currently available in any volume have not been immune to current market conditions. Some noticeable movers for this month have been the BMW i3 down 9.3% (c.£2,500), Hyundai Ioniq Electric down 10.6% (c.£2,400), Jaguar I-Pace down 10.3% (c.£5,000), Nissan Leaf down 10.6% (c.£2,400), Audi E-tron down 8.4% (c.£4,000) and Mini Cooper Electric down 11.5% (c.£2,900). Figures are for 1-year old vehicles.

Focusing on Teslas, it is difficult to state how much of this month's movements were due to the announcement on new car prices, as they had already been reducing significantly in value up to that point. The Model 3 has moved down by 10.5% or c.£3,800 in January's Live product at 12 months old and has now reduced by an average of c.33% or £13,275 in the past 4 months alone, in addition to this we have seen more disposal data for the Model 3 than in any other month since its launch. Model Y values decreased by an average of 11.1% or £5,500 in January, with the rear-wheel-drive model alone dropping by a sizeable 14.1% or c.£6,800 in the month. Since October, the Model Y has dropped by an average of 27%, equivalent to over £14,000. In simple terms, these models have lost between a quarter and a third of their value since October.

It is important to reiterate that the realignments for many EVs have not come as a surprise, but the speed at which this has happened may have shocked a few. The high residual values for EVs were always likely to be unsustainable - over an 18 month period in 2021/22 they had increased by c.25% and many models were over or close to cost new. Our forecast product, Gold Book, had predicted much of these falls in values, although we expected them to fall sooner and over a longer time period than they have done.

Both pure and plug-in hybrids dropped in value on average in January, but by a more palatable 1.6% and 2.1% at 3-years old (c.£350 and £600 respectively), with comparable price and charging costs for the latter again being a factor.

What next?

Last month, our prediction was:

"The outlook for January and beyond still remains an unknown, what with consumer demand potentially still remaining subdued post the festive period, so we could just see a continuation of a stabilised market and very similar to what we have witnessed prior to December, just based on lower supply rather than increased demand. Yes, there will be more new car availability within the market but we do not think it will be enough to upset the current market dynamics, with the exception of the new volume models that could be over supplied and potentially forced into the market. General consensus is that we are likely to see different areas of the market perform in very different ways.

The big question is, will dealers go out and heavily buy stock in January or will they continue with the little and often approach? The latter seems the more likely at this given point in time, based on current retail demand."

February is likely to continue in a similar vein to January. There is no reason to predict a drop in consumer demand and so dealers and supermarkets will continue to look to buy stock, as they have not over-stocked to this point. February is generally a quiet month for new car activity so fleet returns and part-exchanges may not appear in greater numbers until March, and even then it is highly unlikely to be even close to a pre-pandemic new plate month. Used supply may increase slightly but not to overshadow demand, so prices are likely to stay strong. With cap Live reflecting the market daily, values for ICE cars may even increase over the coming weeks.

Battery Electric Vehicles are a different matter. It is likely that they will continue to drop in value until they reach a point where they are much closer to petrol and diesel equivalent vehicles. Once we head out of winter and there is less of a focus on home fuel bills and hopefully overall cost-of-living, this may well also pique more interest in EVs.

Overall, a strong-to-stable February is forecast, but as with January, a close eye on Live values will benefit vendors and buyers alike.

Current used valuations February 2023 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	0.7%	1.1%	1.9%	3.0%
Supermini	0.0%	1.4%	3.2%	5.2%
Lower Medium	(0.6%)	0.8%	2.3%	5.1%
Upper Medium	(1.2%)	0.4%	1.3%	2.6%
Executive	(0.3%)	0.0%	1.0%	2.3%
Large Executive	(1.8%)	(1.6%)	(1.7%)	(0.2%)
MPV	(0.4%)	(0.4%)	0.3%	0.9%
SUV	(0.8%)	(0.2%)	1.5%	3.4%
Convertible	(1.8%)	(1.2%)	(0.7%)	0.6%
Coupe Cabriolet	0.0%	(0.4%)	(0.8%)	0.7%
Sports	(1.0%)	(1.1%)	(1.2%)	0.3%
Luxury Executive	(0.6%)	(0.8%)	(0.2%)	0.1%
Supercar	(0.6%)	(0.8%)	(1.5%)	(0.4%)
Overall Avg Book Movement	**(0.7%)**	**0.1%**	**1.5%**	**3.1%**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	2.9%	1.8%	2.0%	1.8%
MPV Medium	(0.5%)	(0.4%)	0.6%	1.0%
MPV Large	(0.3%)	(0.7%)	(0.7%)	0.2%
SUV Small	(0.2%)	0.3%	1.2%	4.1%
SUV Medium	(0.8%)	0.1%	2.0%	3.9%
SUV Large	(1.2%)	(1.8%)	(0.6%)	1.0%

( ) Denotes negative percentages

Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
AUDI E-TRON (18-) Electric	(5,100)	(3,000)	(3,852)
BMW I3 (13-22)	(2,800)	(2,000)	(2,393)
DACIA SANDERO (13-20) DIESEL	1,050	1,050	1,050
KIA E-NIRO (18-) Electric	(2,450)	(2,000)	(2,237)
KIA SPORTAGE (15-22) DIESEL	550	700	616
PEUGEOT 308 (13-21) DIESEL	400	650	496
SKODA KODIAQ (16-) DIESEL	500	1,200	889
TESLA MODEL 3	(4,100)	(3,450)	(3,783)
VOLKSWAGEN UP (12-)	275	550	390
VOLVO XC90 (14-) DIESEL	700	900	800

( ) Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
CITROEN C4 CACTUS (14-21)	650	800	700
HYUNDAI IONIQ (16-20) ELECTRIC	(600)	(600)	(600)
INFINITI Q30 (15-20) DIESEL	575	800	691
KIA CEED (12-18) DIESEL	475	900	687
KIA SOUL (14-19) ELECTRIC	(1,100)	(1,100)	(1,100)
MITSUBISHI OUTLANDER (13-19) DIESEL	1,050	1,200	1,100
NISSAN JUKE (10-20) DIESEL	425	525	466
SKODA KODIAQ (16-) DIESEL	600	1,000	808
VAUXHALL MOKKA (12-19) DIESEL	550	1,575	925
VOLVO XC90 (14-) DIESEL	500	700	591

( ) Denotes negative value