Car editorial
By cap hpi

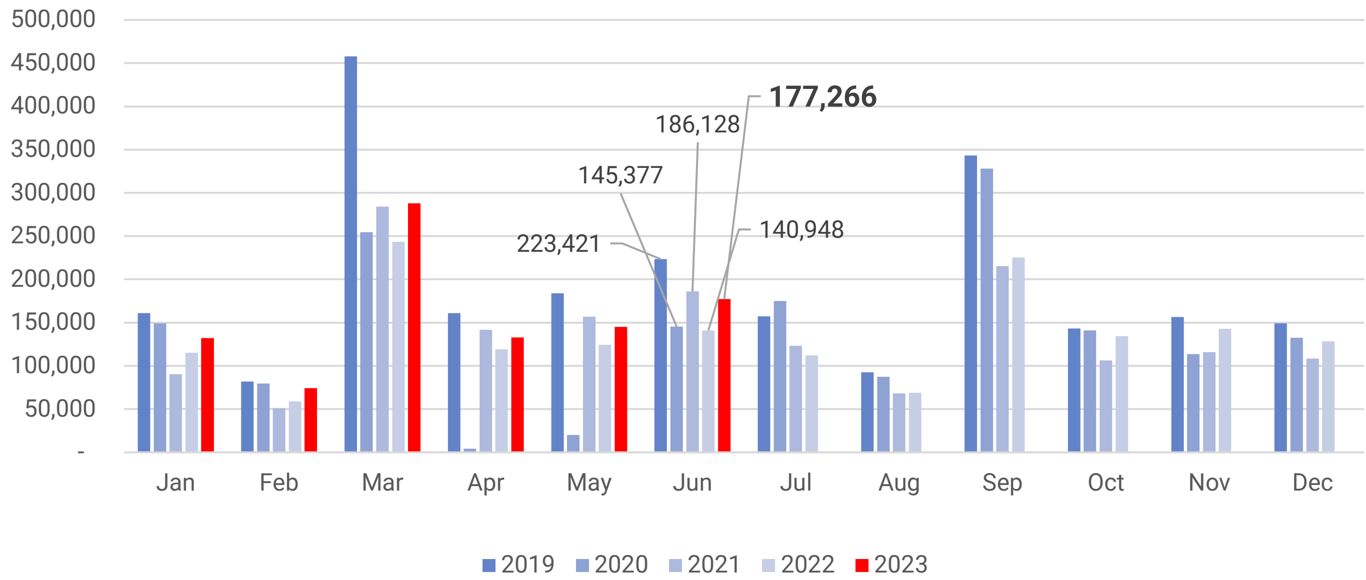
August 2023

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 June 2023 and used car activity at the time of writing. All information is correct as of 26th July 2023.

New car sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), 177,266 cars were registered in June 2023, an increase of 25.8% over the same month last year, and marking the eleventh consecutive month of growth. However, in pre-pandemic June 2019, there were 223,421 cars registered, 20.6% ahead of this year.



Source: SMMT

Year-to-date, 949,720 cars were registered to the end of June, an 18.4% increase on the 802,079 in the same period last year, but still a 25.2% reduction on the same period in 2019, when 1,269,245 cars were registered. Supply restrictions continue to ease, but the market is yet to fully recover, and over 2.3m fewer cars than one would normally expect, have been registered since the start of the pandemic.

Fleet registrations continued their resurgence, up by 37.9% for the month, for a market share of 52.3%, with 92,699 registrations, and up by 38.4% year-to-date, with a 51.7% share and 490,723 registrations. Private demand did also increase, but by a more modest 14.8% for the month (79,798 registrations), and is now up by just 1.7% for the year so far, with a volume of 435,325 cars. The remainder is taken up by the far smaller Business sector, with a 2.5% market share to date.

Petrol driven cars continue to be the most popular fuel-type, with a 56.9% share of the market year-to-date; they increased by 22.7% in the month of June. Next most popular in 2023 are Battery Electric Vehicles, increasing by 39.4% in the month, for a share year-to-date of 16.1%. Hybrid Electric Vehicles increased by 40.1% in June, for a share now of 12.6%, whilst Plug-in Hybrids increased by an impressive 65.5%, for a share of 6.5%. Diesel volumes continue to decline, down 13.5% and taking up just 7.9% of the market. The increases for Battery Electric Vehicles continue to be driven by registrations in the fleet sector, as that is where the most attractive incentives are on offer.

Used car retail activity

Following a continuing theme from June, used car retail market activity in July continued to produce mixed results, according to our internal retail data analysis and dealer sentiment received. Retailers have broadly reported business as being a little bit more of a struggle this month, although a minority have reported a slight uptick in sales. Any positive results have been well received and much needed whilst the more flat results are in line with 'seasonal expectation'. The market does seem to have fallen back into a more seasonal pattern and perhaps more in line with pre-COVID levels, as we now move into the school holiday period with potential consumers preparing to go on their summer vacations.

When analysing advertised data, prices have remained largely stable and again with 'good' margins being applied to fresh stock, with only small pricing adjustments being applied as and when needed, rather than creating a race to the bottom. Ageing stock continues to be the most challenging area of the market and on average has received the largest downward pricing adjustments, as evidenced in our retail feeds again this month. Dealers have had to return to a 'back to basics' mindset over the past few months and fight for business in a highly competitive market, so ensuring pricing is correct and every sales lead is properly managed has been crucial in converting opportunities.

A continuing theme across the market is that dealers have been trying to build more profit into the car itself due to the current pressures around lower finance penetration and losses of funding revenue. It has been reported that finance approvals have been reducing over the past few months either due to either affordability factors and/or consumers deciding to look elsewhere to obtain funding, due to increasing interest rates. These concerns are backed up within the Fleet and Leasing Association latest report which highlighted that the consumer car finance market fell by around 10% in May. This was the second consecutive month of decline, and it comes as the cost of living and interest rates continue to rise.

Pressure on electric vehicles continued to ease, with the latest trade and retail prices making the switch much more compelling for both dealers and consumers. As reported last month, a number of models, where prices, attractive finance rates and monthly payments now look reasonable compared to their internal combustion engine equivalents, has helped generate some additional interest in EVs. Some dealer groups continue to offer free home charger units when purchasing a used EV, this can save the consumer up to £1,000 on installation costs. Of the volume models available in the market, the Tesla Model 3 continued to be one of the fastest selling vehicles, mainly driven now by its comparatively attractive price point.

In summary, retail activity remains largely flat and with a much more seasonal feel to it, and now with the school holidays in full flow, maintaining similar sales results could be a little more challenging throughout the remainder of the summer period.

Used car remarketing activity

Remarketing activity for July could be best described as consistently inconsistent, as the performance of used wholesale vehicles has ebbed and flowed from week to week, and in some cases, from day to day. Trade buyers have been out sourcing stock, in lower volume, but have remained diligent and highly selective, ensuring that they only hunt out the best condition stock on offer. Buying little and often remains the trend whilst ensuring they have the right model mix to meet the needs of the retail consumer.

As reported last month, it remains a continuing theme for July in that the proportion of cars sold by fleet, leasing and finance, as well as manufacturers, has increased again within our sold data feeds. This a not really a surprise when you consider that new fleet registrations are now up by circa 38% year-to-date, when compared to the same period last year. Rental companies on the other hand, are still remarketing relatively few cars with disposal volumes still well below pre-COVID levels.

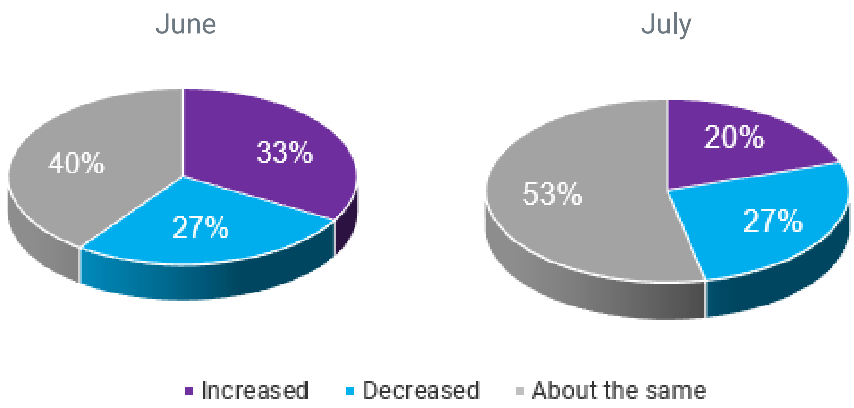
Auction activity throughout July has been steady, with higher graded vehicles selling quickly and for a fair price. Fleet entries that have been well maintained and/or refurbished have been the most sought after, while older, high-mileage, damaged, or mechanically-challenged cars have been much more difficult to offload. Vendors who have reacted accordingly to the division in vehicle conditions, have reported higher buyer engagement which in turn has led to improved conversion rates. With longer refurbishment lead times, increasing labour, parts and material costs, some venders have opted to tone down their preparation on cars in order to save precious days in stock.

Similarly to June, prices are not increasing but demand remains resolute as we enter the summer holiday period. Although supply from certain channels has increased of late, it has not led to an oversupply of used cars entering the market, and therefore the market still remains well balanced.

Whilst there still remains lots of focus on the performance of EVs within the wholesale market, we continue to witness a persistent improvement in demand, and this is despite de-fleet and wholesale volumes continuing to increase month-on-month. A number of remarketing companies disposing EVs have reported improved engagement levels from both independent and franchise dealers, although no one appears to be buying them in large volumes. Trade buyers remain very selective and ensure that they only procure models that hit an attractive retail price point whilst maintaining a sensible margin. However, a number of electric vehicles can still be difficult to sell, especially those at the lower end of the market and with limited ranges.

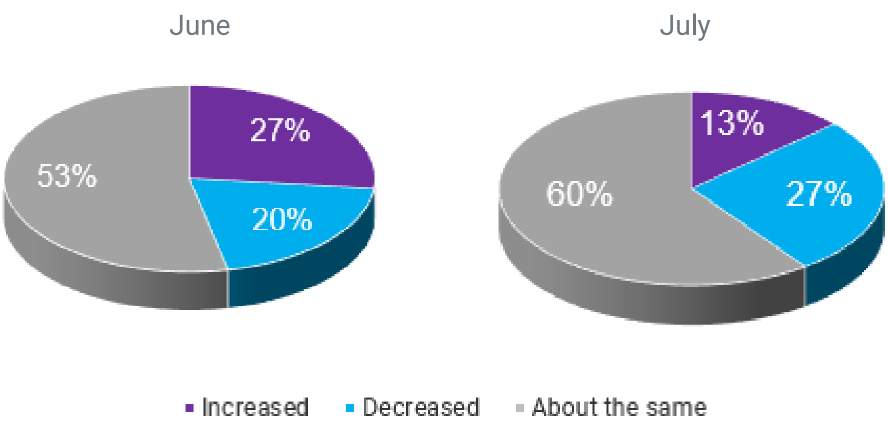
Below are the results of the Cap Hpi July auction survey. Thank you once again to all respondents.

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



Stock levels have either remained the same or increased for 73% of this month's respondents, with 27% seeing a decrease compared to June. This would indicate that stock levels remain healthy for the time of year, but we are likely to see reduced stocking levels throughout August as the industry prepares itself for the September plate change and an increase in part-exchanges and fleet returns.

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



Demand has again remained very steady this month with 60% of respondents reporting it being on par with June. Almost a third said that demand had decreased but 13% said it had actually increased. This backs up that the market is still in good health and very well balanced in terms of current supply and demand dynamics.

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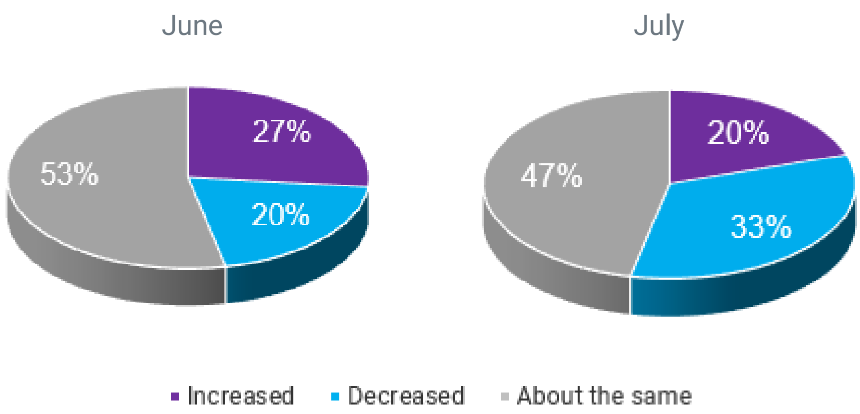
How do your conversion rates compare to last month?



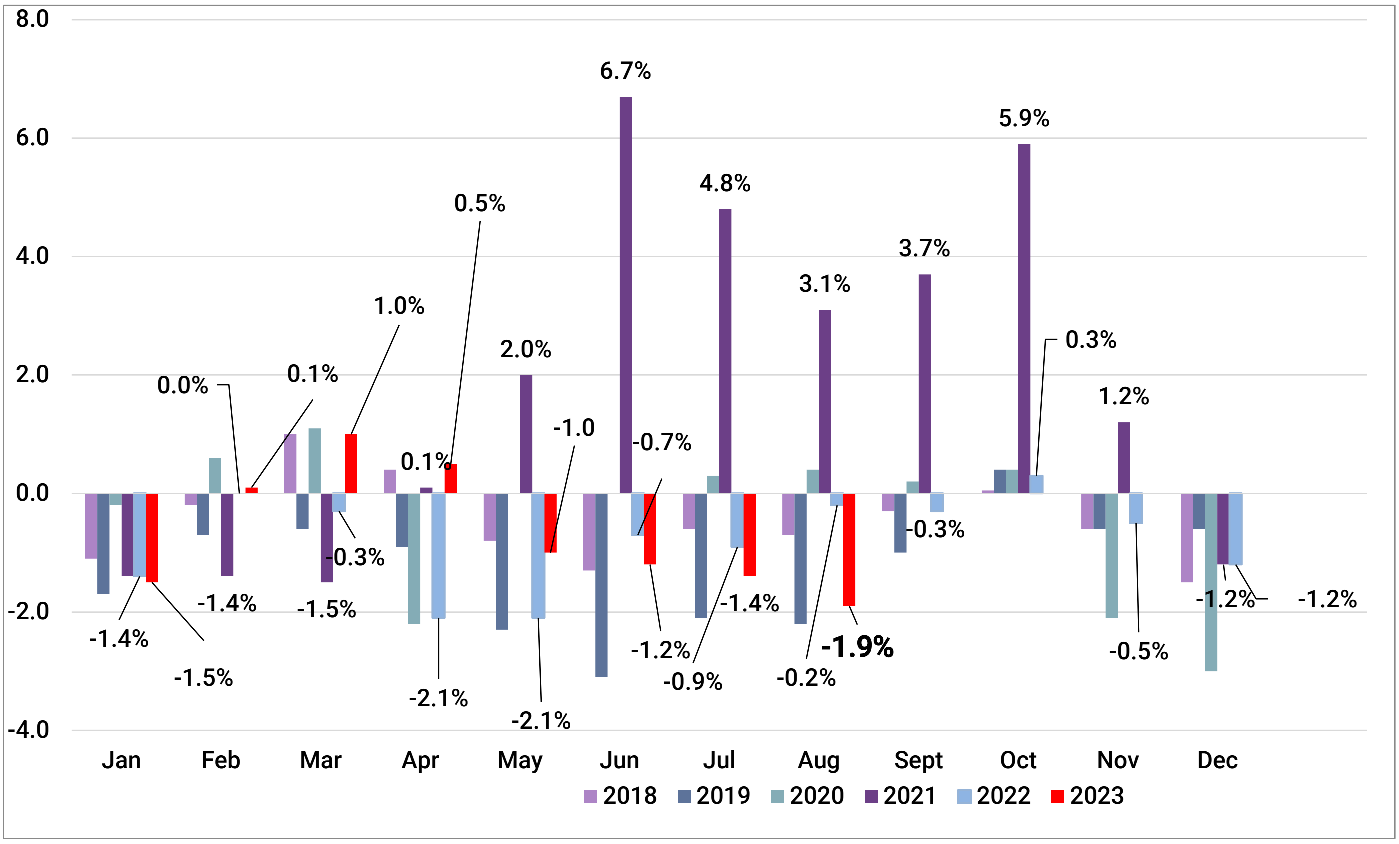
Conversion rates have remained at similar levels to last month with 47% of respondents reporting no change, with 20% reporting an increase. A third of companies surveyed did report a further decline compared to June, but this is quite normal for the time of year when trade and retail demand usually declines.

Used cars – trade values

Whilst wholesale activity throughout July has remained relatively healthy, this has again not led to an increase in Cap Live values. Dealers have continued to operate cautiously when purchasing stock, and it is important to remember that prices are still way ahead of where they were a couple of years ago – circa 30% higher. With the wholesale market now starting to see improved return levels, due to increasing month-on-month new car registrations, this has now led to a more normalised market with some used car pricing deflation.

Cap Live values in July have seen an average movement of -1.9% or -c.£350. The average movement for July into August monthly, since Live was introduced in 2012 and ignoring the last three, highly unusual COVID affected years, is a drop of 1.2%. The largest drop was in back 2019, at 2.2% when the market was readjusting to the previous year's increases in values.

Monthly percentage movements in Live valuations (3-years, 60k miles) – **August figure depicts July's Cap Live**



At the 1-year age point, values dropped by 1.6% or c.£525. At the older age points, cars were again slightly more affected, dropping by -2.2% (-c.£250) at 5-years and -2.9% (-c.£135) at 10-years old. Older stock has now become a little less attractive to trade buyers due to an increase of younger lower mileage stock returning to the market, and increased refurbishment costs and lead times.

City Cars have again been the weakest sector overall dropping by 3.2% or c.£250, following last month's drop of 3.5% (-£280). Even with two sizeable month-on-month percentage drops, this sector still remains in a state of inflation when compared to 12 months ago. It is also worth pointing out that even though the percentage drop is the highest of all sectors again this month, it is actually the lowest in monetary terms of all the mainstream sectors. Notable movers within this sector are the Fiat Panda down 6% or c.£450 and the Peugeot 108 down 4% or c.£280.

Looking at the other mainstream sectors, Lower Medium (C-sector) dropped by -2.0% or c.-£270 closely followed by Supermini at -2.2% or c.-£245 and SUVs also dropped by -2.0% or c.-£420.

It has again been another fascinating month when analysing fuel-types. Both petrol (-1.8%) and diesel (-1.9%) have dropped by similar percentage points, and in line with the overall 3 year average movement, it is the alternatively-fueled vehicles that continue to drop by more than the average, with the exception of Plugin Hybrid at -1.6% or c.-£400. Electric vehicles have dropped by the most at -2.8% or c.-£600, followed by Hybrid at -2.1% or c.£365.

As we enter the 11th consecutive month of negative adjustments for EVs, the battery powered vehicles have returned to being the lowest performing fuel type this month. The cumulative movement for EVs over the last 11 months now amounts to -42.6% - in comparison to petrol which has only moved on average by -5.3% during the same period.

The latest EV movement reverses the trend for every month's movement since March for that fuel-type, in that each month had been more positive than the previous one. July saw a movement down of 1.9%. However, August's movement does still stand as the second lowest downward movement of the year. Whilst the majority of EVs this month have more or less moved back in line with other fuel types which sit in the same sector, there have been a number of examples that continue to see some larger adjustments.

Wholesale volumes for the Tesla Model Y continue to increase, impacting on the performance versus cap, resulting in a -4.1% or c.-£1,625 movement being applied. The Renault Zoe is another model where choice is plentiful in the wholesale market, and values have moved back -5.0% or c.-£400. Some EV models that may have previously been less impacted, due to being so early in their lifecycle, have now started to see adjustments being applied as they now find their place within this complex market. Examples of these this month are the Cupra Born -5.9% or c.-£1,700, Kia EV6 -4% or c.-£1,700 and the Renault Megane E-Tech -3% or c.£850. As mentioned, a number of electric vehicles are still difficult to sell, especially those at the lower end of the market with limited ranges. Some examples of these are the Citroen C Zero -10.5% or c.-£750, Seat Mii -8% or c.-£575, Honda e -5% or c.-£650 and the VW Up -6% or c.-£550.

As expected, wholesale volumes continue to increase at a phenomenal rate and at the end of June we had already received 90% of last year's volume in the first 6 months of this year. June in fact saw us receive the most volume of sold EV data than in any other month.

When analysing the average auction days in stock along with the average number of sales attempts, this also appears to have stabilised despite the large increase in EV volumes entering the market, as the average days in stock for July sits at 16 days in stock and 1.4 attempts to sell - in February this was 28 days and 3.3 attempts to sell. As a comparison, petrol performance for July was 8.4 days in stock with 1.5 attempts to sell.

To summarise, a very seasonal feel to the market overall for July with a slightly heavier than average downward move but based off the strong start to the year, where values increased from January to March in Cap Live. Further realignment is continuing for some alternatively-fuelled vehicles as they find their own place within the market.

What next?

Last month, our prediction was:

"July will see more consumers focussing on holidays, with fewer looking to buy a car, particularly with interest rates continuing to rise and more and more fixed rate mortgages coming to an end, putting pressure on household budgets. That being said, used cars remain a necessity purchase for many, and supply levels remain some 15% below pre-COVID 2019, so it is unlikely that there will be any untoward pressure on average values. Similar average downward market moves to those we have seen over the last quarter are likely in July.

The used car market will continue to see volatility for alternatively-fuelled vehicles, however, with hybrids under pressure due to price discrepancies from EVs, and EVs themselves continuing to realign amongst themselves, seeking out more of a natural order after the last few tumultuous months".

August will likely see more retail consumers prioritising their holidays over purchasing a new or used car, so buying activity could remain muted during the summer holiday period. Wider economic factors such as rising interest rates, fixed mortgage deals coming to an end and pressure on household budgets will also likely play their part in further compounding buying activity, that said, there will still be the necessity purchases that will need to be fulfilled by consumers.

Taking in all the above factors and summer seasonality, we are likely to see some similar used car market deflation in August with average downward market movements being applied. The used car market will also continue to see volatility for alternatively-fuelled vehicles, however, with hybrids under pressure due to price discrepancies versus EVs, and EVs themselves continuing to realign amongst themselves, seeking out more of a natural order after the last few tumultuous months. As always, keeping close to daily Cap Live values remains paramount for all fuel-types as demand and supply dynamics play out differently for different models.

Current used valuations August 2023 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(2.0%)	(3.2%)	(4.5%)	(3.9%)
Supermini	(2.3%)	(2.2%)	(2.1%)	(3.2%)
Lower Medium	(1.7%)	(2.0%)	(2.4%)	(3.3%)
Upper Medium	(1.4%)	(1.8%)	(2.5%)	(2.6%)
Executive	(1.5%)	(1.8%)	(2.1%)	(3.4%)
Large Executive	(0.7%)	(0.9%)	(1.7%)	(1.6%)
MPV	(1.5%)	(1.7%)	(2.0%)	(2.2%)
SUV	(1.8%)	(2.0%)	(2.1%)	(2.6%)
Convertible	(0.7%)	(1.1%)	(1.1%)	(2.7%)
Coupe Cabriolet	0.0%	(0.3%)	(1.3%)	(5.9%)
Sports	(0.8%)	(1.0%)	(0.8%)	(1.5%)
Luxury Executive	(3.9%)	(2.9%)	(0.4%)	(0.3%)
Supercar	0.3%	(0.3%)	(0.6%)	0.1%
Overall Avg Book Movement	**(1.6%)**	**(1.9%)**	**(2.2%)**	**(2.9%)**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(3.2%)	(2.1%)	(2.8%)	(3.4%)
MPV Medium	(1.6%)	(2.0%)	(2.3%)	(2.4%)
MPV Large	(1.5%)	(1.2%)	(1.3%)	(0.8%)
SUV Small	(2.4%)	(2.1%)	(1.9%)	(2.9%)
SUV Medium	(1.7%)	(2.0%)	(2.3%)	(2.6%)
SUV Large	(1.4%)	(1.5%)	(1.5%)	(2.6%)

( ) Denotes negative percentages

Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
FIAT PANDA (12-)	(850)	(425)	(645)
FORD FIESTA (17-22)	(1,050)	(350)	(548)
JAGUAR I-PACE (18-)	(1,750)	(800)	(1,210)
JAGUAR XF (15-) DIESEL	(1,200)	(900)	(1,041)
LAND ROVER DISCOVERY (16-) DIESEL	(1,200)	(900)	(1,085)
PEUGEOT 3008 (16-)	(800)	(550)	(675)
PEUGEOT 3008 (16-) DIESEL	(1,000)	(750)	(875)
TESLA MODEL 3	(900)	(550)	(687)
VOLKSWAGEN UP (12-)	(600)	(400)	(481)
VOLVO S90/V90 (16-) DIESEL	(1,000)	(850)	(925)

( ) Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
FORD S-MAX (15-20) DIESEL	(900)	(600)	(744)
KIA SORENTO (15-21) DIESEL	(750)	(200)	(435)
KIA SOUL (19-) ELECTRIC	(650)	(650)	(650)
LAND ROVER DISCOVERY SPORT (14-20) DIESEL	(1,150)	(500)	(864)
NISSAN JUKE (10-20) DIESEL	(975)	(225)	(600)
SEAT LEON (13-20)	(700)	(350)	(424)
SKODA OCTAVIA (13-20)	(750)	(325)	(520)
TESLA MODEL X (19-21)	(1,000)	(900)	(950)
TOYOTA PRIUS+ (12-21) HYBRID	(1,250)	(1,150)	(1,200)
VOLKSWAGEN GOLF (13-21)	(600)	(400)	(530)

( ) Denotes negative value