Car editorial
By cap hpi

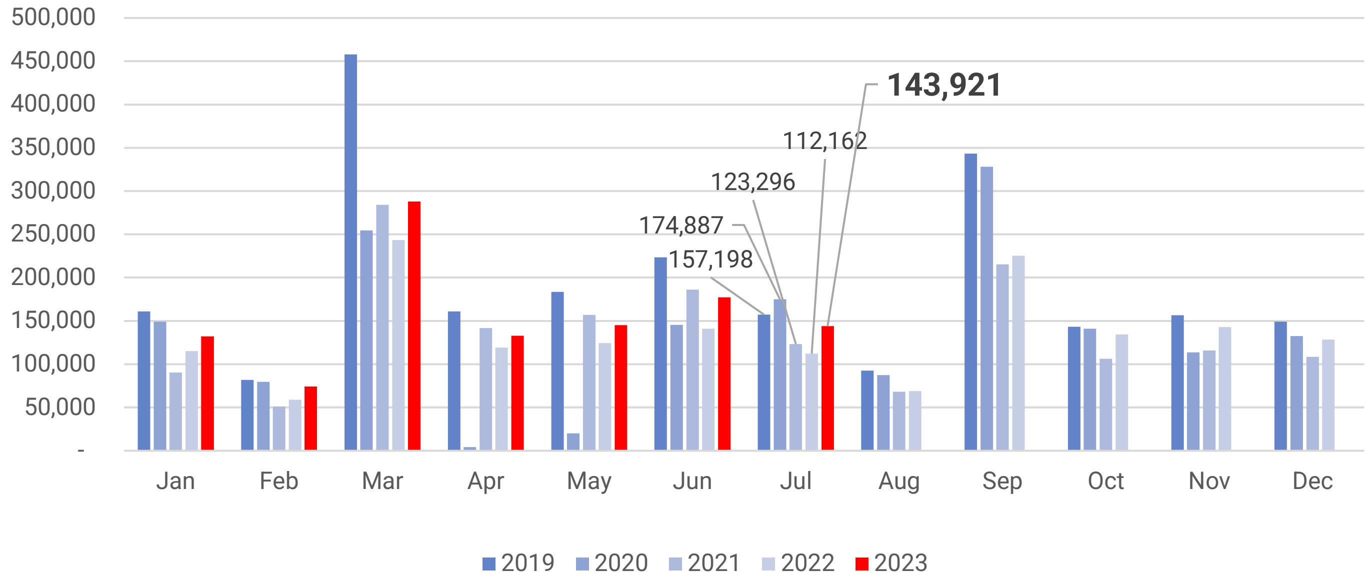
September 2023

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 July 2023 and used car activity at the time of writing. All information is correct as of 25th August 2023.

New car sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), 143,921 cars were registered in July 2023, an increase of 28.3% over last year's 112,162, marking a full 12 months of growth for the market. Registrations in July remain down on both 2019 and 2020, however, by 8.4% and 17.7% respectively, so have to be analysed against the backdrop of last year's supply issues.



Source: SMMT

Year-to-date, 1,093,641 cars were registered to the end of July, a 19.6% increase over the 914,241 at the same point last year but still 23.3% behind 2019 (1,426,433 to the end of July). The market continues to recover but remains well below pre-pandemic times.

Fleet registrations continue to lead the charge, up 61.9% in the month and 41.3% for the year, with a share of 56.3% in July and 52.3% year-to-date. Private registrations remain muted, up just 0.3% in July and 1.5% for the year, as consumers continue to be wary around big-ticket purchases, as cost-of-living concerns remain and increasingly fixed rate mortgages come to an end. Daily Rental registrations are one to watch, as they increased by 188% in the month, but do still remain well below pre-COVID levels.

Battery Electric Vehicles, the majority falling within those fleet figures, increased by 87.9% in the month (+38.0% for the year so far), now taking a 16.1% share of the market. Diesel car registrations continue to decline and make up just 7.9% of registrations in 2023. Petrol still takes the largest proportion with a 56.8% share. Hybrid Electric Vehicles increased by 18.9% in July, 29.1% year-to-date, for a 12.4% share, with Plug-in Hybrid Electric Vehicles up 79.1% in the month, 27.8% for the year, and a share of 6.8%.

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Used car retail activity

Following June and July being best described as “mixed” for retailers, August has seen a more consistent pattern, as the market has toughened up for the majority of retailers. The school holiday season has been in full swing, with many consumers taking time away. On top of this has been the continued spectre of cost-of-living concerns continuing to bite. For the necessity purchase, there remains consistent demand, where a car urgently needs replacing, but the aspirational end of the used car market has certainly been more sluggish. It is important to put this into context, however, August can often slow down as vacations take prominence, and it has felt very “seasonal”.

Indeed, whilst most retailers have reported August as tougher than July, they have remained relatively upbeat and continued to focus on converting the demand that has appeared, whilst also preparing for what should be a more buoyant September. That being said, finance penetration and margins have been under more pressure over the last few weeks. Interest rates and used car prices remain high, with values still upwards of 25% on average higher than at the start of 2021, with some cars around 50% more than they were two and a half years ago, including many mainstream models such as the Fiat Panda, Hyundai i10, Kia Rio and Skoda Octavia. This equates to thousands of pounds on each and can be a barrier to renewing a fairly standard vehicle, particularly when taking interest rates and thus monthly payment increases into account. The cost of funding is a very real barrier to purchase.

There are some rays of light, however, with electric vehicles, having dropped so far in price over the last 10 months, now looking far more attractive to buy, and proving more popular, particularly around the London ULEZ zone that expands on 29th August, reaching out to the M25, although price does remain a barrier for many, with the scrappage incentive rarely enough to facilitate a change.

Overall, August has been a tough month for retailers and improvement in September is both expected and required.

Used car remarketing activity

The trade market has been relatively healthy in August, considering that retail has been muted. Dealers continue to rely to a certain extent on self-generated part-exchanges but have also been buying from wholesale sources in similar numbers to previous months this year. Trade volumes sit around 15% ahead of the same period last year, when supply was more restricted. Conversion rates remain positive, generally averaging in the mid-60% region.

Retailers are, however, being wary not to overstock and are also reluctant to buy vehicles that may require some time in their bodyshops or workshops. Cars with cosmetic damage or mechanical issues, such as engine management lights illuminated, remain undesirable to purchase. This undesirability is more acute when values are dropping, as they have been since April, as any time waiting for a car to go on sale attracts some depreciation, and if looking in monthly terms, a likely “book drop” to coin a traditional cap-related market term. In other words, the car is potentially worth less when it comes out of the workshop that when it went in, all things being equal.

The cap hpi team of editors and analysts constantly review NAMA (National Association of Motor Auctions) condition graded sold data in comparison to Average and Below values and in August reached a conclusion that adjustments were required to the margins from Cap Clean. As a result, Average and Below values have been reduced in comparison to Clean. The total *reduction* in margin from Clean to Below is between £200 and £400, depending on the model and value. As an example, a Vauxhall Corsa at Cap Clean of £9,000 now has a gap of £2,050 to Below, whereas previously this was £1,650. Cars over £40,000 have not been affected.

There has been some evidence of remarketers dropping some prices this month, but certainly not to a large degree. They have an eye on September and increased volumes from part-exchanges and fleet returns generated by new car activity as the “73” plate is introduced.

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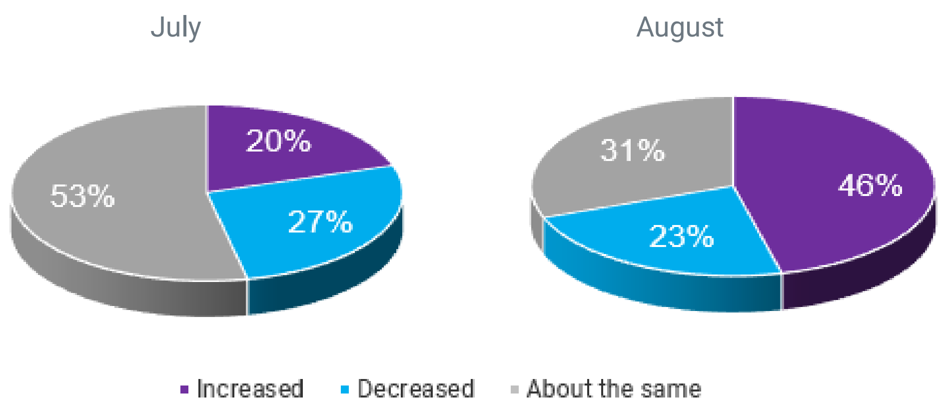
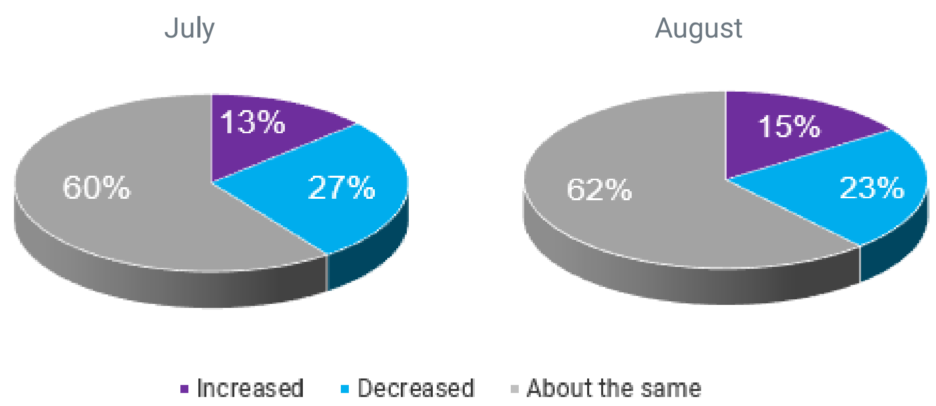
Below are the results of the cap hpi August auction survey. Thank you once again to all respondents.

How do your current stock levels compare to last month?



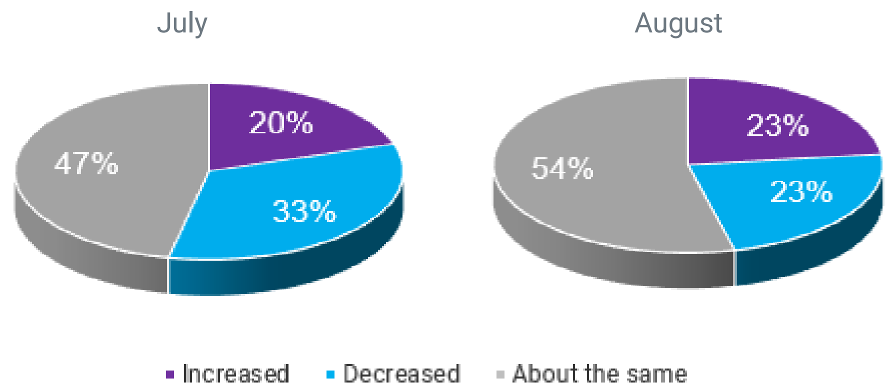
Stock levels have increased for almost half of respondents, compared to just 20% advising of this in July. An interesting and unusual dynamic for August. At this point last year, 60% of respondents stated that volumes were declining, with no one stating that they were increasing. As new car registrations continue to rise each month, more cars are appearing in the used market.

How does your current overall demand compare to last month?



Demand has remained static for 62% of auction companies replying to the survey, with just a small minority seeing an increase, unsurprising for the holiday season, but certainly more benign than last August, when almost one-third of replies stated that demand was on the increase.

How do your conversion rates compare to last month?

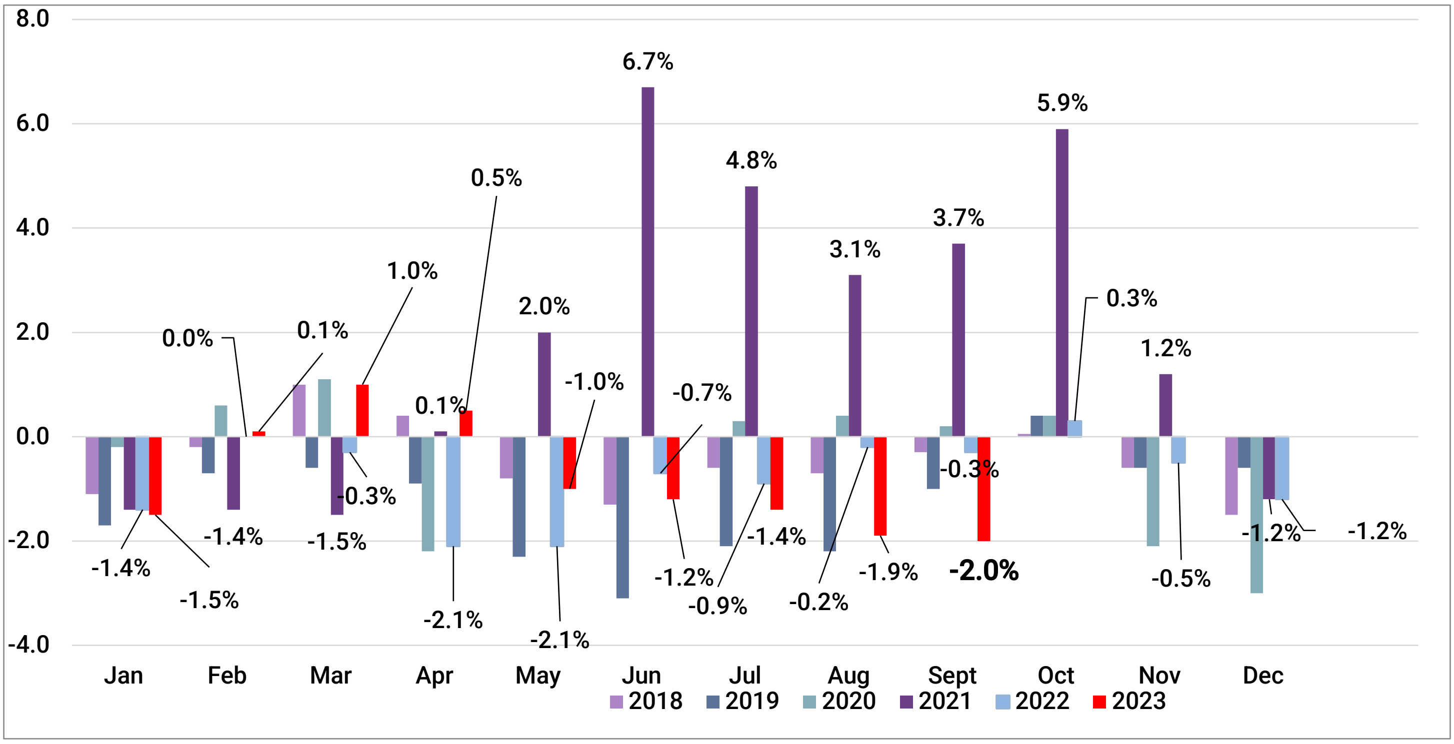


Conversion rates remain in a similar position to July for over half of respondents, with less than last month seeing a decline. Last August, over half of respondents were seeing an increase.

Used cars – trade values

As one would expect, taking into account the retail and wholesale markets being less active than most would have hoped for, values have come under pressure in August. Cap Live values, leading to September's monthly values, dropped by 2.0% at the 3-year point, equivalent to £390. After a strong first quarter, when values increased, this is the fifth consecutive month of value reductions, with each month seeing an increasing percentage of deflation. It is also the largest drop in August since Live was introduced in 2012, indeed you have to go back to the 2.4% drop in August 2010 for anything more severe than this. The average drop between 2012 and 2019, before COVID affected the next years, was a drop of 0.6% - the month is generally a stable one, with low supply and steady demand. This year, supply is increasing, despite low registrations over the last three and a half years, and demand is more muted than usual, plus values remain inflated from 2021 increases.

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



At the 1-year age point, values have dropped by 1.8%, equivalent to £600. It will be interesting to see if this is more acute over the next month or two if pre-registration activity appears in earnest. At the 5-year point, values dropped by 1.9% (c.£230) and at 10-years by 2.4% or £115.

Looking at mainstream sectors, city cars have fared the best, dropping by 1.1% or c.£100 and this after a period of 4-months that had seen a 9.5% (c.£800) cumulative drop, with 6.7% in the last two months alone. Maybe a realignment was required, having been the strongest performing sector for 12 months, but values have generally stabilised in August. Although the reduction was smaller than recent ones, there were still some models that dropped by more than the average, with the Fiat Panda and Hyundai i10 dropping by three times the average. It is no coincidence that these were mentioned in the retail section of this overview as being two models that had risen the most over the last three-and-a-half years. MPVs dropped by 1.2% (c.£160) and similar to city cars this appears to be a stabilisation as the downward movement is the lowest seen since April's Cap Live. Some of the more notable movers down are the BMW 2 Series Active Tourer, dropping by 3.6% or c.£500, the Ford Galaxy with a 4.0% or c.£650 drop and the Volkswagen Caddy Life down 5.0% or c.£650. All figures quoted are at the 3-year age point.

At the other end of the scale, the supermini sector has dropped by an average of 2.4%, equivalent to c.£250, continuing a downward trajectory since April. Despite low volumes, diesel superminis have seen some of the largest movements down, namely the Citroen C3 Diesel (-4.0% or £315), Nissan Micra Diesel (-7.0% or £600) and the Renault Clio Diesel (-9.0% or £640), maybe suffering a renewed reluctance to stock this fuel-type in this size of car.

SUVs have dropped by 2.1% (c.£500) in August, with medium-sized models being hit the hardest, particularly where volumes are high and there are multiple examples of similar models. There are few model ranges in this sector and size that have escaped a drop in August, with examples of some large drops seen for the Jaguar F-Pace and much of the Land Rover product, with the Discovery Sport Diesel dropping by almost 7.0%, equivalent to c.£1,775 at the 3-year point, as more volume has appeared in the market and buyers have been reluctant to pay what has been deemed as high prices.

Turning now to fuel-type, when viewing the averages, petrol, diesel, plug-in hybrids and battery electric vehicles have all dropped by similar percentages – between 1.7 and 2.1%. However, once again EVs seem to dominate the rhetoric, as they have done for all of this year. Indeed, with a 1.7% (£425) reduction in values for electric vehicles as we move into September, this now represents an unwelcome milestone as values have come down every month now for the past 12 months. The cumulative movement over this period of time is a staggering -44.3%.

As ever the headlines do not paint the full the picture and the devil really is in the detail. August Cap Live movements in isolation show that EVs are in fact the second strongest performing fuel type, with diesel, petrol and plugin hybrid vehicles all seeing larger adjustments. The movement of -1.7% is in fact the smallest movement applied to EVs this year. Many models are now seeing adjustments more or less in line with other fuel-types of vehicles that sit in the same sector, rather than the big adjustments we witnessed earlier in the year.

This month we have seen less pressure for some of the smaller and medium EVs, and many of these models now hit an attractive price point in the retail market, encouraging wholesale buyers, albeit in small numbers. With reasonable margins being applied and a sensible number of days-to-sell, many retailers feel more confident in stocking modest volumes of these EVs. Electric models of the Vauxhall Mokka, Peugeot 208 and Fiat 500 have all seen values remain level this month, whilst values have even increased for some such as the Kia E-Niro (1%/£140), Peugeot 2008 (1%/£125) and VW ID.3 (3%/£475).

However, some heavy reductions have been applied to some more expensive, premium EVs, maybe a reflection of some of the financial headwinds consumers are currently facing. Models like the Audi Q4 E-Tron (-4.0%/£1,475), BMW iX1 (-4.0%/£1,675), Jaguar I-Pace (-4.0%/£1,550), Mercedes-Benz EQC (-5%/£1,500) and Polestar 2 (-6.0%/c.£2,000) have all seen some of the biggest negative adjustments made throughout the month. Figures quoted here are at the 1-year, 10,000 mile age point.

Over the past 12 months, the Tesla Model 3 has established itself as a benchmark vehicle, with regards to price in the used market. Whilst this aspirational vehicle appears to have found its level in the retail market, trade values remained volatile this month with a downward movement of 2.1%, equivalent to almost £800 at 1-year old. Trade buyers can afford to be selective for the Model 3 due to the large volume of cars on offer in the wholesale market.

Overall, with both retail and wholesale used markets slightly muted, values have realigned in August. The average is nothing hugely untoward, and certainly no crash, but a relatively strong movement down for the time of year nevertheless.

What next?

Last month, our prediction was:

"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."

So what is in store for September and beyond? Sales channels in the new car market will be an interesting one to watch in the pivotal plate-change month. The retail market is subdued, with pressure remaining on household budgets, so it is likely that there will be some attractive offers to consumers (we are already seeing some), as well as larger volumes being diverted into fleet, including daily rental, and Motability. Volumes will no doubt increase in the used market accordingly, as part-exchanges and fleet returns appear in larger numbers.

Whilst the holiday period ending will result in more consumer demand, the cost-of-living concerns mentioned above remain. Necessity purchasing of cars will be a constant, but at the more aspirational end will demand be enough to mop up the increased supply?

Dealers are being mindful not to overstock, partly due to interest rates and the cost of borrowing to do so, and this will continue, so much depends on retail demand improving. With used car values remaining high, as mentioned earlier in this editorial, and volume increasing, it is likely that there will be further pressure on price. September is, however, a traditionally stable month and surprisingly you have to go back as far as 2016 to find the last time average values dropped in that month. In the eleven previous years since cap Live was introduced in 2012, there have only been four Septembers that values dropped and the largest of those was just -0.7% in both 2014 and 2015. It is therefore likely that we will break some Cap Live records for the month this time around with the severity of the reductions, although it would be a surprise if they were in excess of those experienced in August.

As we approach a pivotal month in the automotive calendar, it is more important than ever to track live trade values. Retail advertised portals provide detail on retailers aspirational selling prices to consumers, but cap hpi provide values based on actual trade selling prices, from over fifty different remarketing sources, as well as retail advertised pricing from five large, separate portals. As has been evidenced over the course of the EV valuation drops in the last year, basing buying prices off previously applied retail advert prices can be a dangerous policy in a falling market.

Current used valuations September 2023 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(1.9%)	(1.1%)	(0.3%)	(1.8%)
Supermini	(2.2%)	(2.4%)	(2.1%)	(2.0%)
Lower Medium	(2.2%)	(2.5%)	(2.1%)	(2.2%)
Upper Medium	(1.6%)	(1.9%)	(2.3%)	(3.4%)
Executive	(1.5%)	(1.7%)	(1.0%)	(1.3%)
Large Executive	(1.3%)	(0.8%)	(0.0%)	(0.1%)
MPV	(1.0%)	(1.2%)	(1.1%)	(2.4%)
SUV	(1.9%)	(2.1%)	(1.9%)	(2.1%)
Convertible	(2.0%)	(2.5%)	(3.2%)	(3.7%)
Coupe Cabriolet	(1.0%)	(3.3%)	(2.6%)	(3.8%)
Sports	(1.5%)	(1.8%)	(2.3%)	(0.4%)
Luxury Executive	(2.3%)	(1.1%)	(0.6%)	(1.4%)
Supercar	0.2%	0.0%	(0.2%)	(1.2%)
Overall Avg Book Movement	**(1.8%)**	**(2.0%)**	**(1.9%)**	**(2.4%)**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	0.0%	(1.5%)	(2.8%)	(2.9%)
MPV Medium	(1.3%)	(1.6%)	(1.2%)	(2.3%)
MPV Large	(0.7%)	(0.5%)	(0.5%)	(2.1%)
SUV Small	(2.1%)	(1.9%)	(1.5%)	(2.4%)
SUV Medium	(1.9%)	(2.2%)	(2.1%)	(2.2%)
SUV Large	(1.6%)	(1.9%)	(1.5%)	(1.4%)

( ) Denotes negative percentages

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Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
AUDI Q3 SPORTBACK (19-)	(1,200)	(750)	(942)
BMW 3 SERIES (18-) DIESEL	(800)	(450)	(636)
FORD GALAXY (19-22) DIESEL	(950)	(750)	(844)
HYUNDAI IONIQ (19-23) ELECTRIC	150	150	150
LAND ROVER DISCOVERY (16-) DIESEL	(3,100)	(2,300)	(2,657)
POLESTAR 2 (19-) Electric	(2,100)	(1,600)	(1,837)
SKODA KAMIQ (19-)	(1,450)	(700)	(1,058)
TESLA MODEL Y Electric	(800)	(800)	(800)
TOYOTA C-HR (19-) HYBRID	150	400	206
VAUXHALL CROSSLAND X (17-)	(1,050)	(350)	(886)

( ) Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
BMW I3 (13-22)	100	150	125
FORD PUMA (19-)	(450)	(350)	(400)
LAND ROVER RANGE ROVER EVOQUE (18-)	(1,600)	(1,050)	(1,322)
MERCEDES-BENZ GLC COUPE (19-) DIESEL	(1,000)	(850)	(891)
NISSAN X-TRAIL (19-22)	(350)	(300)	(331)
RENAULT CAPTUR (19-)	(550)	(400)	(508)
SUZUKI VITARA (18-)	(450)	(350)	(391)
VAUXHALL GRANDLAND X (17-)	(500)	(300)	(378)
VOLKSWAGEN GOLF (20-) DIESEL	(500)	(400)	(450)
VOLVO XC90 (15-)	300	300	300

( ) Denotes negative value