Car editorial

By cap hpi

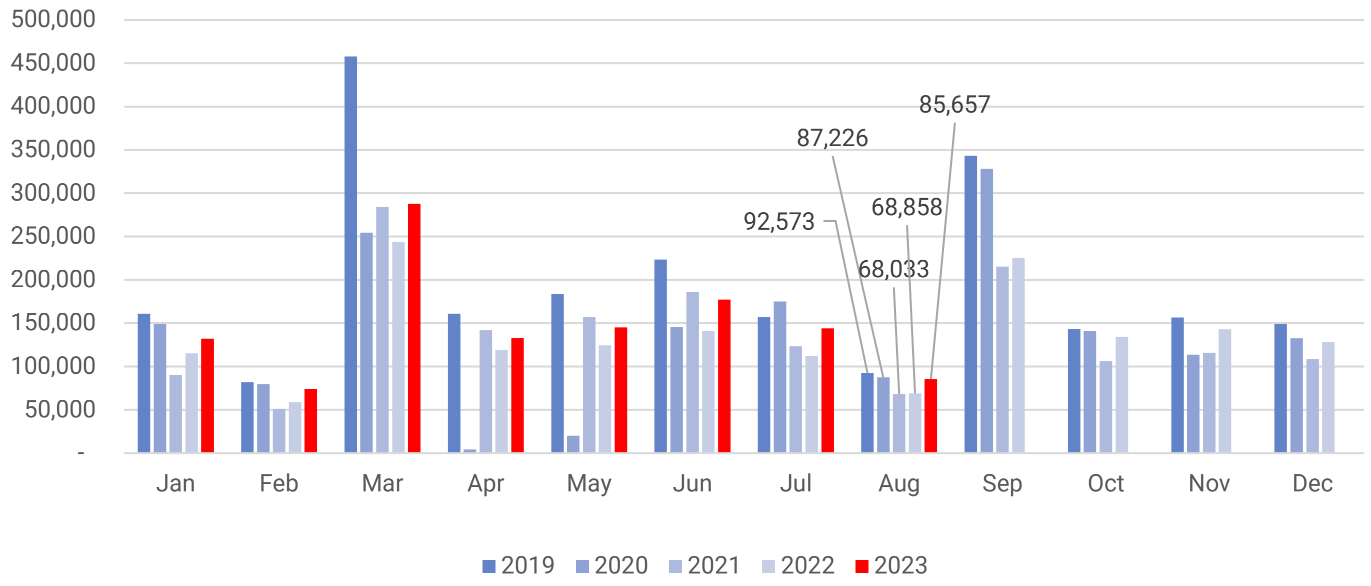
October 2023

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

New car sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), 85,657 cars were registered in August, an increase of 24.4%, or 16,799 units, over the same month last year but still lagging behind pre-COVID 2019.



Source: SMMT

Year-to-date, 1,179,298 cars were registered to the end of the month, a 20.0% increase over the same period in 2022, when the figure was 983,099.

Fleet registrations continue to lead the way, with a 58.4% increase in the month and 42.6% increase year-to-date, for a 60.7% share for the former and 52.9% for the latter. Private registrations actually dropped in August, by 8.1% compared to 2022, and are barely (+0.9%) above last year's volume year-to-date.

Much of the fleet increase was driven by Battery Electric Vehicle (BEV) registrations, which increased by 72.3% for the month (from 10,006 units last August to 17,243 this), for a market share of 20.1%. Year-to-date, BEVs are up 40.5%, with a share of 16.4%. Hybrids and Plug-in Hybrids also continued to increase and take up a further 19.1% share of the market in 2023 to date. Petrol registrations still make up the majority, with a share of 56.7%, whilst diesel volumes lag far behind now with a share of just 7.8%.

At the time of writing, September registrations are showing a healthy increase in all sectors of the market, including Private, Fleet and Daily Rental. There are some keen retail deals available as well as pre-registration activity increasing for some manufacturers.

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Used car retail activity

With consumer demand being muted during the school holiday period in July and August, retailers were hoping for an improvement in September, when people returned to normality after a break. Whilst the last few weeks have been slightly better than the summer period, it is fair to say that retail demand has remained below hopes and expectations for many dealers. There has been a mixed bag, but the general theme is quite downbeat, with some exceptions to the rule.

Those retailers that have sold in reasonable volumes have reported margins being squeezed, with some reporting that they are back down to 2019 levels, after the incredibly buoyant period of 2021 and 2022 in particular. Whilst retail advertised prices have held up relatively well, there is more room for negotiation by consumers now, particularly on cars that have been in stock for an unpalatable period of time. High interest rates are also having an effect on margins, hence a focus on keeping days-in-stock down as much as possible.

High interest rates and high used car prices also remain an issue for prospective buyers, with a realisation that if they are to change their car on a finance deal they are going to have a higher monthly payment to contend with, this at a time when there are many other cost-of-living pressures, not least mortgage payments increasing as fixed rates come to an end for many.

There remains positive demand at around the £5,000-£15,000 retail point, but above that it is more difficult. The necessity purchase is the staple of the used market, but the more aspirational end is certainly trickier and once you hit the real premium section of the market, selling becomes even harder.

Franchise dealers are focussed on new car registrations in the plate-change month of September, and for the first time since 2019, pre-registrations are back on the table in more volumes. As long as this does not get out of hand volume-wise, this creates opportunities for retailers to sell some reasonably priced “new” cars.

Interest in battery electric vehicles has improved over recent weeks, although it is too early to say whether this will be impacted by the government U-turn on the ban of internal combustion engine cars, moving the date back from 2030 to 2035. There are now some attractively priced EVs in the used market, as some have reduced in price by over 50% in the last 12-months, and the switched-on dealers certainly see some opportunities with cars such as the Renault Zoe and Nissan Leaf, with 3-year old examples in and around the £10,000 sweet spot. Some more expensive EVs remain a challenge, even when cheaper than their petrol equivalent. Tesla Model 3 and Model Y continue to be aspirational purchases for the consumer, although volumes of Model 3 in particular are plentiful so there is some pressure on price.

Overall, a mixed month in the retail market, with more negative than positive feedback; advertised prices are generally holding up, but margins are under pressure.

Used car remarketing activity

The wholesale market has remained strong in September, with dealers actively buying, despite a tough retail market. However, unsurprisingly there is no desire to stock up in huge numbers, and this is evidenced by cherry-picking at auction, with good condition cars in demand and anything in Average or Below condition being a struggle, and regularly not selling, even if priced attractively. There is no desire to stock cars that require paintwork repairs or have engine-management lights illuminated, particularly in today’s deflationary pricing market. This is a continuation of a theme over the last few months.

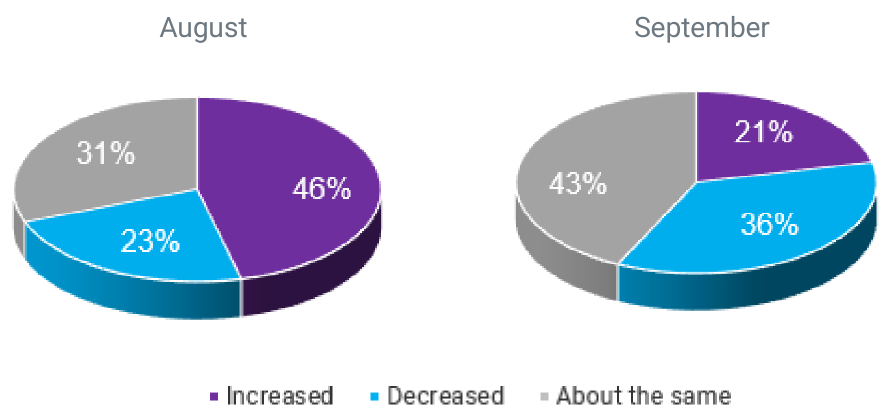
Volumes in the trade arena remain manageable, due in part to the lower than normal registrations since COVID hit, meaning there are c.2.4m less cars in the UK than there would have been without the pandemic. There have been increases in volumes compared to last year in recent weeks, however, from all areas, including auctions, manufacturer defleets, rental companies and fleet and leasing companies. Conversion rates remain similar to last month on average.

Some remarketers have reduced prices to sell these higher volumes, but not by huge amounts, edging them down rather than dropping them substantially would seem to be the best approach as volumes increase. Of course they have one eye on increased volumes generated by September registration activity hitting the market shortly.

Again there has been a fairly mixed picture amongst remarketers and the auction companies, but there is certainly no negative undertone. The wholesale market remains healthy. It will be interesting to track activity over the final quarter of the year, as volumes increase.

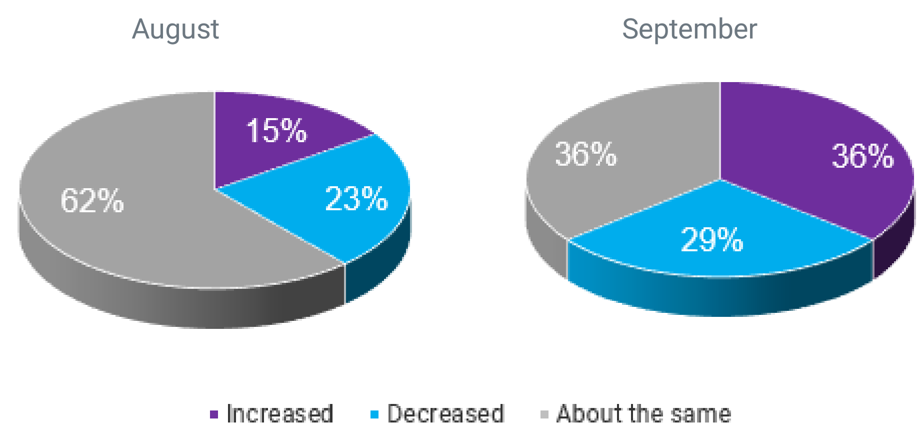
The auction survey results from September certainly illustrate this inconsistent picture:

How do your current stock levels compare to last month?



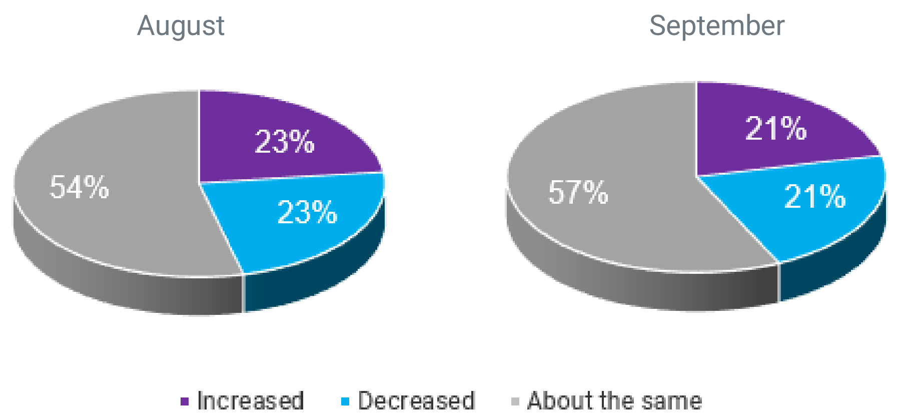
Last month there was a far clearer picture, with almost half of respondents seeing stock levels increasing. Perhaps surprisingly for a plate-change month, that number has dropped considerably this month, with only one in five seeing an increase, over a third seeing a decline and just under half seeing a stable picture compared to August. Part-exchanges and fleet returns tend to appear in higher volumes in October, as they can take some days to enter the wholesale market.

How does your current overall demand compare to last month?



There is some positivity with regards to demand, with an increase in the number of respondents seeing higher levels than in August, with over one -third seeing this improve. However, to illustrate the mixed picture, just under one-third have seen demand drop over the month.

How do your conversion rates compare to last month?



Conversion rates do remain relatively strong, and the picture in September was very similar to August, with over half of respondents quoting a similar situation to the previous month.

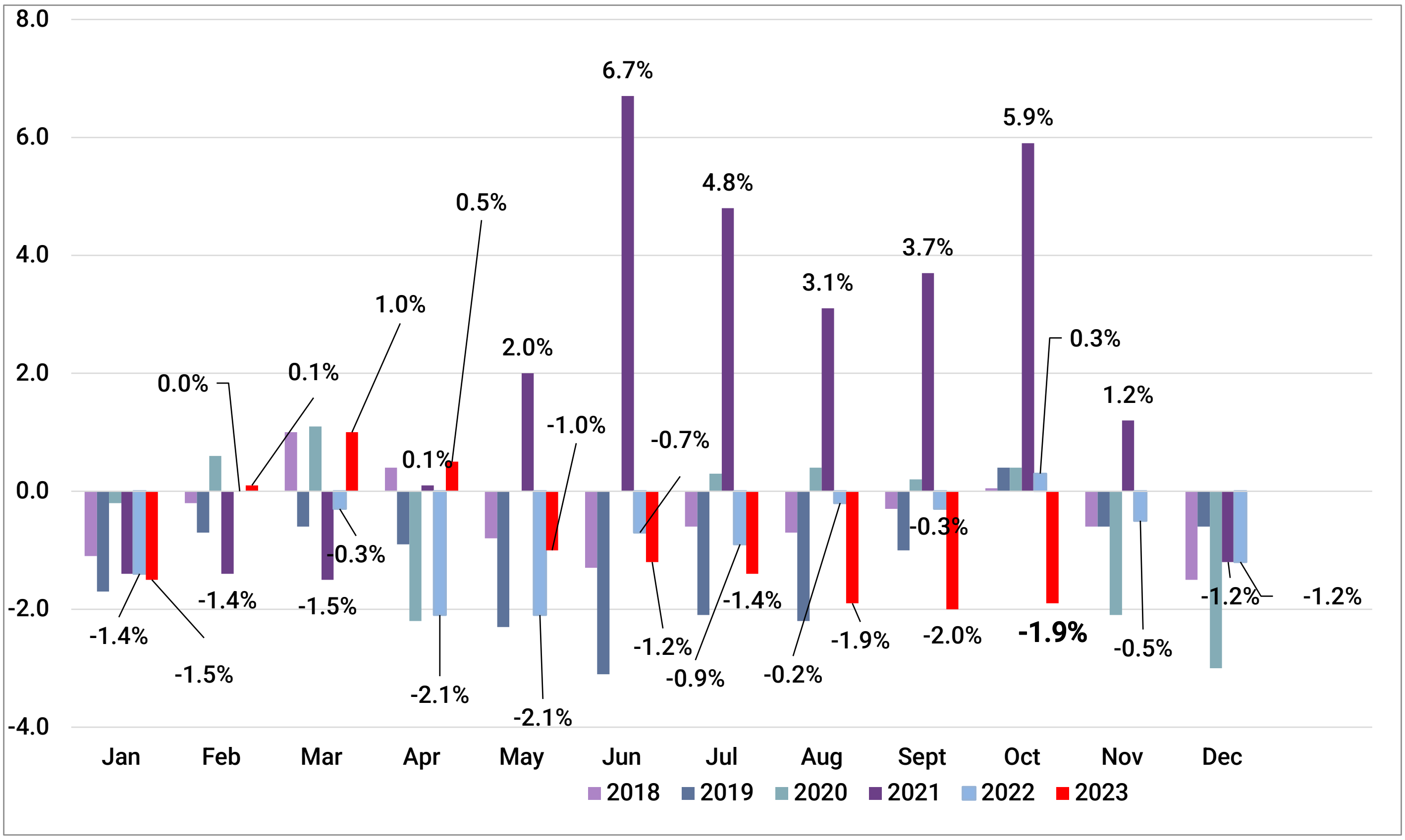
Used cars – trade values

So what has the inconsistent picture in both retail and trade meant for trade values?

The month of September is generally a positive one for Cap Live figures, indeed you have to go back to 2016 to find a negative movement in the month, when values dropped by just 0.2%. Since then, each year September has been either level or seen a small increase in values, apart from the outlier of 2021, when values went up by 5.9%.

This September, Cap Live is reporting a 1.9% or c.£420 decline in values at the 3-year, 60,000 mile point. This is the largest drop in the month since 2008, when values dropped by 4.1% as the financial crisis at the time affected the market. It is important to put into context, however, that used car values currently remain some 25-30% above where they were before those extraordinary increases in 2021. The downward movements now being experienced are a relatively gentle realignment, not a crash and they are no longer increasing in severity – value drops have been consistent for the last 3-months now.

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



Values at the 1-year age point dropped by 1.6% in the month, equivalent to c.£575, whilst older cars dropped by similar percentages – 1.8% at 5-years old and 2.1% at 10-years old, equivalent to -£250 and -£115 respectively.

Amongst the mainstream sectors, SUVs have fared the worst, dropping by an average of 2.1% or just over £500, with all sizes faring similarly with their average drops. There have been only a handful of SUVs experiencing an upturn in values, and these have been some of the more niche vehicles such as the Citroen C4 Cactus Diesel and the Kia Stonic Diesel, whereas Land Rover product has seen some of the largest drops, perhaps not helped by bad press around theft and insurance premiums for these vehicles. New car supply is also improving for Land Rover product, so more part-exchanges are appearing in the market. On average, Land Rovers have dropped by 3.8% or c.£1,300 at the 3-year point. There were other sizeable drops in values in September for SUVs, including the BMW X2 down between 3% and 3.5% dependent on the fuel-type, the Jaguar F-Pace down 6% for the diesel model and the Vauxhall Crossland X and Grandland X, down for both petrol and diesel fuel-types, by between 3% and 5%.

Other volume sectors fared similarly to SUVs, with Lower Medium dropping by an average of 2.0% and Superminis by 1.8%, equivalent to c.£300 for the former and c.£215 for the latter. The two strongest mainstream sectors were the same as in August – city cars and MPVs, both dropping by a reasonable 1.1% (c.£85 for city cars, c.£220 for MPVs). Both of these sectors continue to stabilise after a number of months of large drops over the spring and summer. Volumes are lower for these cars as SUVs continue to dominate.

Convertibles and Coupe Cabriolets have dropped by more than the average this month (-3.1% or c.£800 and -4.4% or c.£900 respectively), with a double whammy of seasonality and cost-of-living concerns hitting the aspirational purchase.

Turning now to the ever topical subject of fuel-type, Battery Electric Vehicles continue to dominate the headlines, but it is now a difficult area to generalise over, with many values moving in different directions for this propulsion type. However, for the first month this year EVs are the best performing fuel type on average at 3 years 60,000 miles, as values have reduced by just 1.0%, in comparison to petrol and diesel cars at -2.0%. September's Cap Live movement also represents the smallest average reduction to electric vehicles in the last twelve, tumultuous months. This relative positivity in the used wholesale market also comes against a backdrop of ever increasing supply. Year-to-date we have received over 30% more sold data records than in the whole of 2022 and August alone saw an increase of 82% over August last year.

The devil really is in the detail for EVs, however. We have continued to see small and medium-sized models perform relatively well against the rest of the market; many of these now carry a trade value that is far enough away from more aspirational vehicles making them look attractive in the retail market, even with a healthy margin applied. Examples of vehicles that have seen values increase are the Renault Zoe up 2%/£155, Nissan Leaf up 2%/£200, Hyundai Ioniq Electric up 3%/£300 and MG 5 Electric up 3%/£325, all at the 3-year age point. There has been a notable number of EVs that have seen no change in value too, like the Fiat 500 Electric, Peugeot 208 Electric and Volkswagen ID.3, which is no mean feat when the rest of the market has been softening. Although not all small and medium EVs have performed well, as reductions have been applied to the Honda e (-4.8%/£600) and Mini Cooper Electric (-2%/£280).

The trend continued for the more expensive EVs, along with the models that are relatively new in their lifecycle in the used market, to be under more pressure due to their higher price point, although many of the reductions are far less than those we have seen in previous months. When looking at the 1-year age point, notable downward movers have been the Audi E-Tron GT down 3.5%/£2,400, BMW iX1 down 3.6%/£1,450, Citroen C4X down 5%/£1,275, Kia EV6 down 3%/£1,175, and Nissan Ariya down 3%/£1,200. Values for the Tesla Model 3 have come down by 2.2%/£670 as buyers have plenty of choice when buying one of these.

Overall, a fascinating month for used value movements, with Cap Live coming into its own again, during a month where consistent patterns were often difficult to find.

What next?

Last month, our prediction was:

"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."

October will see increased volumes hitting the wholesale market, as fleet returns and part-exchanges become more plentiful from September registration activity. There is little reason to predict that consumer demand will improve, although the recent Bank of England announcement not to increase interest rates will not hurt and is welcomed across the industry. It is likely, however, that supply will outweigh demand, and with used values still high, on average, further pressure on them is likely. An average reduction similar to that of the last 3-months would not be a surprise, and indeed is widely expected.

The averages never paint the whole picture, and in a falling market, Cap Live's daily movements are an essential tool to managing stock, as well as buying and selling.

Current used valuations October 2023 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(0.6%)	(1.1%)	(1.2%)	(2.0%)
Supermini	(1.8%)	(1.8%)	(1.6%)	(2.4%)
Lower Medium	(1.7%)	(2.0%)	(1.8%)	(2.2%)
Upper Medium	(1.2%)	(1.5%)	(1.5%)	(1.6%)
Executive	(1.4%)	(1.8%)	(2.0%)	(2.6%)
Large Executive	(1.3%)	(1.6%)	(2.2%)	(1.1%)
MPV	(1.0%)	(1.1%)	(1.1%)	(1.5%)
SUV	(1.8%)	(2.1%)	(2.2%)	(2.4%)
Convertible	(2.9%)	(3.1%)	(3.3%)	(3.7%)
Coupe Cabriolet	(4.9%)	(4.4%)	(4.5%)	(6.4%)
Sports	(1.8%)	(1.8%)	(1.8%)	(1.7%)
Luxury Executive	(0.2%)	(0.2%)	(0.6%)	(0.9%)
Supercar	(0.5%)	(1.1%)	(1.3%)	(2.5%)
Overall Avg Book Movement	**(1.6%)**	**(1.9%)**	**(1.8%)**	**(2.1%)**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(3.9%)	(1.5%)	(0.2%)	(2.2%)
MPV Medium	(0.7%)	(0.9%)	(1.1%)	(1.6%)
MPV Large	(1.2%)	(1.3%)	(1.5%)	(0.8%)
SUV Small	(1.6%)	(2.2%)	(2.4%)	(3.9%)
SUV Medium	(1.9%)	(2.2%)	(2.3%)	(2.4%)
SUV Large	(1.8%)	(1.9%)	(1.5%)	(1.4%)

( ) Denotes negative percentages

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Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
BMW I3 (13-22)	300	450	366
JAGUAR XF (15-) DIESEL	(550)	(450)	(491)
KIA SPORTAGE (15-22) DIESEL	(750)	(550)	(662)
MERCEDES-BENZ E CLASS (16-) DIESEL	(1,200)	(850)	(976)
PORSCHE PANAMERA (16-)	(2,000)	(1,000)	(1,405)
RENAULT MEGANE (16-21) DIESEL	550	600	562
SUZUKI S CROSS (13-22)	(1,200)	(800)	(1,008)
TESLA MODEL 3	(850)	(600)	(687)
VOLKSWAGEN TIGUAN (16-)	(1,500)	(350)	(823)
VOLKSWAGEN UP (12-)	(300)	(150)	(200)

( ) Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI A5 SPORTBACK (16-20) DIESEL	(1,050)	(350)	(659)
BMW 2 SERIES COUPE (13-21)	(800)	(450)	(615)
JAGUAR F-PACE (15-21) DIESEL	(1,050)	(600)	(820)
LAND ROVER RANGE ROVER VELAR (17-) DIESEL	(1,500)	(700)	(1,162)
MAZDA CX-3 (15-20)	(950)	(450)	(700)
MINI COUNTRYMAN (17-) HYBRID	600	700	644
PEUGEOT 2008 (13-20) DIESEL	(600)	(525)	(550)
RENAULT ZOE (19-) ELECTRIC	150	175	157
SEAT IBIZA (17-)	(800)	(250)	(417)
TESLA MODEL S (19-21)	(2,000)	(1,800)	(1,900)

( ) Denotes negative value