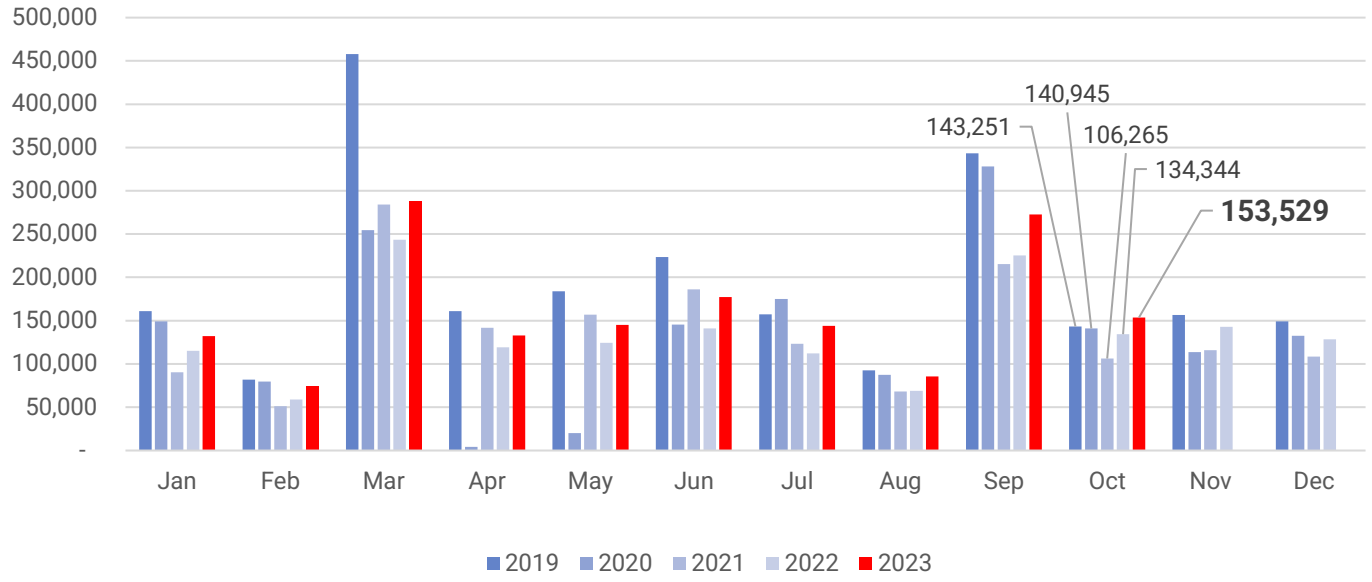
December 2023

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 October 2023 and used car activity at the time of writing. All information is correct as of 24th November 2023.

New car sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), 153,529 cars were registered in October 2023, a 14.3% increase on the same month last year, and 7.2% above pre-pandemic October 2019. This marked the fifteenth consecutive month of growth.



Source: SMMT

Year-to-date, 1,605,437 cars have been registered, a 19.6% increase on last year's 1,342,712. Despite the recovery of supply, this year remains 20.0% behind the same period in 2019.

Fleet registrations continue to fuel the growth, with a 28.8% (almost 20,000 cars) increase in October compared to last year, with retail increasing by just 0.3% (just 177 units). Fleet took a share of 57.0% for the month, 53.2% for the year, with retail languishing behind with 41.0% in October and 44.4% year-to-date. Retail demand remains muted. Daily Rental registrations continue to increase, up 108% compared to last year, but still 73% behind where they were in 2019. It will be interesting to see how this develops and whether manufacturers revert to pre-COVID type and push vehicles into this less-profitable channel.

Battery Electric Vehicle registrations continued to increase, led by the fleet market, with a 20.1% increase in the month (15.6% share). However, this increase has slowed, as the year-to-date increase sits at 34.2% and a 16.3% share. Petrol registrations, including mild hybrids, also increased, by 8.3% in the month, taking a share of 56.4% so far this year. Diesel was the only fuel-type to reduce in volume, down 4.5% compared to last October, and now taking a share of just 7.7% this year. Pure hybrids increased by 24.6% in the month, for a year-to-date share of 12.6% and Plug-in Hybrids increased by an impressive 60.5%, for a share of 7.1% now.

Car editorial

By cap hpi

Used car retail activity

Last month we reported on a difficult few weeks for retailers, with demand dropping as October progressed. November has, as predicted, continued to be challenging, with consumer demand certainly not improving. For once, the term “Christmas has come early” is not a positive statement, with demand at dealers dropping earlier in the year than normal.

The necessity purchase remains, but the aspirational end of the market continues to be off the agenda for most, with the double impact of seasonality and the run up to the festive season, which generally delays a big-ticket purchase, combined with cost-of-living pressures caused by high interest rates, fixed rate mortgages ending and increasing households monthly outgoings, plus general inflation causing pragmatism with spending. Many consumers are not prepared to increase a monthly payment by buying a new (used) car, may be shocked by how much their current car has dropped in value over recent weeks or simply do not have spare money for a deposit.

That being said, there have been some reports of the lower end of the market still being relatively strong – again the needs purchase for when a car simply has to be replaced.

Many franchise dealers, car supermarkets and independents are remaining cautiously optimistic, as there is still a degree of footfall and interest, it is just in lower volumes than previously hoped for. Others, however, are more concerned as there are large impacts on their revenues and margins.

There are currently three general schools of thought with regards to retail pricing. Firstly, there are those that purchased at previous higher trade prices some time ago now and are holding firm on advertised prices, expecting things to improve, although this may not be for a few weeks yet. Secondly, there are those that are reducing prices daily, in an attempt to at least be considered when consumers browse the internet and to generate an enquiry, obviously at the expense of margin. Finally, there are those that have bought cheaper cars in recent weeks, as the trade market dropped away in October and November, and they are advertising those cars lower than the retailers that bought at previous high prices.

There are not necessarily dealers that decide to sit in any one of these three camps, many are doing all three pricing activities with their vehicles in stock. What is clear is that constant reviews are necessary, and it has rarely been as tough as this in recent years to manage inventories and margin. Some revision of previous prices is prudent, but there is an awareness that in the current climate that is not going to generate a plethora of demand or ease much pressure on their stocking costs, with interest rates remaining high.

It is clear that the market is particularly challenging for retailers, with cap hpi values dropping, there are thousands of pounds being written off vehicles’ values sat on forecourts. There is hope, however, that once Christmas is out of the way, things will improve, but many continue to carry in stock far less cars than they done have previously.

Used car remarketing activity

With the retail market muted, it is unsurprising that there has been a knock-on effect in the wholesale arena. There are a good number of buyers watching and picking off certain cars in good condition and at certain price-points, but the situation remains that buyers are not stocking up in volume. Why buy twenty of one particular model when you can stock ten and easily buy more, if required, at cheaper prices in a falling market, when they are not flying off the shelves?

That being said, conversion rates have improved for a few through the month, as some dealers pick off the best quality vehicles with one eye on the here-and-now but more of an eye on post-Christmas retail opportunities. However, whilst there has been an uptick, it is from the point of lowest conversion rates all year and has not risen back to where they were in mid-September.

Any increase in activity at auction or with direct-selling has also been stimulated by vendors taking action, sometimes drastic, on price, making reductions in an attempt to sell as many vehicles as possible, knowing that there are more to come as manufacturer activity continues unabated in the fleet area of the new car market. If fleet and leasing companies are returning cars to the used market that were registered prior to summer 2021, their forecast residual

values would have been far lower than current market prices, due to those unprecedented increases in used values from April 2021 (there was an average increase of c.30%, with some going up by far more) and continued strength in 2022. This means they can afford to sell at a lower percentage of cap than they may have done normally and still make healthy profits. One of the main causes of prices dropping in the trade market is the attempt to stimulate the demand of wary dealers. But those vendors that continue to strive for the same percentage of monthly cap as previously are simply not selling in any quantity.

This did have a positive effect on the volumes of cars sold during the second week of the month, but that pace was not maintained, and volumes dropped off as the month progressed. They remain slightly ahead of the last three years, but behind pre-COVID 2019.

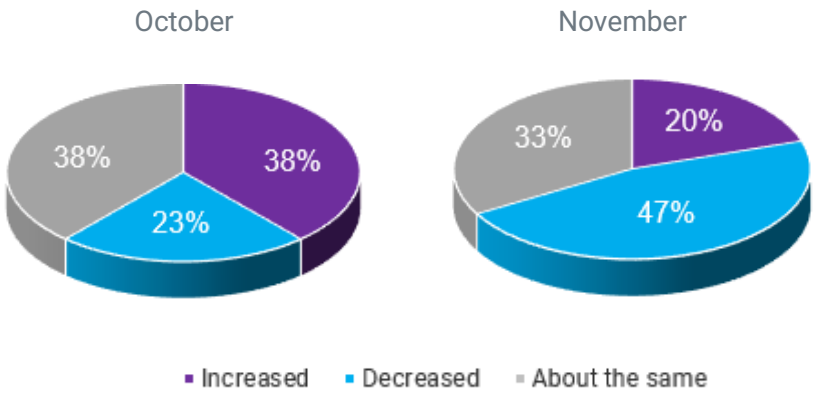
Vehicles below £6000 seem to be attracting the most interest, especially if they are graded and priced correctly. Lower graded vehicles with damage and mechanical or electrical issues are particularly difficult to sell unless they are very cheap and priced for what needs to be rectified, even then there is a lack of consideration by the prospective buyer due to the potential amount of time the cars are likely to spend having rectification work completed before they can even be placed on sale.

Those that are buying are certainly picking up some competitively priced cars and may well benefit from having these in stock once we get to Boxing Day and beyond.

Cap Live has never been so sought after as it is now, with many monthly values out of date before they were even published and buyers, vendors and auctions alike referencing daily movements rather than a static figure.

Below are the auction survey results for November:

How do your current stock levels compare to last month?

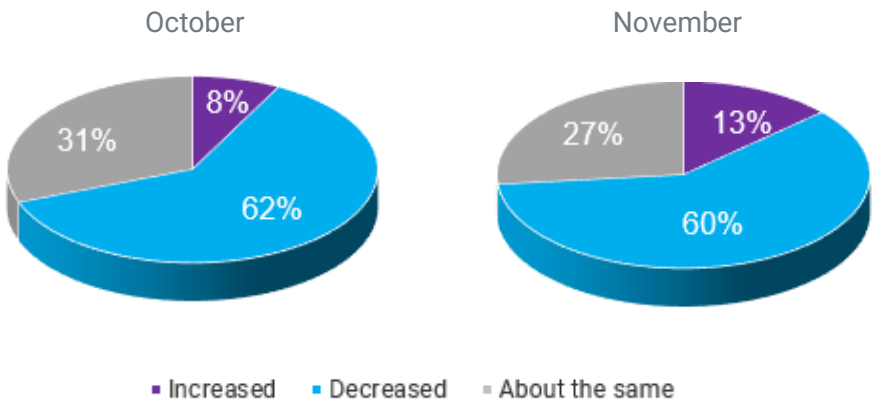


There are interesting dynamics for auction stock levels, with almost half respondents reporting that volumes are declining, almost certainly off the back of less part-exchanges appearing from dealers, as used car retail sales decline. However, those that deal more in the fleet area, are seeing parity or increases, due to new car activity causing a requirement to make more used examples ready for sale.

Car editorial

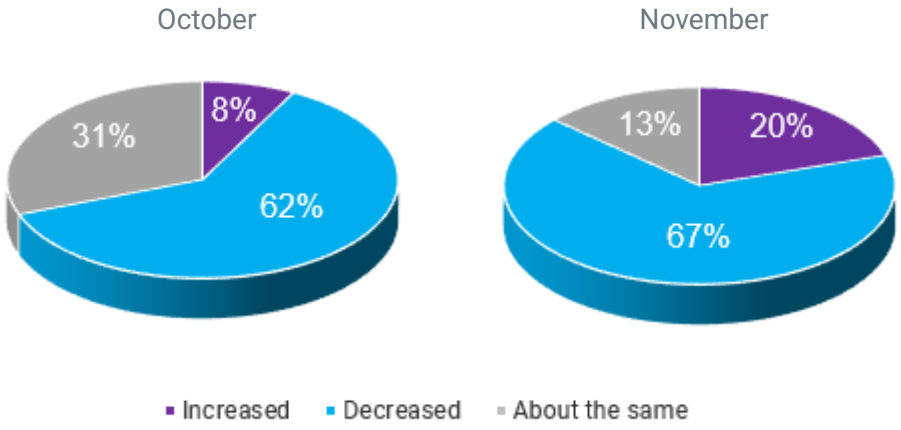
By cap hpi

How does your current overall demand compare to last month?



Overall demand continues to decrease for 60% of respondents, with many of the remainder dealing at the cheaper end of the market, where good quality cars have remained desirable and sought after, with less risky outlay than on more expensive cars. In the £15,000 plus market, demand remains muted.

How do your conversion rates compare to last month?



Whilst conversion rates have been maintained or even increased for a small majority of the auction houses, the underlying theme is one of a declining used market. Dealers are buying, but not in enough volumes to increase this metric.

Used cars – trade values.

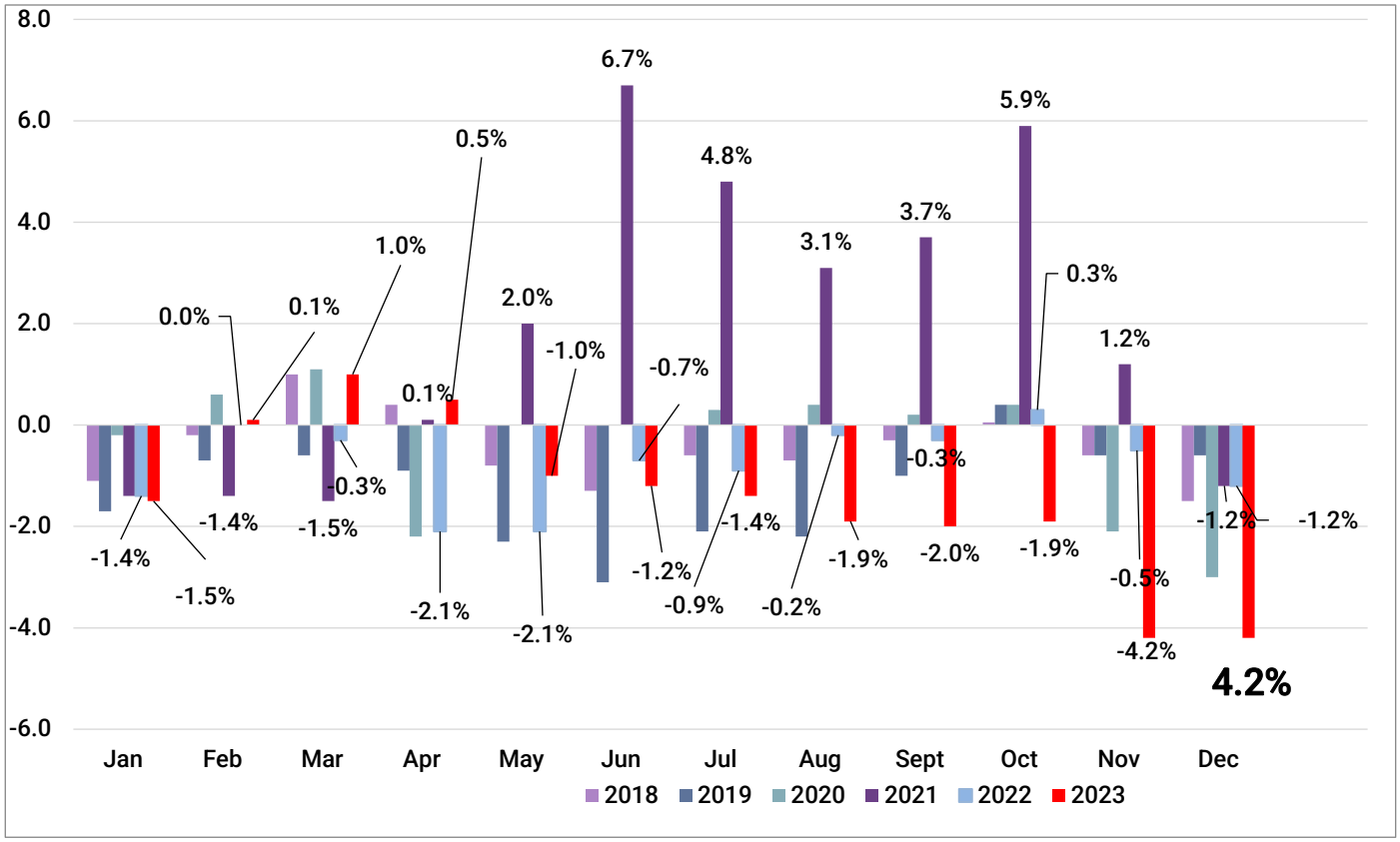
It is important to clarify cap hpi's position and process at this point of the editorial overview. Values are adjusted within our Cap Live, daily, product based primarily off sold prices evidenced in the used market. Data is received from a large number of industry sources, from large and small physical and online auctions, fleet and leasing companies, finance houses, rental companies and manufacturers used car programmes. This amounts to thousands of sales to thousands of franchise dealers, used car supermarkets and independents per day. There can be a wide variance in what different vendors are selling similar vehicles for. This all requires analysing by our team of editors and analysts, who also heavily reference the retail market, where we receive contractual advertised data from a number of high-volume used car websites. No values are moved without evidence to do so. Cap Retail is currently a margin on top of Cap Clean, to advise customers where vehicles could be advertised at, with a reasonable margin from clean values. In a falling market there are many questions around this that do not get asked at other times, but the important facts are that movements are made on fact, not opinion.

So, what has the data led to in November? Values have once again moved down considerably, with an average drop of 4.2%, equivalent to £775 at the 3-year age point. This matches October into November's overall movement and now

means that average values have dropped by 8.4% or £1,625 in the last two months alone, as prices continue to realign considerably. However, it is vital to point out that average values remain c.15% above where they were at the start of 2021, for petrol and diesel vehicles. Electric Vehicles, on average, are around 20% lower than they were then, but coming from a high starting point.

It is not uncommon for values to drop in November, with movements of 3.1% in 2014, 2.6% in 2015 and 3.0% in 2020, although there have also been some stronger years when volumes were lower, particularly over the last 2 years. This year is, however, the largest drop going into December that we have on record. There is no escaping that a realignment, but not a crash, is ongoing.

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



At the 1-year age point, values have dropped by a lower, 3.3%, in November, equivalent to c.£1,000, whilst the older, cheaper end has held up better, with a 2.6% drop at the 10-year point. Indeed, cars valued below £5,000 have dropped by 2.4% which is less than £90 on average.

As expected, when such a downturn is occurring, all sectors have been affected by the decline in prices. SUVs have fared the worst though, dropping by 4.9% (c.£940 on average) with small and medium models the worse affected, particularly where there is plenty of volume from fleet and leasing sources and a pushback on stocking up by dealers. This sector has now dropped a considerable c.10% in two months. The majority of sectors dropped by slightly more than they did in October, Upper Medium, or D-Sector being the exception, where particularly older cars look reasonable value now.

Within the SUV sector, some of the largest drops have been at the aspirational end, with the BMW X1 dropping by c.6%, the X5 Petrol Hybrid by 7.7%, the Jaguar E-Pace by between 5% and 6% depending on the fuel-type, Land Rover Discovery Sport by between 7% and 9% dependent on the fuel-type and petrol and hybrid Range Rover Evoque dropping by over 11%. These percentages are all equivalent to thousands of pounds dropping off values in the month. Figures quoted are at the 3-year age point.

Turning to fuel-type, petrol and diesel values at 3 years have on average dropped by similar amounts, although diesel has declined by slightly less. Electric vehicles have reduced by -3.3%/£750 and this is now the third consecutive month in a row that battery powered cars have been the best performing fuel type, albeit in a falling market.

While most EVs have seen modest adjustments in pricing especially when compared to ICE vehicles, there have continued to be some large reductions on vehicles that are yet to completely realign with other EV products that have dropped by higher amounts over the course of the last year and/or are early in their lifecycle, with lower used market volumes. Examples of vehicles that we have seen come under pressure are the BMW iX1 down c.7%/£1675, Lexus UX down c.7%/£1,625, Mercedes EQB down c.10%/£3,425, Kia EV6 c.5.0%/£1,825 and ORA CAT down c.10%/£2,350 all at the 12 month age point.

Where we continue to see healthy supply of some of the more mainstream EVs, values have reduced a little more than we have witnessed of late. This is due to buyers having plenty of choice, at 3 years old values for some of the notable movers have been the Hyundai Kona down 4%/£475, Kia E-Niro Electric down 3%/£440, Tesla Model 3 down 4%/£850 and Mini Cooper Electric down 8%/£1,025. Unlike in previous months even some of the small to medium sized price pointed EVs have also seen values decline like the Renault Zoe down 2%/£160 and Nissan Leaf -3.5%/£390.

There has also been a noticeable increase in the levels of discount offered on new EV product as we have entered the last quarter of the year. It is not unusual to see large discounts of up to £13,000 on vehicles from mainstream manufacturers which will likely impact an already sensitive trade market.

Overall, another large downward movement in values has taken place in November, continuing a significant market realignment from April that started with relatively normal movements down, but over the last 6-months, and last 2-months in particular, a reluctance to pay previous high prices can clearly be seen.

What next?

Last month, our prediction was:

"The question now is how long does this continue for? Supply into the market will continue to increase, with manufacturers supply constraints eased and a renewed push for market share, volume and to hit environmental targets. New car registrations will continue to increase compared to last year, bringing fleet returns, pre-registered cars and part-exchanges into the used market. Used car demand is not going to increase in the run up to Christmas, for reasons stated earlier in this overview, so it is highly likely that we will continue to see values drop over the coming weeks. Indeed, it is at times like this that monthly values become out-of-date almost before they are published and we would encourage the whole industry to embrace live, daily values in such turbulent times. Since cap Live was introduced in 2012, we have twice witnessed drops in excess of 3% during November, and it would be no surprise for that to happen again this year."

Values are likely to continue to drop in the run up to Christmas, as although retailers appetite may increase slightly as they look to buy for an anticipated increase in consumer demand, this is unlikely to be in large quantities and not by enough to eat too much into the volumes that are present in the wholesale market. Since Cap Live was introduced in 2012, December has experienced an average drop of just 1.3%, with the largest being -2.2% in 2014. With the current realignment ongoing, however, and consumer demand only likely to increase after Christmas, it would be no surprise for a downward movement in excess of these figures.

A question we continue to be asked is whether January will see values increase. As previously stated, it is likely that consumer demand will improve, but there will remain a plentiful supply of used stock around, some of it generated by year-end manufacturer tactical new car activity, so whilst there is certainly potential for a more positive picture, that is likely to manifest itself in lower reductions in values than currently experienced, rather than values increasing early in 2024.

Car editorial

By cap hpi

Current used valuations December 2023 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(3.6%)	(3.5%)	(2.9%)	(2.5%)
Supermini	(4.3%)	(4.2%)	(3.8%)	(0.2%)
Lower Medium	(3.8%)	(4.2%)	(4.4%)	(2.9%)
Upper Medium	(3.0%)	(3.6%)	(3.7%)	(2.2%)
Executive	(2.3%)	(2.9%)	(3.5%)	(3.0%)
Large Executive	(2.5%)	(3.8%)	(3.7%)	(1.9%)
MPV	(2.2%)	(3.8%)	(3.4%)	(2.6%)
SUV	(3.5%)	(4.9%)	(5.1%)	(3.3%)
Convertible	(3.6%)	(4.0%)	(4.6%)	(5.1%)
Coupe Cabriolet	(6.9%)	(8.4%)	(7.7%)	(8.7%)
Sports	(2.5%)	(3.0%)	(3.4%)	(3.8%)
Luxury Executive	(2.2%)	(1.9%)	(2.9%)	(3.2%)
Supercar	(0.7%)	(1.1%)	(0.8%)	(3.5%)
Overall Avg Book Movement	**(3.3%)**	**(4.2%)**	**(4.2%)**	**(2.6%)**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	0.0%	(1.2%)	(3.6%)	(2.1%)
MPV Medium	(2.9%)	(4.7%)	(3.9%)	(2.7%)
MPV Large	(1.6%)	(2.6%)	(2.3%)	(2.6%)
SUV Small	(4.9%)	(5.6%)	(4.8%)	(2.5%)
SUV Medium	(3.6%)	(5.3%)	(5.5%)	(3.5%)
SUV Large	(2.4%)	(2.8%)	(3.6%)	(3.0%)

( ) Denotes negative percentages

Car editorial

By cap hpi

Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
AUDI Q2 (16-)	(1,400)	(850)	(1,150)
FIAT 500 (15-)	(550)	(375)	(500)
JAGUAR E-PACE (17-)	(1,700)	(1,450)	(1,564)
KIA SPORTAGE (15-22) DIESEL	(1,150)	(850)	(1,000)
LAND ROVER RANGE ROVER VELAR (17-) DIESEL	(3,700)	(2,750)	(3,238)
MAZDA MX-5 (15-)	(1,400)	(1,100)	(1,270)
MERCEDES-BENZ E CLASS (16-) DIESEL	(1,700)	(1,100)	(1,330)
SUZUKI S CROSS (13-22)	(1,400)	(1,050)	(1,216)
SUZUKI SWIFT (17-)	(900)	(350)	(621)
TESLA MODEL 3	(1,200)	(550)	(975)

( ) Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI E-TRON SPORTBACK (19-23) Electric	(2,150)	(1,950)	(2,050)
BMW 2 SERIES COUPE (13-21)	(1,350)	(900)	(1,161)
JAGUAR F-PACE (15-21) DIESEL	(900)	(550)	(694)
LAND ROVER RANGE ROVER SPORT (17-23) DIESEL	(2,900)	(2,200)	(2,487)
RENAULT CAPTUR (13-20) DIESEL	(650)	(325)	(460)
SEAT LEON (13-20)	(1,400)	(650)	(825)
SKODA OCTAVIA (13-20) DIESEL	(1,150)	(650)	(817)
TESLA MODEL X (19-21)	(1,000)	(900)	(933)
VOLKSWAGEN GOLF (13-21)	(900)	(550)	(740)
VOLKSWAGEN SHARAN (10-21) DIESEL	(750)	(550)	(687)

( ) Denotes negative value