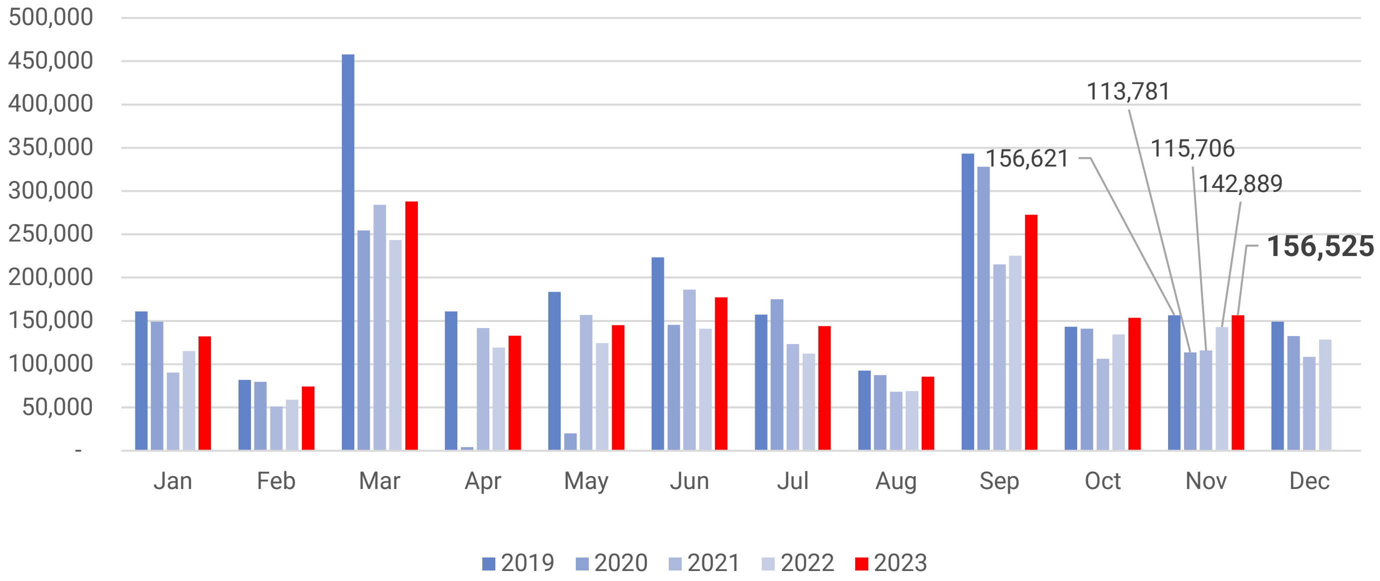
January 2024

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 November 2023 and used car activity at the time of writing. All information is correct as of 21st December 2023.

New car sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), 156,525 cars were registered in November 2023, a 9.5% increase on the same month last year and just 0.1% (96 units) below pre-COVID 2019. This is the closest any month has got to pre-COVID levels since a brief, pent-up, surge in July 2020, and the 16th consecutive month of growth.



Source: SMMT

Year-to-date, 1,761,962 cars have been registered to the end of November, an increase of 18.6% on the same period in 2022 (1,485,601), but still 18.5% behind 2019 (2,162,143).

Fleet registrations continue to fuel the increases, up 25.4% in the month and 39.1% for the year. Daily Rental registrations were up 116% in November, but 27% behind 2019; for the year, they are up 109% compared to 2022, but still 70% down on 2019. Manufacturers are certainly becoming more active in this channel. Retail demand continues to falter, with registrations down 5.9% in November and up just 1.0% for the year so far. Market share for Fleet sits at 53.8%, compared to 45.8% last year, and 43.9% for Retail, compared to 51.6% in 2022.

Battery Electric Vehicle (BEV) registrations were down 17.1% in November compared to last year, but the penultimate month of 2022 did see a significant volume of deliveries following supply issues. However, retail demand for BEVs remains an issue, with c.77% of November registrations being to fleets and businesses, according to the SMMT. Year-to-date, BEV registrations are up 27.5% for a share of 16.3%. This will need to increase next year, when the zero emission vehicle (ZEV) mandate broadly requires manufacturers to register 22% of all cars as zero emission. Petrol registrations also increased (+12.9%), now taking up 56.3% share, whilst diesel continued to decline (-10.7%), with share now being at 7.6%. Plug-in Hybrids (+55.8%) and Hybrids (+27.8%) increased in November, with share for the year-to-date being at 7.3% and 12.6% respectively.

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Year-end tactical registration activity will be interesting to observe, with supply returning to normality, market share aspirations reemerging and the ZEV mandate just around the corner. Some BEV vehicles may be held back in December so that they count towards 2024 figures, whilst some keen discounts are appearing for other fuel-types in both the fleet and retail markets.

Used car retail activity

It has been an interesting month in the retail arena, and certainly not all doom and gloom. Consumer engagement levels are still there and many retailers have reported that when looking year-on-year, this December is at least as active as last. It has felt like a relatively normal end to the year, with retailers having to work hard for the business as they always do in the run up to the festive season. There is also renewed optimism as January draws closer.

As we reported last month, there remain three main schools of thought on pricing. 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, prepared to sell fairly low volumes for now, awaiting a post-Christmas uplift in activity. Secondly, there are those that are taking action on prices, sometimes drastic action on “overaged” stock, in an attempt to encourage consumers to buy now, this remains at the expense of margin. Thirdly, there are those that have now bought cheaper cars at the new, lower amounts, as the trade market dropped away, and are advertising those cars lower than the retailers that bought at previous high values. Many are doing all three activities with their vehicles in stock; the trade drops have caused a degree of confusion for retail pricing. It is important to look at the overall picture as a business, potentially win on some and lose on some, at times like this.

It is key to remember that for those maintaining advertised prices at previous high levels, that prices visible on online portals are aspirational prices, and other similar, competitors cars may well not be actually selling, or if they are they could be being reduced on negotiation. Some reported differences between trade and retail prices need to be taken at face value, as they are almost certainly not achievable margins to be made currently.

There are some retailers that have changed tack and chosen to leave prices as they are and have still been actively selling. In December, price is not necessarily a lever to stimulate more demand, with many consumers outlay focussed elsewhere. Dealers need to use all the data available to them at times like this, when demand is lower than at more buoyant times – live trade values, retail tools and their own extensive knowledge and experience.

There are also some keen new car offers that may mean customers being switched from a used enquiry into new, particularly when a minor difference in monthly payments is the only additional outlay.

Overall, December has remained challenging, but consumers are still buying and there is certainly renewed optimism. It has been a difficult year for many retailers, certainly the last few months have been far more challenging than earlier in the year and throughout most of 2021 and 2022. All types of dealers are having to adapt to omnichannel retailing, working harder to convert enquiries into sales and buying and selling in a falling market. Unfortunately, some have gone by the wayside in the last few months, but 2024 will no doubt bring opportunities for all.

Used car remarketing activity

It has been the trade area of the market that has been the most volatile area for used car prices over the last three months. New car volume increases, particularly in the fleet sector, have been generating returns into the used market that continue to outstrip demand. Importantly, cars added to fleets prior to the extraordinary 2021 used car price increases were done so with lower residual values against them than 2023 Cap market values. As a result, vendors can afford to sell cars at a low percentage of Cap and still realise additional revenue to that which they budgeted for. Put simply, many are selling for lower than market prices and that has driven overall values down.

As we entered December there was some uptick in activity as many retailers chose to increase buying levels in preparation for post-Christmas, in the realistic hope and expectation that demand will be buoyant, as it almost always is, once the yuletide festivities are out of the way. However, most have continued to be careful, picking off the best quality cars only, unprepared to buy cars that required anything more than minor refurbishment. An illuminated engine management light is akin to a big red flag too. The lower end of the market, if cars are in good condition, has remained the most robust, a low risk purchase for independents in particular as this tends to feed the necessity consumer purchase.

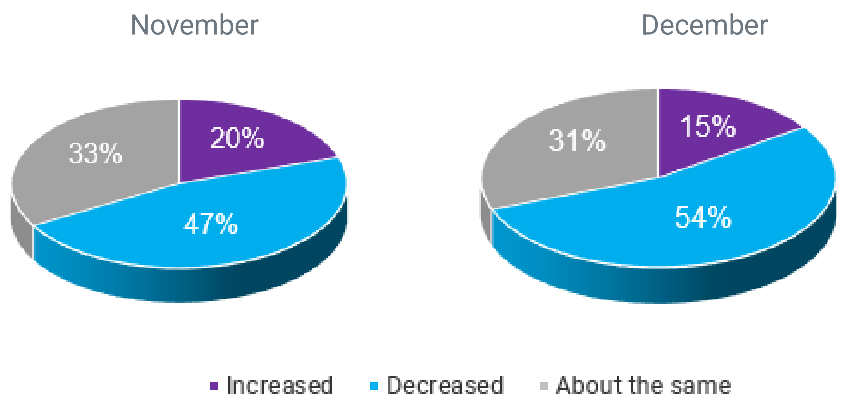
Direct remarketers have been selling more volume in early December, particularly if they have compromised on price. Conversion rates at auction improved and for some were back to where they were in September.

Sold volumes in December have been higher than at the end of November, increasing by some 5%. In comparison to 2022, week commencing 11th December actually saw over 20% more volume than in the same week last year, and only 3% behind pre-COVID 2019, as some buyers took advantage of the new, lower prices. For the month of November, sold volumes were 7% higher this year than last, but 14% lower than in 2019.

As we entered the week before Christmas, many vendors chose to slow activity down and aim for January instead and there was a noticeable drop-off in the volume of cars selling, as the market slowed down for Christmas. Some buyers continued to pick off the odd desirable vehicle, and of course they can buy online immediately after the Christmas Bank Holidays.

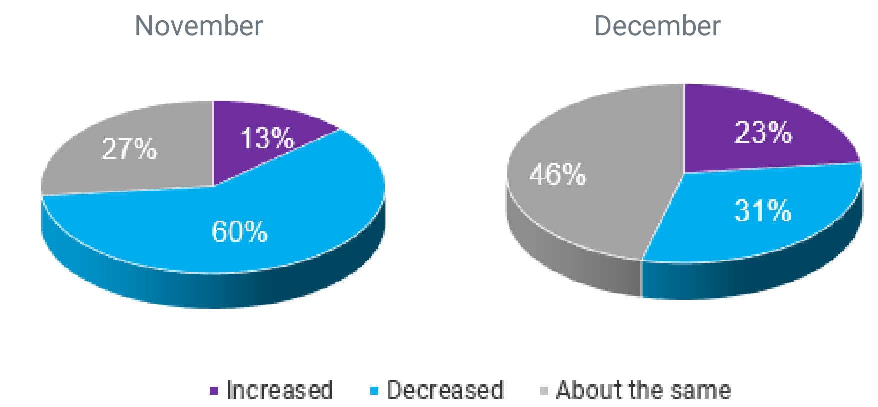
Here are the auction survey results for December. Thanks to all those that have consistently responded through 2023.

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



There was a very similar picture to last month with regards to stock levels, with now slightly over rather than under half stating that stock levels were reducing, and still around one third seeing month-on-month parity. Whilst volumes in the overall used market have increased, they do remain below 2019 levels and are not causing any concerns in the auction world.

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



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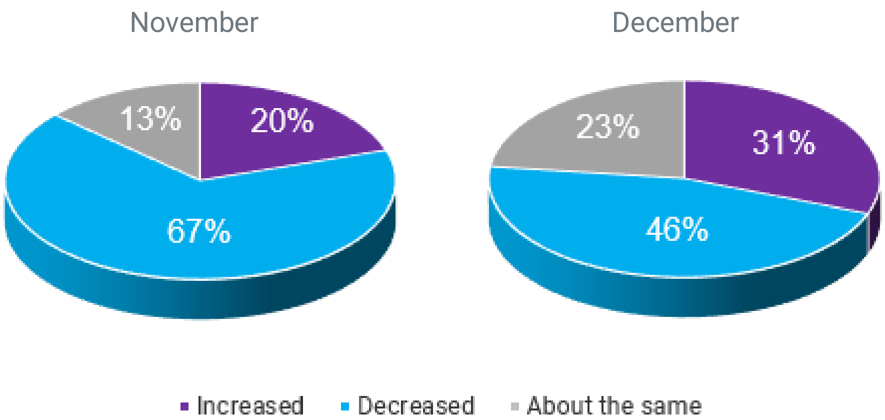
In line with the anecdotal feedback received, more auctions saw an uptick in demand in December than in November, with almost half of respondents seeing a similar picture over the two months. But, still one third reported that demand had decreased, but on a positive note this was far less than reported the same last month.

How do your conversion rates compare to last month?



Conversion rates continue to decline for almost half of responders, but encouragingly, this was far less than last month, plus almost one third had seen these improve compared to last time around. Last month, one third were seeing parity or improvement in conversion rates and in December this has risen to over a half stating the same.

Used cars – trade values.

Since Cap Live was introduced in 2012, each December has experienced a value drop, with the average, at 3-years, 60,000 miles age, being -1.3%, and the largest being -2.2% in 2014. This year, the average drop in Live values in the final month of the year has been 2.1%, equivalent to c.£375. After two months which saw a cumulative 8.4% drop, it is reassuring that we are returning to more normal, seasonal movements.

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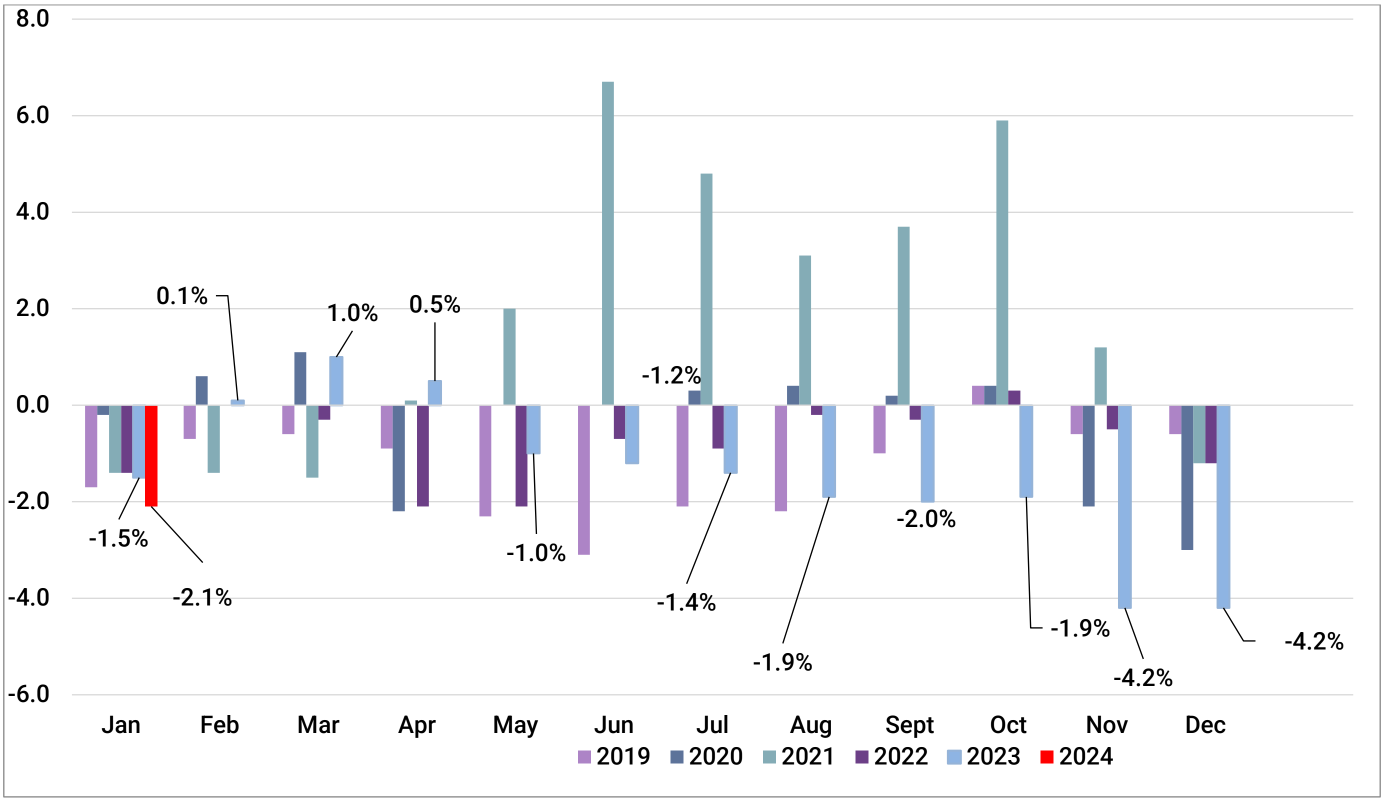
Monthly percentage movements in Live valuations (3-years, 60k miles) – January 2024 figure depicts December 2023's Cap Live



Although this drop does equate to a 10.5%, or c.£2,000 reduction in the last three months, it is important to remember the context behind the moves – in a six month period in 2021 values increased by almost 30%, equivalent to over £5,500 on average, and they had barely dropped until the last few months. Average used car values remain around 13% above where they were at the start of 2021. Within this average, there are obviously some that have hugely outperformed others. For example, the Peugeot Traveller and Citroen Space Tourer Diesel models at three years old remain over 50% more expensive than they were at the start of 2021, equivalent to over £8,000 at the same age and mileage point, whereas the Nissan Leaf and Land Rover Range Rover Sport Hybrid have both *dropped* by almost 30% over the same period (almost £5,000 reduction for the former and £13,000 for the latter).

In December, at the 1-year age point, values dropped by 1.8% or c.£550, whilst at older ages there was a 2.1% (c.£250) drop at 5-years old and just a 1.4% (c.£75) reduction at 10-years old. As stated previously, the cheaper end of the market is holding up better, when cars are in the right condition.

The sector experiencing the largest average drop in percentage terms was MPV, dropping by 2.7% or c.£475, perhaps a reflection on the volume of these cars available in the market, and certainly the prices they are available for. This was also the *strongest* performing sector in the twelve months prior to December, so maybe they appeared slightly overpriced previously, plus there is less of a desire from dealers to stock these models compared to SUVs. Some of the largest drops were experienced by the Citroen Grand C4 Space Tourer, down 4.0% or c.£500 and the Ford S-Max Diesel down 5.0% or almost £1,000 at the 3-year age point.

All other mainstream sectors experienced similar percentage drops to each other, with the largest volume sector, that of SUV, dropping by 2.0% or c,£400. Interestingly, the three models that dropped by the most in that sector were all plug-in hybrids, namely the MG HS, Citroen C5 Aircross and Cupra Formentor, with the former dropping by 11.5% at the 3-year age (7% at younger ages), equivalent to over £1,600. There was plenty of volume of this car available and at far lower prices than previous market values. It has now dropped by c.28% in the last three months, equivalent to over £3,500 at 3-years old. The Citroen and Cupra both dropped by c.8% (£c.1,100 and £1,300 respectively).

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Turning to fuel-type, what a year or so it has been for Battery Electric Vehicles values in the used market. On average, they have dropped by over 40% in the last 12-months alone. Throughout December, BEV values continued to decline as demand struggled to keep up with the increasing supply in the market, which has been the trend throughout 2023. Sold data received shows a significant increase in the number of BEVs sold compared to previous years, with a nearly 100% increase compared to 2022 and a staggering 1500% increase compared to 2018.

However, there is a positive trend when looking at the average days to sell for different fuel types during the last 6 months of 2023 in our used retail advert database. EVs have been the fastest-selling fuel type, with an average days in stock of 39 days, compared to 45 days for petrol and 47 days for diesel vehicles.

Although BEV values at 3 years old have decreased by -2.3% (c.£525) in December, some models like the Hyundai Ioniq Electric, Nissan Leaf, and Skoda Enyaq have maintained their values without any changes. For certain BEV models with robust supply levels, however, values have remained under pressure. Examples include the Polestar 2 down c.4.6% or £950, Peugeot e-2008 down c.3.5% or £400, Jaguar I-Pace down c.3.3% or £725 and Hyundai Kona Electric down 6% or c.£400.

The Tesla Model 3 has firmly established itself as a benchmark vehicle in the BEV market. Over the past 12 months, our data shows a supply increase of over 200% for this model, whilst values have decreased by an average of around 30% or £12,000 this year at 3 years, 30,000 miles. Despite now being a mainstream model, the Model 3 remains desirable with used buyers. In December, values for the Model 3 softened by -1% or c.£200 at the 3-year point, while values for Tesla's other mainstream model, the Model Y, remained stable and have not moved due to relatively low volumes in the used market for now at least.

Plug-in Hybrids saw the largest average decrease in December, down an average of 2.7% or c.£600, with the aforementioned MPVs the worst affected, along with the SEAT Leon, Renault Megane and Skoda Superb, the latter three all dropping by between 6.5% and 10.0%, which is between £1,400 and £1,700 in the month.

Petrol and diesel cars dropped by an average of 2.1% and 1.9% respectively, with pure hybrids dropping by 2.2%.

What next?

Last month, our prediction was:

"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."

Thankfully the 2.2% has not been exceeded and the market seems to be levelling off after sharp decreases in October and November.

Although cost-of-living concerns will remain as we enter 2024, fuelled by fixed rate mortgages continuing to come to an end, being replaced with higher monthly payments for households, we, along with the industry, are predicting an upturn in consumer activity in January. With it, dealers will be buying wholesale cars in greater volume than they have been in the final quarter of 2023. Interest rates are also likely to drop, helping their stocking costs as well as consumers monthly payments.

However, there will still be plenty of cars in the used market, not least the unsold vehicles from conversion rates being at 50-65% over the last few months. There will also be used cars generated by manufacturers end-of-year registration activity, particularly if they continue to serve the fleet market and create pre-registered cars in high volumes.

It is likely, therefore, that supply will continue to outweigh demand, at least in the short-term. In the first quarter of 2023, values went up in each of the first three months, something we had not witnessed before. It is unlikely to be repeated in 2024, mainly because of the volume that will be present. Retailers of all types will be buying cars, but unlikely to be in enough volume to overly dent the supplies, meaning they will have plenty of choice and values are unlikely to go up. That being said, we are forecasting far smaller drops than over the last three months and relatively positive start to 2024.

Live values continue to be the way forward, with monthly ones out of date if not before they are published, certainly soon after.

Finally the Valuations Team at cap hpi would like to wish all of our customers and industry contacts a Happy and Prosperous New Year.

Current used valuations January 2024 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(1.6%)	(2.1%)	(2.1%)	(1.6%)
Supermini	(1.9%)	(1.9%)	(1.8%)	(0.9%)
Lower Medium	(2.1%)	(2.0%)	(1.7%)	(0.8%)
Upper Medium	(2.3%)	(2.3%)	(2.3%)	(1.4%)
Executive	(1.6%)	(2.0%)	(2.2%)	(0.9%)
Large Executive	(1.5%)	(1.1%)	(1.0%)	(1.1%)
MPV	(1.6%)	(2.7%)	(2.6%)	(1.9%)
SUV	(1.7%)	(2.0%)	(2.4%)	(2.4%)
Convertible	(2.6%)	(2.9%)	(2.9%)	(2.0%)
Coupe Cabriolet	0.0%	(2.2%)	(2.0%)	(2.1%)
Sports	(0.8%)	(1.2%)	(1.1%)	(0.9%)
Luxury Executive	(1.7%)	(1.6%)	(0.6%)	0.0%
Supercar	(0.2%)	(0.4%)	(0.4%)	(0.3%)
Overall Avg Book Movement	**(1.8%)**	**(2.1%)**	**(2.1%)**	**(1.4%)**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(3.0%)	(2.3%)	(2.8%)	(3.0%)
MPV Medium	(1.8%)	(3.0%)	(2.7%)	(1.8%)
MPV Large	(1.4%)	(2.3%)	(2.3%)	(1.6%)
SUV Small	(2.4%)	(2.1%)	(1.8%)	(2.4%)
SUV Medium	(1.7%)	(2.1%)	(2.7%)	(2.4%)
SUV Large	(1.3%)	(1.7%)	(1.9%)	(2.2%)

( ) Denotes negative percentages

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Car editorial

By cap hpi

Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
CITROEN C3 (16-)	(700)	(325)	(453)
FIAT 500 (15-)	(350)	(225)	(287)
JAGUAR I-PACE (18-)	(1,300)	(400)	(1,040)
KIA NIRO (19-22)	(1,150)	(800)	(992)
LAND ROVER RANGE ROVER SPORT (17-23) DIESEL	(1,500)	(1,100)	(1,315)
PEUGEOT 3008 (16-)	(900)	(650)	(756)
PEUGEOT 5008 (17-)	(1,000)	(700)	(850)
SUZUKI IGNIS (16-)	(650)	(300)	(466)
VOLKSWAGEN TIGUAN (16-) DIESEL	(650)	(450)	(587)
VOLVO S90/V90 (17-) HYBRID	(1,500)	(1,200)	(1,316)

( ) Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
JAGUAR F-PACE (15-21) DIESEL	(700)	(350)	(511)
JAGUAR XJ (10-20) DIESEL	(1,950)	(1,300)	(1,577)
KIA SPORTAGE (15-22) DIESEL	(650)	(375)	(562)
MERCEDES-BENZ E CLASS (16-) DIESEL	(850)	(500)	(683)
SEAT LEON (13-20) DIESEL	(550)	(350)	(431)
SKODA OCTAVIA (13-20)	(650)	(325)	(429)
TESLA MODEL X (19-21)	(900)	(800)	(883)
VOLKSWAGEN TIGUAN (16-) DIESEL	(650)	(400)	(495)
VOLVO XC90 (14-) DIESEL	(900)	(750)	(841)
JAGUAR F-PACE (15-21) DIESEL	(700)	(350)	(511)

( ) Denotes negative value

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