Car editorial

By cap hpi

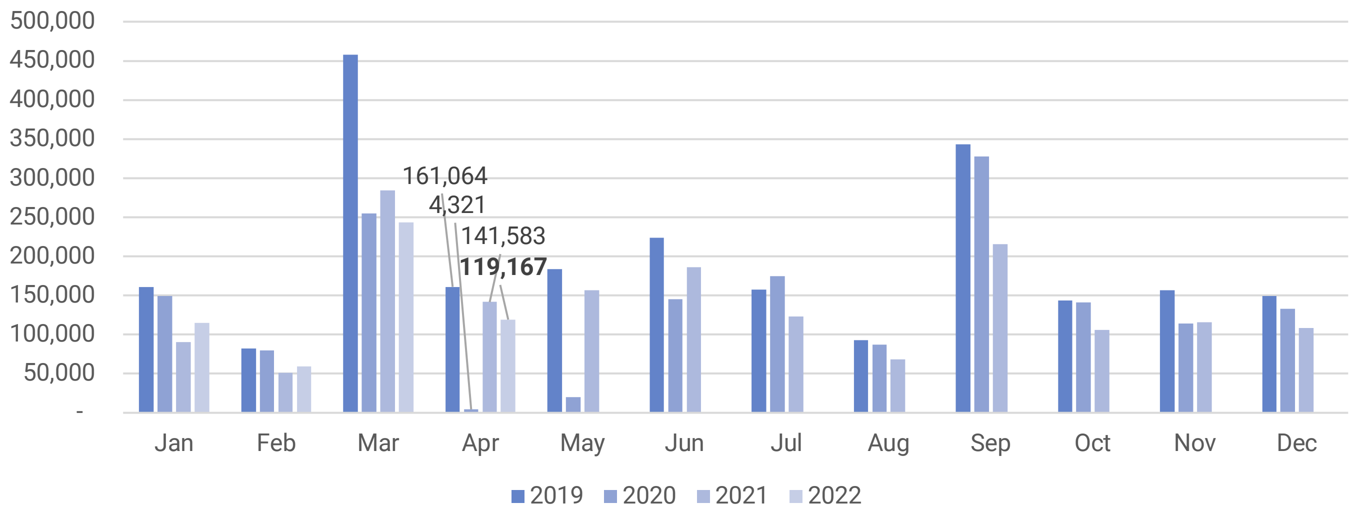
June 2022

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 April 2022 and used car activity at the time of writing. All information is correct as of 26th May 2022.

New car sales

According to the figures published by the Society of Motor Manufacturers and Traders (SMMT), 119,167 cars were registered in April, a reduction of 15.8% compared to 141,583 in the same month in 2021. Last year's figure was in itself relatively low in comparison to pre-2020, as the nation emerged from the third COVID-19 induced lockdown. New car supply remains heavily impacted by COVID outbreaks in the Far East in particular, as well as natural disasters in the region and the war in Ukraine all affecting supply of essential parts for new car build, including of course semi-conductors. Manufacturers continue to have record-breaking order banks and extensive lead times for most cars.



Source: SMMT

The fleet market continued to lead the decline in registrations, down 33.3% compared to April 2021, with manufacturers still prioritising more profitable retail channels. Indeed, private registrations saw a modest 4.8% increase on the same month last year. Within the fleet figures, daily rental registrations remain severely curtailed, with April's volumes being 90% down on April 2019, pre-pandemic; Kia and Vauxhall were the most active.

Year-to-date, the overall market is down 5.4% on last year, with fleet down 25.0% and private up 17.8%. Fleet accounts for 43.8% of the market, in 2019 it was at 53.3% share. This is important context for the current used car market that will be covered later in this overview.

Looking at fuel-type, year to date, registrations of Battery Electric Vehicles (BEVs) have increased by 88.3%, forming a share of 14.4%. Plug-in Hybrids (PHEVs) are level, with 6.7% share and Hybrids (HEVs) up 43.0% with a share of 11.6%. Diesel registrations, including mild hybrids, are down 46.7% for a share of just 10.4%. Petrol registrations, including mild hybrids, still take up the lions' share (57.0%), but are down by 10.7% year-on-year.

Used car retail activity

Last month we reported on an inconsistent and particularly mixed retail market. In May, there has been a more consistent picture amongst retailers, but the market remains subdued compared to where the majority have budgeted for it to be, albeit slightly improved compared to April.

A particular theme is that many dealers are reporting their business levels at around 70% of where they had forecast it to be, so by no means a disaster, but a little concerning for many. Margins have also dropped, but from being at high levels still after last year's strong market and they remain healthy.

There appear to be two main schools of thought on how to handle the current depressed retail market. Some are reducing advertised prices to attract consumers, particularly on mainstream cars which are relatively plentiful, or on cars that have been in stock for an unpalatable number of days. Others are generally holding firm as much as they can, coming to the conclusion that adjusting advertised prices will not persuade people to part with their money in the current climate, with the cost-of-living squeeze affecting many. Both of these may well be more prepared to adjust transactional prices than they have been over the last year, however, so negotiating a deal with a prospective buyer that may be wavering. For most of 2021 much of this "normal" activity was not necessary as demand was so strong across the board. Uncertainty over trade prices, after recent drops, has also persuaded some to stand firm as it is difficult to gauge just how much to pay for replacements, if of course they can get them.

Franchised dealers, having generated some part-exchanges from the albeit reduced new car market, seem to have been performing better than car supermarkets and independents. Those that deal in mainstream cars that have gone up in value by the most over the last year, particularly SUVs that are relatively plentiful, are finding that those cars do tend to look expensive to the retail buyer – that £15,000-30,000 price range does remain difficult, particularly as a number of consumers continue the trend of downsizing or downgrading to a cheaper car.

Some retailers are reporting decreased consumer demand for diesel vehicles, with the increase in fuel prices and high road fund licence amounts making these less of an obvious choice, unless required for particularly high mileage use.

Overall, the retail market is best described as down on hopes and expectations, but relatively steady and improved on where it was in April. There have been some reductions of advertised prices, but these are not seismic, and they still sit well ahead of where they were a year ago. There are still over 70 models with used retail values (at 1-year old, with 10,000 miles) sitting above their original cost as a new car, and a real mix of models, from Porsches to Dacias.

Used car remarketing activity

The remarketing arena has again proved to be rather mixed, but many auctions have seen an improvement in May compared to April, which of course had the school holiday period within it which caused some decrease in demand. Conversion rates have certainly improved for many, with the exception of the budget end of the market.

Retailers do seem to be actively buying, but not in bulk, opting to pick off the more desirable vehicles that do not require much refurbishment. With values dropping by an average of 4.2% (at 3-years, 60,000 miles) over March and April, and some cars dropping by over 10% in the last 3-months, this has made dealers wary of either buying cars that could drop value at pace, or those that require reconditioning work so may not be available for sale for some weeks, particularly with many automotive parts in short-supply due to the situation with COVID in the Far East and the war in Eastern Europe.

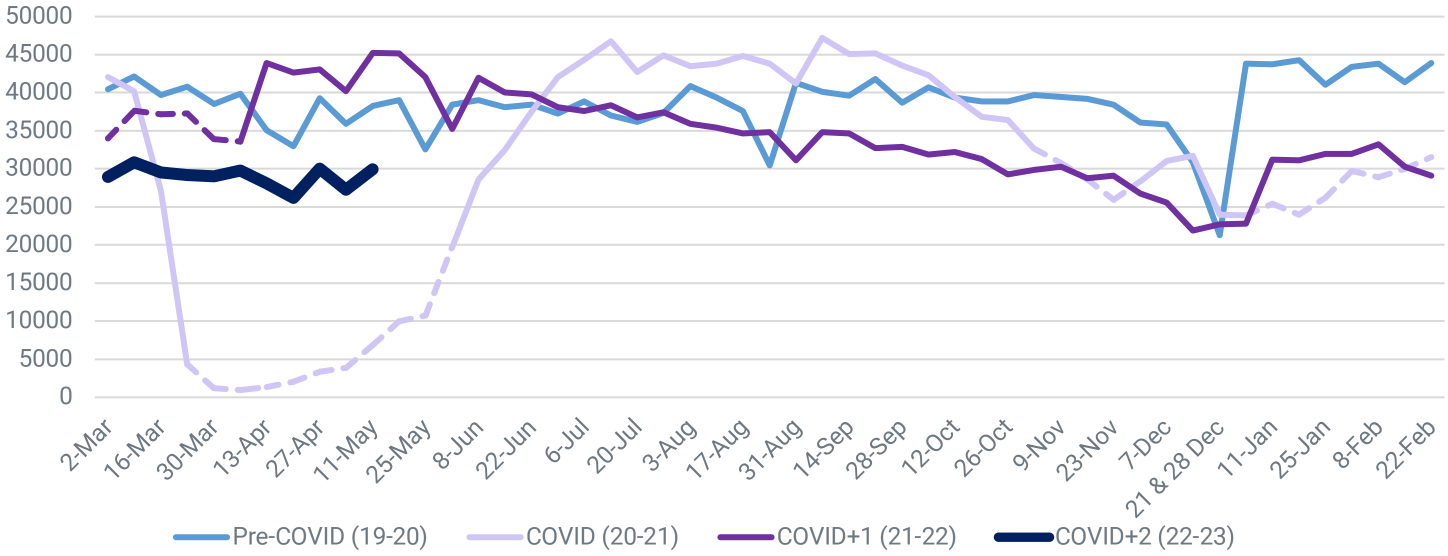
There is certainly a theme of desirable cars in cap Clean condition selling well, whilst those classed as Average or Below struggling and, if at auction, having to go through a number of sales and price reductions before they sell.

Looking at sold volumes from both auction houses and direct sellers, they sit around 20% down on the same time in 2019, pre-COVID. At this time 2-years ago, we were in the first national lockdown and this time last year, volumes were almost as high as they had ever been as we were in the initial stages of an incredible period for consumer and thus wholesale demand.

With the new car fleet market being so far down compared to previous years, it is unsurprising that we are not seeing high volumes of used cars returned from this sector. Indeed, they are over 36% down compared to 2019. As a result, these companies are coping with demand not being at previous levels and dealers not buying in bulk, and they have no necessity to dramatically reduce prices, as they may have done in times when they had plenty of stock to sell and high volume and speed-of-sale targets to hit.

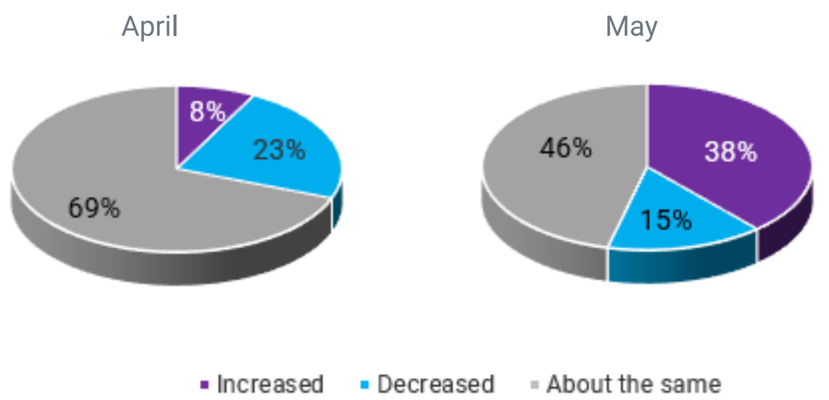
The market is currently in the highly unusual situation of both supply and demand being depressed. Usually, one will be higher than the other or both will be high. It is almost unprecedented for both to be low, with supply constrained by new car shortages and demand struggling due to the cost-of-living crisis.

Wholesale volumes since initial lockdown, comparison to previous years (dotted lines denote lockdowns)



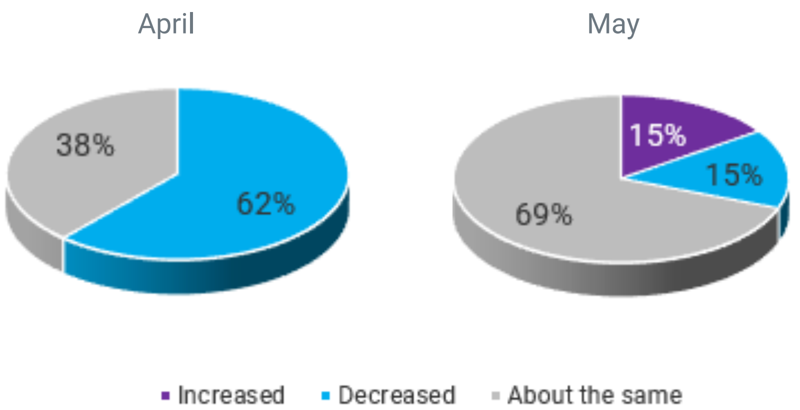
The monthly cap hpi auction survey, continues to produce fascinating and mixed results:

How do your current stock levels compare to last month?



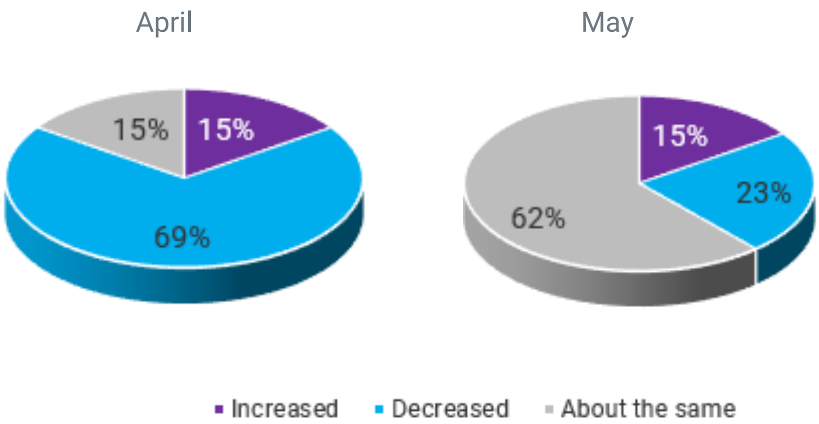
Almost half of respondents reported stock levels at a very similar level to in April, but reassuringly almost a further 40% had increased their volumes, and less respondents saw reductions than in the previous month. This can only paint a positive picture for an industry that has some reasonable concerns around volumes in the market.

How does your current overall demand compare to last month?



Demand has remained stable for almost 70% of auctions, with a further 15% seeing an increase for this metric. Also, on the positive side, far less respondents than last month were witnessing demand declining. Again, this should be seen as a positive sign for this sector of the market.

How do your conversion rates compare to last month?



Over three-quarters of respondents to the survey reported that conversion rates were either at a similar level to those in April or slightly improved. There are still some seeing rates decline and part of this is down to predominance of older stock going through the halls, potentially in poor condition. As stated previously, it is cars in cap Clean condition that are selling the quickest.

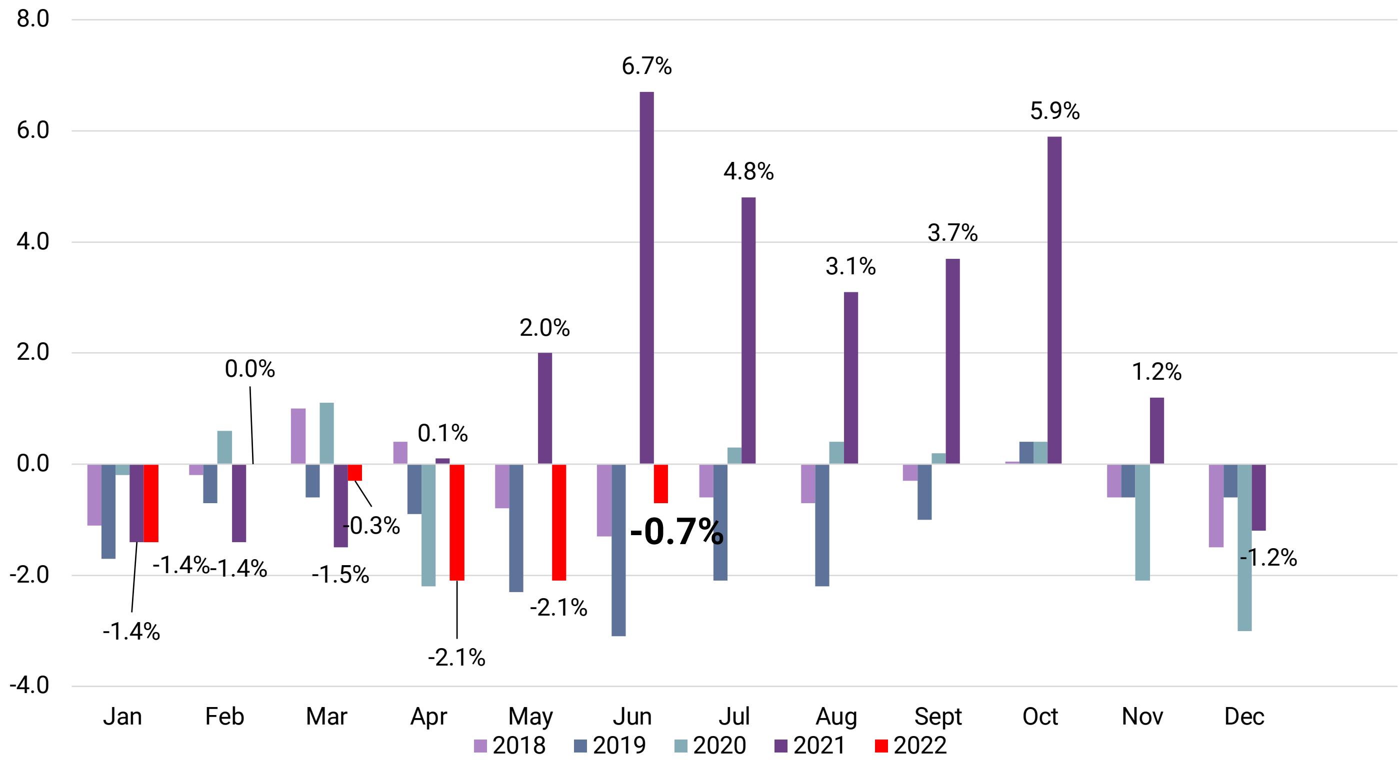
Used cars – trade values

With both supply and demand muted and well matched, trade values have plateaued in May, certainly in comparison to the two previous months. March and April both saw Live values decline by 2.1%, equivalent to c.£370 in each, and this may have been seen as the catalyst for similar drops for a number of months, close to what happened in 2019, as the market corrected itself. However, this May the average drop at 3-years, 60,000 miles has been just 0.7%, or c.£120, with many models not moving in value, or even declining early in the month then recovering within cap Live.

Excluding the events of this month last year, when Live values were into the second month of their extraordinary upward trajectory (increasing by 6.7%!), as demand went through the roof, this May has actually experienced the most positive average movement in values in that month since we introduced cap Live in 2012. Indeed, you have to go back to 2009, when the country was recovering from recession-related drops of the previous year, to find a stronger May in valuation terms. We would have been hard-pressed to find anyone that predicted that a few months ago and it is very much due to low supply levels.

The chart below shows monthly figures over the last 5-years, with what happens in Live in May shown as June monthly numbers.

Monthly percentage movements in Live valuations (3-years, 60k miles)



At the 1-year age, values reduced by just 0.3%, equivalent to £100, as scarcity of stock hit harder at this age, due to low registrations last year. This continues the theme of the last 2-months, when younger cars have declined by less than 3-year-old ones (1.3% in March Live and 1.5% in April).

At older ages, however, the situation is slightly different. In 2022 so far, up until this month, older price-point cars have either seen values increase or decrease by less than younger cars. In May, however, 10-year-old cars dropped by 2.4% (c.£110), which was the most of any age and a slight decline on last month's 2.1% drop. These older cars went up in value for the first 2-months of the year but do appear to have peaked. It is likely that the cost-of-living squeeze is hitting buyers at this cheaper end harder than others, and those that are cashing in on more expensive cars are not swapping into cars quite that old.

When looking at movements in value by price bands, cars under £5,000 have dropped by 2.6% (c.£90), between £5,000-10,000 by 1.5% (c.£110) and between £10,000-£15,000 the drop is less, at 0.8% or c.£100. Above £15,000 value drops are less than 0.5% all the way up to above £50,000.

Within these cheaper and older cars, we have seen a marked decline in values of diesel cars, which have dropped by 3.3% under £5,000, equivalent to c.£115, and 2.1% between £5,000-£10,000 (c.£160) on average. With aforementioned consumer demand low for these cars, due to running costs and environmental considerations, there is less appetite by the trade to buy this fuel-type. At younger ages, diesel car values did fall, not to the same degree, but by more than all other fuel-types.

Electric vehicles at 1-year old actually went up in value on average, but the detail within this has been very mixed. Even looking at Tesla as a brand, values for Model 3 went up by over 4%, whilst Model S went down by 4%! Lead times for both are lengthy now, with production focussed on Model Y, so an increase in demand particularly for the Model 3 has been apparent, due to relative cost and desirability. Elsewhere, values for smaller EVs such as the Smart ForFour Electric and Honda e have increased, by 2% (£270) and 3% (£775) respectively at 1-year old, whereas where supply is more plentiful and prices are higher, the Jaguar I-PACE has seen a significant 4% (£2,000) decline.

Looking at sectors, city cars and convertibles stand out as two sectors that increased in value on average during May. City cars continue to be a popular price-point choice, as consumers downsize particularly their second family car and retailers are happy to carry these lower end cars in stock. Convertibles and cabriolets have benefited from an improvement in the weather, although previous price increases have meant any uplift in values has happened later and to a lesser degree than in pre-COVID years.

In the SUV market, smaller models were looking as though they would move down more at the end of April, however, previous downward price movements have attracted buyers back into the market, helping values move closer in-line with other sectors. On average, drops have been 0.6% or c.£70 at the 3-year point. Both medium and large SUV models have moved down 1.3% (c.£230 and c.£500 respectively) which was a more positive movement than in the previous two months but weaker than the overall market movement. At the cheaper end of the market, older SUV models that were under £5,000 have moved down over 4%, or c.£170, with diesel engines not helping the cause.

What next?

Last month, our prediction was:

"We are forecasting a continuation of the last 2-months, with values continuing to decline, but not drop off a cliff. There is the potential that now the Easter holiday period is over, demand may ramp up, but even if it does, used car prices remain high and retailers are unlikely to be bullish with what they are prepared to pay for stock.

What is abundantly clear is that inconsistency will remain a factor in the used car market. Where supply is plentiful, prices are likely to drop and be reflected in cap Live values. Cars in good condition with less volume are likely to be more stable."

Whilst this has mainly rung true in May, it would be fair to say that downward movements in value have been lower than expected, with a plateauing effect helping lead to a more stable market. This is likely to lead to retailers having more faith in buying stock, confident that prices are not going to drop exponentially.

With little to no chance of new car supply improving dramatically in the short-term, there will not be a plethora of part exchanges or fleet returns arriving into the market. Demand feels steady, with the slightly unknown factor of the double bank holiday at the start of June added to the Whitsun school holidays. This could lead to a drop off in demand due to vacations, but also some retailers are preparing for consumers using the time off to seek out a new car.

It is likely that supply and demand will continue to be fairly well aligned. Used car values do remain high though, with some models such as the Fiat Punto and Toyota Verso Estate still over 60% above where they were 12-months ago, and many more around 50% higher. With this in mind, we may well see small average drops in value as we have done in May, but the heavy reductions of March and April do seem to be a thing of the past for now at least, led by those supply shortages.

The last 3-months have certainly been mixed and proved once again that attention to detail and Live daily values are an essential part of every remarketer, auction and retailer's armoury to ensure maximum returns when selling and not overpaying when buying. June will be another fascinating month for used cars.

Current used valuations June 2022 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	0.6%	0.5%	0.1%	(1.7%)
Supermini	0.5%	(0.1%)	(1.0%)	(2.3%)
Lower Medium	0.2%	(0.3%)	(1.1%)	(3.1%)
Upper Medium	(0.4%)	(0.9%)	(1.2%)	(2.6%)
Executive	(1.0%)	(1.1%)	(1.8%)	(3.3%)
Large Executive	(0.2%)	(0.5%)	(0.5%)	(1.3%)
MPV	(0.6%)	(1.4%)	(1.5%)	(1.9%)
SUV	(0.7%)	(1.1%)	(1.8%)	(3.2%)
Convertible	0.5%	0.9%	1.0%	1.0%
Coupe Cabriolet	(0.3%)	0.1%	1.2%	2.2%
Sports	(0.6%)	(0.4%)	(0.3%)	(1.2%)
Luxury Executive	0.2%	0.3%	0.0%	(0.5%)
Supercar	0.2%	0.1%	0.2%	0.0%
Overall Avg Book Movement	**(0.3%)**	**(0.7%)**	**(1.1%)**	**(2.4%)**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(1.7%)	(1.8%)	(1.7%)	(1.2%)
MPV Medium	(1.1%)	(1.8%)	(1.9%)	(2.3%)
MPV Large	0.1%	(0.4%)	(0.3%)	(1.4%)
SUV Small	(0.4%)	(0.6%)	(1.1%)	(4.7%)
SUV Medium	(0.7%)	(1.3%)	(2.0%)	(3.3%)
SUV Large	(0.9%)	(1.3%)	(1.8%)	(2.8%)

( ) Denotes negative percentages

Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
BMW 5 SERIES (16-) DIESEL	250	400	333
FORD FIESTA (17-22)	(250)	(100)	(153)
FORD FOCUS (18-)	300	550	393
HYUNDAI TUCSON (18-21)	(250)	(150)	(200)
MERCEDES-BENZ A CLASS (18-)	350	600	463
PEUGEOT 108 (14-)	150	175	164
PEUGEOT 308 (13-21) DIESEL	(650)	(500)	(569)
SKODA OCTAVIA (13-20) DIESEL	(300)	(150)	(200)
TOYOTA YARIS (17-21) HYBRID	300	350	333
VOLKSWAGEN TIGUAN (16-) DIESEL	(700)	(350)	(512)

( ) Denotes negative value

Notable Movers 3-yr 60k

	1 YR/10K	3 YR/60K	5 YR/80K
AUDI A6 (11-19) DIESEL	(1,150)	(600)	(823)
BMW 5 SERIES (16-) DIESEL	150	250	215
FORD KUGA (12-20) DIESEL	(550)	(350)	(433)
KIA NIRO (16-19)	300	350	312
LAND ROVER RANGE ROVER EVOQUE (11-19) DIESEL	(650)	(450)	(582)
MERCEDES-BENZ GLA CLASS (14-20)	300	450	366
MITSUBISHI OUTLANDER (18-21) HYBRID	150	200	190
NISSAN JUKE (10-20)	(500)	(225)	(360)
VOLKSWAGEN CADDY LIFE C20 (10-21) DIESEL	650	750	700
VOLKSWAGEN TIGUAN (16-) DIESEL	(450)	(250)	(355)

( ) Denotes negative value