Car editorial
By cap hpi

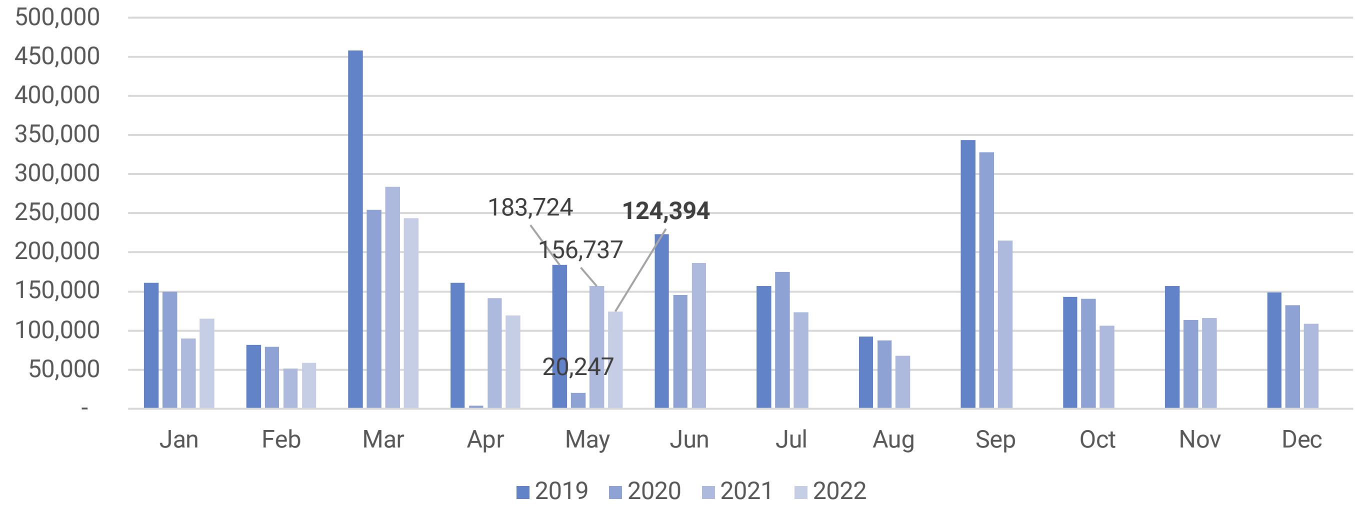
July 2022

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 May 2022 and used car activity at the time of writing. All information is correct as of 27th June 2022.

New car sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), 124,394 cars were registered in May, compared to 156,737 in the same month last year, a reduction of 20.6% and, excluding the lockdown of 2020, the weakest May in 30 years. Supply issues continue to severely hamper the new car market. Year-to-date, volumes were down 8.7% to the end of May (661,121 versus 723,845) compared to last year.



Source: SMMT

The fleet market continued to feel the brunt of the shortfall, down 29.9%, or 23,785 units, for the month and 26.0% for the year so far, equating to a significant 101,147 cars. Manufacturers continue to focus what supply they have into more profitable retail channels. The Private market was down 10.3% in the month, but up 11.4% for the year. Important to remember that 2021 was also low on volume due to the impact of the COVID-19 pandemic. Daily Rental registrations continue to be heavily affected, down 75% on last year and 90% on 2019.

Diesel registrations year-to-date were down 47.1% on last year, equating to 61,324 units, with petrol down 13.2% or 57,569 units. Figures include mild hybrids. Battery Electric Vehicles continue to rise in popularity, up 71.2% so far in 2022 and outselling diesel by almost 2.5 to 1. Hybrid Electric Vehicles were up 35.9% and Plug in Hybrid Electric Vehicles down 5.5%.

Franchised dealers are certainly having challenging times hitting targets still being set by some manufacturers and also explaining to consumers about lengthy lead times or not even being able to order certain cars.

Used car retail activity

Similar to the situation in May, retailers have had a relatively difficult June, having to work hard to win lower levels of business than they had budgeted and hoped for. The double bank holiday at the start of the month was slow, as expected, and it took a while to pick up after that. It has continued to be “back to basics” for many and a considerably more difficult market than at this time last year, when we were in the middle of the “summer of strength” for used car demand and values.

The cost-of-living squeeze is certainly impacting consumers appetite to buy, and this is manifesting itself in different ways. A number of retailers are reporting a "sweet spot" of around the £12,000 mark; above this the market is more muted. But this price of car comes with it more refurbishment costs and potentially more time taken to get them on sale. There are also dealers reporting an increased reluctance to buy diesel cars. In the past this was a relatively sound choice for many, but with fuel prices being so high (edging ever closer to £2.00 per litre at the time of writing) and less miles being driven post-pandemic, plus environmental concerns, buying a diesel is not a straightforward decision anymore. That being said, petrol prices at the pumps are almost as high, so more and more consumers are at least investigating whether a hybrid or electric vehicle is for them, however they are a more expensive acquisition.

With around £12,000 being the reported desirable area of the market, partly due to necessity purchases, this leaves many other price points less palatable for consumers. Under £5,000 there is less desire, with traditional lower-income buyers in this price-band more affected by the cost-of-living increases than more affluent individuals. Then, looking at more expensive cars, around the £20,000 point, many of these cars look expensive for their age and mileage, plus the outlay is maybe put on hold whilst the public adjust to other parts of their lives being more expensive, or make the decision to go on holiday this summer rather than buy a car as a big-ticket purchase. Certainly, an increased monthly payment is something to avoid for many in the current economic climate. Once you look higher up the price bandings, however, particularly above £50,000, demand has remained reasonable, with buyers less concerned by increased prices elsewhere in the lives.

We continue to see different ways of dealers handling the current market. Whilst there have not been ***widescale*** reductions of advertised prices, some have been using this tactic to stimulate interest. It is arguable, however, whether a small reduction in either overall price or monthly payments would encourage a consumer who has decided not to make a large purchase to part with their money. There continues to be more of a willingness to negotiate though when some interest is shown. Other retailers are sticking to their guns on price, realising reductions may not stimulate demand, and also trade prices remain high, with shortages of desirable stock, so if they sell a car cheaper than they planned for, will they be able to replace it and make a margin?

Having painted a picture of a difficult month for retail, many dealers are still selling in reasonable numbers, but simply having to work hard to achieve close to their targets.

Used car remarketing activity

The wholesale market is in the highly unusual, dare we say it, unprecedented situation of both low supply AND low demand.

With many consumers reluctant to buy at the current time, there is an unwillingness from many dealers to stock up their virtual or physical forecourts, plus a reticence from some to do so in the recent uncertain pricing environment. That being said, with values plateauing in the last 2-months, we have witnessed a loosening of this policy from some, more confident that stock bought will not overly deflate in price over the coming weeks. A number of auction houses have reported an improvement in activity in June compared to May.

Retailers continue to be reluctant to buy cars in poorer condition, and with the lower end of the retail market difficult, this is leaving more older, Average or Below cars unsold. Many vendors remain unrealistic with their expectations for damaged vehicles, according to feedback from some auction companies. The reopening of more physical auction sites may help sell some of the lower graded vehicles, as viewing online is not always a substitute for gauging required refurbishment in person. Cars in good condition continue to be sought after, particularly if they are a little different to the run-of-the-mill norm.

The used market is being helped by a relatively new dynamic this year, with daily rental companies actively buying cars from both wholesale and retail sources and paying strong money to do so. With manufacturers not satisfying their demand with new car supply, they have a requirement to buy preferably young used cars, under 1-year old. This has led to some strong prices being paid.

Overall, the remarketing area is slightly more upbeat than it was in May, and is not too disappointing for many, considering the economic mood of the nation currently. Demand is just about where it needs to be for the levels of supply.

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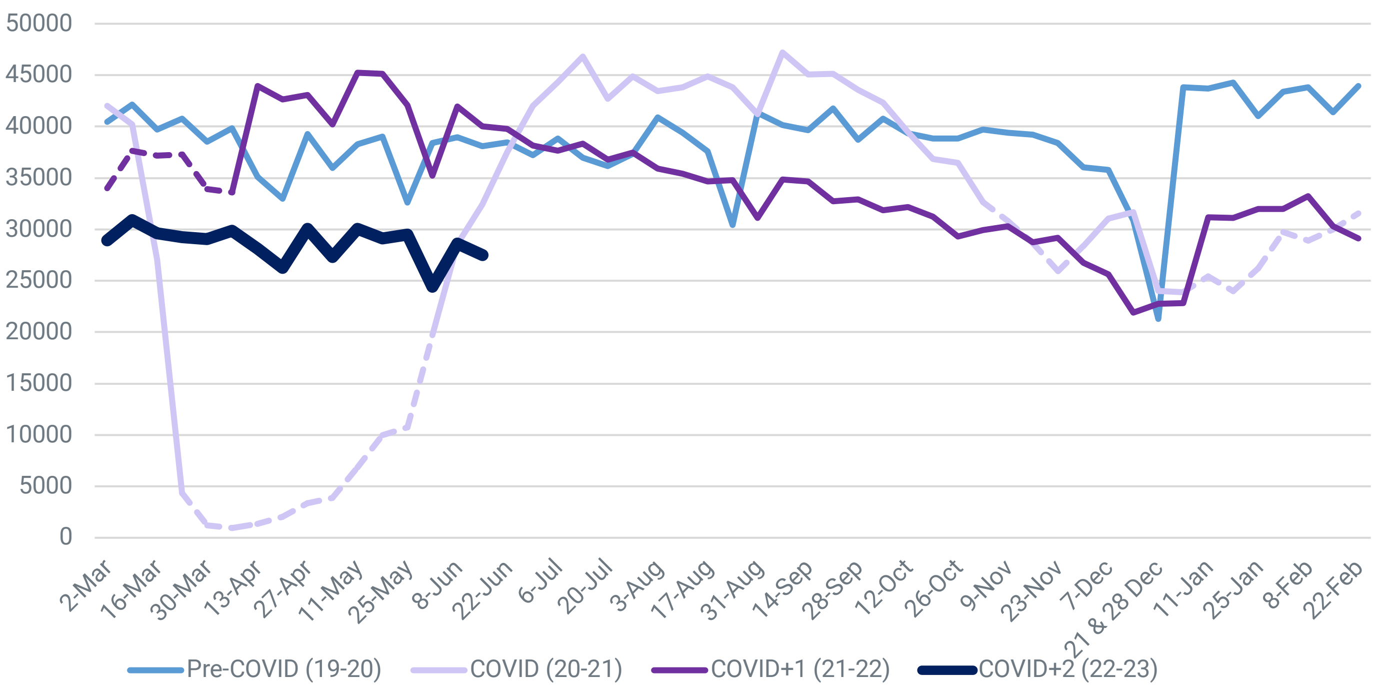
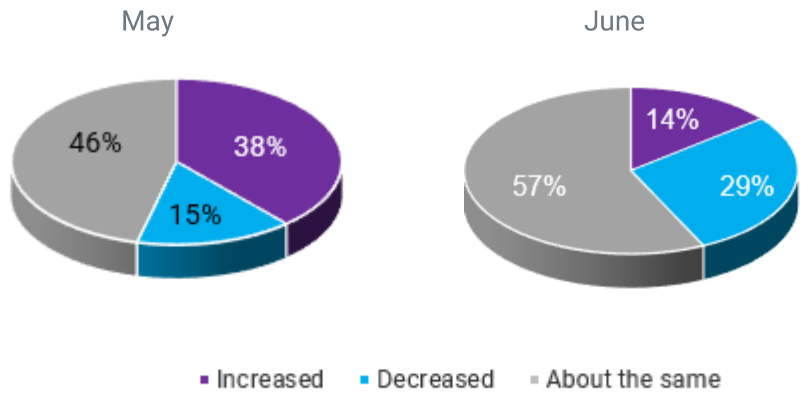
As the chart below shows, volumes of wholesale data remain well below previous years – to use a much-vaunted phrase, these numbers are the new normal bearing in mind the problems in the new car market generating lower amounts of fleet returns and part exchanges. We are unlikely to see increases anytime soon.

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



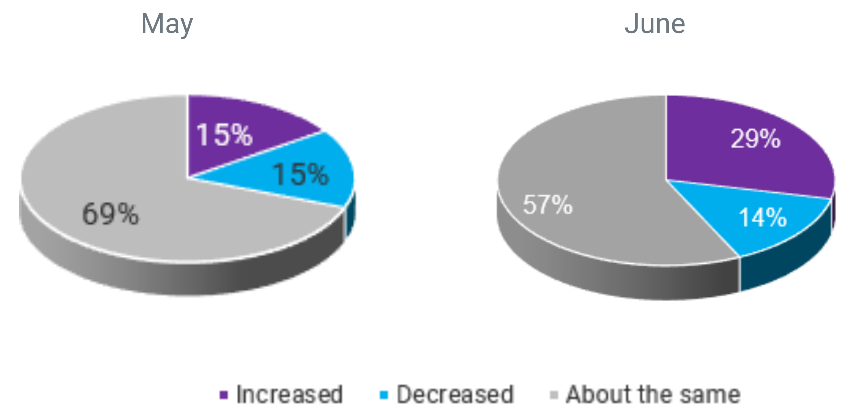
The cap hpi auction survey continues to be an interesting measure of the wholesale market:

How do your current stock levels compare to last month?



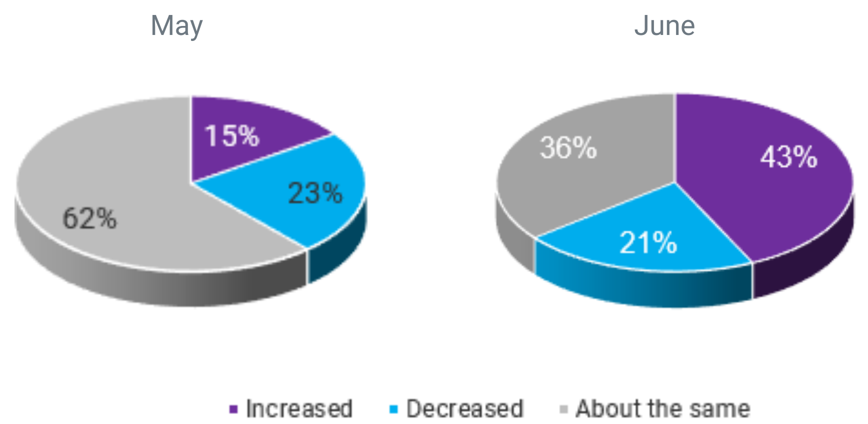
Far less respondents than last month saw stock levels increase in June, with over half stating they were broadly similar, but almost one-third seeing a decrease, double that of last month and certainly of some concern, with little signs of an improvement in the short-to-medium term.

How does your current overall demand compare to last month?



Demand has been more positive, overall, than last month, with over 85% of respondents seeing it as on a par or improved. A similar number were still seeing demand dwindling, however, so it does remain mixed.

How do your conversion rates compare to last month?



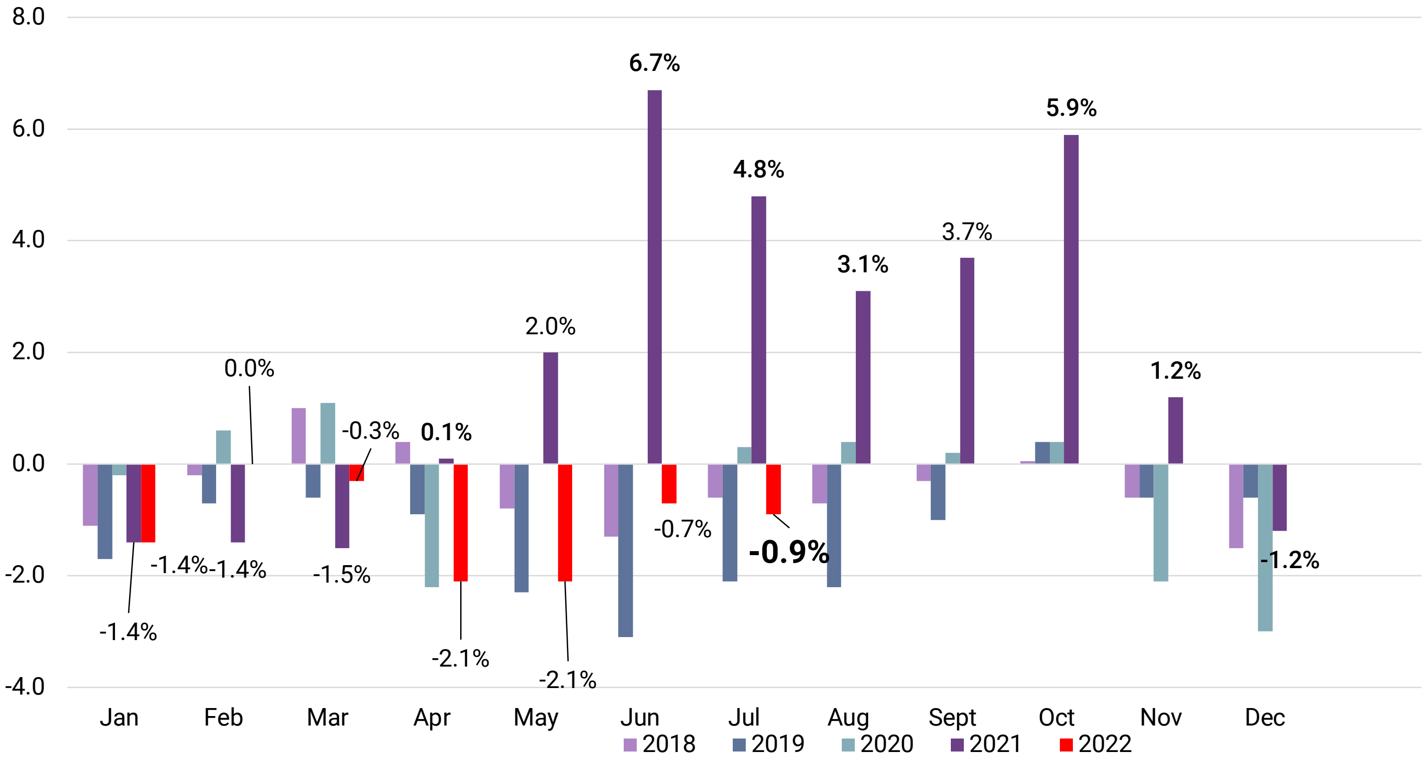
On that mixed theme, there is an inconsistent picture for conversion rates, although a positive view can be taken when almost half were seeing these improve, compared to just 15% last month. This is very dependent on the profile of cars being offered, with older and damaged cars faring the worst.

Used cars – trade values

With demand and supply well matched, June's Live values continued on a similar trajectory to May. The average movement at 3-years 60,000 miles was 0.9% down, equivalent to c.£120. This followed the 0.7% drop in May. Both months have seen a lower than normal reduction for the time of year, off the back of two months of heavier downward movements in March and April. The plateauing we have reported previously is continuing.

Excluding last years unprecedented increases and the first COVID affected year of 2020, the average drop in June has been 1.2% since Live was introduced in 2012, and 1.4% drop is the most common. It is important to remember that values do generally drop – the last 2-years have been highly unusual, so we are returning to more of a normal scenario for values, although the market is not necessarily normal!

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



Looking at different ages of cars, values have been stronger for younger cars, dropping by 0.4% at 1-year old (c.£100), where stock is more sought after and also scarce. At older ages, the percentage decrease becomes more acute with -1.3% at 5-years old and -2.4% at 10-years old, highlighting less desire to stock cars at the cheaper end of the scale.

When you break this down into price-bands, cars under £5,000 have dropped by an average of 2.9% (c.£100), £5-10,000 by 1.7% (c.£130), £10-15,000 by 1.0% (c.£130) and £15-20,000 by 0.7% (c.£120). Cars over £50,000 have barely dropped, moving by an average of just 0.1%. It is interesting that the £12,000 sweet spot reported by retailers is not necessarily backed up within the trade data – the price band above that performing better. But, as always, the devil is in the detail.

We continue to see these average value drops more heavily influenced by diesel-fuelled cars, which are dropping by more than all other fuel-types. This is a fairly recent occurrence, apparent over the last 4-months. As mentioned earlier, purchasing a diesel car now is not a simple or necessarily prudent choice and dealers are more reluctant to buy them for stock, particularly at older ages where the road fund licence is relatively high. In June, diesel car values dropped by 1.2% (c.£180) at 3-years old, compared to 0.7% (£100) for petrol, at 10-years old this drop was 2.9% (c.£115) for diesel and 2.0% (c.£75) for petrol. This diesel decline has been apparent across all sectors, but is particularly acute for lower medium (C-sector) sized cars, where diesels dropped by 1.6% at 3-years old and 3.6% at 10-years old. Diesel has always been less appealing for smaller cars, superminis in particular, but that is now spreading to the next size up. Models such as the KIA Ceed and Ford Focus were two of the most heavily affected diesel models.

Electric vehicles increased in value at all ages overall in June, by 0.5% at 1-year old and 0.9% at 3-years. Some notable movers being the MG ZS, up 5% (c.£1200 at 1-year old), the Vauxhall Corsa Electric up 3% (c.£650 at 1-year) and the KIA EV6 up 3% (c.£1150 at 1-year). There is certainly more of a willingness by retailers to stock EVs, despite some of their high price points. With consumers considering a switch to this fuel-type, particularly with soaring prices for fossil fuels, and long lead times for new ones, used examples are proving popular. Hybrids also went up in value this month, maybe being a halfway house for those buyers not quite ready to take the leap to pure EVs.

Turning to sectors in general, city cars continue to be the mainstream area performing the strongest, dropping by an average of just 0.5% at 3-years old, equivalent to just £35. With consumers being careful with their money, downsizing is a theme, particularly for a second car that is no longer in use as much as it was pre-pandemic. Medium SUVs saw the largest drop in value, 1.3% at 3-years old, and again much of this is led by diesel fuelled cars, with notable movers being the Ford Kuga Diesel, Hyundai Tucson Diesel and Skoda Karoq Diesel, all dropping by considerably more than the average. Other mainstream sectors all dropped by either 0.9% or 1.0% - a pretty gentle move down. Convertibles have increased slightly this month, by 0.7% or c.£150 on average, aided by better weather and low volumes in the market. Again, some drops for diesel examples have occurred.

What next?

Last month, our prediction was:

"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."

There is little to suggest anything other than more of the same over the coming weeks. July does see the holiday season ramping up, however, so this could very well lead to a further decline in demand, but there are no signs of supply increasing. It is likely that the status quo of these two main dynamics that affect values will remain.

Values are still, in the main, considerably ahead of where they were a year ago, and if you go back further, to pre-COVID times, many cars are upwards of 30% ahead of where they were then, at the same age and mileage point. For this reason, even with supply muted, there could be some pressure on price if demand drops further. As always, different models and particularly fuel-types will be affected by different amounts and in different directions as we move through the next few weeks and months, so Live values continue to increase in their importance for profitable trading.

The first half of 2022 was impossible to predict with any great certainty, with the war in Ukraine, Far East natural disasters and COVID lockdowns and the cost-of-living squeeze hitting supply and demand hard. The second half of the year will no doubt see more twists and turns, so a close eye on the data is essential.

Current used valuations July 2022 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(0.2%)	(0.5%)	(1.3%)	(1.8%)
Supermini	(0.4%)	(0.9%)	(1.9%)	(3.7%)
Lower Medium	(0.6%)	(1.0%)	(1.6%)	(2.9%)
Upper Medium	(0.4%)	(1.0%)	(1.3%)	(2.7%)
Executive	(0.6%)	(0.7%)	(0.5%)	(1.9%)
Large Executive	0.4%	0.3%	0.3%	(1.3%)
MPV	(0.3%)	(1.0%)	(1.4%)	(1.9%)
SUV	(0.6%)	(1.2%)	(1.6%)	(3.1%)
Convertible	0.9%	0.7%	0.4%	(0.1%)
Coupe Cabriolet	2.4%	1.5%	1.5%	1.3%
Sports	(0.4%)	(0.4%)	(0.2%)	(0.9%)
Luxury Executive	1.0%	0.9%	1.3%	1.5%
Supercar	0.8%	0.5%	0.6%	0.2%
Overall Avg Book Movement	**(0.4%)**	**(0.9%)**	**(1.3%)**	**(2.4%)**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(2.0%)	(2.5%)	(2.8%)	(1.8%)
MPV Medium	(0.5%)	(1.2%)	(1.4%)	(2.2%)
MPV Large	0.0%	(0.4%)	(0.6%)	(1.1%)
SUV Small	(0.3%)	(0.9%)	(1.2%)	(2.6%)
SUV Medium	(0.7%)	(1.3%)	(1.8%)	(3.3%)
SUV Large	(0.7%)	(0.6%)	(1.0%)	(2.5%)

( ) Denotes negative percentages

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Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
ALFA ROMEO GIULIETTA (10-21)	(1,000)	(750)	(883)
BMW 4 SERIES GRAN COUPE (14-21) DIESEL	(600)	(450)	(528)
BMW 2 SERIES ACTIVE TOURER (14-22) DIESEL	(1,150)	(300)	(625)
CITROEN C4 CACTUS (14-21) DIESEL	(900)	(900)	(900)
FIAT 500C (09-)	200	350	273
FIAT PANDA (12-)	(450)	(150)	(251)
FORD FIESTA (17-22)	(700)	(100)	(304)
JAGUAR XF (15-) DIESEL	(700)	(400)	(508)
MAZDA MX-5 (15-)	150	200	183
VOLKSWAGEN GOLF (13-21)	(1,050)	(850)	(940)

( ) Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI A3 (12-19) DIESEL	(600)	(350)	(474)
BMW 1 SERIES (11-19)	(450)	(350)	(400)
BMW I3 (13-)	350	450	368
FORD KUGA (12-20) DIESEL	(350)	(200)	(275)
HONDA CR-V (12-19) DIESEL	(550)	(400)	(483)
HYUNDAI I40 (11-20) DIESEL	(800)	(550)	(704)
PEUGEOT 2008 (13-20)	(600)	(475)	(521)
SKODA OCTAVIA (13-20) DIESEL	(350)	(200)	(269)
TOYOTA AURIS (12-19) HYBRID	250	350	282
VOLVO V40 (12-19) DIESEL	(400)	(275)	(341)

( ) Denotes negative value