

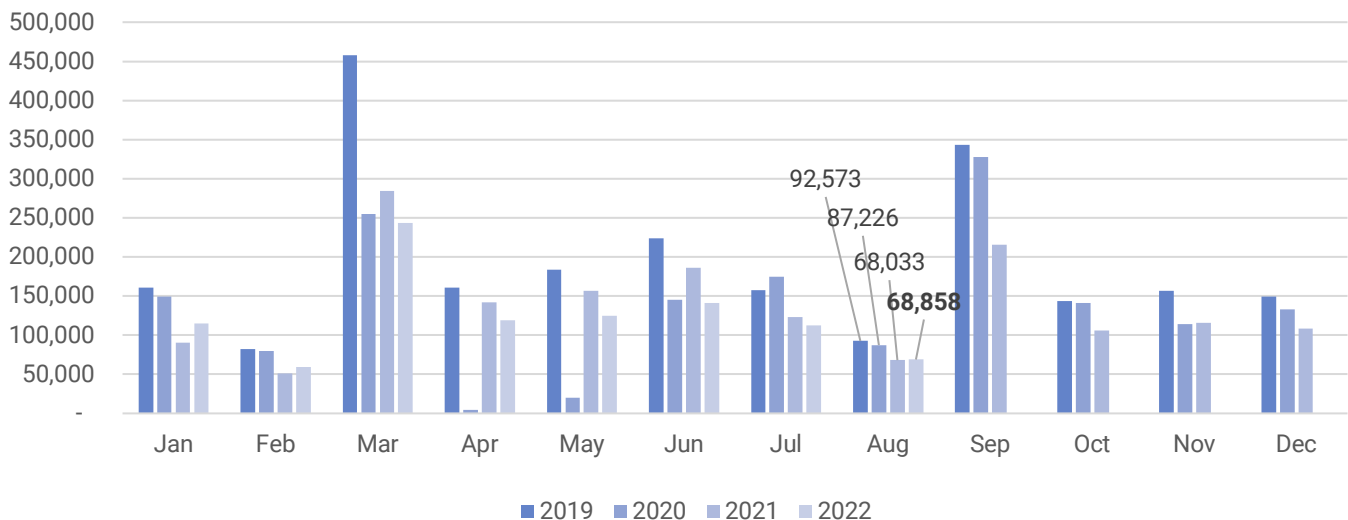
October 2022

# 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 August 2022 and used car activity at the time of writing. All information is correct as of 27th September 2022.

## New car sales

According to the figures published by the Society of Motor Manufacturers and Traders (SMMT), 68,858 cars were registered in August, an increase of 1.2% over the same month last year, ending five consecutive months of declines. August is traditionally one of the quietest months of the year for registrations, with all eyes now on the plate change in September.



Source: SMMT

Year-to-date, 983,099 cars were registered to the end of August, a shortfall of 10.7% versus the same period last year, when 1,101,302 were registered.

Fleet registrations continue to bear the brunt of the reductions, being down 1.6% for the month and 24.0% for the year, as manufacturers continue to prioritise more profitable retail business. Again, it will be interesting to see if this continues in September. Daily Rental volumes remain low, down 55% for the month and 74% for the year. Compared to 2019, however, registrations for this channel are 89% down (c.17,000 versus c.153,000).

Battery Electric Vehicles (BEVs) continue to increase in volume and share, up 35.4% (10,006 registrations) for the month and 48.8% (137,498 registrations) year-to-date. Share of the market in 2022 is now 14.0% compared to 8.4% a year ago. Pure hybrids take an 11.5% share and plug-in hybrids 6.3%. Diesel cars' market share has dropped from 16.4% a year ago to 10.6% now, whilst petrol cars continue to take the biggest slice of the market with 57.7% share, compared to 59.9% this time last year. Both petrol and diesel figures include mild hybrids.

At the time of writing, the pivotal registration month of September is tracking slightly ahead of this stage last year, but well down on pre-COVID, with some brands performing better than others. Many cars earmarked for September are likely to slip into the following months. Lead times remain lengthy for certain vehicles, still as long as 12-months for some, and supply of parts, including the much-publicised semi-conductors, from the Far East remains unpredictable.

# Car editorial

By cap hpi

## Used car retail activity

Activity in the used car retail sector has been mixed in September and difficult to provide a generalised commentary for. However, overall, it would be fair to say that it has been slightly better than we expected, with cost-of-living concerns seemingly not impacting demand to any great degree and some optimism that recently announced government measures will help.

Most retailers are reporting demand as “satisfactory” considering the relative doom and gloom being reported in the press and with the distraction and disruption to the nation caused by the death of Queen Elizabeth II on 8<sup>th</sup> September and her funeral on 19<sup>th</sup>, with the extra Bank Holiday announced at short-notice. The month is outperforming August for most dealers, with the main holiday season now over, however there are a number that have reported a small downturn, hence the mixed nature of the market.

Many retailers are carrying less cars in stock than they have previously and for a number of reasons, namely the relatively low volumes in the wholesale market, high trade prices, September new car activity not generating anywhere near as many part-exchanges as in pre-COVID times and some concern about if and when demand may wane as we enter the final quarter of the year.

Franchise dealers seem to be performing slightly better than supermarkets and independents overall, particularly if they can get their hands on late-plate, young used cars, as these are in short-supply but are attractive to the consumer, with new car lead times still lengthy for some cars.

Margins remain relatively healthy, but are being squeezed in some areas, particularly for non-franchise retailers. With demand only steady, there is little-to-no opportunity to push prices up and indeed many outlets are reducing prices, particularly of those cars that have been in stock for a number of weeks. There are even some pockets of the market where cars are being advertised very close to cap Clean, which of course makes buying trade cars increasingly difficult, with dealers relying more on gaining a quality part-exchange vehicle and selling finance and insurance and other add-ons to make profit. With trade prices high, however, there is certainly some caution being applied when reducing retail prices and certainly no general cull, as it could prove costly and difficult to replace what they sell.

The interest rates increase in September is of concern, with dealers’ current APR (Annual Percentage Rates) offering on finance potentially unsustainable and maybe becoming uncompetitive compared to personal loans from banks.

## Used car remarketing activity

Over the last few months, the wholesale and retail used car markets have been well aligned, with both supply and demand lower than normal, but steady. This no longer seems to be the case.

Despite some caution from retailers keen not to overstock, and many buying only when they need to replace something rather than to speculate, the wholesale market has been remarkably strong in September. Demand has outweighed supply, particularly for desirable cars in cap Clean condition. Having said that, demand has also picked up for cars in Average and, to a lesser extent, Below condition. The recent downward moves made to those cap values has certainly helped stimulate buying activity.

Conversion rates at auction have been rising since the middle of August, initially with retailers eyeing an uplift in demand at the end of the school holiday period, but they have continued to increase through September. The percentage figure is helped of course by continued low auction stock volumes, but also by a desire from retailers for cars. Volumes sold through the auctions have increased by about 3.5% compared to the previous month at the same time slowly driving prices up for many models.

We have also witnessed an increase in volumes from wholesalers selling direct, with daily rental companies de-fleeting in reasonable volumes for the first time this year, whilst still achieving strong prices – well over monthly cap Clean in some cases. In certain weeks, volumes from this sector have seen a fourfold increase over the same week last year and many weeks earlier this year, whilst increasing the percentage of cap they achieved. They are asking strong money for their cars, but retailers are paying the prices. On the face of it, making a reasonable margin, bearing in mind retail advertised prices, would appear difficult but as stated in the retail activity section, they are just about making it work.

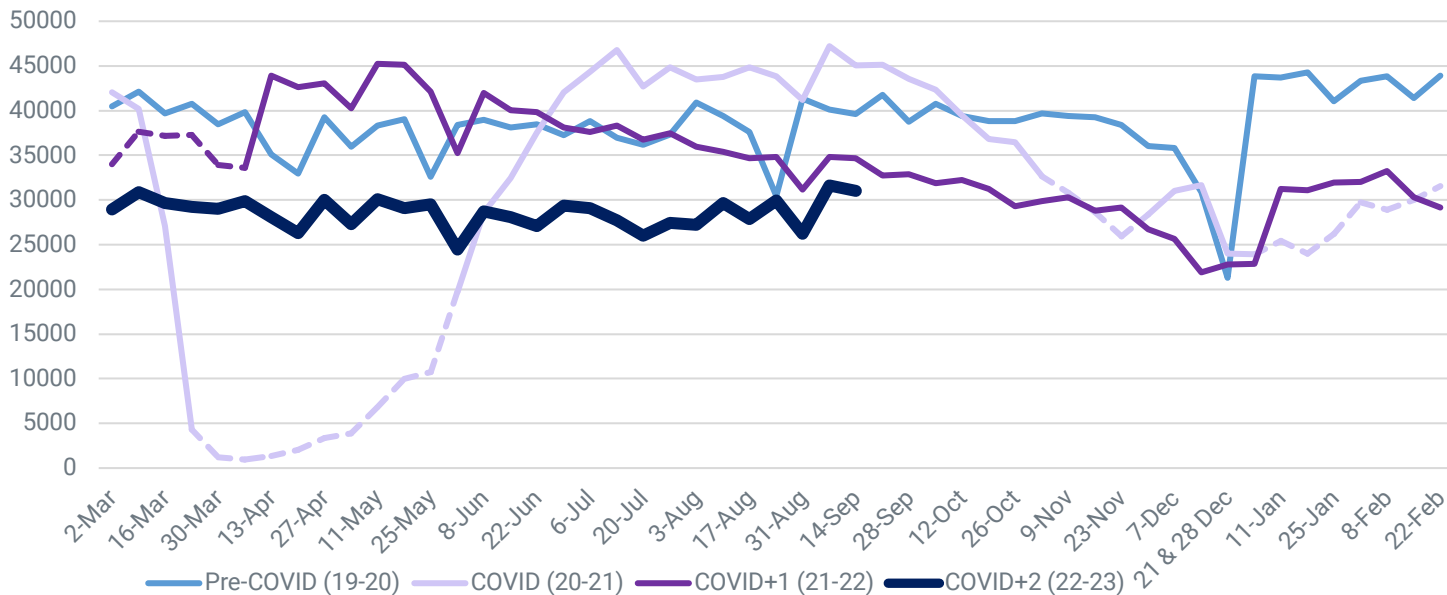
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It is at times like this in particular, that it is increasingly difficult to buy cars using predominantly retail data. Trade values, particularly Live ones, have increased in importance once more.

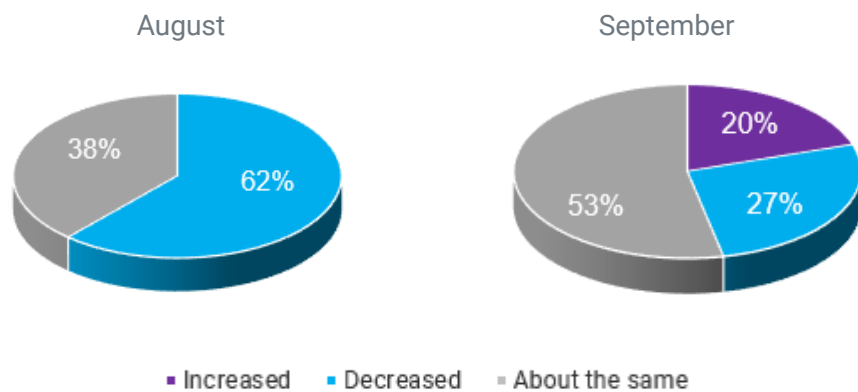
Overall, whilst sold trade volumes increased month-on-month, they remain around 10% below the same period last year and around 22% below a pre-COVID September.

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



This month's auction survey portrays the positive sentiment amongst those companies. Thanks once again to the auctions for their continued contribution to our market feedback:

## How do your current stock levels compare to last month?

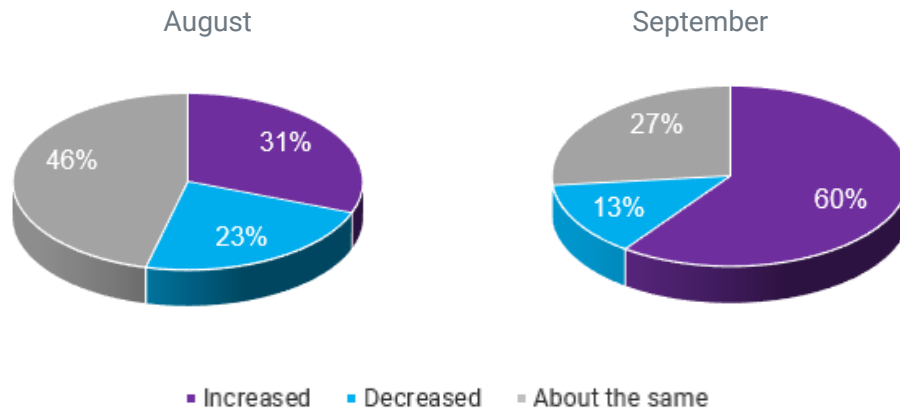


For around one-fifth of respondents, stock levels have increased, with September new car registrations slowly starting to have an impact on returning volumes, however, that number is still outweighed by those continuing to have lower volumes than in the previous month. Last month this was over 60% of respondents, now it is just over one quarter. Over half are seeing no change. It is clear that whilst the picture is a positive one, all would like to have more volume coming through and stocks have certainly diminished year-on-year.

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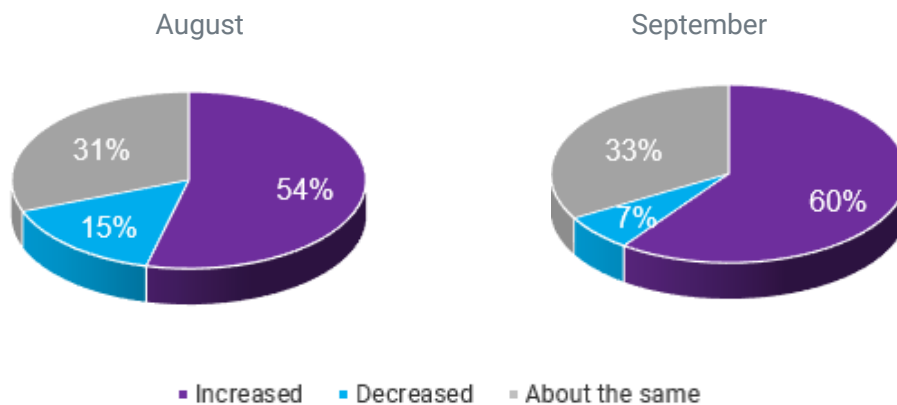
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## How does your current overall demand compare to last month?



Compared to August, more than double the number of auctions confirmed that demand had increased, and almost 90% were seeing it at least as good as last month. Certainly, a positive month for the vast majority, backing up the anecdotal feedback received.

## How do your conversion rates compare to last month?



Conversion rates have also increased for the majority. There was already a relatively positive picture painted in last month's survey, but even more so in September. Again, from anecdotal feedback, the auctions remain firmly upbeat about the current market.

## Used cars – trade values

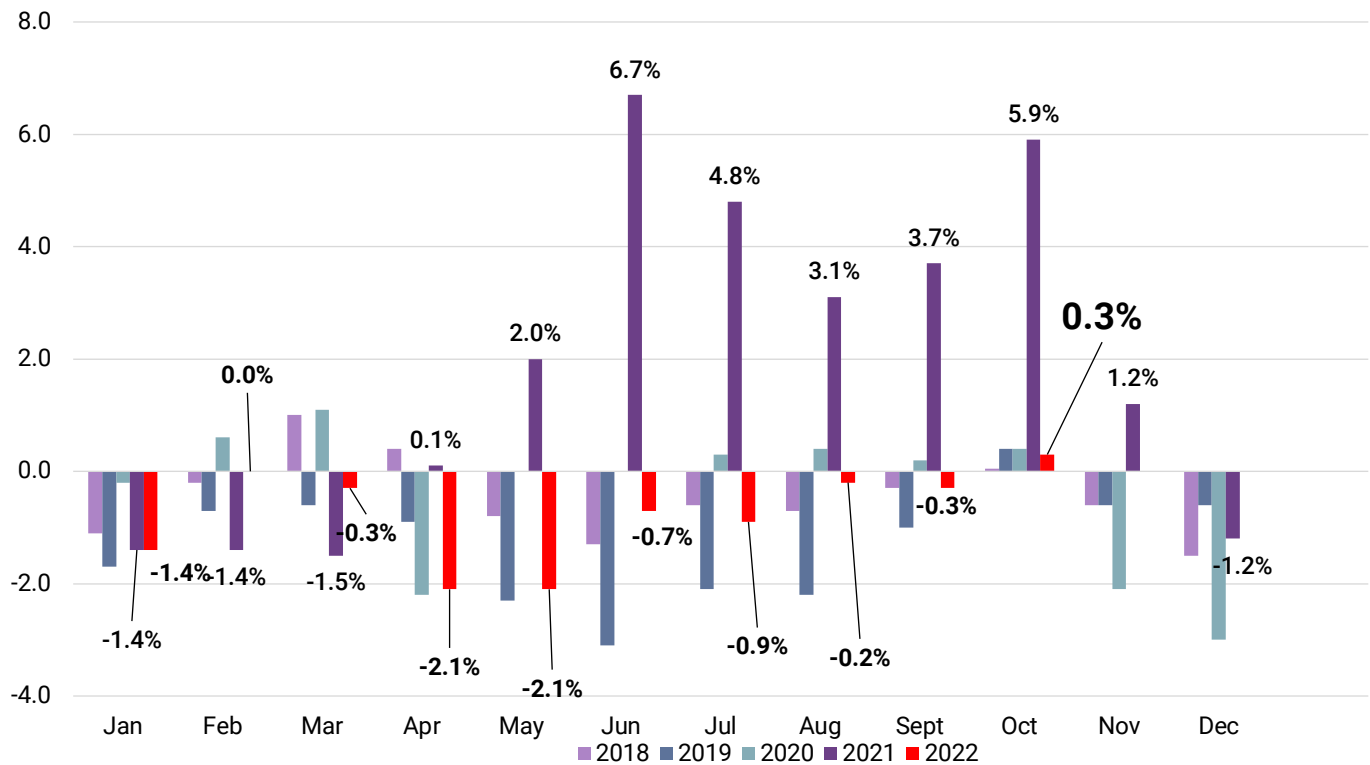
For the first time in 2022, average cap Live values have increased in a month. Whilst we have witnessed a very stable period since May, values have dropped slightly each month over the summer. The positivity of the wholesale market in September has resulted in dealers prepared to pay the asking prices for cars, despite retail activity only being stable. With volumes low, they have no option but to buy what is available and compete with other retailers for the cars.

At the benchmark 3-year point, values increased in Live by 0.3% in the month, reversing the drop that was experienced in August. It is not unusual for values to increase in September; indeed, you have to go back to 2016 to see the last downturn, and even then it was minor (0.2%). This year it was slightly more unexpected though, due to the cost-of-living issues the country is experiencing. It is also off the back of a summer of stability, which, ignoring the last two, COVID affected years, is unusual – values tend to drop by more over the summer months than they have this year, with volumes usually far higher.

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



At the 1-year point, values have also increased by an average of 0.3% in September. Indeed, at all ages below 5-years, values increased by either 0.2 or 0.3%. Cars at 10-years old have experienced a very minor drop, of just 0.1%. The September trade market has been strong.

Looking at fuel-type, over the last few months alternatively fuelled vehicles have performed better than petrol or diesel cars, but during September even the latter two have fared well on average. Indeed, at 1-year old, all have experienced a small average increase, with pure hybrids going up by the most, at 0.9%, a not insignificant c.£250. Some of the notable increases for hybrids have been for the Kia Niro, up 2.5% (c.£575 at 1-year old), Lexus CT Hybrid, up 2% (c.£450 at 1-year) and the Toyota CH-R Hybrid up 3%, an impressive c.£800 at 1-year.

Electric vehicles have been a little more mixed. While new car supply issues continue to positively impact on the value of some models like the Volkswagen ID.4, Cupra Born and Hyundai Ioniq 5, we have seen a levelling off of the previous strength seen in models like Volkswagen ID.3 and Jaguar I-Pace. The most noticeable change in performance this month has been for Tesla Model 3, as values on average have reduced by 3% (c.£1,250 at 1-year old). Some of the pressure on the Model 3 could be accredited to an increase in disposal volumes throughout September, in fact at the time of writing we are currently on track to receiving the most disposal data in a month this year for this model. Many used EVs have increased significantly in price over the past year due to new car supply issues, for example average values for a 1-year old VW ID.3 with 10,000 miles on the clock have increased by 31% or c.£8,700, making it's and many other models' current position seemingly unsustainable in the long-term.

Turning to specific sectors, city cars have performed the strongest on average in percentage terms, increasing by 1.5% (c.£200) at 1-year and 1% (c.£100) at 3-years old, helped by their relative affordability for dealers to stock and desirability for consumers maybe looking to downsize a second car. They are also particularly scarce as a new car, with many models discontinued, or even if still current, they have been de-prioritised by manufacturers who make more profit selling larger SUVs in particular.

All other mainstream sectors have experienced a small average increase in September's Live values, at the 1-year point ranging from 0.3% for SUVs to 0.5% for superminis and upper medium (D-sector) cars. As always, the devil is in the detail and for SUVs, many have stayed level during September, but there are examples moving in both directions,

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with the Nissan Qashqai and Renault Kadjar increasing by c.3% or c.£5-600 at 1-year old and the Citroen C4 Cactus and Volkswagen T-Cross dropping by c.2% or £3-400 at the same age.

Convertibles and coupe cabriolets have reduced on average, which is typical for the time of year, although comparing to pre-COVID times, the drops are minor. Lack of supply has helped, as retail demand has dropped due to the combined effect of falling consumer confidence and the onset of autumn. Some notable reductions have been made to the BMW 2-Series Convertible and the Mercedes Benz E-Class Cabriolet Diesel, both dropping by over 3% (c.£700 and £1,600 respectively at the 1-year point).

## What next?

Last month, our prediction was:

*"It is likely that values will shortly start to move down by more than they have in recent months, as the cost-of-living squeeze starts to hit consumers more and more, coinciding with those supply increases. But, importantly we are not expecting any sort of crash – there will almost certainly not be enough supply to cause this. Values will generally remain somewhat ahead of where they were at the start of 2021."*

Fair to say that the market has been stronger in September than we expected, and we did not predict the small upward movement, proof that the market is firmly led by supply and demand rather than what guide prices suggest. But, last month's prediction may still ring true in the coming weeks and months.

As used supply levels increase from new-plate activity over the coming weeks and demand drops away in the final quarter, there is likely to be some movement down. However, October may well be fairly stable, with November and December tougher. A number of models still have used values above their original cost new, something that is generally not sustainable, particularly as new car availability improves.

With the exception of last year's extraordinary used car market, values have dropped in each October in the last ten years. We are in a different situation with regards to volumes now though, but dealers are certainly wary of falling consumer demand and are less inclined to stock-up than they have been. It does feel that we are in slightly uncharted waters, with both new car registrations and used car consumer demand unpredictable. However, used car prices remain high – some models' values are still in excess of 30% higher than they were a year ago, and incredibly some over 70% higher than an equivalent aged car was 3-years ago.

Live trade values continue in their importance. With margins tightening, it is vitally important to keep a keen and regular eye on how wholesale prices are faring, as well as keeping close tabs on our retail values. As illustrated in September, used car values may not always behave how they are expected to and models perform differently to each other, depending on supply and demand dynamics. Whatever happens, cap Live values will continue to report changes or otherwise in real-time.

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Current used valuations October 2022 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	1.5%	1.0%	0.9%	0.7%
Supermini	0.5%	0.6%	0.7%	1.1%
Lower Medium	0.4%	0.4%	0.2%	0.7%
Upper Medium	0.5%	0.4%	0.1%	0.3%
Executive	(0.7%)	(0.3%)	(0.4%)	(2.0%)
Large Executive	(0.4%)	(0.1%)	(0.6%)	(0.0%)
MPV	0.4%	0.1%	0.3%	(0.4%)
SUV	0.3%	0.3%	0.2%	(0.6%)
Convertible	0.0%	(0.8%)	(1.2%)	(2.2%)
Coupe Cabriolet	(3.2%)	(2.8%)	(3.2%)	(5.7%)
Sports	(0.1%)	(0.2%)	(0.0%)	(0.9%)
Luxury Executive	0.1%	(0.7%)	(1.3%)	(2.3%)
Supercar	0.0%	0.0%	0.0%	(0.6%)
<b>Overall Avg Book Movement</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>(0.1%)</b>

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(2.0%)	(1.2%)	(0.8%)	(1.3%)
MPV Medium	0.5%	0.2%	0.5%	(0.1%)
MPV Large	0.3%	0.2%	0.3%	(0.6%)
SUV Small	0.1%	0.0%	0.1%	0.3%
SUV Medium	0.5%	0.6%	0.4%	(0.5%)
SUV Large	(0.2%)	(0.3%)	(0.4%)	(1.1%)

( ) Denotes negative percentages

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## Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
AUDI TT ROADSTER (18- )	(1,300)	(800)	(994)
BMW 7 SERIES (19- ) HYBRID	(1,400)	(900)	(1,166)
BMW X3 (19- ) Petrol Hybrid	1,200	1,300	1,275
DACIA DUSTER (18- ) DIESEL	(500)	(450)	(475)
FORD MUSTANG MACH-E (20- ) Electric	700	1,000	860
LAND ROVER DISCOVERY SPORT (19- ) DIESEL	(400)	(250)	(346)
MAZDA CX-5 (17- )	600	800	670
MERCEDES-BENZ GLE (18- ) DIESEL	900	1,200	1,042
TESLA MODEL 3	(1,400)	(1,000)	(1,233)
TOYOTA C-HR (19- ) HYBRID	650	900	793

( ) Denotes negative value

## Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
AUDI E-TRON (18- ) Electric	(400)	(400)	(400)
BMW Z4 ROADSTER (18- )	(700)	(450)	(541)
DACIA SANDERO (13-20) DIESEL	(475)	(400)	(441)
FIAT 500 (15- )	150	275	230
JAGUAR F-TYPE CONVERTIBLE (13-20)	(2,700)	(1,250)	(1,790)
KIA SOUL (14-19) ELECTRIC	450	450	450
NISSAN QASHQAI (18-21)	350	500	419
SUZUKI JIMNY (18-20)	500	600	550
TESLA MODEL S (13-19)	(1,200)	(800)	(1,033)
TOYOTA PRIUS (15-19) HYBRID	700	800	754

( ) Denotes negative value