

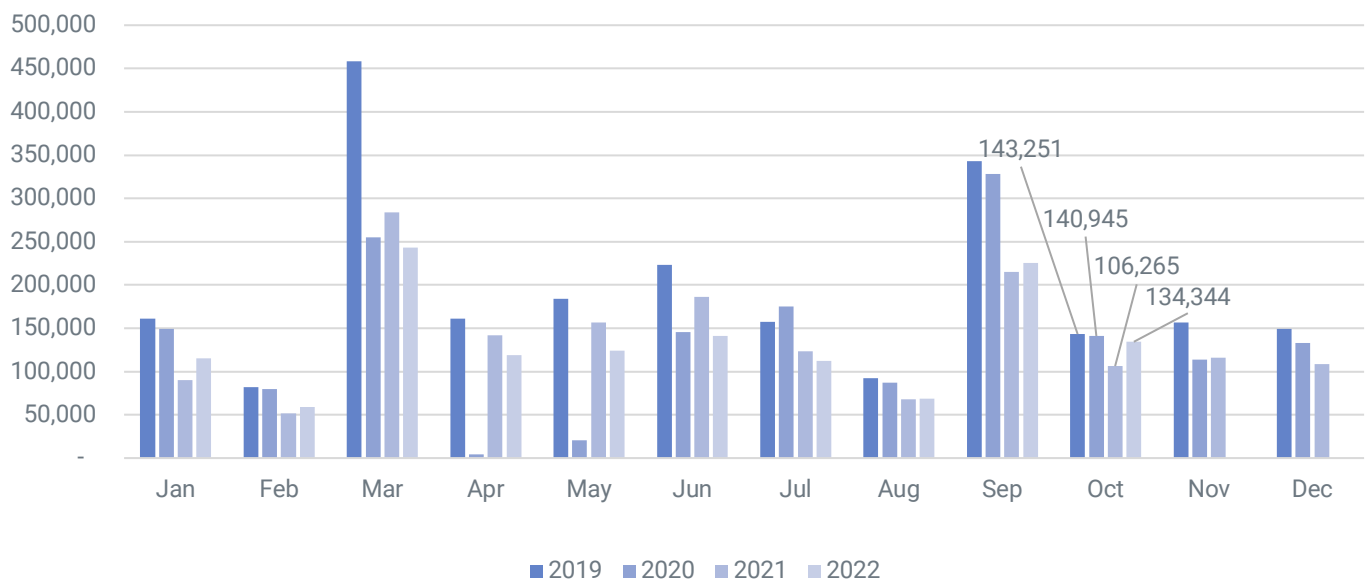
December 2022

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 October 2022 and used car activity at the time of writing. All information is correct as of 25th November 2022.

New car sales

According to the figures published by the Society of Motor Manufacturers and Traders (SMMT), 134,344 cars were registered in October, an increase of 26.4% on the same month last year (106,265) and the third consecutive month of year-on-year growth. Year-to-date, the market is down 5.6% on the same period last year, but is 33% lower than pre-COVID 2019. The industry is slowly recovering from well-publicised component shortages, but challenges certainly remain and will continue well into 2023.



Source: SMMT

Fleet registrations in the month were up 47.4% compared to last year, but year-to-date they remain 14.8% down. As supply improves, over half of the cars in October were destined for fleet companies, whereas previously more profitable retail business has taken the lion's share. Within these fleet registrations, daily rental supply remained muted, despite being over 50% up on October last year, it was less than half the volume registered in October 2019. Year-to-date, registrations to this industry are 66% down on last year and 87% down on 2019.

Battery Electric Vehicles continue to grow in volume and share, increasing by 23.4% in the month, with 14.8% market share. Year-to-date, they are up 38.4% with 14.6% share. Diesel car registrations continue to fall, and year-to-date they make up just 10.1% of the market – a far cry from years gone by when they had parity with petrol volumes. Petrol registrations now make up 57.4% compared to 59.3% last year. Plug-in Hybrids have dropped in registration volume this year, by 13.2%, for a 6.2% share, whilst pure Hybrids have increased by 22.7%, for a share of 11.8%. Alternatively fuelled vehicles now take up almost one third of all registrations.

Car editorial

By cap hpi

Used car retail activity

The best way to describe the used car retail market in November 2022 would be “seasonal”. Whilst feedback from retailers has again been quite mixed, the overall sentiment is of a market slightly less active than in October, which in itself was slightly worse than September, but it has by no means dropped off enough to set alarm bells ringing. Sold volumes were generally down month-on-month and lower than the same month last year, although 2021 was obviously a highly unusual year, even this late on. Many dealers are also reporting volumes down on this time of year pre-COVID, but bearing in mind the economic outlook, the fact that cars are still being sold in large numbers is a positive sign. It is important to remember that used cars are often a necessity purchase and when times get tough financially for consumers, they still require transport. Some may put off buying a car, but many will downsize or still replace a vehicle that requires it.

The main theme is that retailers are classing the market as where they expected it to be and the phrase “back to basics” has never been more pertinent after a strong couple of years. They are having to work hard to achieve sales and it has been necessary to adjust some prices down and review how they market some of the cars that have been in stock for an unpalatable number of days. Price points are important and cars below a £12,000 sweet-spot remain popular.

Margins continue to be squeezed, as they have done over the last few months. With retail demand dropping, trade prices high and adjustments necessary the inevitability of pressure was always there, important to note, however, that margins are coming from a high base, so most dealers do remain relatively upbeat.

A consistent theme throughout the month has been retailers scratching their heads around electric vehicles. Demand for these cars has taken a sharp dip, at a time when volumes are increasing in the used car arena. Dealers have expressed an increasing level of “days to sell” for EVs, backed up in the data, with a number stating that vehicles that they brought three or so months ago are still in stock and they will not consider buying more until they have sold them; this has resulted in some discounting to try and attract interest. In addition, in November we continued to see small volumes of pre-registered vehicles appearing in the market, along with attractive new car discounts on several models and some very competitive leasing and broker deals on new vehicles that are available for delivery this year. Company cars, benefiting from low benefit-in-kind taxation rates and salary sacrifice schemes, which include insurance and maintenance, make a brand-new EV an attractive proposition. With these schemes on offer it certainly makes the used car offering less attractive.

This, alongside used EVs being expensive, often well in excess of £10,000 more than petrol and diesel equivalents, and the actual cost of charging an EV being not far off comparable with refuelling your car with fossil fuel, depending on where you charge it, it is unsurprising that with so much focus on the cost-of-living, many consumers are not quite ready to go electric.

Overall, retail has toughened up, but dealers remain focussed on achieving sales targets, whilst casting a concerned eye on what may come in 2023. This remains somewhat of an unknown, bearing in mind the economic uncertainty.

Used car remarketing activity

The theme from last month, of a buoyant wholesale market, has continued during November. Conversion rates at auction remain healthy for the time of year, aided by low stock levels of course, but buyers do remain active. They continue to pick off cars that they are comfortable with and know they can sell, however, and there remains little appetite to stock up for January, which is in contrast to normal behaviour at this time of the year.

Price-point remains important in the trade market too, and dealer-part exchange sales at auction have proved popular, particularly for cars in cap Clean condition, especially if they are of low mileage and have an automatic gearbox. Age has not been an issue, but high mileage has. Cars under the £8,000 point have proved particularly popular. The theme, though is dealers are replacing sold cars, not over-filling forecourts.

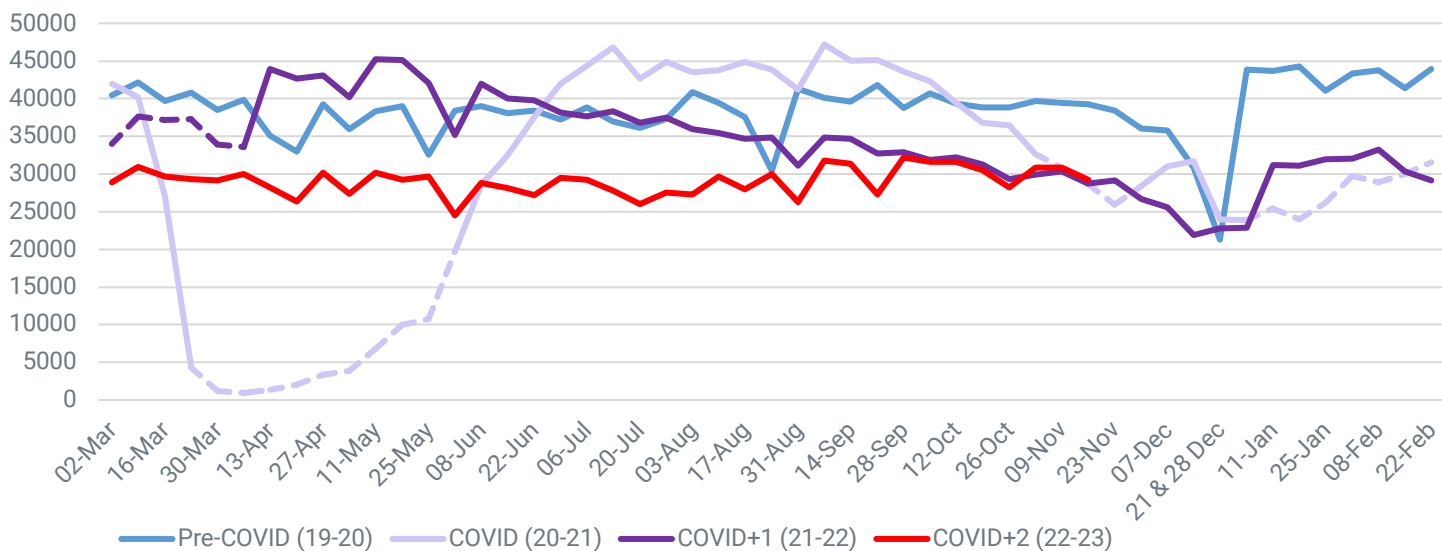
Fleet sales, both direct and through auction, have proved more difficult, with cars generally at a higher price so less desirable currently, with that retail demand diminished. It is more of a risk to stock cars that may be in excess of £15,000, and particularly those above £20,000. With the increase in prices last year, most of which remain high, there is a reluctance to buy cars that may not sell this side of Christmas and of course fewer cars take up more stocking lines since they have increased in value.

Car editorial

By cap hpi

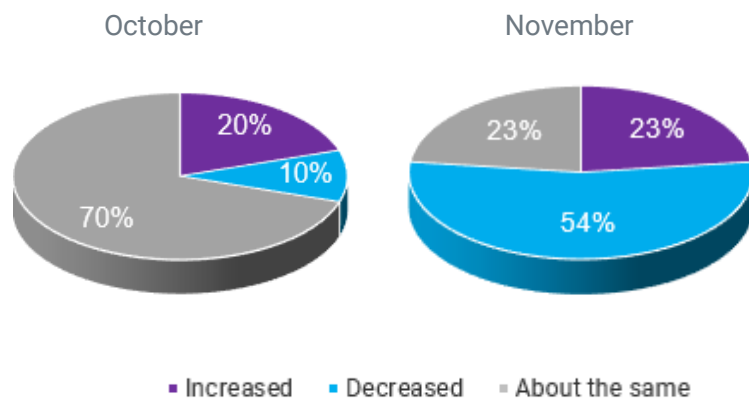
For the time of year, the wholesale market does remain strong and the main issue for auctions and vendors is simply not enough cars to sell; the muted new car volumes continue to have an impact. The chart below shows yearly volume comparisons, with the year starting from March on the left to show the impact from the start of COVID affecting the country. Volumes have been relatively consistent this year, with a “new normal” of over 20% down on pre-COVID times, but recently marginally up on this time last year.

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



The cap hpi auction survey again posts some insightful results. Thanks to all those that participate each month.

How do your current stock levels compare to last month?

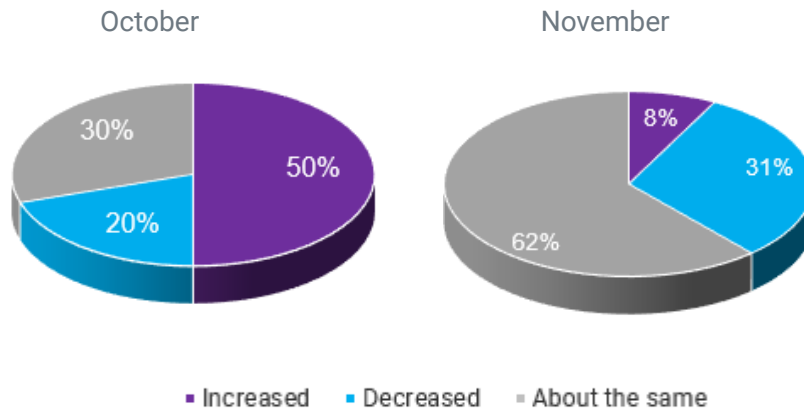


Interestingly, and a sign of the times, over half of respondents stated that their stock levels were down month-on-month, compared to just 10% in October. But, there were also almost a quarter stating that they had increased. The overall sentiment is that more cars would be welcomed, but it is interesting to see such a mixed picture.

Car editorial

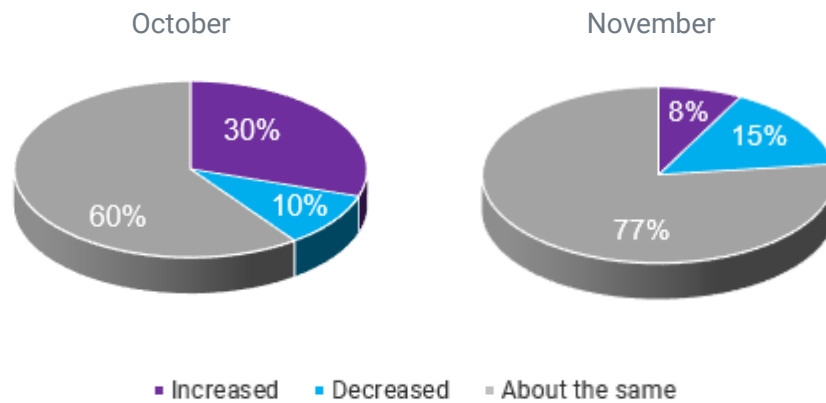
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How does your current overall demand compare to last month?



The general theme is that demand in November was either as good as in October, with almost two thirds stating parity, or slightly worse. It is normal for demand to drop away at this time of year, and the auctions are certainly not downbeat about the current market. A very small percentage of auction houses stated that that demand increased.

How do your conversion rates compare to last month?



Conversion rates remain similar to where they were in October, testament to the lower volumes coming through and demand being relatively healthy for the season. Again, a small number of respondents reported them as increased and interestingly this was not the same companies as saw demand increasing.

Used cars – trade values

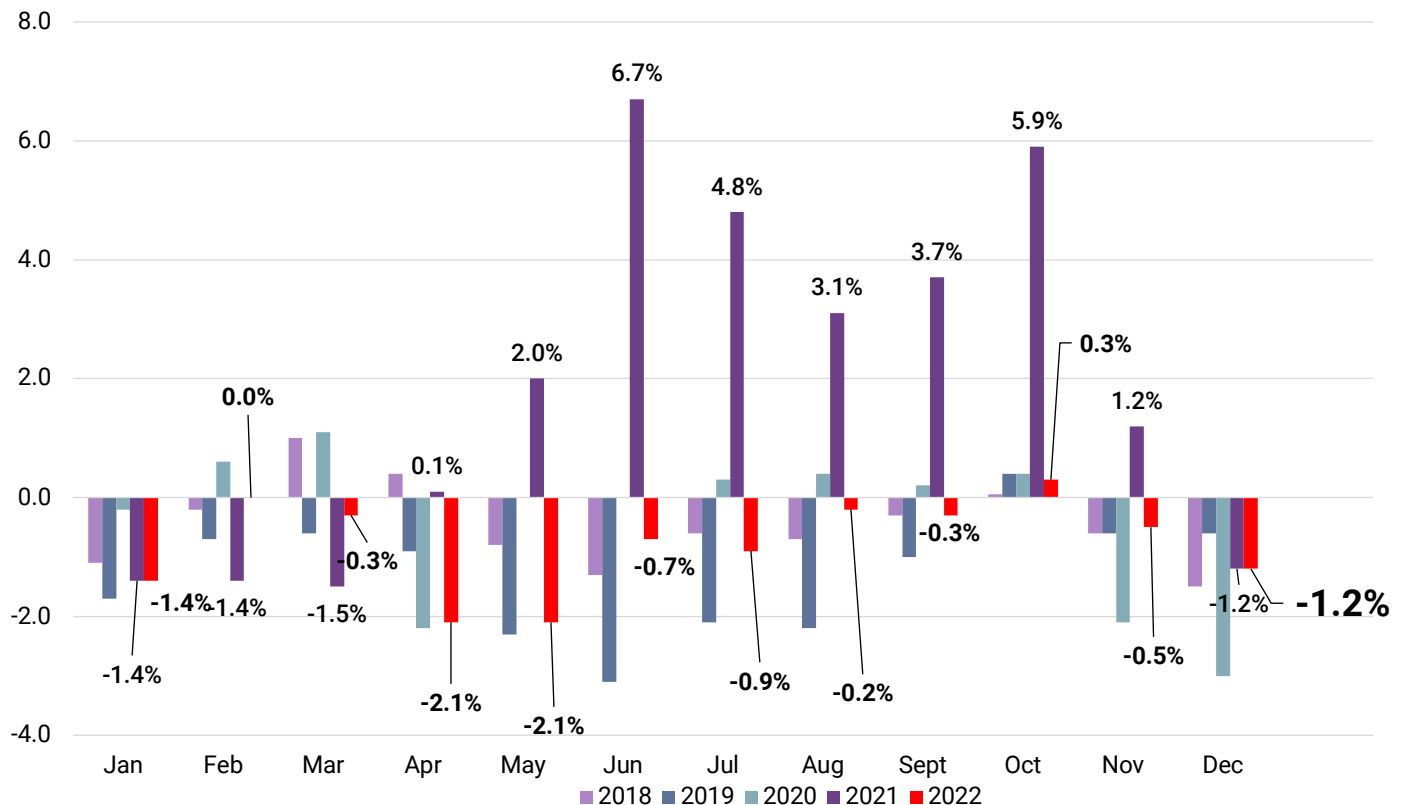
It has been another fascinating month for used car values and the devil really is in the detail currently.

The average drop in Live values, at the 3-year point, this November was 1.2%, equivalent to c.£250. There are several ways of construing this drop. It is the third heaviest downward movement this year, after March and April (shown by April and May's monthly values on the chart below) both saw Live drop by 2.1% (c.£370), it is more than double last month's downward movement of 0.5%, but it is also the second strongest experienced in November since Live was introduced 10-years ago. The average November (for December's monthly product) movement over this period is minus 2.1% and it has been as low as minus 3.1%, in 2014, and minus 3.0% in 2020. Seasonal downward movements are the norm in quarter 4 of each year, but low supply levels are keeping things relatively strong this time around.

Car editorial

By cap hpi

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



At the 1-year point, average values dropped by a similar percentage to 3-year old cars, 1.0% or c.£350, again a strong showing for the time of year and aided by low volumes. That figure is the largest negative move since April's Live, however. As you move to older vehicles, the downward move is less pronounced, with 5-year old cars dropping by just 0.6%, or slightly under £100, and at 10-years old values have, on average remained level. As previously stated, price-point cars remain sought after and those under £5,000 have actually experienced a small uplift, of 0.3%.

Turning to sectors, convertibles and coupe cabriolets have continued their seasonal decline as the month has progressed, however, there have been some older price point cars which had already reduced last month now increasing in value which is highly unusual for the time of year. Some cars which have increased in value are the Renault Wind, up by 4% or c.£80 and VW Beetle Cabriolet Diesel, up 3% or £340 at the 5-year point.

MPVs were once again the strongest mainstream sector, dropping by just 0.4% or c.£50, a figure very consistent with last month. Within these figures though, the Mercedes Benz V-Class Diesel continues to increase, up by 5% or £2,400 in the month. This model is worth an incredible 75% and c.£22,000 more than the same aged vehicle pre-COVID.

Upper and Lower Medium were other strong sectors, both dropping by 0.8% or c.£140, a gradual falling of values, but digging into the detail it was still quite mixed with many cars remaining level overall. These cars remain better value for money than most SUVs and continue the price-point theme of this editorial. SUVs themselves dropped by an average of 1.1% (c£270).

City cars did also drop this month, by an average of 1.2% or c.£100, but within that sector some increases were evident for the Citroen C1, SEAT Mii and the Vauxhall Adam, so again a mixed bag.

Undoubtedly the headline story this month has been around fuel-type, and in particular electric vehicles, which have dropped by an average of 3.7% (c.£1,250) at 3-years old. As previously stated, retail demand for used EVs has dropped off dramatically in recent months, with this decline accelerating in November.

Car editorial

By cap hpi

As reported last month, we have also seen an increase in the volume of used electric vehicle disposal data. For EVs of all ages the percentage share of data that we have received year to date has almost trebled from 2021. When you focus on vehicles up to 3-years old, however, the share jumps up to nearly 9% compared to 2% last year. As new car registrations have increased over the past few years, it is inevitable that used car volumes will increase going forward and currently retail and thus wholesale demand is not keeping pace.

When tracking the number of auction days in stock by fuel type we have seen an increase for EVs of late with the average number of days now sitting close to 20-days, compare this to petrol and diesel that are half that at 10-days. We have also noted that the average number of sales attempts through auction has increased for EVs over the past 2 months.

EVs remain an expensive acquisition, and with consumer demand low, retailers are unprepared to pay current asking prices and take the risk of stocking without a confirmed buyer. For vehicles up to 3-years old, the average sold price in our data for an EV is c.£33,000 compared to a petrol car at £21,000, a difference of £12,000. If we look at cars aged between 3 to 5 years, the average sold price for EVs is £30,000 vs petrol at £14,700 another big delta of over £15,000. This is at a time when market feedback is that the retail sweet spot is sub £12,000, as it stands there are few EVs available in today's market that match that price profile. Running costs of an EV over time will be cheaper than an ICE vehicle, but the initial outlay is certainly an important factor in deterring buyers at the moment.

Some of these realignments in the used market should not come as a surprise, but the speed and ferocity of some drops can only be described as severe. We have been highlighting the fact for some time that high used values for EVs were likely to be unsustainable, especially for those models that were over the cost of an equivalent new car. Over the past two years, the average value increase of a 3-year old EV is still at 25% or £4275, despite recent drops. This is a timely reminder of how strong demand for this power train has been of late but as new vehicle supply starts to improve, along with an increase in the availability of vehicles in the wholesale channel, against the current headwinds consumers are experiencing economically, including electricity prices at an all-time high there is the possibility that values will continue to be under pressure.

Tesla models have experienced some of the largest falls in November's Live product, with values dropping by 7% on the Model 3, 5% on the Model S, 4% on the Model X and 5% on the Model Y. At the 1-year point, in monetary terms these drops are between £2,750 for the Model Y to almost £4,000 for the Model S. Over the last 3-months, the Model 3 has dropped by an incredible 16% or almost £7,000. They may have been the hardest hit, but other EVs have also suffered in November, some examples being the Audi E-Tron, down 6% or c.3,100 at 1-year old, the BMW i3 down 8% or c.£2,400, the Polestar 2 down 5% or £2,300 and even the cheaper Nissan Leaf, down 4% or c.£1,000. It will be interesting to see how these fare going forward, as supplies continue to increase; large reductions can often lead to vehicles becoming more attractive again in the marketplace as they reach a lower price level.

In contrast to electric vehicles, petrol and diesel average values have dropped by less than the seasonal average, with hybrids and plug-in hybrids also performing relatively well.

Overall, a relatively stable month for used car values, with the notable exception of electric vehicles.

What next?

Last month, our prediction was:

"It is important to remember that values historically reduce in the last quarter of the year, as the focus turns to Christmas spending, but what is unclear is to what extent they will reduce this year. It is not uncommon for values to drop by 2-3% in November and between 1-2% in December, but volumes are lower this year. Value drops are highly likely, but could well be less than those seasonal norms."

Retailers are currently choosing not to stock up for January but are selectively buying the best stock and it is reasonable to assume that there will be more of the same in December. The first quarter of the new year feels like an unknown quantity with regards to consumer demand, but it does seem unlikely that there will be a bounce-back, so some prudence in buying for stock before the end of the year would appear to be wise.

Stock levels will not increase dramatically, if at all, with new car registrations improving but remaining below pre-COVID levels for some time to come, thus not generating a plethora of fleet returns or retail part-exchanges.

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By cap hpi

Demand will continue to ease, but the lack of stock will counter some of the pressure on prices and the need for wholesalers to slash prices. Dealers will continue to pick off the cars they are comfortable with, so conversion rates are likely to look favourable in comparison with previous Decembers, based off that low supply. Values are likely to continue on their gentle downward trajectory in the run up to Christmas, but there is certainly no sign off a large fall. Relative stability for the season remains.

As we have illustrated in this overview, the averages have only painted half the picture for what has happened in the used car market and to values in November. Keeping a close eye on Live values remains vitally important when making buying or selling decisions. Those that used Live in November were ahead of the game when it came to pricing and buying decisions related to those aforementioned electric vehicles in particular.

Current used valuations December 2022 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(0.9%)	(1.2%)	(0.6%)	1.3%
Supermini	(1.5%)	(1.9%)	(0.4%)	0.8%
Lower Medium	(0.9%)	(0.8%)	(0.1%)	1.3%
Upper Medium	(0.5%)	(0.8%)	(0.7%)	(0.2%)
Executive	(1.7%)	(1.9%)	(1.1%)	(1.6%)
Large Executive	(2.2%)	(1.4%)	(1.0%)	0.1%
MPV	(0.1%)	(0.4%)	(0.6%)	(0.2%)
SUV	(0.9%)	(1.1%)	(0.7%)	0.1%
Convertible	(2.8%)	(2.5%)	(2.5%)	(2.0%)
Coupe Cabriolet	(3.5%)	(3.4%)	(2.9%)	(0.5%)
Sports	(1.3%)	(1.4%)	(1.1%)	0.0%
Luxury Executive	(0.7%)	(1.3%)	(1.3%)	(0.9%)
Supercar	(0.6%)	(0.6%)	(0.6%)	(1.2%)
Overall Avg Book Movement	(1.0%)	(1.2%)	(0.6%)	0.0%

() Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	2.0%	0.1%	(0.7%)	0.4%
MPV Medium	(0.4%)	(0.6%)	(0.6%)	(0.1%)
MPV Large	0.3%	(0.1%)	(0.4%)	(0.7%)
SUV Small	(1.4%)	(1.2%)	(0.7%)	0.2%
SUV Medium	(0.9%)	(1.0%)	(0.6%)	0.3%
SUV Large	(0.5%)	(1.5%)	(1.5%)	(0.5%)

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Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
ALFA ROMEO GIULIETTA (10-21) DIESEL	450	1,100	775
BMW 2 SERIES COUPE (13-21)	200	600	433
BMW 5 SERIES (16-) DIESEL	(1,000)	(250)	(608)
FIAT 500 (15-)	(500)	(350)	(440)
JAGUAR F-PACE (15-21) DIESEL	(1,300)	(300)	(677)
MERCEDES-BENZ E CLASS (16-) DIESEL	300	650	491
PEUGEOT 308 (13-21) DIESEL	(400)	(300)	(334)
TESLA MODEL 3	(3,100)	(2,600)	(2,866)
VOLKSWAGEN TIGUAN (16-) DIESEL	(600)	(450)	(535)
VOLVO XC90 (14-) DIESEL	(900)	(800)	(840)

() Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
BMW X1 (15-19) DIESEL	(350)	(250)	(320)
FORD S-MAX (15-20) DIESEL	(700)	(450)	(566)
JAGUAR I-PACE (18-)	(1000)	(800)	(933)
KIA CEED (12-18) DIESEL	(425)	(400)	(412)
LAND ROVER RANGE ROVER EVOQUE (11-19) DIESEL	(200)	(150)	(185)
MERCEDES-BENZ GLA (14-19) DIESEL	300	400	341
NISSAN LEAF (17-)	(800)	(550)	(691)
SEAT LEON (13-20) DIESEL	(300)	(200)	(241)
TOYOTA PRIUS (15-19) HYBRID	350	400	381
VOLKSWAGEN PASSAT (14-19) DIESEL	(550)	(150)	(323)

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