Car editorial
By cap hpi

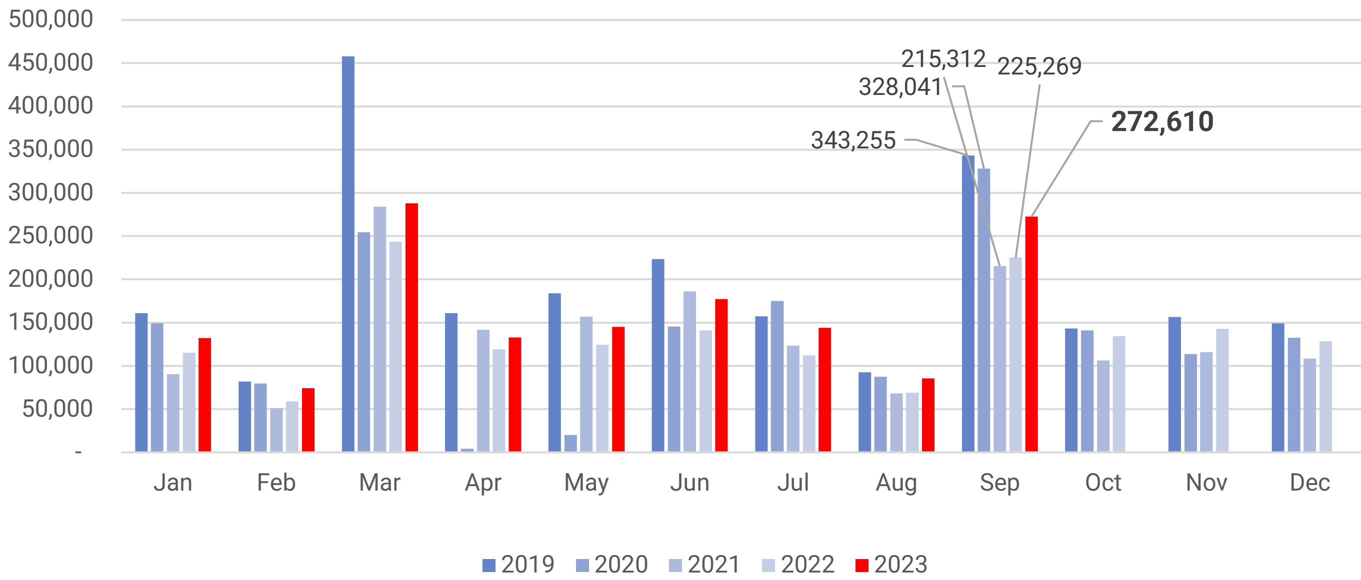
November 2023

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 September 2023 and used car activity at the time of writing. All information is correct as of 26th October 2023.

New car sales

According to the figures produced by the Society of Motor Manufacturers and Traders (SMMT), 272,610 cars were registered in the pivotal September plate-change month, a 14% increase on the same month last year, but 20.5% behind pre-COVID 2019. This was the fourteenth consecutive month of year-on-year growth for new car registrations.



Source: SMMT

Year-to-date, 1,451,908 cars were registered to the end of September, a 20.2% increase compared to the 1,208,368 at the same point last year, but a 22.0% decrease on 2019, when the figure was 1,862,271.

Fleet registrations continued to lead the way, up 40.8% in the month and 42.3% for the year, for a share year-to-date of 52.8%. Private registrations increased by 5.8% in the month, up 1.8% for the year, for a 44.8% share. The balance is taken up by the smaller Business segment, which was down 12.0% in September, but up 14.4% for the year, with a 2.4% share. Daily Rental registrations were up by 91% compared to last September, but still 68% behind September 2019 and year-to-date they remain 74% behind 2019, but 117% up on last year.

Alternatively-fuelled vehicles again proved popular, in the fleet arena at least, although battery electric vehicles, grew by 18.9% which was less than the overall growth, so market share slipped from 16.9% last September to 16.6% this (16.4% year-to-date). With private registrations of battery electric vehicles down 14.3%, the SMMT continues to call for purchase incentives and other mechanisms to stimulate demand. Plug-in hybrids increased by 50.9% in the month, now taking a 6.8% share, whilst hybrid electric vehicles also increased, by 30.7%, for a share now of 12.6%. Petrol registrations continue to grow, and take up the main proportion with a share for the year at 56.5%, whilst diesel volumes continue to decline, with market share now at 7.6%.

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Used car retail activity

In last month's editorial we reported a mixed bag for the used car retail market in September, albeit with more negative than positive feedback. October started in a similar vein, but a consistent pattern started to appear once we moved further into the month – the retail market was slowing as demand became more muted.

As we enter the final quarter of the year it is normal for the market to become more challenging, as consumers start to have an eye on the festive period and saving rather than spending on a big ticket purchase – of course the necessity purchase does remain a constant. This year, as well as the normal seasonal feel, there is the added cost-of-living pressures on many consumers. Fixed rate mortgages increasingly ending, high interest rates, winter fuel bills a worry, as well as used cars being relatively expensive compared to when the prospective buyer may have last purchased a used car, with those increases in prices in 2021 still not negated. All of this means many consumers who may have considered a change of car, thinking again for the time being.

That being said, demand is not through the floor, it is just diminishing, meaning dealers and car supermarkets are having to work hard for every sale, in a far more challenging environment than they have experienced in the last three or four years, maybe even far longer.

Retailers have been more conscious than ever that they need to be competitive with their advertising to even be considered by the consumer. Many have been more aggressive with pricing their stock, looking for the right price to sell cars knowing they can easily replace them, at a lower price, as stocks increase in the wholesale market. As a result, margins continue to reduce in comparison to where they have been in recent, more buoyant, years, back to pre-COVID levels for many. Stock pricing reviews have been made more regularly, with no dealers wanting to hold on to cars too long as values decrease, with even thirty days in stock deemed as too long by some.

Sweet spots do remain, particularly at the cheaper end of the market, around the £10,000 mark and below, but of course cars at that price are now older than they were pre-2021. Demand at this price-range remains steady, but as you head into more expensive territory, it becomes much tougher to sell. If your mortgage is going up by a few hundred pounds, is a big ticket purchase top of your agenda?

Electric vehicles remain challenging in the used market, although at the cheaper end, cars such as the Nissan Leaf and Renault Zoe remain as opportunities for retailers. Price-point electric vehicles are more in demand than aspirational ones currently. Consumers are considering a switch to a "greener" vehicle, but it has to be at the right price, and the usual concerns do remain – range anxiety, access to charge points and the cost of electricity itself. Many EVs are priced lower than internal-combustion engine equivalents now but still not selling in volume. With the ban on petrol and diesel new car sales being extended to 2035, this has not helped increase demand for this type of car. However, both the Tesla Model Y and Model 3 are two of the better performing models of all fuel types when looking at the metric of days in stock, with averages below or around 30 days for both.

Used car remarketing activity

Over the summer months and into September, the wholesale, or trade, market felt in a more positive place than the used car retail world. Despite a slowdown in the latter, dealers were still out buying, and remarketers were actively selling and only reducing prices gently. The situation has changed markedly in October.

A consistent factor is that dealers are still picking off low volumes of cars, replacing what they have sold, but no businesses are speculatively buying in bulk and stocking up their forecourts. It is just too risky in a market where values are dropping along with consumer demand.

At this time of the year it is not unusual for values to move down and retailers have in the past been able to start to buy reasonably priced cars, ready for an anticipated post-Christmas increase in demand. However, this year reduced vehicle margins, allied with strong stock controls and diminishing trade prices, retailers have little or no confidence to stock up for next year, instead choosing a far more prudent approach.

With September new car activity generating increased volumes, plus fourteen previous months doing the same, there are now plenty of used cars in wholesale channels, despite a shortfall of new car registrations to the tune of 2.45

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million compared to what would have been expected to have been registered without the pandemic and subsequent supply issues. Cars being returned now, however, are older on average and many are in poorer condition because they have been on the road for longer than they would have been in more normal times.

Condition of vehicles gets mentioned regularly in this editorial, but more so than ever the difference in value between a Cap Clean vehicle and those in Average and Below condition is increasing. Dealers simply do not want to buy cars that are going to sit in their workshops, waiting for diagnosis for an engine management light being illuminated, or where bodywork repairs are required. Parts supply can be slow and there remains a shortage of technicians to facilitate repairs.

No used car business wants cars that could suffer one or two “Book drops”, in other words large drops in values of the cars. If a dealer or car supermarket buys a car that they cannot sell for a number of weeks, in a market where prices are dropping, competitors will buy and advertise cars cheaper than them in the meantime, hugely affecting margins. Dealers also have to “write-down” stock for finance purposes, plus of course the rate of borrowing to fund these cars remains unpalatably high.

So, with more volume appearing and trade demand muted, vendors have had to adjust prices accordingly, realising that there is no price recovery likely, at least in the short-to-medium term. This is particularly the case for fleet and leasing companies that have received a large share of new car registrations in recent months, so have plentiful supply of used cars to sell.

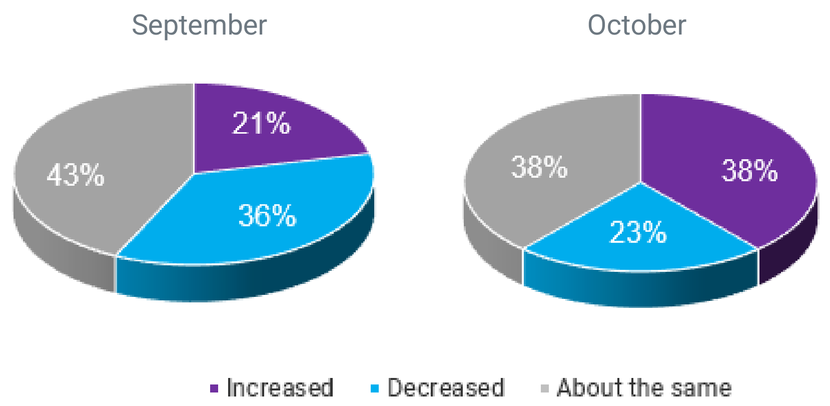
The auction arena has become a more challenging environment in October, with conversion rates dropping by in excess of ten percentage points in a short period of time, now with commonly around half of vehicles not selling in any one sale. With condition so important, the National Association of Motor Auctions (NAMA) one to five grading system has never been so important, and is essential for online auctions. Viewing the vehicle in-person has been preferable for some, and even then those cars graded from three to five (heavier damaged) have been a real struggle to sell, almost at any price.

Cars at a sweet spot on price, generally around £10,000 and below, are older, and good condition ones are hard to come by. These have on occasion still been attracting relatively strong bids.

Despite the challenging market, the volume of sold cars remains healthy – they have just been selling for less money than previously. Sold volumes are up c.17% compared to year-to-date in 2022, but down c.10% compared to 2019. In recent weeks, the increase over last year sits at around 10% however, so not as buoyant as it has been earlier in the year.

The auction survey results from October have illustrated the challenging times currently:

How do your current stock levels compare to last month?



Over three-quarters of respondents stated that stock levels were either as high as in September, or increased, Interesting to note, however that there are still a number where stock levels are declining, unusual at this time of year, although maybe these are the sites that deal in part-exchanges more than fleet returns, so are suffering from the muted retail market.

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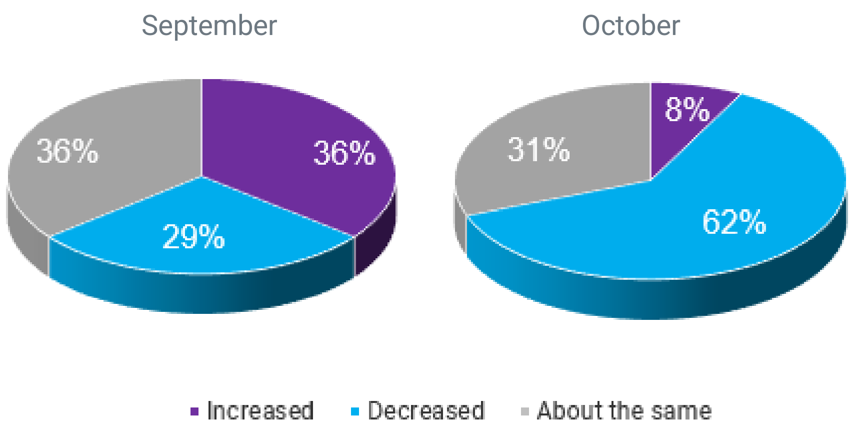
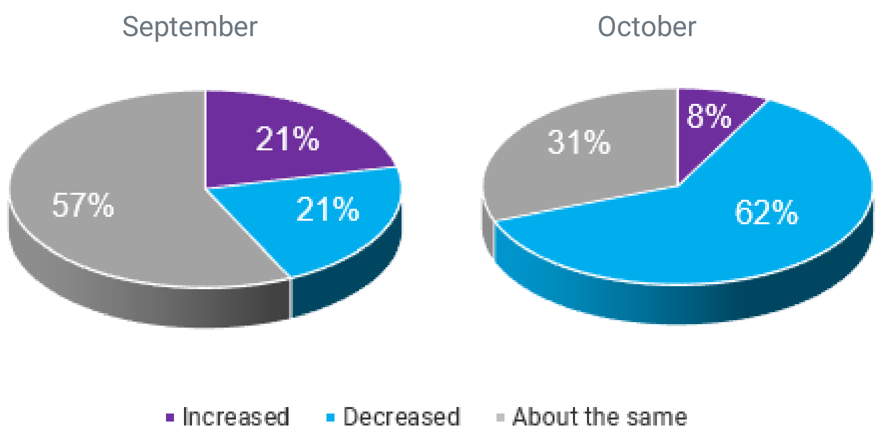
<u>How does your current overall demand compare to last month?</u>



Demand has decreased for the majority of respondents, certainly matching anecdotal feedback and evidence from editors attending physical auctions in October. Almost a third were seeing a similar situation in the last month as in September, which can only be seen as a positive in the current climate.

<u>How do your conversion rates compare to last month?</u>



The picture for conversion rates exactly mirrors that of demand, with the majority seeing a declining picture, but some still performing reasonably well. It will be interesting to see next months results to see if there remains a similar amount of positivity.

Used cars – trade values

It has been a fascinating month witnessing how prices have been affected and cap Live values have moved during the hugely challenging month of October.

Whilst values have been dropping from the start, by the 11th of the month the average drop was at just 1.7%. Since then, however, we have seen an acceleration in the downward movements, and as we cut off for those customers subscribing to monthly values, the average value movement in Live at 3-years, 60,000 miles has closed at -4.2%, equivalent to -£850. Whilst used values do generally remain high from prior years increases, there is no escaping that this is a considerable reduction in value. Indeed, this is the largest drop in a single month since the introduction of cap Live in 2012 and the largest fall since May 2011, over 12 years ago. In the last 10-years we have only witnessed monthly drops in Live values of over 3% on three occasions (November 2014, May 2019 and November 2020) and this is the largest October fall ever recorded, with 2008 getting the closest with a drop of 3.5%. For context, last October the movement down was just 0.5%. This is a considerable realignment, with values now having dropped by a cumulative 13.6% in 7-months since April.

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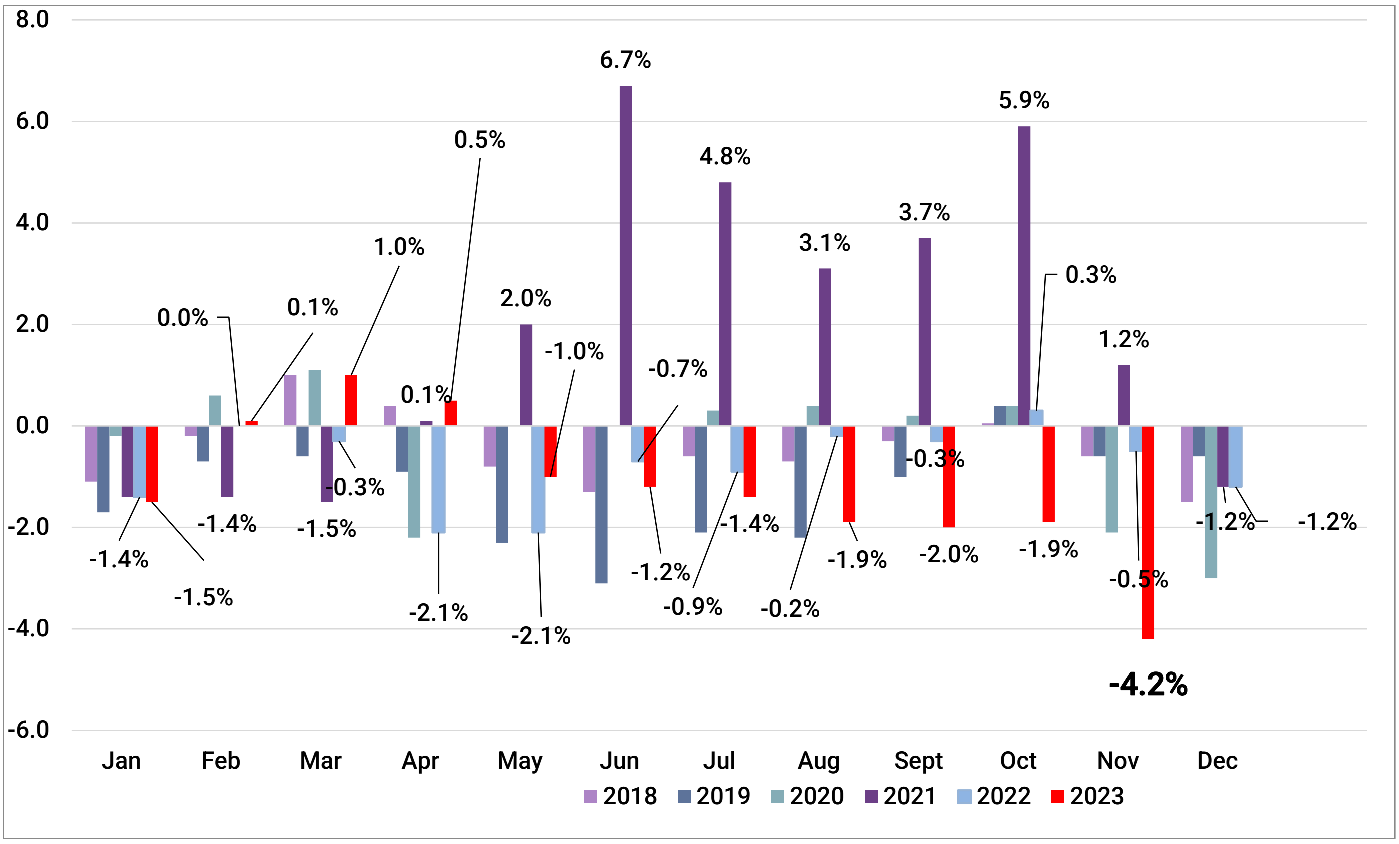
Monthly percentage movements in Live valuations (3-years, 60k miles) – **November figure depicts October's Cap Live**



Values at the 1-year age dropped by an average of 3.6% in the month, equivalent to c.£1,225, not helped by more late-plate cars and some pre-registration activity. At older ages, values dropped by 4.3% at 5-years and by 4.5% at 10-years, equating to £550 and £240 respectively.

Unsurprisingly, no sector was immune, with the aspirational, perhaps luxury purchase of convertibles and coupe cabriolets the worst affected, dropping by 5.4% for the former and 7.0% for the latter, for both this is over £1,300 at 3-years old on average. A seasonal movement is usual for these niche sectors, but cost-of-living concerns and increasing insurance premiums have exacerbated the downward moves. BMW and Mercedes-Benz products have been amongst the hardest hit in these sectors.

The largest sector in volume terms, SUVs, have experienced a not dissimilar drop, with an average of 5.0% removed from values in October, which is more than £1,000. At the 3-year age point, the Mitusbishi ASX saw the largest drop, falling by a considerable 13%. Not far behind were the Suzuki Vitara, Vauxhall Grandland X, previous model Jaguar F Pace and Skoda Karoq, all dropping by around 11%, equivalent to hundreds, even thousands of pounds. Important to add at this point that all value moves are based on considerable evidence in trade data, with retail advertised data also heavily referenced.

The other mainstream sectors of supermini, lower medium and upper medium experienced drops of 4.1%, 4.2% and 3.9% respectively, ranging from c.£430 average drops for superminis up to almost £700 for upper medium. MPVs and city cars saw the smallest downward movements, helped by their lower price-points than other sectors and less volume too. They dropped by averages of 2.4% (c.£430) and 2.8% (c.£230) respectively and city cars in particular remain the most likely cars for independents and car supermarkets to take a chance on stocking, albeit still in lower than normal volumes. The majority of models still dropped in value, but by less than other, larger cars.

Turning to fuel-type, petrol cars dropped by an average of 4.6%, diesel by 4.0%, hybrids by 4.1% and plug-in hybrids by 3.9%. Electric vehicle used prices remain fascinating to analyse, for the second month in a row this has been the best performing fuel-type in terms of value movements, with an average drop in October of 2.4% or c.£650. For a number of months now, however, it has been impossible to summarise this whole fuel-type, with values for different models moving in different directions and by different amounts, depending on volumes in the market, previous value moves over the last 12-months and of course, price points.

Many of the largest adjustments in October for EVs could be found for the premium and more expensive models, a reflection of the financial headwinds many consumers are up against. At the 12-month, 10,000 mile point, some examples of EVs that have seen the biggest movements down are the Mercedes-Benz EQC down almost 9% or c.£3,525, Mercedes-Benz EQS down c.8% or almost £6,400, Nissan Ariya down c.8% or over £3,000 and the Kia EV6 down c.8% and also over £3,000. Volumes are increasing for these models and prices have not reduced by as much as others over previous months.

Tesla product remains in the spotlight especially after announcing details of the refreshed Model 3, which is currently available to order at under £40,000 new, with deliveries expected to take place in the 1st quarter of next year. There appears to be no let-up in used wholesale volumes of the current Model 3 which has been detrimental to its values, particularly at 3-years old where they reduced by over 8% or c.£1,750. Models that feature the slightly improved range, interiors and heat pumps have fared a little better but 1-year old values have still come back by more than 4% or £1,300 on average. Volumes for the Model Y also continue to increase, which again has impacted its prices in the used market, resulting in a 3.0% or £1,175 average drop at 1-year old.

Many remarketers have reported that there is still healthy demand from many retailers to source EVs, but businesses continue to take the strategy to replace rather than stock up. The two models that we continued to receive positive feedback on are the Renault Zoe and Nissan Leaf due to the attractive, relatively low, retail price points these vehicles now hit, following a difficult few months for values up until recently. It is no surprise to see values rising for these cars in recent weeks, both increasing by around 2% or £200 at 3 years old.

Overall, October has been a ground-breaking month for used value drops. Large reductions both for the time of year and in general, a considerable realignment following three strong years of upward movements or stability. Market prices are shifting, but they remain close to 20%, for petrol and diesel vehicles at least, above where they were at the start of 2021. This remains a realignment, albeit significant, not a crash.

What next?

Last month, our prediction was:

"October will see increased volumes hitting the wholesale market, as fleet returns and part-exchanges become more plentiful from September registration activity. There is little reason to predict that consumer demand will improve, although the recent Bank of England announcement not to increase interest rates will not hurt and is welcomed across the industry. It is likely, however, that supply will outweigh demand, and with used values still high, on average, further pressure on them is likely. An average reduction similar to that of the last 3-months would not be a surprise, and indeed is widely expected".

Fair to say that the movement down in October Live values exceeded what we predicted to happen, with retail demand worsening through the month and dealers increasingly reluctant to stock up or buy anything damaged.

The question now is how long does this continue for? Supply into the market will continue to increase, with manufacturers supply constraints eased and a renewed push for market share, volume and to hit environmental targets. New car registrations will continue to increase compared to last year, bringing fleet returns, pre-registered cars and part-exchanges into the used market. Used car demand is not going to increase in the run up to Christmas, for reasons stated earlier in this overview, so it is highly likely that we will continue to see values drop over the coming weeks. Indeed, it is at times like this that monthly values become out-of-date almost before they are published and we would encourage the whole industry to embrace live, daily values in such turbulent times. Since cap Live was introduced in 2012, we have twice witnessed drops in excess of 3% during November, and it would be no surprise for that to happen again this year.

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A question we are being asked is whether January will see an improved situation. It is likely that consumer demand will improve, but there will be plenty of stock around, so whilst a more positive picture is likely, that is likely to see lower reductions in values than currently experienced, rather than values increasing in the first month of 2024 at least.

Current used valuations November 2023 - average value movements

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
City Car	(2.4%)	(2.8%)	(3.5%)	(2.9%)
Supermini	(3.5%)	(4.1%)	(4.1%)	(3.8%)
Lower Medium	(3.8%)	(4.2%)	(4.0%)	(4.2%)
Upper Medium	(3.1%)	(3.9%)	(4.5%)	(4.7%)
Executive	(3.1%)	(3.7%)	(4.1%)	(5.4%)
Large Executive	(3.2%)	(2.9%)	(2.2%)	(3.2%)
MPV	(1.4%)	(2.4%)	(2.9%)	(4.2%)
SUV	(4.2%)	(5.0%)	(5.2%)	(4.0%)
Convertible	(4.9%)	(5.4%)	(5.9%)	(8.3%)
Coupe Cabriolet	(10.6%)	(7.0%)	(8.5%)	(8.8%)
Sports	(3.0%)	(3.0%)	(3.9%)	(4.0%)
Luxury Executive	(3.2%)	(3.1%)	(3.7%)	(3.6%)
Supercar	(1.4%)	(2.0%)	(1.8%)	(1.5%)
Overall Avg Book Movement	**(3.6%)**	**(4.2%)**	**(4.3%)**	**(4.5%)**

( ) Denotes negative percentages

	1 YR/10K	3 YR/60K	5 YR/80K	10 YR/100k
MPV Small	(4.1%)	(3.5%)	(3.6%)	(2.5%)
MPV Medium	(1.8%)	(3.2%)	(3.5%)	(4.3%)
MPV Large	(0.9%)	(1.2%)	(1.4%)	(4.7%)
SUV Small	(4.4%)	(4.7%)	(3.7%)	(4.0%)
SUV Medium	(4.6%)	(5.6%)	(5.9%)	(4.2%)
SUV Large	(3.2%)	(3.3%)	(3.7%)	(3.0%)

( ) Denotes negative percentages

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Notable Movers 1-yr 20k

	MIN £	MAX £	AVG £
AUDI E-TRON (18-23) Electric	(900)	(550)	(698)
FIAT 500 (15-)	(350)	(250)	(314)
JAGUAR XF (15-) DIESEL	(2,250)	(1,700)	(1,962)
KIA SPORTAGE (15-22) DIESEL	(1,700)	(1,250)	(1,458)
LAND ROVER DISCOVERY (16-) DIESEL	(4,100)	(3,000)	(3,514)
RENAULT ZOE (19-) ELECTRIC	200	250	217
SEAT ATECA (16-)	(2,150)	(1,400)	(1,863)
SUZUKI S CROSS (13-22)	(1,150)	(800)	(958)
TESLA MODEL Y Electric	(1,200)	(1,100)	(1,150)
VOLKSWAGEN TIGUAN (16-) DIESEL	(1,200)	(900)	(1,045)

( ) Denotes negative value

Notable Movers 3-yr 60k

	MIN £	MAX £	AVG £
FORD KUGA (19-22) DIESEL	(1,300)	(750)	(1,065)
HYUNDAI KONA (19-) Hybrid	(1,450)	(1,150)	(1,275)
JAGUAR I-PACE (18-)	(1,250)	(950)	(1,100)
LAND ROVER RANGE ROVER EVOQUE (18-) DIESEL	(1,550)	(1,000)	(1,324)
MERCEDES-BENZ C CLASS (18-22) DIESEL	(1,200)	(750)	(994)
NISSAN LEAF (17-)	175	250	215
NISSAN QASHQAI (18-21) DIESEL	(1,100)	(700)	(890)
RENAULT KADJAR (18-22)	(1,500)	(925)	(1,143)
SUZUKI VITARA (18-)	(1,700)	(1,225)	(1,436)
TOYOTA RAV4 (18-) HYBRID	(1,900)	(1,500)	(1,747)

( ) Denotes negative value

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