

Five Minute Briefing

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WHAT IMPACT IS THE RISING COST OF LIVING HAVING ON CONSUMER CONFIDENCE IN THE USED CAR MARKET?

RETAIL AND WHOLESALE VEHICLE SOLUTIONS

Philip Nothard, Insight and Strategy Director,
Cox Automotive and VRA Chair

Cox Automotive



At the start of 2022, the general sentiment was that the market would begin to ease around Easter. However, with the cost-of-living squeeze, rising prices at the pumps, and the conflict in Ukraine, the drop in demand has begun earlier than expected, as indicated in the recent consumer confidence index which fell to -31. Therefore, it has never been more critical to understand wholesale and retail market dynamics and current trends in terms of both model levels and price bandings. To some extent, an easing in demand and a decline in values from a very high level may be what the sector needs to stimulate some activity. Signs of limited volumes of vehicles entering the fleet, leasing, and retail sectors, which took place in the closing days of March and overflowed into April, will provide some much-needed product into wholesale. However, although we anticipate continual easing of values throughout the second quarter, there is no tsunami of stock on the immediate horizon. It is yet again a cautionary period and a time in which going back to basics is highly relevant. Understanding the detail of a changing daily market should be at the forefront for any business.

AUCTIONS

Cliff Deller, Re-marketing and Digital Retail Consultant

Orchid Automotive



The market has appeared to be somewhat off the pace during the first quarter. There are several reasons for this and not just the significant increases in the cost of living. Of course, the current situation in Ukraine is also having significant impact in both global economic terms and also the general unease in the population with regards the possibility of the conflict spreading more widely into other parts of Europe and beyond. As we've seen many times before, the uncertainty caused by these global events makes consumers nervous with regards to big ticket items. When relating this to vehicle purchases, it usually transpires that consumers feel more comfortable with purchasing vehicles in a lower price range. The net effect of this means that higher value cars are less in demand while more affordable family cars have become more popular and subsequently more sought after in the wholesale market. This is ultimately reflected in the values of later year vehicles coming under pressure and, on the flip side, lower price range vehicles tending to remain firm.

AUCTIONS

Matt Dale, Joint Director

G3 Vehicle Auctions



It is well documented that the current convergence of economic factors such as increased levels of inflation and living costs, political unrest, and the conflict in Ukraine, have all driven consumer confidence in the UK down to levels not seen since pre-pandemic. In the automotive industry, the new car demand-versus-supply misalignment continues to cause issues for dealerships across the country, the result of which has seen a boom in used cars to satisfy the market needs throughout 2020 and 2021. Now as we move through 2022, the consumer demand for used cars is still evident but, as a direct result of the factors highlighted here, spending has certainly slowed. Beginning in March and now into April, we have seen the auction supply market shift, with dealer interest in the higher-priced vehicles reducing as consumers react to the changes in their finances. In contrast, the sub-£5,000 market remains stable, albeit with a slight decrease in the trade prices than we have seen over the last 18 months - but notably still much higher than pre-pandemic levels. Consumers visiting forecourts looking for these lower-priced vehicles are buying for need over desire, which is having an impact on the price points of stock that dealers hold and how much they invest to maintain levels during these uncertain times.

VEHICLE VALUATIONS

Derren Martin, Head of Valuations

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Cost of living concerns have played a part in a decline in used car consumer demand since early March, particularly in enquiries and sales of those expensive-looking cars around the £15,000-£35,000 area. Cheaper cars have still been sought after to a degree, popular for those consumers downsizing or requiring a car out of necessity, and buyers of more expensive cars (over £50,000) have more disposable income so are less affected by costs rising elsewhere in their lives. In the middle ground, where cars have risen so much in price over the last year, there is more reticence to buy. With travel also opening up more so than at any point since the pandemic began, consumers may have to choose between a holiday and a new car, with the former getting the vote in a lot of cases. There is also the spectre of Covid loans to start paying back, although the government did introduce some flexibility on these in February.

Many online car-buying services have reduced their offers to consumers too, keen not to overpay and stock-up on cars that may not sell quickly or could fall in value. This can also have a detrimental effect on consumers' car buying behaviour. The horrendous events in Ukraine have also added to consumers' angst. It feels churlish discussing such a humanitarian disaster in terms of car buying but the shock of scenes in the news and subsequent knock-on effect of fuel prices certainly plays a part in peoples' psyche. All of this has led to less demand by retailers to stock up on cars, which is causing used values to drop from the high point at which they previously sat.

VEHICLE VALUATIONS

Jayson Whittington, Chief Editor, Cars and Leisure Vehicles

Glass's Guide



Several domestic factors could be affecting consumer willingness to spend money on big-ticket items such as cars. Significant rises in the cost of utility bills, together with uncertainty around planned tax rises, are likely to have already influenced consumer confidence. This may explain, in part, why UK dealers have not needed to replenish stock as frequently as they did last year. Residual values (RVs) remain eye-wateringly high. According to Autovista Group's Monthly Market Dashboard - available at Autovista24.com - the average RV of a three-year-old used car is over 40% higher than this time last year and, following media reports over the past few months of these rising values, consumers may not see used cars as good value for money at the moment.