The Broad View

A REPORT FOR BCA

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Centre for Automotive Management
The University of Buckingham Business School
www.buckingham.ac.uk/cam
Executive Summary

The UK used car market is multi-dimensional. In many ways it is more sophisticated and complex than the new car market in that it deals with nearly-new cars through to much older vehicles.

The used car market is three times larger than the new car market and worth some £6 billion a year more. Unlike the new car sector, used car owners are predominantly private buyers using their own money or money they have borrowed.

The ‘Broad View’ report seeks to examine a range of issues associated with the used car market. Certainly, many of these apply equally to new cars. However, it is all too easy to become ‘silohsed’ and focus on issues associated with one part of the industry rather than look behind the numbers for their implications. The report also continues and expands on themes in the ‘Long View’ report (BCA/Buckingham 2011).

Among the issues reviewed in the report, the following might be considered most relevant to the health of the used car industry:

- The Eurozone is having serious stability problems that will take some years to resolve fully. As a result, European new car market volumes dropped some 3.5 million units in 2012 from their 2007 pre-recession peak, and recovery is expected to take at least five years. As such, the European automotive industry is likely to go through a period of restructuring which will have repercussions for the UK automotive sector.

- While the UK economy is forecast to emerge slowly from recession, the Chancellor of the Exchequer’s autumn statement says recovery will take much longer than previous over optimistic predictions. New car registrations fell steeply in 2008 and have remained uncomfortably low for the past five years, creating a lasting shortage of first-time, good quality used cars entering the used car supply chain. Used car supply is limited by new car volumes and there is a growing imbalance between the supply of younger used cars and market demand.

- A growing difference between used cars buyers’ increasing preference for smaller petrol-engined models and the larger, diesel-engined used cars entering the market for the first time from the fleet sector.

In the Implications and Actions chapter, the Buckingham Automotive team have identified a number of strategic issues which may justify further consideration by executives responsible for used car operations.
Contents

Executive Summary 1

Chapter 1 – Introduction 3

  Implications for Used Car Supply 4
  Report Outline 4

Chapter 2 – European Economic Outlook 6

  European Economic Climate 6
  Eurozone’s Double Dip 6
  European Unemployment Rising 8
  Impact on the New Car Industry 8
  Used Car Implications 10

Chapter 3 – The United Kingdom Economy 12

  Slow and Protracted Recovery 12
  CPI and RPI 13
  Unemployment Remains High 14
  Unemployment Not Evenly Spread 15

Chapter 4 – New Car Sales and Used Car Supply 17

  Impact of the Economy on New Car Sales 18
  Fleet and Private Sector New Car Sales 18
  Fleet and Private Sector Mix 19
  Private Buyers Less Likely to Buy Diesel 20
  Fleet Disposals Fall 20
  Average Age of Cars Reaches Record High 21

Chapter 5 – Economy and the Used Car Buyer 24

  Household Incomes 24
  Disposable Income 24
  Energy Costs 26
  The House Price Effect 26
  Regional Differences 27

Chapter 6 – The Used Car Market 28

  New and Used Car Market Volumes 28
  New and Used Car Market Values 28
  Impact of Economy on Used Car Volumes 29
  Cars in the Household 30
  Age of Car Buyers 31

Chapter 7 – Used Car Buyers' Perspective 32

  Intentions to Buy a New or Used Car 32
  Men More Likely to Buy than Women 33
  The Next Car Bought Will Be . . . 33
  What Car to Buy During Economic Hardship 34

Chapter 8 – Implications and Actions 36

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Introduction

This new ‘Broad View’ report from BCA takes a high-level view of the used car industry and its close relationship with the economy, the new car market and private used car buyers. In particular, the report looks at the impact of the prolonged economic downturn on new and used car market volumes and private motorists' needs and expectations.

The European automotive industry is currently experiencing difficulties from the worsening economic climate across Europe and its severe impact on demand for new cars in most EU countries.

European new car volumes reached an all-time high of 16 million in 2007 and have fallen each year since, dropping to just 12.5 million units in 2012 – some three million units less than average new car sales for the five years leading up to recession.

The UK car market is closely related to Europe. Indeed many of the strategic decisions regarding product, volume objectives and marketing, which affect the United Kingdom, are taken in Europe.

While the United Kingdom has also seen a steep fall in new car registrations and market value since the onset of the banking crisis, used car sales and market value have been less affected by two periods of recession and an economy struggling to make a meaningful recovery – see Figure 1.

**Figure 1; UK new and used car market by volume/value; 2000 – 2011**

![Graph showing new and used car market by volume/value from 2000 to 2011](image)

*Source: SMMT/BCA Used Car Market Report 2012*
While used car volumes dropped to 6.3 million during the first period of recession, they recovered to 6.6 million units in 2010 rising to 6.7 million the following year. The used car market value edged upwards to a new high of £35.7 billion in 2011, some £6.7 billion higher than the new car market figure that year.

Implications for used car supply

The steep and prolonged drop in new car registrations will have serious implications for used car supply in the UK and many EU countries for several years to come – a threat which receives surprisingly little attention given used car volumes and market values outstrip that of the new car sector in nearly all European markets.

As the Buckingham Automotive team has written on several occasions, the motor industry is essentially a supply chain with vehicles passing from one owner to another using equity in the existing unit to part fund its replacement – changing hands four times on average before being scrapped (SMMT).

Unless this supply chain works consistently and efficiently, the new car industry will have great difficulty being able to function profitably. Figure 2 illustrates the concept.

Report outline

- The European Economic Outlook; this highlights the strategic implications of the double-dip recession in the Eurozone and the potential repercussions for the region’s new car industries. New car volumes have fallen steeply in many European states which will have far-reaching implications for the used car industry until new car sales stage a marked recovery. Pressure on new car sales in Europe will be reflected in car manufacturers’ and importers’ focus on the UK to absorb more new cars. Many economists believe it will be 2014 or 2015 before the Eurozone shows signs of sustained economic recovery.

- The United Kingdom Economy; according to the more optimistic politicians and institutional forecasters, the UK economy will soon show some signs of recovery and is running ahead of the remainder of the EU. This chapter suggests a drawn out recovery is more likely using normal benchmarks, with levels of recovery, employment etc. showing wide differences. These macroeconomic issues will have a direct impact on new and used car demand.
Chapter 1 – Introduction

- **New Car Sales and Used Car Supply;** this chapter looks at the relationship between new and used car supply and the economy. New car volumes are the principal driver for used car sales, and the supply of first-time used cars is closely tied to both fleet and private new car volumes. As the economy emerges from recession, car manufacturers and used car retailers will need to plan for the changing mix and lower volumes of first-time used cars reaching the market for some years to come.

- **Economy and the Used Car Buyer;** it is all too easy for those who have a company car to overlook that used car buyers have to balance buying a car with their disposable income. There are a number of other expenses which have to be built into the equation before arriving at what funds might be available to buy and run a car.

- **The Used Car Market;** this examines new and used car volumes and values and how the number of cars in the household has changed during the economic downturn. Recent years have also seen a change in the mix of used car buyers which suggest used car retailers might need to reconsider their approach to certain sectors of the market.

- **Used Car Buyers’ Perspective;** this reviews car buyers’ expectations and how ongoing economic pressures are likely to influence what type of car they might buy next and when they might buy it.

- **Implications and Actions;** this chapter pulls together the implications from earlier chapters of the report. While some small signs of economic improvement may be on the horizon for the UK, is the country’s used car industry well enough prepared to handle the transition from recession to economic recovery when the time comes?

**Independent analysis**

The Buckingham Automotive team has sought to utilise a broad range of data sources in the public domain and interpret them as they apply to the new and used car sectors.

Use has been made of the Office of National Statistics’ (ONS) data, and SMMT statistics for UK new car market analysis. Research for the BCA ‘Used Car Market Report 2012’ and earlier editions of the report has also been consulted. Eurostat and European Automobile Manufacturers’ Association (ACEA) statistics have been used to present the European view, while a number of other specialist sources are quoted throughout the report.

The analysis and interpretation of the data undertaken by the Buckingham Automotive team is independent and unbiased.
European Economic Outlook

Few would argue with Bill Clinton’s statement ‘It’s the economy stupid’ that drives industry forward – an apt observation for Europe’s automotive manufacturers that are currently being hampered severely by deteriorating Eurozone economies. With around half the United Kingdom’s trade with Europe, any changes in such major industries will be reflected in the UK as well.

European economic climate

The 17-country Eurozone area generates a fifth of global output. Following a dip in 2001 and 2002, the region saw its GDP output rise to around 3% in 2006 and 2007 – falling steeply into recession in 2009 (-4.4%) – see Figure 3. The recovery in 2010 proved short lived, however, the Eurozone’s economy taking a turn for the worse the following year and deteriorating further in 2012.

Figure 3; Eurozone GDP growth year on year; 2000 – 2012

Source: Eurostat

Eurozone’s double-dip

According to Eurostat, the Eurozone fell into a double-dip recession in the third quarter of 2012. Its economy shrank 0.1% in the July-September period following a drop of 0.2% in the previous three months. The fourth quarter of the year saw the Euro area’s GDP fall by 0.6% compared with the previous three months – leaving the Eurozone’s GDP down 0.5% for the year as a whole.

Overall European (EU27) GDP has narrowly escaped recession so far, its third quarter 2012 GDP up 0.1% on the previous three month period. However, a fall of 0.5% in the final quarter of 2012 saw European GDP dip 0.3% below 2011’s full-year output.
Economic expectations

According to Capital Economics, a leading world-wide independent macro economic research company, the Eurozone’s economy is not expected to recover until at least 2015 – see Figure 4.

- While Germany’s GDP is forecast to have grown 1% in 2012, this is perhaps optimistic. Thereafter, 2013 is expected to be a tough year for Germany’s GDP (-1%) and 2014 to be no better than ‘break even’.

   Germany relies on the ‘undervalued’ Euro currency to protect its vital export business. If it were to return to a domestic currency, its value would spiral and Germany’s competitiveness could face decline.

- France is expected to suffer three years of recession as it seeks to reform its social systems, vacations, retirement culture and become more competitive in Europe and world wide. The French new car industry is suffering from substantial excess capacity.

- Italy and Spain are facing a serious drop in their GDP output. The outlook for Italian household spending is poor. Consumers are struggling to cope with falling incomes, deeper fiscal austerity and are avoiding non-essential spending. The Spanish economy remains under pressure from weak consumer confidence, high unemployment and VAT up from 18% to 21% – while the government is expected to ask for additional EU financial assistance in 2013.

- While the UK’s year-on-year GDP growth was 0.2% for 2012, Capital Economics’ forecasts for 2013 and 2014 are 0.2% and 1.5% respectively – albeit lower than the Bank of England’s and the Office of Budget Responsibility’s latest predictions.

Of course, there are many issues that could affect the UK’s economic growth, particularly the worsening economic situation in the rest of Europe. Capital Economics expects the Eurozone’s GDP to fall by 2% in 2013 and a further 1% in 2014.

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</tr>
</tbody>
</table>

Source: ONS/Eurostat/Capital Economics*
European unemployment rising

A further chart (Figure 5) shows Europe’s unemployment picture at December 2012. At 7.8% the United Kingdom was at the lower end of the spectrum, some considerable way short of the EU27’s average of 10.7% and the EU17’s (Eurozone) figure of 11.7% – with Greece and Spain at the top end of the unemployment rate scale at 26.8% and 26.1% respectively.

Figure 5; European unemployment rate; December 2012

Eurostat estimates there are 25.9 million people unemployed in Europe, 18.7 million of them in the Eurozone area, a rise of 1.7 million for the former and 1.8 million for the latter in the past 12 months.

The message is quite clear, the European economy is going through a very rough patch – and the outlook will remain fragile until such time as the Euro has been restructured with the necessary new mechanisms and fiscal disciplines embedded.

Impact on the new car industry

Figure 6 overleaf shows European (EU27/EFTA) new car sales reached 16 million in 2007 falling to 14.7 million in 2008 in the face of recession. While wide-spread scrappage schemes helped hold EU new car volumes at 14.5 million in 2009, there has been a steady decline since, falling steeply to 12.5 million units in 2012 – down nearly a fifth on pre-recession levels.

Given the gloomy forecasts for European economy, such a steep drop in new car volumes arguably renders the current EU manufacturing base unsustainable.
Major European markets

Figure 7 shows the decline in new car sales in major European markets over the past decade. With the exception of Germany and France, there has been a steady downward trend in new car volumes over the period, with Spain’s and Italy’s spiralling downwards to around half pre-recession levels.
Market information specialists, IHS Global Insight, expects European new car sales to drop by a further 3% to 12.1 million units in 2013, and not return to pre-economic crisis levels for four or five years at the earliest.

**Used car implications**

The five-year decline in European new car sales will see many European countries’ used car industries facing a significant and lasting shortage of first-time used cars coming to market. Figure 8 shows the difference in the number of new cars registered between 2008 and 2012 and those registered between 2004 and 2008. This is in effect the 0-5 year car parc which supplies the vast majority of first-time used cars.

![Figure 8; EU New car registrations 2008/2012 versus 2004/2008 (0-5 year car parcs)](source: ACEA/Buckingham)

Of the major markets, the UK, Spain and Italy face the strongest likelihood of a shortage of used cars until such time as new car sales stage a strong and sustained recovery. While Germany’s and France’s new car volumes appear to have held up better during economic woes, the former benefitted from some 900,000 new car scrappage deals in 2009. Many of these were smaller cars from CEE, other European countries and the Far East which are unlikely to meet the traditional expectations of German used car buyers when they eventually come to market.

Some brands have clearly weathered the economic downturn better that others, as can be seen in Figure 9 overleaf which shows the rise or fall in units in franchises’ ‘0-5 year car parcs’ between 2008 and 2012. This shows that volume brands’ franchised dealers are more likely to face a marked shortage of cars from the age band they depend heavily on for used car supply and, equally important, much of their service and repair work.
Figure 9; EU New car registrations; 2008/2012 versus 2004/2008 (0-5 year car parcs)

Prestige marques have fared better during economic downturn as have brands that benefitted most from sales of smaller, cheaper cars during the scrappage programmes in place during 2009 and 2010.

The strategic implications of the above chart should not be underestimated in that it will impact on distribution patterns and the mix of cars entering the used car market for the first time. Are used car retailers sufficiently aware of the forthcoming evolving product offering?

As fewer first-time used cars move into the used car market – assuming levels of demand remain stable, this could cause used car prices to rise through the simple laws of supply and demand. There may also be problems for smaller EU car markets which have historically relied on cross-border supply of used cars to help satisfy local demand.
The United Kingdom Economy

The United Kingdom economy is showing little sign of recovery and is not expected to return to pre-recession levels until the first half of 2015. Figure 10 shows the rise and fall in the UK’s quarterly GDP (Gross Domestic Product) over the past five years.

Figure 10; UK GDP quarterly growth vs. previous quarter and previous year; 2008 – 2012

The chart shows a seriously fluctuating economy which is reflected in terms of business expectations and activity and the ability and willingness of consumers to spend – a key measure of economic confidence. One is always looking for some level of GDP growth or, at the minimum, no decline.

Slow and protracted recovery

According to the Bank of England’s February 2013 Inflation Report “Expansion is expected to be weak by historical standards, mirroring the relatively subdued prospects for both global demand and the supply capacity of the domestic economy. GDP is likely to remain below its pre-crisis level until 2015. In fact, the ONS’ second estimate shows there was a drop of 0.3% in GDP between the third and fourth quarters of 2012 – raising the possibility of a triple-dip recession. Full-year GDP grew 0.2% between 2011 and 2012, and the Bank’s latest forecasts for GDP growth are 1.2% for 2013 and 2.0% for 2014 – although it has a track record of being over optimistic with its recovery forecasts.

ONS data suggests the UK economy shrank by 6.3% from its peak in the first quarter of 2008 to its trough in the second quarter of 2009. This recession was deeper than its three immediate predecessors, and the exceedingly slow pace of the recovery has been even more striking – Figure 11 overleaf.
Even in the 1930s' 'great depression', when the peak to trough decline in GDP was noticeably greater than the latest downturn, the economy had more than recovered to its pre-recession level by this stage in the cycle – nearly five years later.

CPI and RPI

Two further measures beloved of economists and politicians are shown in Figure 12 – Consumer Price Index (CPI) and Retail Price Index (RPI) – the former used as an index for state pensions and certain other welfare benefits.
It is interesting to note that both indices were moving towards the Bank of England’s longer-term 2% year on year CPI target for most of 2012 – until October’s figures were released showing CPI had jumped 0.5 points to 2.7% and RPI had climbed 0.6 points to 3.2%. – remaining around these levels since then.

The OBR sees inflation (CPI) pulling back in the second half of 2013, but remaining above the Bank’s target until the first quarter of 2015, much later than initially expected – delaying the recovery of consumer spending.

However, both RPI and CPI are overall averages – which are not necessarily the most effective inflation benchmark across the whole economy. In the case of food, fuel and utility prices, any significant rises have a greater impact on lower rather than higher-income households.

Suffice to say, although buyers are starting to see some prices stabilising, the propensity to spend remains relatively weak. According to the ONS, the quantity of goods bought was 0.6% lower during January 2013 than the same point 12 months earlier – and was flat in revenue terms after allowing for inflation.

**Unemployment remains high**

A further macroeconomic analysis, showing the United Kingdom’s level of unemployment, is shown in Figure 13. While 7.8% of 16–64 year-olds are out of work in at the end of December 2012, the other side of the coin, of course, is that some 92% of this group are employed.

![Figure 13; UK unemployment and unemployment rate; 2008 – 2012](source: ONS)
The private sector has created over one million new jobs since the Coalition came to power and there has been a steady erosion in the number of public sector appointments that is still continuing.

However, the slowly improving trend over the past year tends to mask the significant rise in unemployment in the five year period between October to December 2007 and October to December 2012 (Figure 14) – during which time the household population aged 16 or over rose by 1.85 million (ONS).

Interestingly, the Office of Budget Responsibility’s December 2012 forecast sees the country’s unemployment rate rising to 8.3% by the third quarter of 2013 and not dropping below 8% until 2015, and late 2017 before the rate falls below the 7% mark.

Unemployment not evenly spread

Of course, unemployment is not evenly spread across the country. Figure 15 shows it is lowest in the South West (5.5%) and the more affluent South East at 6.5% – and considerably higher in Yorkshire/Humberside and the North East at 8.9% and 9.7% respectively.

![Figure 14; Employment December 2012 vs. December 2007](image)

- The number of people in full-time employment fell by 341,000,
- The number of people in part-time employment increased by 660,000,
- The number of unemployed people rose by 854,000

Source: ONS
Banks have perhaps been more lenient

Given the current anaemic economic situation, some economists feel there should be a higher number of people unemployed. There is also a feeling that banks have perhaps been more lenient in terms of closing companies than is usual in recession, due to the ‘nasty image it would project’.

Equally, there has been a marked growth in the number of organisations where wage rates have been cut to protect jobs, as it is sometimes more cost effective to retain staff than go through the process of redundancy where settlement payments can be costly.
New Car Sales and Used Car Supply

The previous chapter looked at some of the broader economic issues influencing the shape of the United Kingdom’s new and used car markets. This chapter looks more closely at how the new car market has fared during the longest economic downturn on record and the impact on the potential supply of used cars.

UK new car registrations settled around 2.5 million units between 2001 and 2005. Thereafter, recession and the ongoing gloomy financial picture saw new car sales drop to around half a million units below pre-recession levels (Figure 16). Despite the support of 285,000 scrappage deals, new car registrations dropped to 1.99 million in 2009, and to a 17-year low of 1.94 million units in 2011.

![Figure 16; UK new car registrations; 2000 – 2015](image)

Despite rising 5.3% on 2011’s low base to 2.04 million units in 2012, UK new car volumes remained relatively weak – some 15% or more below pre-recession annual markets close to the 2.5 million mark.

However, it’s difficult to judge the strength of current new car demand as there is clear evidence that 2012’s new car volumes were boosted by a significant number of dealer self-registrations. Speculation on this ranges from 5% to 20% of the new car market – stimulated by large numbers of 12-plate and 62-plate ‘factory mileage’ used cars currently for sale on leading franchised dealer groups’ websites and forecourts.

CAP has expressed the view ‘that the used car market is expected to be undermined by pre-registration activity – the only restriction on a rise in used car values during the first half of 2013 is the pressure on prices created by a super-abundance of late plate cars. Looking at the state of the Eurozone economy, there is little likelihood of pressure easing on Britain to soak up this new car supply any time soon’.

Large numbers of 12-plate and 62-plate ‘factory mileage’ used cars
Impact of economy on new car sales

Figure 17 shows the long-term relationship between new car sales and GDP, and how new car volumes fall steeply when GDP growth moves below 2% as seen in the 1991/1992 recession when new car volumes dropped to 1.59 million for two years, beginning to recover when GDP showed sign of settling above 2% once again.

Figure 17; UK new car sales vs. GDP; 1988 – 2014

New car sales continued to grow and remained strong for around 15 years while GDP growth stayed above the 2% mark. When GDP started falling in the second half of 2008, new car volumes fell to a 12-year low of 2.13 million units. Without the support of nearly 400,000 scrappage incentive deals in 2009 and 2010, new car volumes would have dropped to just 1.71 million and 1.92 units respectively in these years.

The muted GDP recovery in 2010/2011 helped new car volumes settle around the two million mark. The SMMT is currently predicting new car registrations will more or less flat line in 2013 and 2014 as the country’s economy struggles to recover, with little prospect of a meaningful recovery until 2015 at the earliest.

Fleet and private sector new car sales

Figure 18 overleaf shows new car sales to the 25-plus fleet and private sectors and how the mix has changed over the past decade. Private sector sales were strong between 2001 and 2004 during a period of economic stability and readily available finance – falling thereafter as the economy weakened and rising inflation and tightening credit took hold. Since 2008, underlying private new car demand (excluding scrappage deals) has fallen well short of the million mark – well below the heights reached in the early 2000s.
New car sales to the 25-plus fleet sector were strong in the 2005 to 2007 period, falling in 2009 as recession forced businesses to extend their replacement cycle and/or cut the size of their fleet. While fleet volumes broke through the one million mark once more in 2011, they remain some 200,000 units below pre-recession levels.

Discounting the artificial stimulation of the scrappage programme in 2009/2010, new car sales to 25-plus fleets have represented around half the new car demand since 2005 – and ultimately around half the cars entering the used car market for the first time.

Fleet and private sector mix

However, the mix of new car sales to the fleet and private sectors is quite different.

Firstly, fleet operators generally buy larger, more expensive cars than private new car buyers. Secondly, fleet operators have a much bigger appetite for diesel variants than their private counterparts – nearly two-thirds (63.2%) of new cars bought by fleets were diesels in 2011, compared with just over a third (36.6%) of the private sector’s.

Fleet operators favour larger variants with six of their top-10 models in the Upper-medium group, three in the Lower-medium segment and just one in the Supermini class. Private new car buyers, on the other hand, opt for much smaller cars – with seven of their top-10 models in the Supermini sector and three in the Lower-medium category.

This indicates a potential imbalance in supply coming through to the first-time used car market.
Private buyers less likely to buy diesel

Private new car buyers are also much less likely to buy a diesel than fleet operators. For example, only 14% of private Fiesta sales were diesel engined in 2011, compared with 38% of fleet purchases. A similar pattern exists for the Ford Focus and Volkswagen Golf. Just a quarter (24%) of private new Focus deals were diesel, compared with a half (51%) of Focus’ sold to fleets. While 81% of fleet Golf buyers opted for a diesel variant, just 52% of private motorists went in the same direction.

Clearly, the substantial new car price premium for diesel is a step too far for the majority of private new cars buyers who, according to the latest ONS figures, only drive 7,910 miles on average each year.

Fleet disposals fall

There have been growing reports of a shortage of good quality, first-time used cars reaching the market for quite some time. Based on selected SMMT company car parc data, there has been a decline in the disposal volumes of 3-5 year-old fleet and business cars as a result of the marked drop in new car sales to fleets since 2008. Volumes are estimated to make a slow recovery over the next three years (Figure 19). Many retailers rely on this source for a steady supply of used cars.

Company car disposals (used car supply) in this critical age group held up well until the end of 2011, boosted by high new fleet and business sales averaging 1.34 million units for the five years leading up to 2007.

In 2012, company car disposals in the 3-5 year age group started to reflect the much lower fleet and business new car volumes since 2009 – dropping by about 20% last year compared with the peak of the market in 2008.
Disposals will remain at a similar level for the next two or three years, but are not expected to decline substantially. However, the relative shortage will continue until new fleet and business car volumes return to something like pre-recession levels.

**Average age of cars reaches record high**

While the car parc will settle around 30 million units for the next three years or so, the average age of cars on the country’s roads is rising rapidly. This will continue as new car volumes remain around the two million mark for the next couple of years and cars from record new car sales in the early 2000s reach the 10 years-plus mark.

**Figure 20; Car parc average age of cars; 2000 – 2011**

![Graph showing the average age of cars in the parc from 2000 to 2011.](source: SMMT/Buckingham)

Figure 20 shows the average age of cars in the parc, which had fallen to a 14-year low of 6.69 years in 2004, climbed to 7.44 at the end of 2011 – the highest figure on record.

The average age of cars in the parc will reach new heights over the next few years, and could even reach eight years if new car sales fall short of current SMMT forecasts – and will only decline when new car volumes significantly exceed two million units for several years.

**Fewer younger used cars to sell**

The current prolonged economic malaise and double-dip recession has had a more serious and lasting impact on the car parc (used car stock) than its 1991/1992 predecessor.
New car sales dipped for just two years last time before making a sustained and marked recovery. On this occasion, it is likely new car volumes will have been depressed for seven years before there is any sort of meaningful upturn.

The upshot is there were 2.1 million fewer 0-5 year-old cars on the country’s roads at the end of 2011, compared with the pre-recession figure at the end of 2007 – and 240,000 fewer units in the 6-8 year age bracket (Figure 21).

While the supply of 0-5 year-old cars will remain relatively flat over the next three years as new car volumes sit around two million units, the number of cars in the 6-8 year sector will drop by a further 900,000 units – amounting to three million fewer 0-8 year old cars on the roads than pre-recession times.

The growing supply shortage of younger used cars is a worrying factor, as the used car market is critical in providing a hassle-free route to release the equity in existing cars so owners can buy a new or newer vehicle. There may also be strategic implications for dealers in terms of service offering, parts inventories and service pricing.

Franchise car parcs

Clearly the size of some franchise’s car parc has changed more than others depending on how its new car volumes have been affected by two bouts of recession and a flagging economy. Figure 22 overleaf shows the increase or decrease in the number of cars in individual franchise’s ‘0-5 year-old car parcs’ between the end of 2008 and the end of 2012.
Similar to the European pattern, volume brands’ 0-5 year car parcs have shrunk considerably since 2008 with the dramatic drop in new car volumes – and used car retailers face significantly lower volumes of used cars of this age – Figure 23. Dealers may well find that 2012 was the nadir in terms of supply issues, but should not expect a substantial improvement for several years to come.
Economy and the Used Car Buyer

This chapter seeks to provide a thumbnail sketch of the key issues influencing prospective used car buyers. Private car owners have a much more personal involvement in buying their car than business car users. They have to negotiate the price of the car, arrange finance or fund it themselves, and take on trust the car’s quality and service history when buying a used car.

Contrast this with business car users who will have the company or the contract hire organisation supply and manage the car for them and carry all the risks associated with the unit.

Household incomes

Recession and the slow recovery have had a marked impact on household incomes. In this regard, recovery from the current recession has been much slower than the last one in the early nineties as is shown by Figure 24.

![Figure 24: Real household income; past two recessions](image)

Source: ONS

Disposable income

While household incomes may be recovering slowly, perhaps the most important issue for prospective private car buyers is disposable income – the amount of income left after the cost of food, housing and other necessities have been paid.
Asda, the supermarket chain, produces a monthly index of household disposable income, calculated as shown in Figure 25.

Of course, the phrase ‘disposable income’ covers a multitude of topics. The Asda figure has fluctuated quite significantly over the past few years and is currently sitting about £10 per week lower than a couple of years ago (Figure 26).

However, disposable income is an average figure, and within this broad field there are a number of critical issues that can push real disposable incomes, which might be used to buy a car, significantly out of line. While the overall rate of inflation appears relatively modest, spiralling energy and rising food costs will continue to curtail household spending power hard. Income and cost of living levels also vary across the country which new and used car retailers need to be aware of.

The Asda figure is sitting about £10 per week lower than a couple of years ago

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**Figure 25; Disposable income; December 2012**

<table>
<thead>
<tr>
<th>Total Household Income</th>
<th>£712 per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>£124 per week</td>
</tr>
<tr>
<td>Net Income</td>
<td>£588 per week</td>
</tr>
<tr>
<td>Cost of Living</td>
<td>£444 per week</td>
</tr>
<tr>
<td>Average Family</td>
<td>£144 per week</td>
</tr>
</tbody>
</table>

Source: Asda Income Tracker

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**Figure 26; Average UK household disposable income; 2008 – 2012**

Source: Asda income Tracker/Centre for Economics and Business Research
Energy costs

Figure 27 shows just how rapidly gas and electricity prices have escalated since 2005 compared with RPI. With the most recently announced steep rises yet to come into effect, this will have a big effect on disposable incomes in the very near future.

Figure 27: Energy costs vs. RPI; 2005 – 2012

Lower income households are often more susceptible to changes in food and energy prices than higher income groups which can absorb such steep increases more readily.

The house price effect

In terms of disposable income, or rather ‘imaginary assets against which to borrow or spend’, changing house prices have been regarded as a toxic issue in the past. If a part-paid for property is rising in value then the ‘feel good factor’ that one’s wealth is increasing may encourage one to spend. The assumption is false, though, unless one has no intention of replacing the property.

Equally important, housing prices can vary significantly across the country with prices in the South East and London significantly higher than those in the north and north east.

Source: RICS
Figure 28 gives an indication on the rate of change in property prices by region over the past year with the implications this may have for the overall feel good factor and possible propensity to spend on a more expensive asset such as a new or used car.

The steady increase in property values in London and the South East may well give credence to the adage ‘recession – what recession?’ in these areas.

**Regional differences**

One further caveat that can be introduced is the difference between urban and rural income levels and used car buyers. The demise of rural public transport, withdrawal of subsidies and shortage of housing, may mean a disproportionate amount of household income has to be spent on mobility. Almost by definition, this will mean a car and, taking it one step further, a lower-priced used vehicle.

The critical message for used car retailers is the regional differences in income and how inflation and unemployment will affect their local used car market. How is this taken into consideration when selecting used car stock and pricing?
The Used Car Market

The used car market is three times the size of the new car market and research for BCA has indicated it was worth £6 billion more than the new car market in 2011.

**Figure 29; New and used car volumes; 2000 – 2012**

The used car market value edged up to a new high of £35.7 billion.

**New and used car market volumes**

Following an 11-year spell comfortably over two million, new car sales fell to 1.99 million units in 2009 – falling back to 1.94 million in 2011 before rising 5.3% to 2.04 million units in 2012 (Figure 29).

UK used car sales were above seven million for four out of five years from 2003, dropping to 6.3 million units in 2009 as recession hit the used car market. While initial hopes of economic recovery saw used car volumes rise to 6.6 million in 2010, growth slowed to 6.7 million units in 2011 as the economy weakened once more.

**New and used car market values**

Following six years over the £30 billion mark, the value of the UK new car market dipped to £28 billion in 2008/2009 as new car volumes fell steeply during recession (Figure 30 overleaf). The new car market value recovered to £29 billion in 2011, despite a 90,000 drop in new car volumes that year.

UK used car market value, which has topped £30 billion for the past seven years, edged up to a new high of £35.7 billion in 2011 – outstripping new car market value by £6.7 billion.
Chapter 6 – The Used Car Market

Figure 30: New and used car values; 2002 – 2011

Impact of economy on used car volumes

Figure 31 shows annual GDP change compared with used car sales through franchised and non-franchised used car retailers over the past 20 years.

Figure 31; UK used car sales vs. GDP; 1988 – 2011

The trend shows that, whilst used car volumes react to the rise and fall in GDP, they do not react so dramatically as new car volumes. When GDP growth fell below 2% in 1990 to 1992, used car sales weakened somewhat in 1992, recovering quickly from 1993 as GDP growth grew and remained strong for many years as the economy grew steadily.
Similar to new cars, used car volumes fall when there is a hint that economic growth will slow to 2% or lower – and they drop more severely during recession as they did in 2008 and 2009.

**Cars in the household**

The so-called ‘family fleet’ appears to have undergone a subtle change during the past few years as household budgets have come under unrelenting pressure (Figure 32).

*Figure 32: Cars in the household 2000 – 2011*

![Graph showing the number of cars in households from 2000 to 2011.](source)

Four years of financial hardship saw the number of families without a car rise five points to 28% between 2010 and 2012. Two-car households have fallen 3% to 22% and the number of three-car families went down from 8% to 5% of households during the same period.

Is there a message here for used car retailers in terms of the need to consider the way ‘family fleet’ business is developing? Will economic recovery lead to a faster than average rise in the numbers of cars per household or will there be a decline as families realise they can live quite well with fewer cars?
Age of car buyers

A further issue that may be relevant is the changing age mix of used car buyers. Figure 33 raises a number of issues that might be relevant to used car retailers.

**Figure 33: Age of used car buyers; 2000 – 2011**

Used car purchase is no longer the bailiwick of 25-44 year-olds who used to account for some 40% of the used car market. This balance has now shifted and these two age groups take nearly 10% less of the market than they used to.

Smaller groups like the 65-plus car buyers and younger drivers have become more important. The former probably because they can afford a car, although declining annuities and pensions may threaten this assertion – and younger people who are increasingly living at home and need a car to commute to work or higher education.
Used Car Buyers' Perspective

Consumers’ finances have been squeezed harder over the past four years than at any time since the 1930s. Many families are having to make hard decisions on what they can afford, putting food on the table, keeping a roof over their heads and finding some way of heating their home. For some, the loss of family tax credits, a higher tax band and restricted benefits serve to compound their financial hardship.

Owning and buying a car is an expensive proposition. This chapter looks at how likely car owners are to replace their car in the near future and what type of car they might consider buying during a period of unrelenting financial concern.

Intentions to buy a new or used car

Consumer research for the 2012 BCA Used Car Market Report shows a significant drop in the number of car owners who think they will ‘certainly’ or ‘quite likely’ buy a car in the next 12 months – down 3% to 11% in 2012 from 14% in 2011 and 19% prior to recession (Figure 34). The number of motorists who believe there is a ‘50:50 chance’ they will buy a car in the next year edged up one point to 9% in 2012.

The number of car owners who say they will ‘certainly’ or ‘quite likely’ buy a car in the coming 12 months is highest in Wales and the West Midlands (16%) – and least likely in the North West and Scotland, where just 7% of last year’s survey respondents felt the same way. Sixteen per cent of Northern and 15% of North Western car owners said they felt it was ‘50/50’ whether they would buy a car in the coming year, while just 17% of Scottish and Yorkshire/Humberside motorists said there was any chance of them ‘buying a car at all’ in the next 12 months.
Men more likely to buy than women

Figure 35 shows men are more likely to buy a car in the next 12 months than women, 13% of the former feel they will ‘certainly’ or ‘quite likely’ do so, compared with just 10% of women.

**Figure 35: Likelihood of buying a car in the next 12 months; 2012**

![Graph showing likelihood of buying a car in the next 12 months for different age groups and genders.](image)

Source: BCA Used Car Market Report 2012

Sixteen per cent of 35-44 year-olds feel they might buy a car in the next year in contrast to just 3% of 65 years-plus car owners who perhaps keep their cars longer as they normally drive fewer miles than younger motorists.

The next car bought will be . . .

Three-quarters of car owners intend to replace their car with a used one when they make a change. However, there has been a swing of 4% towards diesel this time – 30% of prospective used car buyers saying they plan to go in this direction next time (Figure 36 overleaf) – a long way short, though, of diesels’ current 50% plus share of the new car market.

The message is clear that fleet operators love diesel-powered cars although future changes in benefit legislation may impact on this balance. However, private buyers of used cars are not nearly so enamoured with diesel.

Even if one adds the nearly-new elements to the total, the mix does not change – private car buyers have a firm preference for petrol-engined used cars. Given the spreading awareness of economics of diesels, the need for higher mileages to be economic, and the steady decline in annual mileages, is it reasonable to expect this preference to grow?
From dealers’ used car inventory viewpoint, what is the local ‘freewill demand’ for used petrol versus diesel – and are there any price penalties associated with the market?

What car to buy during economic hardship

Faced with the unrelenting, gloomy economic outlook, what type of car might car owners consider buying to help them offset financial pressures?

Figure 37; Buying a car during economic downturn; 2012
Nine out of 10 motorists intend to replace their car with a different type of vehicle

Just 9% of car owners say they will ‘buy the same car again’, down from 14% in 2011 and 20% who expressed this view in 2010 (Figure 37). Simple arithmetic suggests that nine out of 10 motorists intend to replace their car with a different type of vehicle next time. Top of the shopping list are ‘a car with better fuel consumption’, ‘lower road tax’, ‘a smaller car’, ‘best purchase price’ and ‘lower CO2’ – all things that used car buyers have a great deal of control over. Significant progress on all or most of these measures could produce dramatic savings.

Figure 38: Buying a car during economic downturn; 2012

These expectations might be called a wish list but the implications are more complex. ‘Better fuel consumption’ could suggest diesel – but diesel is not as popular as petrol as far as private car buyers are concerned. ‘Lower road tax’ is associated with a complex set of issues which can be matched with car choice.

Men (29%) appear more intent than women (24%) in changing to a ‘car with better fuel consumption’, a step too far, though, for the vast majority of younger car owners, just 16% would chose this option.
Implications and Actions

The Broad View report has sought to examine a range of qualitative issues associated with the used car market. Given the magnitude in volume and value terms, it would be easy to claim it is ‘more important than the new car market’ and the role of the new vehicle sector is primarily to supply the used car market with an adequate supply of stock.

In the UK, the used car market is principally a private buyer market. As such, it is more sensitive to car buyers’ whims and preferences rather than a company influencing choice or a leasing company sourcing the vehicle.

The new car market is evolving, some would claim it is in a period of revolution in Europe in particular. This means future products and support may be significantly different to the current offering.

The question might well be asked – what are the key issues emerging from this ‘Broad View’ report that used car retailers might take on board for further consideration?

European Economic Outlook

New car sales in the Eurozone have dropped markedly and may yet fall further – and it is likely to be several years before they fully recover. There are a number of strategic issues which may justify review;

- What might be the implications for the UK’s new and used car markets of significant reorganisation and refocus in the European automotive industry?
- What might be the implications of European car manufacturers and importers seeking to expand UK new car sales unnaturally in the short to medium term?
- What might be the marketing implications for UK automotive industries given tighter European marketing and product budgets?
- Given the depressed new car market across Europe, are car manufacturers likely to change their new car sales’ strategies and perhaps place greater emphasis on the used car sector and vehicle support – how might this impact on UK franchised dealers?

The UK new and used car markets are influenced by what is happening in Europe; what changes and initiatives might franchised dealers and used car retailers need to be prepared for and be ready to respond to?
The United Kingdom Economy

The UK economy seems set for a drawn out recovery. From an automotive, and particularly used car market point of view, a number of strategic issues may emerge.

- What are the implications of regional differences in economic recovery in specific sales areas?
- What is the anticipated rate of economic growth in the local marketplace – and how might used car dealers respond to such change?
- What are the used car product implications for a slow rate of economic recovery in a specific sales territory?
- What have been the changes in used car product and price demand locally – have dealers reacted – and how might they respond as economic recovery starts?

It may be beneficial to take a ‘broad review’ of the way the economy is changing locally, and how your business might respond to economic change.

New Car Sales and Used Car Supply

A change in the mix towards fleet disposals of larger, predominately diesel-engined cars could be somewhat at odds with private car buyers who are displaying a stronger appetite for smaller, cheaper, petrol-driven vehicles.

Given the changing dynamics of the used car market there are a number of issues used car retailers might consider;

- What are the supply chain requirements to ensure retailers have an adequate supply of quality used cars to satisfy current and expected market demand?
- What changes have occurred in terms of available used cars – and what are the requirements to bring these units to a saleable quality?
- What changes have occurred in terms of car buyers’ requirements – how are such changes managed in terms of product and pricing?
- What steps might used car retailers need to consider to balance business capacity and demand – and how will the strategy respond to economic recovery?

Used car dealers not only have to balance supply issues with constantly changing levels of demand, but also need to ensure their business is well placed to flourish when economic recovery begins.

Fewer younger cars in the parc also pose a serious threat to franchised dealers’ service and bodyshop labour and parts revenues. Dealers rely heavily on cars in the 0-5 year-old group for their service and repair business, and cars older than this are more likely to be written off if they suffer substantial accident damage.
Economy and the Used Car Buyer

The new and used car markets appear to be becoming more polarised and localised. Generalised analyses and figures are likely to be challenged;

- What have been the economic changes in each used car sales territory; are these changes limited or general? How have used car dealers responded?
- What are the implications in terms of cars buyers’ disposable income in the local marketplace for the used cars on offer?
- What signs, if any, are there of improving/deteriorating conditions in the local used car market? What steps can be taken to benefit from/minimise the impact?
- What sources of local market information and understanding are being used to monitor market changes and fine tune used vehicle stocking and sales strategies?

Every used car retailer has a range of local market conditions. The challenge is to identify how such local economic conditions impact on its market area and how it might best react ahead of competition.

The Used Car Market

Used car buyers’ needs may have evolved during the economic downturn and may recover in the foreseeable future.

- What steps might used car dealers take to attract previous new car buyers who might be thinking of trading down?
- What are used car retailers’ target market segments – have they changed/evolved in recent times; how might they change with economic recovery?
- What used cars – brand, age, condition, do local used car buyers find most acceptable – are used car dealers providing them?
- What steps have been taken to ensure security of adequate used vehicle supply for local market requirements – does this stretch beyond first-time used cars?

The used car market is multidimensional, fickle, and subject to frequent change; it is important used car dealers regularly review the developing market in their trading territory.
Used Car Buyers' Perspective

While the economy may be showing signs of recovery, used car retailers may need to review the way they can best respond to such changes.

- What changes does research of dealer records and local market conditions suggest are necessary in terms of used car stock and price for current and expected markets?
- What methods of prospect and customer communication are used – how are these monitored and results used to influence communications strategy?
- What steps are needed to ensure a balance between used car stock, market demand, and replacement sourcing, to optimise the match between customer demand and product offering?

While there are many 'customer relationship management' systems available for dealers – just how effective are historic, well-tested methods and are these traditional practices well enough managed?

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