

Prior to the pandemic, new car sales used to be a useful and timely barometer of consumer confidence. But the supply chain disruption following Covid-19 and the Ukraine-Russia war ended that. The latest month's new car sales are, in many cases, a reflection of consumer demand and confidence prevailing in the summer of 2021. The reality of consumer confidence today is severely dampened by the omnipresent cost-of-living crisis and higher interest rates.



Therefore the pick-up in new car sales in November (+17.8% y/y) is really an indicator of (waning) supply chain disruption and historic consumer demand. New car sales are rising but are coming off relatively low sales levels. November 2022's sales (2,973) was up on 2020 & 2021 levels but remains 6% below pre-pandemic levels (Nov-19). Indeed, outside of the pandemic, last month's new car sales marked the weakest November in a decade.

Looking at the new car sales volumes for the year-to-date (January - November), registrations are up 3.8% y/y to 36,699. This marks the most sales in three years but is still almost 26% below 2019's pre-pandemic levels and lower than any other year before Covid-19.

The prospect of a global recession and weaker demand should lead to further improvements in the automotive supply chains in 2023. But motorists, like consumers at large, are having to adapt to higher prices and higher interest rates. UK new car prices have increased by 6.9% over the year to October 2022. The last decade witnessed a surge in car leasing and Personal Contract Purchasing (PCP) deals. With interest rates at, or close to, record lows over the last 14 years, getting the keys for a premier brand was never more affordable. That world no longer exists. Motorists, like homeowners rolling off relatively cheap fixed-rate mortgages, will discover that renewing their PCP deals will be much more expensive than before. Downsizing for a 'lesser' vehicle or switching to a second-hand car will be the undesirable choice facing many motorists.

Following the Global Financial Crisis (GFC) and cost-of-living crisis that followed, motorists downsized their cars to smaller, cheaper more fuel efficient models. The car industry duly obliged by providing a wide range of cars (particularly SUVs) to fit everyone's budget. We may see a similar development during this cost-of-living crisis, particularly in relation to smaller electric vehicles. However, whilst cheaper to run these are much more expensive to buy. And, there isn't the low interest rate environment that supported motorists through the previous and more modest cost-of-living crisis relative to the current model.

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