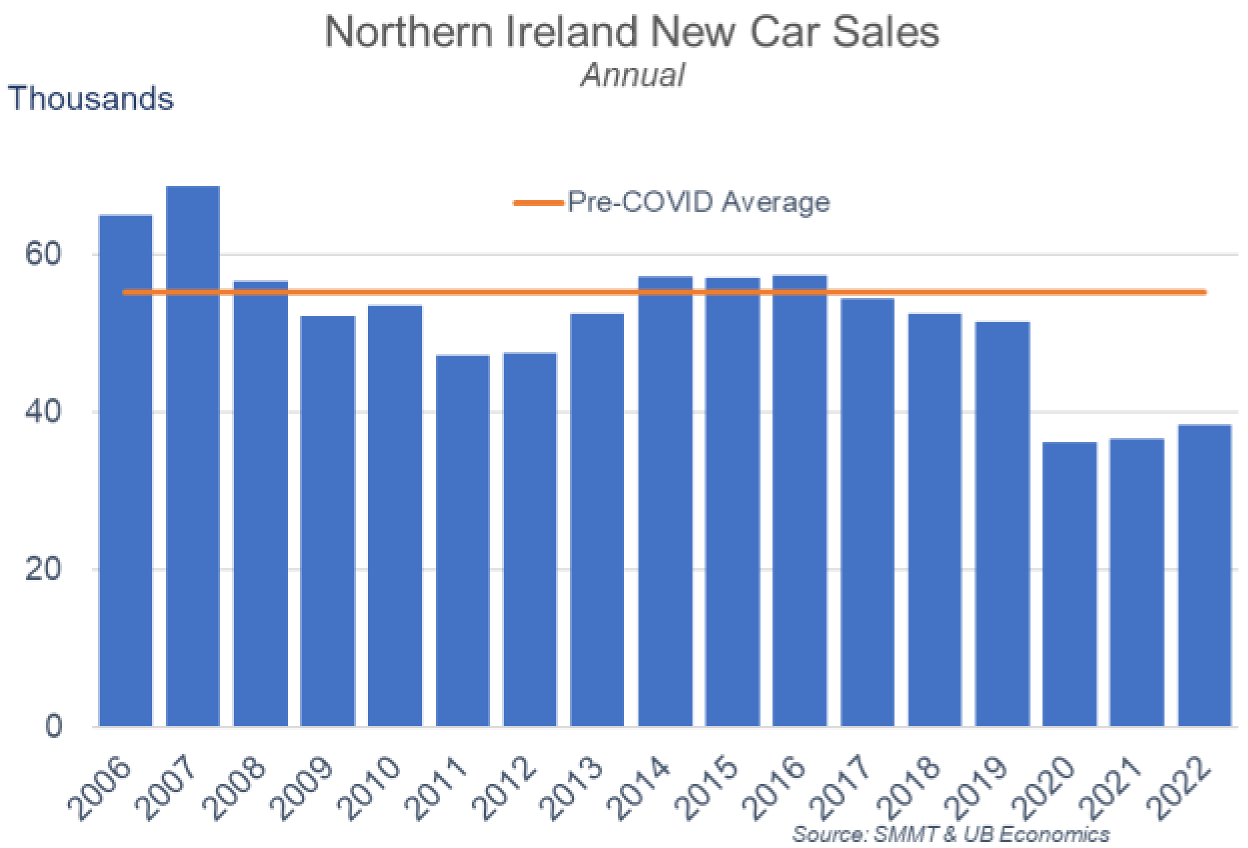
Following the Russian invasion of Ukraine last February, the general direction of travel for the UK and Northern Ireland economies has been down. Consumer confidence has plunged in the wake of rocketing inflation and the evolving cost-of-living crisis. Despite this deteriorating consumer outlook, new car sales ended the year on a high – at least in relative terms. The improvement in new car sales largely reflects an easing in the supply-chain disruption that has blighted global car manufacturers since the pandemic struck. Consumer sentiment and confidence in supply-chains (shorter-delivery times) are moving in opposite directions. The steady increase in new car sales in recent months is largely linked to fulfilling orders made in Q3 and Q4 2021. Back then the cost-of-living crisis had barely begun and interest rates were still plumbing record lows. In short, consumer confidence was robust.

The latest figures from SMMT for December reveal the fifth consecutive month of year-on-year rises in new car sales. Last month sales jumped by one-third relative to December 2021. Not quite as impressive as it sounds as the latter represented the weakest December on record. December is traditionally the weakest month for new car registrations as consumer spending switches towards the festive season. Last month's sales figures of 1,682 cars is still 18% below the pre-pandemic December 2019. Indeed, there have only been three months since the SMMT data series began that local dealers have sold fewer cars than in December 2022. These were December 2021 and the initial lockdown lows of April 2020 (24 *vehicles) and May 2020 (144 vehicles).*

Looking at the new car sales volumes for 2022 as a whole, registrations were up 4.8% y/y to 38,381. This marks the most sales in three years but is still almost 26% below 2019's pre-pandemic levels (51,512) and lower than any other year before Covid-19. If 2019's sales volumes had continued over the last 3 years there would have been 43,300 more new cars sold than actually occurred. This lack of stock has impacted on second-hand car availability and prices although second-hand car prices have already fallen by over 6% from their January 2022 peak. 2023 should see another year of rising new car sales (and falling second-hand car prices) but getting back to 2019 levels could take a while longer. Within the overall sales figures the headlines conceal the rapid growth of electric vehicles. This trend is expected to continue with more electric models joining the likes of the Hyundai Kona in the Top 10 most sold vehicles.



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 7.3% over the year to November 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, switching to a second-hand car or doing without a car altogether 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 are reliant on the availability of charging infrastructure. 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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