

# ARE WE IN FOR A SLUMP IN NEW CAR SALES IN THE UK?

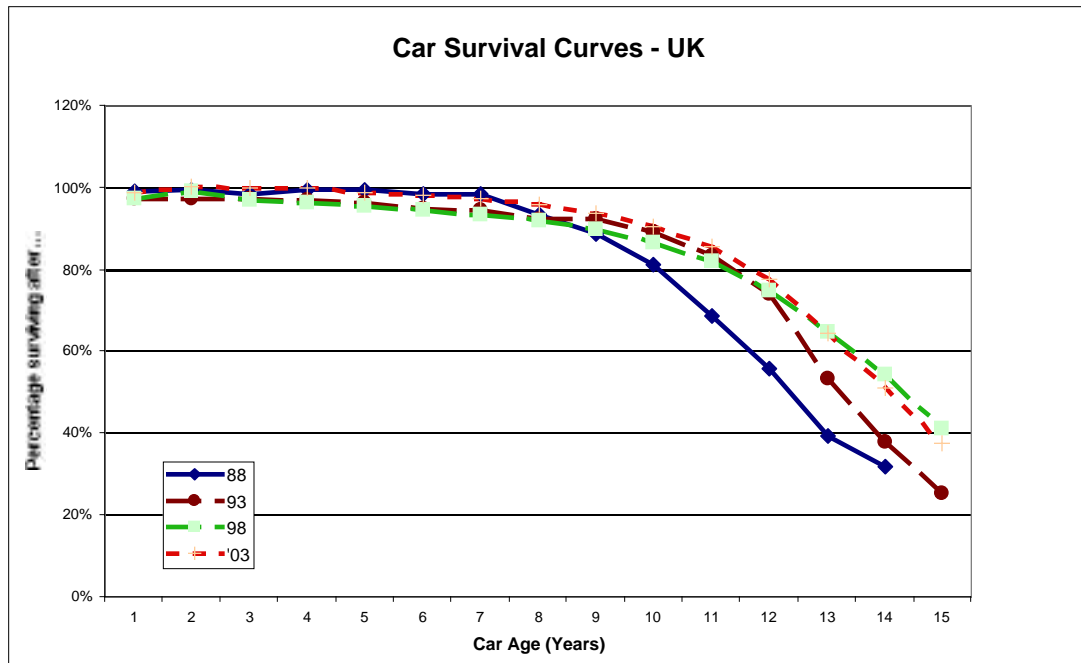
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Forecasting the new car market has always been a difficult business as the circumstances of the market change so much and, over the long term, so profoundly. In the 1980s, the main concern was Consumer Expenditure growth but, with the growth in the fleet market, Corporate Profits must now be very important.

The purpose of this paper is to discuss the impact that the current structure of the parc might have on future sales.

It has been obvious for many years that the market had the potential to be much more volatile than it was in earlier decades because more car owners than ever have had the possibility of delaying their purchase. There are a number of reasons for this state of affairs:

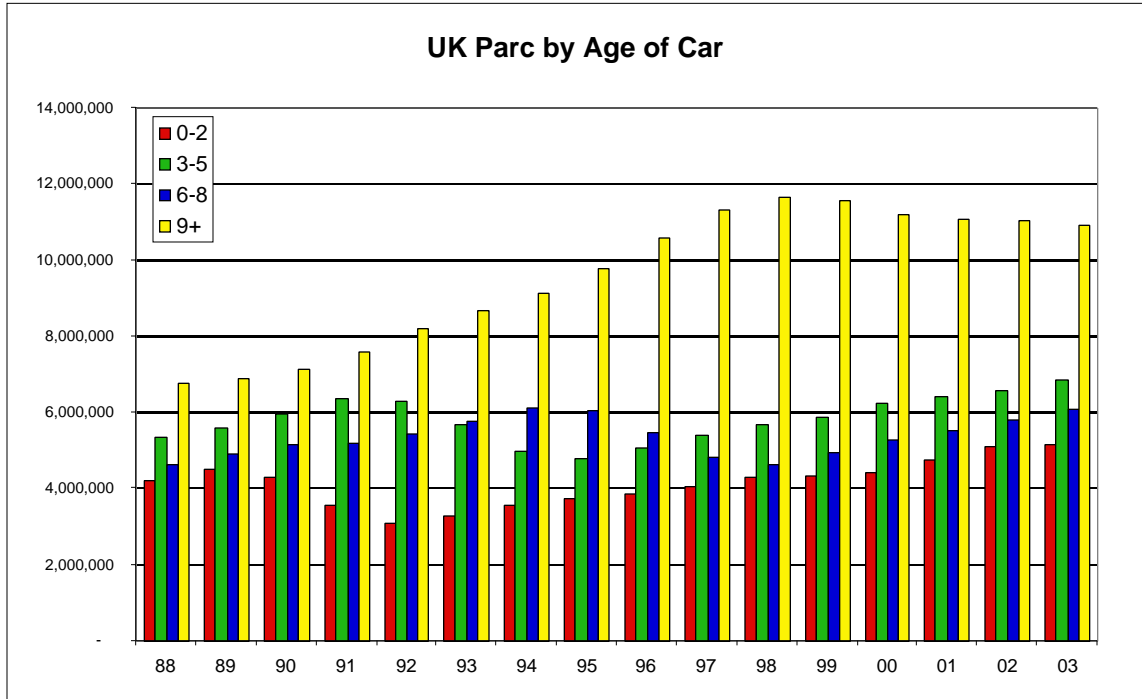
- The overall parc growth rate has dropped to around 2% or 600,000 units p.a.;
- Virtually all car buyers are replacing existing cars;
- The substantial majority of cars are now in multi-car households which must give more flexibility with regard to the next purchase.



These curves show the proportion of the cars sold in the year indicated survived to the age shown: they are not strictly accurate because they do not take grey imports into account, but they will serve to make the point. It will be seen that, between 1988 and 1998 the length of the life of the average car increased by nearly two years but this growth has come to an abrupt stop in the last few years.

In the slump between 1988 and 1993, this growth was probably driven by the need for the parc size to increase at a time when the number of new cars being sold was relatively low.

This effect would continue to be felt between 1993 and 1998 because of the relative shortage of middle-aged cars as the small new car markets of the early 1990s aged through the parc. Buyers of older used cars (an important segment of all motorists) made their cars last a little longer as there was a shortage of replacement cars.



Since 1998 however, the position has changed as can be seen from the analysis of the parc by age of car. There are now a relatively large number of cars of all ages under 9 years old while the number of the very oldest cars has been falling. This is partly due to low sales in the early 1990s but also to the fact that the survival curves have stopped moving out.

Owners choose whether to scrap their cars after making delicate financial calculations about the alternative routes available to them: repair, replace etc. Overall, during most of the last two decades, the decision to scrap has been reached later and later in the life of the car, for which the improvements in product quality must take the credit.

This increase in the lengthening of vehicle lives has stopped in the last few years presumably as a result of the large number of cars coming into the parc from the very large new car markets which has been reflected in falling used car prices. This makes repairing old cars financially less viable.

In the 1990s, when the curves moved, owners found that their previous concerns about reliability (the main driver of replacement) were ill-founded. In recent years, the curves have stopped moving out. Could they move out again? It is difficult to

believe that the underlying improvements in product quality came to an end so for the survival curves might well resume their move to longer lives. The question is whether the structure of the parc would encourage it. How might End of Vehicle Life Legislation affect the age of car scrappage?

At the moment we are seeing a sharp drop in new car sales and the latest retail sales figures are very bad. Could the situation get worse?

We suggest that it might as the scope for both new and used car buyers to delay their next purchase is substantial and the survival curves could move out, enabling the parc to continue to increase in size with only moderate new sales.

We recommend that both manufacturers and dealers should take steps to prepare themselves for the possibility of a relatively sharp downturn in sales of both new and used cars over the next few years.

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