

New car pricing stalls as used vehicle boom continues

There's rarely been a better time to get into the new car market in the past decade for South African consumers. The country's new Vehicle Price Index - which effectively measures the inflation rate for new vehicles - maintained its freefall of the past 12 months in the final quarter of 2021, while used cars continued to get relatively more expensive in the face of changing consumer demand and supply.



Source: [QuickPic](#)

The latest [TransUnion SA Vehicle Pricing Index \(VPI\)](#) for new vehicles moved from 9.6% in Q4 2020 to 2.0% in Q4 2021, with the used vehicle index soaring from 2.9% to 7.0% in the same period. The VPI measures the relationship between the increase in vehicle pricing for new and used vehicles from a basket of passenger vehicles which incorporates 15 top volume manufacturers. The index is created using vehicle sales data from across the industry.

Despite the pricing trends, South African consumers continue to buy more used than new vehicles. The used-to-new ratio stayed consistent year-on-year, with 2.31 used vehicles sold for every new vehicle. Of the used vehicles, 33.0% are less than two years old, and this continues to decrease as the supply of quality used vehicles remains under pressure. Demo models financed made up 5.0% of used financed deals in the quarter, down 1% from the previous quarter, which indicates consumers remain in the market for older vehicles as quality supply diminishes and pressure on disposable income increases.

Overall, the industry continues its slow recovery from the effects of the Covid-19 pandemic and the civil unrest experienced earlier in 2021. Total financial agreement volumes in the passenger market increased by 2.8% year-on-year, with new passenger finance deals up 2.6% despite the semi-conductor shortage which has disrupted new vehicle supply chains. Used passenger vehicle deals were up by 2.9%.



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Kriben Reddy, vice president of auto information solutions for TransUnion Africa, said the last time the new vehicle index was at this level was in Q4 2011, while the used vehicle index has not been this high since Q1 2004.

“The high demand for quality used vehicles, combined with limited supply, is directly driving the used vehicle pricing trends we’re seeing right now. Sourcing inventory has been a major issue, with consumers and fleets alike holding onto their vehicles for longer. With a long waiting list for new vehicles, consumers are opting for the used vehicle market – and prices are not going to ease soon, as interest rates remain relatively low, despite recent hikes,” he said.

Consumer buying patterns showed that nearly half (47.0%) of new and used financed vehicles are hatchbacks, while one in four (25.0%) are SUVs. Crossovers make up a higher proportion of new vehicles financed than sedans, which is indicative of consumers looking for multipurpose vehicles. Almost half of the vehicles financed are being bought by consumers between the ages of 26 and 40.



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The percentage of cars (new and used) being financed below R200,000, R200,000 to R300,000 and over R300,000 saw year-on-year movement for Q4 2021, with activity moving from the under R200K bracket into the R200-R300K bracket. This shows consumers are looking for value in the used vehicle market despite recent interest rate hikes.

“The car market is also seriously affected by the macroeconomic outlook, where we saw the first economic contraction after four consecutive quarters of growth towards the end of 2021. Consumer confidence remains below zero, and the household debt-to-income ratio remains high, which puts significant pressure on consumers’ disposable income. As a result, many consumers will stay out of the new car market at this stage, despite its relative affordability,” said Reddy.

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