

Automotive Winter 2024



Sector Overview

Over the last few years, the UK automotive industry has encountered various challenges, including supply disruptions, factory closures, and broader economic issues, that have contributed to increased volatility in the automotive sector.

Despite the challenges, statistics released by the Society of Motor Manufacturers and Traders (SMMT) have highlighted that sales of new vehicle in the UK have been steadily rising and reached a 5-year high in October 2023. Demand has been largely driven by the transition to electric and hybrid vehicles, as consumers look to convert and comply with the UK government Zero Emissions Vehicle mandate of 2030.

The UK government recently announced that they would extend the ban on the sale of new internal combustion engine vehicles to 2035. This change aligns the UK with the targets set by the EU. Under the government's Zero Emissions Vehicle mandate, vehicle manufacturers are required to meet strict quotas for selling electric vehicles.

From January 2024 this means that 22% of new cars sold (10% for vans) are to be zero emission, rising gradually to 80% (70%) before being fully electric by 2035. Failure to meet this quota could lead to significant fines up to £15,000 per vehicle.

Whilst the decision to extend the deadline provides consumers with some breathing space, this may also stall purchases of electric vehicles.

In December 2023, the European Commission proposed a three-year delay to laws that would impose tariffs under the post-Brexit 'Rules of Origin' requirements. The rules that were due to come into effect from the 1st of January 2024, would require 45% of electric vehicles and 60% of the battery pack to have originated in either the UK or EU or face import tariffs of 10%. This is welcome news for the industry, given the UK currently has very limited battery manufacturing capabilities, relying heavily on imports from China. The UK exports nearly 60% of the vehicles that they produce to the EU, making these tariffs hard to avoid in the near term.

The demand for electric vehicles is largely driven by fleet sales, while private buyer registrations remained subdued, accounting for less than 1 in 4 vehicles sold, of which 90% are purchased through finance. The rising interest rates and any further tariff rises may impede the ability to achieve these targets. More recently, we have seen vehicle manufacturers offering discounts of up to 11% on electric vehicles to entice demand.

Notable Insolvency Events

Over the last two quarters insolvencies in the UK have been on the rise. Recent figures from the Insolvency Service report that there were 6,208 company insolvencies in Q3 2023, up 10% on the prior year.

Insolvencies in the 'wholesale and retail trade and repair of motorcycles and motor vehicles' remained relatively low with 409 registered company insolvencies, an increase of 15% in the 8 months to August 2023.

Notable insolvencies include British Volt, a UK startup manufacturer of lithium-ion batteries that was once valued at £800M. The business collapsed in administration after failing to raise further funds before it could complete its construction of the facility.

At QBE, we have seen a notable increase in repayment plans and insolvencies over the course of the year within the segment.

Economic Data

- > According to the Office of National Statistics, the Consumer Price Index annual rate of inflation rose by just 4.6% in the 12 months to October 2023, down from 6.7% in September 2023. It is the lowest reported inflation increase in 2 years, driven mainly by falling energy prices. The government's long-term target is to reduce inflation to 2%.
- > S&P Global/CIPS UK manufacturing PMI data reported a contraction in UK manufacturing in October 2023, with a decline in new orders and employment. This was the eighth month of contraction following reports of reduced output. As new work intakes have reduced, the focus has been on destocking to protect cash flow. The purchase price declined as energy, material and transportation costs eased, being offset against weaker market demand.
- > The average global oil forecasts for 2024 are expected to stabilise around the \$85 per barrel benchmark. This is driven by surplus production in the United States. However, geopolitical tensions, unexpected outages and agreements within the OPEC+ alliance that shape oil prices can all influence market pricing.

Market Review

- > UK car production has grown 16.5% in the 11 months to November 2023 compared to last year as manufacturers benefited from improving supply chains and strong exports sales. 60% of cars produced in UK factories are going to the EU according to the SMMT.
- > The UK new car market saw 17 months of consecutive growth with 2023 seeing an increase in sales of 17.9%. Growth was driven by Fleet sales which rose by 38.7% and accounted for nearly 55% of market share. Private demand remained static but saw market share fall to 43% from 50.7% in 2022.
 - Petrol and diesel year-to-date sales, whilst still accounting for nearly 45% of sales, are slowly diminishing.
 - Battery Electric Vehicles (BEV's) now account for 1 in 6 vehicles registered in 2023.
- > The UK used car market saw sales increase 5.5% in Q3 2023, with nearly 1.9m vehicles sold.
 - Demand for battery vehicles almost doubled and hybrids increased by 70.9%. While headline numbers appear strong, the BEV market still only accounts for less than 2% of the used car market.
 - Prices have continued to fall with Cap HPI reporting a decline of 13.6% since April 2023. However, this should be viewed more as a market realignment, given the rapid rise in values post-Brexit, when new vehicles were unavailable due to supply chain shortages. In fact, vehicles aged 5 years and over actually saw an increase in average retail price.
- > The average cost of motor insurance in Q3 2023 rose by 29% against the same period last year, fuelled by inflationary costs and supply chain delays. According to data from the Association of British Insurers, insurers have reported that the cost of spare parts has increased by 11% and paint by 16% in the quarter alone. The ABI are calling on the UK government to reduce the rate of insurance premium tax to help motorists.

Strengths

> Maintaining UK production

The recent agreement by the EU to delay the 'Rules of Origin' electric car tariff provides support to the UK manufacturing industry, amid concerns of increasing costs and the challenges surrounding Brexit. The imposition of tariffs will now come into effect from 1st January 2027, under stricter regulations that will prohibit further extensions. The delay should enable sufficient preparation time to strengthen regional supply chains, after both Stellantis and Ford issued stark warnings earlier that British car plants would close unless the Brexit deal was revised.

> Investment

- Jaguar Land Rover parent, Tata Group announced plans in July 2023 to invest £4bn in building an Electric Car battery factory in Somerset, with the UK government reported to be providing £500m in subsidies to support production. The gigafactory will be one of the largest in Europe and is understood to be looking to start production as early as 2026. Batteries will initially be produced predominantly for JLR customers, but it is forecast to grow to the extent that it will be able to provide nearly half of the requirement for UK manufacturing by 2030.
- BMW Mini announced it will invest £600m in producing two of their electric models at their Mini factory in Oxford, supported by a £75m subsidy from the UK government with plans to produce only electric vehicles by 2030.
- Nissan have announced plans to build two new electric models and a third UK battery factory as part of a £2bn investment in its Sunderland plant.
- In May 2023, the UK government announced an investment of up to £1bn over the next 10 years to support the domestic semiconductor industry as part of the National Semiconductor Strategy. Semiconductors are a key component in the manufacturing of electric vehicles.
- In its autumn Statement, the government announced £2bn would be made available for the automotive sector from 2025 to 2030 to support the manufacturing and development of zero-emission vehicles, batteries and supply chain.

> Automotive aftermarket

The average age of a vehicle in the UK has steadily increased to over 9 years and is expected to continue to rise. Whilst it hasn't escaped the headwinds, feeling pressure from rising costs in raw materials, transportation and a lack of skilled labour, demand should remain robust given its non-discretionary nature of repairs and servicing of vehicles. Increasingly consumers are moving online to purchase replacement parts, and so those that can adapt to changing consumer demands and technologies should do well.

Challenges

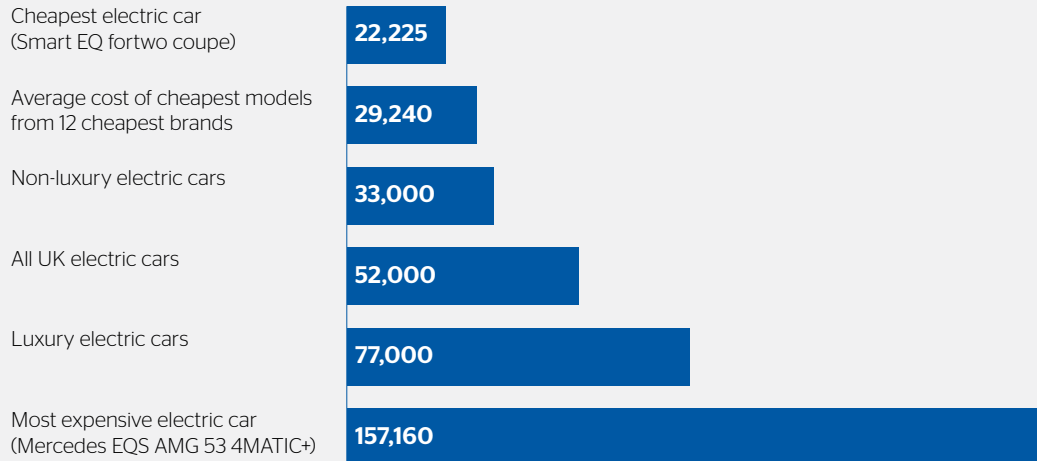
- > **Declining consumer confidence:** On the back of rising inflation and higher borrowing costs, consumers may delay purchasing big ticket items such as cars, particularly via finance, as consumers become increasingly apprehensive about the affordability of repayments.
- > **UK car dealerships:** Have continued to perform well on the back of strong demand and rising vehicle prices. However, going forward, we expect the challenges of rising costs and increasing competition from online retailers to start to stall sales. Further challenges for dealerships include the increasing shift away from a 'franchise' to an 'agency' model of selling vehicles, as several vehicle manufacturers look to take a more direct role. Under the agency model, the manufacturer remains the vehicle seller, leaving dealerships facing a loss of control over pricing and a reduced influence on the customer experience.
- > **Supply chain and liquidity impact:** Longer lead times and tighter supply chain challenges have led OEMs and suppliers to hold additional inventory in order to ensure availability. Working capital funded by receivables financing may lead to tightening liquidity if sales do not materialise.

Underwriting Approach

- > Case-by-case underwriting approach remains in place, with each business to be assessed on their own individual financial merits.
- > Up-to-date financial information remains critical, as will understanding how they are adapting to the supply chain issues and inflationary price pressures. Some caution may be required on buyers with heavy import/export reliance.

Average Cost of an Electric Car UK

(Coming soon: the Lightyear 0 starts from £265k and the Rolls-Royce Spectre from £350k)



Prices reflect the On The Road (OTR) price including VAT, first year VED, vehicle first registration fee, number plates and NimbleFins delivery.

Sources: [NimbleFins](#)

Brent Crude Oil Price Chart and Latest News



Sources: [hl.co.uk](#)

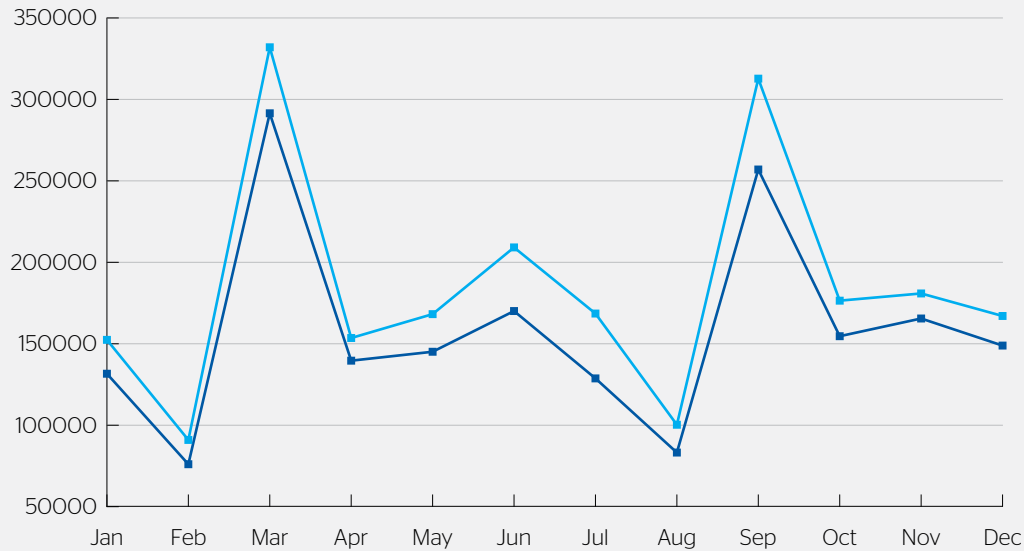
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New car sales figures

Total SMMT data by month, with current year compared to last year

■ 2023

■ 2022



Sources: [AM-online](#) and [SMMT](#)

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