Group Economics

Ulster Bank

Car park economics: where the attendant is the Governor

Contact: Richard Ramsey
Chief Economist, Northern Ireland
02890 276354 or 07881 930955

Richard.ramsey@ulsterbankcm.com
www.ulsterbank.com/economics
Twitter @UB_Economics

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If you wanted to understand the changes that have been happening in the economy during recent years, the best place to look might not have been in spreadsheets – or even the minutes of Bank of England meetings - but in the local shopping centre car park. What people have been buying to get themselves from A to B – the size, brand, price and country of origin - has been significantly influenced by everything from exchange rates to the price of a barrel of Brent crude. In effect, car park economics has been at work.

A rebalancing of our car parks

Any car park attendant will tell you that a major rebalancing of the car park has occurred over the last seven years. On average, cars are both older and smaller. The latter is not just due to the switch from saloons to hatchbacks. An increasing number of manufacturers have introduced very small cars and smaller versions of certain models that didn't exist before the downturn. This has also been welcomed due to the curse of the oversized gas guzzler which has turned parking into limbo dancing. Today our car parks feature more Korean brands and fewer French and Japanese cars. Meanwhile there aren't the same numbers of Porsches and Aston Martins dazzling the drab car parks today which were evident during the height of the property boom. Back in 2007, it was said that Northern Ireland had more BMW 3 Series per head of population than anywhere outside of Bavaria. Not so now.

An ageing of our vehicle stock

The changing age-profile of the cars and vehicles on Northern Ireland's roads is perhaps one of the most striking aspects, with the slump in new car sales and the non-replacement of older cars the reason behind this, as consumers' disposable incomes were squeezed during the downturn. Back in 2007, over one third (36%) of all private and light goods vehicles were three-years-old or less. Fast forward to 2012 *(the latest available figures)*, and less than one-quarter (24%) of licensed private and light goods vehicles fell into this age bracket. Now, it is likely to be closer to 1-in-5. In 2007, over three-quarters of the licensed stock of cars on our roads were no more than eight-years-old. Five years later this figure had fallen to two-thirds. Furthermore, the number of licensed vehicles over 10 years-of-age has gone from 1-in-10 in 2005 to 1-in-5 in 2012.

'L-drivers' have surprised instructors with an emergency stop

Our car park attendant will have also noticed that there are significantly fewer 'R-plates' today. This is directly linked to the number of driving tests being conducted. Like the rest of the economy, there has been a boom and bust in 'R-plates'. The number of driving tests conducted in Northern Ireland peaked at 68,725 over the year to Q3 2008. This followed an increase of 20% in the two years prior. Whilst driving instructors can anticipate an 'emergency stop' after they slap the dashboard, none of them foresaw learner drivers stamping on the brakes for their services. Since 2008, the number of driving tests conducted has plummeted, hitting a low of 42,407 over the year to Q1 2014. This represents a decline of 26,318 tests, or 38%. This is equivalent to a drop of over 500 tests per week. .

Economic factors largely explain the driving test slump

It is noted that the number of individuals aged 17-24 years of age also peaked in 2008 and has been falling ever since. The population aged 17-24, which would account for the vast majority of driving tests, has fallen by 11,463 between 2008 – 2014. However, after adjusting for the fall in demand stemming from a declining population, driving tests are still down 22%. The 18-24 years of age cohort have borne the brunt of the downturn in terms of pay cuts and unemployment. This largely explains the downturn in driving tests. For many, learning to drive is not a necessity. The preponderance of 'R-plates' can be viewed as a visible sign of consumer confidence amongst the younger generation. On the demographic front, the bad news for driving instructors is that the population of the 17-24 years of age cohort is set to fall by another 11% by 2023, before climbing again.

Recovery in car sales but battle of the brands continues

Overall, Northern Ireland new car sales fell by close to one third from their 2007 peak, though they have recouped 45% of this decline since then. As a result, new car sales in 2014 were 17% below the 2007 peak. However, over this seven-year period there were certain brands and models that prospered whereas others significantly underperformed relative to the market. This tells an important economic story of consumers opting for lower-cost brands, or brands that they perceive to be less flashy and more in keeping with austere times.

'Gangnam Style' increasingly a hit on our streets

The Korean brands were the star performers, with Kia and Hyundai increasing their sales volumes by 264% and 81% respectively (from relatively low levels). Hyundai is now the fifth-largest brand in Northern Ireland, moving up eight places since 2007. Kia is set to become a top 10 brand in the coming years and is currently 11^{th} just behind Toyota. The latter was ranked fifth in 2007. Together Kia and Hyundai now account for close to 1-in-10 of all new cars sold. This compares with 1-in-30 seven years ago. The next big winners were Skoda (+61%), Volvo (+47%), Nissan (+36%) and Audi (+20%). BMW has not fared as well as its German counterparts. BMW sales in 2014 were 29% below the level recorded in 2007, although the brand remains the eighth most popular brand and one place ahead of Audi.

French brands have lost their Va Va Voom!

Over the last eight years Ford and Vauxhall have been the two car giants battling for the number one spot. Vauxhall secured the largest number of new car sales in 2007. Since then, however, Ford has relegated Vauxhall to the number two slot for the last seven years in a row. Back in 2007 1-in-4 of all new cars sold in NI were either a Ford or a Vauxhall. However, they have seen their market share slip in recent years. The number of new Fords sold last year was down one-fifth on 2007 with the sale of Vauxhalls down 28% over the same period. The biggest losers, however, were the French and Japanese brands. Sales of Peugeot and Citroen have fallen by one third since 2007 with Renault sales down 56%. Renault has sought to stem its decline in European markets by introducing a new value brand – Dacia. Last year Dacia sold 1,150 new cars in Northern Ireland, which compares with 2,655 new car sales for its parent Renault.

Exchange rate -a tailwind for Korean brands and a headwind for Japanese exports

Sales of Japanese brands *(Suzuki, Honda, Toyota, Mazda, Subaru, Nissan & Daihatsu)* have also fallen by around one third. However, Nissan is the one Japanese brand that has bucked the wider trend with sales growing by 36% in seven years. Nissan, which has plants in the UK, is now the 4^{th} most popular brand in Northern Ireland. If Nissan is excluded, sales of Japanese new cars in NI have fallen by 47% since 2007. Sales of Toyota, Honda and Mitsubishi have fallen by at least a half. Japanese car sales were adversely affected by the strong Yen, particularly in relation to the Korean Won. Therefore Kia and Hyundai car exports enjoyed a significant price advantage relative to their Japanese rivals.

Last chance for some saloons as consumers plump for hatchbacks

Cost-conscious consumers have also been shunning the saloon for a smaller hatchback. Sales of the BMW 3 Series have slumped by a staggering two-thirds since 2007. The VW Passat has also seen sales plummet by a hefty 57%. Other saloons, such as the Toyota Avensis (-74%) have seen even steeper falls. The Skoda Octavia, the car assigned to Stormont ministers, has fared better than most saloons with sales down a modest 4% over the last seven years. Car manufacturers are increasingly reliant on the sales of smaller vehicles. Back in 2007, over one in three of all Audis sold was an A4. The smaller A3 has now eclipsed the A4 as Audi's top selling model. Audi A3 sales have increased by 45% in seven years. 40% of Audi's car sales are now A3 or smaller. This is up from 22% back in 2007. The same trend has also been apparent within the 4 x 4 market. Audi has introduced Q3s & Q5s which are smaller versions of the Q7. Meanwhile BMW has introduced X1s and X3s which are smaller versions of the X5. Together the X1 and X3 account for almost 12% of all BMW sales yet seven years ago these size of BMW 4x4s didn't exist. These trends within Audi and BMW are also evident within other brands too.

So what is the car park attendant forecasting for the next seven years?

Looking at the overall volume of new car sales in any economy conceals the seismic changes in consumer behaviours that have been occurring within. Against the backdrop of pay freezes and surging fuel and food price inflation, consumers have changed the type of cars they drive and altered their driving habits. Consumers have become more sensitive to value for money, size and fuel efficiency. Arguably those manufacturers that have been the most responsive to changing consumer demands have prospered whereas those that haven't have suffered. So what is the car park attendant forecasting for the next seven years? The scale of the changes that have been evident over the last seven years are not expected to be repeated. The Korean brands will face stiffer competition from their Japanese counterparts as the land of the rising sun benefits from a much weaker currency. So expect a rebound in Japanese sales. French manufacturers will be hoping that the weaker euro, aided by the ECB's quantitative easing programme, will enable them to recoup some of the ground they have lost to their global competitors. Despite subdued inflation and a fall in petrol prices, the focus on efficiency and value for money will not go away. Particularly with the prospect of another five years of austerity and interest rate rises. As a result, consumers will continue to pay particular attention to necessity rather than luxury and will steer towards the smaller end of the market.

Richard Ramsey
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