Red BOOK | INDEPENDENT INSIGHTS

THE NEW ZEALAND AUTOMOTIVE MARKET

From pre-Covid, through Covid, the present and beyond.

The New Zealand automotive market has been on a wild ride since COVID-19 hit our shores at the beginning of 2020. The lockdown at the end of March 2020 resulted in virtually no vehicle sales in April 2020, and stunted the years' vehicle sales numbers.

UNPRECEDENTED

The buzzword during the Covid lockdowns, besides "bubble", was "unprecedented". The common expectation was that the long periods in lockdowns would result in plummeting vehicle values as market uncertainty may lead to cautiousness and thrift. As it turned out, quite the opposite happened. Kiwis came out of lockdowns with their wallets open. There was reluctance to jump back into international travel and more money was spent locally.

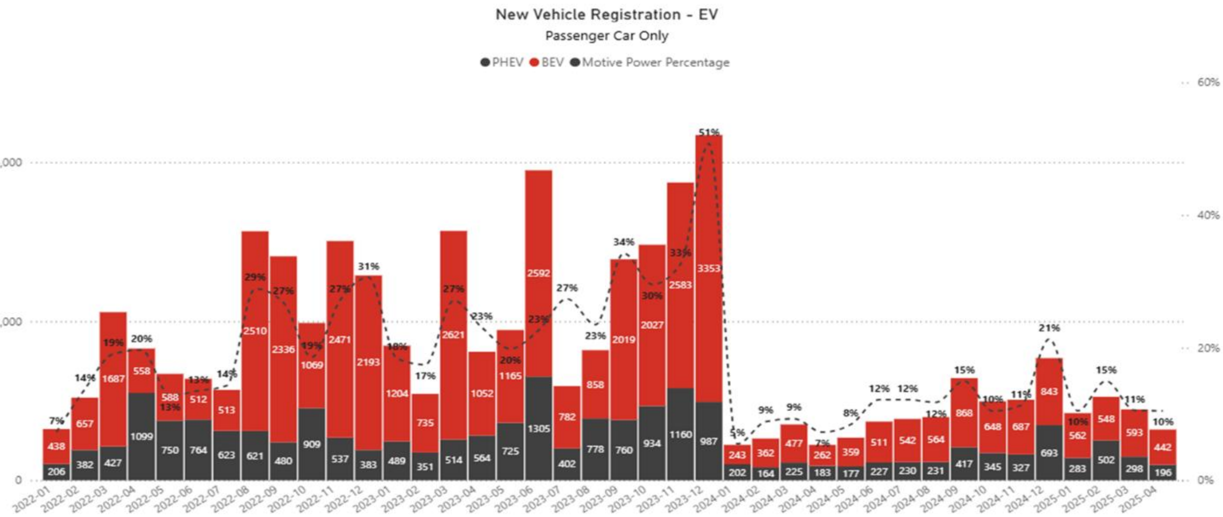
Demand for vehicles increased to the point where suppliers were unable to supply new vehicles in a reasonable time. The supply chain was blocked with soaring demand in overseas markets and New Zealand is not a significant enough market to prioritise supply. To compound this there was a semi-conductor shortage and with 1,000 – 3,000 semiconductors in each new vehicle production was slowed waiting for supply of semi-conductors. With port congestion, vessel shortages, increased demand, and labor shortages in international trade and logistics there were also shipping delays getting supplies to New Zealand.

The upshot of the restricted supply was that new vehicle purchasers looked to the second-hand market to buy near-new vehicles. We saw near-new secondhand cars selling for more than a new one as buyers were willing to pay a premium to get a vehicle now rather than wait 6 to 12 months for a new car. This increase in value of near-new cars then flowed through to all secondhand cars and values increased not long after the lockdowns slowed in 2021.

Kiwis reveled in a market with appreciation and vehicle values continued to rise. During 2021 – 2023 total vehicle numbers registered were still low however due to sourcing issues, the lowest in 10-15 years. High demand and low supply was the recipe for more price increases.

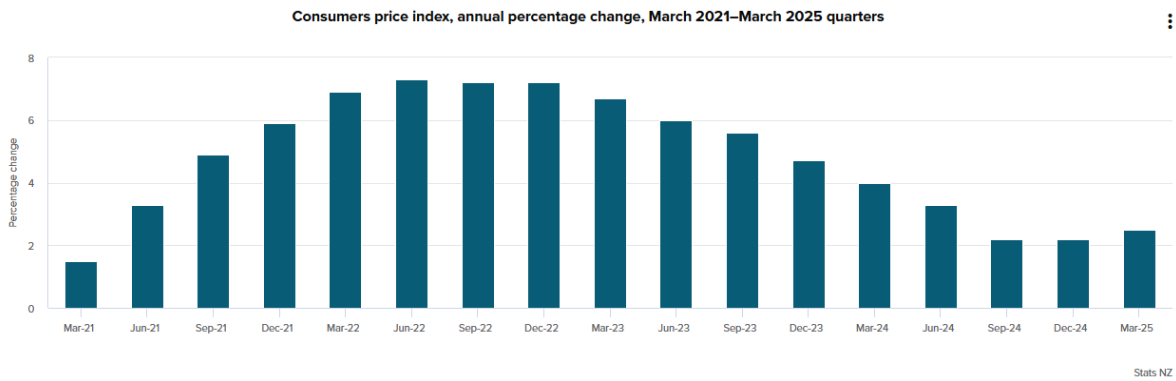
INCENTIVE SCHEMES

During the same period we had the Government using incentives to encourage EV uptake, offering $7k - $8k rebates to buyers of EV's and $3k - $4k to hybrid purchasers. Again, demand increased and we saw sales of EV's going from 7.7% of new vehicle registrations in 2021 to 19.8% in 2023.

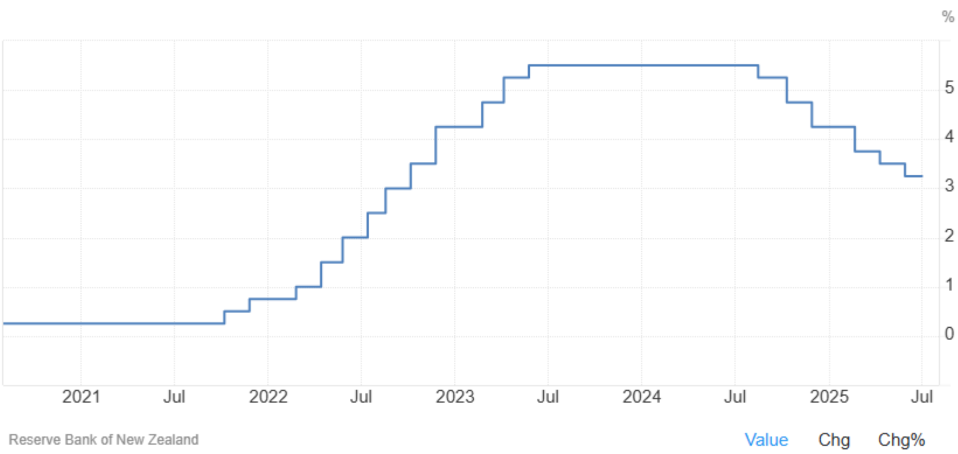


THE BUBBLE BURSTS

The next buzzword, or phrase, became "Cost of Living Crisis". NZ had to pay for the spending during Covid. The Government changed in late 2023 and immediately axed the EV incentive scheme taking sales plummeting back down to pre-incentive levels (7.7% of new vehicles registrations in 2024). The state service sector got a shakedown and thousands of jobs were lost. GDP went backwards by 0.5% in 2024 and the inflation over the last couple of years was starting to hit consumers. The car market slowed down with new car registrations down 27% year-on-year in 2024.

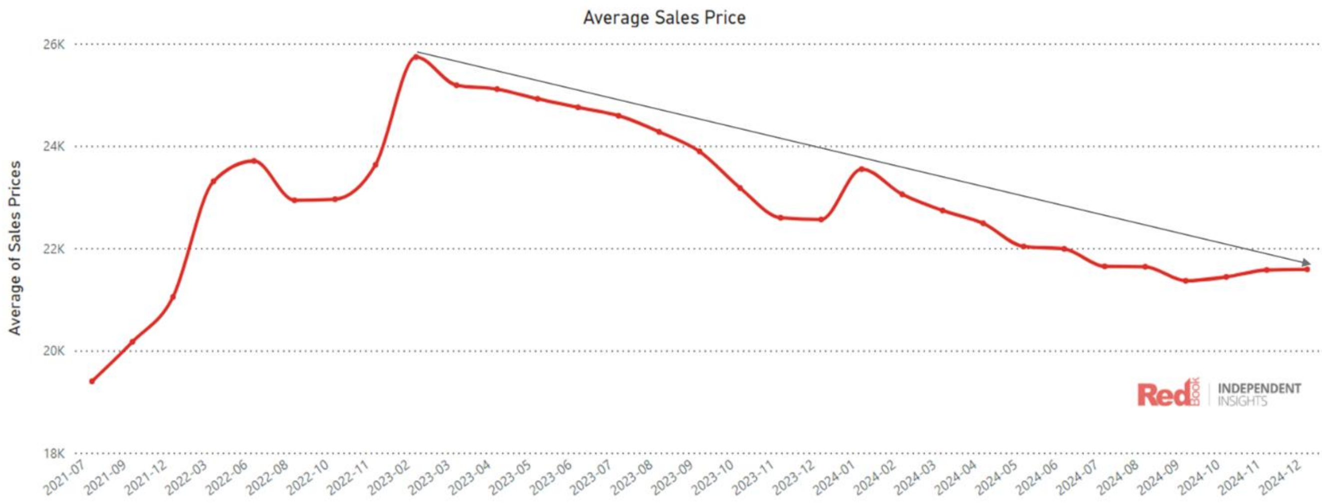


The response from the market was to reduce interest rates, the below graph shows the Official Cash Rate ("OCR") over the last 5 years, the growth in the interest rates during the spending frenzy is quite evident.

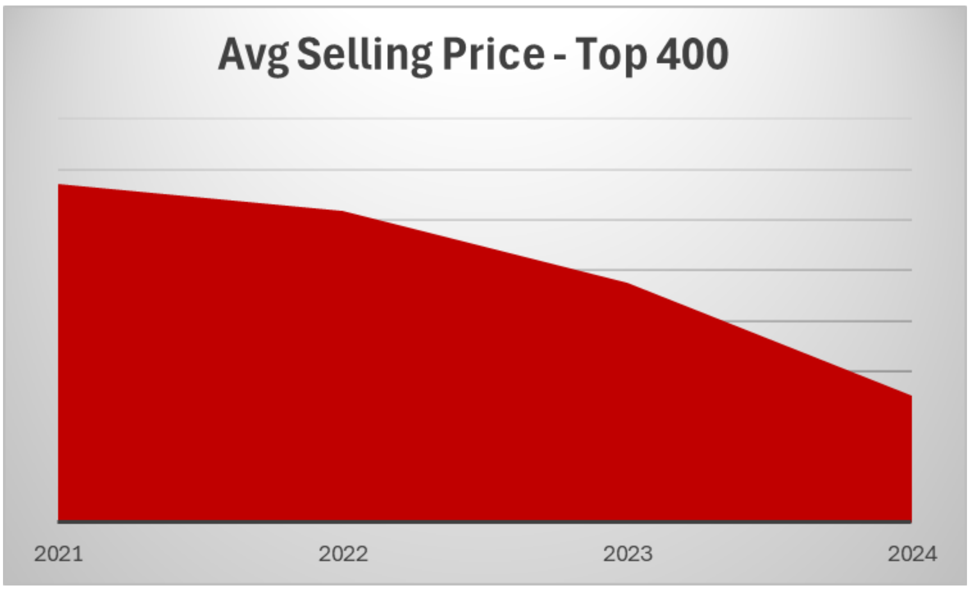


NEW ZEALAND CAR PRICES

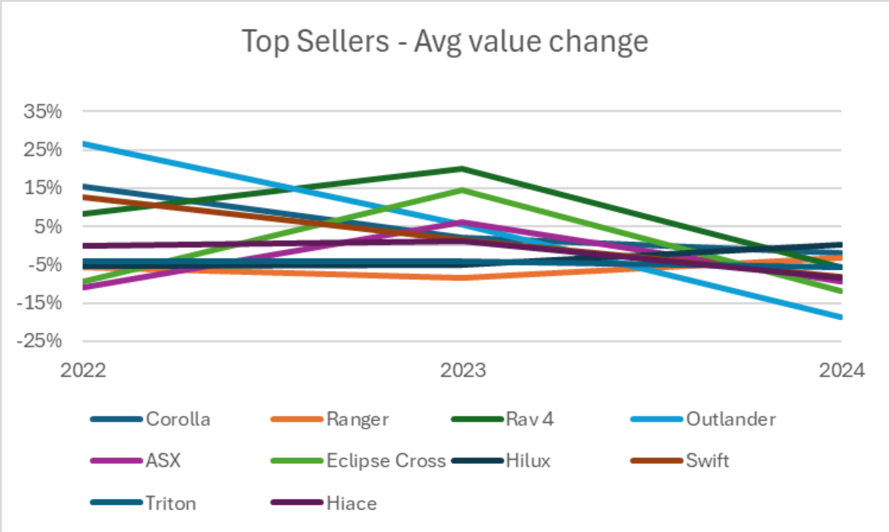
At Redbook we monitor the market and supply the market prices of used vehicles. These numbers are not "made up" by us they are thoroughly researched, and they reflect the market values that we see from various sales channels, advertisements both retail and wholesale, auction data, publications, websites, etc. We maintain a running average price we refer to as our Price Index, which helps show the changes in the market prices. As illustrated below, the average used car sales price soared from 2021 to the end of 2022, at which point prices started to decrease quite consistently as the market started to move back to traditional depreciation rates.



Year on year drops are illustrated below, showing the average value of the Top 400 selling vehicles at 31 December of each year.



As these are just averages, we have mapped the top 10 selling models individually.



Some vehicles are still holding their value but the trend of prices peaking at the end of 2022 and then falling steadily over time can be seen in the above.

LOOKING FORWARD

Inflation has continued to drop but it is still quite high. Interest rate cuts are only just starting to encourage the housing market. Unfortunately, the world is again in turmoil with wars in Ukraine and the Middle East creating international uncertainty.

In the NZ automotive market we are seeing the rise of the Chinese manufacturers introducing us to more affordable EV's and now lower priced plug-in hybrids and mild hybrids. There is over supply now in Chinese EV's due to European slowdown. In the last 18 months we have seen manufacturers initiate price drops to stimulate EV demand and those have had a significant impact on the values of used EV's.

The ute market took a big hit while the EV incentive scheme was in place, as they were taxed due to high fuel usage. Since the beginning of 2024 the ute market has rebounded and prices have stayed relatively steady. There is talk however of removing the work-related vehicle exemption, which means some utes may not be exempt from FBT like they are now. This will make them less appealing to the market, potentially ending our love affair with utes and cause prices to plummet.

We adjust our pricing monthly to keep track with the market and while we are likely to see prices rebound a little at the beginning of 2025, we expect the market will continue to depreciate as was the norm prior to Covid. We don't expect that the depreciation will be quite at the rate that we have seen in the last couple of years but closer to pre-Covid depreciation rates.