



RAC Cost of Motoring
Index 2010

Foreword

With the economy still fragile there is little comfort to drivers who are still feeling the pinch when it comes to the cost of owning and running their vehicles.

This year's RAC Cost of Motoring Index, based on a pool of 17 new cars and weighted by their level of ownership, shows that the annual cost of owning and running a car has increased by 6.3% over the past twelve months. The never-ending series of rises in fuel duty and the growing cost of depreciation have both contributed to this above inflation increase.

Whether the new coalition government will address issues such as fuel duty remains to be seen, although new transport secretary Philip Hammond has pledged to 'end the war on the motorist'. It will be interesting to see whether this pledge extends to drivers' pockets.

Despite the negative headline figures there is a glimmer of good news to report this year. The fuel efficiency of cars has again improved, thus lessening rising costs to some extent. This should also help reduce the environmental impact of motoring – something that the growing interest in electric and hybrid vehicles may also contribute to in years to come.

Last year we introduced new elements to the Index covering used cars, light commercial vehicles and car sector analysis to offer a more detailed picture of motoring costs for drivers. These figures are included again in 2010, offering year-on-year analysis of these areas and revealing a significant hike in costs for light commercial vehicles.

We hope this year's index continues to offer something for all drivers interested in the cost of motoring in 2010.

Adrian Tink
RAC Motoring Strategist



Executive Summary

The 2010 Cost of Motoring Index, based on a pool of 17 cars, reveals that:

The average annual cost of owning and running a new car has **increased by £346 (6.3%) to £5,869**. This equates to a weekly cost of £112.87 or 48.91p per mile

Rises in the **cost of fuel and depreciation** have been the main drivers of this increase

The cost of driving smaller cars continues to be substantially cheaper than larger vehicles. Small cars are **24% or £1,404 cheaper** than the overall average. By comparison people carriers are £1,947 (33%) more expensive than the average.

Used cars continue to be cheaper to own overall and cost an average of £4,441. However when looking at running costs, **used cars are £553 more expensive** to run than new cars

Commercial motoring costs (for vehicles under 3.5 tonnes) have **increased by £873 (10.7%) to £8,995** in 2010. Sharp increases in depreciation (20%) and the cost of fuel (13.4%) have been the main contributors.



1.0 The cost of motoring in 2010

This year's Cost of Motoring index reveals that the average annual costs for owning a new car have increased by £346 (6.3%) over the last 12 months, to £5,869.

Overall costs are yet to return to their 2008 peak when the cost of fuel (£1322), car finance (£510) and depreciation (£3183) were at higher levels. However, it now costs an average of £736 more to drive a car than it did in 2007 before the onset of the recession and financial crisis.

This figure takes into account all the factors involved in the ownership and day-to-day running of a car including service, maintenance and repair, tax, fuel, insurance, RAC membership,

depreciation and the cost of car finance. It now costs 48.91p per mile to own and run a new car compared to 46.03p in 2009. This equates to a weekly cost of £112.87, an increase of £6.65 per week on last year.



Overall costs – year on year comparison

| consideration | new cars 2010 | new cars 2009 | % change |
|-----------------------|----------------|----------------|-------------|
| fuel | £1300 | £1184 | 9.73 |
| insurance | £483 | £409 | 18.18 |
| maintenance | £381 | £366 | 3.88 |
| vehicle excise duty | £111 | £114 | -2.51 |
| RAC membership | £143 | £146 | -2.10 |
| depreciation | £3072 | £2920 | 5.22 |
| car finance | £379 | £384 | -0.01 |
| total cost (per year) | £5,869 | £5,523 | 6.27 |
| total cost (per week) | £112.87 | £106.21 | 6.27 |

Annual overall costs

| | | |
|---------------|---------------|---------------|
| 2008 | 2009 | 2010 |
| £6,034 | £5,523 | £5,869 |



Stripping out long-term costs such as depreciation and finance, the pure day-to-day running costs have risen 8.9% (£197) to £2,417 from 2009.

1.0 The cost of motoring in 2010

1.1 Why the increase?

Fuel prices continue to rise

Average fuel prices have reverted back to record high levels again in 2010. The cost of fuel for the average motorist has risen by £116 (9.8%) since 2009 to £1,300 per year.

Owners of diesel cars have witnessed a steep price increase of 14.8% to 122.0p/litre. Meanwhile, the cost of petrol has increased by 12.6% to 118.4p/litre, again well above the level of inflation.

The rise in the price of fuel has been driven by a number of factors. Prices in January stood at around 110p/litre, driven to that level in part by the return of VAT to 17.5%. Over the next five months, prices rose sharply until petrol hit a record high of 121.6p/litre in May. The weak Pound against the Dollar and increased demand from a recovering

global economy both contributed to the high, as did the first of three rises in fuel duty – a 1p/litre increase in April.

Following a dip in prices over the summer to around 115p/litre for petrol, motorists have again seen the cost of fuel rise during the autumn. Demand has returned after the quieter summer months, oil prices have begun to rise and motorists were hit by another 1p/litre fuel duty increase in October. With a third rise set for January 2011, as well as the rise in VAT to 20%, it looks as though high prices are here to stay.

However, one welcome development for motorists who own a new car is that there has been a small improvement in fuel consumption of 2.7%. This reduces the need to fill up the fuel tank as often, thereby partially mitigating the impact of price rises. CO2 emissions have also reduced by 4.6% since 2009.

Annual average fuel costs



Depreciation still increasing

The cost of depreciation rose by 5.2% from 2009 to £3,072. This increase continues a long term trend – since 2007, the cost of depreciation has risen sharply by £715 or 30.3%.

The increase in depreciation can be put down primarily to the increase in the price of new cars which is happening across all sectors. The weak value of the Pound against other currencies has pushed up the cost of importing components and vehicles to the UK. As a result the price of cars has increased, yet their long-term value has not altered to the same extent, causing the rise in depreciation.

Claims costs pushing up insurance premiums

Insurance premiums have been heavily impacted by the increase in insurance claims, particularly for personal injury, and fraud which have helped raise the average premium by 18% to £483.

2.0 What it costs to drive my car

Introduced last year, this year's Index also provides a breakdown of the cost of motoring dependent on the type and size of car driven. This covers four common car sectors: small cars, family hatchbacks, larger family cars and people carriers.

While annual costs for new cars have risen for drivers since 2009, there are still large variations in the respective costs for these different sizes and classifications of car.

Driving a small car, such as a Vauxhall Corsa or Citroen C3, costs £4,466 per year. This is £1,404 (24%) cheaper than the overall 2010 average.

By contrast, those with large family cars such as a Ford Mondeo or Peugeot 407 are paying £760 (12.9%) more per year than the average. This equates to £14.61 extra per week, a significant decrease of £5.12 per week compared to the 2009 average.

2.1 Why the difference?

The cost of fuel and depreciation are the most significant contributors to the higher cost for owners of larger cars. This is particularly the case for drivers of people carriers, who pay an average of £1,951 for fuel each year, compared to just £1,254 for owners of hatchbacks, and £1,404 for owners of large family cars. Meanwhile, there is a difference of £1,953 in the annual cost of depreciation between small cars and people carriers, as the resale value of the larger vehicles drops more quickly over time.

For owners of large family cars, the cost of servicing, maintenance and repair is particularly high. It costs an average of £470 for maintenance of these vehicles in 2010, compared to just £289 for small cars, £366 for family hatchbacks and £384 for people carriers.

There is also evidence that the gap in costs between small and large vehicles has closed slightly compared to 2009.

| | overall cost p/mile | overall cost | costs compared to 2010 average - % | difference compared to 2010 average |
|---|---------------------|---------------|------------------------------------|-------------------------------------|
| small car (e.g. vauxhall corsa)  | £37.21 | £4,466 | -23.92 | -£1,404 |
| family hatchback (e.g. vw golf)  | £46.14 | £5,536 | -5.61 | -£333 |
| large family car (e.g. peugeot 407)  | £55.24 | £6,629 | 12.94 | £760 |
| people carrier (e.g. ford galaxy)  | £65.14 | £7,816 | 33.18 | £1,947 |

3.0 The cost of motoring for used cars

Many motorists choose to buy their vehicles second hand rather than straight off the forecourt. To recognise this, last year's Index included a Cost of Used Car Motoring for the first time and this is included again in 2010.

This is based on the costs for cars that are three years old with average mileage on the clock.

The annual overall cost for a used car is £4,441, which equates to £85.41 per week or 37.01p/mile. Unlike the rise in the cost of motoring for new cars, this represents a small reduction from 2009 of £18. The cost of a used car overall is now £1,428 (24%) cheaper on average per year than for a new vehicle.

3.1 Why the difference in costs between new and used?

There are several reasons for the difference but the annual cost of depreciation, which is much lower for used cars, is the main one. Depreciation on used cars fell 14.2% in 2010. This is a result of prices in the used car market dropping slightly in the past year from the 2009 highs caused by a lack of supply in the market due to the

economic downturn. This year has seen supply increase again with the result that used car prices have dropped, causing depreciation to fall with it. The difference in depreciation between new and used cars is now £2,032 on average.

However, when looking purely at running costs, used cars are £553 more expensive in 2010 than new cars. This is down to the increased cost of other factors for used cars, chiefly the cost of maintenance, service and repair. This is £818 per year for used cars, which is £437 (115%) more than for new cars. Fuel costs are also slightly higher due to improvements in fuel consumption on new cars.



Overall costs – used and new comparison

| | new cars 2010 | used car 2010 | used cars 2009 |
|---------------------|------------------|------------------|-------------------|
| fuel | £1300 | £1396 | £1197 |
| insurance | £483 | £515 | £472 |
| maintenance | £381 | £818 | £787 |
| vehicle excise duty | £111 | £99 | £143 |
| rac membership | £143 | £143 | £146 |
| depreciation | £3072 | £1040 | £1213 |
| finance | £379 | £430 | £501 |
| total | £5,869 | £4,441 | £4,459 |



When looking purely at running costs, used cars are £553 more expensive in 2010 than new cars

4.0 The cost of commercial motoring (under 3.5 tonnes)

In 2009, the Index included the cost of commercial motoring to track the cost of light commercial vehicles (LCVs). We have included it again to show the difference in costs for commercial motorists and is based on an assumption of 20,000 miles per year (examined over a 3 year period)

The average annual cost for LCVs in 2010 is £8,995 or 44.97p/mile. This figure is up £873 (10.7%) from 2009. In particular, the cost of depreciation has risen sharply from £2,837 to £3,412, a rise of over 20%, caused primarily by the increase of 17.7% in the target price of new vehicles.

Fuel costs have also increased by £372 or 13.4%. However, there has been a slight drop in Vehicle Excise Duty, and a significant drop in financing costs of 15.6% as a result of lower interest rates this year.

Pick-up trucks and large vans continue to be the most expensive LCVs to operate, with annual costs for pick-ups such as the Nissan Navara close to £10,000 and large vans such as the Mercedes-Benz Sprinter costing £11,094 per year to operate.



Overall costs for commercial vehicles

| | 2010 cost per year | 2009 cost per year | % change |
|---------------------|--------------------|--------------------|--------------|
| fuel | £3149 | £2777 | 13.38 |
| insurance | £707 | £654 | 8.17 |
| maintenance | £695 | £663 | 4.87 |
| vehicle excise duty | £143 | £185 | - 22.52 |
| rac membership | £143 | £146 | - 2.06 |
| depreciation | £3412 | £2837 | 20.33 |
| finance | £746 | £863 | - 13.47 |
| total | £8,995 | £8,122 | 10.75 |



5.0 What drivers are doing to save money

Drivers continue to seek methods to cut their daily on-the-road costs according to RAC's 22nd annual Report on Motoring*, which was published in July 2010. Concern over the cost of motoring continued to rank highly on drivers' agendas according to the Report, with 68% of motorists labelling it an issue of 'most concern'.

Cost-saving methods include:

Nearly three in five drivers told us they are amalgamating shorter journeys, using just one trip where previously they would have taken several

40% of drivers stated they have cut down on the number of long distance journeys they make

One in ten motorists are increasingly looking to car share for journeys in order to spread the cost of motoring

Drivers are also looking to public transport more – the number of motorists seeking to use public transport as an alternative has increased from 50% in 2007 to 66% this year



*2010 RAC Report on Motoring : In total, 1,150 British motorists were surveyed (i.e. those who hold a current driving licence and drive at least once a month). The survey was conducted in March 2010, with the questionnaire taking around 25 minutes to complete.



5.0 What drivers are doing to save money

There are several ways motorists can save money on their motoring costs. These include:

Maintain your car to make savings in the long run

Check the tyre pressures regularly – under-inflated tyres can increase fuel consumption by up to 2%.

Rectify small defects on your car promptly, to prevent further deterioration.

Also keep the service history up to date as this will be invaluable if you want to sell the car.

Finally, wash and wax the car regularly to prevent rust from developing on the bodywork.

A well maintained car can also help keep the cost of depreciation down over the long term.

Shop around and plan ahead

Use price comparison websites such as www.petrolprices.com to find the cheapest fuel where you live.

Plan your route before you leave to avoid getting lost by using a site such as www.rac.co.uk/web/routeplanner.

You can download RAC Traffic and Traffic Plus mobile phone applications which give the most up-to-date traffic data available.

Also, tune into the local radio station for travel updates.

Drive smoothly and at an appropriate speed to save on fuel

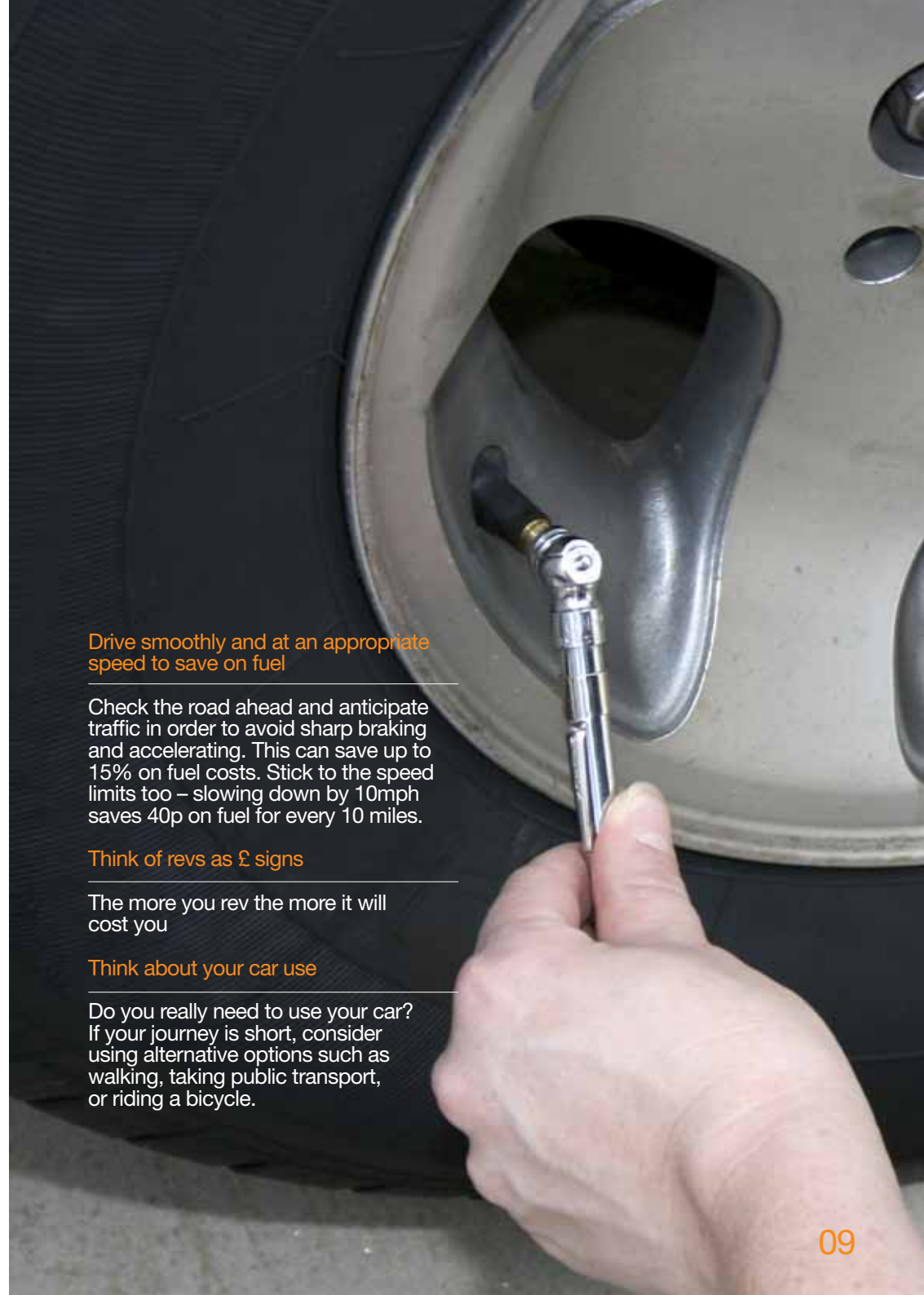
Check the road ahead and anticipate traffic in order to avoid sharp braking and accelerating. This can save up to 15% on fuel costs. Stick to the speed limits too – slowing down by 10mph saves 40p on fuel for every 10 miles.

Think of revs as £ signs

The more you rev the more it will cost you

Think about your car use

Do you really need to use your car? If your journey is short, consider using alternative options such as walking, taking public transport, or riding a bicycle.



6.0 Appendix

Suppliers & sources

The research for the 2010 Cost of Motoring Index was carried out by the following companies for RAC.

| organisation | research supplied |
|---|---|
| Go Motoring Ltd | Data research, compilation and analysis, insurance premium research |
| CAP Motor Research Ltd | Vehicle selection, used car values and residual value forecasting |
| Innovation Motorconsult | Maintenance, Tax (VED) fuel consumption and CO ₂ data |
| Parker's Guide Target Prices, Mammoth Cars, Drive The Deal, UK Car Discount | On the road pricing for cars |
| Vans Direct, Van Discount, Van Man, Car And Van Deals Direct | On the road pricing for commercial vehicles |
| www.petrolprices.com | Petrol and diesel prices |

Research methodology

The Cost of Motoring is based on a panel of 17 popular cars, bought as new. The resulting figures are combined and an average taken, which is weighted according to the number of each car registered in the UK, to produce the overall cost of motoring.

Calculations relating to the cost of motoring incorporate the assumptions, information and sources detailed below. Throughout the report, the new car analysis has an assumed annual

mileage of 12,000 miles, the used car analysis is based on a three year old car with 36,000 miles on the clock and the light commercial vehicle analysis is based on three years and 20,000 miles per annum.

NB. Actual annual mileages vary year to year according to figures from the Department for Transport, however the Cost of Motoring retains the same figure of 12,000 miles in order to ensure an accurate comparison year-on-year.

Definition of costs

1. Depreciation

This is the amount by which the vehicle decreases in value each year. It has been calculated by taking the value of the equivalent used vehicle away from the price of the new vehicle, and averaged over three years to find the annual cost. New cars have been attributed an average of 12,000 miles per annum, light commercial and business vehicles 20,000 miles while used cars assume a 3 year old vehicle with 36,000 miles on the clock.

2. Finance

A monthly Personal Contract Purchase (PCP) rental has been calculated based on a 10% deposit over three years, using the Average Transaction Target price and the Future Residual Value. Credit interest of 3% foregone on the deposit has been included in the calculation. A true interest rate of 8.1% has been used for new cars and 13.0% for used cars where lenders demand a higher yield. A finance lease of 36 months with three payments in advance, followed by 35 monthly payments has been used for the LCV and Business Car calculations, based on a yield of 9.00%.

3. Insurance

The annual insurance cost is based on a 45 year old male, insured as the only driver, with maximum No Claims Discount, parked on the road at NR2 3LD. The mean average figure is taken

from a panel of insurance quotes on a leading price comparison website.

4. Servicing, maintenance and repair (SMR)

This is the servicing and repair cost, including wear and tear items, taken over three years at 12,000 miles per annum for new cars and 20,000 miles per annum for vans. For used cars, the figure is based on vehicles with 36,000 miles on the clock and calculated over the three to six year age period.

5. Cost of fuel

The average petrol and diesel prices have been taken from www.petrolprices.com. The combined fuel consumption figures have been provided by Innovation Motorconsult, and the calculated annual mileage is again 12,000 for cars and 20,000 for LCVs and Business Cars. The calculation is: Cost of fuel/litre * 4.561*12,000 (vans 20,000) miles/miles per gallon.

6. Cost of road tax

The Vehicle Excise Duty (Road Tax) depends on the level of CO₂ emissions for each vehicle. This has been calculated projecting existing rates into the future.

7. Cost of RAC membership

RAC Membership cost is provided by the RAC, and includes roadside assistance, recovery and homestart. The figure of £142.50 is based on the standard 'personal membership' option which can also be used for most business vehicles, with the exception of taxis.

About RAC

With around seven million members, RAC is one of the UK's most progressive motoring organisations, providing services for both private and business motorists. Whether it's roadside assistance, insurance, vehicle inspections and checks, legal services or up-to-the-minute traffic and travel information – RAC is able to meet motorists' needs.

RAC is committed to providing the very highest levels of service to its members and has been ranked first for customer satisfaction by J.D. Power and Associates' UK Roadside Assistance Study for the last four years. RAC was also the top-named breakdown organisation in the July 2009, January 2010 and July 2010 semi-annual UK Customer Satisfaction Index from the Institute of Customer Service.

RAC Insurance has also been awarded the Best Overall Vehicle Insurance Provider 2010/11 by themoneypages.com

RAC is part of Aviva, the world's sixth largest insurance group, serving 53 million customers across Europe, North America and Asia Pacific.

RAC's news releases and a selection of images are available from the internet press centre at www.rac.co.uk/press-centre/

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Research: Go-Motoring

