Leaseurope/Invigors Business Confidence Survey

Measuring the expectations of European leasing professionals

December 2018

Leaseurope

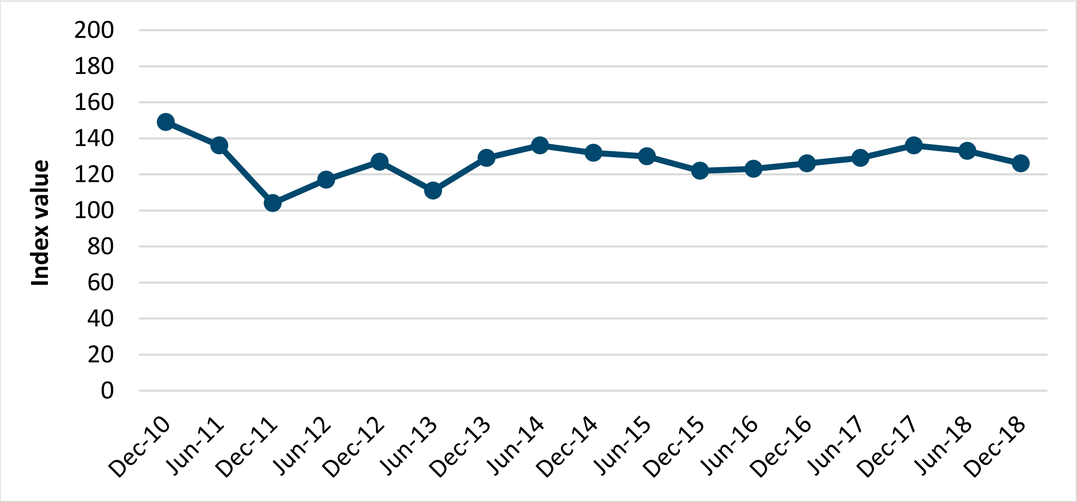
INVIGORS
Part of The Alta Group

Outlook for the European leasing industry is generally positive though with some signs of caution

Leaseurope and Invigors EMEA have published the results from the most recent European Business Confidence Survey conducted in December 2018. The findings show a generally positive outlook for the European leasing business for the first half of 2019, though there are increasing signs of caution in some areas.

The Leaseurope/Invigors Business Confidence Index (BCI)[1] tracks the European leasing market sentiment over time. Index values above 100 suggest an increased confidence in future business performance (a net positive balance of expectations) over the next six months, while values below 100 indicate pessimism towards future performance (a net negative balance). The Leaseurope/Invigors BCI stood at 126 in December, a decrease from the 133 recorded in June 2018 and 136 in December the previous year. Factors such as expectations on new business growth, net profit, bad debt and survey participants' overall perception of their company's prospects have all contributed to this trend.

Figure 1 - Leaseurope/Invigors Business Confidence Index



Index values above 100 indicate a net positive balance of expectations while those below 100 a net negative balance.

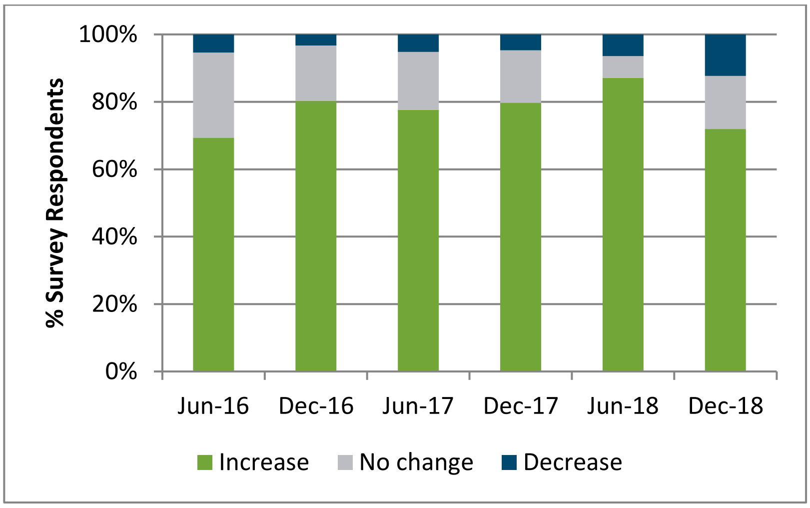
The survey polled the views of a wide range of leasing professionals in bank-owned lessors, independent leasing companies, vehicle leasing and fleet management companies and manufacturer captives. This is the twenty-first in the series, which monitors business confidence in the asset finance industry across Europe.

[1] The composite Leaseurope/Invigors Business Confidence Index (BCI) is the unweighted mean of percentage of respondents that estimate future changes in five key industry indicators, namely new business, margins, bad debt, net profit and companies' prospects.

New business growth expected to continue in the first half of 2019

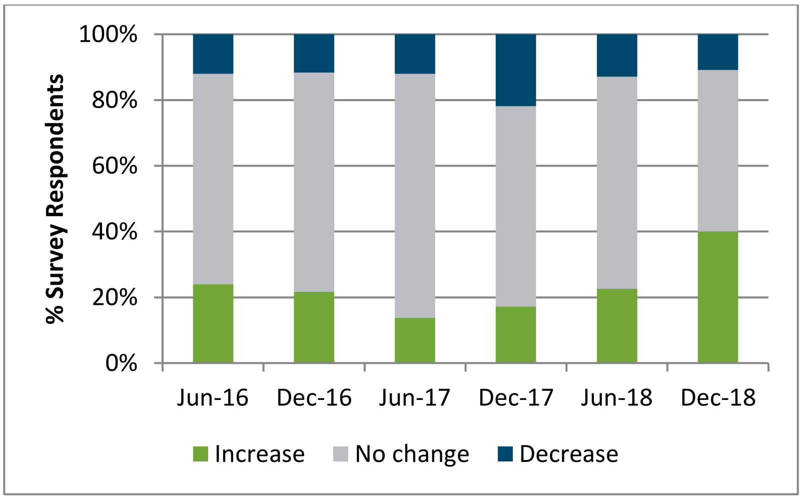
Participants' expectations of new business growth remain mostly positive though at a lower level than those seen in previous surveys. 72% of those surveyed in December anticipate growth in new business during the first half of 2019, a notable drop from 87% last June and 80% the previous December. The proportion of respondents forecasting no change in new business volumes grew from 6% to 16%, while the number predicting a fall in new business doubled from 6% in June 2018 to 12% in December.

Figure 2 - Anticipated change in new business volumes over next six months



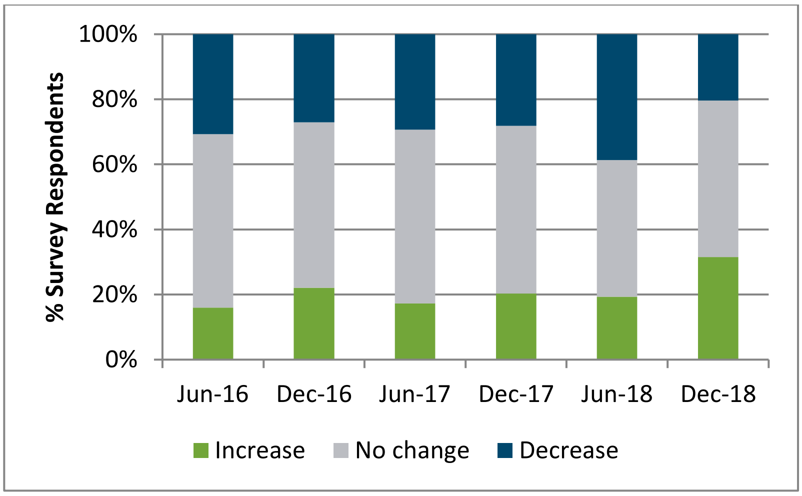
The December survey showed the most significant increase in expectations on bad debt for three years. 40% of those surveyed in December expect that bad debt will grow in their organisations during the first half of 2019, an increase from 23% in June 2018 and 17% the previous December. Nearly half (49%) of respondents expect no change in bad debt in their organisations for the first half of 2019, down from 65% in June 2018. The remaining 11% of those surveyed anticipate that bad debt will decrease over the next six months, a level similar to that of the June 2018 survey.

Figure 3- Anticipated change in bad debt



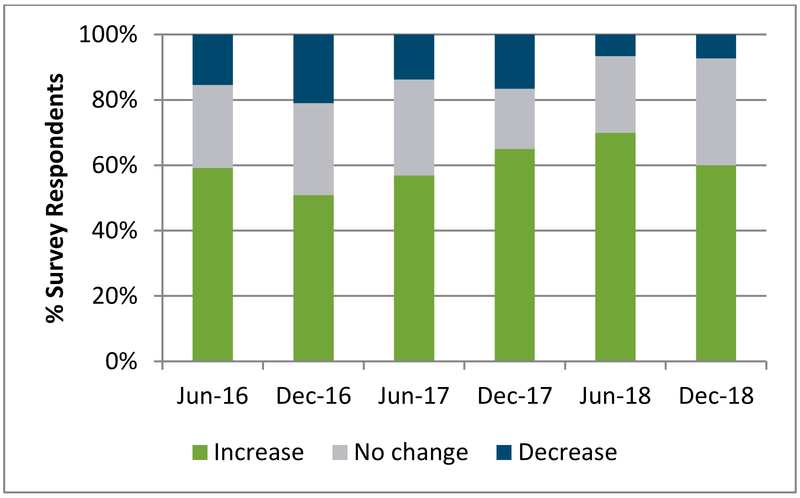
Expectations on margins show an improved situation compared to the previous two surveys, with the balance of opinion having moved from negative to positive. 20% of respondents now expect margins to fall during the first half of 2019, down markedly from 39% in June and below the 28% recorded in December 2017. 48% of those surveyed in December anticipate margins will remain unchanged, up slightly from 42% recorded in June, while 31% predict that margins will increase, up from 19% in June 2018 and 20% in December the previous year.

Figure 4 - Anticipated change in margins over next six months



The outlook for net profit is forecast to be healthy for the first half of 2019 with 60% of respondents expecting net profit to increase over the next six months, down from 70% in the June 2018 survey, but similar to the 65% recorded in December the previous year. 33% anticipate no change for 2019, up from 23% in the June 2018 survey. Only 7% believe that net profit will fall in their organisations in the first half of 2019, unchanged from the level recorded in the June 2018 research.

Figure 5 - Change in net profit for business over next six months



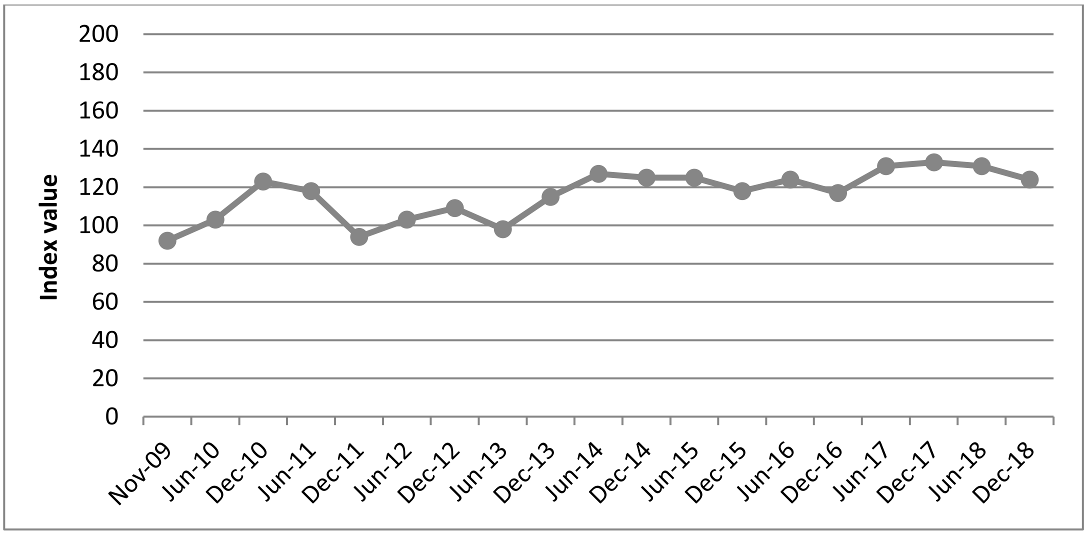
The positive sentiment seen throughout 2018 appears to have been sustained at the beginning of 2019, although there are growing concerns in some areas. KPIs for new business growth and net profit are generally strong, though an increasing proportion of respondents anticipate no change rather than growth during the forecast period. While the outlook for margins appears to have improved after a year of growing pressure, a significant minority now expect bad debt to increase.

Expenditure to increase in some areas

The Business Confidence Survey measures expectations on expenditure by asset finance companies in four key areas – operating expenses, marketing, training and IT systems. The Expenditure Index (EI)[2] tracks the European leasing market's expectations on expenditure over time. Index values above 100 suggest an increase in overall expenditure (or net positive balance of expectations) over the next six months, while values below 100 indicate an overall reduction in expenditure (a net negative balance).

The Expenditure Index stands at 124 in December 2018, a fall from 131 in June and 133 the previous December. The survey suggests that marketing and training expenditure are expected to remain largely unchanged at most of the organisations represented in the research, while operating and IT expenditure is anticipated to increase.

Figure 6 – Expenditure Index

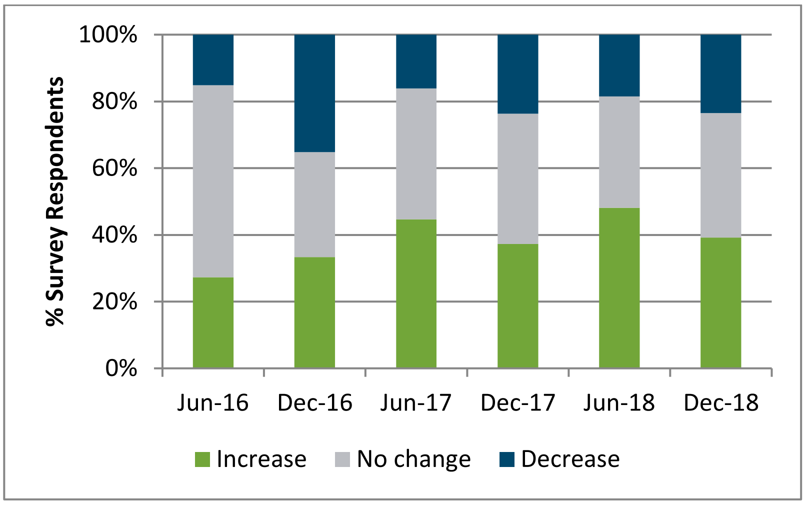


Index values above 100 indicate a net positive balance of expectations while those below 100 a net negative balance.

On the outlook for operating expenditure, 39% of participants predict an increase over the next six months, down from 48% last June but around the same level as in December 2017. A further 37% anticipated no change, similar to the 33% recorded in the previous survey, while the remaining 24% believed that operating expenses would decrease over the next six months, up slightly from 19% recorded in the previous June.

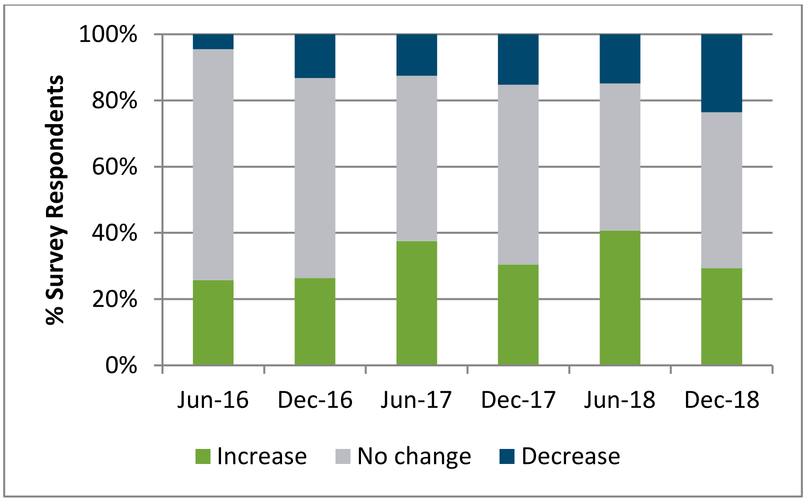
[2] The Expenditure Index (EI) is the unweighted mean of percentage of respondents that estimate future changes in expenditure in four areas, namely operating expenses, marketing, training and systems.

Figure 7 - Anticipated change in operating expenses over next six months



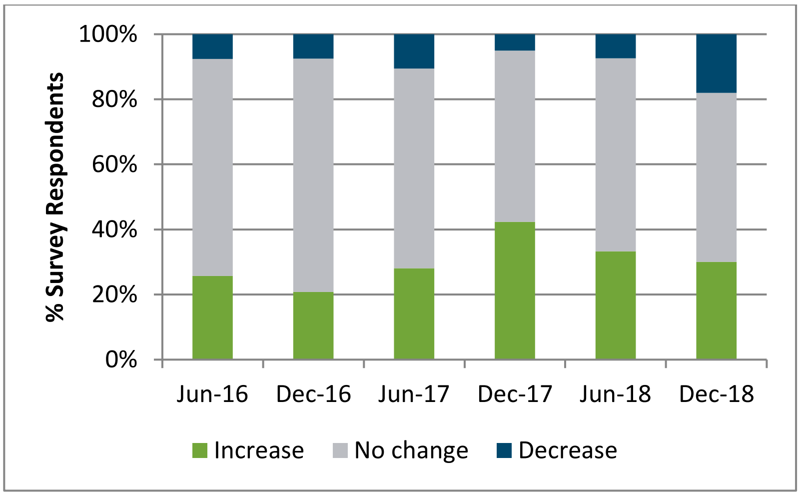
The outlook for marketing expenditure during the first half of 2019 shows that the greater proportion of respondents expect little change. 47% of those polled anticipate that marketing expenditure in their organisations will remain unchanged over the next six months, similar to the 44% recorded in June 2018. 29% of respondents expect marketing expenditure in their organisations to increase over the next six months, down from the 41% recorded in June but similar to the 31% the previous December. 24% of research participants expect expenditure to fall, up from 15% in the previous two surveys.

Figure 8 - Anticipated change in marketing expenditure over next six months



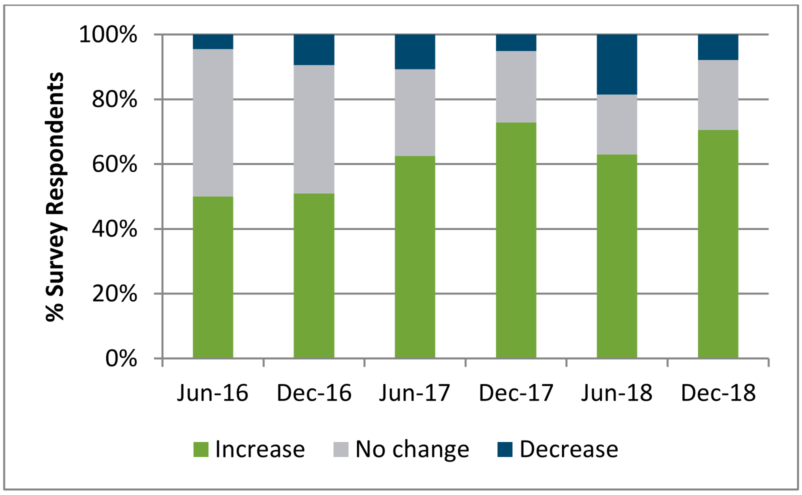
The prospects for training expenditure appear to show little change for the first half of 2019. In the December 2018 survey, 52% of respondents predict that training expenditure in their organisations over the next six months will remain unchanged, down slightly from 59% recorded last June but similar to 53% in December 2017. A further 30% anticipate that training expenditure will increase, similar to the 33% the previous June. Meanwhile, 18% in the most recent research forecast that training spending would fall over the next six months, more than double the percentage to that recorded in the June 2018 survey.

Figure 9 - Anticipated change in training expenditure over next six months



The outlook for systems expenditure for the first half of 2019 continues the optimistic trend seen in previous surveys. 71% of those polled anticipate that systems expenditure will increase in their organisations over the next six months, up from 63% in June 2018, though a similar percentage to that recorded the previous December. A further 22% forecast no change in IT expenditure, similar to the 19% recorded previously, while the balance of 7% predict a decrease in spending over the forecast period.

Figure 10 - Anticipated change in systems expenditure over next six months

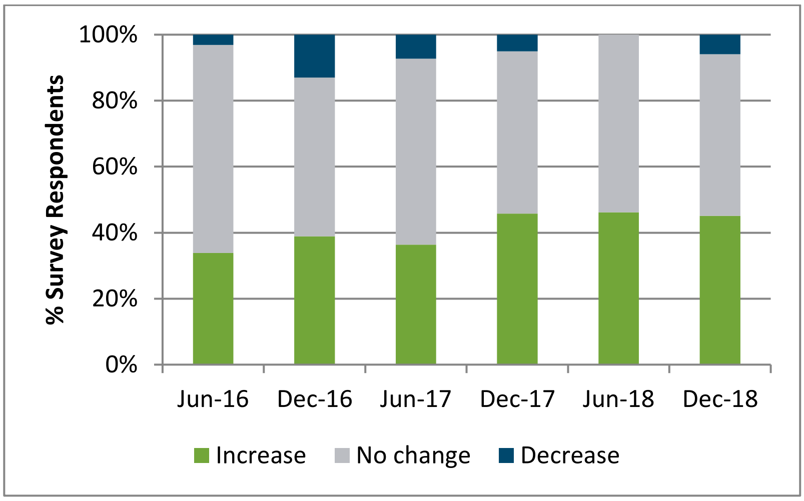


Staff numbers remain broadly stable with some growth in sales personnel

The survey asked participants about their expectations on the outlook for staff numbers in their organisations over the next six months. For sales staff, the balance of opinion remains positive, with most respondents anticipating either growth, or no change in staff numbers.

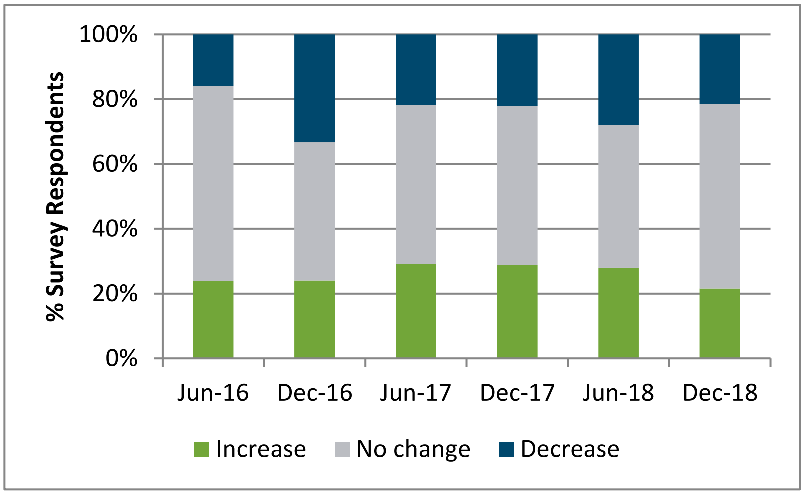
Just under half of those (49%) taking part in the December 2018 survey predicted that sales staff numbers in their organisations will remain unchanged over the next six months, down slightly from 54% recorded last June but at a similar level to the previous December. 45% expect sales staff numbers to increase, unchanged from June 2018. Only 6% of respondents anticipate a reduction in sales staff, a level similar to that recorded in earlier surveys.

Figure 11 - Anticipated change in sales staffing levels over next six months



The outlook for non-sales staff for the first half of 2019 shows little change from the previous survey last June, with those expecting to increase staff numbers over the next six months balanced against those anticipating a decrease. 22% of respondents in the December 2018 survey predict that non-sales staff numbers will increase over the next six months, a slight decrease from the 28% the previous June. Of the remainder, over half (56%) anticipate that staff numbers will remain unchanged, up from 44% recorded in the previous survey, while 22% of participants predict a decrease in non-sales staff.

Figure 12 - Anticipated change in non-sales staffing levels over next six months



The latest Business Confidence Survey indicates that while the European leasing industry should enjoy a good start to 2019, there are possibly some clouds on the horizon. Growth in new business continues to remain strong, though an increasing minority anticipate no change or a decline in volumes this year. Expectations of most of the other KPIs support an overall positive trend, though there appears to be increasing concern about growth in bad debt.

Sentiment on the outlook for the European leasing market for the first half of 2019 is generally optimistic or at worst neutral, with growing caution reflected in the overall outlook for the European economy in 2019. While growth in many of the CEE countries continues to remain strong, this is outweighed by the economic headwinds faced by the major economies elsewhere, particularly France, Germany and Italy, with rising political and economic uncertainty affecting business confidence, investment appetite and demand. The ongoing uncertainty concerning Brexit also poses some threats. It remains to be seen how the European leasing industry responds to these many challenges in the coming months.

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