Leaseurope/Invigors Business Confidence Survey

Measuring the expectations of European leasing professionals

June 2014

Leaseurope

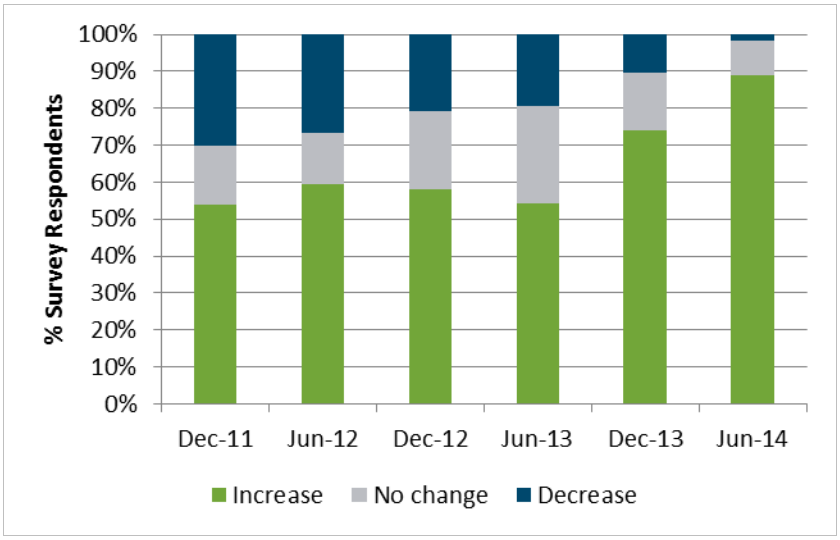
INVIGORS
Part of The Alta Group

European Business Confidence Survey June 2014 – Positive outlook for the rest of the year

Leaseurope and Invigors EMEA have recently completed their latest European Business Confidence Survey. Conducted in June, the findings highlight growing optimism towards the business outlook for the remainder of the year. Although GDP growth is expected to remain moderate, a gradual easing related to deleveraging, improved liquidity, and better profitability is noticeable in the optimism clearly expressed in the latest survey.

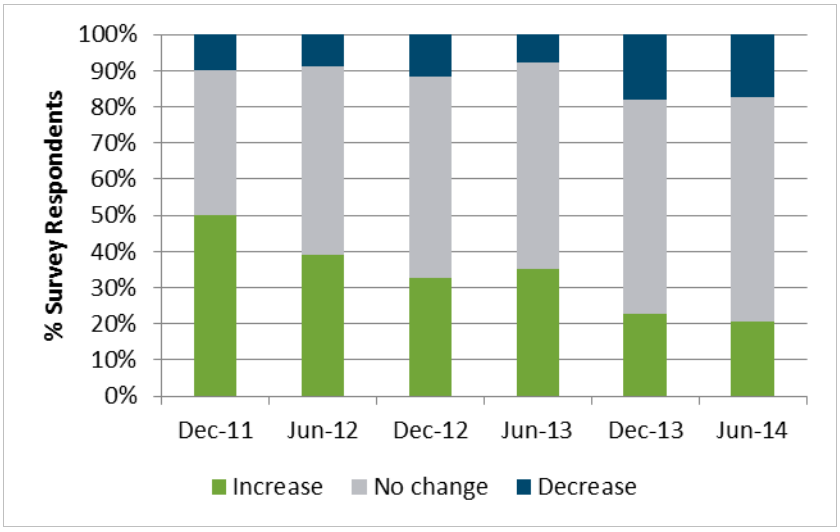
Expectations for new business growth continued the bullish trend seen last December with no fewer than 90% of respondents anticipating these will increase over remainder of the year, up from 74% in December last year. The proportion of respondents forecasting no change in new business volumes has fallen from 16% last December to 10% in June, while the number predicting a fall in new business stood at just 2%.

Figure 1- Anticipated change in new business volumes over next six months



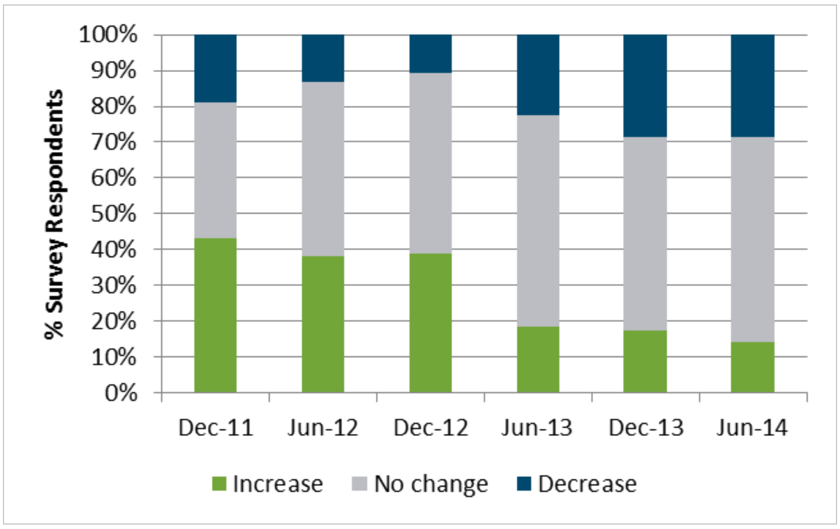
Expectations on bad debt are little changed, with the balance of opinion very slightly negative on the outlook. The majority of respondents (62%) anticipate no change in bad debt, up very slightly from 59% last December, though 21% expect bad debt to increase, around the same percentage as in the previous survey. 17% of respondents believe that bad debt will decrease in their organisations over the next six months, again unchanged from the December survey.

Figure 2 - Anticipated change in bad debt over next six months



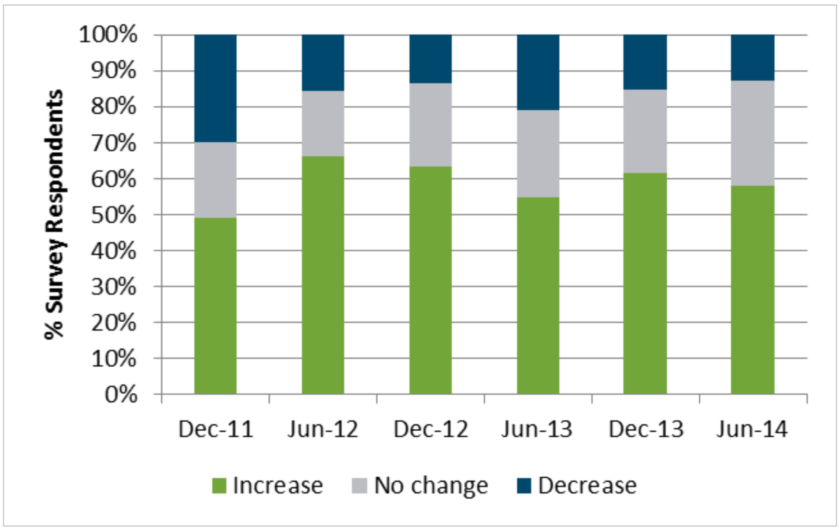
For a significant minority of those taking part in the survey, the growth in new business is putting margins under pressure. 29% of respondents in the June survey predict that margins will decrease over the next six months, the same percentage as last December, while 57% anticipate no change in margins, up slightly from 54% previously. In the latest survey, just 14% believe that margins will increase over the rest of the year.

Figure 3 - Anticipated change in margins over next six months



Although some respondents reported that margins are coming under increasing pressure, for the majority of those surveyed, the outlook for net profit looks healthy for the rest of the year. In the June survey, 58% expect net profit to increase, down slightly from 62% last December, while 29% anticipate no change. Only 13% believe that net profit will fall in their organisations, a similar percentage to the 15% recorded previously.

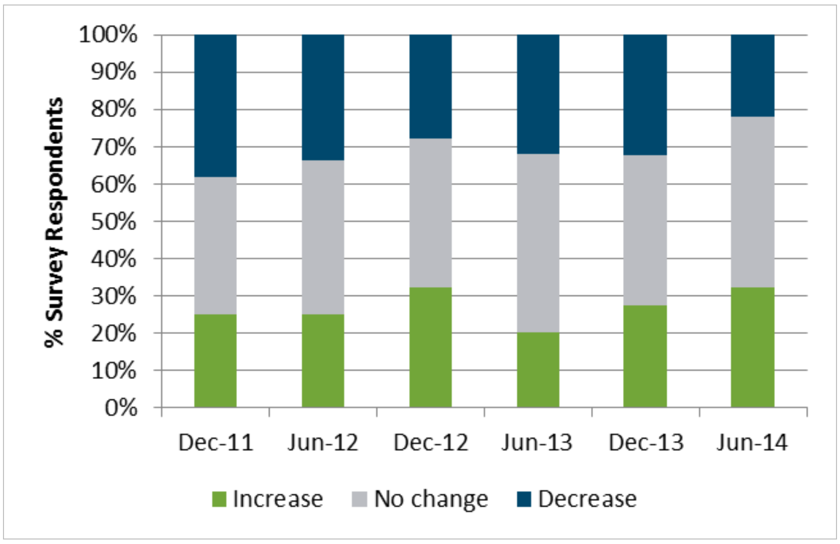
Figure 4 - Change in net profit for business over next six months



The latest survey indicates a reasonably stable outlook for leasing industry expenditure, with many organisations represented in the research keeping their budgets unchanged for the remainder of the year. However, around a third of respondents expect budgets to increase over the next six months, with expenditure on training and systems most likely to see an increase.

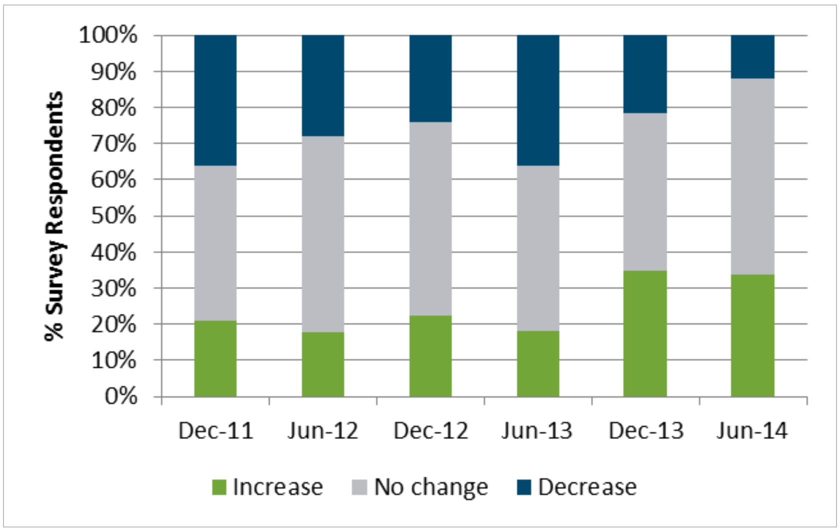
Operating expenses are expected to remain unchanged by nearly half of respondents in June, a slight increase from the percentage recorded last December. 31% anticipate that operating expenses will increase over the next six months, up marginally from 27% previously, while just under a quarter expect expenditure in this area to decrease, down from 32% in December 2013.

Figure 5 - Anticipated change in operating expenses over next six months



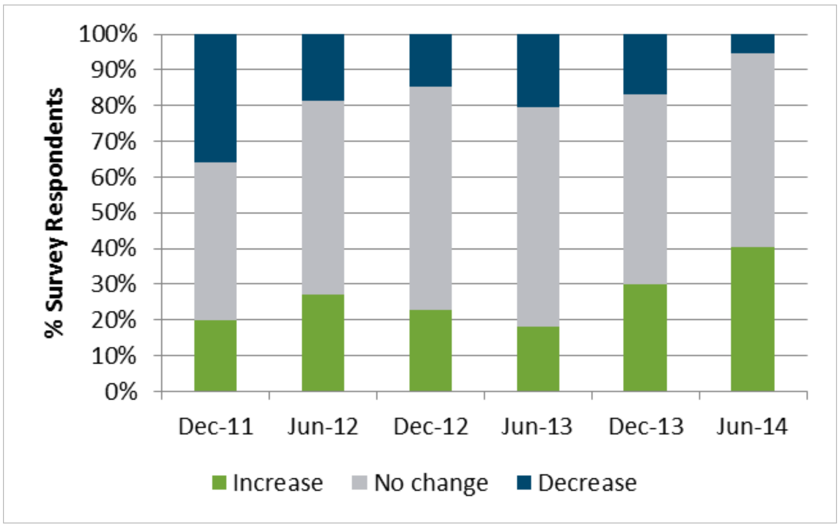
Around a third of respondents expect marketing expenditure in their organisations to increase over the next six months, the same as recorded in the December 2013 research. A further 12% of respondents considered that marketing spending would decrease, down from 22% previously, while the remaining 54% anticipated no change.

Figure 6 - Anticipated change in marketing expenditure over next six months



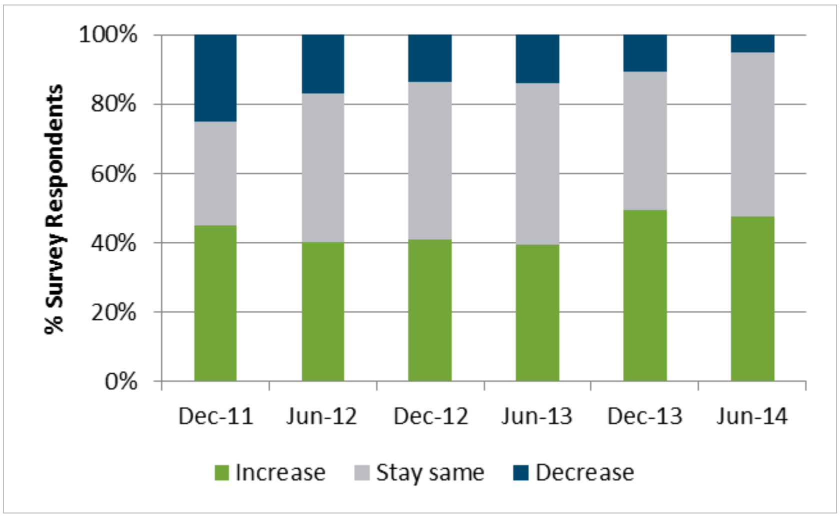
The outlook for training expenditure in the latest survey continues to strengthen. In the most recent survey, just over 40% of respondents are expecting training expenditure to increase in their organisations over the next six months, up from the 30% recorded last December. Over half believed that expenditure would remain unchanged, the same as previously, while only 5% forecast that training spending would fall, down from 16% in the December survey.

Figure 7 - Anticipated change in training expenditure over next six months



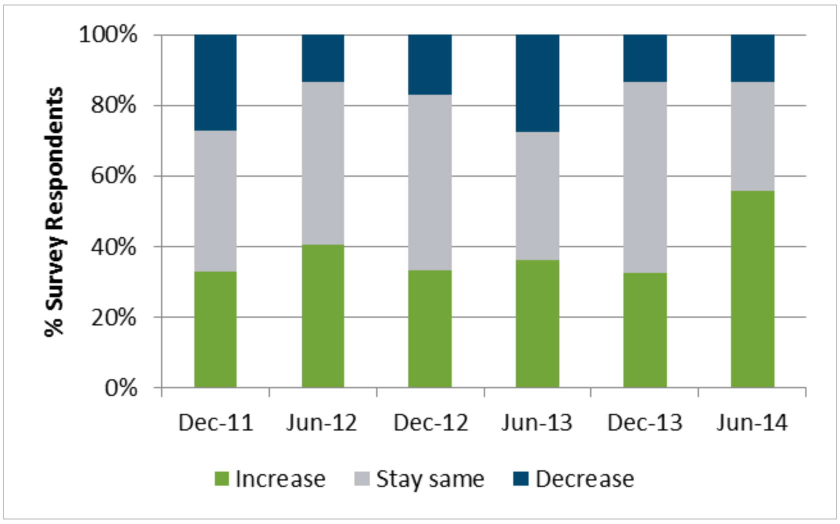
Expenditure on IT systems is set either to rise or remain unchanged over the next six months in nearly all of the organisations represented in the survey. Just under half of those polled anticipate that systems expenditure will increase, around the same percentage as in the December 2013 survey. A further 47% forecast no change in IT expenditure, up slightly from 40% previously while only 5% predicted a decrease in spending over the forecast period.

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



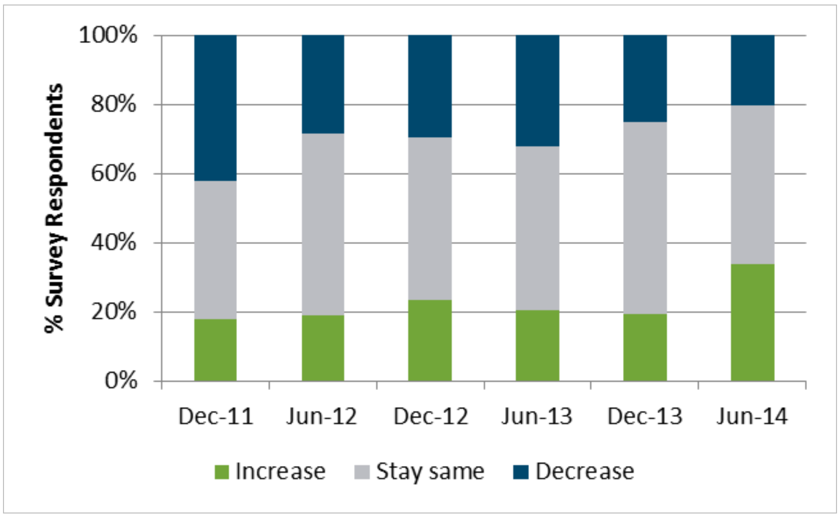
The survey asked participants their expectations on the outlook for staff numbers in their organisations over the next six months. For sales staff the balance of opinion is increasingly positive with over half of those taking part in the June research predicting that sales staff numbers in their organisations will increase over the next six months, up from 32% last December. In the most recent survey, 31% of respondents expect numbers to remain the same, down markedly from 54% last December, while only 14% anticipate a reduction in sales staff, a similar percentage to that recorded previously.

Figure 9 - Anticipated change in sales staffing levels over next six months



For non-sales staff there is a growing percentage expecting staff numbers to increase. 34% of respondents in June predict that non-sales staff numbers will increase over the next six months, up significantly from 19% last December. Of the remainder, under half anticipate that staff numbers will remain unchanged, down from 55% previously, while 20% expect a reduction in non-sales staff, down slightly from 25% in December of last year.

Figure 10 - Anticipated change in non-sales staffing levels over next six months



Clearly 2014 has all the hallmarks of a strong year for the European asset finance industry with confidence growing strongly over the past twelve months and expectations of growth and other KPIs improving for many of those organisations represented in the survey. After a flat year in 2013, it appears that 2014 will see the industry return to overall growth, though there will obviously be significant variations at a country and company level.

The one note of caution, repeated from the previous survey, concerns the outlook for margins. In the Leaseurope CEO Business Council held last March, one of the issues raised was the current competitive environment. Several participants noted that excess liquidity in numerous markets was driving down prices and increasing competition. This appears to be supported by the latest survey, which points to growing availability of capital and an ongoing squeeze on margins reported by many respondents.

The next Leaseurope – Invigors EMEA Business Confidence Survey will be published in January 2015.

Richard Ryan
Partner
Invigors EMEA LLP

Released in August 2014