Leaseurope/Invigors Business Confidence Survey

Measuring the expectations of European leasing professionals

June 2016

Leaseurope

INVIGORS
Part of The Alta Group

Despite growing uncertainty, European leasing industry anticipates a strong second half to 2016

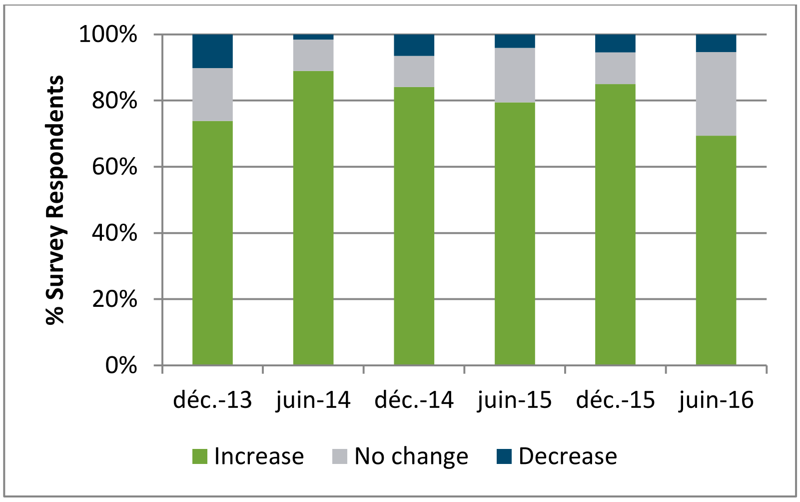
Leaseurope and Invigors EMEA have published the results from the most recent European Business Confidence Survey conducted in June 2016. The findings highlight a generally positive outlook for the European leasing business in the second half of 2016, despite increasing economic and political uncertainty in the region. New business is anticipated to continue to grow, supported by low interest rates and central bank measures to provide liquidity to the financial sector. With most of the survey responses received after the UK referendum on EU membership, there appears to be little immediate impact of the “Brexit” vote, though it is likely that this has yet to filter down to overall business confidence and investment intentions.

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

Continuing growth in new business, though not as widespread

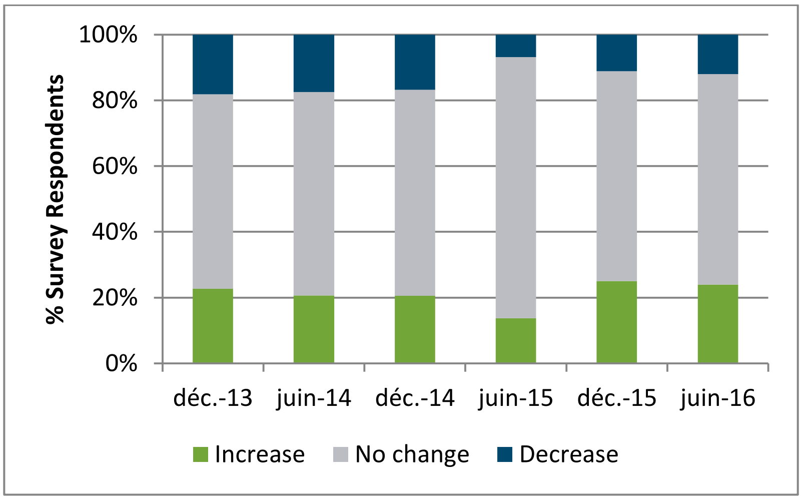
Participants’ expectations of new business growth continue to remain positive in line with previous surveys. However, 69% of those surveyed in June anticipate growth in new business over the second half of this year, down markedly from 85% last December. The proportion of respondents forecasting no change in new business volumes increased from 10% in December 2015 to 25% last June, while the number predicting a fall in new business now stands at just 6%.

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



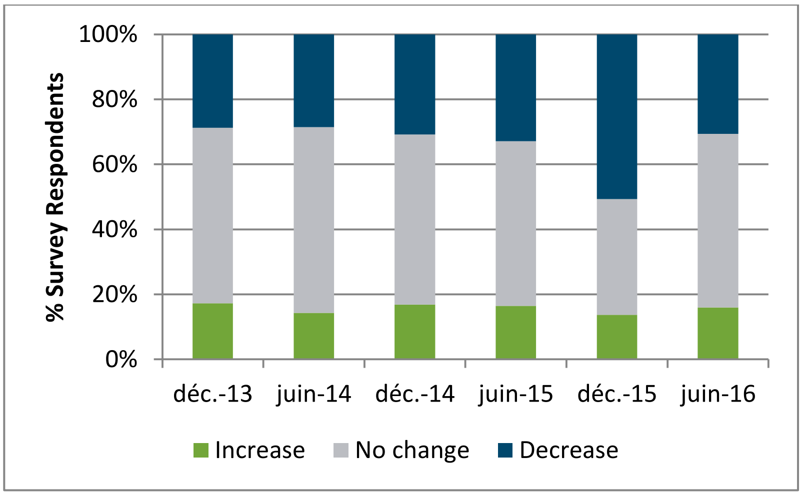
The overall majority of respondents (64%) expect no change in bad debt in their organisations for the second half of 2016, unchanged from December 2015. Nearly a quarter (24%) of those surveyed now anticipate that bad debt will increase over the next six months, again similar to the previous survey, while the remaining 12% of those taking part predict that bad debt will decrease.

Figure 2- Anticipated change in bad debt



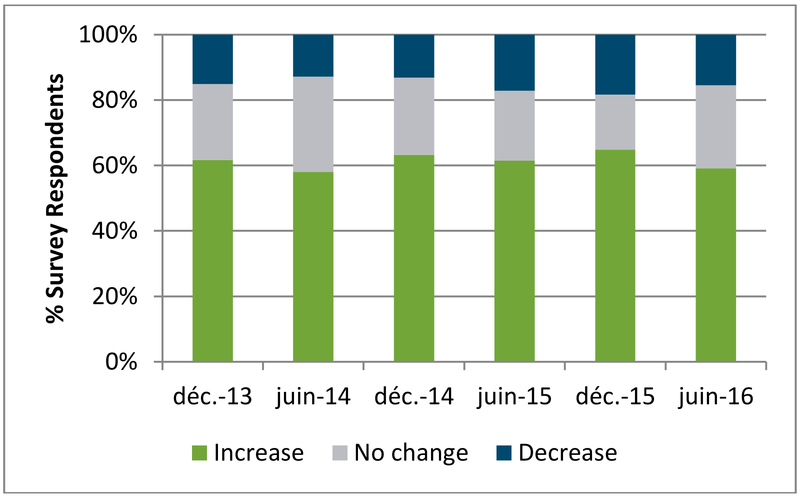
There is an improvement in expectations on margins in the latest survey, though the balance of opinion remains somewhat negative. Nearly a third of those taking part in the research (31%) expect margins to fall over the next six months, a marked decrease from 51% in December of last year. Over half (53%) of those surveyed in June anticipate margins to remain unchanged, up from 36% last December, while only 16% predict that margins will increase, little changed from the 14% recorded in the previous research.

Figure 3 - Anticipated change in margins over next six months



Although some respondents continue to report that margins remain under pressure, according to the majority of those surveyed, the outlook for net profit remains healthy for the second half of 2016. In the most recent survey, nearly 60% of respondents expect net profit to increase, down slightly on the level last December, while 25% anticipate no change. Only 15% believe that net profit will fall in their organisations, around the same level as that recorded in the previous survey.

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

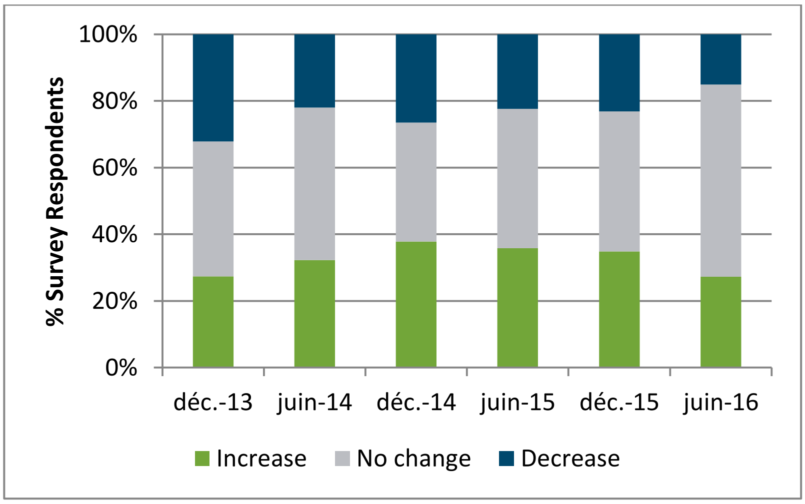


Despite the political turmoil in Europe over recent months – and the associated short-term economic uncertainty, most respondents in the June survey maintain a positive outlook for the remainder of the year. KPIs for new business growth and net profit remains strong, while the situation for margins appears to have eased slightly and bad debt remains unchanged.

Expenditure to remain stable – though IT spending continues to grow

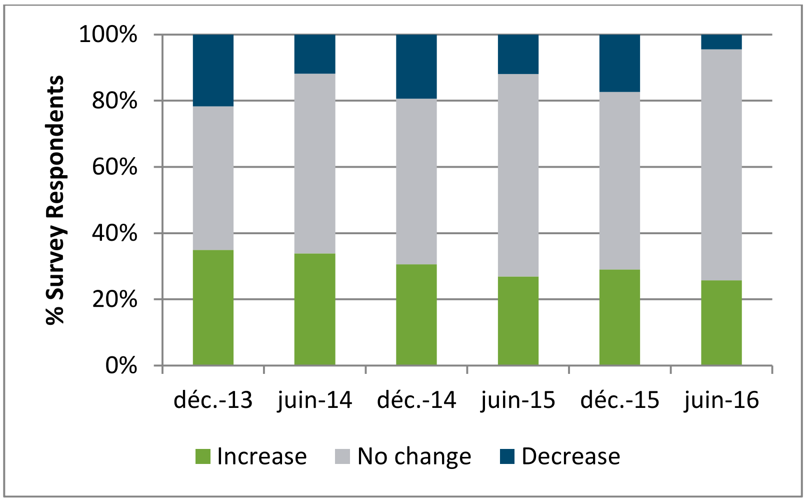
The Business Confidence Survey measures expectations on expenditure by asset finance companies in four key areas – operating expenses, marketing, training and IT systems. The majority of those surveyed (58%) thought that operating expenditure would remain unchanged in their organisations over the second half of 2016, an increase from 42% recorded last December. A further 27% anticipate that operating expenses will increase over the next six months, down from 35% previously, while the remaining 15% believe they will decrease.

Figure 3 - Anticipated change in operating expenses over next six months



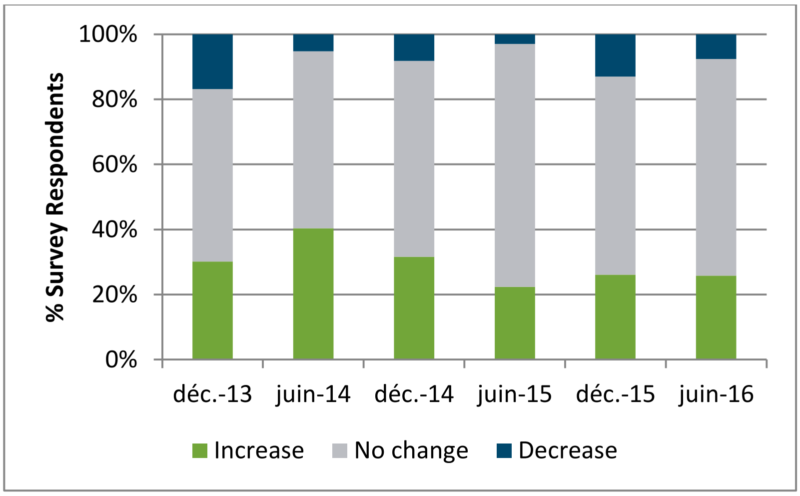
The outlook for marketing expenditure for 2016 also appears to be largely stable amongst most respondents in the June 2016 survey. 70% of those polled anticipate that marketing expenditure in their organisations will remain unchanged over the next six months, a marked increase from 54% recorded in December 2015. A further 26% of respondents expect marketing expenditure in their organisations to increase over the next six months, similar to the 29% recorded in the previous research. Just 5% of research participants now expect expenditure to fall, down from 17% in the previous survey.

Figure 4 - Anticipated change in marketing expenditure over next six months



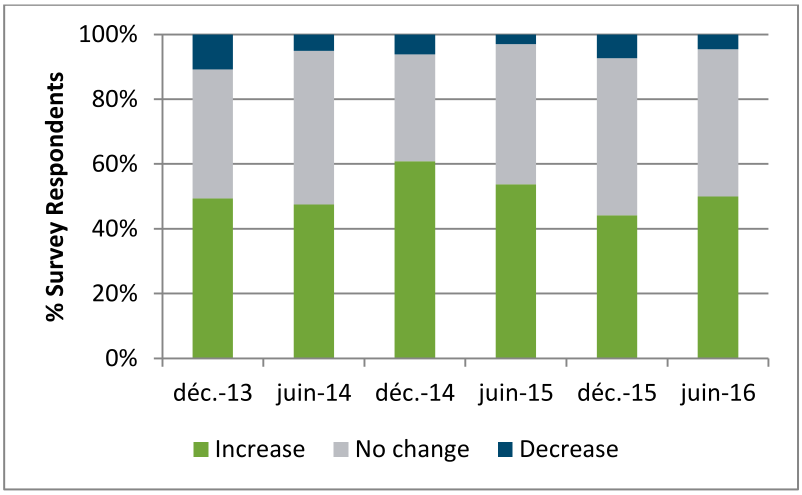
The trend in training expenditure has also stabilised. In the June 2016 survey, 67% of respondents predict that training expenditure in their organisations over the next six months will remain unchanged, up slightly from 61% in the previous December. A further 26% anticipate that training expenditure will increase, the percentage unchanged from the previous study. Meanwhile, 8% in the most recent research forecast that training spending would fall over the next six months, down from 13% recorded in the December 2015 survey.

Figure 5 - Anticipated change in training expenditure over next six months



Compared to other areas, the outlook for systems expenditure in the second half of 2016 appears more expansive, with the balance of expectations remaining strongly positive. 50% of those polled anticipate that systems expenditure will increase in their organisations, up from 44% last December. A further 45% forecast no change in IT expenditure, down slightly from 49% previously, while just 5% predicted a decrease in spending over the forecast period.

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

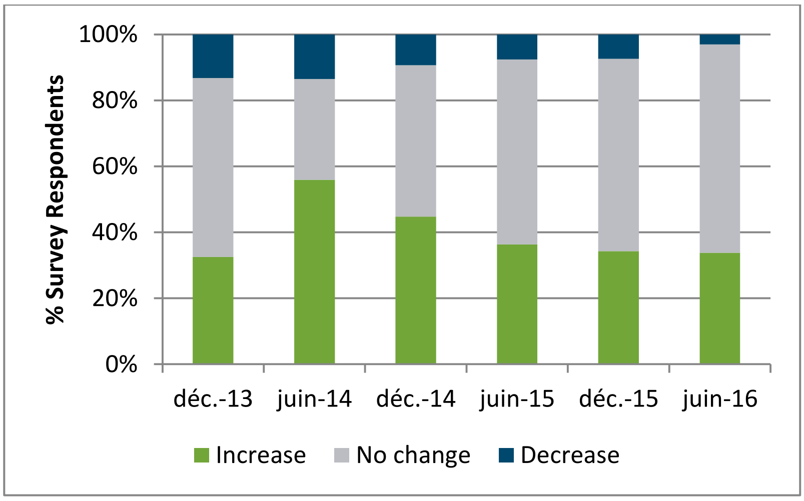


Staff numbers remain broadly stable with some growth in sales personnel

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, though the overall outlook is one of no change, rather than growth or reduction in staff numbers.

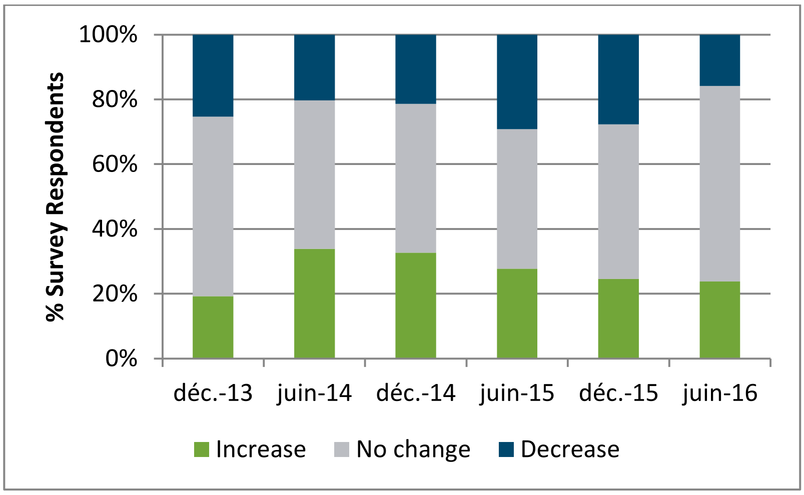
63% of those taking part in the June 2016 survey predicted that sales staff numbers in their organisations will remain unchanged over the next six months, up slightly from 58% in December last year. 34% expect sales staff numbers to increase, the same as the previous two surveys. Just 3% anticipate a reduction in sales staff, compared to 7% in the December 2015 survey.

Figure 7 - Anticipated change in sales staffing levels over next six months



The outlook for non-sales staff in the June 2016 survey appears to suggest more stability over the last six months of the year. 16% of respondents in the June 2016 survey predict that non-sales staff numbers will decrease over the next six months, down from 28% in the previous December. Of the remainder, 60% anticipate that staff numbers will remain the same, up markedly from 48% recorded in the previous survey, while 24% of participants expect an increase in non-sales staff, similar to the 25% recorded in December 2015.

Figure 8 - Anticipated change in non-sales staffing levels over next six months



This latest Business Confidence Survey suggests that the European leasing industry should continue its positive trend for the rest of 2016. Growth is forecast to remain strong over the second half of the year, while the consensus on most of the other KPIs is generally favourable or stable. Despite political issues over recent months, such as the UK referendum on EU membership and German elections, economic growth is anticipated to be supportive, though it will be interesting to see the impact of these on more general business confidence and investment.

Richard Ryan
Partner
Invigors EMEA LLP

Released in September 2016