Industry Insight

BVRLA

Leasing Outlook

July 2024

Bridging the divide

Diverging demand for electric cars in company and private car markets is a major challenge for leasing companies

Market spotlight
Business customers drive growth of BVRLA car lease fleets

Industry outlook
With no incentives, retail demand is sluggish in both the new and used EV markets

Quarterly report
Salary sacrifice continues to soar

Opinion
Navigating AI and SMR: Short-term challenges and long-term efficiency gains

In association with: AutoTrader, SOLERA Vehicle Solutions | cap hpi, fleet assist, asset finance connect

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Market Headlines

BVRLA fleet grows 2.8% year-on-year (page 4)

Car fleet up 3.6%; van fleet up 0.7% year-on-year (page 5&9)

BCH car fleet up 7.6% year-on-year; salsac up 63% YOY; PCH down -11.3% YOY (page 5)

BEVs account for 41% of all new BCH cars; average new BCH car CO2 emissions just 56.3g/km in Q4 (page 6)

65.5% of all new car contracts and 62.1% of new van contracts include maintenance (page 7)

Used vehicles account for 25,421 lease contracts, up 7.7% in a quarter (page 8)

Fleet management in the LCV sector is up 8.3% year-on-year (page 9)

Executive Panel

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Each quarter, we obtain the views of a selection of members of our Executive Panel to enhance our report insights. To join the panel email Phil Garthside at **phil@bvrla.co.uk**.

Market Summary

Leasing companies wrestle with divided business and private car market demands for electric vehicles.

A deep dive into the data that underpins the BVRLA Leasing Outlook report reveals a market riven by divisions. Company car drivers are switching to electric cars at breakneck speed, while private drivers are applying the brakes to battery adoption. Commercial vehicle operators are showing little appetite for electric vans, while manufacturers are pushing their e-LCVs in a desperate attempt to meet the terms of the Zero Emission Vehicle mandate. And business confidence among leasing companies has taken a dip at the very time that the CBI forecasts an upward trajectory.

The divergence in demand for electric cars between the company and private car markets is the most pressing concern for leasing companies. Nursing disposal losses on the first wave of EVs to finish their lease contracts, executives are concerned that their supply of used EVs into the secondhand market is already exceeding demand.

More worrying still, this supply is set to grow exponentially as company car drivers migrate to battery powertrains. SMMT figures reveal that in Q1, 2024 only 8.3% of private new car sales were BEVs. Contrast this with the business contract hire market, where 41% of new additions to the fleet were electric, and leasing executives are understandably alarmed at the disconnect between zero emission demand in the fleet and private car markets and the subsequent residual value risk exposure.

Put simply, beyond a green conscience, there are no incentives for private car owners to choose an electric car, and retail demand is sluggish in both the new and used EV markets. Moreover, from next April, the only outstanding financial sweetener for a private motorist to drive an EV disappears, namely not having to pay VED. The majority of EVs will not only incur the £180 annual road tax charge from their second year, but also the additional £410 annual supplement for cars that cost £40,000 or more when new, adding £590 per year to their operating costs.

The prices of used EVs have already reached parity with their petrol equivalents, and as more cars reach the end of their contract hire agreements, mechanisms to stimulate demand for used EVs and mitigate depreciation losses are now top of boardroom agendas.

Unfortunately, battery powertrains appear similarly undesirable for LCVs, despite the sector being almost exclusively business use. The high acquisition cost of e-LCVs allied to payload compromises and the operational downtime of charging are proving to be barriers for companies that cannot complete a duty cycle on a single home or depot charge. What's more, the regulatory confusion that allows drivers with a standard licence to get behind the wheel of a 4.25 tonne e-LCV, but then sets many of the same responsibilities on the business as the operating licence for HGVs, creates a further complication.

The Zero Emission Van Plan, created earlier this year by a coalition including the BVRLA, sets out to address the affordability, charging and regulatory issues surrounding electric vans. Its case has been strengthened by the weak sales figures of e-LCVs so far in 2024. During the first three months of the year, BEVs accounted for just 5.2% of new van registrations, and just 4.8% in the first five months. This is less than half the 10% volume share stipulated by the ZEV mandate for this year, and below one third of next year's 16% threshold.

As with the car market, to meet the terms of the mandate and avoid stiff fines, manufacturers are having to push supply, pursuing strategies that are distorting the 'real' market. Some brands are heavily discounting e-LCVs, which risks undermining future residual values. Others are restricting their sales of diesel vans so that their ratio of e-LCV to diesel sales matches the ZEV mandate. And some are continuing as they are in the hope or expectation that their sales of zero emission vehicles in 2025 and 2026 will exceed the mandate by such an extent that it will give them credits to offset against this year's missed targets.

The fact that different manufacturers are pursuing different strategies makes business even more complicated for leasing companies, with no consistent message to communicate to customers about vehicle availability and lease rates.

Despite these challenges, BVRLA members' car lease fleets did grow slightly in Q1, 2024 compared to the final quarter of last year. The 2.8% year-on-year growth figure is even healthier. Business customers have driven this growth, with the business contract hire fleet expanding by 7.5% year-on-year in Q1, whereas the personal contract hire fleet shrank by 11.3%. The one exception to the gloom of the retail market is the salary sacrifice sector, up 63%.

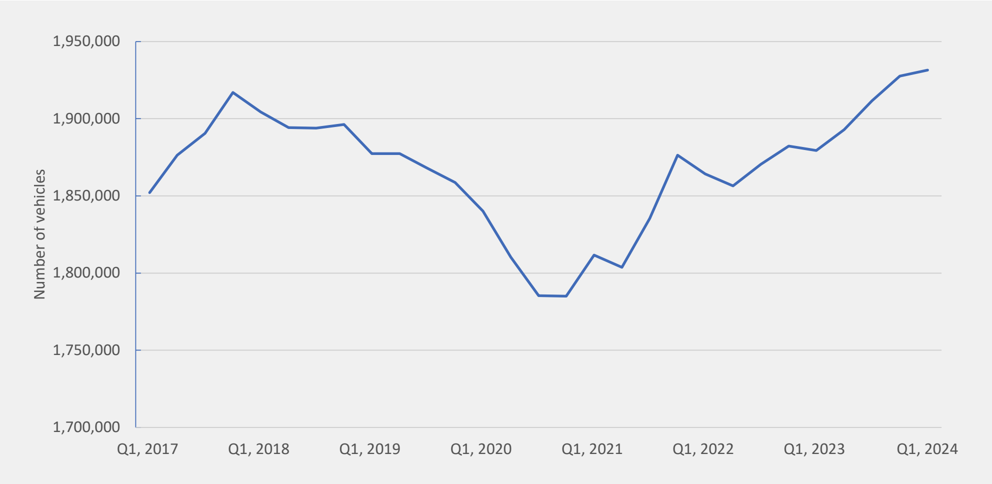
And there is further good news for leasing companies in the secondhand values of used petrol and diesel cars and vans. These have stabilised at a profitable level, lower than the giddy heights of the past two years, but still providing a much-needed cushion to offset losses on EVs.

There is also an element of pride that BVRLA members are at the vanguard of fighting climate change emissions from road transport. Rewind four years and the emissions of new additions to BVRLA members' business contract hire fleet averaged 101g/km of CO_2; in the first three months of this year that figure had plummeted to just 56.4g/km.

As for the future, few industry leaders expect the General Election to deliver much of a change. The ZEV mandate has already set a trajectory similar to Labour's pledge to bring forward the ban on the sale of new petrol and diesel cars to 2030. Consequently, industry attention is more likely to turn to the full expensing of leased assets, promised in the March 2024 Budget, but yet to be enacted.

BVRLA Fleet Focus Q1 2024

Vehicles operated by BVRLA members



Overall fleet

Total fleet
1,931,417 vehicles
(+0.2% Q1, 2023 VS Q4, 2023)

Share of total fleet

	Q1 2021	Q1 2024
Cars	76%	73%
Vans	24%	27%

Lease fleet reaches record high

Healthy demand for new vehicles and the steady fulfilment of deliveries from over-full order banks raised the BVRLA lease fleet in Q1, 2024 to its highest total since the start of 2017.

The association's members have added almost 150,000 cars and vans to their fleets in the three years since the supply constrictions of Covid-19.

This rate of growth appears unlikely to continue, however, with executives reporting future order numbers returning to normal levels, and a mounting desire among some customers to extend their current contracts, rather than face the significantly higher lease rentals of replacement vehicles.

TREND

+52,036

(+2.8%) YEAR-ON-YEAR GROWTH IN TOTAL LEASE FLEET.

Car volumes rise as vans slip

For the first time in a year, cars rather than vans have driven the increase in vehicle volumes on the BVRLA members' lease fleets. Total van numbers slipped back marginally in Q1, 2024, declining by -4,584 vehicles, a drop of -0.9% compared to Q4, 2023. The figures are a surprise, given the 8.6% rise in new van sales in Q1, 2024 recorded by the SMMT, although may reflect companies' confidence in defleeting older vans, due to the good availability of new models.

The fall in van numbers was more than offset by a similar quarter-on-quarter rise of 0.01% in the much larger car fleet, which added 8,389 vehicles to its total in Q1, 2024. Growth in the BVRLA car fleet lagged behind the rise in UK new car sales, up 10.4% in Q1, suggesting business customers are replacing cars rather than expanding their fleets.

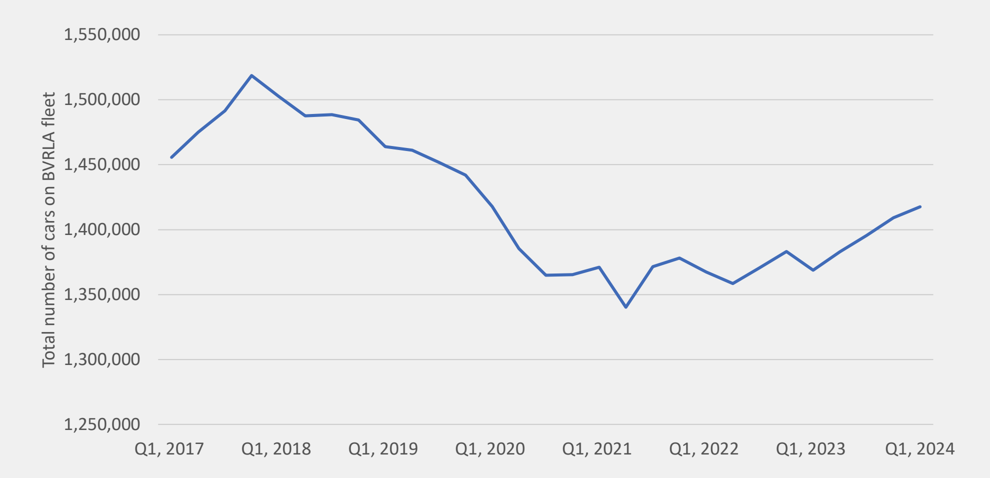
TREND

513,938

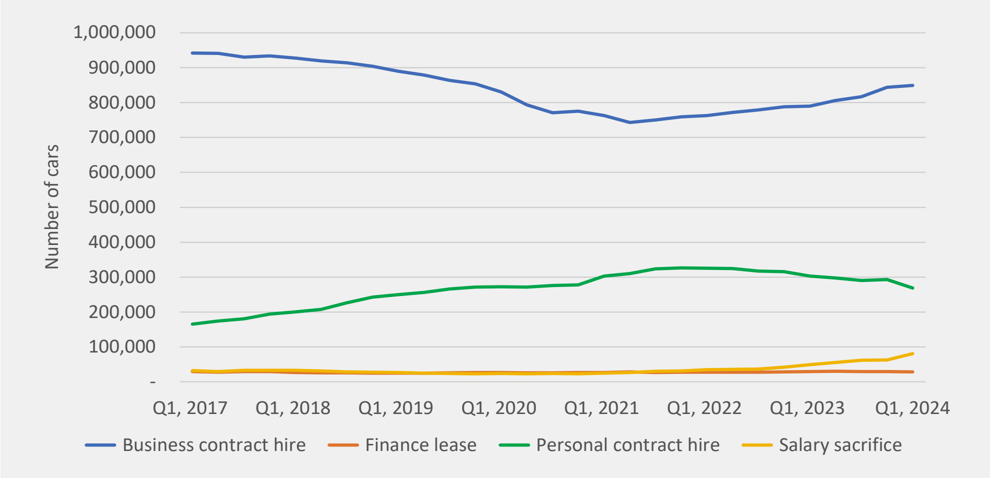
(+0.66% YEAR-ON-YEAR) NUMBER OF LCVS ON THE BVRLA FLEET.

BVRLA Fleet Focus Q1 2024

Total car fleet



Vehicle funding alternatives



The wrong sort of growth?

Five quarters of growth in BVRLA members' car lease fleets should indicate a sector in rude health, but behind the scenes there are acute concerns about residual value risk. Leasing executives fear that the powertrain profile of their fleets is growing increasingly out of kilter with the private (especially secondhand) market, creating a disproportionate concentration of residual value risk due to their high volumes of electric cars.

With the SMMT reporting that businesses are responsible for as many as 80% of new electric car sales, the industry wants more Government support to stimulate retail demand for both new and used EVs. As things stand, however, they fear that the pressure of the Zero Emission Vehicle mandate for 22% of manufacturers' new sales to be electric this year will lead OEMs to devote even more resource to pushing fleet sales as the only sector with an appetite for battery-powered cars.

TREND

1,417,479

(+3.56% YEAR ON YEAR) BVRLA CAR FLEET.

Salsac remains the star performer

The cost-of-living crisis allied to the 'sticker shock' of new lease rentals being much more expensive than for the cars they replace, have led to a marked fall in the size of BVRLA members' personal contract hire fleets, down -11.3% year-on-year in Q1, 2024. Over the same period, the three-times-larger business contract hire fleet has grown by 7.5%, while the salary sacrifice fleet soared by 63% (although the figures are boosted by the inclusion of new fleet data from a funder specialising in EVs). Nonetheless, some executives think salsac numbers might be even higher, with vehicles provided by brokers or via public sector framework agreements recorded as business contract hire.

Finally, despite the windfall disposal profits enjoyed by leasing companies in the aftermath of the pandemic, when demand for used cars far outstripped supply, few businesses appear keen to take residual value risk themselves, with finance lease numbers almost flatlining since Q1, 2017.

TREND

848,657

(+7.5% YEAR-ON-YEAR) BCH CAR FLEET.

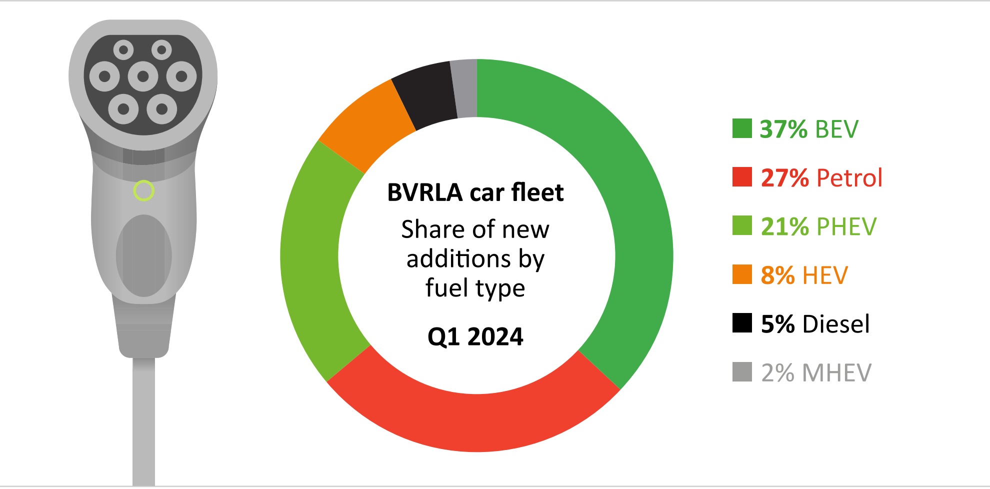
TREND

+63%

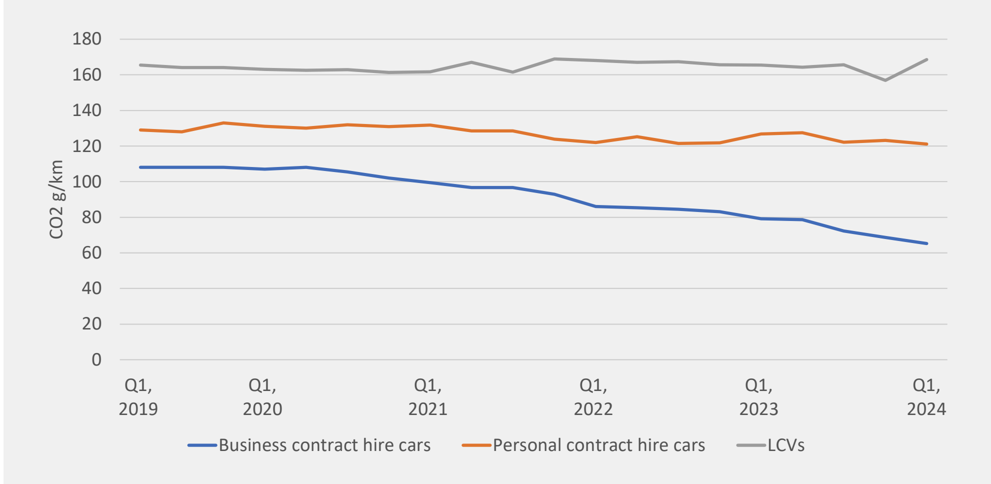
YEAR-ON-YEAR INCREASE IN SALARY SACRIFICE FLEET TO 80,608 CARS.

BVRLA Fleet Focus Q1 2024

Car fuel choices



BVRLA fleet CO_2 emissions



The future has a plug

Switch 'diesel' for 'dodo' and there's a ready-made Monty Python sketch about the death of a fuel that was once a firm fleet favourite. Diesel accounted for just one in 20 new additions to BVRLA members' fleets in Q1, 2024.

The insatiable appetite of company car drivers for vehicles with a low benefit in kind tax bill has seen battery electric cars power to the top of the charts, accounting for 37% of new deliveries in Q1, and 33% of the entire BVRLA car fleet. HMRC's supportive tax system may be distorting the overall market, but it's achieving its objective in the company car segment.

The BEV share of new additions was actually down quarter-on-quarter, due to a resurgence of petrol, but few experts think this trend will last. The ZEV mandate, alongside corporate and public sector decarbonisation commitments mean the future has a plug.

37%

SHARE OF BEVS IN NEW ADDITIONS TO BVRLA FLEET IN Q1, 2024.

49%

PERCENTAGE OF PETROL CARS IN Q1, 2024 PCH ADDITIONS.

PCH and vans slow net zero progress

Viewed over a typical four-year lease cycle, the reduction in CO2 emissions from business contract hire cars has been dramatic. New additions to the fleet in Q1 2020 averaged 101g/km of CO2; in the first three months of this year that figure had plummeted to just 56.4g/km as company car drivers migrated to battery power.

Now compare the same figure for personal contract hire, still sitting stubbornly above 100g/km for new orders in Q1, 2024, as private drivers drag their heels in the transition to electric.

Meanwhile, a plateau in emission figures for additions to the LCV fleet, stretching back to Q1, 2022, exposes the minimal BEV share. According to the SMMT, electric vans had a 5.2% market share in Q1, 2024, a percentage that needs to reach 10% by the end of the year to satisfy the ZEV mandate.

TREND

56.4g/km

AVERAGE CO_2 EMISSIONS OF NEW BUSINESS CONTRACT HIRE CARS IN Q1, 2024.

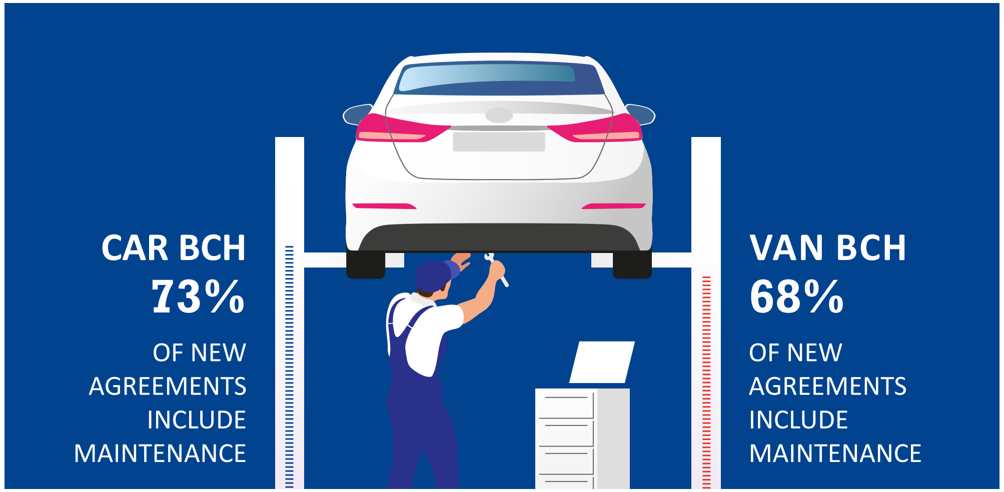
TREND

-44%

FALL IN AVERAGE CO_2 EMISSIONS OF NEW BCH CARS SINCE Q1, 2020.

BVRLA Fleet Focus Q1 2024

Maintenance contracts - proportion of maintained fleet by funding method



Aftersales present challenge for leasing firms

The twin pressures of securing a workshop appointment and sourcing replacement parts have made service and maintenance a key area of focus for leasing companies. As manufacturers have raced to develop and sell electric vehicles, there is a feeling among leasing executives that OEM aftersales operations have been overlooked.

Companies report widespread instances of long lead times for parts, woefully inadequate SMR budget projections by some OEMs, and frustration at the inflexibility of certain OEMs that oblige drivers to book aftersales work through their apps, rather than via the leasing company, presenting a potential weak link in customer service.

The opportunity to build predictive and preventative maintenance strategies on connected vehicle data is now high on leasing firm agendas as they bid to minimise downtime.

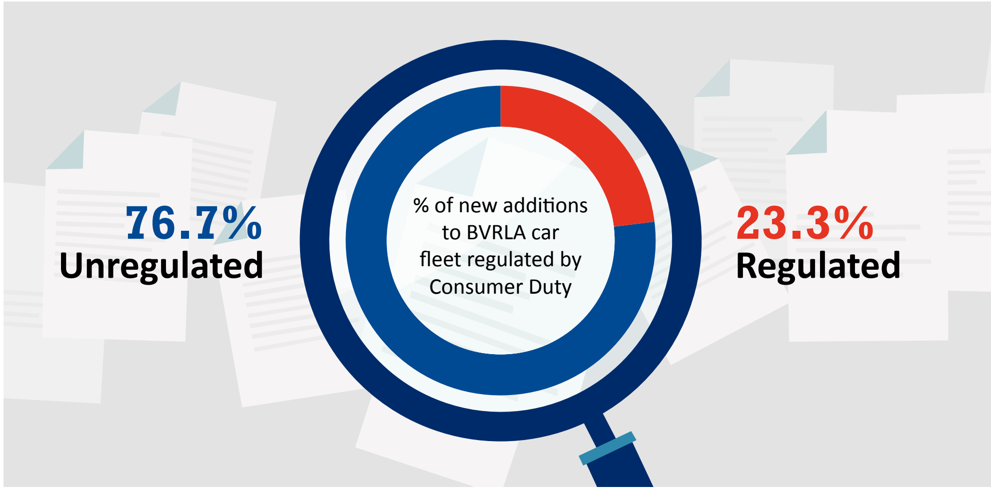
72.7%

BCH CONTRACTS INCLUDE MAINTENANCE.

29.1%

PCH CONTRACTS INCLUDE MAINTENANCE.

Regulated contracts



All eyes on the regulator

Q1, 2024 witnessed a slight increase in the number of new contracts regulated by the FCA's Consumer Duty, compared to the previous quarter. The uplift to 23.3%, from 18.5% in the final quarter of last year, comes amid a backdrop of intense interest in the wider automotive finance industry about the intentions of the FCA. Two test cases, involving Black Horse and Clydesdale Bank, are currently under review concerning discretionary commission agreements between lenders and brokers, have highlighted the importance that the Financial Ombudsman Service and FCA attach to fair and easily understandable contracts. With corporate reputations at stake, some industry commentators suggest lenders will withdraw from brokers and go directly to customers, or withdraw from the regulated sector altogether. There are also fears of 'mission creep' by the FCA that might consider sole traders and small businesses require the same Consumer Duty-style protection as private buyers, even if this is currently unregulated business.

99.99%

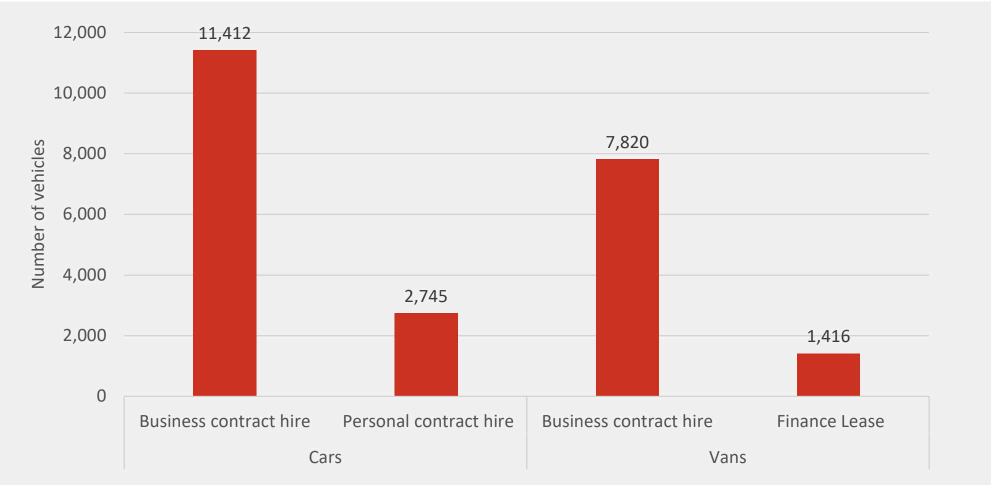
OF NEW PERSONAL CONTRACT HIRE AGREEMENTS ARE REGULATED.

3.73%

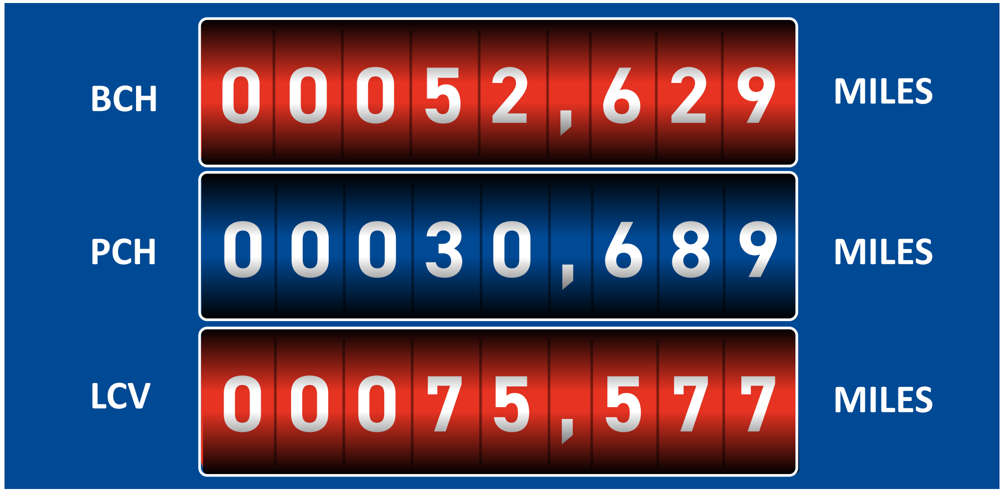
OF NEW VAN BUSINESS FINANCE AGREEMENTS ARE REGULATED.

BVRLA Fleet Focus Q1 2024

Used vehicle leasing



Contract mileage



Second-life leases in sight

The gap between the theory and practice of second-life leases is proving difficult for leasing companies to bridge. All are enthusiastic about the prospects of extending the revenue opportunities from vehicles, facilitated by the greater reliability of electric vehicles compared to cars and vans with internal combustion engines.

But the discounts available for new EVs and the losses that leasing companies are suffering on end-of-contract battery-powered cars, mean the second-life lease risks being a very similar price to a new vehicle. Add in transport, inspection and refurbishment costs, and second-life leases for older (rather than early terminated) EVs are difficult to deliver at competitive rentals.

Nor do they offer any financial reprieve for leasing companies, with depreciation losses recorded on balance sheets even if the vehicle is re-leased to a new customer.

TREND

15,738

THE NUMBER OF SECOND-LIFE CAR LEASES ON THE BVRLA FLEET.

TREND

3.2%

THE SHARE OF USED VANS AMONG NEW ADDITIONS TO THE BVRLA LCV FLEET IN Q1.

Contracts shorten as 2030 approaches

A significant difference between the contract terms of new light commercial vehicles (43 months, 65,994 miles), and those of the existing LCV fleet (50 months, 75,577 miles) provides early evidence of a trend that some executives think likely to develop. Regardless of last year's five-year extension to the ban on the sale of new vehicles with internal combustion engines, larger fleets have maintained their own trajectory towards a 2030 phase out of ICE vans as part of wider corporate sustainability objectives. As a result, lease contracts are shortening to allow for electric replacements before the end of the decade.

The ready availability of new car supply in the personal contract hire market has also seen contract terms shorten, with new additions to BVRLA members' fleets averaging 34 months and 25,646 miles, compared to 40 months and 30,689 miles for the entire PCH fleet.

39 months

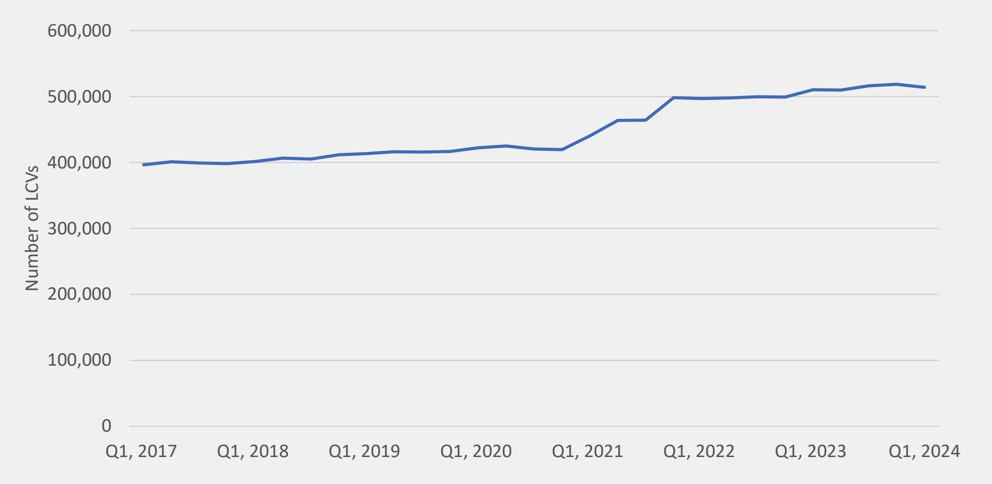
AVERAGE DURATION OF NEW BUSINESS CONTRACT HIRE AGREEMENTS.

50,604 miles

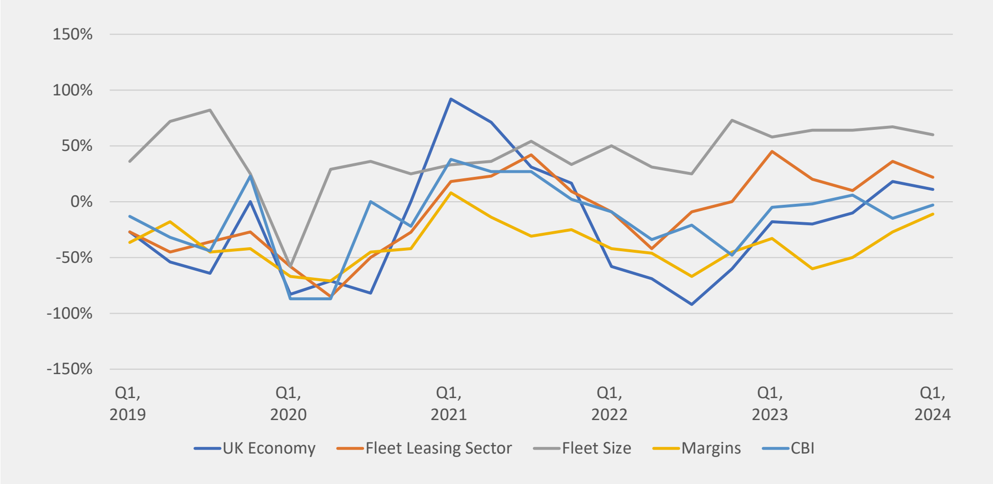
AVERAGE MILEAGE OF NEW BUSINESS CONTRACT HIRE AGREEMENTS.

BVRLA Fleet Focus Q1 2024

Van fleet



Industry confidence



LCV numbers slip Q1 vs Q4

As a bellwether of the wider economy, the downtick in the size of BVRLA members' total van fleet in Q1, 2024 compared to the previous quarter, is a slight concern. It's the interruption to the long-term upwards trajectory, rather than the net number of vehicles that will trouble policymakers. Is this evidence of wavering business confidence? A reflection that businesses are struggling to swallow higher lease rentals, driven skywards by a 30-40% increase in new van prices and a more than doubling of interest rates compared to the vehicles they replace? Or a positive indication that companies are terminating extended contracts due to the better availability of new vehicles? Economic consensus is that interest rates will start to fall, but there's no sign that van prices are slipping. There are, however, reports of some discounts if bulk van orders include a share of battery-powered models that meets or exceeds the ZEV mandate threshold of 10% for this year, and 16% for 2025.

TREND

513,938

(+0.7% YEAR-ON-YEAR) LCVS ON BVRLA LEASE FLEET.

TREND

+8.3%

YEAR-ON-YEAR INCREASE IN LCV FLEET MANAGEMENT (ONLY).

Downturn in business confidence

How quickly business confidence shifts. In the final quarter of last year, all BVRLA confidence indicators were heading in a positive direction. By the end of the first quarter of 2024, only margins had an upward trajectory, thanks to prices in the used petrol and diesel car markets normalising at a healthy level.

On a more optimistic note, confidence levels in the UK economy, the fleet leasing sector and BVRLA fleet size are all still positive, just not as positive as they were in Q4, 2023.

Moreover, viewed over a longer perspective, all the confidence indicators are at a higher level in the first three months of this year than they were in Q1, 2019 before Covid-19 turned the world upside down.

TREND

+60%

BVRLA MEMBERS' CONFIDENCE IN FLEET SIZE.

TREND

-11%

BVRLA MEMBERS' CONFIDENCE IN MARGINS.

BVRLA Member Outlook

The full force of the law of unintended consequences has started to apply itself in the UK leasing sector.

Government policies to stimulate both the supply and demand for electric vehicles have triumphed in the company car sector, but led to such market distortion that leasing companies are heavily engaged in strategies to minimise current residual value losses and protect themselves from future depreciation shortfalls.

So serious is the situation that senior industry executives are openly discussing potential Government mechanisms to achieve a better balance between fleet and retail demand for EVs. They accept that this might involve dialling down fleet EV sales, which have proved to be a runaway success, while stimulating the laggard private market.

But even the voracious appetite among business customers for electric models cannot consume the volumes that vehicle manufacturers are obliged to sell under the terms of the Zero Emission Vehicle mandate.

The result is a disorderly market into which manufacturers are pushing electric cars to avoid swingeing fines, like waiters pouring wine into glasses and refusing to hear 'when'.

And the retail market is in no position to mop up overflow. If anything, leasing companies report an increase in early terminations from private and salary sacrifice EV drivers who find the technology doesn't work for them and are trying to return cars under Consumer Duty protections. SMMT figures for the first two months of the year reveal that private EV sales represented just 2.9% of a total new car market, which is supposed to be 22% electric this year, according to the ZEV mandate.

To achieve the required 22% market share, "we have been seeing significant levels of tactical activity from manufacturers, whether it be pre-registrations, list price reductions or massive discounts," said one leasing director.

While on paper the tactics should have helped to lower the rentals of new electric cars, they have also undermined faith in future residual values, increasing depreciation costs. Furthermore, the lack of any consensus on where future EV values will settle is a constant anxiety for directors. One mid-size company invited three external specialists to revalue its fleet as part of a regular review process and received analyses that were tens of millions of pounds apart – five years ago a spread of £1 million would have been extreme.

Leasing industry faith in retail demand for used EVs has been rocked by the 30% fall in used values over the past year, and 48% decline over the past two years.

No executives expected them to continue at such high levels, but nor did they expect such a precipitous drop.

"Recently we have had two cars returned slightly early, and we would lose about £30,000 if we tried to sell them," said one leasing director.

Consequently, there is unanimity that the Government needs to act to stimulate demand for used EVs. A year ago, leasing directors were calling for the removal of VAT on public charging to help balance its cost with home charging for drivers without off-street parking. Now, they are calling for the removal of VAT from used EVs to make them more affordable, alongside a return of plug-in car grants for both new and used electric vehicles.

They continue to support attractive benefit in kind tax rates to sustain the electric company car market, but are increasingly open-minded about modest tax rises if the revenues raised were redeployed as grants for new and used EVs. None thinks the EV share of the company car sector is at a natural level, with drivers prepared to overcome the inconveniences of a car that needs charging in return for a large tax saving.

"The question is how we make EVs accessible and desirable to the general public, because currently they're not," said one director.

Car and van fleet forecast

	Q1, 2020	Q1, 2021	Q1, 2022	Q1, 2023	Q1, 2024	Q1, 2025 forecast	Forecast change Q1, 2025 to Q1, 2024
CARS	1,418,000	1,371,000	1,367,332	1,368,799	1,417,479	1,452,941	3%
VANS	422,000	440,000	496,911	510,582	513,938	524,037	2%
TOTAL	1,840,000	1,811,000	1,864,243	1,879,381	1,931,417	1,976,977	2%

Car fleet forecast by fuel type

	Q1, 2020	Q1, 2021	Q1, 2022	Q1, 2023	Q1, 2024	Fleet size Q1, 2024	Forecast fleet size Q1, 2025	Forecast change Q1, 2025 to Q1, 2024
Diesel	52%	41%	30%	26%	12%	170,097	147,900	-13%
Petrol	37%	36%	36%	35%	28%	396,894	380,593	-4%
BEV	2%	6%	14%	19%	33%	467,768	591,974	27%
PHEV	3%	7%	12%	15%	17%	240,971	292,656	21%

BVRLA Member Outlook

If a slightly higher BIK rate could be used to cross-subsidise private demand for new and used EVs, through grants and scrappage schemes, leasing companies sound up for the debate.

"When there was a plug-in car, at least it was universally available, and therefore it supported the transition for all customer bases. The trouble is targeting resources just at BIK, leaves many customers behind," said one director. "Unless you do more to support and educate the retail buyer, you won't get a wider acceptance, knowledge and experience of EVs and their benefits to private drivers."

And the reintroduction of Vehicle Excise Duty for zero emission cars will only exacerbate the situation. The £590 (£180 VED plus £410 expensive car supplement for cars costing £40,000 or more) will add £50 to the monthly lease rental of an EV from year two, whether business or private. If manufacturers start to reduce list prices to squeeze below the £40,000 limit, there will be further negative consequences for residual values, warn industry leaders.

Some of them are also calling for support for plug-in hybrid and hybrid models, on the grounds that these can deliver an immediate reduction in CO2 emissions, albeit lower than a switch to battery electric, and are accessible to all drivers, regardless of whether they can charge at home or work.

"Combatting climate change is a marathon, not a sprint," said one director.

Meanwhile, leasing companies find themselves expected to play a frontline role as consultants to business customers looking to electrify their fleets, but without being paid for the service.

They are also deeply conscious of the disruption to customer service caused by manufacturer pricing strategies, with cars moving in and out of bands on choice lists depending on discounts and support.

"We're literally getting discount changes weekly from some manufacturers," said one director.

Eighteen months ago, leasing companies found themselves out of pocket on orders they had taken when Bank of England interest rates were below 1%, but which were delivered when rates rose to 5.25%. Today, the recalculation of residual value forecasts is leading many to worry about orders they took months ago when their projections were potentially 30% higher.

All of this uncertainty has led to a forensic focus on remarketing channels in order to optimise used prices. Second-life leases are a popular option, but are proving difficult to deliver at rentals that are sufficiently lower than new vehicles to attract drivers.

However, for drivers whose current contracts are coming to an end, the general inflation in vehicle prices and interest costs over the past three to four years, means some customers are happy to extend their existing contracts at the same rates, rather than pay substantially more for a like-for-like replacement.

The lack of equilibrium between fleet orders for new EVs and demand for used EVs is even more acute in the LCV market, where certain manufacturers are making orders conditional on the volumes of EVs matching the ZEV mandate. Given lead times for some models are already stretching into 2025, this means 16% of orders need to be battery powered.

This is leading some fleets to change manufacturers and forcing leasing companies to build aftersales support in regions where the new OEMs do not have dealer support. Similar issues preoccupy leasing company operations departments with the arrival of new entrant car manufacturers that have a centralised sales facility but no nationwide aftersales solution.

"There are bigger challenges in the commercial vehicle market than cars, but these are operational challenges. How do our customers operationalise EVs en masse in their day-to-day operations?" asked one director. "It's our role to create a use case and solve these challenges. That's what makes this industry exciting."

Cracking this nut will be vital to persuade the SME and sole trader buyers of secondhand vans that the vehicles are fit for purpose. Otherwise, residual values will continue to struggle.

Finally, with the General Election just days away, leasing companies have similar requests for the next Government. Think long-term, be consistent, and consult with the industry to avoid any unintended consequences.

Car fleet forecasts by funding method

	Q1, 2019	Q1, 2020	Q1, 2021	Q1, 2022	Q1, 2023	Q1, 2024	Q1, 2025 forecast	Forecast change, Q1, 2024-Q1, 2025
BCH	889,471	829,861	762,457	763,123	789,742	848,657	882,378	4.0%
PCH	250,260	272,377	303,022	325,885	303,092	268,837	267,674	-0.4%
TOTAL	1,139,731	1,102,238	1,065,479	1,089,008	1,092,834	1,117,494	1,150,052	2.9%
BCH	78%	75%	72%	70%	72%	76%	77%	
PCH	22%	25%	28%	30%	28%	24%	23%	

Opinion - service, maintenance and repair

Vincent St Claire – Managing Director, Fleet Assist

Vincent St Claire, Fleet Assist's MD tackles the subject of AI and SMR, and predicts the end goal will deliver significant efficiency gains but highlights the need for careful navigation in the short term.

We can all hypothesise about when and how AI technology will be our saviour in taking away some of "the bumps out of the road" in relation to vehicle SMR.

This comes at a time when the pace of change in our industry is gathering even more momentum, as it becomes increasingly influenced by political, economic, social, and technical distractions.

A combination of one or other of these will influence us immediately or have a larger impact over time.

At the same time, fleet operators need to embrace and look to the transformative potential that the Fourth Industrial Revolution (4IR) will deliver. It is generally characterised by a fusion of technologies that are blurring the lines between physical and digital, from design and production to supply chain management and customer service.

This is seen in the ever-increasing technological advances that are influencing the automotive sector, such as increased vehicle connectivity and variety of propulsion systems such as electric and hydrogen coupled with AI.

Garage network evolution

The physical and interactive aspects of physical dealerships are essential to a network and our supply chain services and remains of high value. This is despite the industry's twists and turns of selling new and used vehicles either physically, online or via an agency or a traditional agency agreement.

The new OEMs entering the market currently are also learning that their initial survival and growth will depend on setting up and running a robust aftersales function.

The challenge is that in the short-term AI combined with more relevant and easier to access technologies like telematics, personal data management costs and a widening variety of job administration systems could realistically increase the investment and operating costs for garages and customers.

A further consideration at this time with more process and connectivity solutions emerging with the promise of lower operating costs and low cost of entry, is the scale, user adoption rate and what the longer-term pricing model is going to be.

What the future holds

However, the long-term outlook looks promising with three key technology levers that will be game changers.

Predictive maintenance: This will help fleet operators spot issues with vehicles before they become big and costly and should mean reduced vehicle off the road time. This coupled with proactive scheduled maintenance, proactively helps save money for both the garage and the car owner and builds trust with leasing customers. This approach already works very successfully in the truck sector.

AI-driven diagnostics: Even before a vehicle arrives physically in a garage AI-driven diagnostic systems will help technicians know exactly what needs fixing. Reducing guesswork will enable the garage to improve efficiency levels, therefore improving workshop capacity and keeping costs under control.

Smart inventory management: This approach leverages machine learning algorithms, data analytics, and automation to improve efficiency, reduce costs, and enhance decision-making.

AI inventory management keeps track of a garage's parts inventory and links with both the predictive and AI diagnostics that ensures parts are ordered "just in time" and available for when work commences on a vehicle. It enables garages to optimise their parts inventory based on 'what they need' rather than 'what they might need'.

All three when interlinked will be game changers and will provide all stakeholders with benefits from improved efficiencies and better customer satisfaction.

Opinion - ZEV Mandate – trouble ahead?

Dylan Setterfield - Head of Forecast Strategy, cap hpi

Most in the industry are familiar with the UK ZEV (Zero Emission Vehicle) Mandate: manufacturers are forced to sell more new battery electric vehicles or face hefty fines. Strictly speaking, we should be referring to it as the Zero Emissions Trading Scheme (ZETS), but ZEV Mandate is much more familiar and avoids confusion with the more comprehensive EU Emissions Trading Scheme.

The legislation also includes sections to ensure that CO2 emissions from ICE cars continue to reduce from a 2021 baseline and there are several ‘flexibilities’ which manufacturers can potentially utilise to avoid paying fines. The calculations are performed on a group basis, so for example there is one result for Stellantis, rather than separate calculations for each brand and Volvo, owned by Geely, are supported by Polestar from the same group.

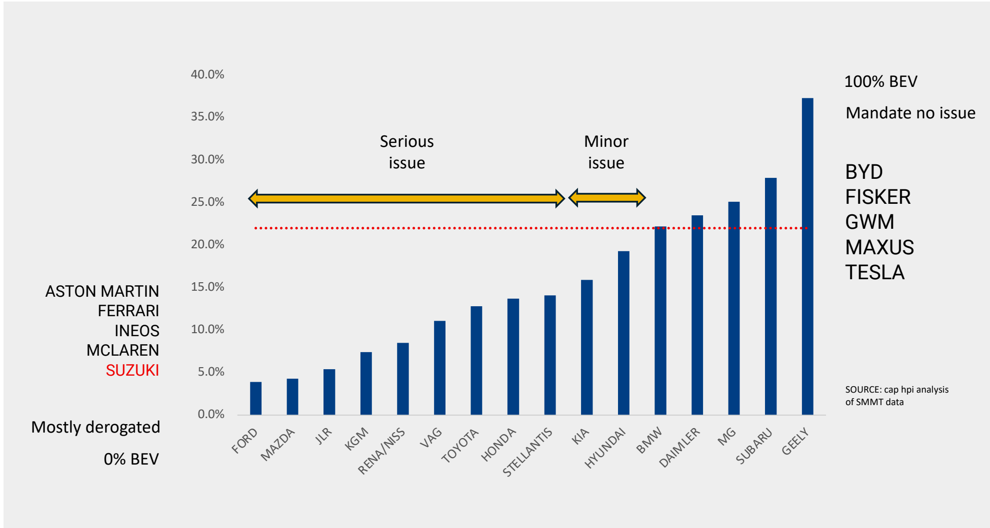
The “trading” element of the scheme is complex and, remarkably, some of the finer details are still to be finalised. Essentially, OEM groups who are unable to meet the ZEV registration target can buy ‘credits’ from other manufacturers who have exceeded the requirement, principally those who are purely electric, such as Tesla. There is also an option to ‘borrow’ credits from the future, effectively betting on improved future performance to compensate for any shortfall today. Further credits may also be gained depending on the 2021 baseline for non-ZEV vehicles.

For passenger cars, several manufacturers (including many of the new entrants) are 100% electric or very heavily weighted towards ZEVs. Amongst the traditional OEM groups, Subaru, Daimler and BMW are already meeting the 22% target so far this year. Hyundai and Kia are well on their way at 19% and 16% respectively, but everyone else is currently well below the required level and will almost certainly need to take advantage of one or more of the ‘flexibilities’.

Most of the groups not currently selling BEVs have registrations low enough that they are likely to obtain “derogation” from the legislation: effectively, they aren’t required to meet the target, at least for now. Suzuki, however, are still to register any battery electric vehicles (eVX is not due to hit the UK until next year) and have already sold too many cars this year to achieve derogation, whereas KGM (ex-Ssangyong) may manage sales to below the 2,500 limit if needed.

We are already seeing significant new car discounting on BEVs as manufacturers strive to maximise retail sales and used values have suffered significantly on some models. Further turmoil is expected.

May-24 YTD - OEM Groups BEV achievement vs. ZEV Mandate (22%)



Opinion - new and used market overview

Rachael Jones - Director of Automotive Finance, Auto Trader

As we reach the six-month mark, I wanted to share my observations of 2024 so far, as well as my expectations for the rest of the year ahead. Halfway through and it's already clear that 2024 will be a landmark year for the industry. This is perhaps most evident in the new car market, which has pivoted to a 'push' model as brands face a challenging combination of new regulatory targets, growing competition, increased production, and softening retail sales.

How brands are responding to a challenging new car market

We can see on our platform how brands are responding. More than half (53%) of all new car models advertised on Auto Trader have seen a gradual reduction in price over the last 12 months, some models by up to 20%. Around 75% of brand-new electric vehicles are being advertised with a discount applied, whilst average prices are falling for seven in 10 new EVs.

What's more, the volume of new car stock on our platform has increased by nearly 40% since last summer as brands look to take more of their new cars out of hiding. In the last six months alone, supply levels are up by nearly 20%. As pressure to achieve the strict ZEV Mandate target tightens, we can expect these trends to intensify.

This improved availability and greater affordability is proving to be a compelling combination for consumers, as views for new car adverts have risen over 22% over the last 12 months. What's more, our latest consumer research shows that over a third (34%) of car buyers are considering electric for their next purchase, which is up from a quarter (26%) in August 2023.

However, as two thirds of UK drivers buy used cars, the second-hand electric market is where most of this uptick in consideration will be felt most keenly. Encouragingly, used EV demand on our platform has reached record levels, with sub-five-year-old models accounting for nearly one in 10 used car advert views and enquiries.

Used car market entering H2 with momentum

On used cars more broadly, the market entered 2024 on a firm footing, with consumer demand, speed of sale and transactions all in a robust position.

Six months on, and despite an at times uncertain economic and political backdrop, the underlying health of the market remains very strong; prices are stabilising, demand is healthy, cars are selling quickly, and critically, transactions are above where they were last year.

The market is being boosted by economic green shoots, with consumer confidence rising in the wake of falling inflation and anticipation of further tax cuts on household budgets. There may be some disruption with the Euros and General Election, but the impact on car buying will be temporary, and our outlook for the months ahead remains very positive.

We'll continue to follow these trends closely and as ever, if anyone would like to discuss any of these insights in more detail, please don't hesitate to get in touch with me.

For full data, visit the BVRLA data hub at:
https://www.bvrla.co.uk/resource/bvrla-data-hub.html

This report provides a consolidated view of the Quarterly Leasing Survey and the forward-looking Leasing Outlook report. In addition to the data highlights provided in this report, you can now access an extensive list of tables as part of the Quarterly Leasing Survey online, by following the link provided above.

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