Industry Insight

BVRLA

Leasing Outlook

July 2021

Risk and Recovery

Powering fleet renewal and managing concentration risk

Market spotlight
High demand, disrupted supply

Quarterly report
Growing momentum

Industry outlook
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Opinion
Partner insights

In association with: AutoTrader, apd, cap hpi, International Asset Finance Network Online

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Executive Panel

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**.

Keith Townsend
Managing Director, Agility Group

David Cooper
Managing Director, Arnold Clark Finance

Elliott Woodhead
Deputy Managing Director, Arval

Shaun Barritt
Group Chief Executive Officer, Grosvenor Leasing

Jon Lawes
Managing Director, Hitachi Capital Vehicle Solutions

Matthew Rumble
CEO, Kinto UK

Chris Black
Commercial Director, LeasePlan

Sebastiano Fedrigo
Managing Director, Leasys UK

Neal Francis
Divisional Managing Director, Pendragon Vehicle Management

Gordon Stephen
Managing Director, Ogilvie Fleet

Mark Hammond
Managing Director, TCH Leasing

Disclaimer

Any views set out in this report are from a range of different contributors and do not necessarily reflect the official opinion of the BVRLA. For full disclaimer details and guidance on how we manage compliant publication of members' data is available by visiting **https://www.bvrla.co.uk/resource/bvrla-data-hub.html**

Introduction

Welcome to the new look BVRLA Outlook report, which provides insights on a range of data compiled from members.

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 visiting: **https://www.bvrla.co.uk/resource/bvrla-data-hub.html**

This allows the output of the new report to focus on the most important issues identified in the data and gathered from industry interviews carried out each quarter, while also continuing to provide access to the granular detail of the research when members require it.

We have consulted extensively on the best way to provide insights to members as part of this redesign process and would welcome feedback as we develop this project over the coming months and years.

Open season

The UEFA European Championship has provided more than a sporting spectacle as it also marked the return of large crowds to public spaces.

As the world adapts to COVID-19, some restrictions may become a permanent part of life, but social and economic activity is clearly increasing; the hospitality industry is once again opening its doors while business leaders are discussing how and when they will return to the office, at least part-time.

This in turn is generating activity in the automotive sector, with new car sales growing while there is also strong demand in the used car market.

For the leasing sector, this has brought some welcome good news, as the overall BVRLA fleet returned to quarterly growth for the first time in Q1 2021, indicating the first signs of growth after 12 quarters of fleet decline.

This quarter-on-quarter rise, from 1,784,954 to 1,811,630 vehicles, represents a slight recovery for the car fleet, but record growth for vans, which now represent nearly one quarter of the overall fleet.

Like most other aspects of life under the shadow of COVID-19, there are challenges, not least a disrupted supply chain that has been beset by problems recently, ranging from a global microchip shortage that has hit manufacturers to the long-term impact of the Ever Given’s wrong turn in the Suez Canal.

There are also emerging concerns as demand for electric vehicles continues to grow, with leasing companies funding an ever-growing fleet of plug-in cars and vans without the clarity on residual values they normally insist on when setting rates for petrol and diesel vehicles.

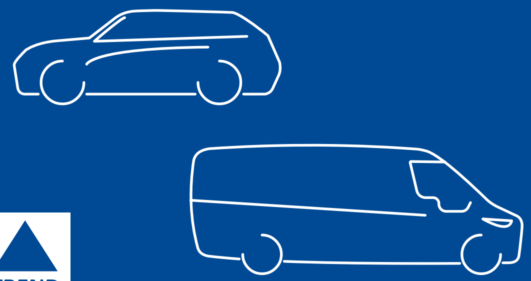
With a plug-in fleet now totalling more than 130,000 vehicles, leasing company predictions on future market values represent hundreds of millions of pounds of residual value risks.

“As the world adapts to COVID-19, some restrictions may become a permanent part of life, but social and economic activity is clearly increasing.”

Q1 2021 Data Focus

This quarterly data focus reviews the latest available data from Q1 2021. The first quarter of 2021 saw the UK enter its third national lockdown. Prime Minister Boris Johnson tried to provide some level of certainty about when and how restrictions would be lifted with a new roadmap, with each stage determined by how the fight against the virus was progressing. In the first quarter, there were signs of year-on-year growth compared to the worst of 2020 when lockdown first stalled the economy, but vehicle sales remained significantly behind the long-term average.

BVRLA DATA HUB



TREND

1,811,630

(+1.5% on Q4 2020; -1.5% yoy)

BVRLA total fleet

BVRLA fleet back to growth after 10 quarters of decline

The fleet of BVRLA members has been following a declining trend since Q4 2017, but the start of 2021 provided some positive news for the industry as both the car and van fleet increased in size compared to Q4 2020, rising 1.5% to 1,811,630. The car fleet rose 0.4%, but the van fleet increased in size by 5%. When comparing year-on-year performance, the car fleet is still declining, but at a slower pace. This came against the backdrop of renewed lockdown measures, with some leasing executives predicting stronger growth later in the year as restrictions gradually lift.

TREND

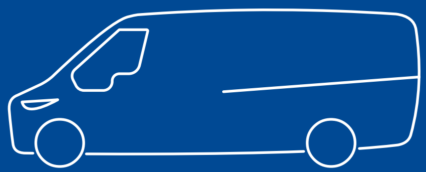
98g/km

Avg business car fleet CO_2 emissions

Business car fleet average CO_2 drops below 100g/km; new business cars drop to 70g/km

Rising demand for electric vehicles is having a dramatic impact on average CO2 emissions of member fleets. While average emissions for the whole car fleet remain static compared to Q4 2020, at 110.6g/km, business car fleets are driving change, with average fleet emissions of 98g/km. When it comes to new additions, the average emissions of new business cars is just 70g/km, as tax incentives drive cleaner vehicle acquisitions. Cars obtained on personal leasing have significantly higher emissions, as they are not subject to the same incentives, with CO2 from new additions to the PCH fleet averaging 120g/km.

Q1 2021 Data Focus

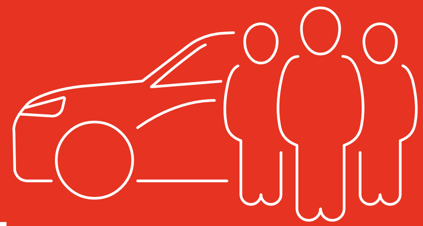


TREND

440,502

(+5% on Q4 2020; +4.3% yoy)

BVRLA van fleet

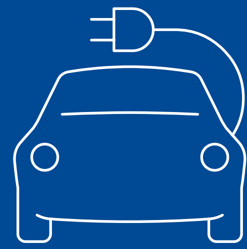


TREND

1,371,128

(+0.4% on Q4 2020; -3.3% yoy)

BVRLA car fleet



TREND

47%

Proportion of orders taken by electrified vehicles

Van fleet breaks records as boom continues

The BVRLA van fleet has leapt to an all-time high according to new figures, with the total number of LCVs reaching 440,502, a 4.3% year-on-year rise. There has been increasing demand for commercial vehicles during the pandemic amid a growing market for home delivery and mobile services. The increase in demand has been focused around business contract hire, with consumer demand accounting for just over 1% of the market. The arrival of Clean Air Zones during 2021 in major cities could drive more leasing growth, as some companies opt to renew their older vans to avoid charges.

Recent car fleet growth limited by BCH decline

The BVRLA car fleet increased in size during Q1 2021 compared to the end of 2020, marking the third quarter of growth in a row. Despite this, the fleet is still 3.3% smaller than the same period in 2020; the fleet has recorded year-on-year falls in Q1 since 2019. The decline is entirely down to the business fleet. At 1,017,950, it was down 2% compared to Q4 2020 and down 7.3% year-on-year. Growth was delivered by the consumer fleet, which increased 10.3% year-on-year to 353,178 cars. Industry leaders predict the trend will continue, with the business fleet likely to fall below 1 million next quarter.

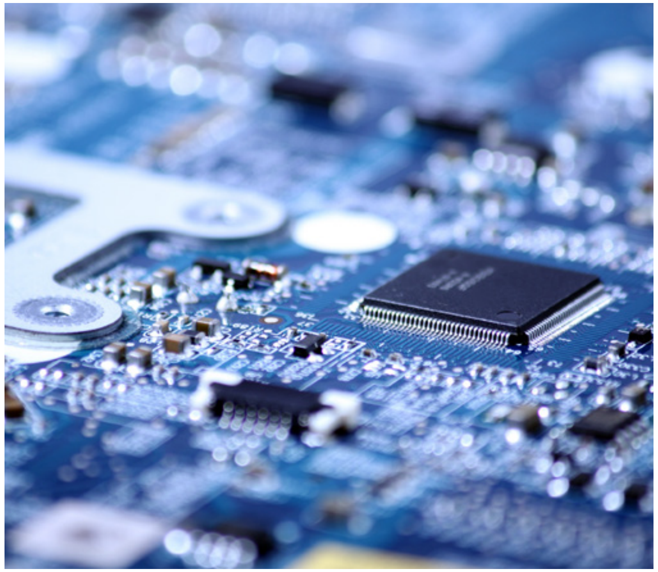
Alternative fuels account for majority of orders as electric overtakes diesel

Fleets are funding record numbers of electric vehicles, with plug-in cars accounting for around one-third of orders during Q1 2021. In total, 47% of new vehicle orders during the quarter were for plug-in or hybrid vehicles, with 19% for pure electric variants, three percentage points more than diesel. Order volumes were subdued because of the ongoing lockdown at the start of the year, so an accurate figure on market share won't appear until market-wide demand grows as lockdown eases, but there are clear signs of rapid change. Across the BVRLA overall fleet, BEV and PHEV vehicles now account for 13.2% of cars.

Market Insights

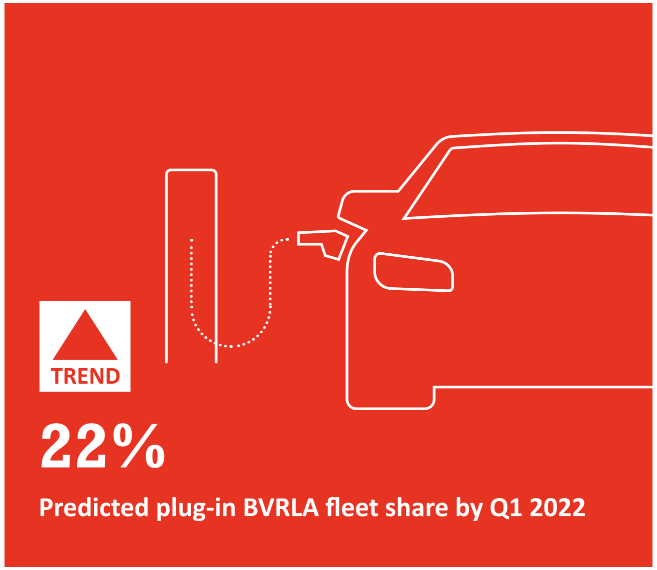
Leasing companies currently face significant challenges balancing supply and demand. Order banks are growing and many fleets are expecting vehicles to arrive quickly so they can replace models whose replacement may have been postponed during the worst of the pandemic.

But this coincides with supply chain difficulties, ranging from Brexit-related delays to manufacturing problems caused by a global microchip shortage. One leasing leader said: "There is likely to be a shortage of supply as economic uncertainties, post-Brexit logistical challenges, limited supplies of semi-conductors, local market production challenges, and exchange rate pressures result in supply potentially being directed to more profitable markets outside of the UK."



Chips with everything - lack of microchips affects production, delivery and customer service

A global shortage of semiconductors could continue until the first half of 2022, according to industry analysts, which will cause long-term logistical problems for the automotive industry. Microchips are essential to a wealth of modern products, but cars are particularly reliant on processors for everything from entertainment to braking systems. As the COVID-19 pandemic took hold, staff at semiconductor factories were unable to work and plants were closed, while transportation was also restricted. The shortage has played havoc with the just-in-time supply chains of modern vehicle manufacturing and is also threatening to push up costs. Leasing companies will need to keep customers regularly updated about deliveries to avoid customer service issues caused by unexpected delays.



Concentration risk – funding a £5 billion EV fleet without adequate RV data

By the start of 2022, the leasing industry will have invested an estimated £5 billion in procuring battery electric vehicles and plug-in hybrids for customers. As leasing companies meet growing customer demand, while also remaining competitive on price, they are managing a growing level of residual value risk. As one leasing company executive said: "The future residual value risk on these cars is completely unknown and it is concerning."

The BVRLA is working with stakeholders across the automotive sector to explore a range of supporting measures including used BEV labelling, battery health certificates and EV residual value underwriting.

Market Insights

Plug-in revolution threatens to disrupt brand loyalty

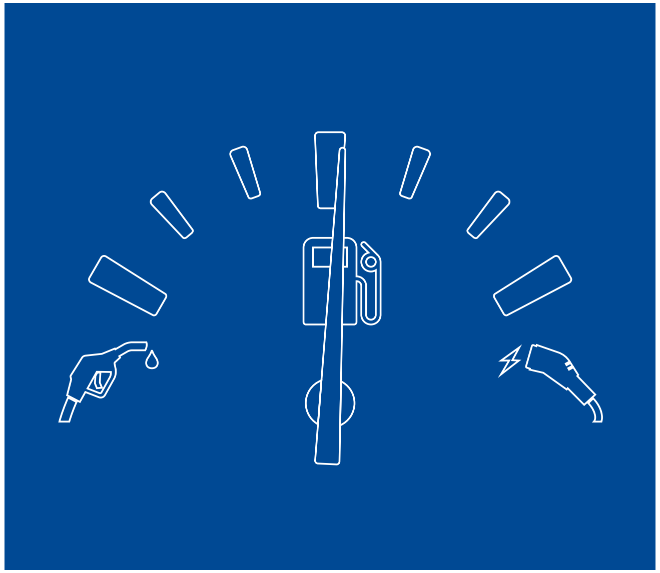
What role does brand play when it comes to customer choices in the electric vehicle market? According to leasing leaders, there are indications that customers are less brand loyal when choosing a plug-in car, as badge and brand tend to matter less than the battery and its range. Tesla is one of the most high-profile disruptors, but other manufacturers have been quick to get vehicles to market before some of Europe's biggest brands.

The question is whether buyers will return to their old loyalties once there is a range of electrified cars on offer from every manufacturer. One leasing company leader commented: "When it comes to electric then there is no brand loyalty just now but this may change when more electric models come to market."

Maintaining order – what problems could lack of PCH maintenance contracts bring?

The majority of customers using business contract hire (BCH) choose to include maintenance in their contracts, but for personal contract hire (PCH) it was just 13% in Q1 2021. PCH customers tend to opt for shorter length contracts with fewer miles, but their mileages are still high enough to require a visit to the garage, so is this storing up issues for the future?

If customers don't clearly understand their contractual commitment to look after a car, it can lead to conflict and additional administration costs for leasing companies, in addition to reputational damage if customers vent their frustration on online review sites or social media.



Silver lining to diesel's dismal year

The slump in diesel demand in the fleet market has relegated the fuel to third place behind petrol and alternative fuels in the past year and the decline is predicted to continue.

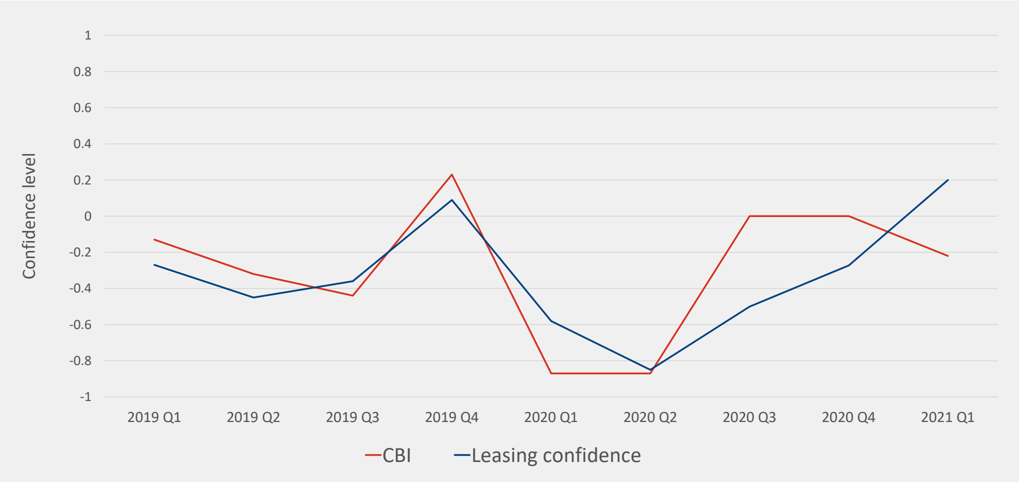
Leasing executives say that, over the long-term, diesel demand will continue falling away in the new market to be replaced by a mix of petrol, PHEV and BEVs.

However, the short-term outlook is more positive, with leasing executives predicting a rise in the volume of diesel sales among fleets that have not yet adapted their policies to include alternatively fuelled vehicles.

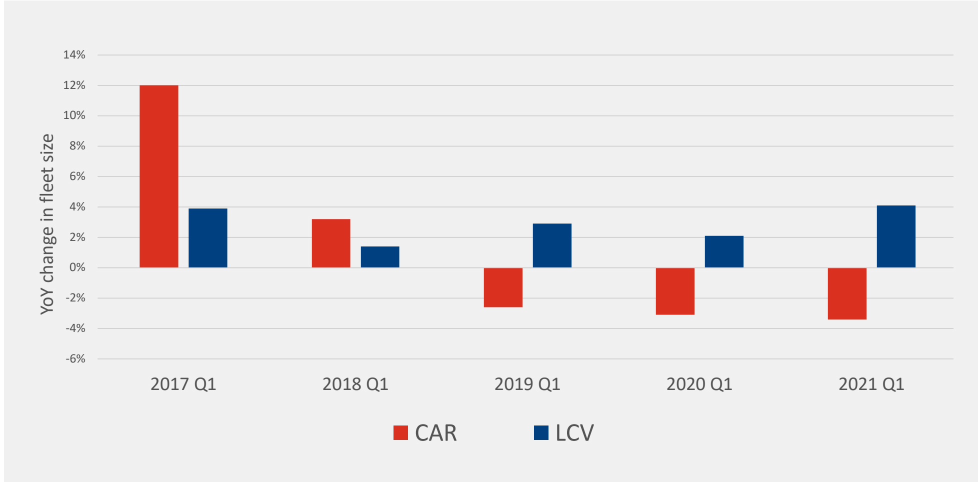
Furthermore, demand for diesel is still strong enough in the used car market for sellers to keep prices high.

Data Bank - Q1 2021

Leasing industry and CBI confidence



Year-on-year change to BVRLA car and van fleet



UK Economy

The CBI's quarterly gauge of optimism in the UK dropped in the first quarter of 2021 amid expectations of a fall in output and new orders in the three months ahead. There were reports of increased stockpiling in expectation of supply problems from both Brexit and COVID.
By contrast, leasing companies showed a positive outlook for the next six months for the sector, with confidence rising to the highest level since just before the pandemic struck.

TREND

20
(up 47 points)
BVRLA

TREND

-22
(down 22 points)
CBI

BVRLA Fleet sizes

The BVRLA car fleet fell year-on-year during Q1 2021, but the pace of decline is slowing after several quarters of substantial falls. By contrast, van leasing achieved one of its best quarters on record.

TREND

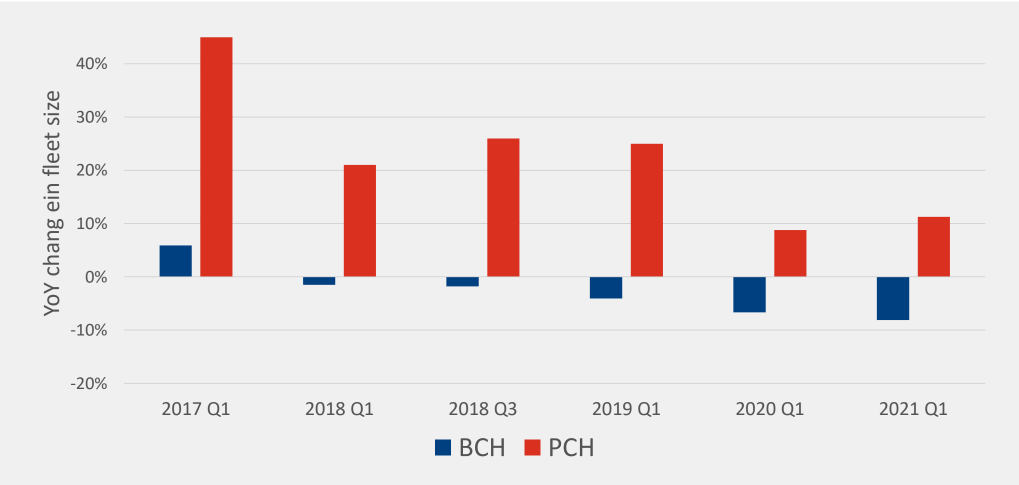
1,371,128
(+0.4% on Q4 2020; -3.3% yoy)
CARS

TREND

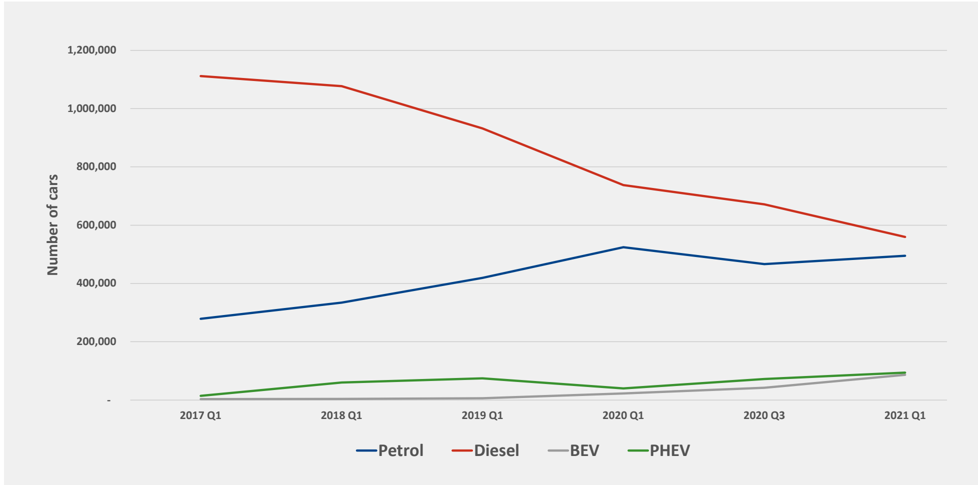
440,502
(+5% on Q4 2020; +4.3% yoy)
VANS

Data Bank - Q1 2021

Year-on-year change to BVRLA BCH and PCH car fleet



BVRLA fleet share of car fuel type



PCH and BCH

In the past 16 quarters, there has only been one (Q3 2020) where the BCH fleet increased in size compared to the previous three months. Q1 2021 continues the downward trend, with both quarterly and annual falls in fleet size.

By contrast, PCH continues to grow with strong demand returning after fleet size increases slowed during 2020.

TREND

762,457
(-1.6% on Q4 2020; -8.1% yoy)
BCH

TREND

303,022
(+9% on Q4 2020; +11.3% yoy)
PCH

Fleet fuel share

Tax incentives, the promise of lower running costs and environmental commitments are driving a rapidly increasing fleet share for plug-in vehicles. Drivers and companies are showing growing confidence in pure electric vehicles, with the fleet close to reaching parity with PHEVs.

TREND

16% **share of new vehicle orders**
Diesel

TREND

19% **share of new vehicle orders**
BEV

Opinion - used market overview

AutoTrader

Ian Plummer
Commercial Director, Auto Trader

"Huge demand is fuelling record price growth and exceptional sales performance."

We have been tracking hundreds of thousands of price movements every day since 2011 to ensure our data is a true reflection of the market. As of June, the average price of a used car has increased consecutively for 15 months, and at over 11% it is the highest year-on-year price growth we've ever seen. It also marks the highest single monthly increase, and by some margin, jumping sharply from the 8.1% recorded in May.

Supply constraints have compounded the situation; however it is the record level of consumer demand that is fuelling this massive acceleration in prices. In June, our marketplace saw 66.6 million cross platform visits, representing a 34% increase on June 2019. Demand isn't limited to just used, as 1.5 million people viewed a new car on Auto Trader in June, which is up 54% on June 2019.

Another testament to underlying levels of demand is the speed that retailers are selling cars. In January it took an average of 40 days for new stock to leave forecourts. By April this had fallen to around 30, and over the past two months it has fallen to just 23 days.

In addition to surging price growth, this huge demand is resulting in many retailers reporting record used car sales. In fact, according to our data, average sales volumes in Q2 2021 increased around 12% on the same period in 2019.

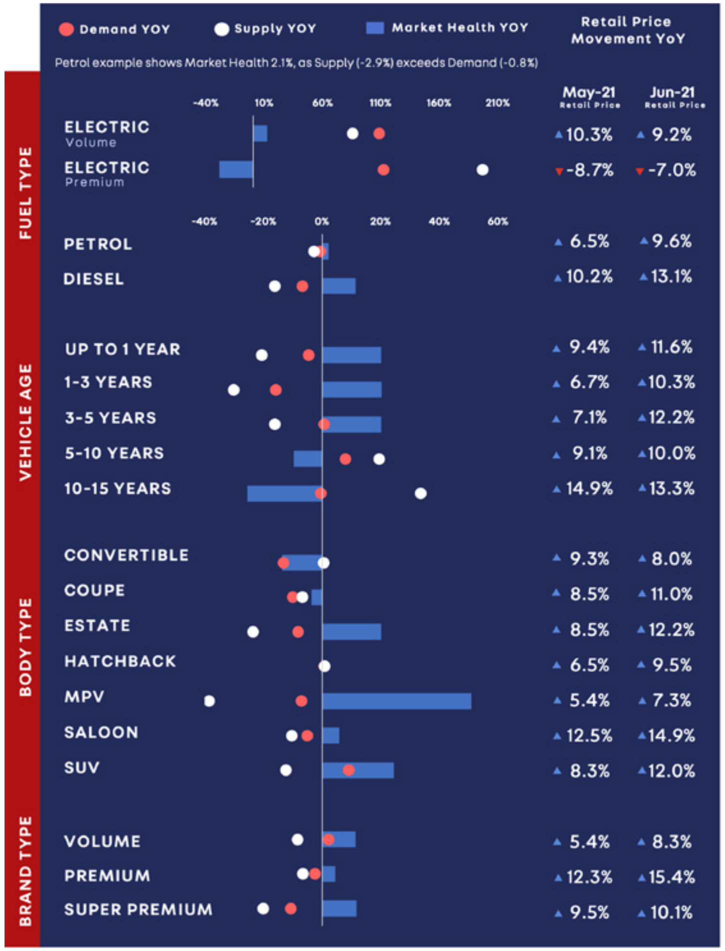
Based on a myriad of factors, not least the 1.7 million transactions 'lost' in 2020 while showrooms and forecourts were closed, we predict the exceptionally strong levels of demand will continue for much, if not all, of 2021, which should sustain good used car transaction levels.

As well as this potential sales backlog, the growing personal economic stability amongst consumers - disposable income and savings - will be another important influence on the levels of demand this year, as will the growing levels of consumer and business confidence.

The forward outlook on pricing remains positive too. The steep trajectory we have been recording will begin to balance out as pressure on supply channels eases and the current levels of demand soften, but we are confident that, even if the level of price rises begins to flatten from current record levels, we will continue to see robust price growth for some time to come.

Demand, supply, market health & price movement

Charts show yoy growth - Market Health (blue bar), Demand (red) and Supply (white), with pricing movements.



Opinion - used market prices

cap hpi

Dylan Setterfield
Head of Forecast Strategy, cap hpi

"Every day through June and into July, values have maintained their seemingly inexorable rise."

The scale of the movements in used car trade prices in recent weeks has been hard to comprehend. A new record was set for cap Live during April, as some vendors recognised the strength of demand from dealers after their physical re-opening and increased their prices aggressively. Our monthly values for May book were up by 2.1% on average at 36/60 versus April book, surpassing the total increase seen in 2020 when lockdown was lifted. Consumer demand continued to boom and dealers were faced with prices increasing again. And again. Our "Live" used values had never been so essential for buyers and sellers alike, with every single day resulting in staggering increases on the previous day – cars which had been dismissed as far too expensive on Monday looked cheap by Wednesday and fantastic bargains by Friday. June's book was up a whopping +6.7% on average, defying all expectations. Surely it couldn't continue? Oh, yes it could.

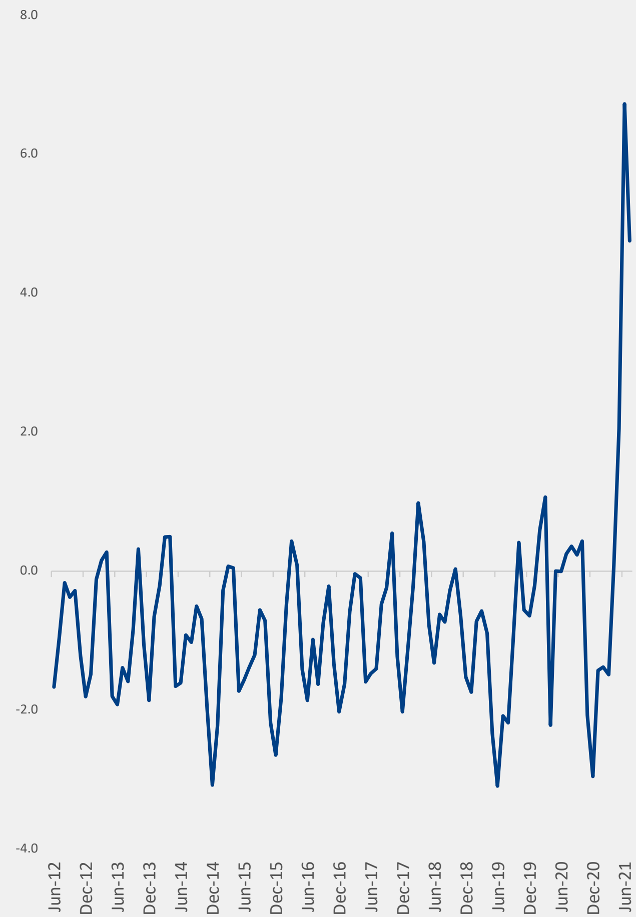
Every day through June and into July, values have maintained their seemingly inexorable rise, up another incredible +4.8% in July's monthly publication and set to increase yet again into August. It can't continue.

We are already seeing logical relationships broken and nearly new used values for many mainstream cars close to, or over, list price. Once the market stabilises, however, we don't expect price falls to mirror these extreme increases; supply issues, exacerbated by the global semi-conductor shortage, will continue to limit the damage, even if consumer retail demand should falter from its current position of strength.

Instead, we expect a couple of further months of modest increases, followed by a gentler series of negative adjustments, more akin to typical seasonal adjustments. There will be exceptions, as some of those logical relationships will realign; some nearly new values will diverge back away from new car prices (probably aided by list price increases in many cases) and some models and sectors with the most extreme increases will revert to more modest levels. In some cases, however, a new market will have been set and models will move forward with scant regard for their previous position in the used market.

Predicting future values has never been more challenging, but the reassuring factor for residual value setters is the guarantee of reduced used car supply in the future, as a result of lower new car registrations throughout 2020 and 2021. One thing is for sure: we will never see another increase in used values like we saw during May this year.

Monthly % movement cap Live



* cap Live trade values change every day, but monthly values are taken as a snapshot at a scheduled date towards the end of each month.

Opinion - customer satisfaction

Dr Andrew Skelhorn
Research and Insight Director, APD Global Research

"The upward trend reported in Q4 2020 has continued despite the lockdown announced at the end of December."

In this quarter's Leasing Outlook, we compare customer and driver satisfaction over the last 18 months and survey comments using APD's Sentiment.360 analytics tool to discover what lies behind the results and the role supply chains have on overall satisfaction (CSAT) and Net Promotor Scores (NPS).

Trends

The upward trend reported in Q4 2020 has continued despite the lockdown announced at the end of December.

CSAT scores in Q1 2021 exceeded or were close to pre-pandemic levels in service and repair (SMR), vehicle order (VO) and delivery (VD), with Q2 2021 SMR and delivery scores equally robust (Graph 1).

An analysis of driver comments shows the resolution of mechanical issues increased significantly (14%) since 2019, with the convenience of online booking (4%) and the performance of garage staff (5%) also improving slightly (Graph 2).

Vehicle order and delivery satisfaction have begun trending downwards so far in Q2 2021 due to driver frustration with vehicle availability and lead-in times, but driver sentiment remains high compared with pre-pandemic levels. The usability of order systems (11%), communication (10%), and quality of online information (8%) are all higher than 16 months ago. In summary, the 2021 results show that in-life services are performing well.

Supply chain impact

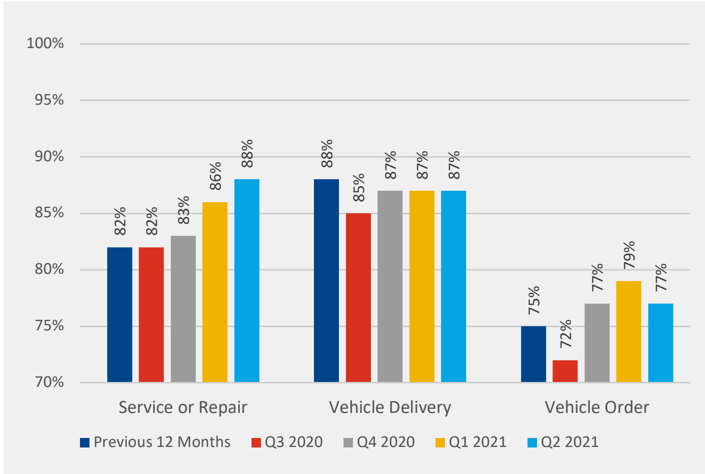
The need to keep Britain on the road has meant rapid changes to work practices were necessary for third party supplier networks. The additional costs for opening workshops and keeping them staffed while coping with lower service volumes, and without revenue contribution from vehicle sales for franchise operators, has been financially challenging.

Their role in maintaining in-life services on behalf of BVRLA leasing and broker members has ensured driver confidence has remained high. So, who are the star performers delivering the best service and repair experience? Is there any difference between franchise and independents, or whether supplier management is outsourced or handled in-house?

In next quarter's BVRLA Outlook report, APD will be revealing the answers along with the top and bottom five factors that influence driver satisfaction and NPS scores, plus an industry first with APD's NSI (Nett Sentiment Index) analysis of driver sentiments and expectations.

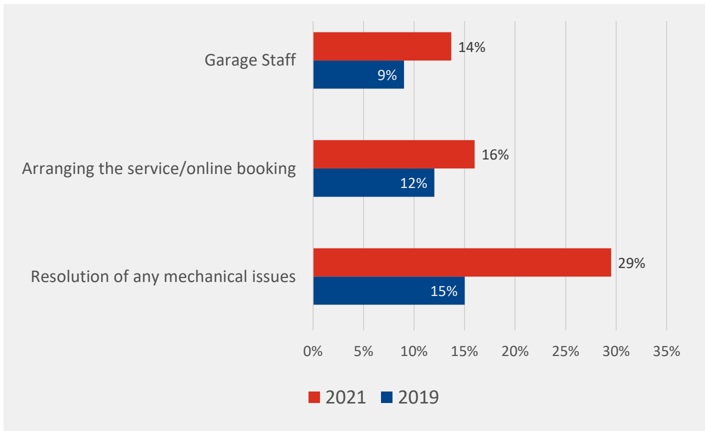
All leasing company CSAT trend

Previous 12 Months vs Q3 2020 to Q2 2021 By Quarter



Positive factors - service maintenance & Repair

2021 vs 2019

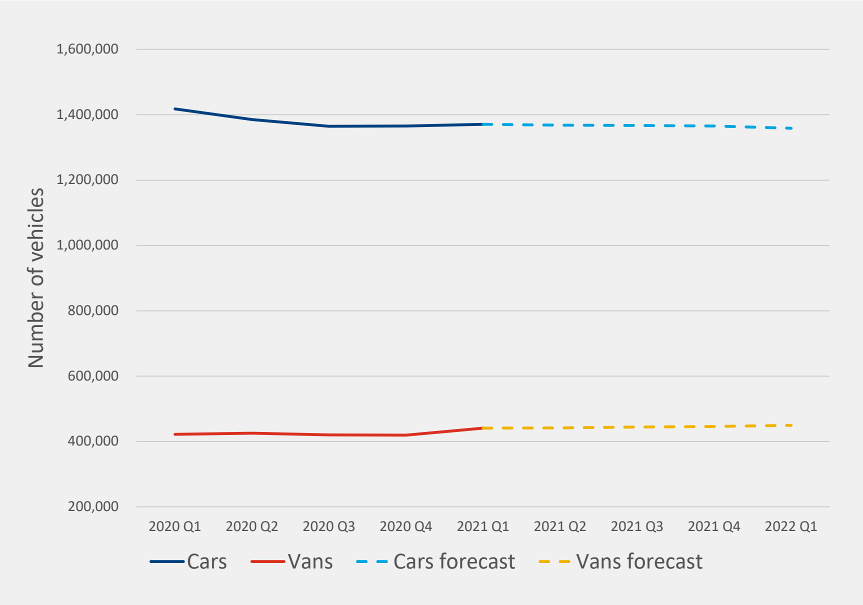


Market Forecast

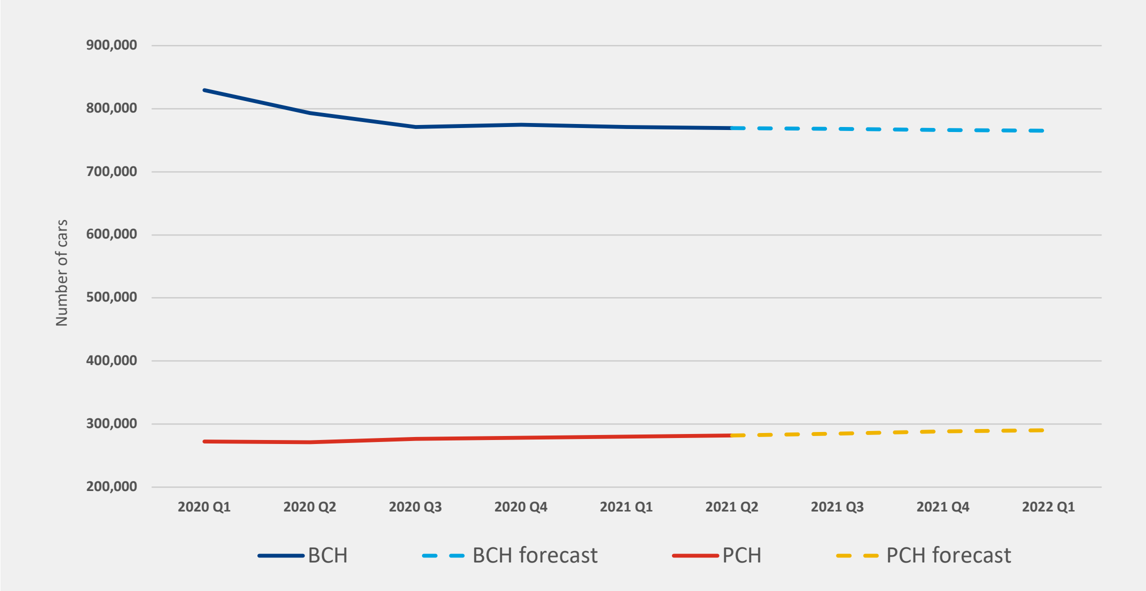
BVRLA Fleet Outlook

Leasing executives are confident the total BVRLA fleet size will continue to grow throughout 2021, but they are less positive about the car market, with expectations that the end of furlough will bring a reduction in fleet sizes. After a strong start to the year, van fleet growth is also expected to be more modest for the rest of 2021.

BVRLA car and van fleet forecast



BVRLA BCH and PCH fleet forecast



BCH v PCH

The reduction in the BCH fleet is predicted to continue throughout 2021 but decline will slow compared to 2020, leaving the fleet down around 1% by the end of the first quarter of 2022. The PCH fleet is expected to continue to grow steadily and in a year's time will have increased by a predicted 4%.

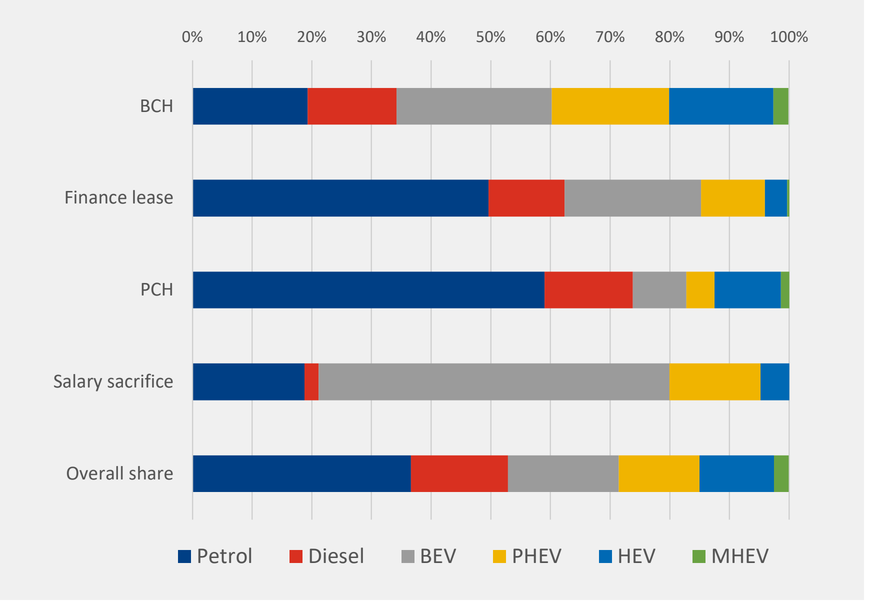
One fleet executive said: "Our expectation is that BCH will come under increasing pressure as the effects of different ways of working affect fleet decision-making, with drivers moving into personal leasing contracts." This is not a universal view, however, with some industry leaders believing BCH could grow as drivers are enticed back by low company car tax rates.

Market Forecast

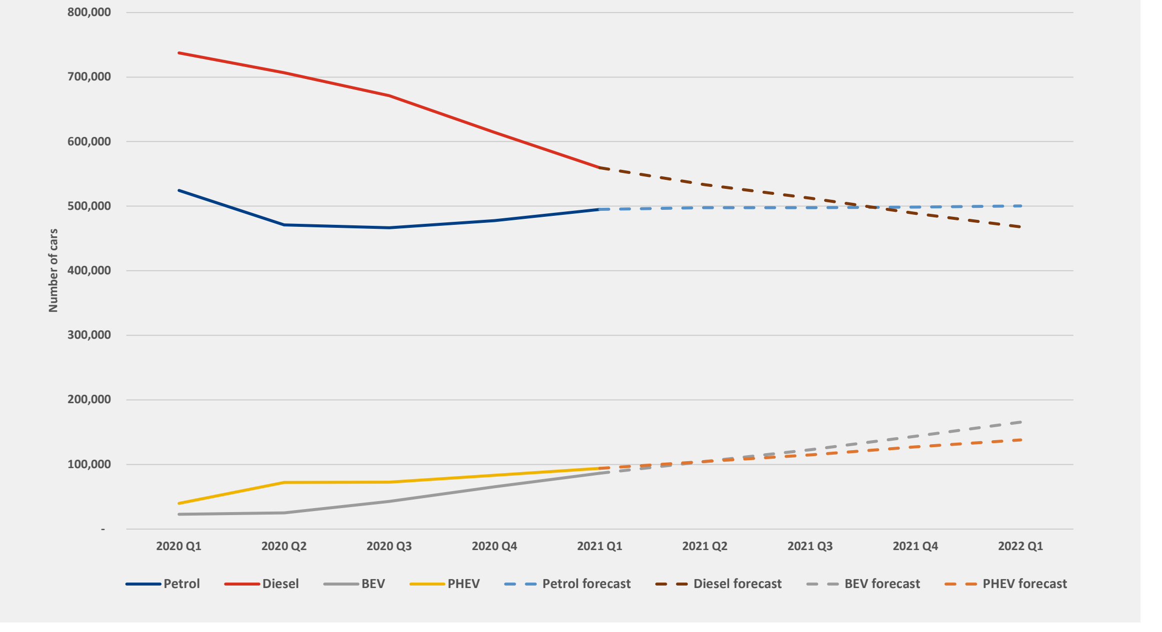
BVRLA fuel share

There is a clear changing of the guard as alternative fuels replace diesel on a growing number of fleets. The pandemic has accelerated the shift away from diesel with fleet demand diverting to both petrol and alternative fuels.

New car order fuel share by funding method Q1 2021



BVRLA fleet forecast by fuel type



Fuel choice forecast

According to leasing executives, demand for battery electric vehicles is evolving faster than expected and there is broad agreement that the BEV fleet will exceed the PHEV fleet this year. This is in part down to the substantial company car tax incentives being offered for electric cars, but also reflects the growing level of confidence in the technology, along with an expanding choice list as volume manufacturers roll out a series of new zero-emission models. The consensus among industry leaders is that diesel's share of the fleet will continue to fall as the year progresses, although there may be a short-term spike in demand as the economy restarts. One executive said: "The growth in PHEV and BEV will continue if supply can keep up and we believe this will be at the expense of diesel rather than petrol."

BVRLA DATA HUB

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

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