Leasing Outlook

Jan 2023

In the eye of a storm

Challenging market conditions and economic headwinds hit leasing... but BIK certainty offers some relief

Market spotlight
Long lead times, vehicle price rises and interest rate increases

Quarterly report
Positive trajectory for salary sacrifice

Industry outlook
Confidence provided by supportive, long-term benefit in kind tax rates

Opinion
Robust levels of consumer demand should be sustained in 2023

In association with:

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Executive Panel

Keith Townsend
Managing Director, Agility Group

Tim Laver
Managing Director, ALD Automotive

David Cooper
Managing Director, Arnold Clark Finance

Elliott Woodhead
Deputy Managing Director, Arval

Andy Bruce
CEO, Fleet Alliance

Jon Lawes
Managing Director, Novuna Vehicle Solutions

Matthew Rumble
CEO, Kinto UK

Chris Black
Commercial Director, LeasePlan

Neal Francis
Divisional Managing Director, Pendragon Vehicle Management

Gordon Stephen
Managing Director, Ogilvie Fleet

Paul Parkinson
CEO, Synergy Car Leasing

Mark Hammond
Managing Director, TCH Leasing

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

By the end of Q3 2022, the BVRLA's leasing company members were looking at a year of solid profitability despite a slew of challenges.

Experienced executives report that trading conditions have never been as difficult, despite a buoyant market for used cars keeping accounts comfortably in the black.

Order books are fuller than ever, with companies not expecting delivery times to return to a pre-Covid normal until the final quarter of 2023, if not 2024, but choppier waters lie ahead.

Steep and frequent price rises for new vehicles, compounded by the rapid step-up of interest rates, are forcing a constant review of lease rentals. The absence of price protection from manufacturers after an order has been placed is leading to uncomfortable conversations with leasing customers about raising rentals before a vehicle has been delivered.

With the FCA's new Consumer Duty insisting on the 'fair' treatment of private customers, leasing companies are grappling with the need to be crystal clear with their terms and conditions while dealing with ever-changing commercial conditions.

In the vanguard of the UK's charge to zero emission motoring, the BVRLA's lease fleet is reporting substantial year-on-year declines in its average CO_2 emissions, which at 83.3g/km are now 29% lower than the same quarter of 2019.

Battery electric motors powered 33% of all new additions to the lease fleet in Q3, making this the dominant powertrain, while plug-in hybrids accounted for a further 14% of new arrivals – cars with a plug came close to a 50% share of all new additions, and are the dominant energy in both business contract hire (61%) and the burgeoning salary sacrifice sector (94%).

Executives forecast that this momentum will continue thanks to the certainty provided by the government offering a long-term view of benefit in kind tax, and stepping up the tax rate to 2028 in steady increments that should not scare the horses.

There is, however, a question of whether the inflationary pressures borne by business and private customers will stymie growth as clients of all sizes pay close attention to their bottom lines. The BVRLA lease car fleet is smaller now than in any third quarter for more than five years, with 120,000 fewer cars than in 2017, although some of this shortfall will be filled as outstanding orders are delivered.

Heading in the opposite direction is the BVRLA light commercial vehicle lease fleet, which has grown in size every quarter since 2017 and is now on the point of breaching the 500,000-vehicle mark for the first time, despite longstanding supply shortages.

There is divergence, too, between cars and vans in contract terms, with mileages shrinking for new car agreements to about 45,000 (well below the standard benchmark of 60,000 miles), as a result of hybrid working patterns, while LCV customers are increasing the mileage thresholds of their contracts.

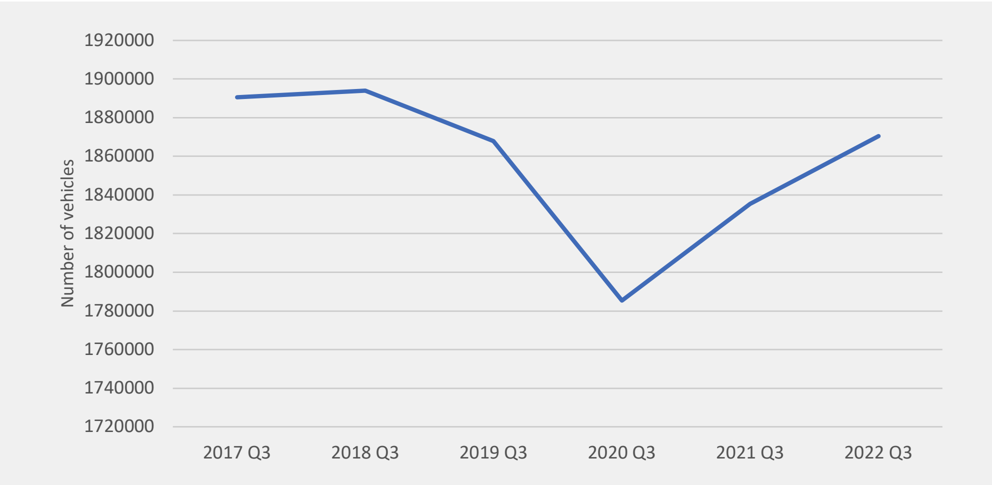
Leasing companies are also looking at holding onto vehicles for longer, with keen interest in developing second-life leasing products that take advantage of the long-term reliability of electric vehicles. There is growing industry confidence that there will be no cliff-edge of higher maintenance spend as EVs age. Used vehicle leasing volumes are still extremely low, but it's an area occupying a lot of bandwidth around the boardroom tables of leasing companies.

As 2023 dawns, the fixed cost advantages of leasing should be more appealing than ever, with business and private customers attracted to products that give budgeting certainty in an era of rising prices, increasing borrowing costs and inflationary maintenance spend. The challenge for leasing companies is to meet this demand while remaining profitable in turbulent economic times.

"The challenge of extended lead times is being compounded by general car price increases, smaller discounts and interest rate rises while we wait for delivery. It's a perfect storm."

BVRLA Fleet Focus Q3 2022

BVRLA total lease fleet (car and van)



BVRLA lease fleet creeps up year-on-year

Improved vehicle availability in September nudged the total BVRLA lease fleet 1.9% higher year-on-year in Q3 2022, to 1,870,560 vehicles.

The increase was driven entirely by light commercial vehicles, with total volumes 7.73% higher at 499,924 than in Q3 2021, continuing a pattern that has seen leased LCV numbers soar while lease car numbers have slipped.

In Q3, the lease car fleet was -0.06% smaller year-on-year as the chip shortage continued to impact supply. With the exception of Q3 2020, in the heart of the pandemic, this is the smallest third quarter car fleet for more than five years – 120,000 units down on 2017's total of 1,491,456 cars.

TREND

+35,079

(YEAR-ON-YEAR)

Increase in total fleet size

Overall fleet

Total fleet 1,870,560 vehicles

(+1.91% YEAR-ON-YEAR)

Share of total fleet

	Q3 2022	Q3 2021
Cars	73%	75%
Vans	27%	25%

Positive trajectory for lease fleet in Q3

For the first time in a year, the BVRLA lease fleet registered a quarter-on-quarter rise in Q3, up 0.76% on Q2. Van numbers were almost static, while the lease car fleet was 12,225 stronger.

Official SMMT figures for new registrations in the important plate-change month of September reveal the scale of the supply shortage facing the industry, with car sales down -34.4% on pre-pandemic levels, and van sales -35.5% below their five-year pre-pandemic average.

The one glimmer of hope is the improving reliability of delivery dates, with leasing executives reporting fewer cancelled or delayed orders, although lead times of nine to 12 months are still common.

TREND

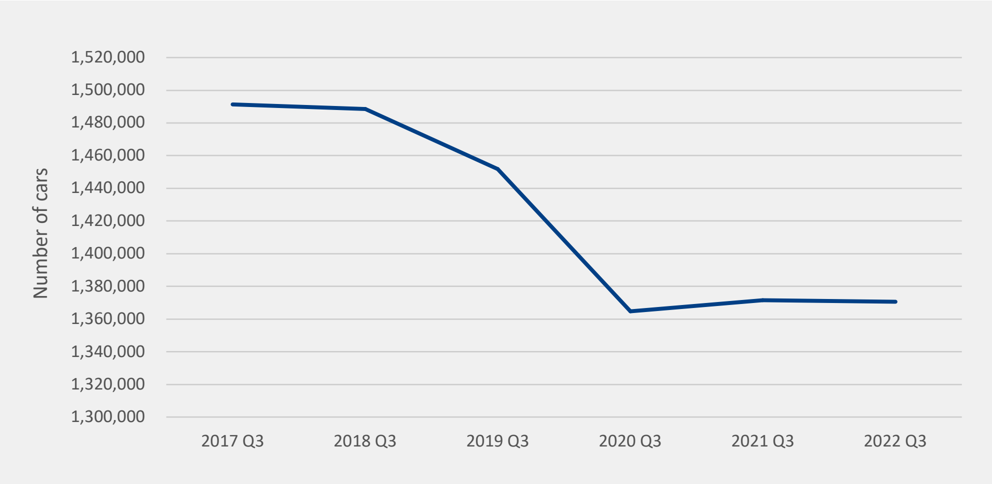
+14,076

(Q3 VS Q2)

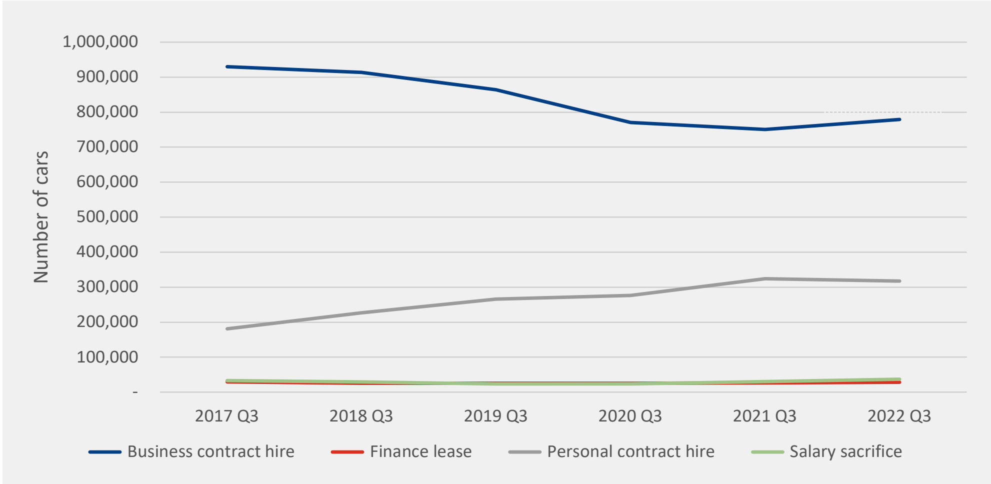
Increase in total fleet size

BVRLA Fleet Focus Q3 2022

Total car fleet



Car fleet funding



Lease fleet well below pre-pandemic levels

There's a danger of car supply forecasts sounding like a stuck record, "Things should be back to normal by this time next year..." In the meantime, however, leasing companies are wrestling with the twin challenges of maintaining ageing fleets and keeping customers happy as impatient company car and private drivers look to change their vehicles.

The total lease car fleet was 12,225 ahead of Q2, with a 20,000 increase in business leases undermined by a 7,000 fall in consumer leases.

Since Q1 of 2020, however, the pandemic has hit business leasing more heavily, with the total fleet contracting by 100,000 cars, while the consumer sector now boasts 50,000 more cars.

TREND

1,370,636
(+0.06% YEAR-ON-YEAR)
LEASE CAR FLEET

Salary sacrifice demand set to soar

Even the most cursory glance at the year-on-year performance figures for different types of car finance can't help but notice the 20.5% increase in cars funded through salary sacrifice. The volumes may be modest, at about 37,000 cars, but the trajectory is extremely positive, with leasing executives anticipating strong future growth following the confirmation of supportive benefit in kind tax rates for zero emission vehicles until 2028 (86% of new salsac cars are BEV). Business contract hire continues to grow, too, as companies seek the budgetary advantages of fixed cost motoring amid the current economic turbulence. Finance lease has also grown in Q3, compared to the same quarter of 2021, up 5.3%, and evidence of end-user fleets wanting more control of their vehicle holding periods, and perhaps also looking to benefit from the strength of residual values.

TREND

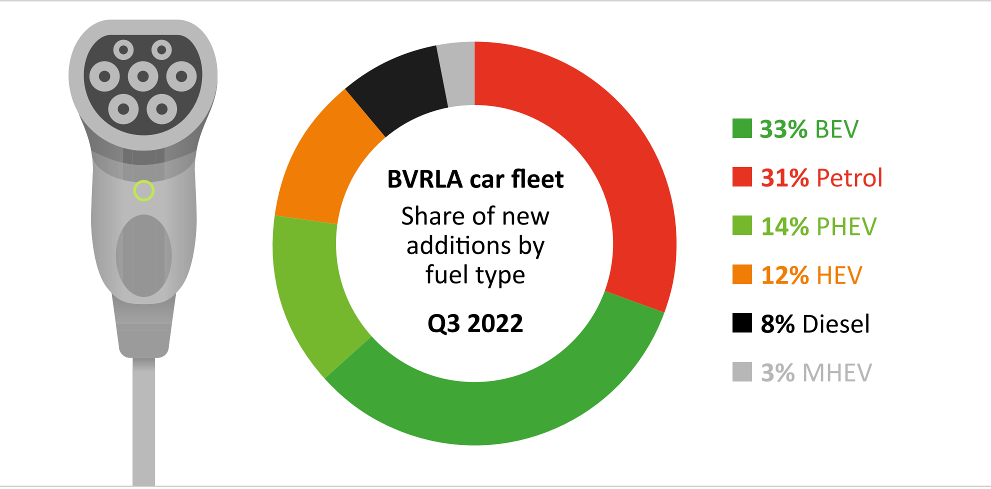
779,064
(+3.8% YEAR-ON-YEAR)
BCH CAR FLEET

TREND

+20.5%
YEAR-ON-YEAR GROWTH RATE OF SALARY SACRIFICE FLEET

BVRLA Fleet Focus Q3 2022

Car fuel choices



BVRLA fleet races to zero emissions

The decarbonisation of BVRLA members' lease fleets is happening at an extraordinary rate, slowed only by delivery delays of ultra-low emission cars.

Battery electric motors power one-third of all new additions to the fleet and 41% of all new business contract hire cars as company car drivers migrate to models with lower benefit in kind tax bills.

In an eye-catching turnaround, diesel now accounts for only 8% of new lease cars – in 2015, prior to the dieselgate scandal, the fuel had an 80% share of the BVRLA lease fleet.

Cars with a plug (BEV and PHEV) accounted for 47% of new additions to the lease fleet in Q3, and are close to becoming the dominant 'fuel' across the entire fleet, with a 32% share, compared to 34% for petrol, and 24% for diesel.

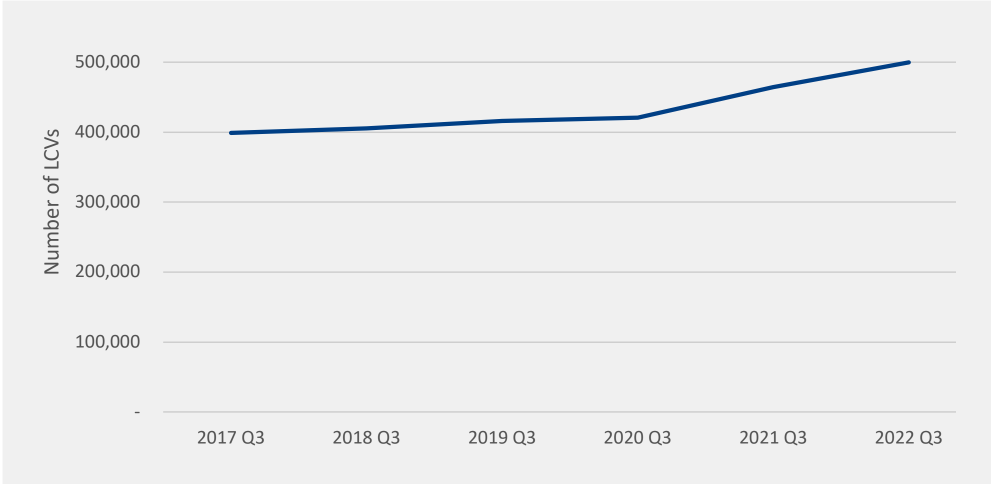
33%

BEV SHARE OF NEW ADDITIONS TO CAR LEASE FLEET

41%

BEV SHARE OF NEW BUSINESS CONTRACT HIRE CARS

Van fleet



Strong demand for LCV leasing

With the exception of one three-month period during the pandemic, the BVRLA's light commercial vehicle fleet has grown every quarter since the start of 2017, adding more than 100,000 vehicles in that time.

The LCV fleet is on the brink of passing the half million vehicle threshold for the first time, having grown 7.7% year-on-year to 499,924 vehicles. The growth has been achieved despite crippling supply shortages (new van sales were down year-on-year in each of the first eight months of 2022), indicating that the fleet is ageing.

Business contract hire accounts for 69% of the BVRLA's lease fleet, and executives expect it to increase its share as end-user fleets look for the most affordable ways to finance new vehicles in the face of steep (20+%) increases in new LCV prices.

TREND

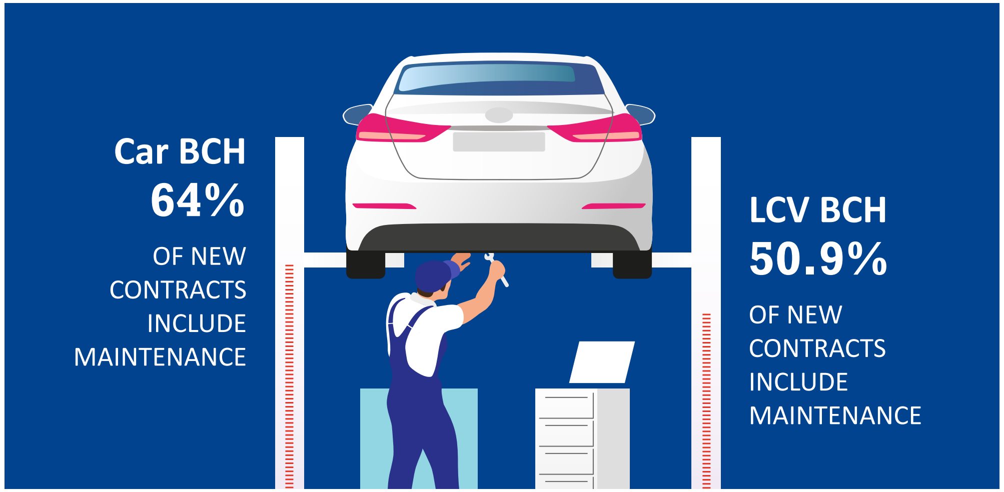
499,924

(+7.7% YEAR-ON-YEAR)

TOTAL VAN FLEET

BVRLA Fleet Focus Q3 2022

Maintenance contracts



To bundle or unbundle maintenance?

Quantitative data contradicts qualitative findings that business leasing customers are unbundling service and maintenance from contract hire agreements. While BVRLA members report that 64% of new business contract hire agreements include maintenance, compared to 72% of the whole BCH fleet, leasing executives report that, if anything, the trend is in the opposite direction as customers look to fix their maintenance spend amid double-digit inflation in parts and tyre costs as well as rising labour rates. This is clearly a trend in the consumer sector, where 35% of new contracts include maintenance, compared to 28% of the historic PCH fleet, while 89% of new salary sacrifice agreements are all-inclusive. Naturally, finance lease customers prepared to take the residual value risk on their vehicles are also taking service and maintenance risk, with only 7.4% bundling maintenance into their new car contracts and 4.6% into new van contracts.

TREND
562,838
BCH MAINTAINED CAR FLEET

TREND
217,517
BCH MAINTAINED LCV FLEET

Regulated contracts

FCA's Consumer Duty applies to growing share of lease contracts

An increasing proportion of lease contracts are coming under the FCA's Consumer Duty regulations, forcing leasing companies to pay more attention to the terms and conditions of their contracts, and in particular how these are communicated to customers.

In the business sector, 9.2% of new contracts are regulated, compared to 4.5% of the total fleet, while in the consumer sector 78% of new contracts are regulated. One of the most striking changes is in the salary sacrifice arena, where 31% of new contracts come under the Consumer Duty umbrella, compared to 5.6% of the total salary sacrifice fleet.

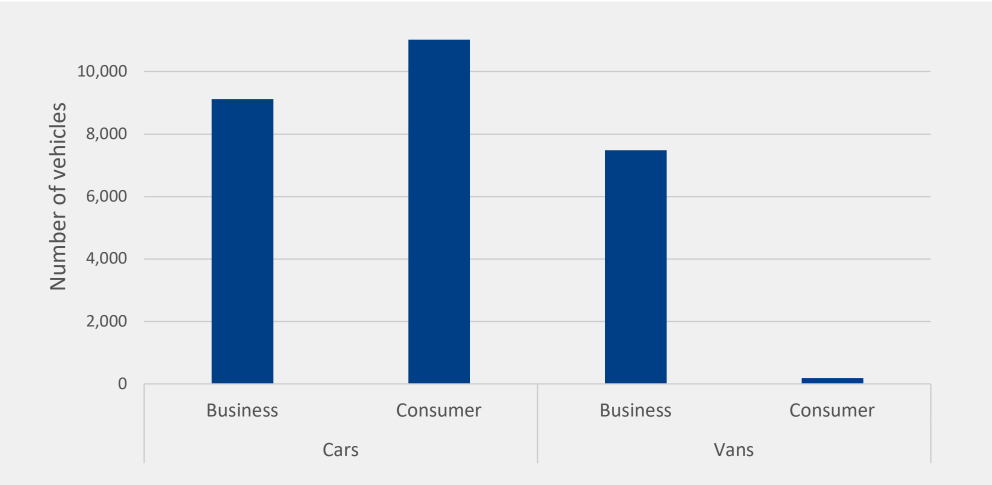
Interestingly, regulation is also impacting the van sector, with 23.5% of new van contract hire agreements being regulated, as sole traders and micro-businesses are treated as private consumers rather than companies.

4.5%
OF BUSINESS FINANCE CONTRACTS ARE FCA REGULATED

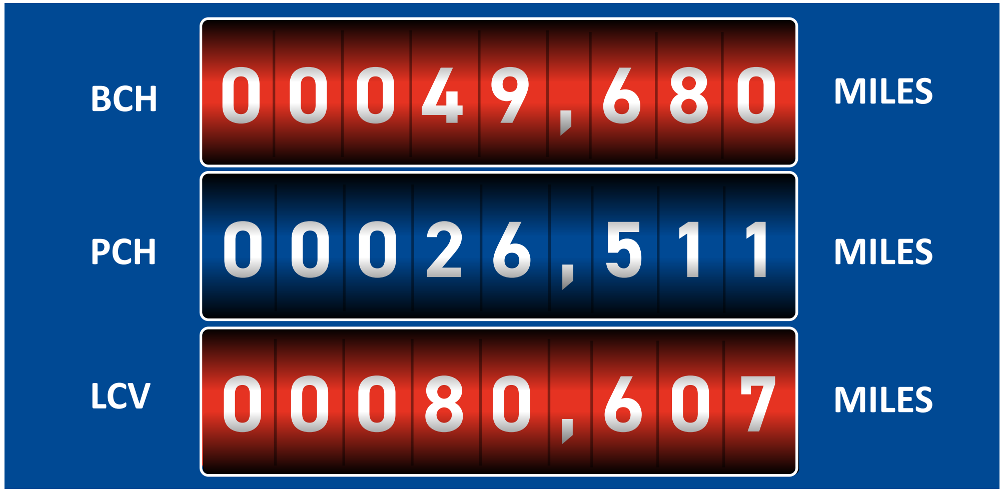
31%
OF NEW SALARY SACRIFICE CONTRACTS ARE FCA REGULATED

BVRLA Fleet Focus Q3 2022

Used vehicle leasing



Contract mileage



Leasing firms explore second-life leases

Opportunities for the second-life leasing of vehicles are high on the agenda of leasing companies, with used electric vehicles holding particular potential. A number of barriers stand in the way of second-hand leasing, not least establishing an acceptable condition of vehicles, rewriting IT systems and re-programming connected vehicle technologies to reflect a new owner. But the prospect of low service and maintenance costs from reliable electric powertrains presents an enticing chance to lease a vehicle to customers twice and even three times.

To date, volumes remain extremely low – just 2.7% of new business contract hire agreements for cars and 5% for vans, and 3% for consumer cars – and have been driven largely by the shortage of new vehicles. But as residual values gradually drop to more normal levels, leasing executives say the price advantage of second-hand leasing rentals will become more attractive.

5.7%
PERCENTAGE OF USED VANS IN NEW BCH AGREEMENTS

3%
PERCENTAGE OF USED CARS IN NEW PCH AGREEMENTS

Average contract mileages fall

The long-standing industry benchmark of three years and 60,000 miles for contract hire agreements has been shredded by the hybrid working patterns that accelerated during the pandemic.

With employees commuting less frequently as they blend working from home with visits to their workplaces and clients, the average mileage terms of new business contract hire company cars has fallen to 45,887 miles. The average across the BCH fleet is 49,680 miles.

The duration of leases, however, remains close to the traditional three-year agreement, at 38 months for new contracts and 39 months for the existing fleet.

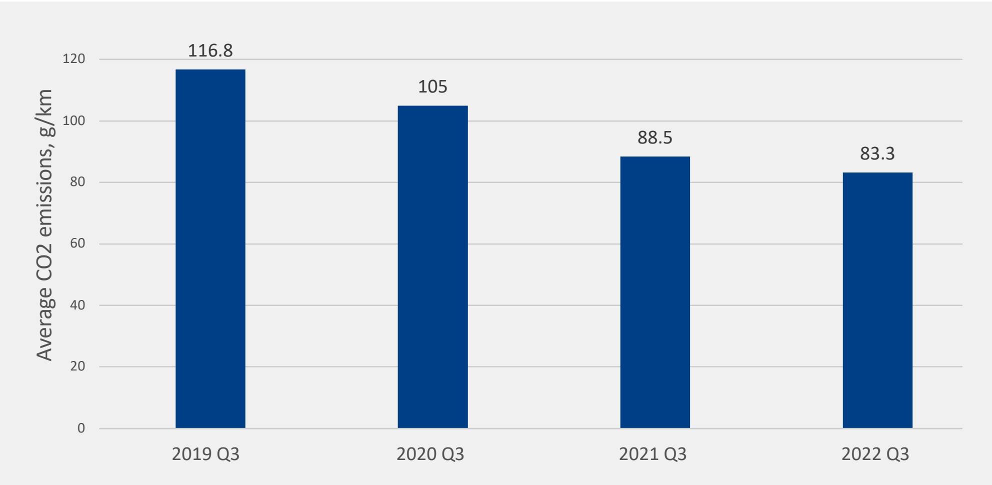
The average mileages of LCV contracts have risen slightly since the last quarter to 73,859 miles (Q2: 68,123 miles), although this is still below the average for the existing LCV fleet of 80,607 miles.

46 months
AVERAGE TERM OF NEW VAN CONTRACTS

29,499
AVERAGE MILEAGE OF NEW PCH AGREEMENTS

BVRLA Fleet Focus Q3 2022

BVRLA fleet CO_2 emissions



New car CO2 emissions fall sharply

The average CO_2 emissions of new cars added to BVRLA members' fleets has continued to plummet, dropping to 83.3g/km in Q3 2022.

The 29% fall from 117g/km in Q3 2019 is due both to company car drivers migrating to benefit-in-kind tax friendly, ultra-low emission cars, and to salary sacrifice customers selecting electric vehicles.

Many leasing companies report that close to half their new orders are for cars with a plug, either BEV or PHEV. The average CO_2 emissions of the car fleet as a whole are 97g/km.

Despite engineering advancements, the average emissions of new LCVs remain stubbornly high, at 167g/km, with low levels of electrification in the sector and growth in sales of heavier vans.

TREND

-29%

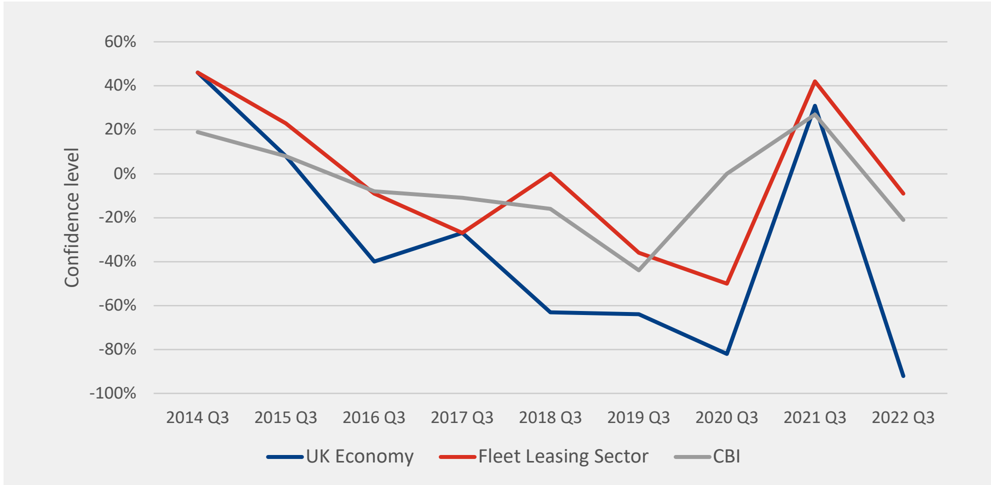
DECLINE IN AVERAGE NEW CAR EMISSIONS SINCE 2019

TREND

167g/km

AVERAGE CO_2 EMISSIONS OF NEW LCVS

Industry confidence



Perfect storm of headwinds hits confidence

Buffeted by headwinds, industry confidence in the leasing sector mirrors the pessimism expressed by the CBI and wider UK economic forecasts. Higher interest rates, a weak foreign exchange, soaring energy costs and double-digit inflation have had a severe negative impact on business confidence. The only glimmer of positivity is in the low numbers of used vehicles being de-fleeted, protecting end-of-contract residual values at a profitable level.

Leasing executives report that demand for new vehicles is under pressure as corporate customers focus on their cost bases, and add that they are braced for a rise in bad debts from SMEs unable to survive the economic storm. Leasing companies are also concerned about prospects in the consumer sector, where customers looking to replace their current cars face rental increases of hundreds of pounds per month due to the steep rise in new car prices, a decline in manufacturer discounts, and a sharp increase in borrowing costs.

BVRLA Member Outlook

In a turbulent year for leasing companies, rocked by supply shortages of new vehicles, lengthy and uncertain lead times, manufacturer price increases, rising interest rates and inflationary service and maintenance costs, the one thing missing is a plague of frogs, said one industry leader with gallows humour.

The only calm in the eye of this perfect storm is the Government's confirmation of supportive, long-term benefit in kind tax rates for electric vehicles. By stepping up the tax rates modestly and providing clarity for the next five years, the Government has reassured leasing companies about the future of their order banks.

Close to half of all new orders now have a plug, as either battery electric or plug-in hybrid models, putting BVRLA members at the forefront of the UK's road transport decarbonisation programme, but this trajectory towards zero emission motoring would have been jeopardised by a steeper or quicker increase in benefit in kind tax, warn industry executives.

"If the Government had been draconian, we would have faced major difficulties," said one director.

HR departments were already stalling the implementation of salary sacrifice schemes until they had greater certainty about the future tax treatment of company cars, according to another leasing executive.

Not that it's plain sailing towards an electric future, with leasing companies expressing mounting anxiety about the residual value risk of battery powered cars. They bluntly point out that they have neither data nor experience for resale values of significant volumes of electric cars, and that the first major wave of electric cars to hit the used market in a couple of years' time will have had list prices of £45,000 to £60,000, well above the mean price of their fleets.

Given that buyers of second-hand cars shop with a budget, rather than a percentage of a new car's price, there are doubts about the affordability of de-fleeted EVs, especially if the cost-of-living crisis persists. Leasing executives also point to the absence of financial incentives for second-hand buyers to choose an EV, with no benefit in kind tax savings and now the prospect of VED applying to EVs for the first time in 2025 sending a negative signal greater than its financial impact.

"Our car order bank is 40% BEV and a further 28% PHEV, yet only 0.95% of the total UK car fleet is electric," said one leasing director. "BEVs cost at least £10,000 more to buy new, but their forecast percentage of retained value is the same as ICE cars – in three years' time what premium will someone pay to buy a used BEV?"

He would like to see a plug-in car grant for used EVs to encourage second-hand buyers, while several executives called for an acceleration in the roll-out of public charging infrastructure to overcome charging anxiety and support drivers unable to install a domestic charge point.

Geographical remarketing of ex-lease cars may become more significant as communities living in and around urban clean air zones migrate to EVs to avoid daily access charges.

In a further move to bolster used EV prices, one leasing executive offered support for an independent battery health check certification scheme that would give buyers confidence. Leasing companies uniformly report, however, that their early operational experience of operating EVs has been very positive (with the exception of sourcing replacement windscreen glass and certain spare parts

Car and van fleet forecast

	2017 Q3	2018 Q3	2019 Q3	2020 Q3	2021 Q3	2022 Q3	Forecast 2023 Q3	Forecast change Q3 2022-23
CARS	1,491,456	1,488,521	1,451,803	1,364,848	1,371,425	1,370,636	1,364,341	-0.5%
LCV	399,134	405,432	416,077	420,520	464,056	499,924	506,044	1.2%
TOTAL	1,890,590	1,893,953	1,867,880	1,785,368	1,835,481	1,870,557	1,870,385	0.0%

Car fleet forecast by fuel type

	2018 Q3	2019 Q3	2020 Q3	2021 Q3	2022 Q3	Forecast 2023 Q3	Forecast change Q3 2022-23
Diesel	1,034,522	852,208	668,776	507,427	328,953	268,183	-18%
Petrol	355,757	476,191	464,048	466,285	466,016	457,650	-2%
BEV	4,609	9,991	42,310	137,143	242,603	324,025	34%
PHEV	68,173	80,388	72,337	150,857	187,777	218,339	16%

* Based on forecasts from seven BVRLA members. Total sample 680,000 vehicles.
Fleet size forecast data rounded to nearest 1,000.

BVRLA Member Outlook

for some marques) and that the reliability and battery performance of their growing EV fleets is very strong. This is driving interest in the development of second-life leasing products, a move that would also mitigate some residual value risk.

For ICE vehicles, there is widespread confidence that the shortfall of hundreds of thousands of cars reaching the used market, due to lost new car sales during Covid-19, will mean demand more than matches supply, protecting residual values.

In the short term, it's not the remarketing of vehicles that is causing difficulties, but sourcing new cars and vans in the first place, with leasing companies continuing to grapple with lengthy lead times and unreliable deliveries. There is a degree of consensus that the supply situation has stabilised, and even that deliveries are becoming more punctual, albeit at six to 12 months, which is creating acute issues if there is a vehicle price rise between order acceptance and delivery.

"Some OEMs are no longer customer-centric, and appear to have forgotten that they need leasing customers," said one leasing chief, referencing the difficult conversations between leasing companies and their own customers over passing on rises in rental rates, and reflecting the strained relationship between leasing companies and manufacturers, which they fear will only deteriorate as car makers switch to centralised agency distribution models.

Conversations with end-user fleets are a little easier over increases in borrowing costs given the transparency of the Bank of England's influence on interest rates, with clients reportedly more sanguine about this cost inflation. The good news is that no leasing company reported any difficulty in accessing finance, a sharp difference with the financial crash of the late 2000s.

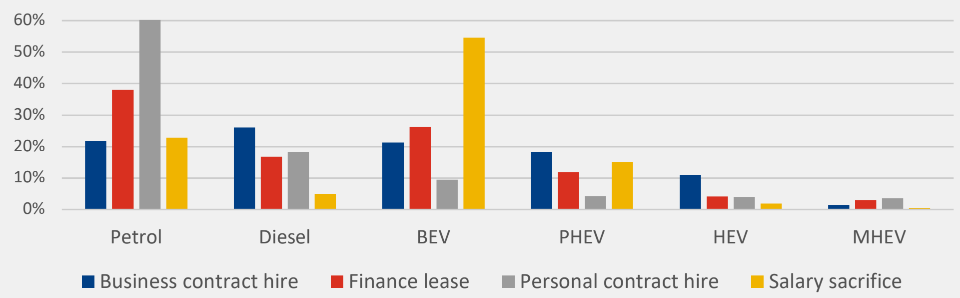
If anything, the inflationary headwinds are persuading business customers to establish fleet policies based on whole-life costs, rather than a benchmark car or lease rental, which in many cases supports the uptake of electric vehicles.

But while order books continue to bulge with unfulfilled deliveries and leasing companies report steady demand from both business and public sector customers for leasing, executives are more pessimistic about the outlook for personal contract hire, which represents about a quarter (23.2%) of the BVRLA car leasing fleet. New car price rises of up to 25% in three years, allied to a disappearance of discounts and substantially higher interest rates have combined to push monthly rentals up by hundreds of pounds, and in some cases almost double on a like-for-like car basis.

Mushrooming salary sacrifice schemes are offering a more affordable new car solution for workers whose employers have introduced the policies, and with the benefit in kind tax rates confirmed now until 2028, leasing companies are extremely optimistic about the prospects for this product.

This time last year, leasing executives said 2022 could not be as bad as 2021. As they look ahead to 2023, the general view is of more of the same, with vehicle supply curtailed and lengthy order times until the end of the year and perhaps into 2024. Executives expect contracts ending in the next 12 months to be profitable, due to an under-supplied used car market, but there is no escaping the heightened risk felt at new business due to rising new vehicle prices, increased service and maintenance costs, higher interest rates, and untested demand for used electric vehicles.

Car fuel choices by funding method, total BVRLA fleet



Car fuel choices by funding method, Q3 2022

Cars by Fuel Type Additions	Petrol	Diesel	BEV	PHEV	HEV	MHEV	FCEV	TOTAL
Business contract hire	20%	7%	41%	20%	12%	2%	0%	100%
Finance lease	35%	15%	34%	8%	2%	5%	0%	100%
Business ALL	26%	8%	35%	17%	13%	2%	0%	100%
Personal contract hire	53%	7%	22%	3%	10%	5%	0%	100%
Salary sacrifice	4%	0%	86%	8%	1%	0%	0%	100%
Consumer ALL	47%	6%	29%	3%	9%	6%	0%	100%

Opinion - used market prices

Dylan Setterfield - Head of Forecast Strategy, cap hpi

Recession. It's a word that spreads trepidation through the financial community and dominates strategic thinking whenever there is the potential for negative economic growth on the horizon.

There is also a common view within the automotive industry that a recession is bad news for used values. But do the facts bear this out? If you plot average GDP across a calendar year against the year over year change in used car prices (see graph), there is no direct correlation. During the recession in the early 1990s, used car price falls were at a fairly typical level of -5% and it was as the economy started to grow again that used values took a turn for the worse.

The most prolonged downturn we have seen in the used market was between 1999 and 2002; media obsession with "Rip-off Britain" and consumer uncertainty regarding the potential effects of the Supply of New Cars Order combined to paralyse the industry for a period of a few years and resulted in significant falls in used values. During all this turmoil, the economy was growing at a healthy rate of between +2.1% and +3.7%.

During the financial crisis which started in 2008, the sudden and steep collapse of used values preceded the deterioration in the overall economy and then used car prices started to increase sharply while the UK was still in the grip of negative GDP growth.

Prior to the craziness of the pandemic, used car prices were adjusting downwards after a strong year in 2018, while GDP remained positive.

When we formerly ran multiple regression analysis on the used market (segmented by age, sector and fuel), there were no sections of the used market where GDP was the prime driver in used car price changes.

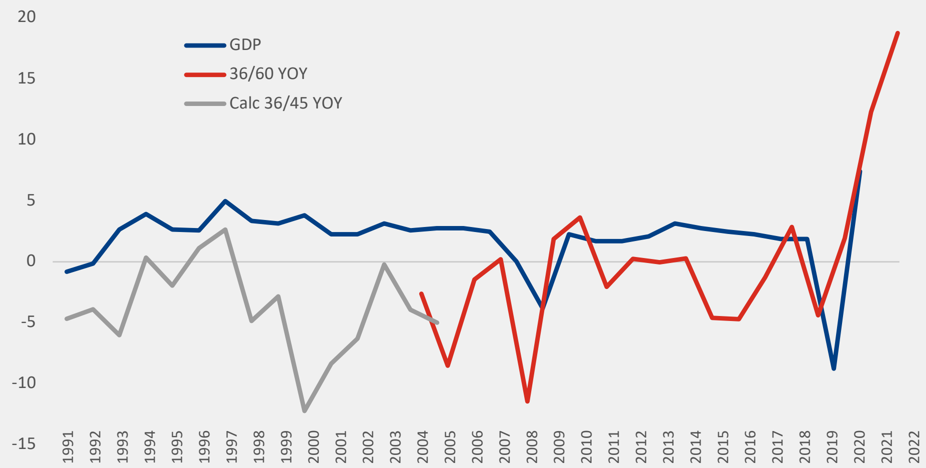
Should we be surprised at this lack of correlation? Not really. The key element of a recession or prolonged deterioration in consumer confidence is that it changes behaviour. Some buyers will turn to the used market rather than buying new, while cost of living pressures may force some to turn to older, smaller, or higher mileage cars.

There is a "needs purchase" core to the used car market; for many the acquisition of a car is essential and the changes in attitude and focus ripple through the entire market, supporting used values to a considerable extent.

That doesn't mean that significant falls in used values are impossible during a recession, but they are certainly unlikely to be caused by it.

NOTE: The 36/45 cap index data has been calculated by removing the effects of January model changes. All points plotted are averages for the calendar year.

YOY vs GDP 1991-2022



Opinion - new car leasing market

Paul Harrison - Chief Partnerships Officer, Leasing.com

It's difficult to know where to start when reflecting on the events of Q3. It was largely a time to forget for the Government, the economy and consumers alike.

The appointment of Liz Truss as Prime Minister in September was supposed to usher in renewed political focus. However, the now infamous 'mini budget' in late September destabilised the UK economy almost overnight. While there were very welcome announcements on support with rising energy costs, it was a case of too much, too soon for the markets as they reacted strongly to the radical package of policy announcements and reforms.

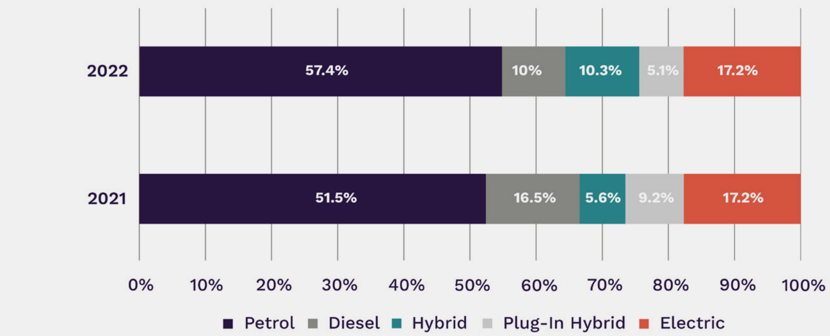
While the fallout of the mini budget undoubtedly impacted confidence, steeply rising inflation had already put Bank of England base rates on an upward trend and, in Q3, the Bank further increased its base rate. In the automotive market, this resulted in a double blow for private and business motorists as increased borrowing costs for banks and leasing companies led to increases in the monthly rentals offered and rising manufacturing costs continued to push up the list price of cars.

Despite the bleak trading conditions, demand for new vehicles remains resilient. The SMMT's new car registration data showed consecutive months of growth between August and November this year versus 2021. Many motorists extended their lease agreements during the pandemic and as those extensions now expire, consumers and businesses are re-entering the market looking for their next vehicle to discover that vehicle availability is slowly starting to improve.

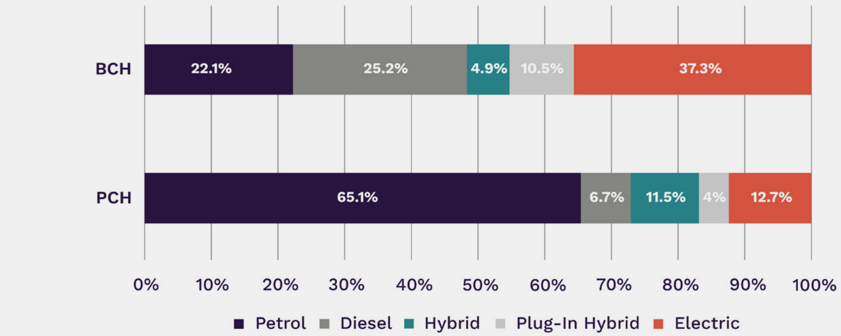
While motorists may have to compromise on some of their preferences, our advertising partners are reporting an increased volume of stock from an increased number of manufacturers and consumers are gravitating to those available offers. In Q3 this year, stock vehicles represented around 10% of total offers advertised on Leasing.com and yet accounted for 43% of total sales enquiries. We've seen an increase in the total number of advertising partners who are promoting offers with us too, which is a great indication that the tide is beginning to turn on stock availability.

The electrification of the new vehicle market is an ongoing success story this year. Our data shows that more than half (53%) of total demand from businesses was for electric vehicles (plugin, hybrid and battery). On average, business users sought out new vehicles on three-year contracts with an annual mileage allowance of 10,000 and were looking to spend an average of £527 per month excluding VAT. While in the personal leasing market, 28% of total demand was for electric vehicles. Consumers sought out their next vehicle on four-year contracts with an annual mileage allowance of 8,000 and were looking to spend an average of £371 per month. Our graphs summarise the fuel type demand seen on Leasing.com in Q3. A note of caution though, while still growing, demand for EVs did soften in Q3 as inflation and other cost pressures hit households. The cost-of-living crisis is a real threat to the pace of EV adoption.

Graph 1: New Car Fuel Type Demand – Q3 2022 versus Q3 2021



Graph 2: Personal vs Business Leasing – New Car Fuel Type Demand Q3 2022



Opinion - used market overview

Fiona Mackay - Automotive Finance Director, Auto Trader

As we rapidly approach the start of the New Year, it would be remiss of me not to use this opportunity to share some of our thoughts and expectations for the year ahead. With so many different variables at play, predicting the direction of the market is never an easy task, and not one we take lightly. But as ever, we are led by the data.

AutoTrader

A 'cautious but confident' outlook for 2023

Despite an impending recession and wider economic pressures, based on the trends and metrics that we're tracking across the market, we have a cautious, but confident outlook for 2023.

Our forecast analysis predicts circa 1.9 million new car registrations in 2023, which marks an 18% fall on pre-pandemic 2019 levels, but a positive 22% uptick on the 1.6 million registrations anticipated by the close of this year. This target is of course largely dependent on levels of supply into the market, which has been constrained by global shortages of vital parts, as well as Covid related closures. Some of these remain unresolved but are anticipated to ease during the year ahead.

New car supply will also be a major influence in the used car market. To date, an estimated 2.5 million new car registrations have been 'lost' since the start of the pandemic, which due to typical three-year finance cycles, will begin to significantly reduce the availability of younger second-hand stock from next year.

Whilst this dearth of 0-1- and 1–3-year-old cars will impede sales in 2023, we predict the market will be in the range of 6.8 – 7.0 million used car transactions, which is similar to the expectations for this year.

This is due to the fact that we believe levels of car buying demand will be partly shielded from economic pressures due to unique macro factors. This includes the huge backlog of people waiting for a driving test (currently around 500,000 according to the DVLA!), the current disruption in public transport, and the combined 5 million lost new and used car sales which still leave a level of unsatisfied pent-up demand in a market that's been constrained by supply.

Perhaps most importantly however, is the fact that for most people, cars are a fundamental need rather than a discretionary luxury. A car isn't your Netflix or Amazon Prime account – it's needed for the commute to work, taking the kids to school, and doing the weekly shop. This was highlighted in our recent research, with more than three-quarters of car buyers saying they needed a car to get around (up from 71% in pre-pandemic February 2020). With strong levels of employment projected to continue into 2023, it seems very unlikely the car will be the first thing to cut. With these factors combined, robust levels of consumer demand should be sustained throughout 2023.

Additionally, in November, finance calculator interactions on Auto Trader were up 33% vs pre-pandemic times and also +9% YoY, despite there being less stock on the platform and interest rates on new and used cars increasing, highlighting the increasing importance of monthly payment search and finance transparency more generally in the automotive sector.

Market will be dictated by supply, not demand in 2023

As we've found this year, the market performance has been dictated by supply, not demand. We have consistently seen on our marketplace, where there's stock there's strong demand, whether that be for new or used cars, which is a trend we fully anticipate continuing into 2023. And whilst the year ahead will be a demanding one, based on what we're tracking across the market, we believe it is in a far stronger position than previous periods of economic turbulence.

As ever though, we will keep a very close eye on the various data points and metrics, and I look forward to updating you in the next edition of this Outlook Report.

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.

British Vehicle Rental & Leasing Association
Badminton Court
Church Street
Amersham
Buckinghamshire HP7 0DD

01494 434747
bvrla.co.uk

@bvrla bvrla bvrla @bvrla bvrla.co.uk/videos