Leasing
Outlook

RESEARCH & INSIGHT

MARCH 2021

BVRLA

A new beginning

Innovation and growth ahead in a recovering economy

Market Spotlight
Pent-up demand

Business Confidence
Living with uncertainty

Forecasts
A changing market

In association with

apd GLOBAL RESEARCH

AutoTrader

Solera | cap hpi FOR SMARTER AUTOMOTIVE DECISIONS™

INTERNATIONAL ASSET FINANCE NETWORK ONLINE

About this report

The BVRLA Leasing Outlook report combines the aggregated market data and insight of experts from across the sector to provide an unrivalled perspective of what is happening to the market and where it is heading.

Each quarter the association analyses a range of automotive market data and puts a series of questions to a panel of senior executives from across the industry and its supply chain. We also assemble some of the latest market perspectives from experts at APD Global Research, Auto Trader and cap hpi.

Full of strategic insight and analysis, this report provides the BVRLA's forecasts for key areas of the leasing market. Leasing data for this report was compiled in Q4 2020 from member submissions to the BVRLA quarterly leasing survey on activity up to and including the end of Q3 2020.

Leveraging its knowledge and understanding of the policy and regulatory environment, the BVRLA Leasing Outlook report also presents a unique 'Risk Register' of upcoming items that will have a major impact on fleet procurement and operations.

The BVRLA is the home of reliable, robust and compliant fleet industry data. If you would like to find out more about what we do, or participate in our research and insight activities, please get in touch.

Phil Garthside
BVRLA Research & Insight Manager

Contents

Executive Insight Panel


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
Chief Executive, KINTO UK


Chris Black
Commercial Director, LeasePlan


Sebastiano Fedrigo
Managing Director UK, Leasys


Gordon Stephen
Managing Director, Ogilvie Fleet


Neal Francis
Divisional Managing Director, Pendragon Vehicle Management


Mark Hammond
Managing Director, TCH Leasing


Claire Evans
Fleet Consultancy Director, Zenith

Executive Summary

As the pandemic ends, the economy roars back into life, with business demand soaring and new innovations coming to market. This is a post-pandemic picture for the UK economy, but instead of today, it comes from 100 years ago. The question is, will history repeat itself?

Economic analysts see potential similarities between conditions today and the 'Roaring 20s' of a century ago, although the historic experience was driven by a post-war boom, not just recovery from a pandemic that infected a third of the world's population at the time. Even so, there may be valuable lessons to what lies ahead.

As long-term restrictions on economic activity are finally lifted, pent-up demand is released, and rapid economic growth follows.

There are encouraging signs the cycle will be repeated. The UK's savings rate increased rapidly last year, particularly among better off workers, creating a bank of wealth ready to be released once consumers feel confident enough to spend and are allowed to do so.

However, this positive outlook is not universal, with a swathe of society under severe economic pressure following a year under furlough or without the opportunity to work. Government policy will also avoid unchecked economic growth to keep inflation at bay.

But overall, there is a sense that better times are on the way, which is positive news for the leasing industry.

Leasing executives, who have reported contract extensions at record levels, see signs that customers will be keen to start vehicle replacements once the economy restarts.

New challenges are certain to emerge, not least securing supply when the whole of Europe is competing for output from the region's factories.

This will be particularly challenging in the electrified vehicle market, where supply and demand are most ill-matched.

There is also a supply and demand issue in the used car market, where leasing executives have experienced 'unbelievable' performance in the past half-year.

The leasing industry is facing a quite different landscape in 2021, one that will only become clear when government support is lifted and the economy is once again standing unsupported.

But the general expectation is that better times are ahead and the leasing industry will have a key role to play in restarting the economy as it adapts to the new normal or post-pandemic life.

> *We have signed some quite large customers in the last few months so that that has definitely helped. Things have definitely picked up. We have been quick to respond to brokers and have won some business that way.*

Business Confidence

When running a business, any unexpected event can be unsettling, even if it brings a positive result.

The leasing industry, like every other sector, has been dealt its fair share of body blows in the past year, as forced business closures and furlough left suppliers rapidly reworking business models and responding to the next emerging crisis.

Despite the challenges, there have also been unexpected highlights during such a damaging year.

Leasing executives report that residual value returns were strong in 2020, as demand for used cars and vans drove prices ever higher, despite repeated dealership closures and disrupted remarketing channels.

The improved market brought welcome respite from the horrors of the new car market, but in discussion with leasing leaders, there is hint of uncertainty.

Executives thrive on certainty and being able to analyse trends to define what lies ahead for their businesses, but the behaviour of the used car market has emphasised just how unpredictable the current environment is.

As the lockdown lifts in 2021 and the vaccine roll-out opens the economy, the future looks brighter than the past year, but a question mark hangs over what happens next.

Like a sailor walking off a constantly moving boat onto dry land for the first time in months, stepping back into normal life feels uncertain, the solid ground unfamiliar.

Will there be a repeat of the economic boom 100 years ago, when the Roaring 20s followed the century's own economic shock from the Great War and pandemic?

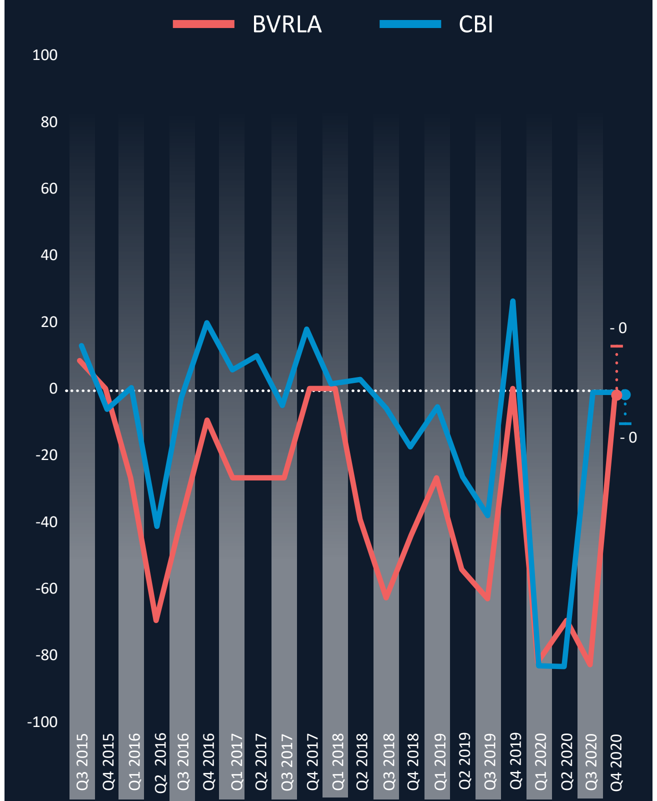
Or has unprecedented government support postponed a recession that will prove just as deep as the Great Depression of last century?

The uncertainty is shown in business confidence survey results, with executives indicating an unclear outlook on the UK economy, although it is much less negative following the Brexit agreement, despite its initial issues with movement of goods.

While there is a much-improved outlook for the leasing sector overall, sentiment remains negative and even confidence among business leaders about their own growth has slipped back slightly.

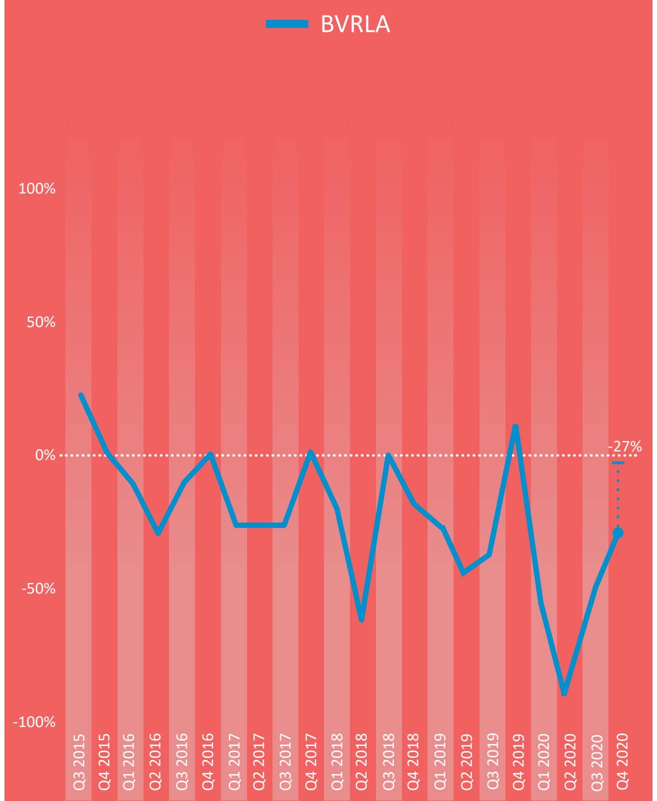
The figures reflect cautious optimism among business leaders, who report some positive signs in the market, but cannot be certain until the economic ground feels more solid beneath their feet.

UK Economy



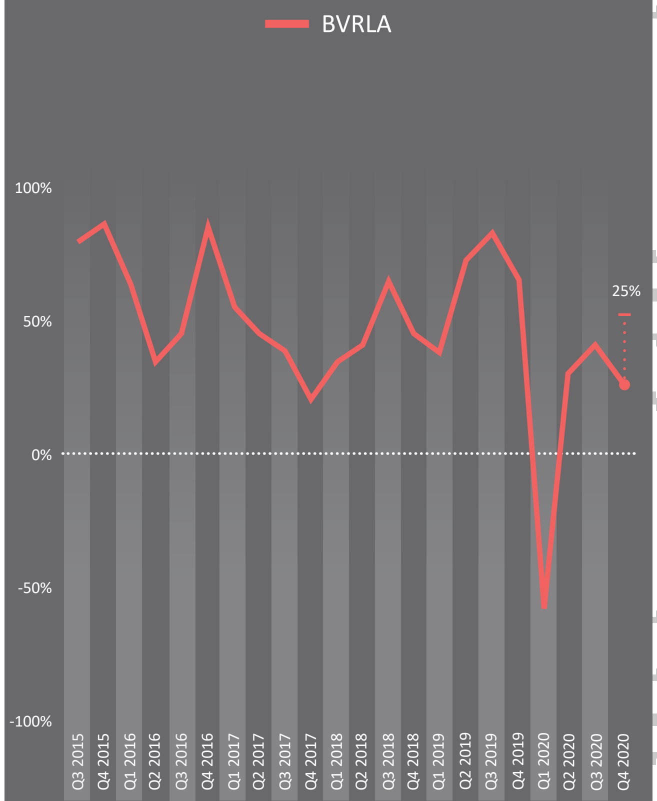
After falling into a deep trough of pessimism last year, business confidence has improved with each wave of good news. There is light at the end of the tunnel with the roll-out of a vaccine to combat the pandemic and there is more clarity about the shape of Brexit trade relations with Europe. However, there is still too much uncertainty about the future of the economy for average confidence levels to shift into positive territory.

Fleet leasing sector



After plunging to its lowest level since 2013, industry sentiment about the potential for future growth in the leasing sector has improved, but still remains deeply in negative territory. This reflects the level of uncertainty regarding the UK's economic future, as executives try to assess whether a boom in demand is on the way, or a tsunami of defaults and bad debt as government support for the economy is withdrawn.

Fleet sizes



Fleets lack the confidence to predict a surge in their own fleet growth as Coronavirus restrictions are lifted from the UK economy, with sentiment showing a slight decline. This reflects the note of caution sounded by industry leaders, who are guiding their businesses through uncharted territory, where future demand is unclear, both from core B2B customers and the growing proportion of consumers who have chosen PCH.

* Confidence measures take the form of improve/stay the same/ diminish in relation to the next six months compared to current. Confidence is reported "on balance" ie. the percentage quoted is the difference between the percentage of respondents who took a positive view and the percentage who held the opposing view.

Market Spotlight

Risks

Economic recovery

There are hopes of a strong recovery in 2021, with Bank of England boss Andrew Bailey saying the economy could bounce back towards levels seen before the crisis, but there is little certainty about the impact of the past year's economic hibernation. The furlough scheme is supporting 4.5 million workers and unemployment is expected to rise sharply during the early part of the year. Companies will also be managing debts caused by Coronavirus disruption, with some estimates suggest half of the 1.4 million 'bounce back loans' made may not be repaid as borrowers fail to generate enough cashflow to cover their debts.

Vehicle extensions

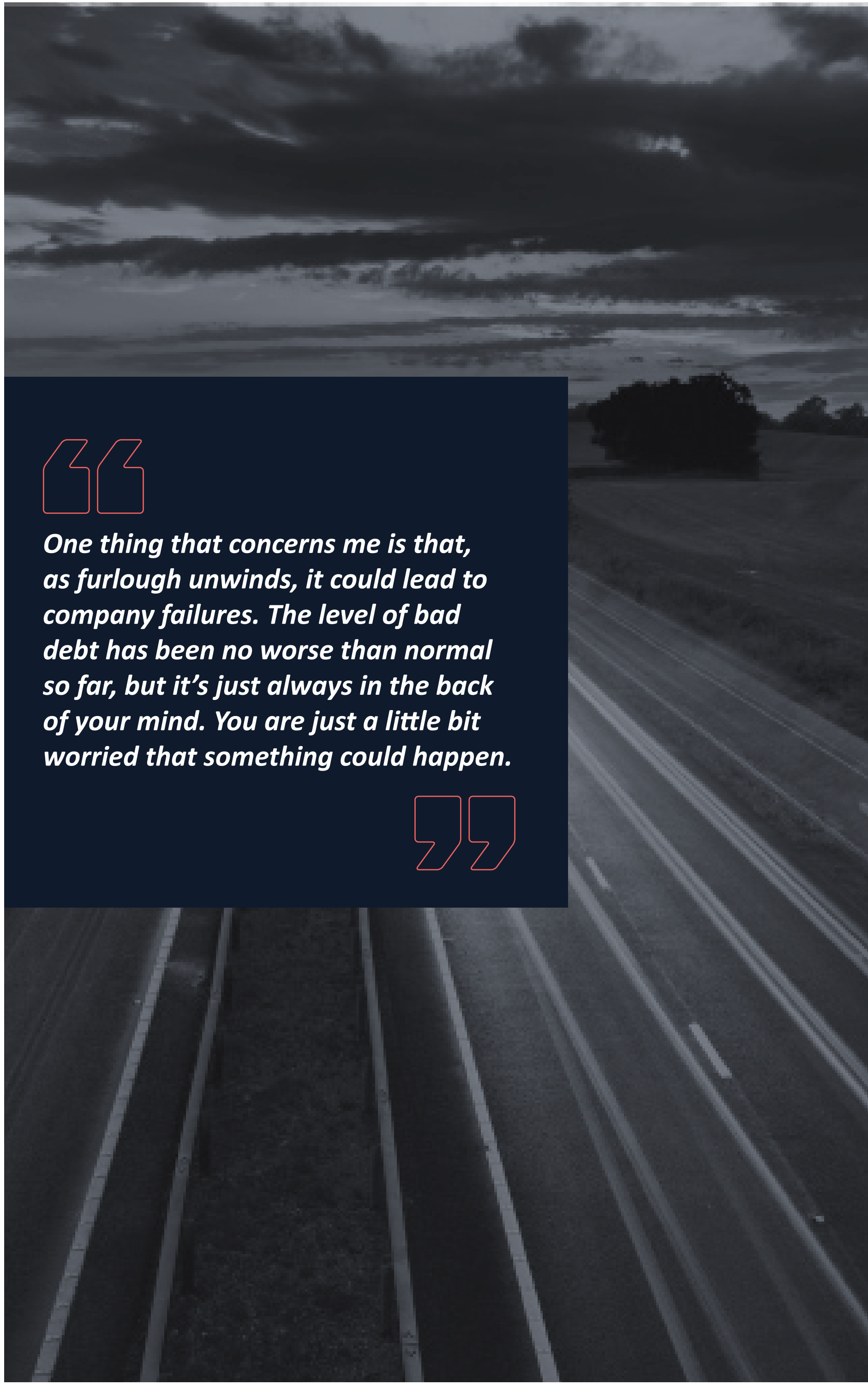
Some industry executives are reporting leasing extensions at record levels as companies postpone vehicle replacement. While this allows suppliers to extract more revenue from each asset, vehicle condition could have deteriorated significantly during extended use, especially with less oversight from managers. Attempts to recoup costs through recharges may be a cause of conflict with customers, who will be less willing to accept unplanned expenditure when they are focused on minimising spending; they may also claim refunds for unused mileage during contracts as vehicles have been standing idle. In addition, amid economic uncertainty, there is no guarantee that extensions will be followed by orders for new vehicles as the economy reopens.

Communication

Furlough and home working arrangements have caused significant disruption to the smooth operation of leasing companies. A minority of vocal customers, particularly consumers using PCH, are turning to social media platforms to report on service problems, ranging from failed collections to disputed invoices. The disruption to traditional communication channels caused by the crisis, at a time when customers are demanding a greater level of support, has led to elevated levels of conflict. Some customers cancelled their direct debits after numerous failed attempts to contact a leasing provider about a dispute, including delayed vehicle collections.

Used car market demand for PHEVs

Amid soaring demand for new electrified vehicles, there is a less receptive audience in the used market, particularly for PHEVs that offer a small electric-only range. Compared to petrol and diesel vehicles, PHEVs look expensive if their residual value reflects their higher list price. Vehicles that offered 25 miles of electric-only range when new may now provide 18-20 miles, or possibly less in winter, so will this be enough to encourage used car buyers to switch away from petrol or diesel, especially when owners may also need to invest in home charging capability?



One thing that concerns me is that, as furlough unwinds, it could lead to company failures. The level of bad debt has been no worse than normal so far, but it's just always in the back of your mind. You are just a little bit worried that something could happen.

Market Spotlight

Opportunities

Back to business

Although the future is unclear, there is a massive amount of pent-up demand available in the market. If this is released, it is a significant opportunity for growth. Business customers have delayed vehicle replacements in record numbers and their fleet demand could also increase further if there is an economic upturn. Meanwhile, some workers and consumers may have built up pockets of wealth during the pandemic, from reduced spending on commuting while working from home and cancelled holiday plans. As question marks remain over global travel, this could prompt buyers to invest in perks such as new or used cars, at a time when more consumers are opting for personal contract hire. Furthermore, a return to economic normality will create significant opportunities for ambitious leasing providers to secure increased market share with proactive strategies that give them a first-mover advantage over the competition as the economy restarts.

Residual values

The traditional peaks and troughs of the used vehicle market have been disrupted by the pandemic, which generated unprecedented demand during the second half of last year. There are signs that this is continuing in 2021 and the long-term outlook is likely to remain positive, as vastly reduced production of new cars means used cars will remain in relatively short supply for years to come. A question mark remains over how the used car market will respond to a much larger volume of plug-in cars returning to market in the coming years, but it will only take a slight increase in demand among millions of used car buyers to absorb the expected electrified vehicle volume, with cost-conscious private hire drivers among those in the queue.

Embedding innovation

The past year has accelerated innovation in the leasing sector, particularly when it comes to digitalisation initiatives. The industry can select the most valuable improvements and embed them in their businesses for the long-term as lockdown eases. For example, there is broad acceptance that the industry will retain the benefits of greater levels of digital remarketing. Technology may allow more flexible working for employees, while video conferencing technology could drive efficiencies in teams, ranging from sales to customer service, when engaging with each other, customers and prospects.

Changing expectations

The pandemic has changed the needs of many customers, who will be looking for services that offer greater levels of flexibility while minimising risks. While demand for Personal Contract Hire is likely to increase, there will be potential for growth in mid-term hire and flexible rental, along with subscription services. Another potential area of growth will be leasing used vehicles after they are returned from first use, or sequential leasing. Salary sacrifice is also attracting growing interest in some sectors, particularly for low emission vehicles.

Electrified vehicles

The switch to electrified vehicles offers opportunities to leasing companies in several areas. Firstly, it is encouraging greater numbers of drivers who have previously taken the cash option to move back into company cars, where they can benefit from low company car tax rates for many years ahead. Companies tend to favour contract hire as a method of vehicle funding, which means the industry could benefit from the ongoing surge in demand for zero-emission vehicles.

Secondly, consumers may want the protection of personal contract hire, or other managed services, when moving away from ICE vehicles, so they have the backing of a specialist company to provide security if they encounter any issues.

Leasing companies can also offer their expertise to customers who are considering the implications of moving to electrified vehicles over the coming years, including support with additional requirements, such as installing vehicle charging points, servicing, and providing driver support in the event of breakdown.

Fleet actuals and BVRLA forecast: Leasing Market

There are encouraging signs ahead for the vehicle leasing sector, with the fleet expected to return to growth by the end of the year.

This growth is not expected to emerge until halfway through 2021, when the first green shoots of recovery will be seen.

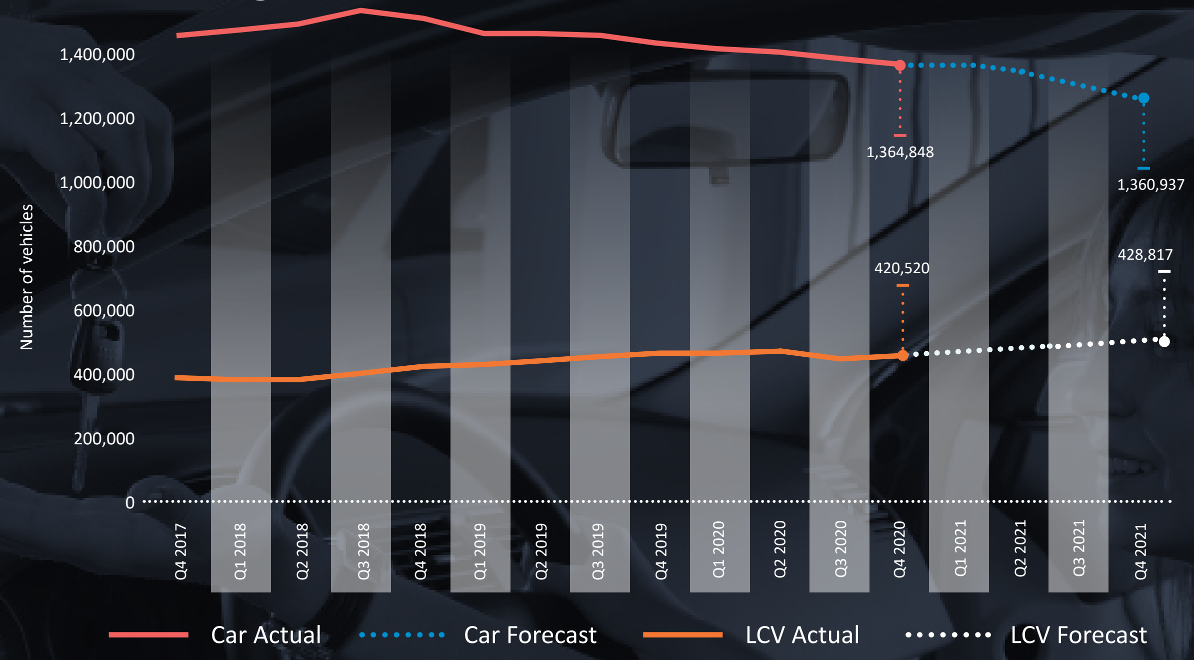
The expanding fleet coincides with the expected return to normality as the Coronavirus vaccine roll-out reaches most of the population.

The experience of individual leasing companies differs, but the broad consensus is that there will be enough momentum from market demand to more than offset the number of vehicles being defleeted.

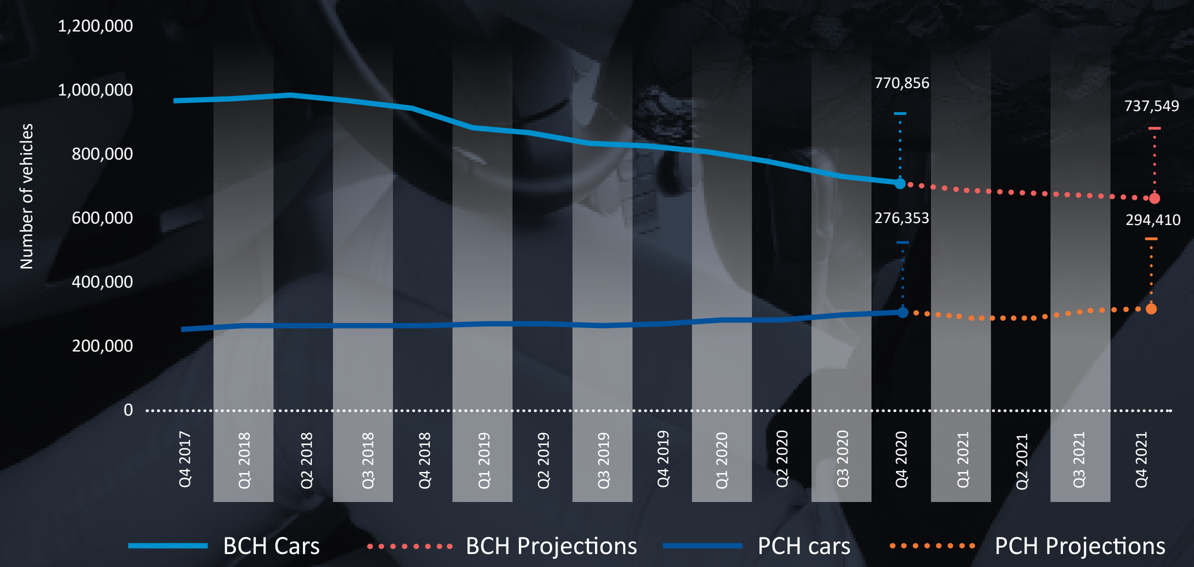
This raises potential issues with supply, particularly as European production has been affected significantly by repeated lockdowns.

With all the major European economies likely to spring back to life in the second half of the year, there will be intense competition for factory output.

Leasing fleet actuals and forecast – Car & LCV



Fleet actuals and forecast – BCH v PCH



An additional factor for the UK is the ongoing teething troubles with its European borders following Brexit, which have yet to be faced with the volumes generated by normal economic activity, let alone a fast-expanding economy emerging from a prolonged period of forced hibernation.

Images have already emerged from the US of major backlogs of shipping at some of the country's biggest ports, as economic activity starts to grow.

Rising demand is not expected to halt the shift away from business contract hire (BCH) which is predicted to continue to fall year-on-year, even as overall vehicle demand grows.

The speed of decline is slowing and the fleet remains more than twice the size of the fast-growing personal contract hire sector (PCH), but responses suggest a cautious outlook, where BCH defleet volumes outpace demand for new vehicles, potentially amid changing working patterns, where there is reduced requirement for a car.

This comes despite expectations of rapidly increasing sales of EVs within fleets, driven by tax incentives. Falling demand for core petrol and diesel models is likely to offset any additional sales of zero-emission vehicles, especially while there are supply restrictions as factory production ramps up.

It is also difficult to predict the level of pent-up demand in the business market, which may not become apparent until well into the second half of the year.

Instead, Personal Contract Hire is predicted to benefit from increased demand, reaching a record fleet size by the end of 2021, around twice the number of vehicles compared to four years ago. Brokers may play a key role in this growth, as the national network is able to respond to emerging local demand from consumers more quickly with offers of cost-effective PCH deals.

The commercial vehicle fleet is expected to expand to record highs, powered by ongoing demand for home deliveries and remote services, which is expected to continue once the restrictions of the pandemic are lifted.

There is also a level of pent-up demand in the commercial vehicle sector from businesses that will need to renew vehicles to maintain service levels because fleet is a business-critical element of their operation.

Expert analysis

Responding to a changing marketplace

Changes in how we work have come about quickly due to COVID-19. Over the next year we anticipate the number of company car users to reduce as the need for them declines. For commercial vehicles, we anticipate a rise as online operations expand dramatically and more consumers are using delivery services, while pent-up demand is met.

Fleet profile and BVRLA forecast: Electric Vehicles

2021 is expected to bring an important tipping point, as the fleet of battery electric vehicles becomes level with PHEVs.

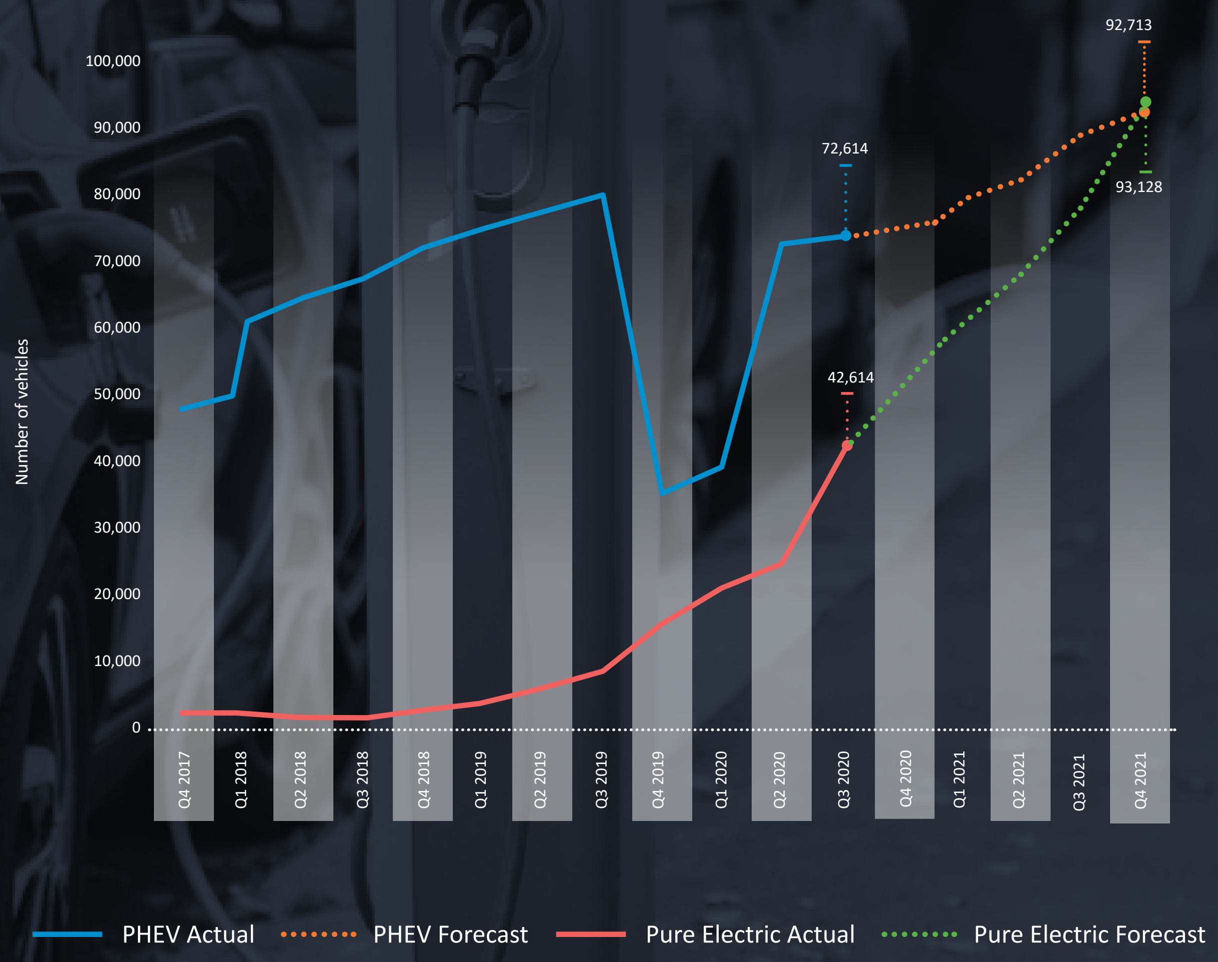
Year-on-year growth in the electric vehicle fleet is predicted to average more than 100% throughout 2021, while PHEV fleet growth is expected to slow to a rather lacklustre 22% from a low base.

This reflects a growing level of confidence in zero-emission technology as issues with range anxiety and recharging networks are eased and more affordable models are released by volume manufacturers, such as Volkswagen's ID.3 and Vauxhall's e-Corsa.

Company car tax incentives will provide substantial savings to EV drivers for years to come, particularly for executive car drivers where benefit-in-kind reductions will amount to thousands of pounds, enough even to fund a second, internal combustion-engined car if needed.

The predictions should sound a note of caution for manufacturers, as many have invested heavily in hybrid technology as a stepping-stone to a full-electric future.

Fleet actuals and forecast – Pure EV v PHEV



This year, a wealth of models is being revealed offering a short zero-emission range of between 10 and 30 miles, which is designed to reflect the travel patterns of many urban motorists.

In the right circumstances, PHEVs can deliver exceptional fuel economy, with road tests achieving more than 100mpg.

However, outside urban environments, and with heavy daily use, fuel economy can fall rapidly, undermining the benefits that justify the additional cost of electrified vehicles compared to ICE variants. Furthermore, the highest tax incentives are limited to a small number of premium models that offer more than 30 miles of electric-only range.

This provides an opportunity for leasing companies to highlight their specialist expertise in this growing sector, by providing advice on vehicle choice and identifying where the application of plug-in vehicles is most beneficial in a work environment.

Fleets and consumers alike will be looking for advice and information on the benefits of each technology and reassurance that they are making the right choice, while additional services are likely to be in demand.

Areas of focus range from installation of recharging points to training drivers how to use zero-emission vehicles economically and safely, particularly those who have not driven an automatic vehicle before.

With the plug-in vehicle fleet expected to reach around 200,000 vehicles by the end of the year, residual value risks are mounting rapidly, which will require a careful focus on market changes.

A key factor in delivering expected growth for all plug-in models will be supply, as the whole of Europe will be competing for plug-in vehicle production in the coming years.

Across Europe, manufacturers sold more than 700,000 battery electric vehicles in 2020, a rise of 106% on the previous year, with demand growing more than 200% in Germany and 160% in France.

Expert analysis

Growing customer confidence in plug-in technology

Tax effectiveness for essential user fleets will see the transition to EV and PHEV, with EV taking the higher proportion, as more vehicles with longer ranges are launched, and the infrastructure becomes more widely available to more people.

Fleet profile and BVRLA forecast: Fuel Types

Although plug-in vehicles attract most of the publicity, traditional petrol and diesel models will remain at the core of leasing fleets for years to come.

Transition takes time; by the end of 2021 there will be a predicted fleet of just over 1 million petrol and diesel vehicles.

Diesel will remain the most common vehicle on leasing fleets this year, although the parc has now dwindled to around half the level seen four years ago.

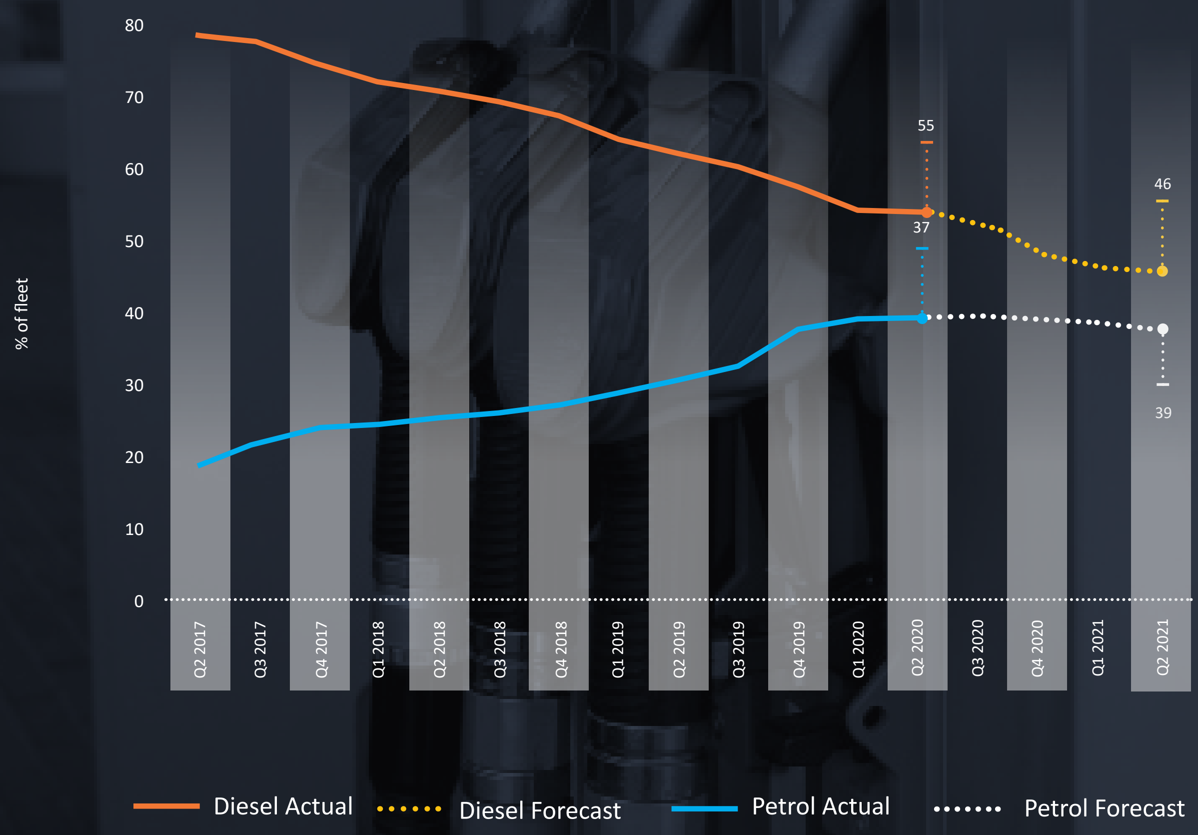
With diesel order banks continuing to fall, it is likely that by early 2022, petrol will have overtaken diesel as the most common vehicle fuel on leasing companies' fleets.

The overall fleet figures provide a clearer picture of the long-term trajectory of the market, as the past year's demand may have been significantly skewed by the pandemic.

While core fleet demand for petrol and particularly diesel vehicles has slumped during the past year, premium vehicle buyers, senior-level perk car users and cash for car recipients have continued with vehicle replacement.

This higher end of the market is the most likely to opt for electric vehicles; the current crop of electric cars are mostly in their price range, their annual mileage is lower and, in the case of senior executives within businesses, the benefit-in-kind tax savings are too large to ignore.

Fleet profile and BVRLA forecast: Fuel Types



Alternative fuel vehicles are arriving in significant volumes, with a range of leasing companies reporting that half of their orders last year were electrified in some way, with around 25-30% plug-in models. However, that increased share is in a much smaller market than normal.

As the economy restarts and business demand returns to 'normal', sales of more traditional petrol and even diesel vehicles to fleets may lead to a levelling out of demand.

For many companies ordering for core fleet requirements, it will be too early, or too costly, to consider a switch to plug-in vehicles, so they are more likely to focus on traditional choices.

Proposed restrictions on the sale of new petrol and diesel-only vehicles are still nearly a decade away, allowing for several replacement cycles before any planned legislation comes into place.

Furthermore, petrol and diesel continue to provide the greatest level of certainty on reliability and maintenance, with decades of data providing predictable motoring across all vehicle types.

Plans for Low Emission Zones tend to exempt newer petrol and diesel models.

For example, in Bristol, a proposed charge affects diesel vehicles that are Euro 5 standard and below, or roughly 2014 and older, and petrol vehicles that are Euro 3 and below, so about 2006 and older.

This makes it most likely that van fleets will be affected, with one Bristol electrician faced with replacing 25 vans by October to avoid a £9 a day charge for his vehicles.

In this case, the owner is likely to opt for newer diesel because alternative fuel versions of his vans are either not available or are far too expensive.

Furthermore, leasing is likely to provide a more affordable funding method than securing a £300,000 business loan to purchase replacement vehicles.

Expert analysis

Long-term shift away from fossil fuels

Diesel will continue the decline due to tax considerations, with petrol holding steady to fill the gap between demand and availability of plug-in vehicles, which are also not suitable for some uses.

Outlook for RVs: Continued Rule of Uncertainty

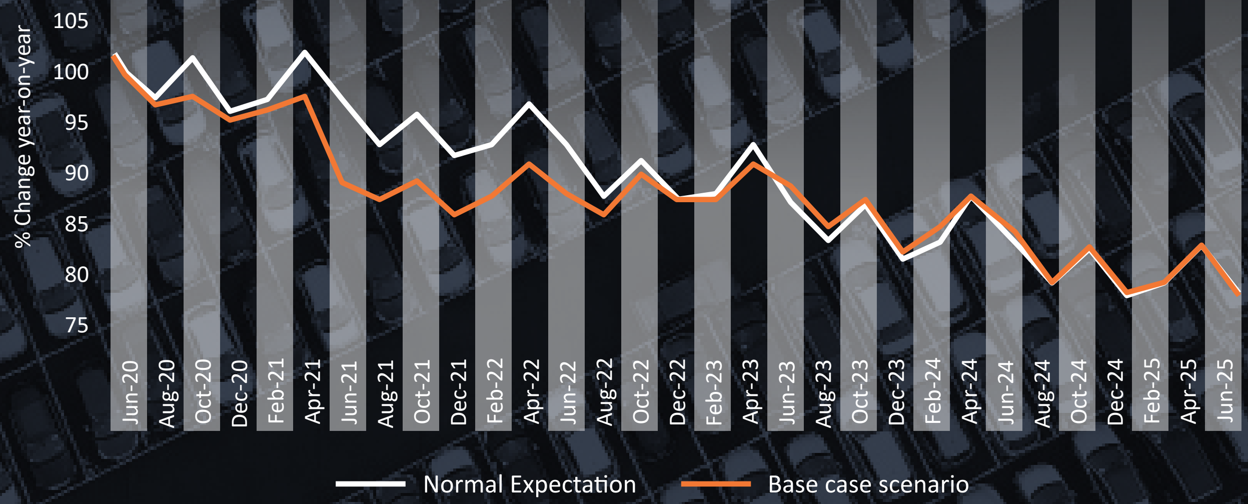
Never has the global automotive industry had to endure such a period of uncertainty and although we have experienced extended periods of unresolved issues in the UK in the past, never before have there been so many elements of uncertainty all active at the same time.

Although we expected a bounce in demand when dealerships reopened after the first lockdown, the strength in the used market was far more robust than we had expected and lasted for far longer than anyone had predicted. As a result, we saw a market adjustment towards the end of 2020, with price reductions continuing through early 2021, leaving prices now just below where we would have expected when dealerships re-opened (see below) and just below where they were a year ago.

Most dealers seem to be reporting business around 60% of normal levels and many have adapted well to the unfamiliar demands of click and collect or safe delivery. Used car supply has also been below normal for the time of year and so a crash in used car prices has been avoided.

Seasonality remains difficult to predict. The usual seasonal pattern that governs the UK market is based on increased activity throughout the industry during the plate changes in March and September and the turn of the calendar year. COVID-19 has rendered much of that irrelevant. We are now faced with the prospect of dealerships remaining physically closed throughout the vital month of March

Likely RV Deflation June 2020 to June 2025



Source: cap hpi

and the business strategy by brand is likely to vary considerably; some will attempt to roll a portion of the volume of new plate deliveries into later months, while others may resort to pre-registration or other routes to market which potentially damage used values.

On the bright side, we will see a resumption of something more like business as usual once dealerships are allowed to fully open and we expect to see another boost to demand as dealers look to restock (or refresh stock) to support the expected levels of used car business. This time we do not expect it to last as long as the boom experienced after the initial lockdown; dealers have been trading (albeit at below normal levels), transport has been relatively unaffected and last year's demand factor stemming from the avoidance of public transport is expected to have almost been exhausted.

So when will the supply/demand equation rebalance again? Usually, the Easter holiday heralds the start of a decline in activity and prices start to ease, but this year it may well precede the strongest period of the year. However, there are significant used car volumes in the pipeline; many vehicles due for return from fleets in the Spring and Summer of 2020 were extended for 12 months and are unlikely to be extended again. PCP replacements will ramp up. Repossessions are now legally possible again. Once the initial peak in demand fades, selling used cars is likely to become much harder work.

Larger volumes were already expected from the registrations from three to four years ago and the reduced levels of used cars in the marketplace year to date mean that there is even more volume waiting in the wings.

At cap hpi, we measure the progression of the used market via Year Over Year deflation (YOY%) – always measuring the annual percentage change of the same vehicle at the same age and mileage. We expect the YOY% deflation to peak in October this year, with values falling more slowly after this until reaching the levels expected from typical aging patterns in 2022 and then starting to increase in 2023, as used prices start to benefit from the impact of lower registrations in 2020/21.

Although many leasing companies focus on their traditional benchmark age of three-year-old values, we have been asked frequently about the younger end of the market. The pandemic has undoubtedly had a huge effect on the daily rental industry and normal renewal patterns have been scrapped. Many have expressed a view that prices for one year old cars will be immune from the pressure exerted on the three-year-old market, but there are a couple of reasons why we do not believe this will be the case. There is limited elasticity in the used car market – there are constraints regarding how much extra will be paid for vehicles of successively younger ages and although we see variation in Year Over Year % deflation by age, it is unheard of for any age of vehicle to head in a completely different direction from the rest.

As always, the devil is in the detail and the difficulty is in determining the timing and extent of what happens next. We can be pretty confident that there will be a surge in used car demand when dealerships re-open. The degree of certainty reduces as we try to estimate how long that positivity will last, when larger volumes return to the wholesale market and exactly when the supply/demand imbalance tips back over into used value reductions. It looks like we will have to live with uncertainty for a while yet.

Expert analysis

A shortage of young used cars

Our assumption is that one-year-old cars will deflate slightly less than their three-year-old equivalents but will not be completely insulated from the pressures on the rest of the used market. The other main reason behind this assumption is that we expect younger cars to come under pressure from the opposite direction through offers and discounts on new cars, with some evidence that this has already started to make itself felt. We have already seen the significant switch in the age profile of cars available in the marketplace, with a shortage in young used cars already a reality and yet the impact on used values has been limited to date.

Contributed by Dylan Setterfield, Head of Forecast Strategy, cap hpi

Solera | cap hpi
FOR SMARTER AUTOMOTIVE DECISIONS™

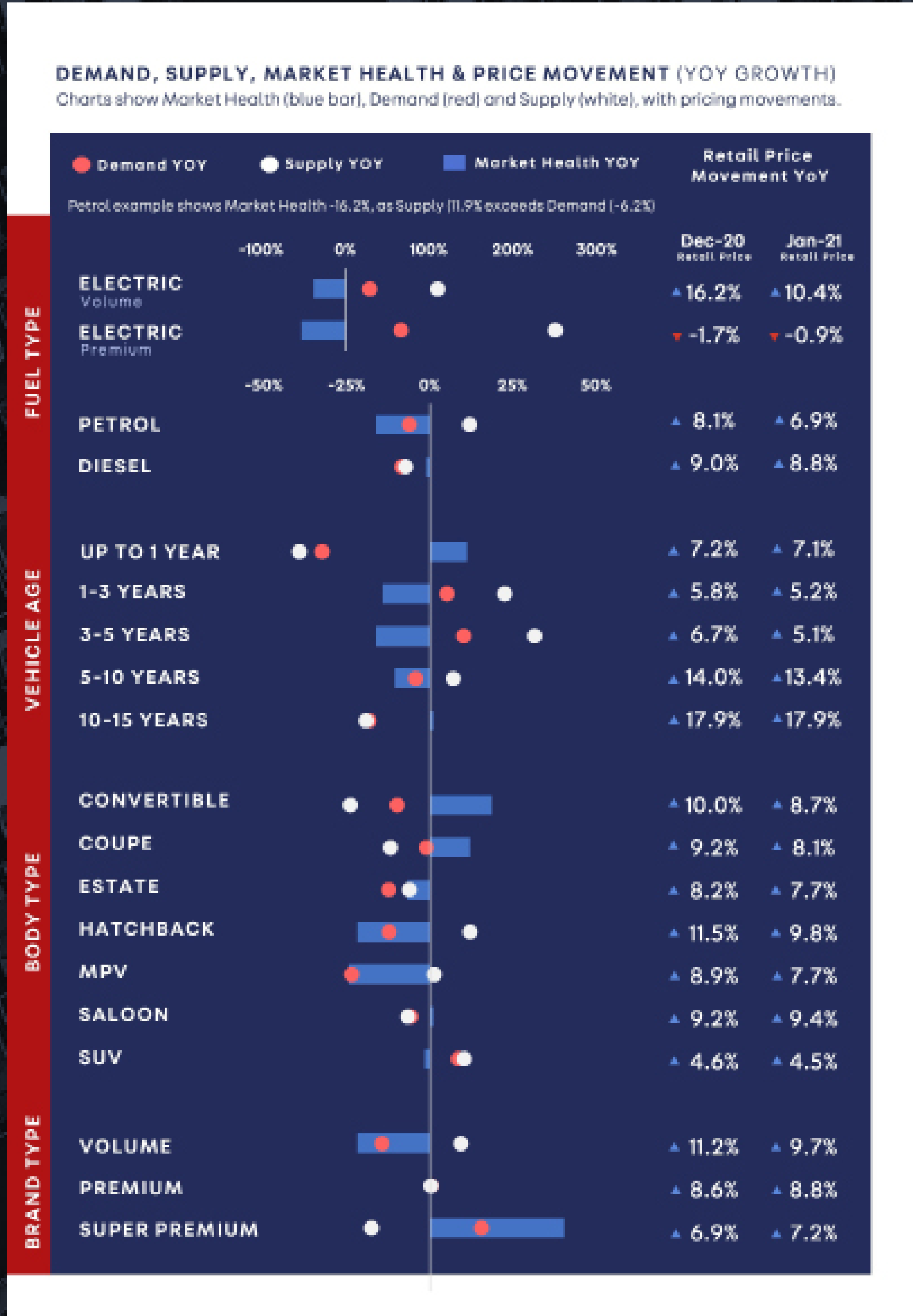
Used market health score

With over 60 million monthly cross platform visits and advertising over 500,000 cars every day, we have a very broad view of the market and particularly of the UK car buyer.

This means we're able to track a huge variety of metrics and trends in almost real-time, including the levels of supply and demand in the market, as well as the subsequent influence on like-for-like pricing.

Based on these various dynamics, we're able to determine a Market Health score at a macro and micro level, such as fuel, price, age, and body type, from both a national and regional perspective. As well as giving our customers full-time access to this data, each month we package the high-level view up as part of our Monthly Market Intelligence report, of which this is a January snapshot.

Supply of new and used cars remained constrained for large parts of H2 2020, and whilst supply pressures have certainly not disappeared, they have eased. And although demand remains robust, the extremely strong and sustained levels we saw in recent months began to ease with the introduction of the new restrictions at the turn of the year.



As a result of these changing dynamics, overall Market Health softened in January; and consequently, price growth slowed somewhat from the very strong levels seen through the closing months of 2020. Despite those pressures, like-for-like prices remained up 7.4% year-on-year, marking 10 months of consecutive price growth. At the time of writing, in late-February, we've seen this trend continue, with growth easing to c. 6.5%.

Our latest proxy sold data indicates most retailers are now trading at around 75% of normal volumes, which is up significantly from January (circa 65%). It's testament to the speed at which the industry has adapted to digital retailing, and points to a strong recovery over the coming weeks.

We've also seen a significant step up in audience performance on our marketplace, and during the week of the 15th February, we recorded 15.2 million cross platform visits, which is a 10.3% increase on the same period last year, and a 6.5% increase week-on-week. This strong level of consumer engagement resulted in the number of leads being sent to retailers growing 31.3% year-on-year.

Cause for a positive outlook

Reassuringly, in addition to these consumer metrics, several wider economic factors point to another period of strong retail demand once forecourts can reopen in April. The latest Bank of England findings indicate average household finances are in better shape than they were pre-COVID, with savings levels around three times as much as in any other nine-month period. What's more, significant levels of consumer credit have been repaid with outstanding credit to individuals dropping £23 billion since February 2020.

This aligns to our own research which revealed that consumers' confidence in being able to afford their next car remains very high, and ahead of confidence levels recorded pre-pandemic. For those looking to buy in the next two weeks, confidence levels were even higher.

There's no question the industry is facing significant challenges at the moment, and not being able to open forecourts during the key sales month of March will be frustrating. However, with better than expected retailer performance, coupled with very positive market indicators, we believe there are plenty of reasons for a positive outlook.

Expert analysis

Savings to be spent

Several wider economic factors point to another period of strong retail demand once forecourts can reopen in April. The latest Bank of England findings indicate average household finances are in better shape than they were pre-COVID, with savings levels around three times as much as in any other nine-month period.

Contributed by Ian Plummer, Commercial Director, Auto Trader

AutoTrader

Customer satisfaction

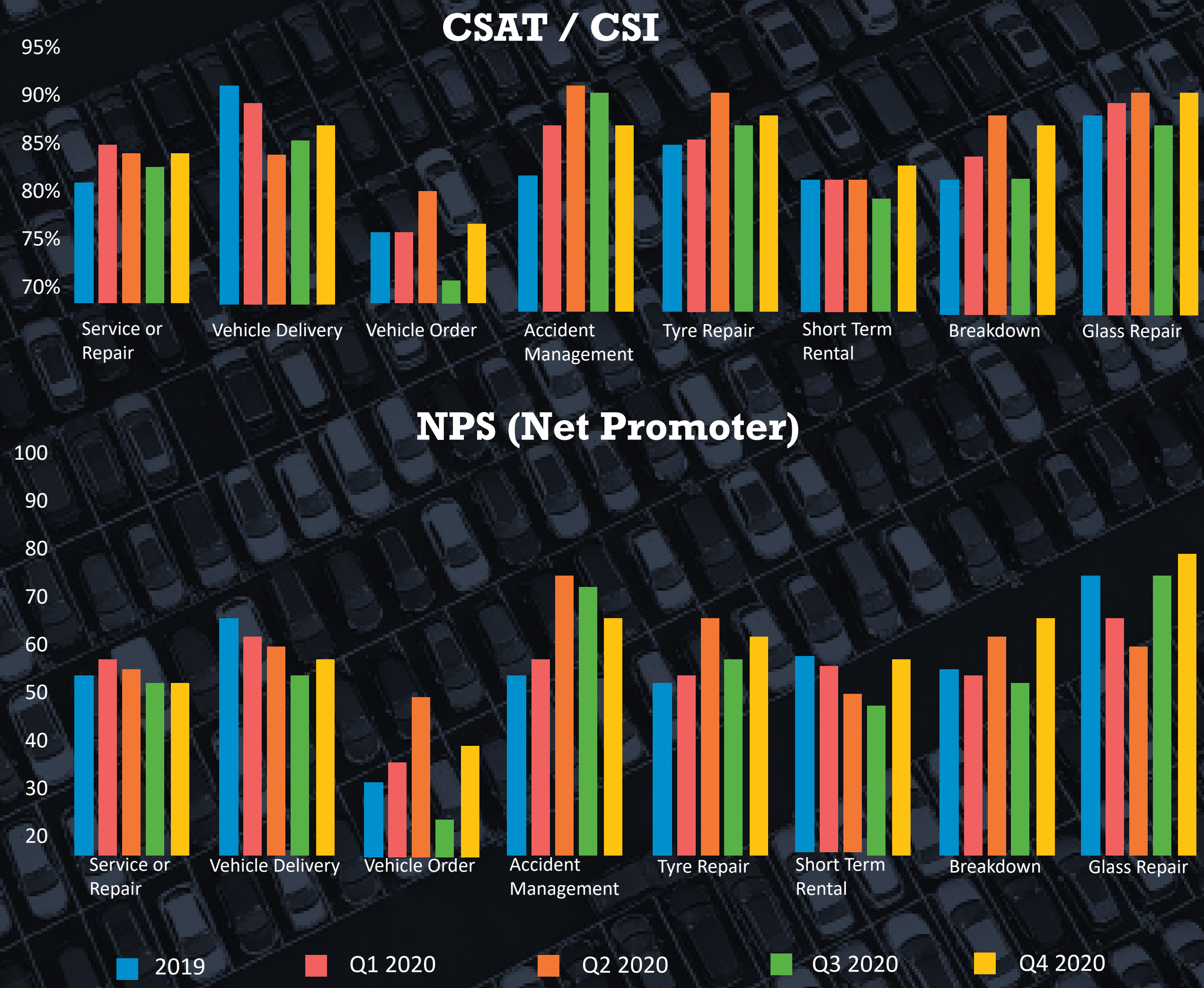
With supply chains severely disrupted by the Coronavirus pandemic, BVRLA members have faced an unprecedented challenge to keep business drivers mobile and safe on UK roads.

So how is the industry performing, and what lessons for the future can we identify from the annual APD Global driver sentiment reports, if we compare pre-COVID 2019 and 2020 data (Sample: 99,684) surveys?

Results show that attempts to maintain the fullest range of driver services during the crisis have been broadly successful with drivers prepared to accept a degree of disruption as the UK adjusted to lockdowns and social distancing.

Despite the challenges in 2020, overall satisfaction (CSAT) and brand recommendation (NPS) increased, but what is especially interesting is the influence of outsourced services on the results and their significance in the future.

What is not a surprise was the negative impact of vehicle shortages and unpredictability of delivery dates. Driver patience began to evaporate during the year driving down satisfaction by 4% from 2019, and NPS down an alarming 7 points.



Source: APD Global Research Limited

Whilst these numbers are trending upwards in 2021, an analysis of verbatim driver comments confirms there are concerns about the reliability of information surrounding lead-in times for new orders.

Driver confidence is complicated beyond the constraints of COVID, by the rush towards electric vehicle ownership, and concerns about the infrastructure to support EV mass adoption. These anxieties will continue to place an increased burden on leasing companies to provide clear advice and guidance at the outset and a strategy for handling the inevitable bumps on the journey.

So, which services over-delivered on driver expectations last year, and why will they be so important in 2021 and beyond?

According to drivers, the performance of outsourced in-life services, such as accident management (6%), breakdown (4%) and tyre repairs (4%), were all higher than 2019 and compensated for the fall in confidence seen in the vehicle sourcing and delivery process.

With marginal gains also seen in SMR (2%), and glass (1%) CSAT survey results, the impact of these five services increased NPS score by 8 points, reversing the falls seen in other areas.

Driver comments confirmed that general communications, booking, convenience and crucially safely were above expectations and these continue to trend upwards in 2021.

In conclusion, their role in delivering exceptional service on behalf of members is crucial to counter-balance the future impact vehicle supply challenges will have on driver expectations and customer loyalty.

Expert Analysis

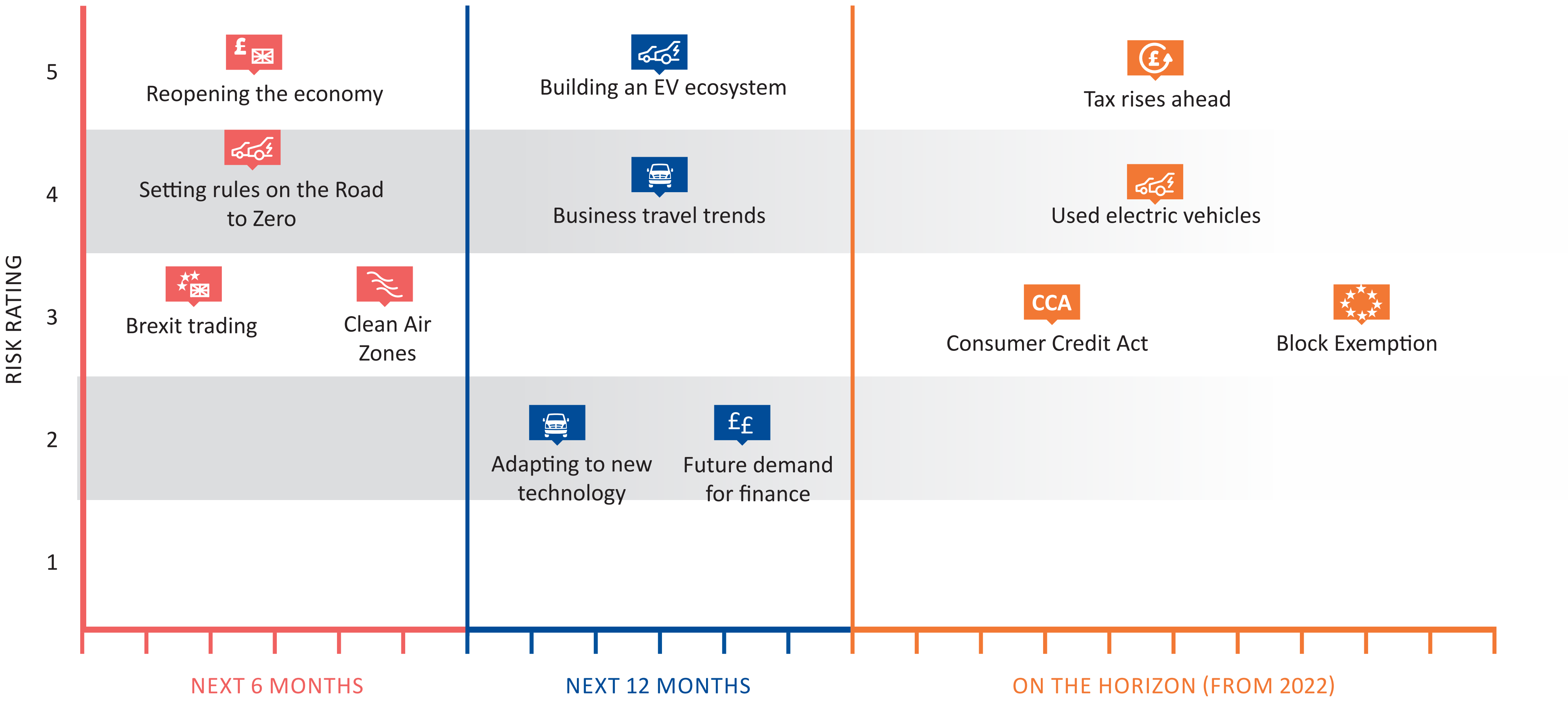
Electric vehicle advice

Driver confidence is complicated beyond the constraints of COVID, by the rush towards electric vehicle ownership and concerns about the infrastructure to support EV mass adoption. These anxieties will continue to place an increased burden on leasing companies to provide clear advice and guidance at the outset and a strategy for handling the inevitable bumps on the journey.

Contributed by Paul Turner, Executive Chairman, APD Global Research Limited

GLOBAL RESEARCH

Fleet Forward Planner



Summary

Next 6 months

Reopening the economy

The Office for Budget Responsibility expects the economy to return to pre-Covid levels by the middle of next year, six months earlier than previously forecast as part of a “swifter and more sustained” recovery, driven by the vaccine rollout. As the economy reopens, leasing companies can expect a wave of demand for services, from new vehicle orders and collections to maintenance requests, creating significant logistical demand. As economic support is removed, there is also the risk of greater levels of bad debt and business failures to manage. Chancellor of the Exchequer Rishi Sunak announced furlough would continue until September in his 2021 Budget, and offered ongoing support, but also signalled that the bill must be settled eventually, as the cost of Covid is likely to reach £407 billion by the end of next year.

Clean Air Zones

Some local authorities are moving ahead with the introduction of Clean Air Zones this year, but differing policies continue to create a confusing patchwork of standards. Bristol’s charge of £9 a day for cars and vans includes more than a dozen potential exemptions, from low-income earners travelling for work to people attending hospital appointments. Birmingham’s low-income exemption sets a different standard. Meanwhile, Bradford is planning a scheme next year, while Leeds and Sheffield have put the brakes on similar plans. The result will be a maze of regional rules and regulations with fleets and businesses in the middle. However, the changes could prompt more demand for leasing as businesses consider how to renew their fleets if they are affected; one Bristol business owner hit by the charge predicted he would incur costs of up to £300,000 to purchase replacements for his 25 vans.

Setting rules on the Road to Zero

This year, government will start defining how the phase out of the sale of new internal combustion engine (ICE) vehicles will be legislated. This will include setting clear definitions of full hybrid vehicles, clarifying how ICE sales will be ended and what exemptions will be offered. These decisions will define manufacturer strategy for the next 15 years of production for the UK market and provide more certainty over the type of vehicles that will be available to members after the initial ban on pure ICE vehicles comes into effect in 2030.

Brexit trading

Initial trading difficulties under the Brexit agreement have been softened by much-reduced economic activity caused by the global pandemic. With the vaccine expected to release pent-up demand for goods and services, the coming months will increase the strain caused by new paperwork and processes. Issues are likely to emerge with rules of origin for vehicle parts and supplies, while customs arrangements with Northern Ireland are an ongoing source of concern, with UK ministers still locked in talks with the EU about how plans will work in the long-term as interim agreements come to an end.

Next 12 months

Building an EV ecosystem

Sales of plug-in vehicles have exceeded diesel for the first two months of 2021 and the electrified leased fleet is steadily growing. This will change the experience of operators, as competition for services increases, particularly access to public charging at peak times and maintenance or repair bookings. Real-world range experiences may also differ. It is likely that drivers will require more support in areas they took for granted with ICE vehicles, such as ‘refuelling’. The rise of EVs could also power new business models, such as subscription services, as customers shy away from long-term commitments until they are more certain of the technology.

Business travel trends

Business may be different in the ‘new normal’ after the pandemic. Home working is likely to remain as employees shun the time-sapping regular commute, at least for part of the week. Video conferencing will also provide a much more efficient way of communicating in many instances compared to face-to-face meetings. This could change attitudes to business transport and the need for fleet vehicles. However, increasing competition may put employees back on the road, if they secure an advantage by rebuilding personal relationships through face-to-face contact. Flexible services may gain market share as customers adapt to the changing environment. There could also be increased demand for cars, as employees take their time returning to public transport until they are confident that the virus risk has subsided.

Summary

Next 12 months

Adapting to new technology

New technology is likely to bring operational risks and opportunities for vehicle providers in the next year. As cars become ever more complex, drivers face a growing array of messages on a variety of screens, while autonomous systems will interact more frequently during journeys. This could create distraction risks, especially as more cars now project smartphone content to drivers, in addition to vehicle information. If drivers aren't familiar with their new vehicles, the likelihood of incidents could be increased, while customer service calls could rise as they attempt to resolve issues they encounter. Leasing companies could expand handover support, especially for autonomous driving functions (and limitations), charging processes for plug-in vehicles and system set-up. There will also be opportunities to provide risk management support as drivers return to the road, ranging from online refresher courses to driver training.

Future demand for finance

In the next year, government intervention in response to Coronavirus is expected to come to an end. This will start to reveal the true impact of the pandemic on customers and prospects. Leasing companies will be able to define their level of exposure to bad debt more clearly and understand the impact of extensions on vehicle condition, expected residual values and recharges. Future vehicle and leasing demand will also become more clear, as business activity accelerates, as predicted, or instead enters a period of decline as long-term debts and uncertainty weigh on the global recovery, which may bring ongoing forbearance requests and bad debt.

On the horizon (from 2022)

Tax rises ahead

Chancellor of the Exchequer Rishi Sunak will start to rebuild public finances, with more people expected to become tax-payers or incur higher rates of tax, while corporation tax is increased, starting in 2023. In the main, the focus is on freezing thresholds, so predicted annual growth generates ongoing rises in tax revenues. Motoring taxes are always contentious, but with such a large bill for Coronavirus, it is likely that every opportunity to raise revenues will be explored. This puts a potential question mark over the development of long-term incentives for plug-in vehicles, and whether the government will maintain its current approach or roll out tax increases because it believes there is now sustainable demand. Longer-term, policies will also need to account for the loss of revenues from fuel duty. Talk of potential road tolls continues, as it has for many decades, but policies that are cheaper to introduce with quicker results may win the day.

Consumer Credit Act

There is significant pressure on government to overhaul the Consumer Credit Act. The outdated legislation has forced lenders to send severely worded letters to those in financial difficulty at a time when empathy was vital, causing significant friction with customers. The 50-year-old legislation also fails to recognise the rapid changes affecting the industry, particularly the expansion of digital services and communication and the introduction of electric vehicles.

Used electric vehicles

With the government's focus on promoting hybrid and plug-in electric vehicles, demand has soared over the past year and continues to rise, despite the pandemic. With billions of pounds invested in plug-in vehicles by leasing companies, it is important to build robust demand in the used car market as vehicles are returned at the end of contracts. Even conservative residual value setting can place a premium on used plug-in vehicles compared to ICE alternatives because of their higher list prices, particularly earlier models and premium cars. The industry also needs to consider the logistics of moving and remarketing large numbers of electrified vehicles, not least how to protect batteries and maintain charge levels during storage while awaiting sale.

Block Exemption

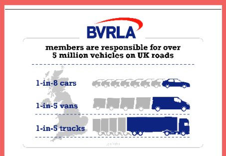
A public consultation as part of the review of The Motor Vehicle Block Exemption Regulation was completed in January 2021. Thousands of responses are now being reviewed and an evaluation report is due at the end of May 2021. This will kick-start the debate on the future of the block exemption before the expiry of the current legislation on May 31, 2023. The purpose of the evaluation is to gather facts and evidence on the functioning of the Block Exemption Regulation to verify that it is meeting its objectives. The evaluation will be based on the following criteria: effectiveness, efficiency, relevance, coherence and added value.

Fleet industry insight from the BVRLA

The BVRLA Research and Insight team produces a range of market reports and analysis that provides a clear picture of the scope, scale and direction of the vehicle rental and leasing sector.

You can find out more on the ***BVRLA website****.*

BVRLA in Numbers



Our annual breakdown of BVRLA membership and fleet profile provides a useful snapshot of the industry. Our historic data can give a more detailed perspective of how it is changing over time.

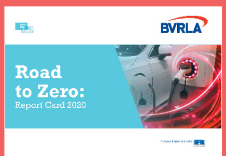
Quarterly Leasing Survey

Now five years old, this survey provides a fascinating insight into the changing profile of the UK fleet leasing market. It gives a detailed analysis of trends in product type, vehicle type, fuel type, emissions and business confidence.

Company Car Report

A crucial new BVRLA report analyses the market and the long-term trends that will define the future of the company car. It provides much needed insight into the number of company cars, the type of people that drive them and manage them, and what motivates their decisions.

Road to Zero Report Card

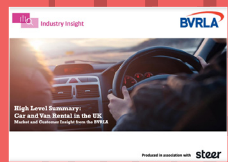


The BVRLA's 'Road to Zero' Report Card tracks the UK fleet sector's progress towards full decarbonisation. It recognises that the sector contains a number of diverse fleet segments and assesses the readiness of each of these segments in making the transition. It also recommends where further action is required from Government and other industry stakeholders to hasten the shift to cleaner road transport.

Quarterly Leasing Outlook

This new BVRLA looks ahead at the key market trends and issues that will be driving the leasing market in the short and medium term. Combining the latest insight from leasing executives and supply chain experts, it also provides an aggregated industry forecast on key industry metrics.

Vehicle Rental Report



Representing some of the most comprehensive research to-date into the vehicle rental market, this report is the culmination of six key research projects. Transport consultants Steer have lent their expertise to unearth important insights from a survey of 4,500 rental customers, a market-sizing omnibus survey, a detailed rental operators' study, a series of in-depth interviews with rental sector leaders as well as an analysis of both the economic impact and the sustainability credentials of the rental sector.

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

01494 434747
bvrla.co.uk

@bvrla bvrla bvrla @bvrla