Industry Insight

BVRLA

Leasing Outlook

Oct 2022

Operating blind

The economy and increased uncertainty creates challenges and opportunities for industry

Market spotlight
Consumer demand softens as supply problems start to ease

Industry outlook
Consumer Duty will impact 90% of PCH contracts

Quarterly report
Return to 1970s style inflation and interest rate unpredictability

Opinion
Changes in consumer behaviour evident

In association with: AutoTrader, leasing.com, SOLERA Vehicle Solutions | cap hpi, asset finance connect

Contents

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. 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**

Market Headlines

- **BVRLA fleet grows 2.9% year-on-year** (page 4)
- **Car fleet up 1.4%; van fleet up 7.4% year-on-year** (page 5&6)
- **BCH up 3.8%; per year; PCH up 4.7% year-on-year** (page 5)
- **Battery electric vehicles account for 28% of all new deliveries** (page 6)
- **73% of business contract hire cars supplied with maintenance** (page 7)
- **BEVs to account for 22% of car fleet by Q2 2023** (page 10)

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

For an industry that cherishes its data-backed forecasts, the vehicle leasing sector is having to come to terms with operating blind.

After a decade of interest rates that squeezed neatly into a band no wider than 0.25 to 0.75 per cent, six rate rises in less than a year have increased borrowing costs significantly and raised serious concerns about the levels they will reach before the Bank of England trusts that it has inflation under control. It's now impossible to know with any certainty what the cost of funds will be when a lease starts in nine to 12 months' time.

Further inflationary pressures are driving up the price of new vehicles; a cost that the weakening exchange rate of the Pound against both the Euro and Dollar is only going to exacerbate. Given the lengthly lead times for new vehicles, some manufacturers are offering no more than indicative prices until they hand over the keys. This means leasing companies must quote rentals that they cannot guarantee. Any subsequent rental increases may see some company cars no longer fit into employee choice list bands.

Moreover, with vehicle supply shortages ensuring demand outstrips supply, manufacturers have been able to reduce discounts, pushing up acquisition prices even higher for leasing companies and potentially increasing depreciation costs.

The one silver lining to this cloud is the continued strength of residual values, with end-of-lease resale prices significantly above where most leasing companies originally forecast them when these vehicles joined their fleets three or four years ago. Despite a slight softening of values in Q2 and Q3, the removal of the better part of 1 million cars per year from the new car market since the start of the pandemic has given leasing companies confidence that demand for secondhand vehicles will continue to match or exceed supply when they come to dispose of cars and vans that join their fleets today.

In the face of these challenges, leasing companies are having to be agile in the way they operate. To overcome lengthy lead times, some placed batch orders at the start of this year for 'generic' models, rather than wait for drivers to choose every last colour, trim and option. Others have persuaded customers to broaden their choice criteria to accept, for example, a premium SUV plug-in hybrid, rather than hold out for a specific make and model with a 12-month order time.

More regular communication has also been vital to keep customers informed of the status of orders, with delays not uncommon and the frustration of cancellations and re-pricing all too frequent.

There are tentative green shoots of improvement in supply lines, with order times shortening to six months for some models, but the consensus is that it will be the end of 2023 or even early 2024 before manufacturers clear their order backlogs and return to a typical three-month schedule.

When customers do come to re-order, they are facing 20-25% increases in monthly rentals due to the pricing pressures facing leasing companies. This is not such an issue for business customers, for whom the transition to electric company cars offers substantial savings in Class 1A National Insurance savings, 100% tax relief on rentals, and lower energy costs per mile compared to diesel equivalents. Guiding customers through these calculations, and convincing them to move to fleet policies based on total cost of ownership rather than lease rate, is playing into the hands of leasing companies with a consultative approach to the market.

But for private consumers who do not benefit from these tax advantages, the combination of rising list prices, disappearance of discounts and higher interest rates means they face the choice between a lower grade car for a similar rental or sharply increasing their monthly motoring spend.

"We are having to quote for vehicles without knowing either the price of the vehicle or the cost of funds when the lease starts in nine to 12 months' time."

BVRLA Fleet Focus Q2 2022

The combined car and van lease fleet operated by BVRLA members was up almost 3% year-on-year at the end of the second quarter, but slightly down on Q1 2022.

Comparing Q2 figures with the same period of 2022 reveals a 2.92% rise in the size of the car and van lease fleet, elevated by a 7.43% rise in the number of LCVs, reflecting an extra 34,000 vans to reach a total of 498,072 units.

The number of cars also rose in Q2 compared to Q2 2021, but by a more modest 1.36%, to 1,358,411 vehicles.

"Order times are shortening to six months for some models, but the consensus is it will be the end of 2023 or early 2024 before order backlogs clear."

BVRLA DATA HUB

Overall fleet

Total fleet
1,856,483 vehicles

(+2.92% YEAR-ON-YEAR)

Share of total fleet

	Q2 2021	Q2 2022
Cars	74%	73%
Vans	26%	27%

BVRLA fleet shrinks quarter-on-quarter

TREND

+52,673

(YEAR-ON-YEAR)

Total fleet size

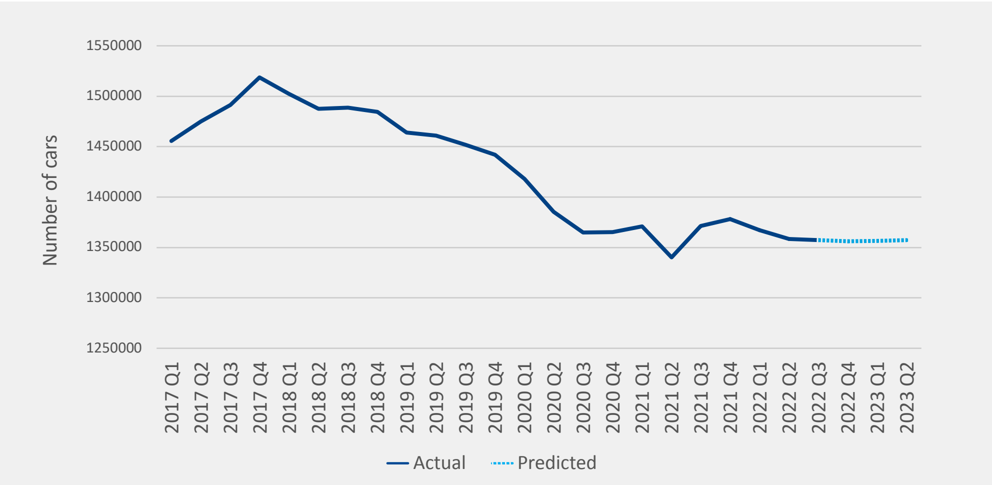
Continuing supply shortages have restricted potential growth in the BVRLA's fleet size in 2022, with Q2 totals slightly down on the combined car and van fleet in Q1.

Comparing the first and second quarters reveals a slight decline in the car fleet of almost 9,000 units, which a 1,000 vehicle rise in the LCV fleet was insufficient to offset.

The size of the business contract hire fleet did increase by over 8,000 units, but was undermined by falls in fleet management and consumer business.

BVRLA Fleet Focus Q2 2022

Total car fleet



Long lead times delay car fleet recovery

The ongoing shortage of new vehicles, due to the scarcity of semiconductors and other vehicle components, has led to leasing company order banks bursting at the seams, but limited deliveries.

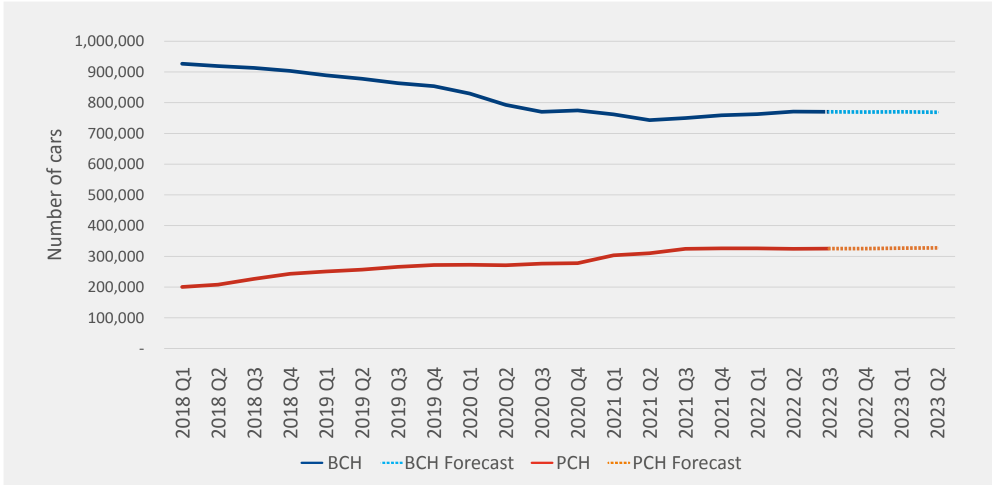
Companies report slightly better availability of electric cars compared to petrol, diesel and hybrid alternatives, but say wait times of nine to 12 months and longer are now standard.

The total business car lease fleet operated by BVRLA members is now over 100,000 vehicles smaller than it was prior to the pandemic, although the size of personal contract hire fleet has increased by over 17% and the salary sacrifice fleet by almost 50%.

TREND

1,358,411
(+1.4% YEAR-ON-YEAR)
BVRLA CAR FLEET

BCH v PCH car fleet



Salary sacrifice starts to take off

The figures may be modest, but major leasing companies all report burgeoning demand for salary sacrifice car schemes, with employers keen to offer this popular employee benefit to all staff, especially at a time when salaries are under pressure. The benefits of paying for an electric car out of pre-tax income, and only paying benefit in kind tax at 2% represents a huge saving. No surprise then that salsac volumes are up 33% year on year to 35,751 cars. Given the employer involvement in salsac schemes, some leasing companies see these as business rather than consumer finance products. Personal contract hire volumes are also rising, up 4.7% year on year to 324,692 cars, while the business contract hire fleet has grown by 3.8% to 771,557 units. Leasing is cementing itself as the most affordable way for both business and private motorists to get behind the wheel of new cars, especially higher priced electric and plug-in hybrid models.

TREND

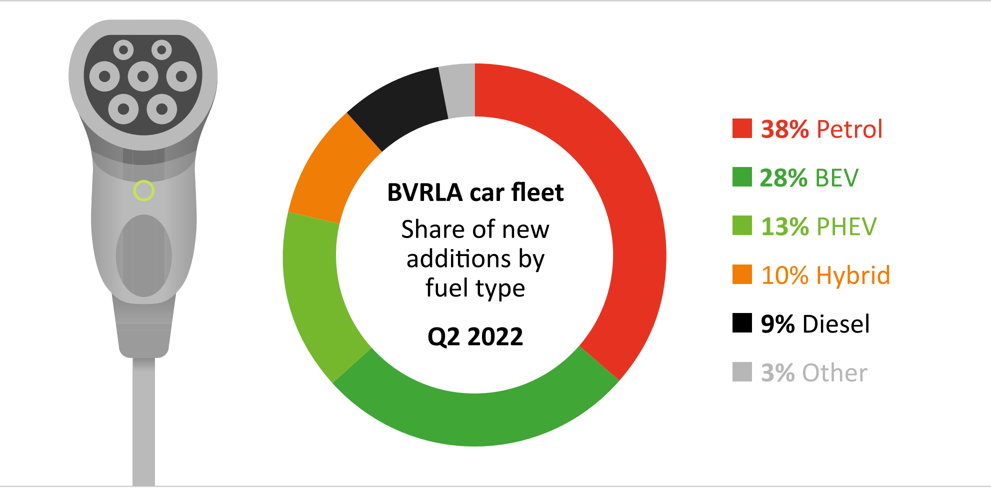
771,557
(+3.8% YEAR-ON-YEAR)
BCH CAR FLEET

TREND

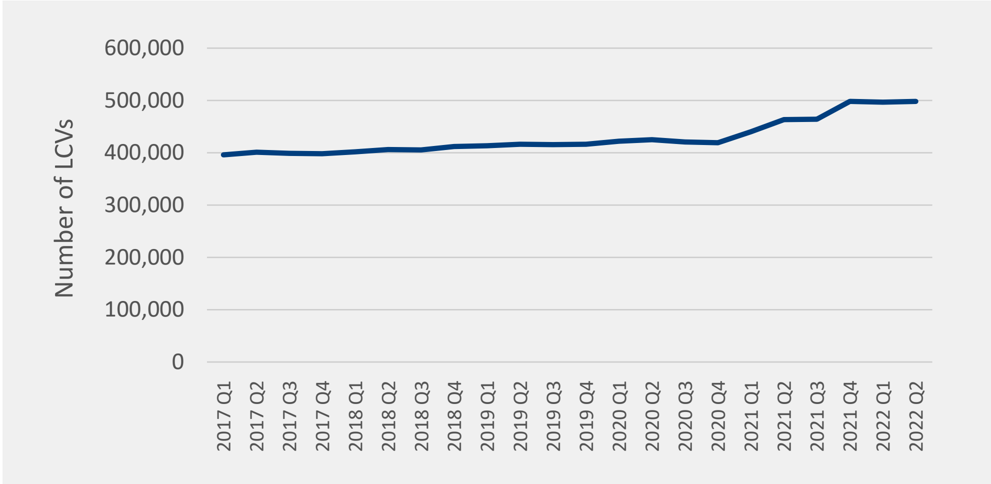
324,692
(+4.7% YEAR-ON-YEAR)
PCH CAR FLEET

BVRLA Fleet Focus Q2 2022

Car fuel choices



Van fleet



The electric future

BVRLA members are starting to wave their last goodbyes to diesel as a car fuel, as ultra-low and zero emission power trains start to dominate order banks.

Once fleets' fuel of choice, diesel now accounts for just 9% of new car additions and 27% of the BVRLA car fleet, with petrol the dominant fossil fuel, responsible for 38% of new car additions.

Battery electric vehicles, however, are surging ahead, responsible for 28% of all new additions, and an even higher share (35%) of business contract hire additions. Pure electric cars now account for 16% of the total BVRLA car fleet.

BEVs have also left plug-in hybrids as a shrinking reflection in their rearview mirrors, with companies and drivers prepared to make the leap directly to electric, rather than use PHEVs as a stepping stone.

39%

FORECAST GROWTH OF BEVS ON BVRLA CAR FLEET OVER THE NEXT 12 MONTHS

35%

SHARE OF NEW BUSINESS CONTRACT HIRE DELIVERIES TAKEN BY BEVS

Supply issues act as a handbrake on LCVs

As a bellwether of the economy, the steady rise in the size of the BVRLA's van fleet should be welcome news. However, leasing companies could have boosted their light commercial volumes significantly if greater supply had been available, amid suspicions that vehicle manufacturers have prioritised hard-to-source semiconductors for more profitable car rather than van production.

Any growth in the LCV fleet is impressive, however, given the 24% decline in van sales during the first eight months of the year reported by the SMMT. This means that fleets are keeping their LCVs for longer, which could lead to spikes in maintenance spend as LCVs reach higher ages and mileages.

Overall, the BVRLA van fleet totals 498,072 vehicles, 7.4% up year on year, and 0.2% up in Q2 compared to Q1. Business contract hire is the dominant LCV funding method, with a 69% market share, followed by 19% for finance leasing.

TREND

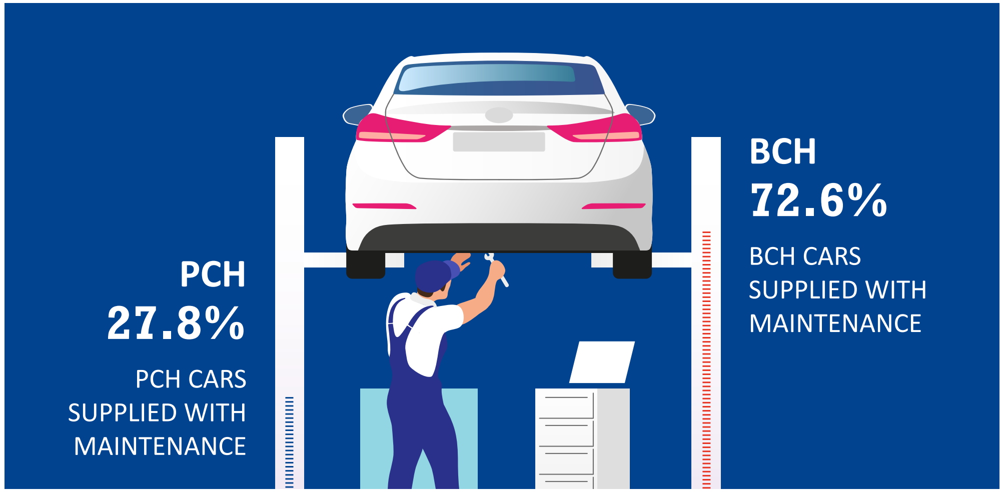
498,072

(+7.4% YEAR-ON-YEAR)

TOTAL VAN FLEET

BVRLA Fleet Focus Q2 2022

Maintenance contracts - proportion of maintained fleet by funding method



BCH bundles and PCH unbundles maintenance

Businesses are continuing to bundle maintenance contracts into their car leases despite the prospect of significantly lower service and maintenance spend with electric vehicles. Fewer moving parts, the absence of filters and the much longer life of brake pads and discs due to regenerative braking mean EVs should have substantially lower running costs, although most EV fleets are too young to have conclusive data. LCV fleets are more likely to negotiate maintenance separately to a lease, although almost two-thirds (63%) of vans on a BCH include maintenance in the arrangement. In the personal car leasing market, only 28% of contract hire agreements include maintenance, with the majority of drivers pursuing a lower headline monthly lease rate. Salary sacrifice proves to be the exception to this rule, however, with 99% of contracts including maintenance, evidence that the product is sold as genuinely all-inclusive.

TREND

559,881

BCH MAINTAINED CAR FLEET

TREND

217,250

BCH MAINTAINED LCV FLEET

Regulated contracts

New regulations for 90% of BVRLA consumer finance product

A 121-page guidance document from the Financial Conduct Authority outlines the new Consumer Duty standards that will come into play from July 2023.

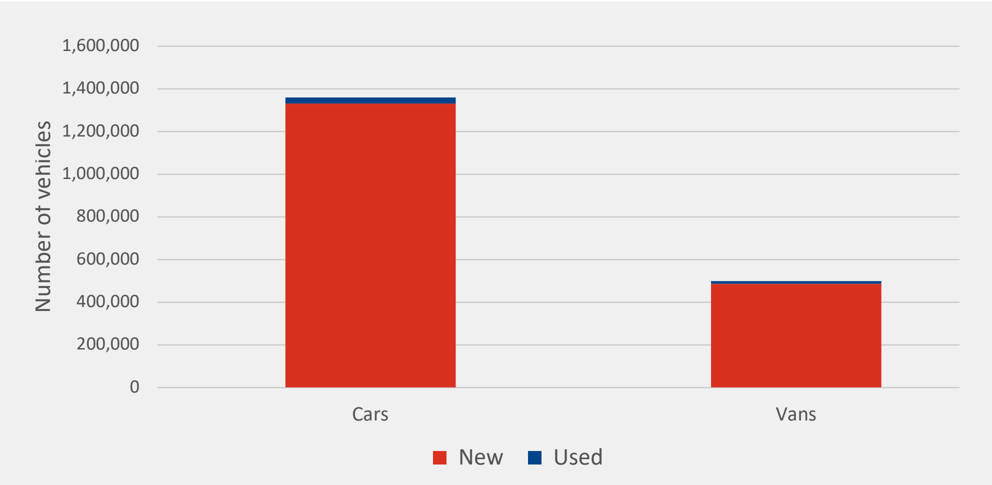
The standards are designed to ensure that private consumers receive communications they can understand, that financial products and services meet their needs and offer fair value, and that consumers get the support they need.

Almost 90% of BVRLA members' consumer finance products will fall under the new regulations, rising to 99% for personal contract hire.

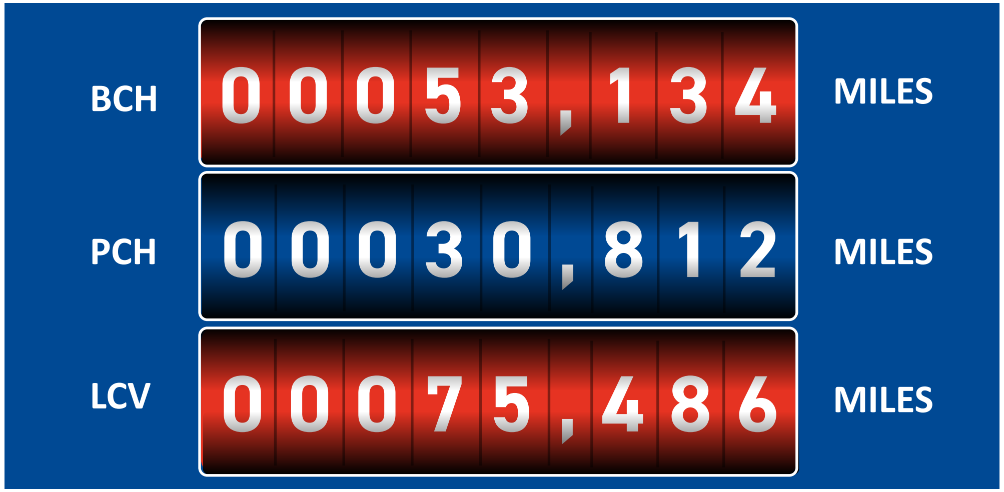
Salary sacrifice car schemes have traditionally been introduced as corporate products to large employers, so only 3% of existing contracts are regulated. But among new contracts this rises to 36%, perhaps due to micro-enterprises and SMEs adopting salary sacrifice schemes that are closer to consumer finance.

BVRLA Fleet Focus Q2 2022

Second-life leasing



Contract mileage



Second-life leasing for EVs?

With businesses inclined to hold on to vehicles for longer due to delays in new vehicle deliveries, the potential stock of vehicles for secondary leasing has been extremely limited. Across the entire BVRLA fleet, only 1.9% of business finance contracts and 2.35% of private contracts are for used cars. The percentage is only marginally higher for used vans, at 2.62%. There is, however, growing talk if not action about the greater potential of secondary leasing for electric vehicles, with batteries and motors widely expected to last longer than internal combustion engines without incurring a significant increase in maintenance spend. Secondary leasing would chime with the zeitgeist of the circular economy and make EVs more affordable to a wider audience, although who will control the market is uncertain. It is interesting to note that in France Renault has developed a 're-factory' at Flins to recondition vehicles for second use, and to prepare EV batteries for a second life as storage systems for renewable energy.

1%

PERCENTAGE OF USED CARS IN BCH FLEET.

2%

PERCENTAGE OF USED VANS IN BCH FLEET.

Mileages decline due to hybrid working

The impact of blended working patterns is starting to see itself in the terms of contract hire agreements, with mileages falling. With the Office for National Statistics reporting in May that 24% of workers are pursuing hybrid working patterns between the office and home, commuter and business miles are declining. The average term of cars joining the BVRLA's contract hire fleet is now 38 months and 44,300 miles, down from 39 months and 49,679 miles in Q1 of 2022. New van contract hire agreements have also seen a 5,000-mile cut to an average of 68,123 miles over 44 months. These shorter terms are a stark contrast to the current profile of defleeted contract hire vehicles, which are leaving the BVRLA fleet at an average of 40 months and 53,134 miles for cars; and 50 months and 75,486 miles for vans, as a result of fleets having to extend contracts until replacement vehicles become available.

44,302

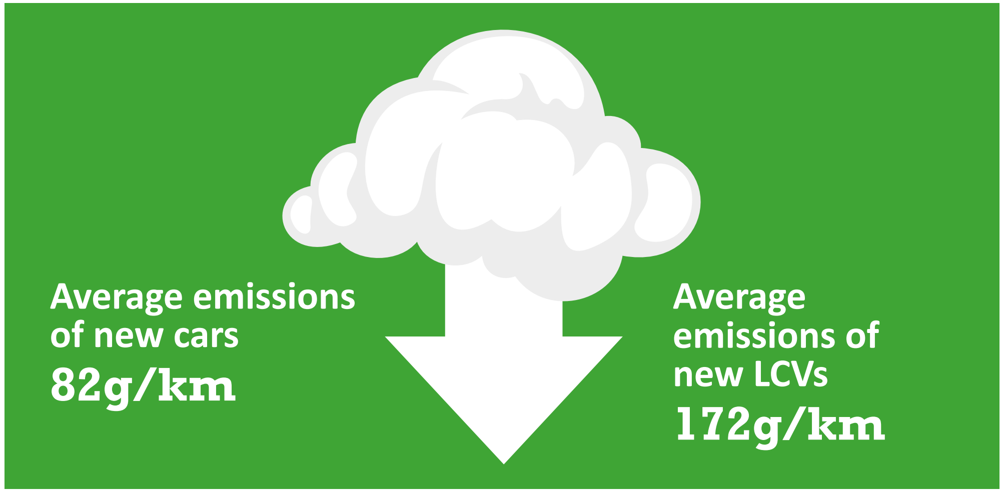
AVERAGE MILEAGES OF NEW BCH CAR AGREEMENTS.

68,123

AVERAGE MILEAGES OF NEW BCH VAN AGREEMENTS.

BVRLA Fleet Focus Q2 2022

BVRLA fleet CO_2 emissions

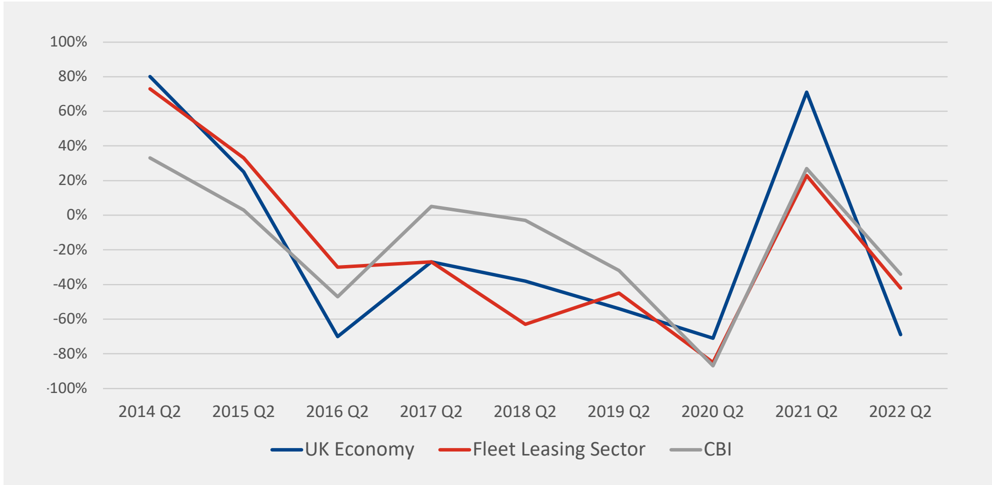


LCV emissions lag behind cars

TREND
-12.4%
(YEAR-ON-YEAR)
DECLINE IN AVERAGE CAR FLEET EMISSIONS

The average emissions of cars in the BVRLA fleet have continued their decline, falling to 94.7g/km in Q2, down from 98.1g/km in the first quarter of this year. The average greenhouse gas emissions of new additions to the BVRLA car fleet are even lower, at 82g/km, although the average masks the polarisation between zero emission electric vehicles and the higher CO2 of new cars with combustion engines. As manufacturers deliver the tens of thousands of outstanding vehicles in leasing company order banks, average emissions are likely to plummet. The CO2 profile of light commercial vehicles, however, presents a different picture, with average emissions of the entire fleet and new additions barely changing in Q2, to stand at 167g/km and 172g/km respectively. Electric vans are starting to gain a toehold, but sustained high demand for diesel models means the average emissions of the BVRLA's LCV fleet has dropped by less than 1% in the last five years (2017: 169g/km).

Industry confidence



Inflation and cost of living hit confidence

If this survey had taken place a week later, after the Chancellor's Growth Plan sent the financial markets into a tailspin, there's every chance that the downturn in business confidence would have been even more severe, if that were possible. After a slight uptick in business confidence at the end of Q1, the perfect storm of rising interest rates, soaring energy costs, double-digit inflation and industrial unrest has pitched BVRLA and CBI confidence into a steep downturn. Order banks for new vehicles may still bulging due to a shortage of supplies, but leasing companies are anxiously waiting to see whether a recent slowdown in new orders after the summer holidays is a temporary pause or a more significant move. In the consumer market, cancellations of personal contract hire orders have risen from less than 1% to 15% for one company, due to frustrations at delayed delivery times and anxieties about taking on new financial commitments in a cost of living crisis.

BVRLA Member Outlook

The tea leaves in leasing industry cups show an uncertain future. Vehicle prices, interest rates, benefit in kind tax and even supply chains are all vulnerable to change, while business confidence in the UK economy has been rocked by the spike in the energy prices and the cost of living crisis.

Leasing company order banks have never been so large, due principally to delays in supply, but the prospect of having to re-quote due to a rise in both vehicle and funding costs between order and delivery is challenging accepted levels of customer service and creating inefficiencies by forcing pricing departments to repeat work they have already done, and to communicate constantly with clients.

Somewhat ironically, the one aspect of leasing that typically causes sleepless nights - residual value forecasting – seems to be on the most solid ground, given the shortfall in new vehicle sales since the start of the pandemic. A new car market of 1.6 million vehicles, 700,000 to 1 million fewer than the high points of 2016 to 2018, means “millions of cars will be missing from the young car market, protecting residual values,” said one leasing executive, with few concerns that supply will exceed demand either for electric or internal combustion engine models.

There are other certainties, too, most notably in the burgeoning demand for ultra-low and zero emission cars from the company car sector. Minimal benefit in kind tax for these cars has secured widespread driver support, while employers have been keen to capitalise on the sustainability and total cost of ownership advantages of battery electric and plug-in hybrid models.

This change has forced businesses to base fleet policies on total cost of ownership, rather than lease rental, accepting that higher monthly payments are more than offset by tax fuel/electricity savings.

Diesel’s share of new car orders has plunged to 9%, although it still remains the fuel of choice in the light commercial vehicle sector, which appears several years behind the emissions progress made by cars.

While household name van fleets have made bold transitions to electric powertrains as part of wider corporate net zero objectives or to satisfy contracts that stipulate zero emission vehicles, leasing companies report that other businesses are reluctant to make the investment in significantly higher cost battery-powered vans and depot charging infrastructure at a time of business uncertainty. Moreover, while large businesses often have tightly defined roles for their vans, SMEs typically require more flexibility, including ranges that are beyond most e-LCVs.

Car and van fleet forecast

	2018 Q2	2019 Q2	2020 Q2	2021 Q2	2022 Q2	2023 Q2	Forecast change Q2 2022-23
CARS	1,487,622	1,461,078	1,385,338	1,340,173	1,358,411	1,357,156	0%
LCV	406,664	416,241	424,925	463,637	498,072	503,113	1%
TOTAL	1,894,286	1,877,319	1,810,263	1,803,810	1,856,483	1,860,269	0%

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

Car fleet forecast by fuel type

	2018 Q2	2019 Q2	2020 Q2	2021 Q2	2022 Q2	2023 Q2	2022 Q2	Forecast Q2 2023	Change
Diesel	70%	62%	52%	39%	27%	21%	366,771	286,707	-22%
Petrol	24%	31%	35%	37%	35%	32%	475,444	434,966	-9%
BEV	0%	1%	2%	8%	16%	22%	217,346	302,228	39%
PHEV	4%	5%	5%	7%	13%	16%	176,593	215,742	22%
Other	1%	2%	6%	9%	9%	9%	122,257	117,513	-4%

BVRLA Member Outlook

Leasing companies are waiting anxiously for HMRC to announce benefit in kind tax rates beyond April 2025, amid concerns that a sharp rise for electric vehicles could apply a handbrake to their uptake. A return to the four-year outlook for company car tax rates, introduced in 2021, would be warmly welcomed by BVRLA members. The current 2% rate for EVs is only assured until April 2025, which means many drivers will be ordering cars today without knowing how they will be taxed on them in the third and fourth years of their contracts. Leasing executives say this uncertainty is not yet dampening demand, especially with the lowest achievable benefit in kind tax rate for a new petrol or diesel car now at 26%, due to their CO2 emissions. BiK rates for BEVs must rise eventually, but the recent rise in energy prices is hitting confidence and the industry is urging the Treasury to take it slow and steady, with no cliff-edge tax increases.

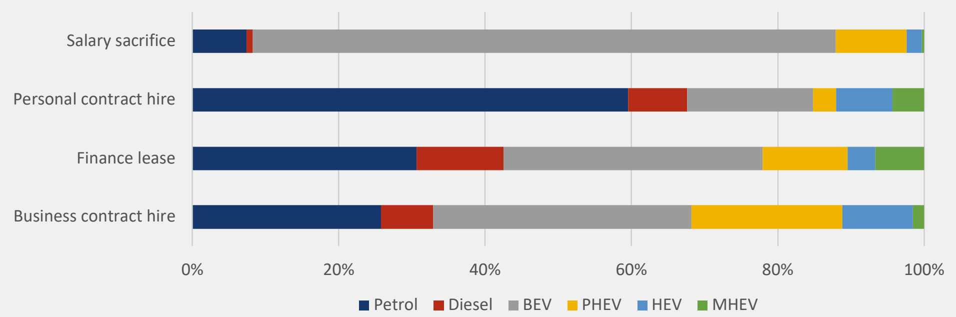
One product that would be vulnerable to tax rises, however, is salary sacrifice. This is a fast-growing sector, with leasing companies rapidly setting up policies for clients and expecting orders to snowball, as cash-for-car drivers and wider workforces migrate to schemes that resemble company cars in all but name. The opportunity for organisaitons to offer a popular employee benefit to their staff, by giving access to cars through pre-tax income, has clear appeal in a cost of living crisis, while one executive suggested that the extra protection of a salary sacrifice scheme could see it take business away from personal contract hire for workers concerned about their job security.

The prospect of changes to supply lines is starting to feature on the radar of leasing company purchasing teams, as a number of manufacturers look to adopt an agency model to control their vehicle distribution, rather than wholesaling via franchised retailers. Certain OEMs already own a handful of their retailers, and leasing executives report no difference in dealing with either agency or franchised dealers. The principal issue for BVRLA members is the stability of supply – an orderly market without distress sales protects residual values, which is to the benefit of the leasing sector. Plus, manufacturers with agency models that miss their sales targets may actually turn to leasing companies to help them sell excess stock in an orderly fashion.

Of more concern is whether manufacturers will accept their share of a new car market sized between 1.7 and 2.2 million vehicles, or whether one or two break ranks and pursue the bumper sales of a 2.6m market, forcing the others to follow.

Overall, the opportunity for business customers to fix their vehicle costs and avoid maintenance and residual value risk amid the current economic turmoil ought to stimulate demand for leasing. But these risks don't disappear – they simply pass up the line to the leasing companies.

Fuel choices by funding method Q2 2022



Car fleet forecast by funding type

Finance Product	2017 Q2	2018 Q2	2019 Q2	2020 Q2	2021 Q2	2022 Q2	2023 Q2
BCH	941,116	919,231	878,366	793,171	743,154	771,557	769,063
PCH	174,298	207,790	256,528	271,264	309,978	324,692	327,551
TOTAL	1,115,414	1,127,021	1,134,894	1,064,435	1,053,132	1,096,249	1,096,614
BCH	84%	82%	77%	75%	71%	70%	70%
PCH	16%	18%	23%	25%	29%	30%	30%

Opinion - used market prices

Dylan Setterfield - Head of Forecast Strategy, cap hpi

As a wise man once said, "If there's one thing that is certain in business, it's uncertainty." For almost any metric you can think of, the range of likely outcomes over the coming months and years is probably as large as it has ever been. Just look at any of the Bank of England's 'fan charts'.

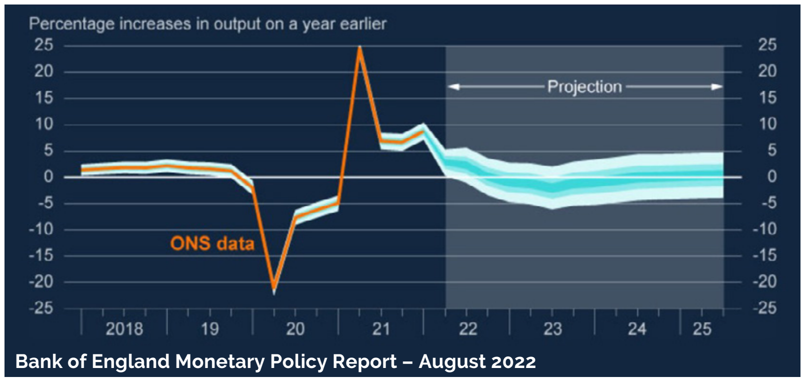
There seems to be some light at the end of the tunnel regarding the supply of new cars, with several major manufacturers reporting the expectation of improvements through the last third of 2022, but the situation remains very vehicle specific. However, in the same way that no-one anticipated the impact on wiring looms from the invasion of Ukraine, there is still potential for further disruption in the global supply chain. Covid-19 has not entirely gone away; the spectre of further lockdowns in China could cause further imbalances and the occurrence of earthquakes, floods and other climate events remain difficult to predict, with their expected impacts even harder to ascertain.

At the same time, we are moving closer to the three-year anniversary of the start of the pandemic. Almost two million passenger cars, many of which we would have expected to be returning to the used car market in the coming years, were never registered. The timing of leasing returns and replacements are harder to predict than ever, with the incremental volume of delayed new car orders needing to be set against the imminent reductions from the ravages of the pandemic.

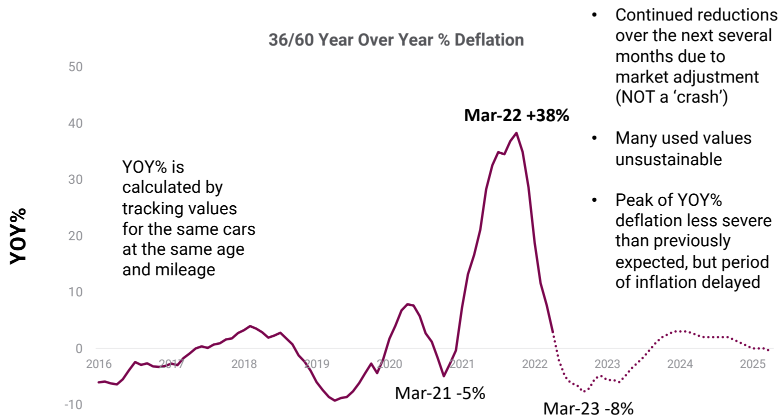
The greatest global economic uncertainty comes from inflation and its knock-on effects on countries' economies. Many elements have stabilised or reduced in price over recent weeks and months, but gas prices remain as high as they have ever been and the future is far from certain. Within the same week, Goldman Sachs suggested that European gas prices would fall sharply this winter, while investment management company, Blackrock, claimed that supply shortages and increased demand would push prices even higher, triggering a severe EU-wide recession. Central banks look set to increase base rates, increasing interest costs and this action is far from certain to alleviate the ravages of inflation, whilst also potentially harming economic growth.

When considering our forecast values at cap hpi, we differentiate our future market assumptions by age, vehicle sector and fuel type. When processing forecasts, we then examine each individual make, model, generation and fuel type (and sometimes bodystyle). Going forward, we expect the current market adjustment to continue, then to briefly return closer to traditional seasonal patterns, before the impact of lower new car registrations from the pandemic once again starts to push values higher, although not to anywhere near the extent seen last year. Even if the UK were to enter a full-blown recession, we believe the shortage of used cars as a result of the pandemic will outweigh the negative consequences, but, as always, the devil is in the detail...

Bank of England GDP Projections - August 2022



YOY% Tracking - 2016-2025



Opinion - new car leasing market

Paul Harrison - Chief Partnerships Officer, Leasing.com

2022 has been another turbulent year for the UK economy, including the automotive industry. Government COVID restrictions were not fully lifted until late February when our industry was already struggling with long new car lead times because of paused manufacturing production during the pandemic.

Since the opening up of the economy, demand for all types of goods spiked in Q2. This increased demand, along with reduced supply, led to an increase in manufacturing costs up and down global supply chains, many of which have had to be passed on to consumers. The new vehicle market was no exception with most manufacturers having to increase prices each quarter, and sometimes more frequently than that, when faced with soaring material costs. Rising costs have in turn impacted inflation and the Bank of England had to act by increasing base rates twice in Q2. These actions pushed up the cost of borrowing for Banks and automotive financiers and the monthly cost of all types of car finance, including leasing.

While consumer research remained high, intent certainly softened as a result of price pressures on household income. Consumers were searching for both value and availability and this led to new car winners and losers in Q2. Manufacturers with less disrupted supply chains have been able to grow their market share accordingly.

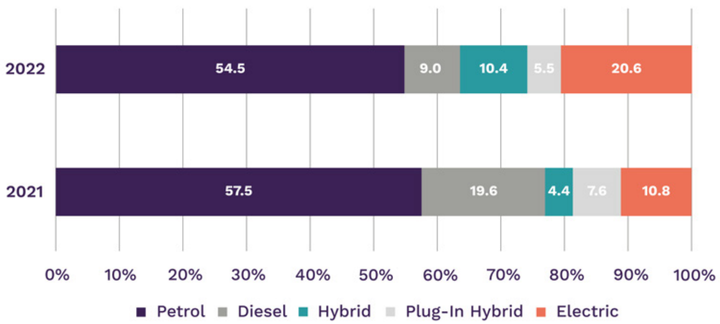
A supply constrained market has also provided a platform for some manufacturers to announce changes to their future distribution models giving them greater control of sales. This trend has been happening for a number of years but has certainly accelerated following the pandemic and the greater emphasis which that placed on digitalisation. New car supply issues may have peaked in Q2 with more and more of our advertising partners reporting improving stock availability in Q3 this year.

Another positive is the rate at which the UK new car market is electrifying ahead of the Government's 2030 target. Our data shows that non-ICE vehicles accounted for 36.5% of total sales enquiries in Q2 this year compared to 22.8% last year – a 60% increase in demand - while enquiries for battery electric vehicles jumped nearly 91% in Q2 compared to the same period last year. The Tesla Model Y, MG ZS and Tesla Model 3 were the three most enquired about BEVs in Q2 2022.

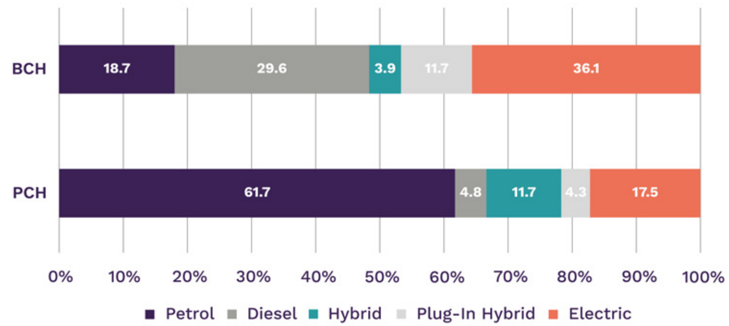
If we look at fuel type demand for personal leasing compared to business leasing, there are significantly different trends. Private motorists have largely turned their backs on diesel while business users have shown a continued loyalty to the fuel type given the economies of typically higher mileage. And although BEVs accounted for an impressive 17.5% of personal leasing enquiries on our website in Q2, 36.1% of business leasing enquiries were for BEVs, driven by BIK tax incentives.

Elsewhere, our data shows a number of interesting consumer behavioural changes this year. The most requested lease term increased from three years to four years in Q2, most likely a result of consumers wanting to reduce their monthly outgoings to make their budgets stretch further. And the most requested annual mileage allowance by consumers jumped from 8,000 miles to 10,000 miles a year as commutes to the office and social travel increased.

Graph 1: New Car Fuel Type Demand – Q2 2022 versus Q2 2021



Graph 2: Personal vs Business Leasing – New Car Fuel Type Demand Q2 2022



Opinion - used market overview

Fiona Mackay - Automotive Finance Director, Auto Trader

Our privileged position within the automotive ecosystem means that we have the largest view of the UK retail market, and as a result are constantly monitoring new trends, changing market dynamics, and evolving consumer behaviors. For this edition of the Leasing Outlook Report, I wanted to look specifically at the latest trends we're observing in the retail finance space.

AutoTrader

More people are buying used car finance

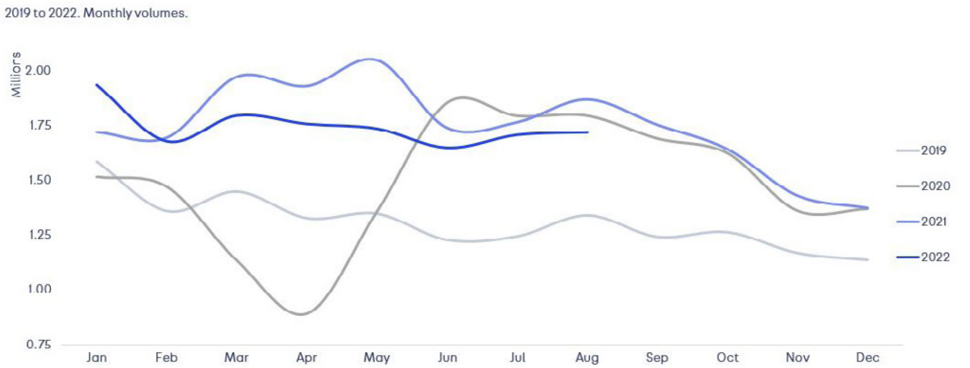
To get straight to the point, we're seeing finance play an ever-growing role in used car transactions. In fact, according to the latest figures from the FLA, the proportion of used car purchases funded through finance deals has almost doubled over the last 10 years, rocketing from less than a quarter (23%) in 2012, to nearly half (45%) in H1 2022 - over the last 12 months, it has risen at its fastest rate.

One reason for this shift in the way people are buying second-hand cars has been the increase in used car prices. Based on our Retail Price Index data, in 2012, the average price of a used car was around £8,000. In 2022, it's over £17,000. Simply put, as used cars become more expensive, and fewer people are able to buy one outright, more are turning to finance to spread the cost.

In-market buyers re interacting with finance calculators

We're seeing clear evidence of this trend on our marketplace: in the first eight months of this year, there were 14 million interactions with finance calculators on used car adverts as buyers discovered how much they can afford to repay every month. In August alone, the volume of interactions was 28% higher than 2019 levels, which highlights the growing importance of finance as household costs begin to surge.

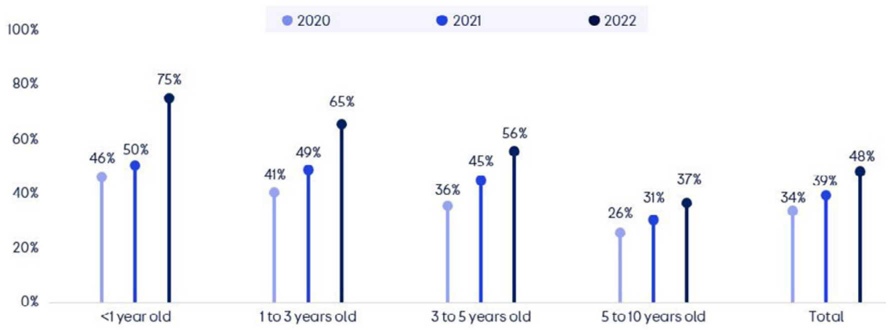
Interactions with finance calculations on used car adverts



Monthly finance payments increasing

With used car prices increasing over £3,000 over the last two years, it has led to higher monthly payments on finance deals. Back in 2020, 57% of finance leads sent to retailers quoted a monthly payment of under £250. In just two years, this has fallen to 43%. The decline is even more stark across age cohorts, with the proportion of finance quotes under £250 on 1- 3-year old cars dropping from 40% in 2020 to just 8% this year. For franchise retailers, the overall median monthly payments have increased 9% year-on-year, to an average of £307. Interest is also creeping up, with APRs increasing from 8.9% to 9.9% in the last 12 months. Average annual mileage, however, remains flat at 10,000 miles.

Proportion of deposits over £1,000: split by vehcile age cohort



Buyers are putting down larger deposits on purchases

Another impact of higher used car prices has been on the initial lump sum paid at the start of the finance deal. In 2020, 34% of finance enquiries made to retailers through our platform quoted a deposit of over £1,000. In 2022, this has risen to 48%. It suggests that while financing a used car has become more popular, the costs involved have risen.

Interestingly, we're also seeing an increasing mix of PCP leads being generated on older vehicles, with five-year-old stock securing an 18% mix of all finance leads, up a very significant 14% YoY. As ever, we'll continue to monitor these trends, and report back in later editions of the 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