Leaseurope/Invigors Business Confidence Survey

Measuring the expectations of European leasing professionals

December 2016

Leaseurope

INVIGORS
Part of The Alta Group

European leasing industry maintains optimistic outlook for the first half of 2017 despite political uncertainty

Leaseurope and Invigors EMEA have published the results from the most recent European Business Confidence Survey conducted in December 2016. The findings show a continuing positive sentiment towards the prospects for the European leasing business in the first half of 2017, despite the political upheavals and uncertainty of the past year.

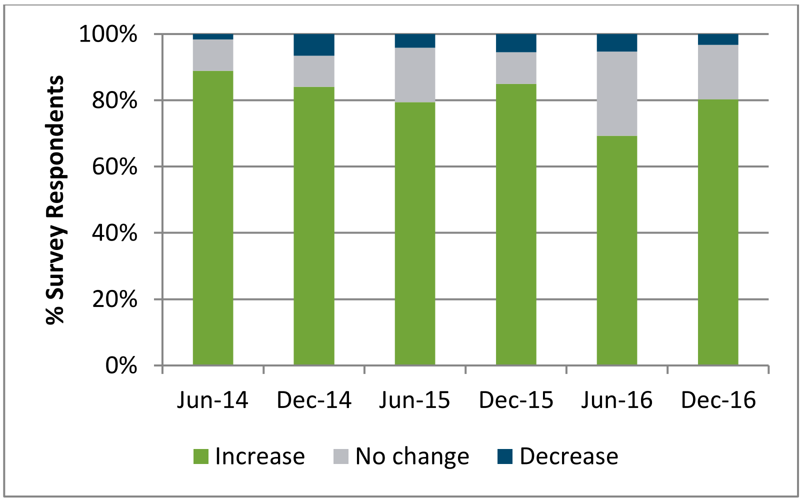
With the uncertainty generated by the elections and referendum in the US and UK respectively, combined with upcoming elections in other European countries, a strong degree of caution in business confidence would be expected. However, this does not appear to be reflected in expectations within the leasing industry for the first half of 2017 which maintain the positive sentiment seen in previous surveys.

The survey polled the views of a wide range of leasing professionals in bank-owned lessors, independent leasing companies and captives. This is the seventeenth in the series, which monitors business confidence in the asset finance industry across Europe.

Widespread expectation of continuing growth in new business

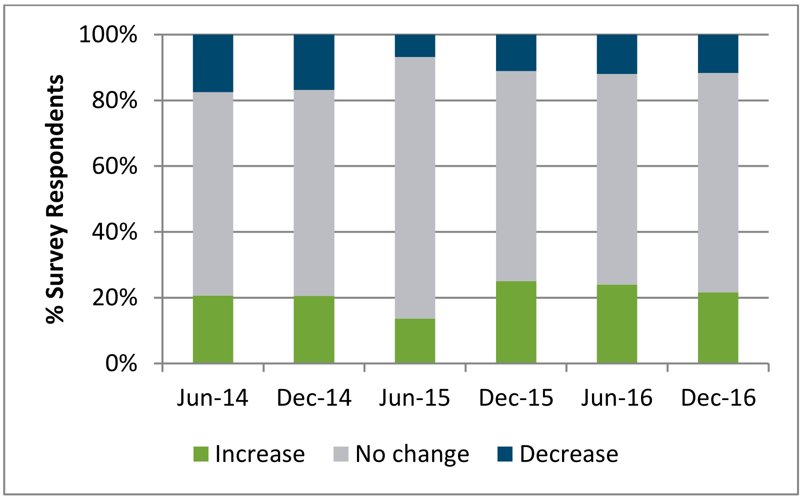
Participants' expectations of new business growth are generally optimistic in line with previous surveys. As many as 80% of those surveyed in December anticipate growth in new business during the first half of 2017, up noticeably from 69% last June and around the same level as the previous December. The proportion of respondents forecasting no change in new business volumes fell from 25% in June 2016 to 16% in December, while the number predicting a fall in new business now stands at just 3%.

Figure 1 - Anticipated change in new business volumes over next six months



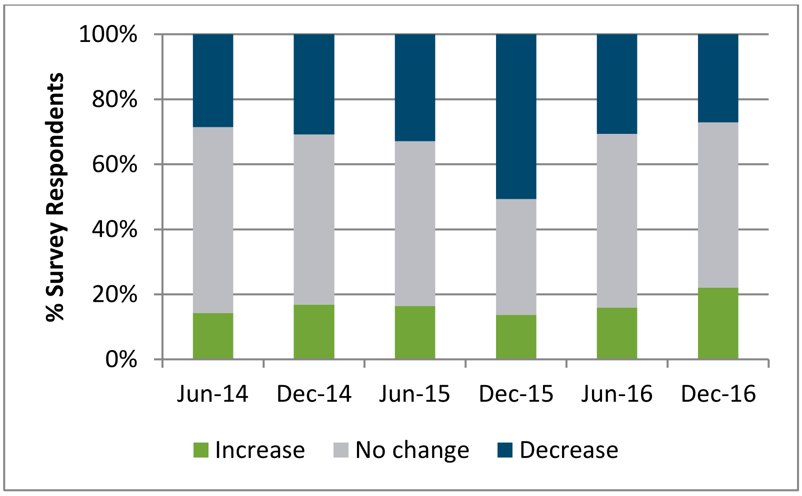
Two thirds of respondents (67%) expect no change in bad debt in their organisations for the first half of 2017, around the same level as in June 2016. 22% of those surveyed anticipate that bad debt will increase over the next six months, also similar to the previous survey, while 11% of those polled predict that bad debt will decrease over the forecast period.

Figure 2- Anticipated change in bad debt



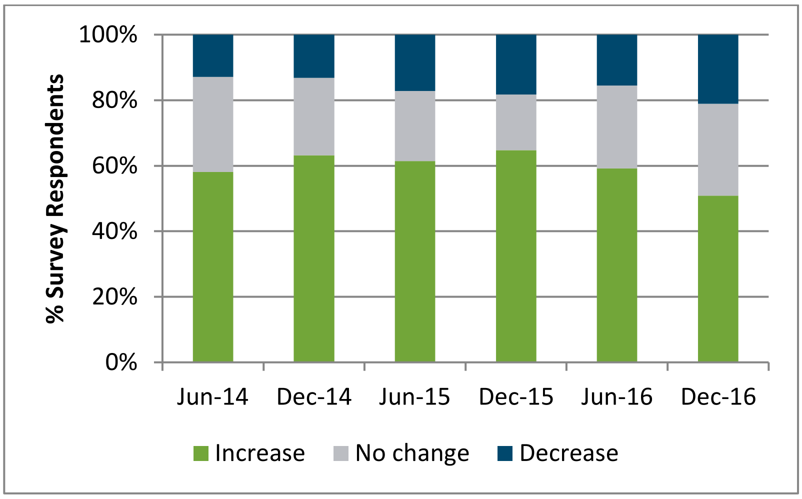
There is a further improvement in expectations on margins in the latest survey, though the balance of opinion remains slightly negative. Just over a quarter of those taking part in the survey (27%) expect margins to fall over the first half of 2017, down slightly from 31% in June of last year. Around half (51%) of those surveyed in December 2016 anticipate margins to remain unchanged, a similar figure to that recorded in the previous survey, while 22% now predict that margins will increase, up from 16% recorded in June.

Figure 3 - Anticipated change in margins over next six months



Although some respondents continue to report that margins remain under pressure, according to the majority of those surveyed, the outlook for net profit remains healthy at the start of 2017. In the most recent survey, around half (51%) of respondents expect net profit to increase, down slightly on the level last June, while 28% anticipate no change. 21% believe that net profit will fall in their organisations, up from 15% recorded in the previous survey.

Figure 4 - Change in net profit for business over next six months

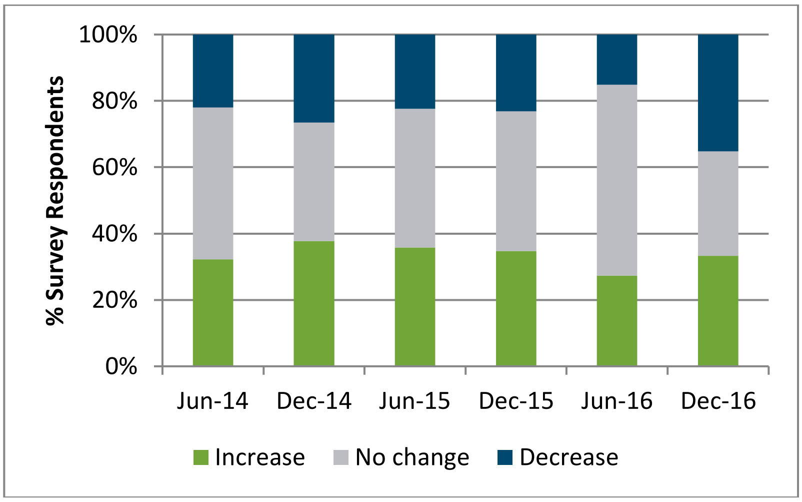


Despite the political uncertainty in Europe over the past year, and its consequent impact on overall business confidence, the sentiment of most respondents in the December survey indicates a positive outlook for the first half of 2017. KPIs for new business growth and net profit remains strong, while the situation for margins appears to have eased slightly and bad debt remains unchanged.

Expenditure to remain stable – though IT spending continues to grow

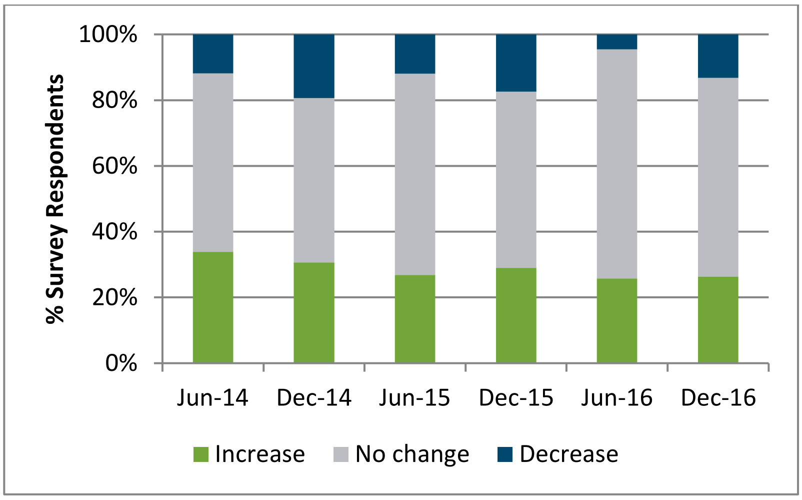
The Business Confidence Survey measures expectations on expenditure by asset finance companies in four key areas – operating expenses, marketing, training and IT systems. On the outlook for operating expenditure, participants' opinions were evenly divided. A third of respondents thought that operating expenses would increase in their organisations over the next six months, up from 27% last June but around the same level as the previous December. A further 31% anticipated no change, down significantly from 58% in the previous survey, while 35% believed that operating expenses would decrease over the next six months, a notable increase on the 15% recorded last June.

Figure 3 - Anticipated change in operating expenses over next six months



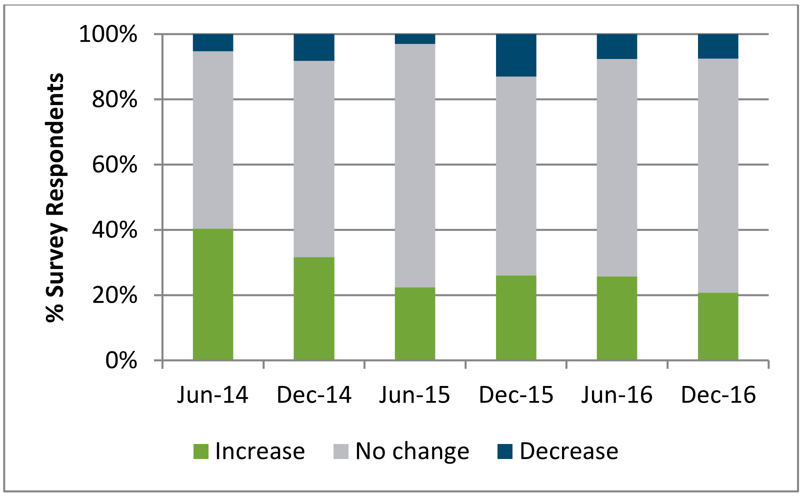
Marketing expenditure appears to be under less pressure with the December survey indicating a relatively stable outlook for the first half of 2017. 60% of those polled anticipate that marketing expenditure in their organisations will remain unchanged over the next six months, a decrease on the 70% recorded the previous June, but higher than the 54% in December 2015. A further 27% of respondents expect marketing expenditure in their organisations to increase over the next six months, similar to that recorded in the previous research. Just 13% of research participants now expect expenditure to fall, up from 5% in the June survey.

Figure 4 - Anticipated change in marketing expenditure over next six months



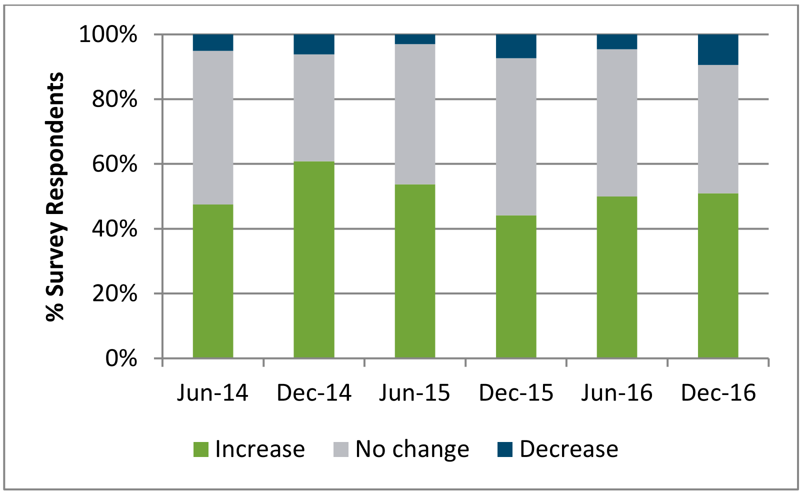
The trend in training expenditure also remains stable. In the December 2016 survey, 72% of respondents predict that training expenditure in their organisations over the next six months will remain unchanged, up slightly from 67% in the previous June. A further 21% anticipate that training expenditure will increase, down slightly from 26% previously, while 7% in the most recent research forecast that training spending would fall over the next six months, the same percentage as recorded in the June 2016 survey.

Figure 5 - Anticipated change in training expenditure over next six months



The outlook for systems expenditure in the first half of 2017 remains more expansive compared to other expenditure areas, with the balance of expectations staying strongly positive. 51% of those polled anticipate that systems expenditure will increase in their organisations over the next six months, the same level as last June. A further 40% forecast no change in IT expenditure, down slightly from 45% recorded previously, while just 9% predicted a decrease in spending over the forecast period.

Figure 6 - Anticipated change in systems expenditure over next six months

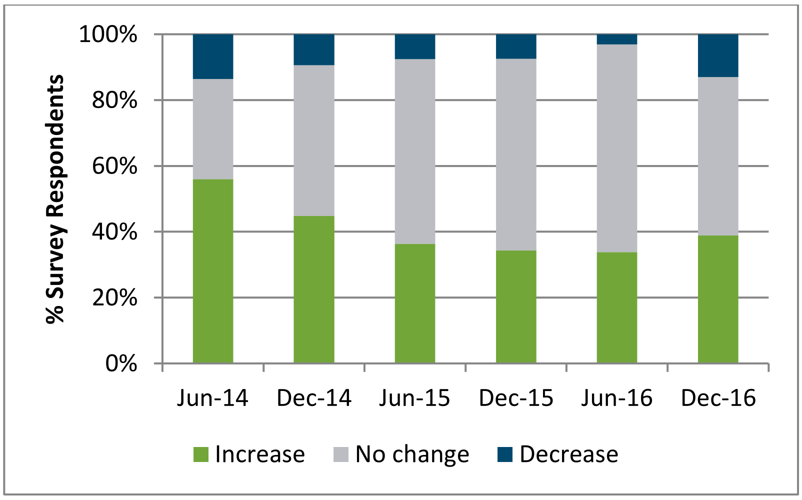


Staff numbers remain broadly stable with some growth in sales personnel

The survey asked participants about their expectations on the outlook for staff numbers in their organisations over the next six months. For sales staff the balance of opinion remains positive, with most respondents anticipating either growth, or no change in staff numbers.

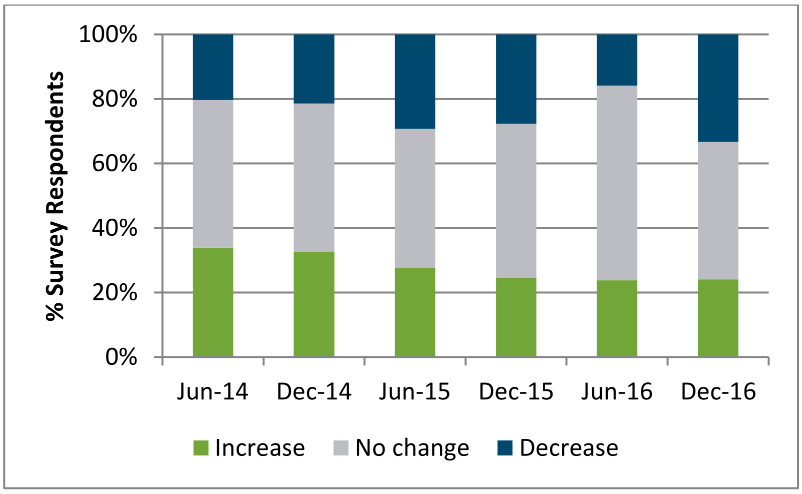
48% of those taking part in the December 2016 survey predicted that sales staff numbers in their organisations will remain unchanged over the next six months, down from 63% last June and 58% in December 2015. 39% expect sales staff numbers to increase, similar to the 34% recorded in the previous two surveys. 13% anticipate a reduction in sales staff, compared to 3% in the previous survey.

Figure 7 - Anticipated change in sales staffing levels over next six months



The outlook for non-sales staff in the latest survey suggests that a growing number of organisations are expecting to reduce staff numbers in the first half of 2017. 33% of respondents in the December 2016 survey predict that non-sales staff numbers will decrease over the next six months, up from 16% in the previous June. Of the remainder, 43% anticipate that staff numbers will remain the same, down from 60% recorded in the previous survey, while 24% of participants expect an increase in non-sales staff, the same percentage as recorded in June 2016.

Figure 8 - Anticipated change in non-sales staffing levels over next six months



This latest Business Confidence Survey suggests that the European leasing industry should enjoy a positive start to 2017. Growth in new business is predicted to remain strong for the first half of the year, while expectations on most of the other KPIs support either an improving or stable trend. Recent political challenges in the US and UK do not appear to have dented sentiment in the European leasing market, though it will be interesting to see if this resilience is maintained in the aftermath of the upcoming elections in France, Germany and the Netherlands.

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Released in February 2017