BDL press briefing, March 2, 2023, 10 a.m.

Speech of Kai Ostermann, BDL President

– *Check against delivery* –

Ladies and Gentlemen

From my side, too, a warm welcome to the BDL press briefing.

We would like to focus on three main topics today:

- the development of the leasing market

- the importance of the leasing industry for the digital and sustainable transformation of the economy, in particular for the energy transition, as well as

- on obstacles to future investments and incentives to strengthen Germany as an investment location.

New Business in the Leasing Industry

Let's start with an overview of new business in the leasing industry last year.

After two years of the Corona pandemic, we had hoped in spring 2022 that things were finally looking up again. The industry's order books were bulging, and the mood was good. But the upturn failed to materialize last year. Instead, we moved from one state of emergency to the next. The Russian war of aggression on Ukraine presented companies with even greater challenges than in pandemic times, as the economy was hit across the board: High inflation, uncertainty about energy and raw material supplies, material and supply bottlenecks and the cooling global economy weighed heavily on the German economy. Exploding energy prices and high raw material costs drained companies' liquidity and caused reserves to fall.

This was not without consequences for the investment climate. Companies again put their investment plans on hold. Corporate investment has long been the Achilles heel of the economy. Germany's companies are investing too little. According to KfW, corporate investment as a percentage of GDP shrank again last year to 12.4 percent. The last high in corporate investment, with a share of 13.1 percent of GDP, was before the financial crisis in 2008. By comparison, the figure was just under 16 percent at the beginning of the 1990s. This worries us, not only because it affects our direct business, but also because it creates a deficit that threatens the competitiveness of our business location. Prof. Grömling will speak later about the investment gap that has arisen.

In this difficult environment, new business in the leasing industry rose by 3.8 percent in 2022. According to IW Köln figures, leasing companies financed investments in machinery, vehicles, IT equipment, real estate and other assets for EUR 72.2 billion in Germany. There was a disproportionate increase in the hire-purchase business, which grew by 19.3 percent to 11.1 billion euros. For the past 2-3 years, we have seen an increase in the share of lease-purchase business in the industry's market volume, which is partly due to the fact that eligible equipment often has to be recognized in the balance sheet of the recipient of the subsidy. In these cases, the leasing companies offer installment plan to their customers. Dr. Conen will explain this topic in detail later.

Shares of Asset Groups and Development

The chart shows the shares and the rates of change of the object groups.

The largest share of the leasing market is accounted for by car leasing; installment plan hardly plays a role here. The volume of new passenger car business rose by 2 percent last year. I will deal with this segment separately in a moment.

For some years now, the development of bicycles and e-scooters has been remarkable. Leasing is getting people on bikes. It is regularly reported that companies, public authorities or municipalities allow their employees to lease bicycles as a company bike. New business with bicycles and e-scooters grew by 32 percent last year. With a volume of EUR 1.8 billion, it now accounts for 3 percent of new equipment business.

There was also a significant increase in air, rail and water vehicles, where new business rose by 31 percent. Catch-up effects from the Corona period should have been responsible for this increase. However, the segment is highly volatile due to major transactions.

With an increase of 14 percent, the IT equipment segment developed very positively, after its new business had tended to stagnate or decline for several years. We see that many companies have recognized the urgency of digitization and are investing in their IT. Particularly in the case of digitization, the time available to keep continuously up to date is becoming shorter and shorter: Those who do not invest today will have to make a much greater effort in a few years' time to avoid being left behind. And leasing is the first choice for IT investments, because all other forms of financing are ineffective and even lead to equipment obsolescence.

New real estate leasing business has grown by 33 percent, but at EUR 1.1 billion it represents only a small part of the market. Leasing of buildings, production halls and fixed equipment is characterized by large-volume transactions and is therefore subject to greater fluctuations.

Due to an adjustment in data collection, there were shifts between the object groups production machinery, commercial vehicles, construction machinery and agricultural equipment, which makes an analysis for the past year difficult. New business in these segments increased by a combined 7 percent.

Leasing in the Passenger Car Market

I would like to look at passenger car leasing in a little more detail. Not only is the passenger car market significant for the leasing industry, but the leasing industry also plays an important role in the passenger car market.

While the volume of new business in passenger car leasing rose by 2 percent, the number of leasing contracts fell by 5.5 percent, with moderate growth in total new registrations (of around 1 percent). The growth in passenger car leasing is also attributable to inflation-related increases in list prices and significantly lower manufacturer discounts. Electric cars in particular are also more expensive on average than conventionally powered models.

According to the forecast, the leasing share of newly registered passenger cars fell to 45.6 percent in 2022. In the previous year, the market share reached a record 48.8 percent, which was due to market peculiarities, as in 2020 the share was 46 percent, similar to last year. In 2021 and parts of 2022, manufacturers focused on higher-priced vehicles in the wake of the semi-leader shortage; these models are more often leased than small cars, which are often purchased outright.

Due to the pandemic-related low mileage of their fleets and delivery delays of new vehicles, many companies extended their leases last year. Accordingly, according to the Federal Motor Transport Authority (KBA), new registrations by commercial owners fell by about 1 percent, while new registrations by private owners rose by about 5 percent. As you are no doubt aware, companies account for the lion's share of vehicle leasing customers. SMEs and midsize companies in particular were reluctant to invest in their fleets due to skyrocketing costs and were more likely to invest in necessary replacements or in energy efficiency.

Leasing Penetration Rates

Due to the great importance of the passenger car market, the weak development in this leasing sector also has an impact on the share of total economic equipment investment. Last year, almost a quarter of equipment investment (23.8 percent) was realized through leasing. In 2021, the figure was 25.9 percent.

If the hire-purchase volume is also included in the calculation, the leasing sector financed 28.3 percent of equipment investments last year - compared to 30 percent in the previous year.

There is another reason for the decline: equipment investments include not only investments by companies but also investments by the public sector. By 2022, the share of public investment in equipment investment is likely to have risen significantly. This changes the basis for calculation, the pie becomes bigger, but our industry cannot benefit from this because leasing is underrepresented in the public sector.

Outlook 2023

So much for the figures on the leasing market in 2022. How do we now look ahead to the lukewarm year of 2023? Despite all the imponderables, we are cautiously optimistic. Investment forecasts for Germany are currently moderately positive. Growing confidence in the economy as a whole that a sharp downturn can be avoided is leading companies to make forward-looking investment decisions. Leasing should be able to benefit particularly from this in the current macroeconomic environment.

There is another aspect that makes me feel positive: massive investments are needed for sustainable and digital transformation. We are currently seeing strong demand from customers for investments in sustainable economic goods, energy efficiency and energy self-sufficiency, as a recent survey of BDL members shows. 4 out of 5 companies see an increasing demand. This should also have a positive impact on development in the coming years.

For a long time, the industry has been financing investments in photovoltaic and biomass plants, wind farms, heat pumps, refrigeration, air-conditioning and ventilation technology, putting electric buses, electric cars and bicycles on the road, financing climate-friendly streetcars and company and freight trains, introducing energy-efficient production machinery and modern, safe and innovative technologies for service providers, craftsmen, construction and industrial companies, agriculture and medical practices, among others, and ensuring their widespread use.

New business in renewable energy systems rose by 82 percent last year. And for the next two years, two-thirds of the leasing companies that participated in the survey plan to finance investments in photovoltaics for their customers.

The leasing industry's role will not be limited to financing investments, however: More and more leasing companies are advising their predominantly medium-sized customers on sustainability, e.g. on the selection of objects or the inclusion of subsidy programs. The leasing industry will therefore be a key factor in the success of the transformation of the German economy. At present, however, we have to operate with the handbrake on. We could support our customers even more if investment obstacles were removed and companies gave up their reluctance and invested more again.

How can investment dynamics in Germany be promoted so that the right investments are made for the future? Dr. Conen will now explain what proposals the BDL has and what obstacles we see.