

Car Leasing Prices are set to soar as the economic downturn takes hold in both the new and used car according to Aidan Minogue, MD of Circle Leasing.

Unless you have been living on another planet you won't have missed the daily gloom on our worsening banking crisis and the regular reports on consumer confidence and generally poorer market indices.

The UK car market is in for a rocky time as we see the increased pricing on new cars pushing the depreciation curve ever upwards. Car Manufacturers have made steady inroads into lifting the car prices in response to their increased material costs and their drive to improve global profits. In 2005 Circle Leasing predicted that car pricing would rise as VM's needed to improve their financial standing, although we didn't foresee the pace of change we now have entering into 2009.

In a normal buoyant economy the value of used cars track favourably against the rising price of new and as such depreciation tends to mitigate itself somewhat. However the slump in demand is placing a greater gap on new to used, as used values flatten or fall. At the recent ABP conference in Hinckley club members heard first hand from experts at Glasses how rapidly the price of used cars have fallen and that their forecast remains bleak.

The other key ingredient in a car lease is the cost of funds and indeed their availability. As the banking crisis has unfolded we have become acutely aware from the media how expensive funds are now and indeed how banks look to lend. The major index is now LIBOR (London Interbank Offer Rate) which is the base rate used between banks for lending to each other. LIBOR has risen at an alarming rate and many experts predict that this trend will not only place pressure on lending rates but also how banks view risk in relation to rate and exposure.

UK bodyshops will witness further increases on their courtesy car costs in Jan 2009 as the inevitable takes hold. Market rates will raise £20 per month on typical 12mth leases and £15pm on 2year leases and these costs will be unavoidable. Work providers already have good independent market evidence that overall vehicle holding costs are on the rise although as many of us know, they may choose to remain unsympathetic.

The days of cheap courtesy cars and £99pm are long gone and many will already know this. We have all had it good whilst pricing and rentals held. It would be naive on all our parts to think we can remain immune from the current pricing pressures which are here to stay for the foreseeable future.

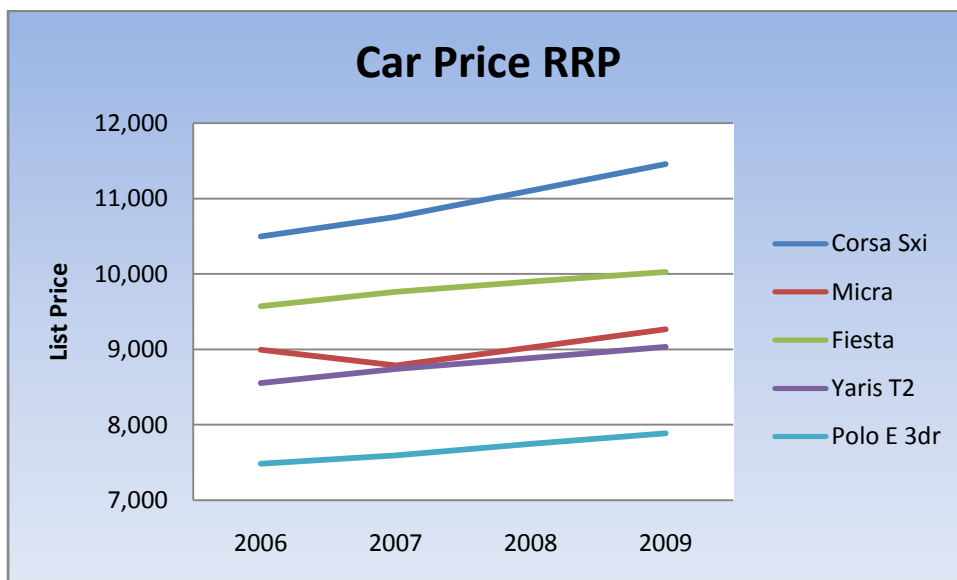
Aidan Minogue
Managing Director, Circle Leasing Ltd
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Circle Leasing’s Purchasing Manager, Jacqueline Del Pistoia outlines the historic trends in car and funding costs in order to illustrate the issues and assist bodyshops further.

Vehicle Car Prices

New Car Prices have increased steadily over the last 3 years although the shift is more noticeable from the beginning of 2008 to the beginning of 2009. The graph below shows the 4yr history on the typical B Group courtesy car.

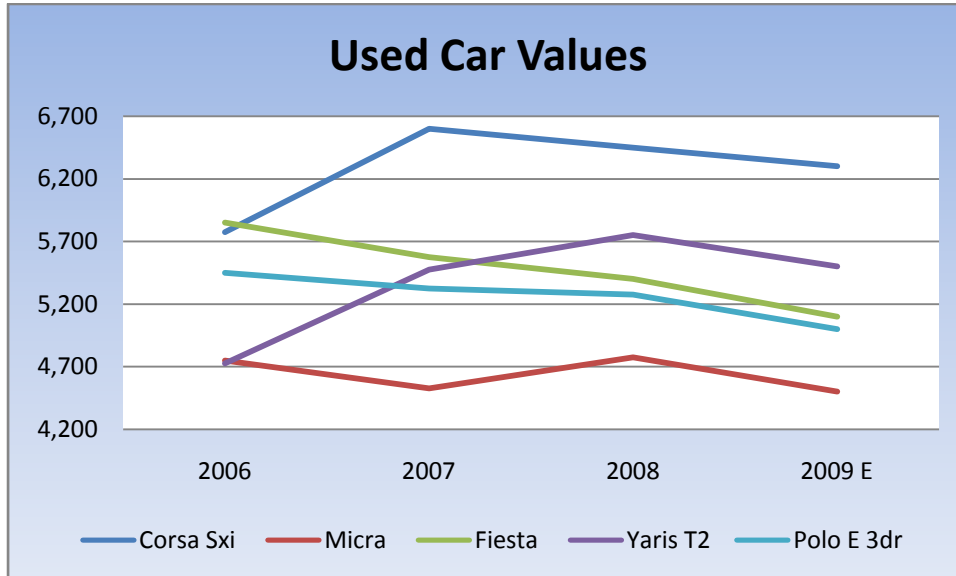


- The 2 leading UK car manufacturers, Ford and Vauxhall, have led the charge as both push their need for increased profitability
- A Vauxhall Corsa at the end of 2008 has risen by over £700 with New Fiesta rising to a similar level
- If you review data back to 2002 a Corsa SXi RRP has risen by £1825
- All vehicle manufactures will point to their rising costs in terms of steel, exchange rates and energy costs
- In addition we must recognise their claim that the standards and specifications have increased to the benefit of the driver/consumer
- A typical courtesy car in 1994 had a RRP of £6995 and this has moved closer to £10,000
- Lease rates have not grown at a similar rate, partly aided by used car demand and low interest rates

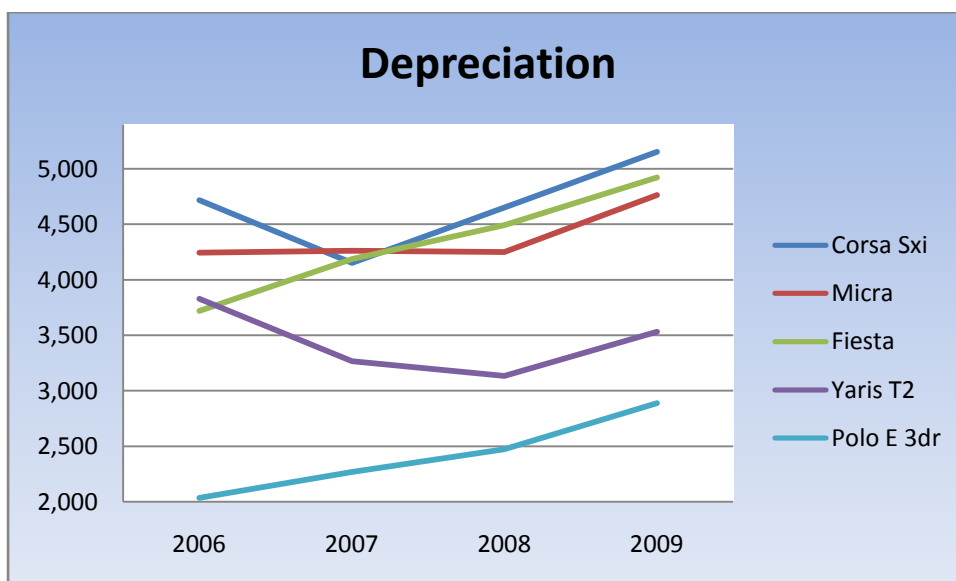


Used Car Values

The nearly new small car market has suffered although has had a less torrid time than larger vehicles with buyers witnessing some horrific part exchange values against new. The following table looks at CAP research data on the typical courtesy cars:

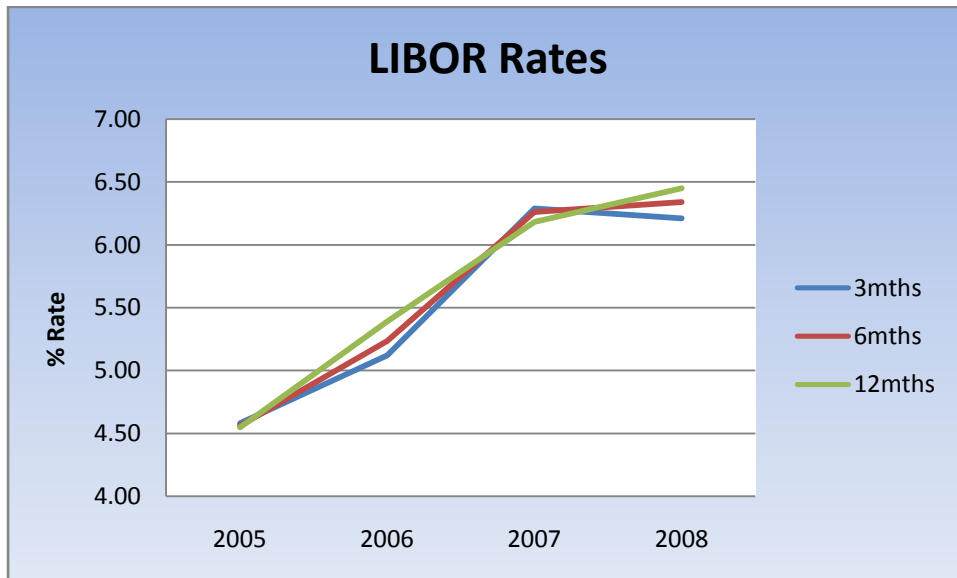


- Values are noticeably down as demand for vehicles fall. The more alarming fall occurred in the latter part of 2008 as the UK recession started to take hold
- When New Car prices rise the norm for used values is that they too rise – appreciating that they tend to hold a percentage value of their original list. Unfortunately this trend is no longer holding good and the values are falling below 2008 in many cases, thus increasing the depreciation costs
- We see below that depreciation is rising due to the fact that used values are flattening if not falling and not matching out against the new car price increases



Interest Rates

London Interbank Offer Rate (LIBOR) remains the key measure for funding institutions to raise funds. Historically LIBOR has tracked closely to the Bank of England Base Rate (BBR) but the unprecedented turmoil in the worldwide bank markets has seen LIBOR rise to new levels.



With the cost of funds rising many UK business will witness:

- Their bankers taking a more cautious view of lending
- Banks increasing their rate levels and where possible improving their securitisation
- Marginal rate and high risk business will start to come under pressure for funds

In the leasing sector we are already seeing signs where many providers are withdrawing from low margin sectors. The provision of courtesy cars is seen as one such risk and the prediction is that there will be fewer lease suppliers of such products in 2009.



Marc Studholme, Circle Leasing's Sales Director provides an insight into the challenges ahead against the backdrop of the current and future market indices.

None of us doubt the tougher times ahead and what this will mean to UK bodyshops who already have had a bruising on profits over the last 6 years. Sadly we won't be seeing any improvement to this position in 2009.

The dynamics of the courtesy car has changed in recent years where bodyshops have been able to reduce their fleets in line with demand and better utilisation. In my regular reviews with bodyshops I note the shift towards credit hire, where insurers direct non fault into their approved hire process. This trend has peaked but it has helped to reduce the core fleet of bodyshops. In addition the levels of insurance write off's has also meant that many claims don't reach the repairer.

Statistics vary but a bodyshop some 10yrs ago running 100 cars (on a like for like turnover) now tend to operate 60 reflective of the changes and demands on their fleet. Whilst monthly rentals have risen the actual outlay per annum has reduced.

In numeric terms; 5 years ago a fleet of 100 vehicles held a lease cost of £120,000 whereas in 2008 a leased fleet of 60 was costing circa £84,000. The precise costs for 2009 are not as yet concluded although we could foresee this rise back to £93,000, in this example.

In order to mitigate some of the cost some consideration will be given to longer term contracts although this decision must not be taken lightly. Locking down longer term positions removes the fleet flexibility and increases operating costs.

Naturally we would all wish that work providers would look to assist repairers in the ever increasing burden they incur in managing the repair process on their behalf. Of course as many people already know, they cite their own issues and their need to decrease the average repair costs. However they cannot ignore the very real economic issues that their whole supply chain is facing and inevitably the cost of repair & replacement vehicles will rise.

With the prospect of tighter margins, bodyshops will continue to fold and we have already seen signs of an increase in 2008. Their failure is a combination of many factors however it is not a sheer coincidence that it coincides with the tightening of bank lending and advances. This trend I believe will continue in 2009.

Our own plans for 2009 tell us that volume levels will be similar to 2008 although we accept that customer rentals will rise as a result of the increased holding costs we are incurring. Every effort will be made to ensure we maximise our purchasing however we cannot overcome the very real increase on car costs brought about by the many factors that are unfolding today.

