Germany

MARKET REVIEW

The overall economic picture. The German economy has been in a strong and sustained economic upturn since 2009. GDP for the entire year 2018 was up by 1.9% (after price adjustment). Thus, the growth rate again superseded the estimated rates published by the German Council of Economic Experts in their Annual Report in November 2018.

During the first years of the recent upturn, it had mostly been characterised as strongly export driven. And still, in real terms, in 2018 German exports grew by 2.0% after 4.6% in 2017.

However, in a worldwide climate of growing economic and political uncertainty, over the past five years domestic demand became an increasingly important factor of growth. Recently the sound and healthy labour market is providing a strong foundation for the ongoing growth of the German economy.

At the same time, growth of private consumption expenditure was rather weak as well, experiencing a slight growth of 1.5% against 2017. At the same time, capital stock formation has remained weak for almost the whole period of the upswing, leading towards an increasing output gap at least from the beginning of 2017.

Hence both the development of private consumption and of investment seem to be strong indicators of the feeling of economic uncertainty the German economy has been facing over the last few years.

Overall state of the German leasing market. In 2018, the leasing sector's contribution to overall investment activity slightly decreased.

The member companies of the BDL acquired €52.7bn worth of new business in 2018, which was 1.8% more than in the preceding year. On top of this came the new business worth around €8bn acquired by leasing companies not affiliated with the BDL. The total volume of new business acquired in 2018 came to €60.7bn (as compared with €58.8bn in the preceding year).

A number of leasing companies offer their customers hire-purchase agreements as a financing alternative, and the volume of new business acquired in this way stood at €9bn. In all, €69.7bn worth of new business was acquired by the leasing sector in 2018, which was 4.0% more than in 2017.

In 2018, the across-the-board volume of equipment investment accounted for by leasing (i.e. the leasing penetration rate) was 15.5% (down from 16.1% in 2017).

The volume of equipment leasing achieved in 2018 was €51.4bn, up 1.4% from the 2017 level. Equipment leases grew at a much slower rate than total equipment investment. The share of leasing investments in total investment, after its all-time high in 2017, dropped to 23.2% in 2018. However, real estate leasing (i.e. leasing of non-residential buildings) grew by 21.6%, reaching a volume of €1.4bn.

Member companies of the BDL. The member companies of the BDL generate approximately 90% of the value of all new leasing business transacted in Germany. In its annual survey, the BDL collects detailed information about the new business acquired by its member companies as recorded in their balance sheets. In the equipment segment, the BDL survey (unlike the survey conducted by the Ifo Institute) covers hire-purchase agreements as well as leasing activity.

The BDL survey showed that its members acquired €60.4bn worth of new business in the equipment segment, which was 2.5% more than in the preceding year. Of this, €9.0bn was obtained through new hire-purchase agreements (up 9.7% on the

Table 1: Market penetration of leasing

	2013	2014	2015	2016	2017	2018
Total investment in €bn*	317.6	337.5	345.2	354.3	371.5	391.3
Growth in %	–0.4	6.3	2.3	2.6	4.9	5.3
Leasing investment in €bn	46.8	50.6	52.2	54.9	58.5	60.6
Growth in %	–2.6	8.1	3.2	5.2	6.6	3.6
Market penetration in %	14.7	15.0	15.1	15.5	15.7	15.5

Note: *without housing
Source: Federal Statistical Office, ifo Institute

Table 2: Market penetration of equipment leasing

	2013	2014	2015	2016	2017	2018
Total investment in €bn	204.0	220.5	228.7	234.1	243.2	254.3
Growth in %	-1.0	8.1	3.7	2.4	3.9	4.6
Leasing investment in €bn	45.4	48.9	51.2	53.6	57.3	59.1
Growth in %	-1.6	7.7	4.7	4.7	6.9	3.1
Market penetration in %	22.3	22.2	22.4	22.9	23.6	23.2

Source: Federal Statistical Office, ifo Institute figure for 2017). Most new real-estate leasing business comes through high-value transactions and is therefore subject to considerable year-on-year fluctuation. Compared with 2017, new business transacted in this segment grew by 21.6% to €1.4bn. The number of real-estate leasing agreements concluded in 2018 increased significantly (by 8.6%).

Depending on their ownership backgrounds, leasing companies in 2018 performed with varying degrees of success. Independent leasing companies saw a 5.3% increase in their new business, and captives increased theirs by 1.3%. Bank-owned companies attracted 3.9% more business than in 2017.

Road vehicles remain the most leased asset category. In terms of the types of asset being leased, the overall market structure has remained fairly stable in recent years, and in 2018 road vehicles once again constituted the largest market segment. Cars and estate vehicles (57%) together with buses, transporters, trailers and trucks (17%) accounted for the lion's share of all new equipment leasing.

The second-largest category of equipment leased was production machinery (14%). Next came office equipment and IT systems (5%) and so-called other products (4%), and then aircraft, watercraft and rail vehicles with just under 2%. In joint last place came intangible assets (software, patents, trademarks) and medical technology, each of which accounted for 1% of the value of all new equipment leased.

Levels of demand for the various types of leasable asset. The levels of demand for the various types of asset varied.

In 2018, following a decline since 2014, new business in the office equipment and IT systems grew the most, increasing 12.8%. Bank-owned companies profited most from this increase (+16.3%), followed by independent companies (+13.1%). The growth of 7.4% seen in the production machinery segment was, for the most part, generated by bank-owned leasing companies.

The demand for buses, transporters, trailers and trucks rose by 2.7%, and for medical technology by 1.4%. New cars and estate vehicles business was slightly up, superseding the 2017 value by just 0.8%. However, this low growth was caused by a one-off factor. The introduction of the WLTP standard by September 2018 led to a sharp decrease of B2B new car business in the last quarter of 2018. As car leasing in Germany is mostly B2B, this had to show up in the business figures of this sector.

In the past, the leasing of aircraft, watercraft and rail vehicles has tended to be just as volatile as the leasing of real estate. In 2018, new business acquired in this segment was down by 2.4% compared to the volume achieved in the preceding year. This fluctuation is attributable, on the one hand, to the nature of the customer base and, on the other, to the disproportionate effect on the statistics of small numbers of high-value transactions. As in previous years, most of the new business can be found on the balance sheets of bank-owned leasing companies.

Road vehicles are the most important type of leasable asset. Measured in terms of acquisition costs, the leasing penetration rate in this segment was 67%.

About one out of three newly registered cars in Germany is a leased vehicle. The slight decrease in the number of new leased cars (–0.9%) keeps pace with the overall stagnation in the number of new car registrations (–0.2%) experienced in 2018. Most leased vehicles are used for business purposes; in 2018, 80% of all newly leased cars were company cars. However, just 64% of all new cars on the roads were registered in the names of commercial owners.

The number of commercial vehicles leased in 2018 was 0.3% lower than in the preceding year. New commercial vehicle registrations overall were up by 2.6%.

Production machinery is the next most important asset type for the leasing industry after road vehicles. The increase in new business acquired through the leasing of production machinery was greater than the overall growth of investment in machines. The penetration rate in this sector increased to around 6.7%, thus remaining on the level of the previous year.

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Table 3: Market penetration of real estate leasing

	2013	2014	2015	2016	2017	2018
Total investment in €bn*	113.5	117.0	116.5	120.2	128.3	137.0
Growth in %	0.7	3.1	–0.4	3.2	6.7	6.8
Leasing investment in €bn	1.4	1.7	0.9	1.3	1.1	1.5
Growth in %	–26.0	21.4	–47.1	44.4	–15.4	36.4
Market penetration in %	1.2	1.5	0.8	1.1	0.9	1.1

Note: *without housing
Source: Federal Statistical Office, ifo Institute

The leasing penetration rate in the office equipment and IT systems segment, which constitutes the third-largest group of leasable assets, was slightly up again at 9.0%. This rate was still at around the 50% mark in the early 1980s, but it then fell sharply before finally settling over the course of the 1990s at a level that has remained more or less constant ever since.

Leasing companies have reacted to the availability of ever more efficient hardware, falling prices per unit of computing capacity, and the increasingly high cost of software licences and services in relation to overall IT investments by offering even the smallest packages of equipment at efficient and competitive rates, by developing special software-leasing agreements, and by providing supplementary service packages.

Medical technology still accounts for only a very small fraction of all new leasing business. In 2018 the value of new business acquired in this segment remained unchanged at €0.5bn. Given the rapid pace of innovation in healthcare technology, and the comparatively low leasing penetration rate in the health-care sector, it seems fair to say that there is still plenty of untapped potential in the medical technology segment.

In the fields of medicine and healthcare, keeping up with the latest technological developments is essential, so hospitals, health centres and specialist practices may yet come to recognise the advantages of leasing. Nor should it be forgotten that it is possible to encourage the utilisation of technologies by providing related supplementary services.

Services sector still the top customer. In 2018, there was a remarkable growth of new leasing business in the primary sector (up 11.6%), in private households (up 9.1%), in transport and telecoms (up 8.1%) and in trade and commerce (5.9%). At the other hand, the new business in the state sector, the services sector, the construction industry and the manufacturing sector was either on the previous year's level or even slightly below it.

Since the mid-1990s, the services sector has served as the engine room of the German economy, and it is by far the German leasing industry's most important source of business. This heterogeneous sector includes credit institutes, insurance companies, hotels and the hospitality industry, consultancy firms and IT service providers. Cars and office equipment (including IT systems) are the types of assets most frequently leased by service companies.

As in previous years, business transacted with the services sector accounted for around 38% of the value of the leasing market. New business was on 2017's level (–0.4%). The leasing penetration rate in the services sector is 13%, so there clearly remains plenty of potential here for growth.

Demand from manufacturing companies, the equipment leasing industry's second most important customer group, saw a stagnation as well (–0.6%). The share of this segment remained stable and accounted for 18% of all leasing investments. The leasing penetration rate in this sector (16%) has remained fairly stable over the last five years.

Some 12% of all new business acquired in 2018 was obtained from private households. Cars and estate vehicles accounted for more than 90% of the business transacted with private households; as might be expected, captive leasing companies benefited

Table 4: Equipment business by type of asset in 2018

	Breakdown (%)	Trend 2017–18 (%)
Passenger cars	57	1
Commercial vehicles	17	3
Production machinery	14	7
Office and IT equipment	5	13
Aircraft, ships and rail vehicles	2	–2
Medical technology	1	1
Intangible assets	1	–8
Other equipment	3	1
	100	**3**

Source: BDL

Table 5: Equipment business by type of customer in 2018

	Breakdown (%)	Trend 2017–18 (%)
Services	38	0
Manufacturing	18	–1
Transport and telecoms	10	8
Private households	11	9
Trade and commerce	9	6
Construction	7	–1
Agriculture, mining and public utilities	4	12
Government	2	2
	100	**3**

Source: BDL

Table 6: Equipment business by distribution channels in 2018

	Breakdown (%)	Trend 2017–18 (%)
In cooperation with manufacturers/ retailers	56	3
Business acquired directly	24	3
At bank counters	12	3
Freelance sales consultants	8	1
	100	**3**

Source: BDL

Table 7: Equipment business by type of contract in 2018

	Breakdown (%)	Trend 2017–18 (%)
Finance leasing	47	–2
Operating leasing	39	4
Hire purchase	14	10
	100	**3**

Source: BDL

most from this demand. Since the mid-1980s, the captives have been very successfully offering private households innovative leasing agreements accompanied by attractive supplementary service packages. Compared with 2017, new business obtained from private households grew by 9.1%.

The transport and telecoms sector is particularly sensitive to the ups and downs of the macroeconomy. After sound growth in 2017, new business in this area grew even faster in 2018 reaching an increase of 8.1%. The sector as a whole generated a good 10% of all new leasing business obtained in 2018.

Fifth place in the customer-group rankings was occupied by trade and commerce, which contributed just under 10% of the overall value of the leasing market. This sector is very leasing oriented. The current penetration rate is a healthy 23%, which is well above the across-the-board average. There was a 5.9% year-on-year increase in the volume of new business obtained from this sector.

Leasing has established itself even more firmly in the construction industry. Over the last years, suppliers of construction technology, equipment and services have been profiting from consolidation within this sector, and from the current healthy state of the housing construction market. Despite this, new leasing business acquired from this sector remained on 2017's level. Apart from the severe downturn caused by the financial crisis in 2008, leasing investment in the construction sector has been on a steeply rising curve since the turn of the millennium, and the penetration rate is currently 53%.

The primary sector – i.e. agriculture, mining and public utilities – contributed some 4% to the total value of the leasing market. Agricultural and forestry equipment are the types of asset most frequently leased in this sector. New business in 2018 was up by 11.6%.

New business with the state sector has been showing little momentum for some time now. In 2018, it grew 1.9%. Measured in terms of absolute business volumes, leasing accounts for no more than 2% of all investments financed out of public funds – i.e. investments made by regional authorities and social security funds. For statistical purposes, state-owned corporations, state-funded research institutes, public healthcare bodies and charities are normally lumped into other customer groups, but if their leasing activities are included in the figures for the state sSector, a rather different picture emerges: this sector then accounts for a significantly higher proportion of all new leasing business transacted.

The various types of equipment leasing agreement. In 2018, the member companies of the BDL concluded 1.75 million new equipment-leasing agreements, which was nearly 2% more than in the preceding year. Both in 2017 and in 2018, the average value of a new agreement was €31,000.

Measured in terms of acquisition values, the new equipment procured and leased on to customers by the member companies of the BDL in 2018 was €60.4bn, which was 2.5% more than in 2017. Of this, 85% (i.e. €51.4bn) of the value was generated through leasing agreements, and the remaining 15% (€9bn) through hire-purchase transactions. Compared with 2017, the volume of new business acquired through both leasing and hire-purchase agreements increased significantly (by 1.4% and 9.7%, respectively).

If hire-purchase agreements are disregarded, and leasing considered on its own, well over half (55%) of all German leasing business was conducted in accordance with the so-called Leasing-Erlasse. These are the legal guidelines that govern all medium- and long-term agreements whose basic lifetimes are shorter than the ordinary useful life of the items being leased (in other words, leasing agreements in their "classical" form). Items leased in this way are generally amortised in full by the lessee.

The remaining 45% was transacted through operating leasing agreements. With this type of agreement, the financial/investment risk is borne by the lessor, for the only way the leasing company can recover the residual value of the asset it has leased out is by selling it on after the agreement expires, or by persuading the original lessee (or a subsequent assignee) to sign up to a new leasing agreement. Operating leasing agreements have become the standard instrument for the leasing of IT equipment and motor cars, particularly when service components form part of the package on offer.

Equipment-leasing sales channels. Leasing companies reach their customers in a variety of ways.

The lion's share of new business is acquired through agreements concluded with manufacturers and dealers. In manufacturer leasing, manufacturers offer the end customer leasing facilities either through their own subsidiary leasing companies, or through a captive leasing partner.

A variant of this approach is vendor leasing, where the manufacturer relies on a dealer to set up contact between the customer and the leasing company. There was a year-on-year increase of 2.5% in the volume of business acquired in this way, and around 56% of all leased-equipment business was acquired by manufacturers, their subsidiaries, their captive partners, or by dealers working together with manufacturers.

In direct selling, the leasing companies' own sales teams establish direct contact with the customer. In 2018, there was a year-on-year increase of 2.9% in the volume of business acquired by such teams, and direct selling in 2018 accounted for 24.1% of all new equipment-leasing business.

Leasing facilities are frequently offered by banks as an alternative to normal bank loans. Given current capital-market conditions, many banks view this as an attractive marketing alternative. The volume of new business generated at bank counters was 3.1% higher than in 2017. Some 12% of all new leasing business came through this channel.

Freelance sales consultants find customers, negotiate leasing agreements with them, and then call in a leasing company. Freelancers in 2018 acquired 1% more business than in 2017, and they contributed 8% to the value of all new equipment leased.

In e-commerce, potential customers bypass vendors and sales consultants by seeking out companies' internet portals for themselves. In theory at least, the internet offers an efficient medium for the marketing of small-ticket items, but in 2018 there was a year-on-year decrease of 21.1% in the volume of business transacted online. Internet transactions still account for less than 1% of the value of all equipment leased in Germany.

International leasing business. Foreign leasing business can be conducted through cross-border agreements or through so-called domestic leasing. German leasing companies started to expand into foreign markets in the early 1980s by offering cross-border leasing facilities. In this type of operation, the leasing agreement is concluded directly between the German leasing company and the foreign lessee. In domestic leasing, the agreement is concluded between a local subsidiary of the German parent company and the foreign lessee.

The setting up of foreign subsidiaries with local expertise offers a number of advantages: on-the-ground representation increases service efficiency, and also makes it easier to assess customers' creditworthiness, the state of the local financial markets, and the demand that exists for specific types of goods.

The foreign activities of German leasing companies are highly sensitive to the economic conditions prevailing in the various national marketplaces. In 2018, the total value of cross-border leasing transactions was €0.37bn, which was 12.6% more than in the preceding year. This growth was achieved through a small number of high-value production-machinery transactions and the leasing of "other products".

The volume of domestic-leasing transactions outside Germany, in which standardised transactions predominate, also grew (by 7.4%); the total value of new business transacted through domestic leasing came to €3.7bn. It should be noted that domestic leasing outside Germany is not taken into account in the statistics compiled by the BDL about its members' acquisition of new business. Instead, these transactions are included in the volumes of investment recorded for the respective foreign countries. In 2018, around a third of the member companies of the BDL were active in markets outside Germany.

The outlook for 2019. In their Spring 2019 Joint Economic Forecast, the leading German economic research institutes state that "the period of economic boom in Germany with real growth rates of over 2% came to a preliminary end in the second half of 2018".

Besides the results of the one-off factors described above, the experts state a general slowdown of the underlying economic momentum both on the demand and on the supply side. On the demand side, the external economic environment has weakened noticeably in the course of 2018. On the supply side, many industries report capacity constraints and labour shortages.

Despite the persistently strong growth in wages and employment and the fact that consumer confidence has remained high, private demand has developed unexpectedly weak. This is mostly due to a higher level of inflation and its dampening effect on households' disposable income.

On the other hand, the investment climate tends to remain positive. And the ongoing expansion of production capacities and the construction boom suggest that the upswing is not likely to end soon.

According to the BDL's quarterly Trend Report, the value of new equipment leased out or supplied on hire-purchase terms in the first six months of 2019 was 9.3% higher than in the corresponding period in 2018.

The leasing industry expects new business to continue to pick up in the coming quarters, and over the year as a whole, to exceed the volume achieved in 2018 by between 3% and 5%. This is based on the assumption that the global economy remains stable. It is expected that the leasing of equipment will continue to account for an increasingly large proportion of overall investment in equipment.

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