BUNDESVERBAND DEUTSCHER
LEASING-UNTERNEHMEN

PRESS RELEASE

Leasing sector shakes off gloom as new business in 2014 increases by 6 percent to over 50 billion euro

BDL criticizes investment backlog in Germany and calls for reintroduction of diminishing-balance depreciation method to get companies investing again

Frankfurt, 19th November 2014 – The German leasing sector has so far this year facilitated 50.2 billion euro's worth of investment in real estate, machinery, vehicles, IT equipment and other types of assets, and in so doing has acquired 6.1 percent more new business than in 2013. On top of this, the sector's hire-purchase offerings have brought in a further 5.5 billion euro. "In view of companies' extreme reluctance to invest at the present time, this is quite an achievement," commented Martin Mudersbach, President of the German Leasing Association (Bundesverband Deutscher Leasing-Unternehmen - BDL). "And besides recording strong growth, we have managed for the fourth year in a row to increase our penetration of the investment market overall." It is certainly true that the growth rates being recorded by the leasing sector are rather more dynamic than the overall rate of growth in equipment investment, which looks set to increase by no more than four percent. "Companies have come to view the leasing sector as their most important investment partner," says Mudersbach. "That's especially true in the current uncertain economic climate."

2014 has seen growth in the leasing of almost every type of investment asset. Vehicle leasing, which accounts for by far the largest share (72 percent) of the leasing market, is up by 7.2 percent, with the increase in demand for leased commercial vehicles significantly higher than this percentage rise would indicate. Leasing of machinery, the second most sought-after category of leased asset, has grown by 6.1 percent. This particular segment got off to a slow start in 2014, but by the second quarter demand had picked up. Even so, the VDMA (the Association of German Machinery and Plant Manufacturers) expects investment in machinery to have grown by just 1 percent by the end of the year.

The only category of asset for which demand has fallen in 2014 is IT equipment, which has contracted by 11.8 percent. But, as BDL President Mudersbach points out, IT leasing put on a very impressive spurt of growth (7 percent) in 2013, so a year-on-year comparison is perhaps somewhat misleading. Furthermore, past experience has shown that companies tend to reduce spending on IT equipment when times are as uncertain as they have become over the current year. Leasing of real estate has increased by 10.7 percent in 2014, and stands at 1.6 billion euro. All in all, the leasing sector has increased its share of the market for just about every category of investment asset. The overall leasing penetration rate has increased to 15.0 percent, while the penetration rate in the equipment segment has climbed to 22.7 percent.

Leasing is financing tool of choice

“Because of our understanding of investment markets and assets, we can quickly home in on customers’ needs and offer them advice they can make sense of,” is the BDL President’s explanation for the leasing sector’s successful performance. The supplementary service packages available for leased machinery, vehicles and IT equipment allow lessees to concentrate on their core business, and to calculate their costs more accurately. “That’s exactly what company chiefs want, particularly when operating conditions are unpredictable. So leasing has become the investment tool of choice for those companies still prepared to invest.“

Nevertheless, the sector is sceptical about the prospects for the coming year. “There is precious little inclination to invest at present. Geopolitical crises are continuing to create uncertainty, and are now affecting the domestic economy, which until now had been stable,” explains Mudersbach. He believes there is a danger that today’s failure to invest will lead to tomorrow’s drop in productivity. Given that the investment backlog in Germany has been growing for years, he feels the country’s economic standing and reputation for innovation may be at risk. “We won’t be able to maintain our position indefinitely with ageing plant and machinery.”

The BDL is thus urging Berlin to get to grips with this problem, and to create an investment-friendly climate in Germany. It believes the federal government should be aiming to surpass the investment target of 20 percent of GDP set by the OECD. This would mean an increase in capital spending of over 50 billion euro. While the BDL President welcomes the state investment package announced by German Finance Minister Schäuble for 2016 and onwards, the effects of this one-off measure should be seen in context. “The German economy is crying out for incentives that will encourage private companies to invest. This would be the way to achieve a lasting reversal of the current chronic shortfall in investment. The only way to secure growth in Germany is through investment. And growth creates jobs and prosperity.”

Diminishing-balance depreciation method to jumpstart investment

The most important - and the most directly effective - way of boosting investment could well be the reintroduction of the diminishing-balance method of depreciation. Calls for its reintroduction among economists, coalition politicians and business representatives have been growing louder in recent weeks. Consolidation of the budget and promoting investment are not necessarily a contradiction in terms. The BDL President is convinced that changing the rules governing depreciation and amortization would not of itself impose costs, for the initial reduction in state revenues would be offset by a higher tax take in succeeding years. Furthermore, if the intended effect of jumpstarting the economy through increased investment were to be achieved, this would in itself increase state revenues.

In a recent survey conducted by the German Chambers of Industry and Commerce (DIHK), more than a third of the industrial companies polled indicated that they would invest significantly more if the diminishing-balance method of depreciation were available to them. “That,” says Mudersbach, “gives an indication of the potential of adopting this measure. It would certainly be easy enough to implement.”

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German Leasing Market 2014 at a Glance

Leasing in Total and in Market Segments	**2014 (Rate of Change) Estimated**
New business in total	50.2 billion € (6.1 %)
Equipment leasing Real-estate leasing Hire purchase	48.7 billion € (6.0 %) 1.6 billion € (10.7 %) 5.5 billion € (-1.0 %)
Leasing penetration rate overall Penetration rate in equipment segment	15.0 % 22.7 %
Equipment-Leasing Trends	**Compared with 2013**
Vehicles	7.2 %
Production machinery	6.1 %
Office equipment, IT systems	-11.8 %
Information and signalling systems, other products	13.5 %
Aircraft, watercraft and rail vehicles	32.7 %

Various presentations and market statistics are available for download at http://bdl.leasingverband.de/en/press.