



LeasePlan

What's next?

**Outlook** • Automotive Industry

# Market in disruption

Macroeconomic Context • Variation in pricing and discounts • Impacts on TCO • Delivery times • Downtime



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“... the automobile market is being impacted by challenges ranging from supply chain disruptions to a lack of raw materials and key components.”

If we go back in time three years, no one would have anticipated a global pandemic crisis or a war in Europe with the profound consequences we are now experiencing. These days, it is clear to economic agents that global market conditions have changed. More specifically, the automobile market is impacted by challenges ranging from supply chain disruptions to a lack of raw materials and specific key components.

In a setting exacerbated by inflationary pressures and higher interest rates, the Drivers of our Customers' fleets appear every day with new questions and much more significant challenges than in 2019. Questions such as:

"Why has my vehicle contract been extended instead of my vehicle being renewed? or " Why is it taking so long for my new vehicle to arrive? "or even," For the same monthly renting limit, will I still be able to choose a vehicle of the same category as before? ". These are examples of questions that are part of the daily life of the Drivers of our customers' fleets.

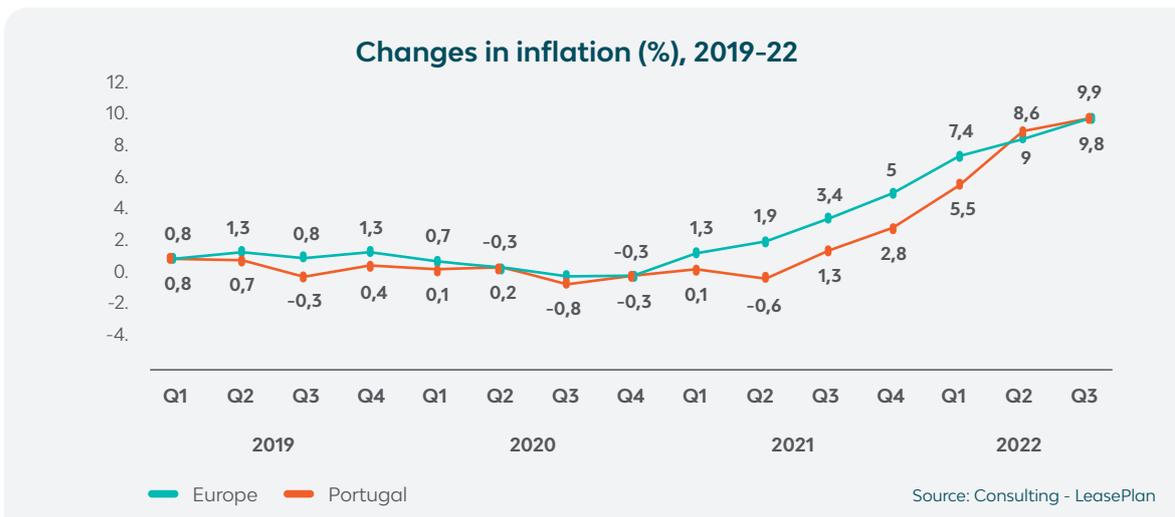
Given these and other questions, LeasePlan felt the need to create a quarterly newsletter as an information bulletin whose purpose is to inform and help clear the air on some of the issues affecting all of us.

## 1 Macroeconomic Context: a turning point

**The world economy is undergoing a transition phase:** from the resilience we saw in the growth trend up until the summer months, we stumbled upon a downturn in economic activity, which is being accelerated by the deteriorating sentiment of economic agents and by the worsening conditions in financial markets.

The factor driving this turning point in the market is inflation. The last four quarters have seen exponential increases in this indicator (see graphic). In the fourth quarter of last year, inflation in our country was already

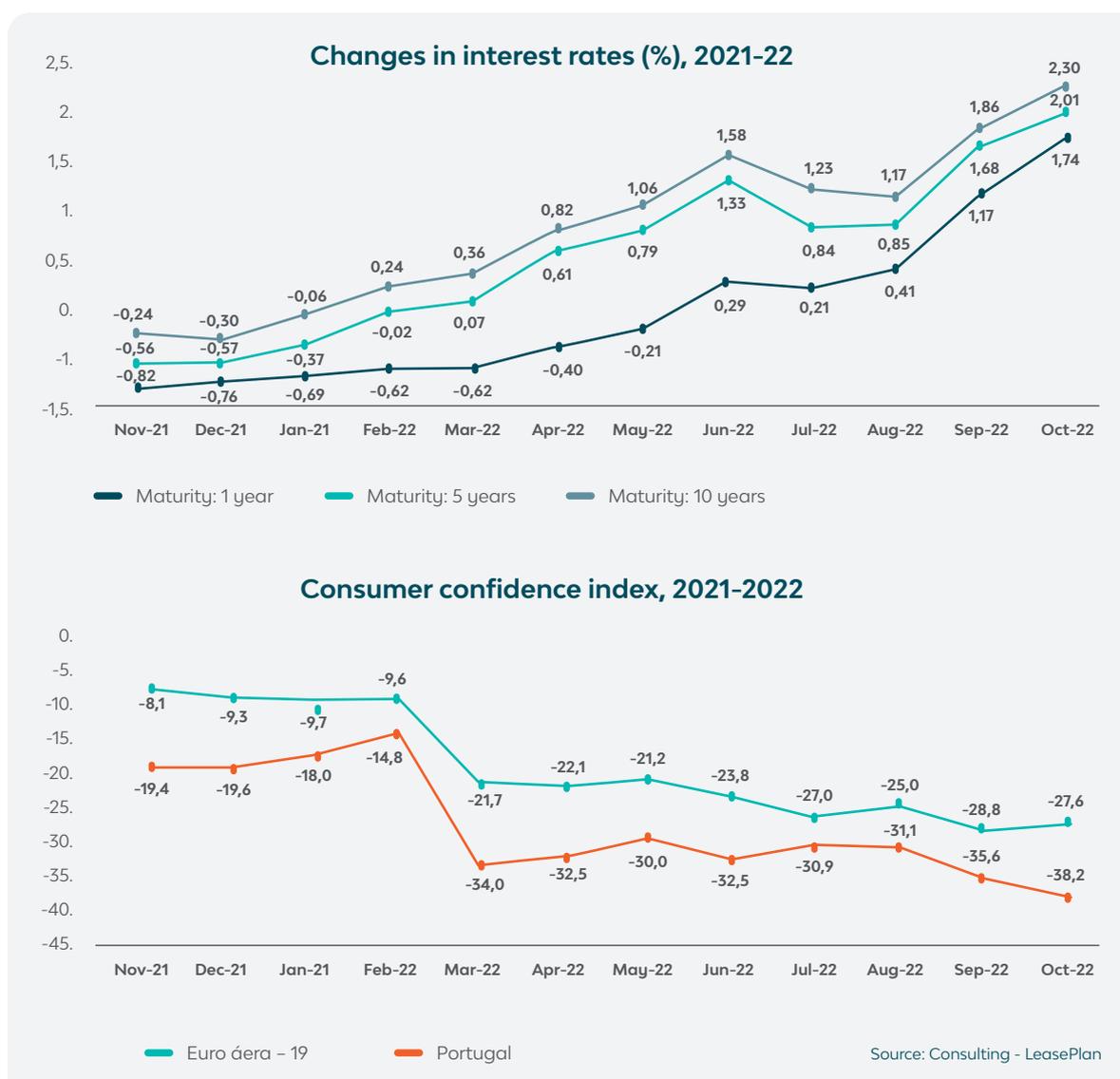
above **2.8%**; at the end of the first half of this year, it increased to **9%**. Analysts say that the European Central Bank reacted too late to this issue, and in fact, even with the major interest rate hikes in early September and late October, both on the order of **75 base points, the inflation rate rose from 9% to 10%** by the end of the third quarter. In December, however, the ECB again rose interest rates by more than 50 base points, even though inflation had dropped from 10.1% in October to 9.9% in November. Finally, the efforts to lower inflation are beginning to show results.



**“In the current setting, consumer confidence has hit 15-year lows, below the levels seen during the pandemic.”**

**Central banks are focused on freezing price increases and forcing a turnaround in the behavior of inflation.** To do so, as we touched upon above, the weapon used by the ECB has been interest rate hikes, which has resulted in higher

interbank rates in most maturities (see graph-ic). Note that through January of this year, the market was operating with negative rates in the three maturities. **Since then, the average rates have multiplied by 6, from -0.37% to 2.01%.**



One indicator being affected by our current circumstances is that of **consumer confidence, which is at a 15-year low this year, below the levels seen during the pandemic.**

These figures suggest that some long-term consumer decisions will be postponed to times of greater economic stability.

Along these lines, it is understandable that families and companies may think twice before investing in a new vehicle.

Having said this, some encouraging signs have appeared for the industry and the market: first, we have seen a reduction in transport costs and a recovery in inventories, which may represent a

**“The automotive industry is among the most affected by the economic context we are going through. One of the consequences is a shortage of automobiles on the market.”**

gradual breakdown in supply chain bottlenecks, and therefore in the process of determining prices; second, European responses to the energy crisis (primarily higher gas reserves, which are at 95% capacity) are beginning to be reflected in the market prices of 2023 gas futures, which have dropped 25% in recent weeks.

**Are we possibly seeing a downward turning point in the behavior of inflation?** An improvement to restrictions on supply suggests that we are. The slowdown in business over the next six months may confirm this scenario. The lingering

question is the timeframe for prices to return to normal. Financial markets anticipate that inflation may go down to 5% in the summer of next year. The subsequent decline, however, will be much slower; some analysts point to a time period of more than two years for the price index to return to around 2%.

From a short-term standpoint, the priorities revolve around the need to identify which factors are putting pressure on prices in general, while we monitor the effects of the current monetary squeeze on economic activity and employment.

## 2

## Impacts on TCO

**The automotive industry is among the most affected by the economic context we have described.** In addition to supply chain disruptions, which now date back to the pandemic, the war in Ukraine has aggravated the scenario, primarily due to a lack of raw materials and key components.

**The consequence is an unprecedented vehicle shortage.** Together with the scenario we are going through, the effects of this shortage are numerous, with a wide range of impacts:

higher catalog prices, lower commercial discounts from car makers, higher interest rates providing the basis for vehicle financing, more expensive fuel and energy, as well as very long delivery times.

We will now analyze some of these impacts, specifically the effects on the total cost of vehicle ownership, highly noticeable to those managing fleets and having to implement renewal processes based on budgets that are challenging quarter after quarter.

### 2.1.

## Index of changes to different components of TCO

**In the past six months, the total cost of ownership (TCO) has increased 20%** (see figure). This increase is more pronounced in some items compared to others.

The components with the highest increases were interest rates, energy and taxes, whose relative weights were up on the order of 74%, 27% and 24%, respectively. As we have seen above, higher interest rates reflect what is happening in interbank markets, resulting in efforts to curb consumption to contain inflation.

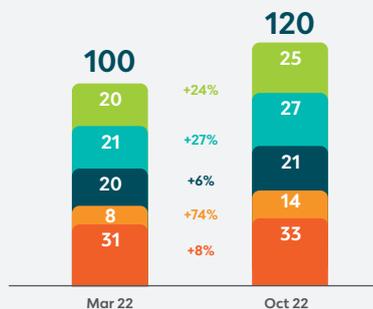
Within the leasing component, however, interest rates were not the only ones that increased. The weight of investment amounts in vehicles also rose by 8%. Further on below, we will see what has contributed to this rise. As regards higher prices, taxes have increased as well.

As we can see, however, there were also significant increases in energy, particularly in the component of fossil fuels, at a time when the price of diesel surpassed the prices of petrol.

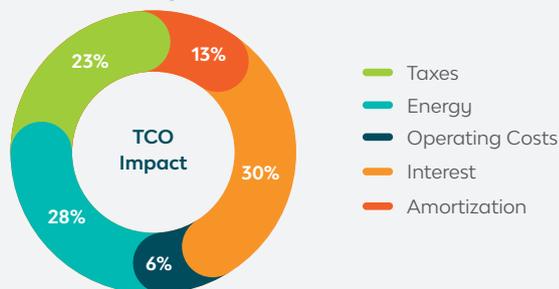
## LeasePlan Portugal TCO Index

General and per Componente (Mar - Oct / 2022)

Change in TCO per component

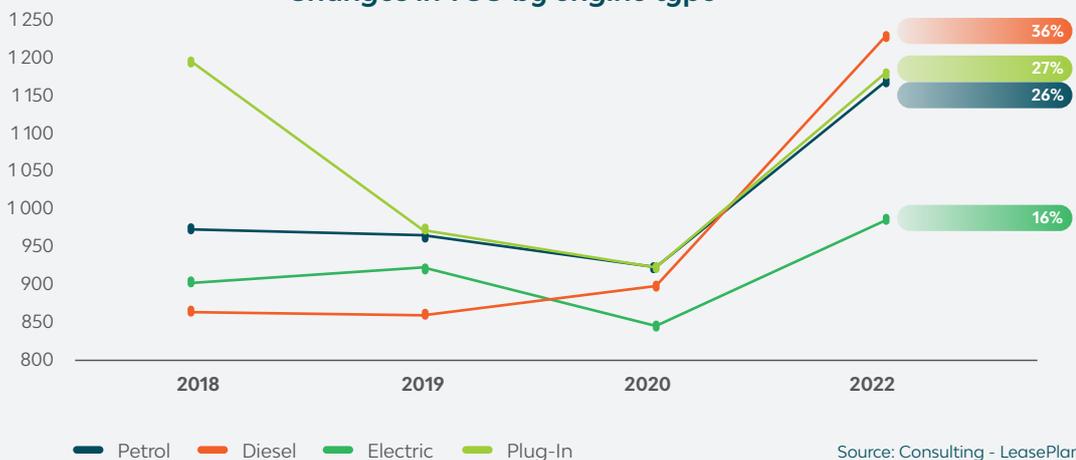


Weight of each component in total change of TCO



Source: Consulting - LeasePlan

## Changes in TCO by engine type



Source: Consulting - LeasePlan

Considering the changes in TCO in recent years, we can see three aspects:

I. Until 2021, TCO had movements falling within a certain norm and stability. The most significant movements we saw involved a higher supply on the market and the respective gain in competitiveness of electric motors, but above all the tax revisions that occurred in 2019;

II. From 2021 until now, **the total cost of ownership has risen by an average of 26%**. In other words,

while from March until now the increases were around **20%** as we can see in the above point, from October of last year to March of this year they were up **6%**;

III. **100% electric vehicles were the least impacted by the increase in TCO**. In addition to having a more extensive supply and increasingly more competitive prices, they were not affected by increases in the electricity component. In turn, diesel vehicles had the biggest increase, due to the impact of the cost of fuel.

## 2.2. Analysis of several TCO components

Let us now examine two components of TCO that have been affected less visibly by the market: (I) **higher catalog prices**, coupled with lower commercial discounts from car makers, due to

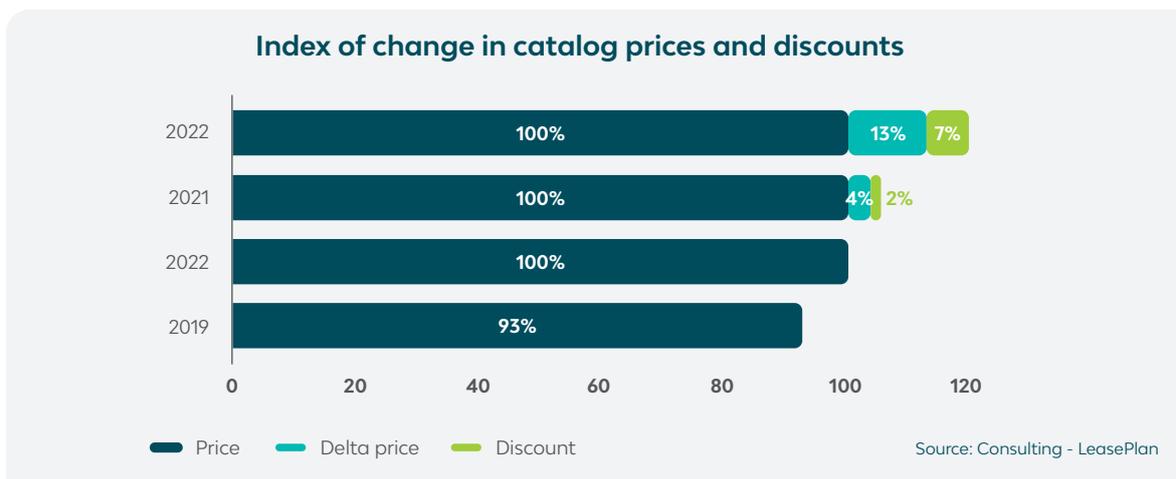
a lack of supply, and affecting the investment and leasing component; (II) **higher fuel prices**, as opposed to those of electricity.

**“The increase that occurred in 2022 was even more significant. On average, compared to 2021, catalog prices were up 9%. Since discounts were down by an additional 5%, the result is a total loss of 14%.”**

## 2.2.1. Changes in catalog prices and discounts

The following analysis was based on a collection of around **20 models with similar specifications**, corresponding to 50% of LeasePlan's fleet. As we can see in the graphic, and based on the year 2020 (less affected by the pandemic), we can see that **catalog prices were up 4% in 2021**, while lower discounts from car makers resulted in an additional increase of 2%. In other words, a total of 6%. Now, this 6% from 2021 would be quite significant in and of itself, without being in the midst

of a pandemic like we had never before experienced. However, **the increase that occurred in 2022 was even more significant. On average, compared to 2021, catalog prices rose by 9%** and, with discounts down by an additional 5%, we are basically looking at a total impact of 14%. If we compare this with the year 2020, whose figures were more normal, **the average investment value of the same model with similar specifications deteriorated by around 20%.**



## 2.2.2. Change in energy prices

**The cost of energy is another component of TCO that has fluctuated widely in recent times.** If we look at the prices of fuel and electricity in the pre-pandemic period and compare them with today's figures, we can see these increases. And the question we tried to answer was: **“With €10, how many kilometers could I drive in 2019, and how many can I drive today?”**

**note:** The price of electricity was calculated based on profile of 60% home charging, 30% office charging and 10% public station charging.



The status quo of the market challenges us in a number of ways. One of the problems is vehicle delivery time, while another is extensive downtime for vehicle maintenance.

The answer is clear: in 2019, with €10, we could drive 92 km using petrol, while today we can drive 65 km, which is **30% less**. If we look at the same €10 for diesel, in 2019 we could drive 142 km, and today we could drive 95 km, which is **33% less**. Electricity is the only one that has upheld its rates from three years ago; today we can drive the same 315 km, further underscoring the differences in TCO by engine type.

Along these lines, while in 2019 we could triple our mileage in a 100% electric vehicle with the same €10 compared to petrol, in 2022 **we can almost quintuple it**. This same comparison with diesel shows us that, while in 2019 we could drive twice the distance in a 100% electric vehicle compared to a diesel-powered vehicle, in 2022 this distance increased to **three times more**. All of this due to the higher prices of fossil fuels.

### 3 Did you know...

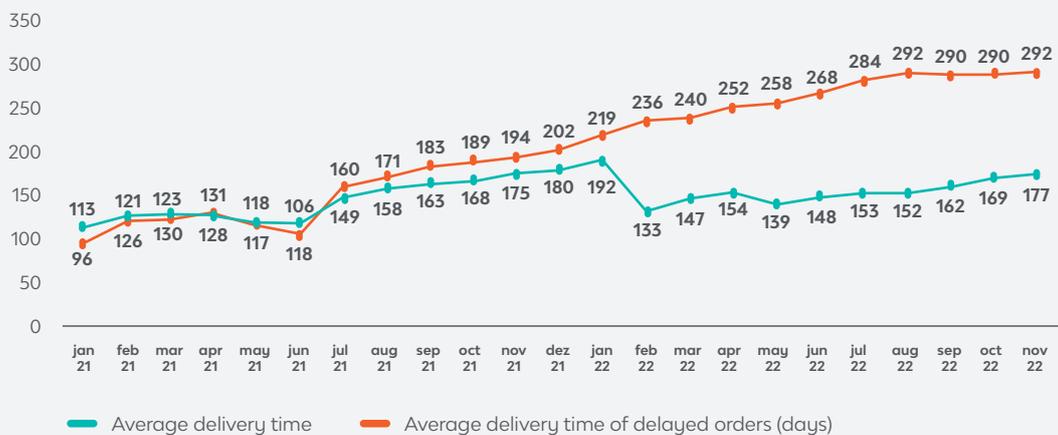
Have delivery times ever been this long in the automotive industry?

In 2021, delivery times were around three months, which was considered normal at the time. These days, the same vehicles have **average delivery times of around six months**. To make things even worse, it is not uncommon for the delivery dates of orders to be revised. In such cases (exceeding over half of the total), **revised delivery dates total nearly 10 months**.

These market circumstances should cause fleet managers to ask the following question:

**“How soon should I expedite the renewal of my fleet, given the delivery times we are experiencing right now?”**

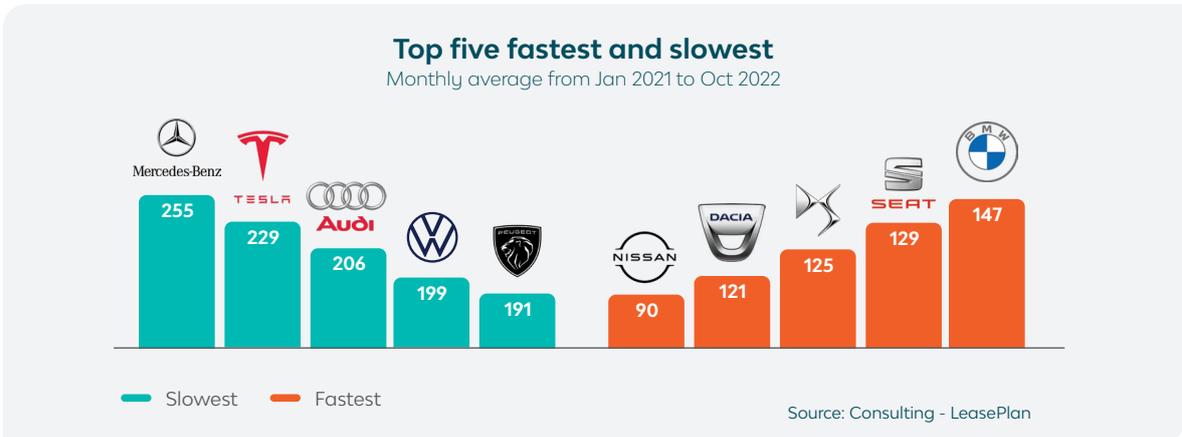
Average delivery time in days, 2021-22



Source: Consulting - LeasePlan

In helping decision-makers during times of fleet renewal, it is important to consider the

fastest and slowest brands in terms of vehicle delivery.

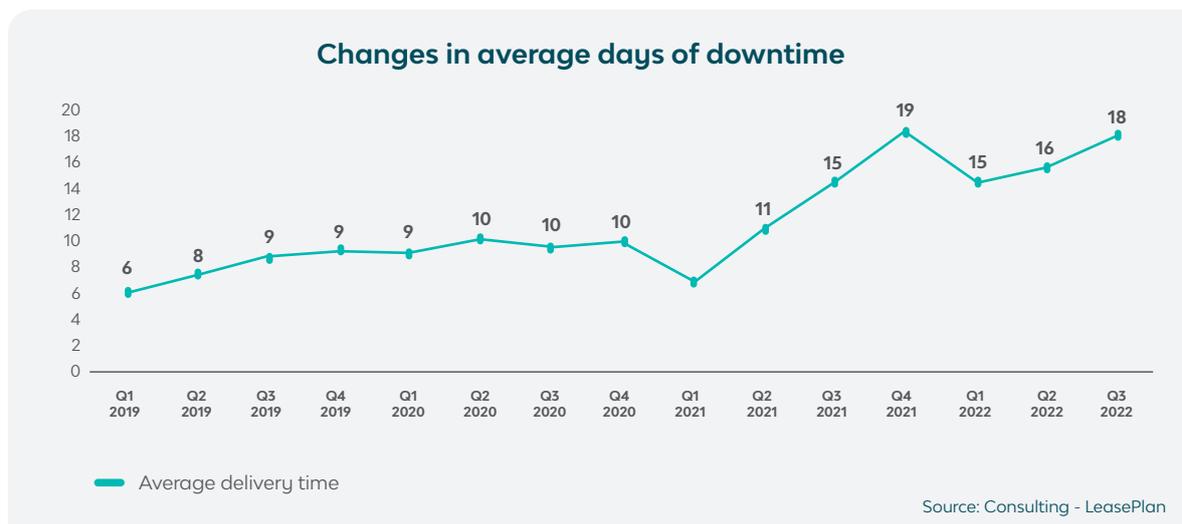


## Does the amount of vehicle downtime for maintenance, due to breakdowns, average three times more compared to 2019?

**Components and parts shortages have also affected the downtime of vehicles for maintenance.** While in the fleet market, downtime did not affect drivers as much, since it primarily involved preventive maintenance, these days – using contract extensions to avoid higher vehicle usage costs – fleet managers must manage fleets which are much older on average, and must deal with much more frequent immobilization due to breakdown and, therefore, longer downtimes.

Data from LeasePlan shows that in the **third quarter of this year, the average downtime was three times longer compared to the start of 2019.**

This becomes even more difficult to manage if we consider that, during the downtime period, in addition to a lack of replacement vehicles (particularly diesel-powered vehicles, whose rental availability is progressively on the decline), the costs for these services can put unnecessary pressure in the event of a potential renewal.



**The problem of the lack of vehicles on the market will not be resolved before 2024. As such, it is prudent to implement the measures recommended to mitigate this crisis.**

## Conclusions

As a consequence of what has been set out above, typifying the conditions under which we are currently living, issues such as detailed market analysis and greater flexibility to help and facilitate the life of company decision-makers have to be considered.

Intending to respond to existing constraints and doubts, LeasePlan recommends:

- ✓ Assessing whether to opt for electric vehicles, as they offer lower total usage costs;
- ✓ Considering the possibility of temporarily extending a contract;
- ✓ Anticipating the process of renewing or ordering their vehicles;
- ✓ Planning vehicle downtimes (for maintenance servicing) further in advance and being open to using replacement vehicles with different engine types.



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