

# Asset Finance Pricing Review

Sponsored by



- ▶ Changing face of auto finance
- ▶ ExpertEye on European RV trends

## Canada: rocky road ahead?





## Introduction

*Welcome to the latest edition of our Asset Finance Pricing Review, published in association with Asset Finance International*

We are living through some challenging times, as political uncertainties grow both in the UK, across Europe and in the US. Grassroots populist movements are becoming increasingly vocal over issues such as climate change and our use of the Earth's resources, with inevitable questions raised over the use of cars. Meanwhile, tougher emission regulations and a drop in consumer confidence are having a noticeable impact on new vehicle sales.

While it's been a rollercoaster few months for both business and consumers, many of us are adjusting to a different world order, where constant challenge and change is very much the norm.

And these changes are throwing up opportunities for those who are brave enough to consider a new way of working.

In our opinion article on page 3, Paul Bennett, director of international business development at Autofutura outlines just some of the ways in which consumers and their ready acceptance of technology, particularly smartphones, are driving change in the auto finance market. While this is proving highly disruptive to the normal financing process, he argues the change offers opportunities for lenders to get closer to consumers, and to pioneer new ways to streamline the finance lifecycle.

Our lead article (starting on page 7) is designed to offer an overview of the leasing market in Canada. It's a big country, with some big challenges. Tax regulations mean that the company car market is markedly different from other country models, while the large distances many drivers cover mean electric vehicle take up has been slow to gain traction.

As ever, we also have ExpertEye's report on residual forecasts and market summaries for the main western European market, which face some challenges over the coming months, which you can read on page 22.

Do enjoy and your comments and opinions are always welcome.

Gary Jefferies  
Sales and Marketing Director, Bynx

## The changing face of auto finance

*Customer demand is driving lenders to re-think their services in both the retail and fleet sectors, and technology is critical for developing new, creative approaches, as Paul Bennett, director international business development at Autofutura Ltd, explains*

Customer experience is one of the key drivers in disrupting the traditional strategy of established auto financiers - captive or non-captive, fleet or retail.

When it comes to financing, a lender may do everything right but a positive customer experience, particularly in the retail sector, hinges squarely on the dealer/ end-user interaction. While financiers do their utmost to positively influence the transaction, they don't have absolute control over it. Moreover, customer experience in the finance world is often tricky to navigate because money and financing can be a delicate subject.

However, we are now in the throes of a positive change that is largely powered by consumer adoption of technology; now at a tipping point, its combination with consumer appetite for self serve makes apps and associated digital tools absolutely relevant to today's savvy, but time-poor, fleet or retail consumer. What's more, the leveraging of tech by financiers provides a huge step forward in allowing them to take control of the customer relationship. Moreover, we all understand the critical importance of relationship and the effect a positive and trusted relationship delivers to all stakeholders.

### Smartphone revolution

A perfect example of this is [www.fair.com](http://www.fair.com) a mobile-first Californian headquartered car subscription platform that has grown and continues to grow at a solid rate. The reason for its success is deceptively simple: they give the customer what they want. The entire customer journey from start to finish is 100% mobile including digital contracting. Smartphones provide the perfect environment and platform to both engage and interact with customers. For the first time, this technology allows financiers to build a direct customer relationship with the end-user. In so doing, this will allow them to own the relationship, enjoy absolute control and ensure quality and continuity 100% of the time by delivering a wholly customer-centric approach and service.

There are of course a host of other drivers that are catalysts for disruption that will ultimately bring change to the funding industry and while they may not yet be biting hard at the heels of financiers, we can't afford to idly dismiss them.



MaaS – Mobility as a Service has been discussed widely for some time. Although slow to take hold, you can imagine that MaaS can and will deliver a considerable disruptive force to the traditional financiers when penetration reaches the necessary levels.

The ever-increasing influence and crossover from retail consumers to fleet caused by uptake in personal contract hire: PCH is churning end-users away from retail to pure fleet that is, to some extent, fuelled by the adverse press given – quite possibly very unfairly – to personal contract purchase (PCP) plans.

The threat of consolidation across the industry poses yet another challenge.

The steady rise in consumer awareness and gentle acceptance of subscription motoring, car sharing and on-demand access to vehicles is another trend to watch. The latter is taking hold primarily in London and several major metro areas.

This phenomenon is enjoying significant growth across the pond, for example:

- [Fair.Com](#) currently in US but will debut in UK and EU before too long
- [Long-Term Flex from Europcar](#) a household name for traditional car rental.
- [Drover](#) who act as strategic partners providing fully outsourced subscription services for a number of marques on sale in UK.
- [Hiya-Car](#) peer 2 peer car hire.
- [Drive Now / Share Now](#) on-demand car sharing offering of the new mobility joint venture between BMW Group and Daimler AG.

### Digital all the way

The digital revolution is in full swing: on-demand access to data that serves to inform, educate and empower consumers be they fleet or retail is now the norm.

The expectations of clients in the fleet sector are really no different from those of end-users in the retail space. Let's face it, segmentation is narrowing at a pace between what typically would have been considered fleet vs. retail, as illustrated in part above.

As a consequence, fleet operators will be required to embrace change and become (pardon the pun) more 'fleet of foot' if they are to better serve their existing clients' ever-growing expectations. Moreover, deploying superior tech almost always allows for a superior customer engagement and interaction while the added stickiness of smartphone consumer communications will ensure that forward thinking fleet funders enjoy a distinct competitive advantage when tendering for new business.

In this fast paced and increasingly competitive marketplace, I am of the opinion that it is the responsibility of the financiers and lessors to be more creative in their approach to contract management. Independently of reviewing their existing customer engagement practices they may wish to consider providing their clients with greater flexibility and therefore review how they better manage the customer 'usership cycle.'

For example, often in tandem with their brand partners, market technologies allow financiers to generate the most cost effective and compelling below the line marketing campaigns in real time. Importantly, these offers are personalised and tightly targeted to particular user groups and serve to accelerate the point of repurchase, simultaneously looking to fairly maximise yield from the asset under management. Furthermore, such services can give financiers the ability to plan ahead at any given time, thus smoothing out peaks in the volume of when specific vehicle groups mature. Deploying a pro-active stance like this has the added benefit of ensuring that residual values set two or three years earlier are more easily achieved – or indeed over achieved – when remarketed, and reduce the sums allocated to provisioning. Taken all together such an approach drives efficiencies at every turn.



**Innovative solutions for a mobility world**

[bynx.com](http://bynx.com)    [sales@bynx.com](mailto:sales@bynx.com)    +44 (0) 1789 471600

### Upstream vehicle remarketing

To further aid the speed of remarketing, tech solutions are available that will allow an end user to execute and submit an electronic vehicle inspection on behalf of the lessor or financier directly from their smartphone in a matter of minutes. Taking advantage of sophisticated algorithms powered by artificial intelligence (AI) this service provides fully calculated reconditioning charges in line with BVRLA or as per the financier's charge-out schedule. Now for the best part: on completion of the electronic inspection the vehicle can, if the owner so wishes, start the remarketing process instantly via a prominent digital auction platform as provided by one of the global leaders in vehicle remarketing, thus bringing the whole process full circle.

*Based in Southampton, Autofutura was founded in 2002 as an automotive data and software company, providing insight to the automotive industry. Its sales, retention and forecasting and R/V management products support clients including automotive finance providers, leasing companies and leading manufacturers internationally. [www.autofutura.com](http://www.autofutura.com)*



## Canada's highs and lows

*Journalist Tom Seymour takes an in-depth look at the finance and pricing challenges facing the vehicle leasing and fleet markets in Canada*

Canada is the second largest country in the world, spanning across 10 provinces, with a mix of urban metropolitan centres and vast areas of some of the most beautiful – and challenging – landscapes to be found anywhere.

Of the provinces, Ontario and Quebec make up the majority of automotive sales in the country. However, outside of major metropolitan areas like Toronto and Montreal that have good public transport options, vehicles are needed by the majority of Canadians for their daily lives to get around. Vehicles and drivers are used to covering big distance driving, with Canadians driving a combined 519 billion kilometres a year.

Despite its size, Canada has a relatively small population of just 36.7 million, compared with the 327 million people in the US, its neighbour across the border. That means vehicle sales outlets and repair facilities in more remote areas can be few and far between.

### ON THE ROAD

- The average new car ownership period is around eight years
- The average driver in Canada will do around 100,000km over first ownership
- On average, a vehicle does a further 150,000km on the used car market with a second owner





Ford F-150

Utility is clearly important for Canadian drivers with the Compact Sport Utility segment representing 22.1% of the total automotive market, followed by large pick-ups at 18.1%.

For the first time in over a decade, automotive sales fell slightly in Canada in 2018 with final figures coming in at 1,984,992 down 2.6% from 2017.

After a reasonable first quarter, monthly sales in 2018 fell off slightly from the previous year - which represented an all time high in Canadian vehicle sales at 2,038,798 in 2017.

David Adams, president of Global Automakers of Canada, said: "Given all of the political and economic turbulence – combined with interest rate increases – it is difficult to classify the 2018 results as disappointing from a sales perspective.

"We've had a decade of record sales each year and at some point, things are going to slow down – that's the nature of the business."

Utility and trucks make up the vast majority of Canadian sales, with a 70.1% market share, up from 68.6% in 2017.

The Detroit Big Three (Ford, General Motors and Fiat Chrysler Automobiles) led the market in Canada in 2018 with Ford representing the biggest volume at 297,902 registrations, a -3.4% drop year-on-year. The Ford F-Series was by far and away the top selling model in Canada with 145,695 units sold. Even though F-Series sales fell by 6% in 2018, there is still a massive gulf between that model and second place with the Ram 1500 at 84,854 units.

Those two large pickup trucks represent over 10% of the entire Canadian vehicle market, just on their own.

While the market is led by the F-Series, Ford has had to recall 220,000 F-150 pick-ups in February 2019 due to a potential downshift issue that could increase the risk of a crash. It is part of a larger North American recall for select 2011-2013 models with six-speed automotive transmissions.

“

We've reached a crossroads, triggered by the onset of new business pressures. While Canada's auto sector is no stranger to disruption, we're seeing the effects of a shift in global sales and increased competition from lower-cost markets, as the industry explores new frontiers in electric and autonomous driving.

”

Peter Hatges, partner, automotive markets, KPMG, Canada

General Motors took second place with sales of 288,310, down 4.8% and Fiat Chrysler Automobiles saw an even bigger drop with a 15.8% slump in sales down to 224,889 units.

General Motors announced in November last year plans to close its Oshawa plant by the end of 2019 and according to Peter Hatges, partner, national sector lead, automotive markets, for KPMG in Canada, this acted as an inflection point for the Canadian car industry. The Ontario-based Oshawa assembly plant closure will see around 2,973 job losses.

Hatges said: "We've reached a crossroads, triggered by the onset of new business pressures. While Canada's auto sector is no stranger to disruption, we're seeing the effects of a shift in global sales and increased competition from lower-cost markets, as the industry explores new frontiers in electric and autonomous driving.

"These factors are reshaping the roles of car makers, both original equipment manufacturers (OEMs) and their suppliers, within an evolving supply chain."



Ram 1500

## CANADA'S TOP 10 BEST-SELLING VEHICLES IN 2018

1. Ford F-Series 145,695 units
2. Ram 1500 84,854 units
3. Honda Civic 69,005 units
4. GMC Sierra 56,242 units
5. Toyota RAV4 55,385 units
6. Chevrolet Silverado 55,334 units
7. Honda CR-V 54,879 units
8. Toyota Corolla 48,796 units
9. Ford Escape 43,857 units
10. Hyundai Elantra 41,784 units

Source: Global Automakers of Canada (GAC)

### Canadian fleet and automotive finance market overview

Fleet in Canada is split into three main categories across approximately 350,000 units. The vast majority is short term rental volume at 65%, while between 20% and 25% are leased on longer terms by corporates, and the balance is government sector fleet.

Finance and leasing plays an integral role in the Canadian automotive industry with approximately 80% of all new vehicles funded in this way, according to a spokesperson for Scotiabank, one of the top three largest banks in the country. However, company car schemes are a largely unknown and unfamiliar concept.



Peter Birks  
president, Auto Financial  
Group (AFG) Canada

Peter Birks, president of Auto Financial Group (AFG) Canada, said: "The corporate company car market in Canada is virtually non-existent due to the tax structure.

"There is no benefit to companies looking to lease vehicles on behalf of employees. The taxation system around the company car as a benefit is also very onerous."

Birks said that generally, Canadian companies do not want the responsibility of looking after fleets of vehicles on contract hire and so instead offer cash allowances to employees as part of their employment contract as an alternative.

Rev. Dr. K. Bill Dost, group chief executive of DND Finance, an SME leasing specialist and finance house covering markets in both Canada and the UK, confirmed that while company cars are not a foreign discussion in Canada, companies prefer not to use traditional contract hire, due to the taxable benefits associated with it. As a result, there is a greater preference to provide a car allowance that the employee receives.

This essentially turns the majority of Canadian company car drivers into retail customers, looking for their own deal, whether that is an outright purchase, personal contract hire or a hire purchase agreement.

All company mileage is always expensed. Dost said that most jobs, with the exclusion of sales related roles, do not require a vehicle for employees, so the concept of the company car in the sense of a vehicle with operational leasing/contract hire and added bundled services has not made its way into the Canadian mindset.

Dost explained: "The choice for those that are looking to finance their vehicle really comes down to the customers' needs on whether they want to own the car at the end of the agreement or not."

For drivers using their car for business, they can write off up to \$840 a month from their lease of finance payments each month against tax.

While traditional contract hire does not have traction in Canada, the leasing market is strong with most businesses looking to lease their vehicles and move into new product every three to four years.

AFG, a US-based company, entered the Canadian leasing market in August last year following its acquisition of Credit Union Leasing Administration of Canada. AFG provides an online, residual based, walk-away vehicle financing product called AFG Balloon Lending, as well as vehicle leasing and vehicle remarketing.

The lender is not fully active in large fleet business. Its focus is on consumer leasing and small fleets, with a focus on customer service.

AFG president Birks said: "When the market crashed in 2007/2008 the leasing companies pulled out, Chrysler went bankrupt and the availability of lease financing disappeared.

"The Canadian Federal Bank Act prohibits banks from participating in personal automotive leasing business, providing an opportunity for Credit Unions, which are guided by a different set of regulations."

The 2008 financial crash reshaped Canadian automotive finance, with the fleet market sustaining large consecutive drops over three years in 2007 (down 7.5%), 2008 (down 10.2%) and 2009 (down 23.2%).

The 2008 financial crash reshaped Canadian automotive finance, with the fleet market sustaining large consecutive drops over three years in 2007 (down 7.5%), 2008 (down 10.2%) and 2009 (down 23.2%).

The Canadian fleet market low of 181,896 units in 2009 has gradually recovered volumes to a peak of 350,667 units in 2016, with sales maintained around that level as of the end of 2018.

Captives before the crash had an 82% market share in Canada in the automotive finance market, leaving 14% for major banks and 4% for finance companies and credit unions.

A downward turn over four years since 2007 saw captives' large slice of finance market eroded to 45%, with the major banks increasing their share up to 50%.

Captives have since regained some market share due to a resurgence in leasing, getting back to 54%, but banks remain at 43%.

One of the reasons leasing has bounced back is that it offers a more cost effective tax option for customers.

When a vehicle is purchased in Canada, provincial and federal taxes must be paid in full at the time of purchase and factored in to the finance cost. Depending on the province, this can range between 5% to as high as 25%.

However, with leasing, provincial and federal taxes are only due on the monthly lease payment for the duration of the contract so customers are saving up front on taxes.

Lease payments are an allowable business expense (up to \$840 a month) and it keeps a businesses credit lines open, rather than using up cash for outright purchase.

Captives before the crash had an 82% market share in Canada in the automotive finance market, leaving 14% for major banks and 4% for finance companies and credit unions.

Banks have been pushing for amendments to Canada's Bank Act to allow them the opportunity to compete on an equal basis for a share of the vehicle financing market.

Opponents maintain that direct participation in the vehicle leasing market would place banks in a conflict of interest with dealers, who would be both customers and competitors.

Leasing offers an alternative funding method for Canadians as according to research by AFG, over 50% of new car loans are written for 84 months (seven years) or longer.

Customers are then tied in to long finance deals, tempted by the lower monthly payments, which initially prove attractive. However, according to Birks, drivers may find later that they are unable to easily switch out of that finance agreement if their circumstances change or they want a different vehicle.

It can also lead to situations where a customer is in negative equity as the value of their vehicle has dropped below the outstanding balance on their loan.

## CANADA VS EMEA

In Canada, unlike the UK and elsewhere in Europe, dealer networks facilitate 100% of retail and fleet sales for vehicle manufacturers.

Customers can appoint vehicle brokers, internet buying services and independent leasing companies, but these companies will essentially represent the consumer at the dealership.

These options give consumers potential access to fleet discounts, volume discounts, as well as handing over the element of negotiation aspect of buying a vehicle themselves to the dealer team.

As Bill Dost explains: "The dealer handles everything including often the credit check and then the dealership will create the contract. The leasing company simply funds the transactions in these cases."



Rev. Dr. K. Bill Dost  
group chief executive,  
DND Finance

According to data from Dealertrack Canada, the average monthly retail finance payment was \$619 for new cars and \$448 on used.

### Way forward

Dennis DesRosiers, owner of Canadian automotive consultancy DesRosiers, believes it is unlikely companies in Canada will look at corporate leasing unless there are big changes to the taxation system.

If an employee uses a company vehicle for non-work related purposes it is considered a taxable benefit. Drivers have to keep their own records of mileage driven for personal and business purposes and calculate the benefit accordingly.



Dennis DesRosiers  
Owner, DesRosiers

DesRosiers said: "The personal leasing market is vibrant in Canada and the route of that is much better quality of vehicles.

"The residual value of a four year old vehicle is now in the 40% to 60% per range with outliers above and below this level.

"Higher residuals mean much lower monthly payments. But, almost as important, because of that higher quality with vehicle product, there is less volatility in residual values and thus much lower risk in a lease product."

DesRosiers said the fleet market has remained flat over the last three years due to manufacturers halting the artificial inflation of the market by "dumping" vehicles that weren't needed as retail sales into the rental market.

He said this practice had been happening with brands like GM, Ford and FCA to help keep plants operating. However, as factories have now closed or reduced production, there is now less of a need to push stock into the fleet market.

DesRosiers said: "Fleet in the heady days was consistently in the low 20% of the market, but now it is in the high teens."

"The Detroit three do not have to dump their excess inventory into fleets at a loss, so companies have now extended their ownership cycles."

Birks believes the Canadian fleet market is wide open for potential growth.

He said: "There is a lot of opportunity for innovation in the market and leasing provides a great alternative to those consumers trapped in seven year finance deals."

"A vehicle is a depreciating asset and moving to a product that is formed around the residual value of the vehicle offers customers a safeguard to fluctuations in the market."



## Electric vehicles

Canada has pledged to ensure nearly a third of new vehicles sold by 2030 are electric vehicles. However, there are only incentives in place in two of the 10 provinces - British Columbia (BC) and Quebec.

Canada is a vast country and while the urban use of electric vehicles seems to have some slight momentum, suburban and rural locations are challenging due to significant range anxiety.

Ontario, the biggest market for automotive sales, cancelled its EV incentive programme in summer 2018, which may affect sales of plug-in vehicles going forward.

Previously, Ontario's program offered up to \$14,000 back for EV customers. The Ontario government has also cancelled an incentive program for electric vehicle charging stations that offered up to \$1,000 to offset the cost of a home or office charge point.

Quebec offers up to \$8,000 for all electric vehicles, rechargeable hybrid vehicles and fuel cell (hydrogen powered) vehicles. It also provides \$600 for the purchase and installation of a 240-volt home charging system. BC offers \$6,000 off the purchase or lease of a hydrogen fuel-cell vehicle, \$5,000 for a BEV and between \$2,500 and \$5,000 for a plug-in hybrid.

The changes in Ontario could stall what had been a niche, but growing market, with EV sales up 166% in Q3 2018.

Plug-in hybrid and pure electric vehicles or battery electric vehicles (BEV) have grown at a similar rate in Canada since 2013.

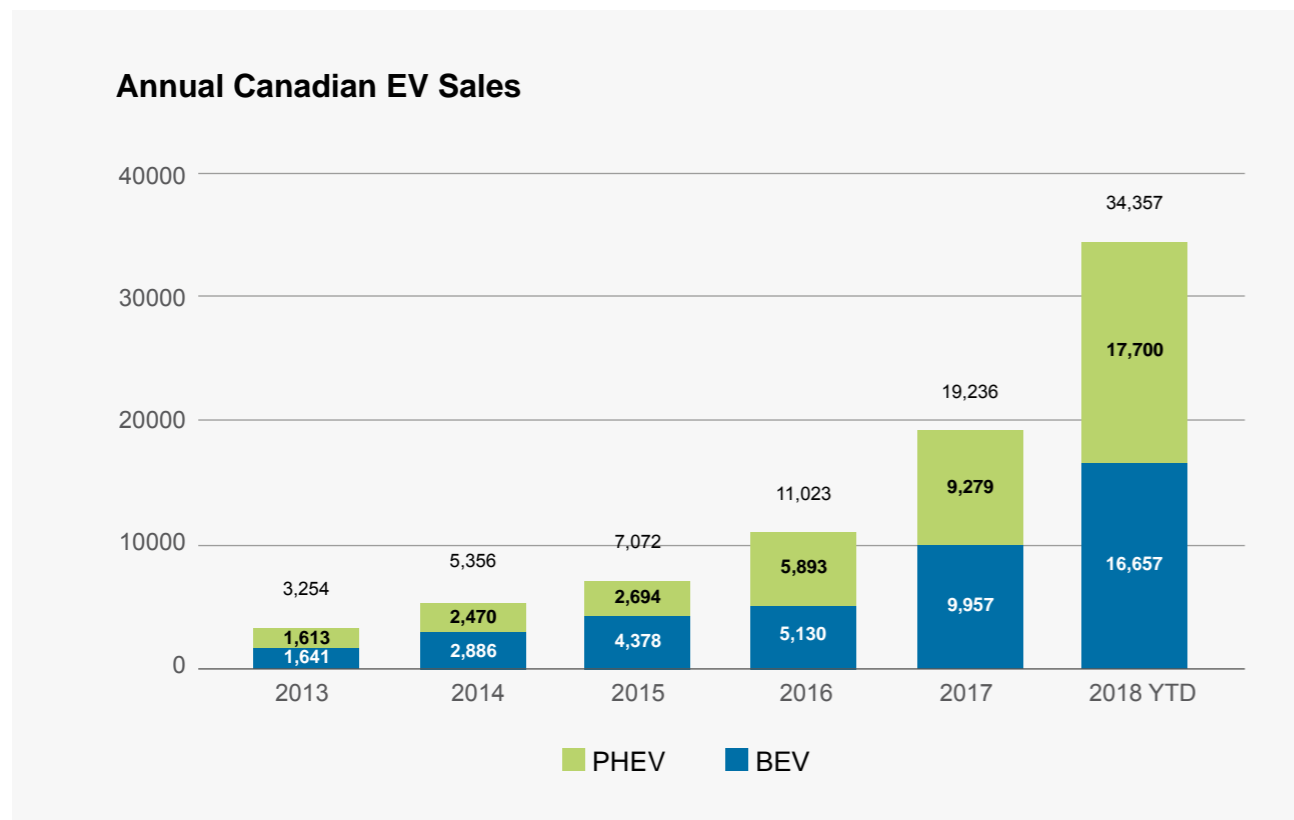
According to statistics from FleetCarma, a company that has provided solutions to manage and accelerate the transition to electric vehicles in Canada, there has been consistent growth across both propulsion types, with combined sales increasing from 3,254 units to 34,357 units as of Q3 2018.

Birks said: "The alternative fuel market is still in its infancy at 4% market share. It still hasn't grown beyond being a status symbol for early adopters."

He said the Canadian leasing market is still having real difficulty in structuring a lease for EVs, as reliable data is not yet readily available for properly forecasting and managing future value risk. However, he has been informed that the valuation guides are "a few months" away from being able to set reliable RVs.

Birks said: "I think the move to alternative fuels could be a big opportunity for leasing in the future."

"If the leasing company can absorb that risk around guaranteed future residual values for electric vehicles, we could become an expert in that market for customers."



Source: FleetCarma

“There is the potential for interest rates to rise and that’s also going to be an opportunity for us, as I think it will drive more customers to look at leasing as a more cost effective, flexible option, rather than ownership.”

The Canadian government has put a \$182.5 million fund together to develop coast-to-coast fast charging stations for EVs. This will see 100 charging points installed across Quebec and 23 installed in British Columbia.

This compares poorly with the Netherlands, which has half the population but close to 20 charging points per 100km of paved road. This puts into perspective how far behind Canada is with its EV market infrastructure due to the level of investment required compared with the size of the country.

There is also private investment going into the sector alongside government funding, with companies like Petro-Canada building a network of 50 fast chargers to bolster the network.

The 2009 Electric Vehicle Technology Road Map for Canada aimed for 500,000 EV sales over a 10 year period.

Fleet Carma said that by the end of 2018 the actual number of EV sales was fewer than 100,000.

Their report warned “the electric-vehicle train was already leaving the station and Canada wasn’t on it”.

“

Most battery electric vehicles (BEVs) are secondary vehicles in a household. Some may fill some of the primary driving needs but they rarely fill all of transportation needs

”

Dennis DesRosiers, owner of Canadian automotive consultancy, DesRosiers

DesRosiers said: “With electric vehicles and the whole climate change movement, policies need to be directed primarily at the consumer rather than the vehicle companies and most politicians in Canada have not yet demonstrated a willingness to do this.

“Until politicians begin to focus on the consumer, electric vehicle success in the market will be muted.”

DesRosiers believes it will take at least another 10 years for the alternative fuel market to be doing significant volumes in Canada.

He said: “Most battery electric vehicles (BEVs) are secondary vehicles in a household. Some may fill some of the primary driving needs but they rarely fill all of transportation needs.

“This means the true cost of a BEV is actually cost of adding a second family vehicle. This is very costly so even if generous government incentives are in place, it is still a major barrier to additional sales.”

DesRosiers said that even if positive forecasts for EV adoption in Canada come true, there will still be a significant number of internal combustion engine vehicles on the road by 2030.

These vehicles will take around 25 years to remove and so the true impact of BEVs (if they are successful) won’t likely be felt until 2040 to 2050 and possibly later.

### New finance models

According to research by Montreal-based car sharing service Communauto, 20% of those living in Toronto would consider getting rid of their vehicle to switch to car sharing.

Marco Viviani, Communauto vice president, said: “Currently, 87% of Torontonians own a vehicle.

“As technology evolves and Toronto becomes a smarter and more mobility-driven city, it’s clear that there’s a desire for new ways of moving around.”

Viviani believes carsharing complements public transport and will be part of Canada’s eco-friendly mobility future, reducing congestion and pollution.

Communauto FLEX launched in Toronto with 200 Hyundai Accent hatchbacks in November 2018, servicing an area of close to 50 square kilometres in the city.

The business has recorded 30,000 trips by more than 2,000 users in the first three months of launch in Toronto. The average trip lasts more than three hours for 20 km with 5% of weekend trips lasting more than 24 hours.

Communauto initially trialed the service in Quebec where it has over 50,000 registered users. It partnered with PSA Group in 2017 who has now become a financial backer for the company.

Communauto FLEX has no monthly fees and the subscription is free, with a pay-per-use structure. Daily commutes start at \$ 0.41 / minute, \$ 15 / hour, \$ 50 on the first day and \$ 35 on extra days, including fuel.

The first 150kms are included in the price of each trip and, for a limited time, the first 30 minutes of each trip are free. Torontonians can reserve Communauto FLEX cars, which are parked in residential parking spaces in the 50-square-kilometer service area, and drive wherever they want, leaving the car in any legal parking space at the end of travel.

Birks said there has been a big backlash by dealer groups in Canada around direct online sales from vehicle manufacturers, car sharing and subscription style vehicle funding methods.

He said: "The dealer networks are dead set against subscription models and any manufacturer looking to sell direct and cut them out of the process. They're fighting it with every fibre of their being."



Toronto

### Auto Sales by Province

(thousands of units, not seasonally adjusted)

	2016 Jan to Dec	2017 Jan to Dec	2016 Dec	2017 Dec
<b>Canada</b>	<b>661.1</b>	<b>646.9</b>	<b>37.2</b>	<b>34.1</b>
<b>Atlantic</b>	47.1	45.6	2.2	2.0
Newfoundland	47.1	8.8	0.4	0.3
Nova Scotia	9.5	20.8	1.0	1.0
New Brunswick	20.2	13.3	0.7	0.6
Prince Edward Island	3.1	2.8	0.1	0.1
<b>Central</b>	<b>467.6</b>	<b>461.3</b>	<b>25.3</b>	<b>24.0</b>
Quebec	198.5	187.7	9.1	8.6
Ontario	269.1	273.6	16.2	15.4
<b>West</b>	<b>146.4</b>	<b>140.0</b>	<b>9.7</b>	<b>8.1</b>
Manitoba	14.4	13.6	0.8	0.7
Saskatchewan	9.3	8.7	0.6	0.5
Alberta	47.7	46.6	3.0	2.5
British Columbia	75.0	71.1	5.3	4.4

Source: Statistics Canada

### The Canadian Light Vehicle Retail Finance Sector by Lending Type

#### New Light Vehicles Sales

	Total (units)	% Chg	Fleet (units)	% Chg	Fleet	% Chg	Retail Sales (units)	% Chg
<b>2008</b>	1,635,986	-1.10%	236,966	-10.20%	14.50%	-12.90%	1,399,020	0.70%
<b>2009</b>	1,460,581	-10.70%	181,896	-23.20%	12.50%	-23.20%	1,278,685	-8.60%
<b>2010</b>	1,557,121	6.60%	249,840	37.40%	16.00%	37.40%	1,307,281	2.20%
<b>2011</b>	1,585,519	1.80%	254,237	1.80%	16.00%	1.80%	1,331,282	1.80%
<b>2012</b>	1,675,675	5.70%	273,234	7.50%	16.30%	7.50%	1,402,441	5.30%
<b>2013</b>	1,744,567	4.10%	271,759	-0.50%	15.60%	-0.50%	1,472,808	5.00%
<b>2014</b>	1,851,373	6.10%	291,508	7.30%	15.70%	7.30%	1,559,865	5.90%
<b>2015</b>	1,898,485	2.50%	337,910	15.90%	17.80%	15.90%	1,560,575	0.00%
<b>2016</b>	1,948,404	2.60%	350,667	3.80%	18.00%	3.80%	1,597,737	2.40%
<b>2017</b>	2,038,263	4.60%	349,593	-0.30%	17.20%	-0.30%	1,688,670	5.70%
<b>2018</b>	1,984,992	-2.60%	350,381	0.20%	17.70%	0.20%	1,634,611	-3.20%

Source: DesRosiers Automotive Consultants Inc.

## TURBULENT TIMES

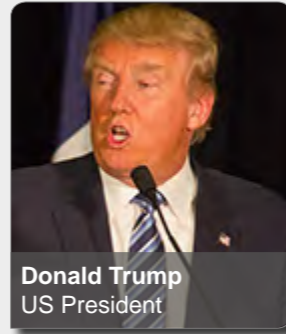
The Canadian auto industry was at the centre of political and economic controversy in 2018, as US President Donald Trump carried out his promise to reform the North American Free Trade Agreement (NAFTA), in a move which raised concerns about potential problems for longstanding supply chains.

NAFTA is a trilateral trade agreement between the US, Canada, and Mexico that was signed on January 1, 1994. Its replacement – which runs to 1,800+ pages of text – was formally agreed on October 1 2018.

The new agreement is called the United States-Mexico-Canada Agreement (USMCA), and contains a number of provisions which directly impact Canada's auto manufacturers:

- While NAFTA originally required automakers to use 62.5% of North American-made parts in their cars to be imported duty free, the new agreement gradually raises the bar to 75% by 2023.
- USMCA mandates that automakers manufacture 40% of their motor vehicles in facilities where assembly workers are earning at least \$16 an hour.
- Beginning in 2020, 70% of steel and aluminum purchases must be made in a USMCA country.
- Automakers also must show that core components such as the engine, transmission, suspension, axles, chassis, steering system and batteries meet the 75% regional requirement.

The agreement includes side letters from the US to the Mexican and Canadian governments promising exemptions from potential future tariffs imposed by the US on some motor vehicles and auto parts. This includes \$32.4 billion dollars worth of auto parts from Canada, as well as 2.6 million passenger vehicles annually.



Donald Trump  
US President



Observers suggest the new trade deal is likely to see manufacturers opting for one or a combination of actions, which include:

- Absorb the higher costs as lost margin
- Renegotiate part supply deals to pass costs to suppliers
- Raise finished good prices to pass costs to consumers
- Change product mix to make offerings less expensive

However, there are fears that if prices increases do occur, more consumers will delay new automobile purchases or buy used cars, reducing new car demand. Vehicle sales have already started to decline from the historical highs of 2015 and interest rates are increasing. If vehicle costs are expected to increase as well, it may be in dealers' best interest to shift focus to fixed operations or used vehicles to ride out the potential cyclical storm.

In a briefing on the outlook for this year, Scotiabank warned: "The auto provisions of the deal will reduce the competitiveness of the North American auto industry over time, leading to higher prices and a possible loss of global market share."

The USMCA still must be signed, ratified, and the enabling legislation must be passed in each of the three countries before the agreement can go into effect on the target date of 1 January 2020.

Automakers will have three years to adjust their supply chains to meet the new targets, with a possible two-year extension. NAFTA will remain in effect until the new agreement is ratified and phased in.



## European residual values – on the slide?

*Political uncertainties, including the protracted negotiations around Brexit, new regulations and a dip in consumer confidence are all combining to put pressure on vehicle sales.*

### European passenger car residual value trends

After a period of settled normality with regards to passenger car residual values (RVs), RV setters across most of the markets have started to become far more cautious.

RVs typically fall in the latter part of the year for whole year periods as RV setters know by the time the vehicles are back and being sold as used vehicles they will be into the next calendar year and as such look an extra year older.

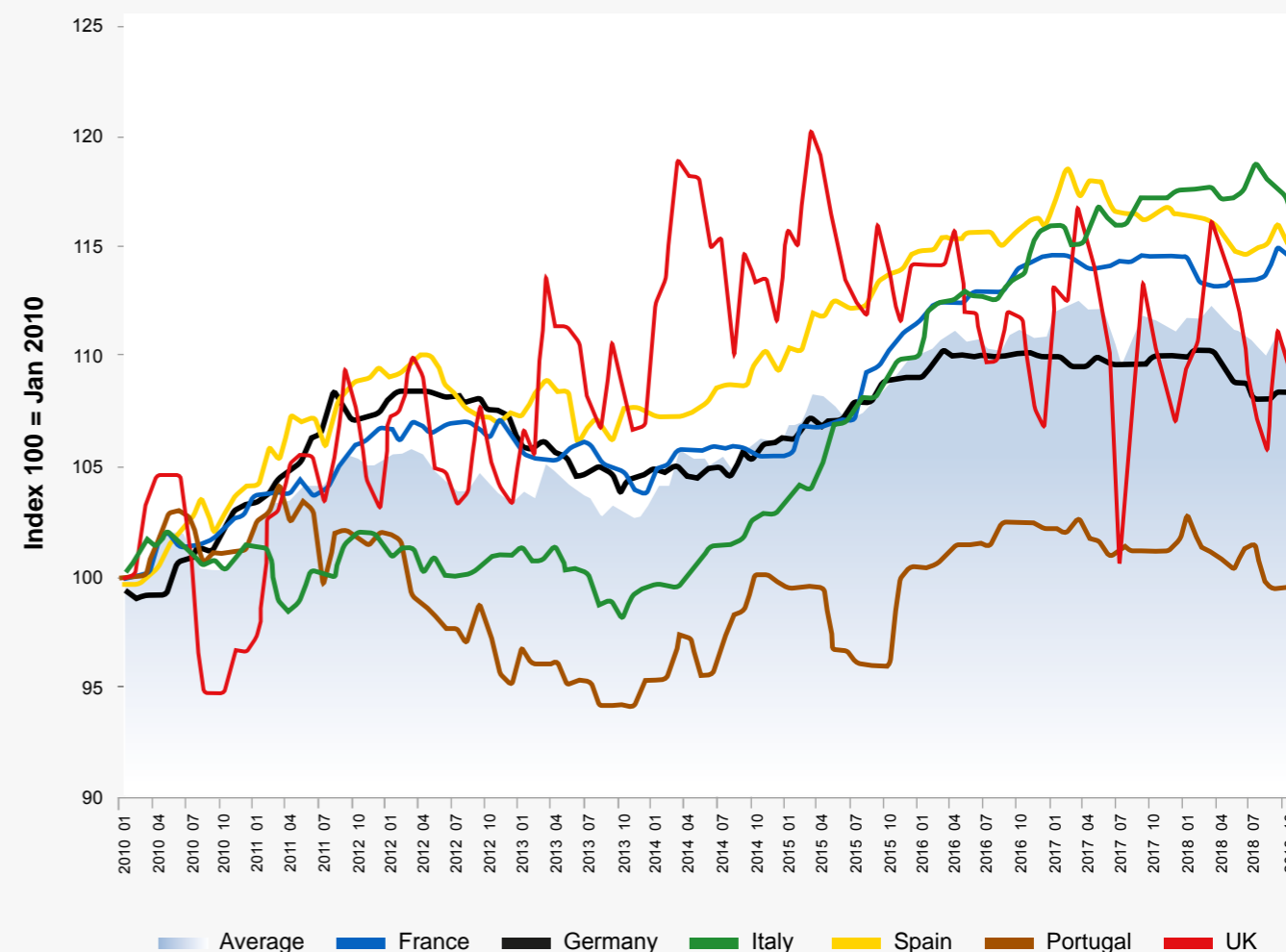
Whilst the rate of decline in RVs in Spain has slowed it continues to fall, however Italy is dropping much faster and even the move into the new year has seen RVs in Italy continue to drop sharply for Q1 2019 rather than the expected seasonal up turn one would expect.

This pattern is repeated across all of the other markets with 2019 seeing nothing more than a slight slow down in RV reductions in general rather than a seasonal uplift for the new year vehicles.

Whilst RVs in the UK did rise for the new year and the registration plate change in March 2019, RVs are still at their lowest average level for three years. The economic factors which have already been covered give RV setters little confidence in the used car market over the next three years which is the root cause of the cautious values we are seeing.

We also have the impact on new diesel car sales which still make up the majority of fleet and leasing vehicles. The continued political rhetoric, the introduction of emission tariffs and the media coverage is continuing to drive customers away from selecting new diesel cars, even where there is clear evidence of it being a better solution for them. Whilst used diesel car demand continues to be strong in most markets with used diesel prices holding up well RV setters are seeing the rhetoric as another reason to be cautious with the values they are setting. Therefore, RV trends in most countries are likely to remain marginally downwards over the next year or so with the petrol/diesel RV divergence continuing.

RV Index: 36 months / 90,000kms



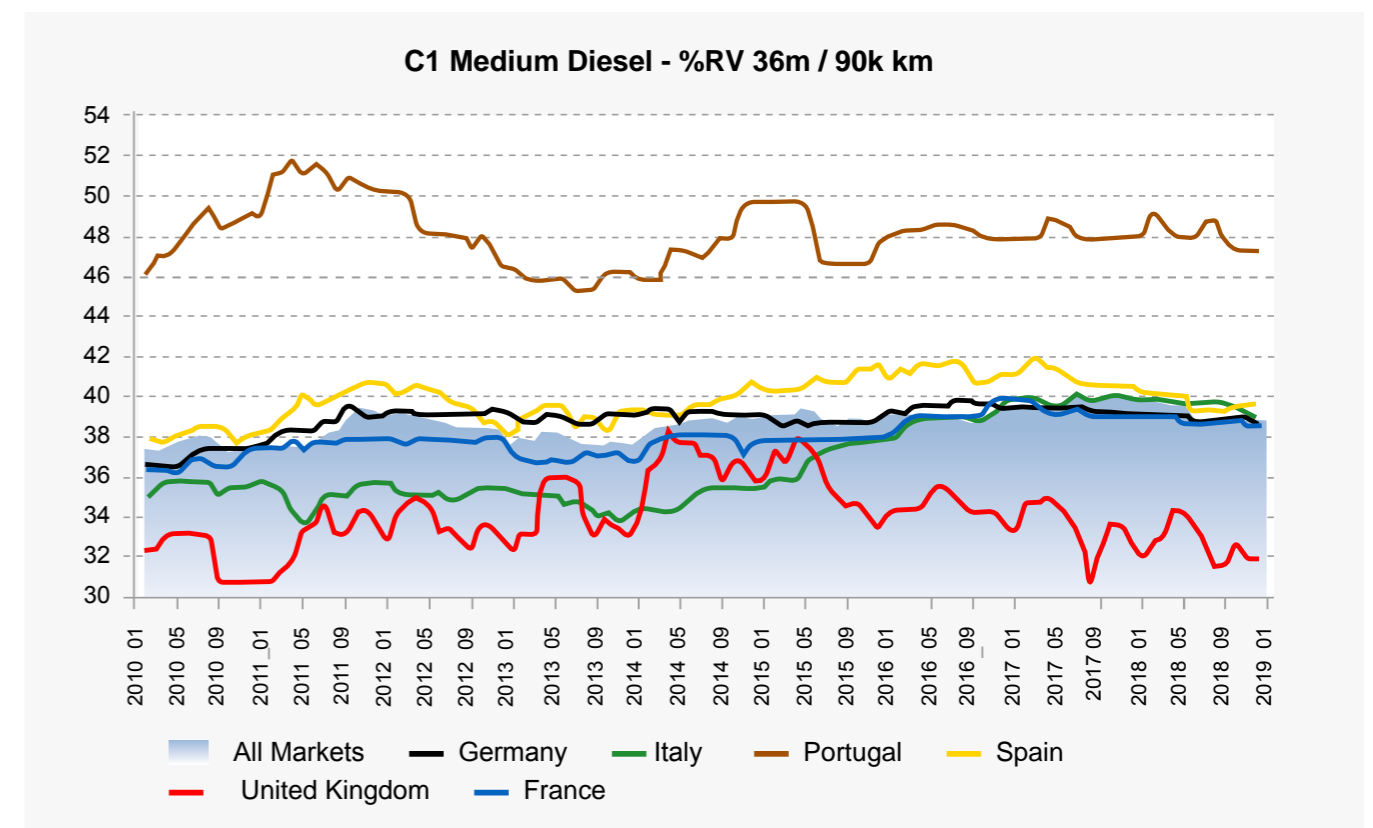
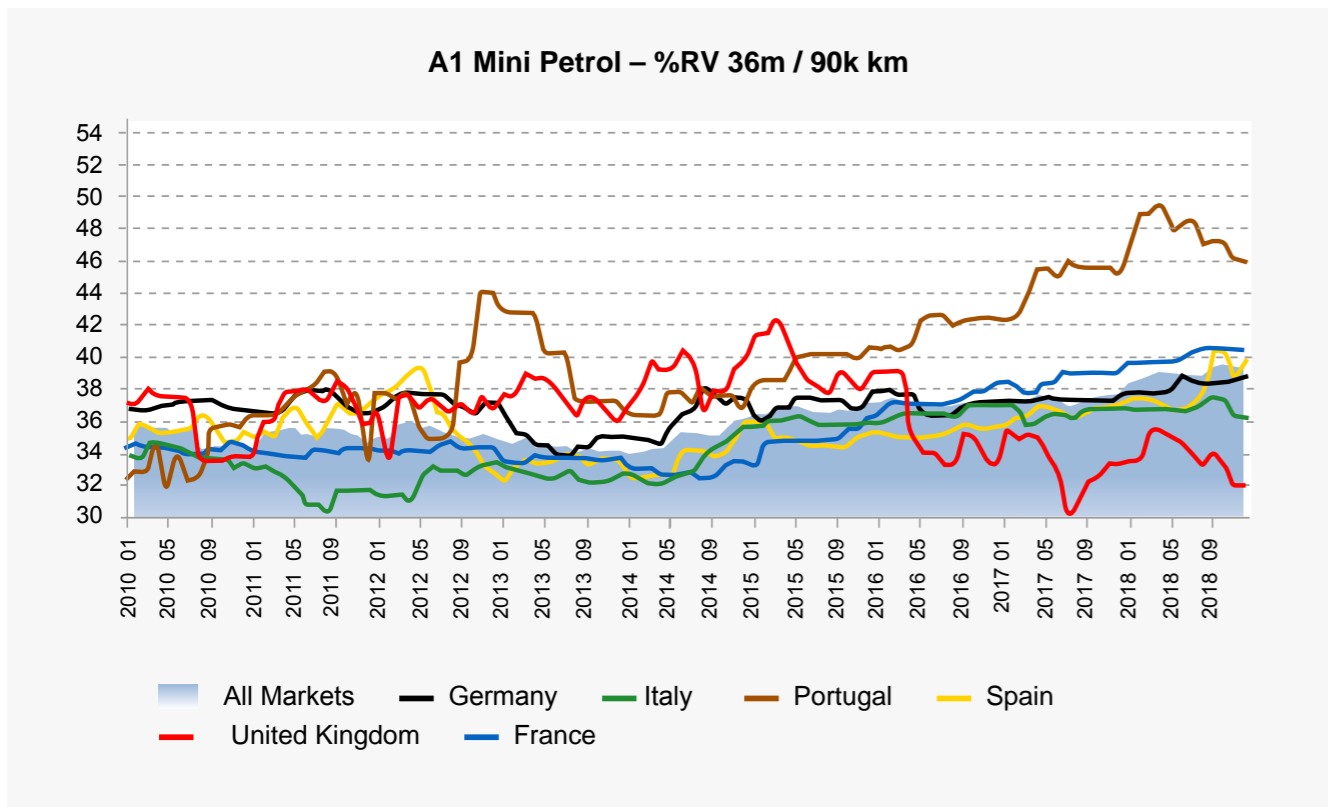
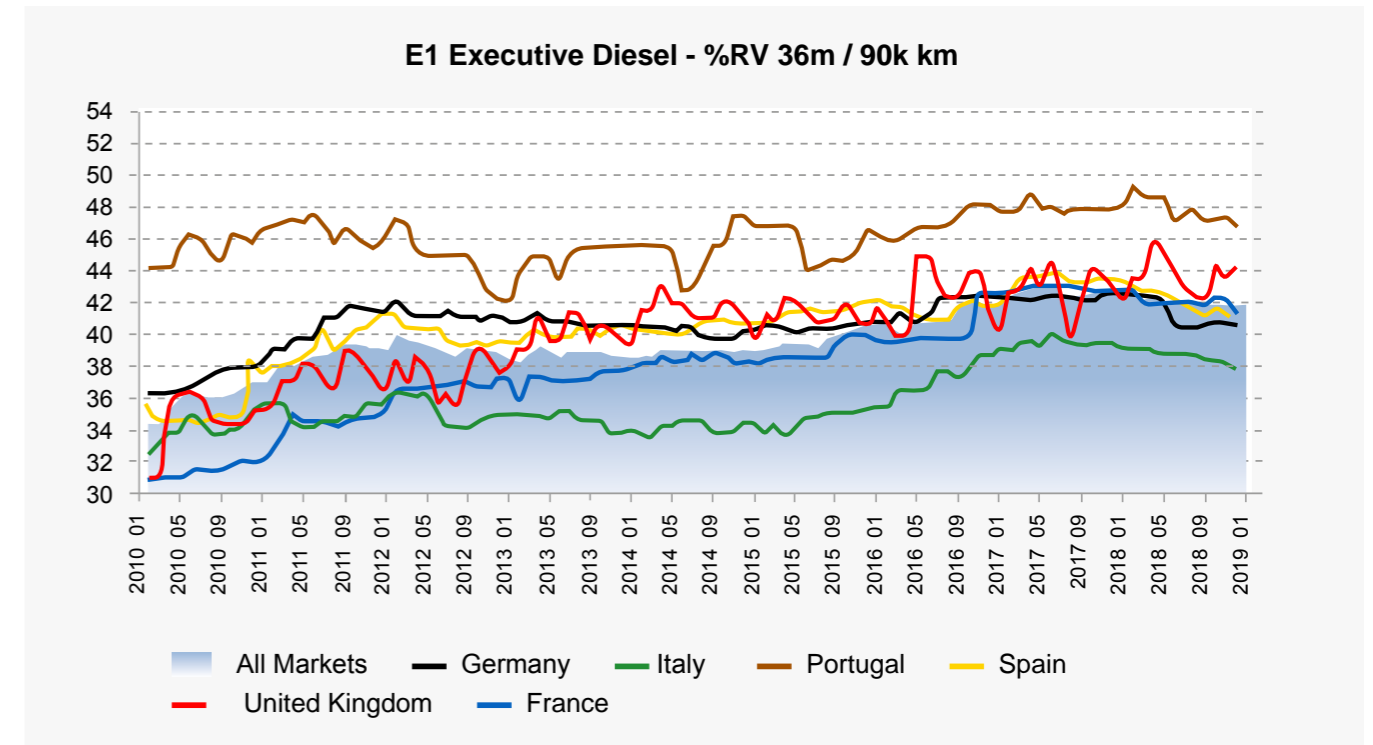
Source: ExpertEye AG

### Passenger car RV trends

The second half of 2018 saw RV setters generally follow the typical seasonal downturn in residual values (RVs) based on cars coming back in 3 years time ready to be sold in the quieter run up to the end of the year in retail terms.

This seasonal trend has not continued into Q1 2019 though, particularly for diesel cars. C1 diesel RVs remained flat across all six markets in Q1 2019. Diesel used car values remain relatively strong, although not as strong as used petrol car prices in most markets. Even in Germany, where diesel demand and prices have suffered the most in new and used car terms, used diesel values are starting to stabilise but at a lower level than historically. However, RV setters are remaining cautious with regards to diesel car RVs, holding them flat across most segments and countries.

The divergence between petrol and diesel can be seen looking at the A1 segment petrol cars. The Q4 2018 downturn shown in the charts turned into the usual Q1 2019 upswing in Germany, France, Spain and the UK with Portugal still reducing values which had been increasing too sharply.



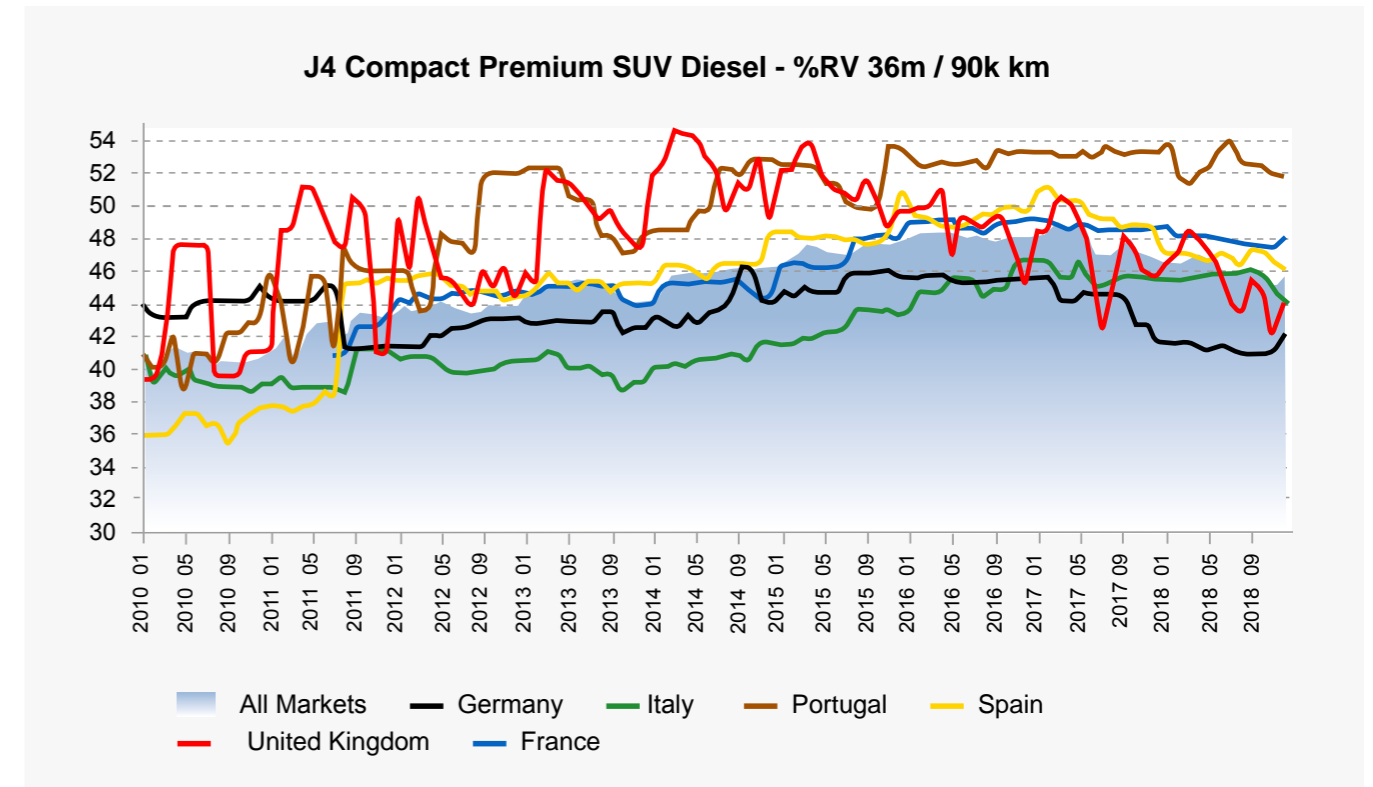
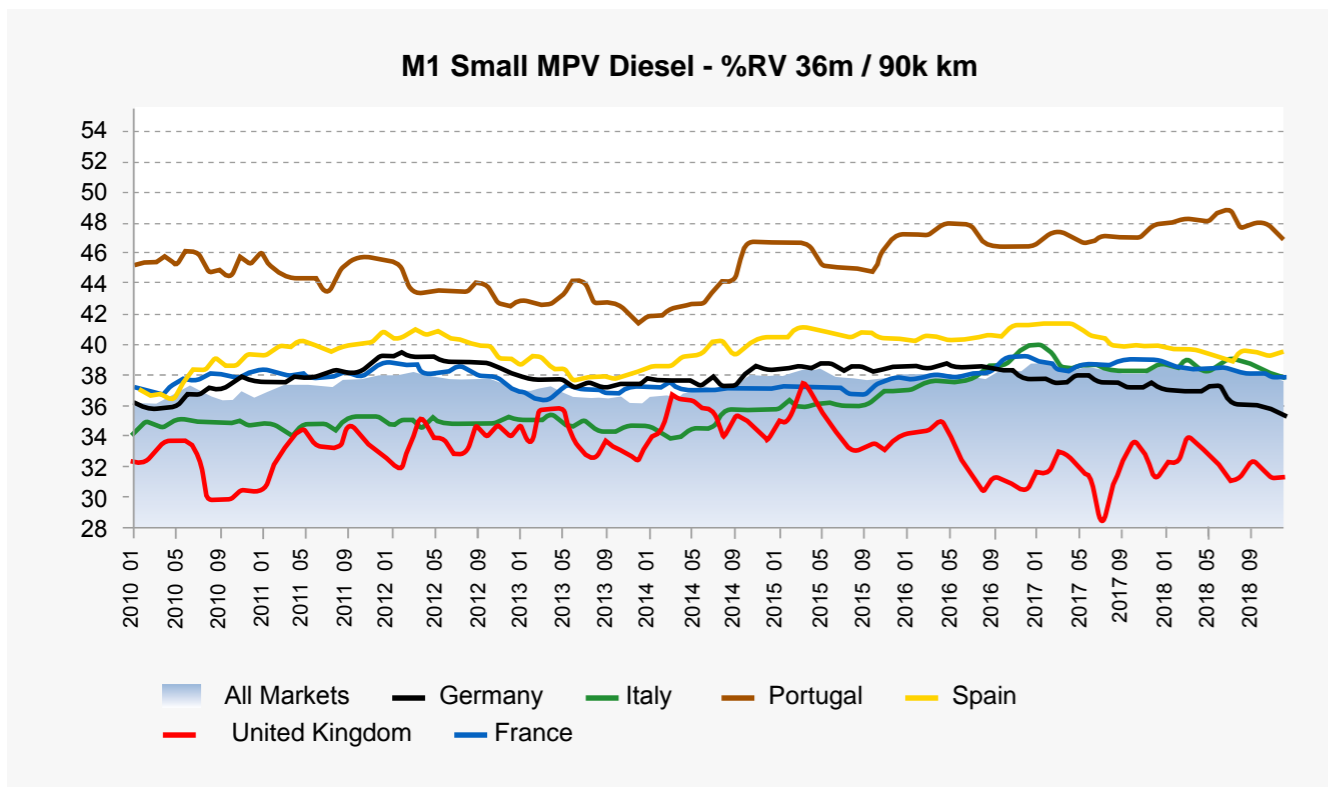
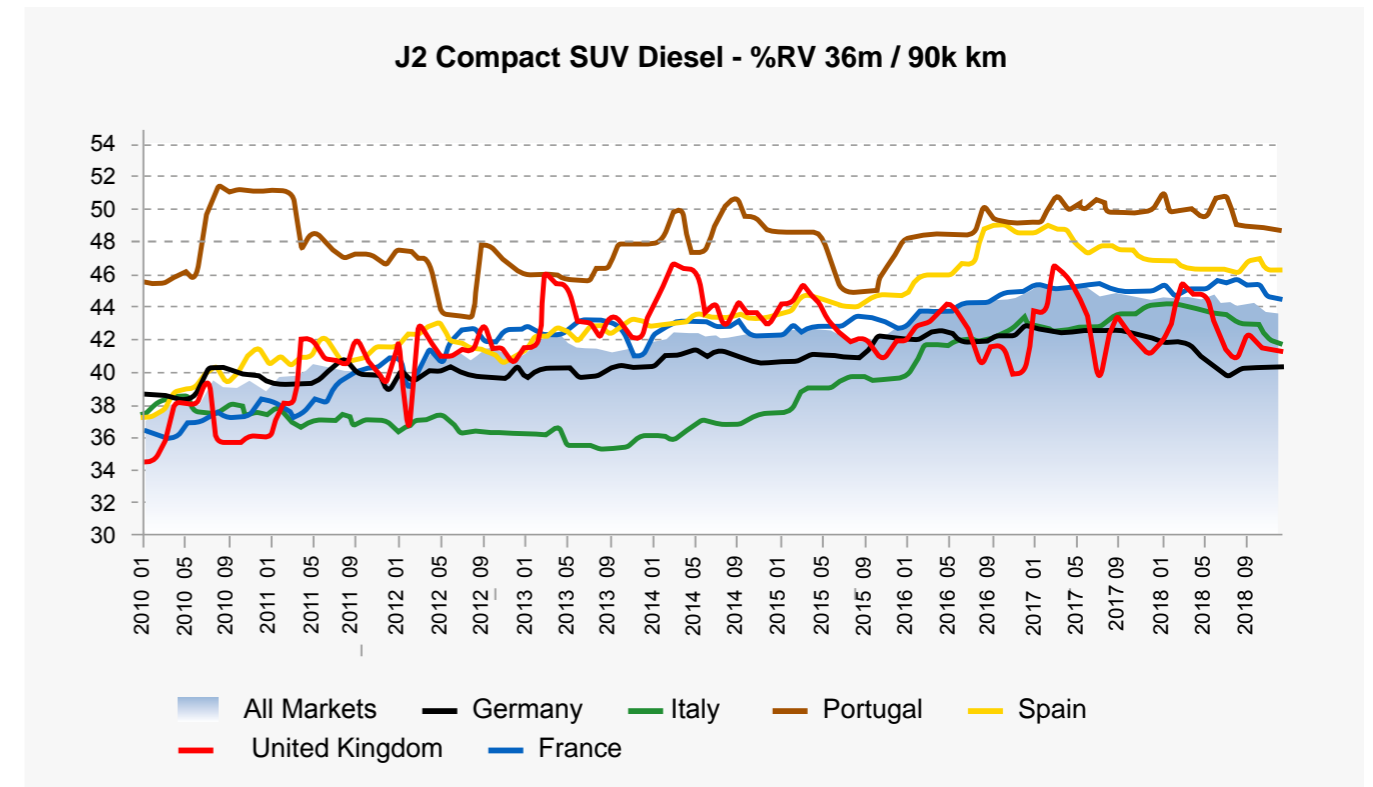
Source: ExpertEye AG. Figures based on 36 Months / 90,000 KM forecasts

### MPV and SUV RV trends

The impact of the continuing downturn in diesel can be seen across all segments. Whilst the UK saw the usual seasonal rise for the March 2019 registration plate change RVs for small diesel MPVs, the other markets saw no seasonal uplift going into Q1 2019. MPVs may have lost out in the styling war to SUVs, but the war on diesel has seen demand and RVs for petrol MPVs increase. By March 2019 petrol small MPV RVs were an average of 3.4 percentage points higher than they were in March 2017.

Across most segments we can see that the realignment of values in Spain, due to over optimism during the period of post-economic crisis recovery, has been completed. In both the Compact SUV and Premium SUV segments the start of 2019 saw diesel RVs in Spain remain flat, a trend seen across the other markets with just the UK seeing an uplift for the March 2019 plate change.

Despite the German market falling out of love with diesel, J4 premium diesel SUVs did see values improve going into Q1 2019. However, RV setters still see stronger growth expected in the future used values of petrol and alternative fuelled SUVs with Compact SUV petrol RVs increasing by 2.5 percentage points between March 2017 and March 2019.



Source: ExpertEye AG. Figures based on 36 Months / 90,000 KM forecasts

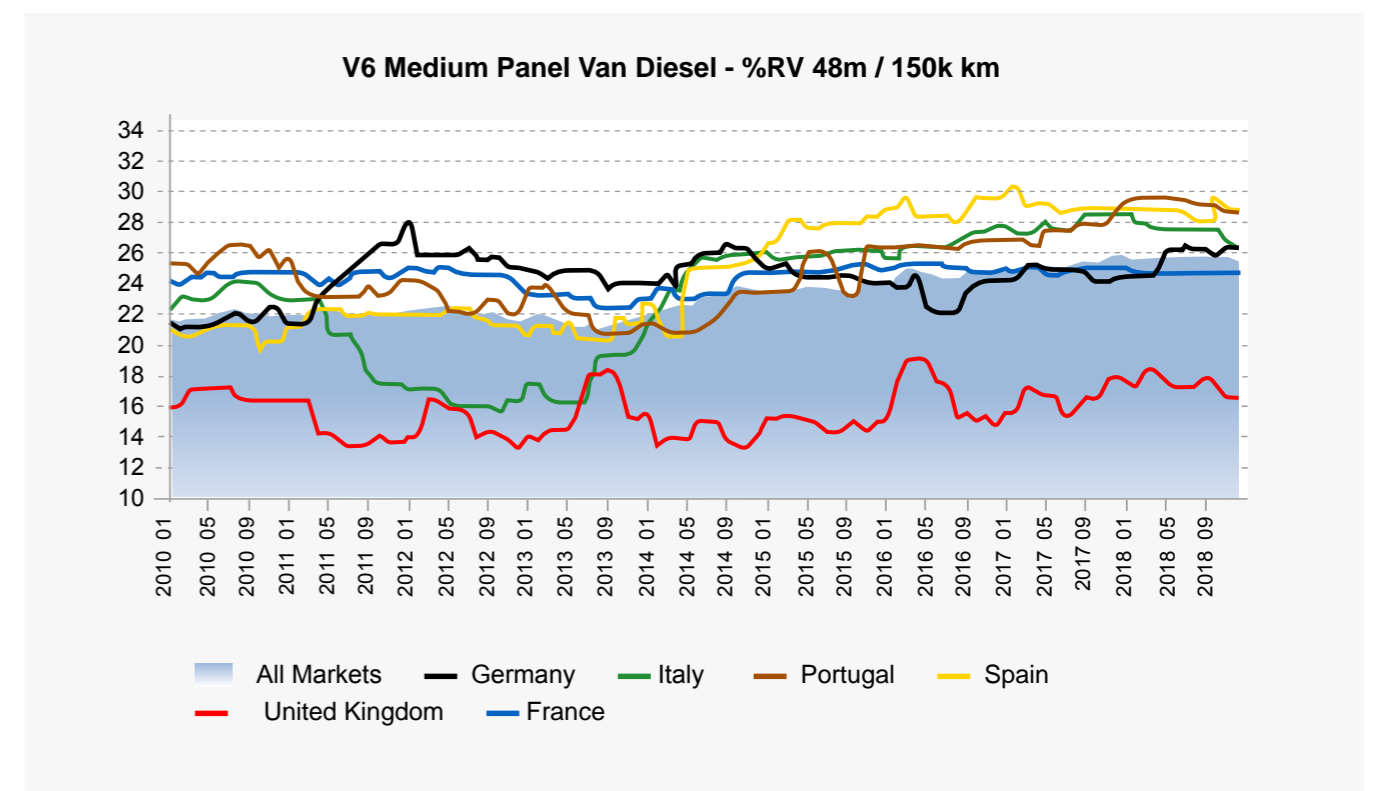
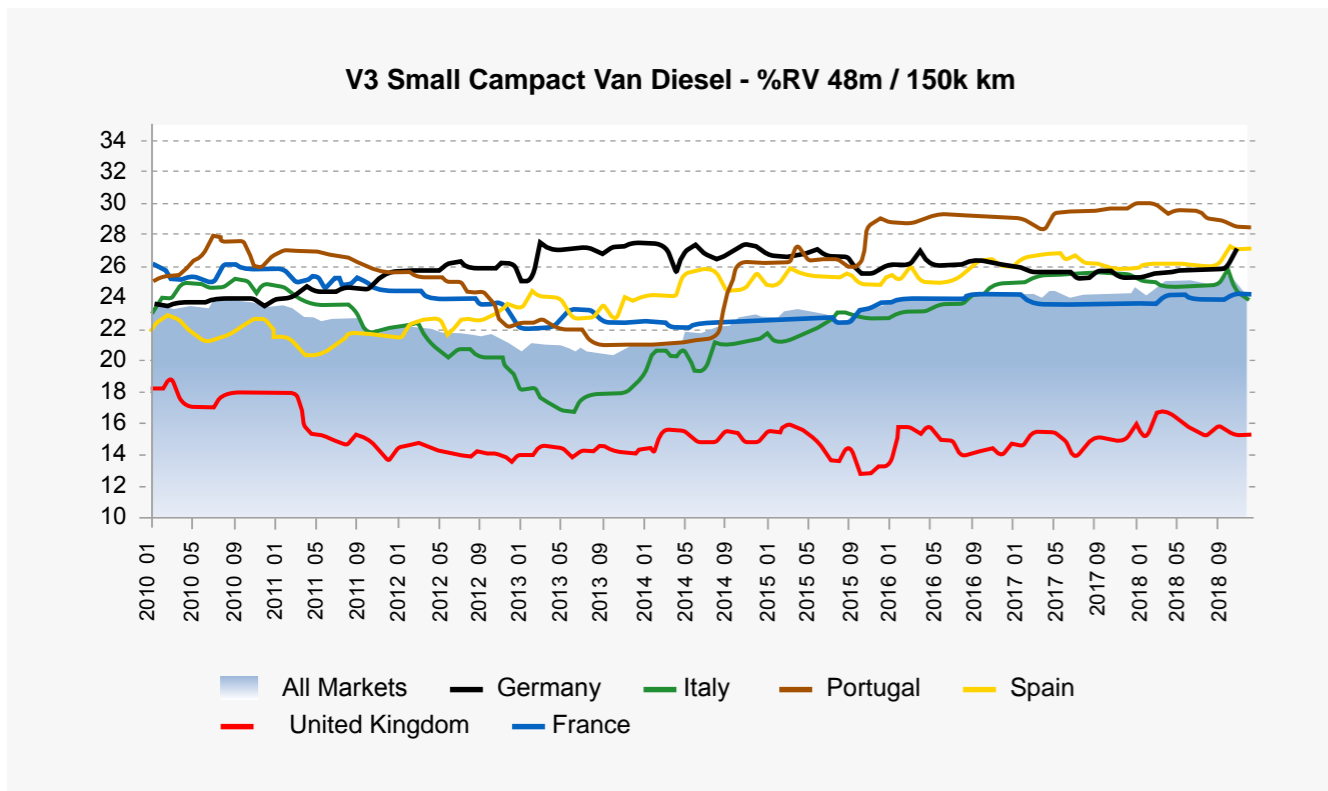
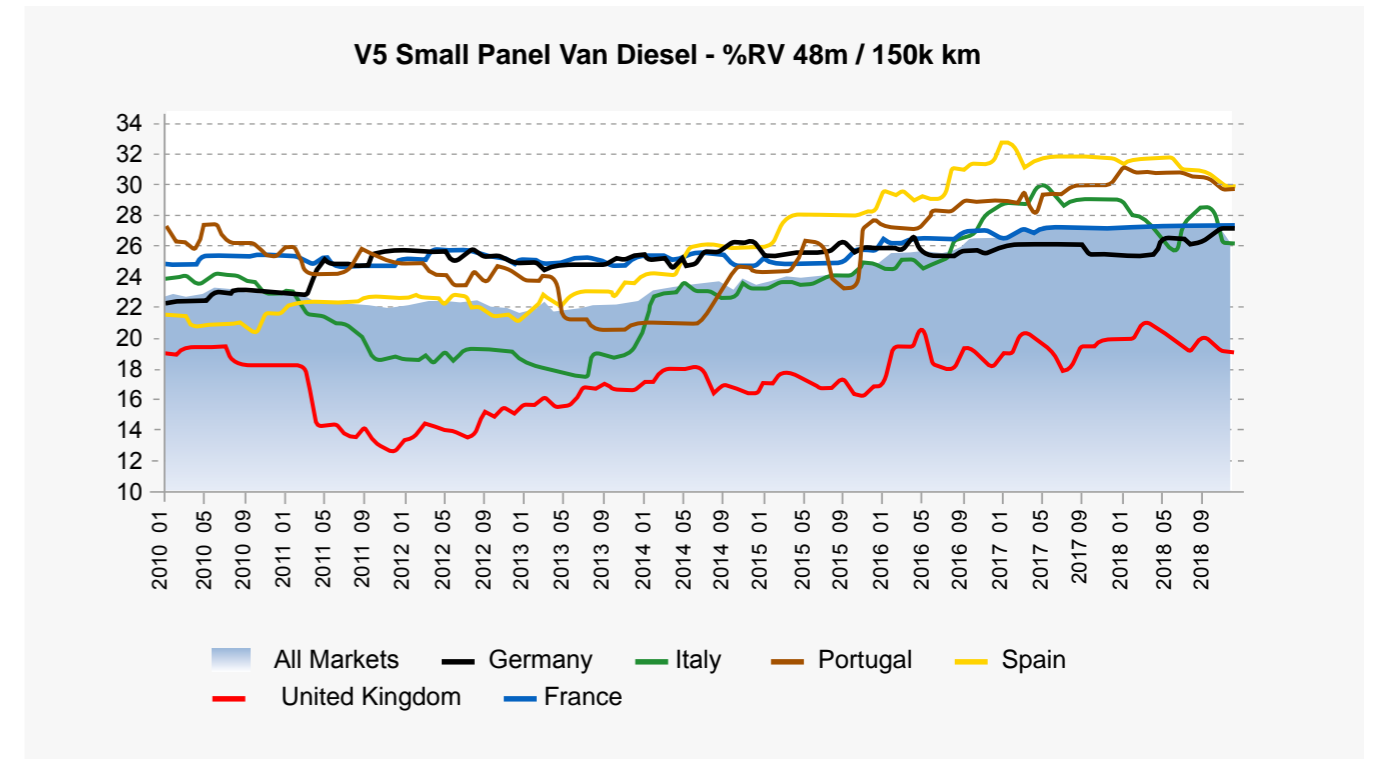
### Light commercial vehicle RV trends

Diesel remains the most viable solution for Light Commercial Vehicles (LCVs) even for some of the larger fleets who have found issues with the capacity of the electricity network in a number of countries when they try to get multiple fast chargers in a single compound or location.

Whilst new LCV sales are up 5.0% across the EU28 and EFTA3 region some of this is already part of the push to register vehicles before we see LCVs go through WLTP in September 2019. The introduction of WLTP is going to see disruption to new van sales as we have already seen some engines being withdrawn. The introduction of clean air zones (CAZs) in some cities across Europe is also helping to push up the used values of Euro 6 LCVs but this has yet to be reflected in the RVs.

As we see more CAZs being introduced demand for Euro 6 LCVs will increase and that is why RV setters are now starting to increase RVs for these models but there is still further opportunity for further increases.

However, the economic situation in Italy is seeing RVs falling as concerns continue about how the debt-to-GDP ratio has risen to 132.2% in 2018 compared to 131.4% in 2017.



Source: ExpertEye AG. Figures based on 48 Months / 150,000 KM forecasts

## Outlook

### Economic climate

Whilst we are a long way from an economic crisis the economic climate of Europe is far from healthy. The global trade tensions have seen the EU powerhouse, Germany, plunge into the worst manufacturing slump for six years, as the slowdown in the Chinese economy sees EU exports drop sharply. The net result is the European Central Bank (ECB) has now cut its 2019 GDP forecast from 1.7% to just 1.1% and this could end up being even lower if Italy's economic woes get any worse.

EU economy far from healthy as Germany's manufacturing slumps  
The UK could learn a lesson from Canada about trading outside of the EU

Brexit continues to be a nightmare and unwanted distraction for many politicians in the EU and the UK, whilst most of the general public have lost patience with all sides inability to come to some form of conclusion. But despite the uncertainty over the future relationship between the UK and the EU the UK economy continues to perform well.

The UK may be the fifth largest economy in the world behind the USA, China, Japan and Germany but a hard Brexit will create significant

problems for both the EU and the UK. Half of all UK exports go to the EU but it only accounts for 3% of global trade with the rest of the world. But that doesn't mean it cannot succeed even without a deal. Canada is just 2% of global GDP but it is now the second-largest export nation in the G7 behind Germany. At this stage the only thing we know with certainty about Brexit is that the future is uncertain.

Whilst the ECB is planning to introduce new lower rate loans to banks to stimulate domestic spending, they are unlikely to have a significant impact which is a problem given the fall in exports.

### New Vehicle Sales

The impact of WLTP on new car sales was far worse than most predicted. By the end of 2018 new car sales for the EU28 and EFTA3 region fell marginally, down 0.04%, with several OEMs having back orders to fulfil on new cars which weren't homologated for WLTP by the start of September. 2019 has seen the situation worsen with new car sales in the region now down 3.2% for the first three months of the year. As OEMs fulfil their back orders, we expect the rate of decline to slow down a little, but this will take time and therefore new car sales are expected to be down 3.7% in 2019 and 2.1% in 2020. Looking further out than that relies on so many variables regarding Brexit and international trade tensions that our estimate of an almost flat 0.8% drop in 2021 should be seen as conservative at this stage.

Despite new LCV sales falling in three months last year, total sales across the EU28 and EFTA3 sales still rose 3.1%, taking sales to 2.13 million for the whole of 2018. Q1 2019 has seen demand strengthen with sales already up 5.1% for the whole region and the market is expected to continue growing until the requirement for WLTP on new LCV registrations start in September 2019. From that point onwards new LCV sales are expected to replicate what happened with cars with sales falling sharply with 2019 total sales down 3.5% and a further 1.2% drop in 2020.

New diesel car sales accounted for just 35.6% of the passenger car market in 2018 compared to 43.6% a year earlier. Over the same period new petrol cars sales increased its market share in the region from 50.2% to 56.5% as 8.75 million new petrol cars were registered. Battery electric vehicles saw sales rise by 48.2% year-on-year in 2018 as it took a 1.3% market share and whilst hybrids of all types grew by a slightly lower 29.6% over the same timeframe it now means hybrids account for 5.1% of the passenger car market in Europe. This trend towards hybrids and BEVs is going to continue with diesel being the main loser. Within the next 5 years hybrids look set to be at least 25%-30% of all new sales with BEVs taking a circa 7%-10% market share.

WLTP set to destabilise new LCV market

Hybrid RVs set to rise as they become more mainstream

### Residual Values

Used car values are generally strong and rising across the major European markets with petrol still doing better than diesel resulting in the diesel premium disappearing in some countries and in some segments. Germany continues to see some of the biggest backlash against diesel resulting in billions of euros almost unsaleable Euro 5 diesels in dealer stock.

Electric vehicles remain niche but hybrids including PHEVs are starting to become more mainstream and early indications are this will become the most popular powertrain in the short to medium term, unless we see significant investment in hydrogen fuel-cell vehicles and the infrastructure. We believe RV setters will become more amenable to small increase in BEVs, but as new vehicle prices fall and demand rises, we think hybrid RVs will start to rise sharply in percentage of list price terms.

LCV RVs for Euro 6 still not reflecting the strong premiums they are getting in the used van market, but this should change during 2019.

For a full copy of the latest *ExpertEye European Automotive Industry Report* and more details of the research, go to <http://experteye.com>.

Data and analysis for the ExpertEye report is compiled by Dean Bowkett, managing director, Bowkett Auto Consulting.



Editor: Pat Sweet

Editor in Chief: Brian Rogerson

© Asset Finance International, 2019. All rights reserved.

The contents of this publication may be downloaded from Asset Finance International and are intended only for the individual use of the named individual who has registered to receive it. Contents are for informational purposes only. No liability will be accepted for any omissions or inaccuracies. No copying or transmission, whether whole or in part, in any form or by any means, electronic or otherwise, is permitted.

