

## LEASEUROPE CONVENTION EDINBURGH

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The 2007 Leaseurope and Eurofinas Joint Annual Convention took as its theme *New Frontiers for Growth in Europe and Beyond*. As financial crises started to dominate the headlines, it was reassuring to hear from Douglas McWilliams of the Centre for Economics and Business Research that, in his opinion, the emerging uncertainty was no more than a “blip”. Let us hope that he is still of the same view in 2008.

In the UK, McWilliams pointed to the banks’ cost of borrowing heading up, M&A activity drying up, and slowing Stock Market turnover. He referred to other implications of the credit crunch, namely:

- Private equity deals will drop sharply.
- Will the run on Northern Rock spread?
- Will the Bank of England be forced to refinance the banking system?
- Will interest rates drop sharply?
- Mortgage lending will be cut.
- How much will consumer spending drop?

McWilliams forecast that there will be an EU 25 economic slowdown through to 2009. The European economy peaked in 2006 and growth will soften from 2.6 per cent then to 2 per cent in 2009. The economy is expected to rebound to 2.8 per cent in 2011 with the revival of exports and the feeding through of the benefits of improved job creation. German and Scandinavian gains in manufacturing and R&D will lead the way.

Volatile financial markets will prompt the European Central Bank to reduce interest rates in the short term but inflationary pressures and excessive monetary liquidity will keep rates around 4 per cent this year and in 2009. The return to growth and supply-side inflation will cause rates to creep up to 4.9 per cent in the second quarter of 2011.

What about the impact of the credit crunch on investment? McWilliams offered his thoughts:

- Leasing companies could find difficulty in funding.
- Fewer funds will be available for leveraged finance.
- Financial sector will face a squeeze from losses on sub prime and other low-quality lending.
- Activity will drop 10 per cent in the financial sector.
- IT investment for 2008 could decline by 10 per cent or so.
- Housing finance will be affected as low-quality borrowers are squeezed out.
- Good news is that the “hit” should only last one year.

As I reflect on the prevailing sentiment at the Convention, there were, and still are, a lot of “ifs”, “buts” and “provided that’s” peppering the comments of the economic experts and our industry’s leaders.

The economic climate, state of the industry and business prospects were, not surprisingly, a recurring theme throughout the Convention but Leaseurope delegates also had the opportunity to listen to, and participate in, a wide range of other weighty subjects. These included tax and accounting updates and challenges, exploiting niche opportunities, “green” leasing, the next stage of asset-based finance, the state of the motor industry and new market opportunities in emerging European countries as well as further afield.

Recently, I was reading the European Central Bank’s *December 2007 Financial Stability Review* which confirmed that uncertainty surrounding the financial stability outlook for the Euro area has heightened and could persist for a considerable period. On a positive note, the ECB reported that the economic outlook remains broadly favourable and, although pockets of vulnerability can be identified, the balance sheets of firms are largely in good shape. The bank added that the capital positions of core financial firms are also generally sound.

The ECB cautioned against complacency. “In an environment where balance sheet conditions could unexpectedly change, vigilance is of the essence and financial institutions in particular should step up their efforts to effectively manage the risks that may lie ahead.” The year 2008 unfolds on an ominous note.

Away from the doom and gloom, the Convention’s networking opportunities were plentiful - from the welcome cocktail reception with the chance to sample whisky and Scottish fare, through the refreshment breaks and lunches to the lavish gala evening at the National Museum of Scotland.

It was an action-packed, stimulating but rewarding couple of days. My Alta colleagues and I are already looking forward to, and actively preparing for, Leaseurope’s events programme for 2008.