

Leasing Services

Roslyn Swick

Chief, Branch of Industry Pricing

Producer Price Index



Output for Leasing

- **Leasing is the activity of providing clients with funds to secure machinery or equipment for a specified time period.**
- **Leasing relieves the clients from the costs of buying and selling the machinery or equipment and the risk of depreciation.**

Output for Leasing

- **Financial Service**
- **Alternative to Loans**
- **NOT use of asset service**
- **Assumes risk**
- **No FISIM**

Output for Leasing

Residual Values

- **True leases (not financial leases)**
- **Also called operating leases**
- **Substantial Value**

Output for Leasing

- **Operating or true leases provide clients with machinery or equipment for a time period shorter than the total expected service lives of the machinery or equipment.**

Output for Leasing

- **Margin pricing?**
- **Non-margin pricing?**

Output for Leasing

From the System of National Accounts:

In leasing, the owner or lessor, provides a service to the user, or lessee, the output of which is valued by the lease payment which the lessee pays to the lessor.

Output for Leasing

**Gross value based on total value
of asset – residual value
= Value of Lease**

Lease payment represents output

Output for Leasing

- **Data availability**

Pricing Methodology for Leasing

Lease Rates

Equipment Cost	24M o	36M o	48M o	60M o
\$2,000 to \$5,000	0.0478	0.0343	0.0270	n/a
\$5,001 to \$10,000	0.0467	0.0335	0.0265	0.0228
\$10,001 to \$25,000	0.0466	0.0331	0.0263	0.0223
\$25,001 to \$100,000	0.0458	0.0324	0.0258	0.0219

$$MLP = AV_S \times L_R$$

$$MLP = 85000 \times 0.0258 = \$2,193 \text{ monthly}$$

Pricing Methodology for Leasing

- **Flow of services includes**
 - **new leases**
 - **existing leases**

Pricing Methodology for Leasing

- **Average price**

Pricing Methodology for Leasing

- **Average Price Calculations**
 - **For specific group of leases**
 - **Within same product class**
 - **Within same price bands**
 - **Total lease payments/number of leases**
 - **Requires large number of lease in group**
 - **For specific product**
 - **Multi-year moving average of lease payments**
 - **Comparable or identical product every year**

Classification of Leasing

- **Provide financial services**
- **Assumption of risk**
- **Industries such as:**
 - **Banking**
 - **Insurance**
 - **Security Dealers**

Classification of Leasing

- **In NAICS, leasing should be in Sector 52, Financial Services**
- **In ISIC, leasing should be in Sector J**
- **In CPC, leasing is in Sector 7, Financial and related services but should be in 71 (Financial) not 73 (Leasing or rental)**
- **Leasing should not be combined with rental**