Leasing Services

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Producer Price Index
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
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

<table>
<thead>
<tr>
<th>Equipment Cost</th>
<th>24Mo</th>
<th>36Mo</th>
<th>48Mo</th>
<th>60Mo</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000 to $5,000</td>
<td>0.0478</td>
<td>0.0343</td>
<td>0.0270</td>
<td>n/a</td>
</tr>
<tr>
<td>$5,001 to $10,000</td>
<td>0.0467</td>
<td>0.0335</td>
<td>0.0265</td>
<td>0.0228</td>
</tr>
<tr>
<td>$10,001 to $25,000</td>
<td>0.0466</td>
<td>0.0331</td>
<td>0.0263</td>
<td>0.0223</td>
</tr>
<tr>
<td>$25,001 to $100,000</td>
<td>0.0458</td>
<td>0.0324</td>
<td><strong>0.0258</strong></td>
<td>0.0219</td>
</tr>
</tbody>
</table>

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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