

2007 outlook for new motor vehicle sales and Australian vehicle production

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This report is part of a twice-yearly series that analyses emerging trends in the Australian market for new motor vehicles. The last issue was released in August 2006.

Key points

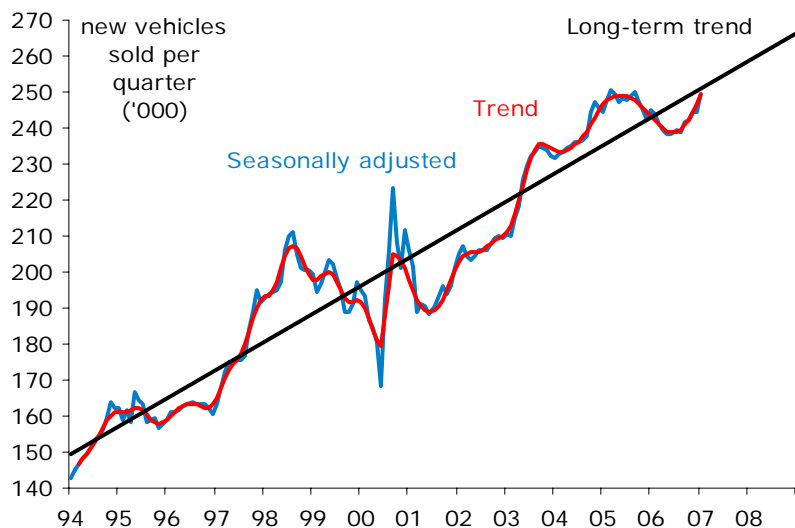
- Total new vehicle sales in 2006 were down 2.6% from their 2005 peak.
- 2007 sales are trending back up for passenger cars but are expected to stay relatively flat for commercial vehicles. Total annual sales are unlikely to break through one million in 2007, but may do so in 2008.
- Australian-made vehicles continue to lose market share locally and internationally. Their domestic sales prospects look patchy, although in some cases this will be compensated by stronger export sales.

Recent sales trends

After the record highs of 2005, 2006 was generally regarded as a flat year for new vehicle sales in Australia, with total annual sales down 2.6%. Within this total, passenger car sales fell just 1.7%, but SUV sales fell 5.2% and light commercial vehicle sales fell 3.6%. The standout success category was light passenger cars, which increased sales by 21%. Luxury and compact SUVs also did well (at the expense of medium and large SUVs), as did light buses, 4x4 pick-ups (PU/CC) and heavy trucks.

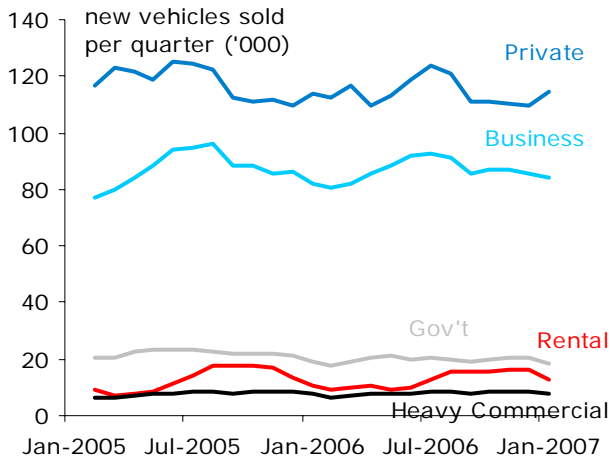
Total sales for 2007 are already looking healthier. Year-on-year growth accelerated through late 2006 and by January 2007, monthly total sales were actually higher than their 2005 peaks in seasonally adjusted and trend terms (though not in raw sales numbers). On these trends, sales are now moving back toward their long-term linear growth path. This indicates total vehicle sales of 250,000 per quarter — or one million per year — will be reached sometime in the next two years (see figure 1).

Figure 1: Long-term trends in new motor vehicle sales



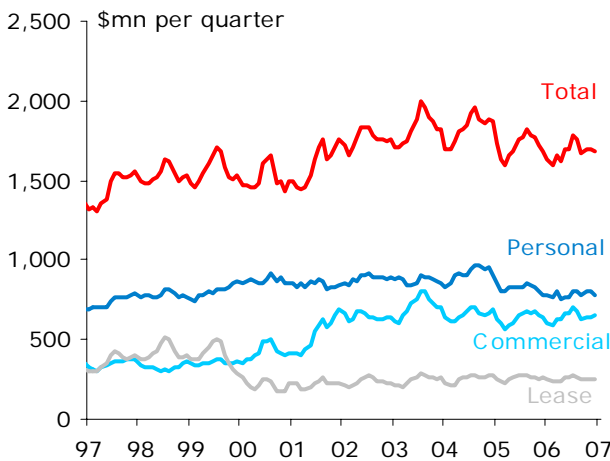
Sources: ABS 9314.0; Economics@ANZ

Figure 2: New vehicle sales by buyer type



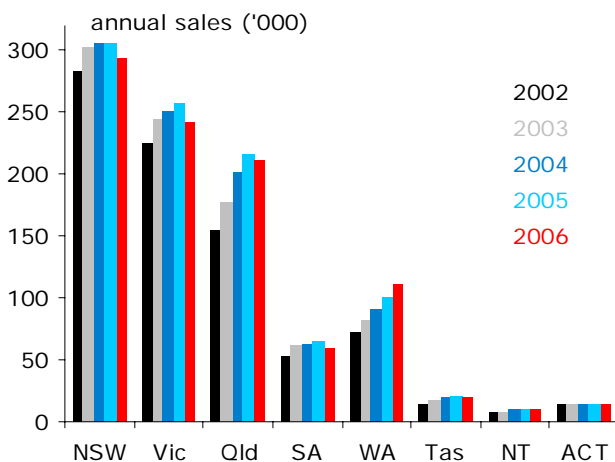
Source: VFACTS

Figure 3: New finance commitments for vehicles*



* Value of new finance for all motor vehicles, including new and used cars, motorcycles and commercial vehicles. Source: ABS 5671.0

Figure 4: New vehicle sales by state



Source: ABS 9314.0

Who is buying?

New vehicle buyers can be identified as private individuals, businesses, government and rental fleets. In 2006, private buyers bought 47% of all new vehicles (including 55% of passenger cars and 53% of SUVs), businesses bought 36%, governments bought 8.2% and rental fleets bought 5.2% of all new vehicles. Heavy commercial vehicles (large trucks and buses) are counted separately, and account for around 3.5% of the total market.

Types of vehicle buyers

Private vehicle buyers have been influenced by many factors over the past year. Negative influences in 2006 included high petrol prices, three interest rate rises and drought conditions affecting much of regional Australia. Positive influences included rising employment and household incomes, strong wealth creation (as evidenced by rising stock market values) and a stable economic outlook. Nationally, sales to private buyers dropped steadily through the second half of 2006, but picked up again by January 2007 (see figure 2). Personal financing for vehicle purchases has not recovered however (see figure 3), indicating that after three rate rises, buyers are looking to arrangements other than direct car loans to pay for their new vehicles. The effect of high petrol prices is most evident in the types of cars and SUVs purchased, rather than in the total number of vehicle sales (see figure 6).

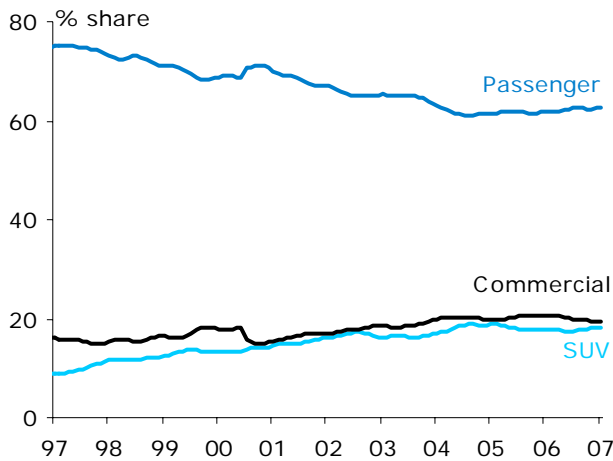
Many of the factors affecting private buyers in 2006 also affected business buyers, particularly the higher fuel prices and interest rates. Business purchases fell through the second half of 2006 as the business investment cycle (outside the booming mining sector) began to swing down, and the severity of the drought became increasingly evident for rural and regional businesses. These negative influences on business buyers are not expected to lift in 2007.

Location of vehicle buyers

Vehicle sales closely reflected the stark differences in economic performance across Australia in 2006, with WA confirming its status as the boom state. Annual vehicle sales in WA were up 10.6% in 2006, but they declined everywhere else. Even the relatively healthy economies of the NT and Qld saw vehicle sales decline by 2.2% and 1.5% respectively. Sales in the two largest markets of NSW and Vic were particularly weak, falling right back below their 2003 sales levels (as did SA). The small Tasmanian market had the largest fall in sales in percentage terms (down 6.1% for the year).

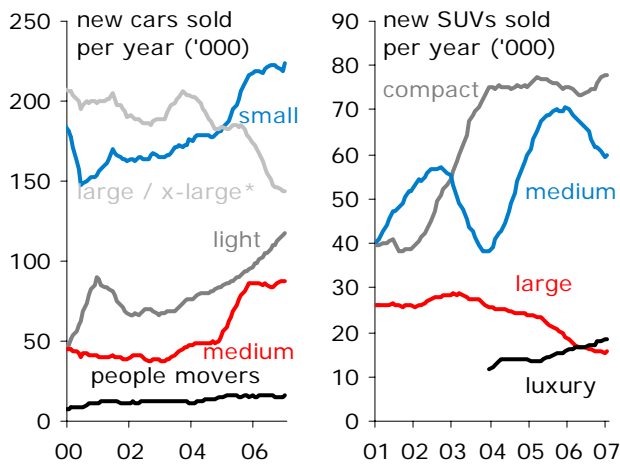
Sales for January 2007 indicated an upturn in vehicle sales in most but not all states going into 2007, as more private buyers came back into the market for passenger cars (see appendix).

Figure 5: Market share by type of vehicle



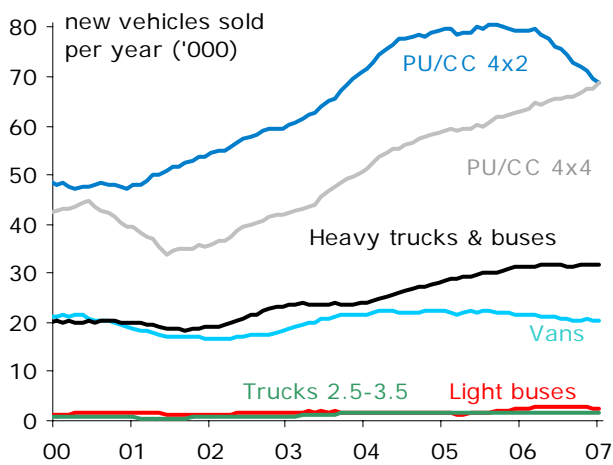
Source: ABS 9314.0

Figure 6: Passenger car and SUV sales



* x-large cars from Dec 2004. Luxury SUVs from Jan 2003.
Source: VFACTS

Figure 7: Commercial vehicle sales



Source: VFACTS

What are we buying?

Passenger cars still dominate vehicle sales, at 62% of the market (down from 75% 10 years ago). SUVs and commercial vehicles took 18% and 20% of the market respectively in 2006, up from 10% and 15% 10 years ago (see figure 5). Just over half of SUVs and a quarter of light commercial vehicles (mainly PU/CCs) are purchased by private buyers. The rest are purchased by businesses (over a third of SUVs and two-thirds of light commercial), with smaller numbers again going to fleets and governments.

Passenger cars and SUVs

The trend in favour of small, light and compact cars and SUVs over bigger, more traditional models has not reversed. Indeed, the preference for smaller models appears to have become quite entrenched, despite an easing in petrol prices through late 2006. This may reflect increasing popular awareness of the environmental impact of larger some vehicles, in addition to a straightforward hip-pocket response.

Light and small cars now account for well over half of passenger car sales and over one third of all vehicle sales — approximately analogous to the share of sales going to large cars just a decade ago.

In the SUV market, the emerging picture is more complex, with compact but also 'luxury' models taking sales from medium and large models. Annual sales of medium and large SUVs fell 16% and 19% respectively in 2006, compared with growth of 3.8% and 16.3% for compact and luxury models.

In both passenger and SUV sales, the influence of higher petrol prices (and, possibly, of rising environmental awareness) can also be seen in the choice of fuel types, with a tiny but increasing share of sales going to non-petrol fuels, including diesel, LPG and hybrid models — 6% of new passenger cars and 12% of new SUVs by the end of 2006, not including subsequent LPG conversions.

Commercial vehicles

Sales for new commercial vehicles are still declining in aggregate (year on year monthly sales), but some odd pockets of growth remained strong through 2006 — namely, light buses, PU/CC 4x4 and, to a lesser extent, heavy trucks. Sales in all other categories declined. These sales patterns more likely reflect the differing vehicle needs of particular industries and businesses such as transport and construction, rather than the fuel efficiency of particular models (as is the case for vehicles aimed more at private buyers). The ABS annual vehicle census indicates that heavy trucks tend to have a longer lifespan (or a higher average age) than light commercial vehicles. New truck sales are more likely to be adding to the total freight transport fleet than replacing older vehicles.

Figure 8: Australia's favourite marques

Top 5, % of all sales*	2000	2005	2006
1. Toyota	19.9	20.5	22.2
2. Holden	19.0	17.7	15.2
3. Ford	14.5	13.1	11.9
4. Mazda	3.5	6.7	6.6
5. Mitsubishi	9.3	5.8	5.6
Total sales	787,100	988,269	962,666

* Sales of all new imported and Australian-made vehicles.
Source: VFACTS

Figure 9: Australian auto production & sales

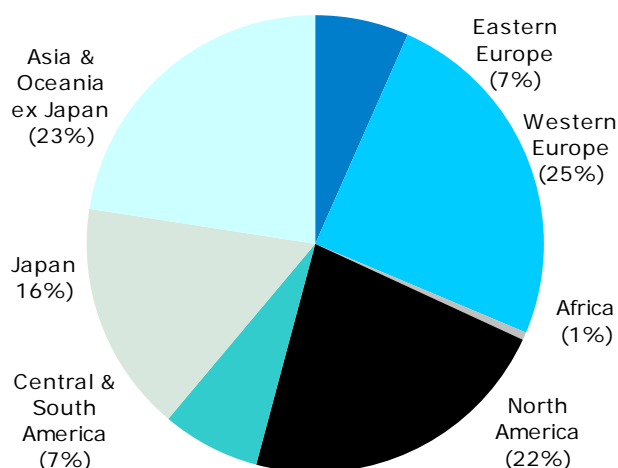
	Total Aust. production	Aust. sales & market share
1980	364,033	365,334 (66%)
1990	381,780	361,494 (61%)
2000	345,207	247,187 (32%)
2005	388,985	248,912 (25%)
2006	326,960	201,623 (21%)
<i>FAPM forecasts*</i>		
2007	351,196	205,036 (23%)
2008	365,310	209,310 (22%)
2009	389,264	226,264 (23%)
2010	385,438	242,438 (24%)
2011	376,065	233,065 (25%)

Note that these data exclude production of heavy trucks.

* Forecast by FAPM, October 2006.

Sources: FCAI; FAPM, OICA.

Figure 10: Share of global auto production



Source: OICA

The Australian auto industry

The four local manufacturers are still Australia's favourite marques (by sales numbers). Mitsubishi is just hanging in there — it is now equal fifth with the fully-imported Honda marque (5.6% of sales 2006). Toyota has improved its share of the total market and now accounts for almost one in four passenger and light commercial vehicles sold (see figure 8). However, only three of the top ten selling cars were Australian made in 2006: the Holden Commodore, Toyota Camry and Ford Falcon.

Australian production trends

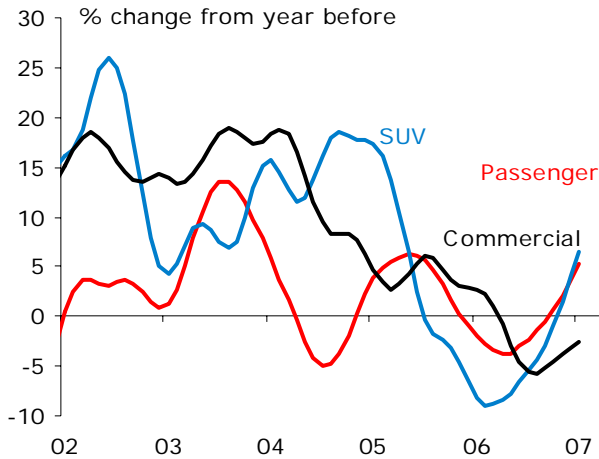
Local automotive manufacturing continues to take a beating, with production falling 16% in 2006. High oil prices in 2005 and 2006 have dampened demand for the large sedans that are the Australian manufacturers' specialty, and components manufacturers are finding it increasingly difficult to compete with cheaper imports. Moreover, exports of Australian-made vehicles declined by 6.4% in 2006, with the end of Holden's Monaro program to the US a significant factor behind this result. However, prospects look more promising for 2007, with an export deal just signed for Holden Commodores made in South Australia to be sold in the US market (rebadged as GM G8 Pontiacs). Australian manufacturers are also increasing exports to the Middle East in particular, with Toyota expecting to export 92,000 cars in 2007, mostly to the countries of the Gulf Co-operation Council. Other export markets include New Zealand, Brazil and South Africa. This should help local manufacturers, with industry forecasts suggesting a steady improvement in automotive production over the next three years (see figure 9).

Global production trends

In the wider global marketplace, Australian motor vehicle producers are small fry. In 2005, Australian production accounted for a mere 0.6% of the global total, a figure that has remained remarkably stable over the past decade. Two-thirds of global motor vehicle production takes place in just seven countries: the US, Japan, Germany, China, South Korea, France and Spain. Moreover, the landscape of global motor vehicle production is rapidly changing. China's share of global production has expanded rapidly over the past decade. China accounted for 8.6% of 2005 global production, up from 2.9% in 1997. Whilst not as dramatic, other countries in Asia including Thailand, India and South Korea, and also Brazil, have also become bigger global players in automotive manufacturing.

Meanwhile, the US, once the global powerhouse of motor vehicle production, has seen its share of total global production fall to 18% in 2005 from 23.2% in 1999, with the annual number of vehicles produced falling 8% over the same period of time. A similar, though less drastic, story may be told for Japan, with its share of global motor vehicle production

Figure 11: Sales growth (monthly trend)



Source: ABS 9314.0

Figure 12: Expected total new vehicle sales

Annual sales	Number	Annual growth %
2005	988,269	3.5
2006	962,666	-2.6
2007f	985,000 – 990,000	2.5 - 3.0
2008f	1,015,000 - 1,025,000	3.0 - 3.5

Source: ABS; Economics@ANZ.

Figure 13: Selected new car releases in Australia

Estimated date	Model
March 2007	Holden Epica, Captiva, Astra Mitsubishi Outlander V6 (SUV) Renault Megane, Scenic diesel, Clio
April 2007	Toyota Corolla
June 2007	Hyundai Elantra; Suzuki Swift Toyota 79-series utes Volkswagen Phaeton, Toureg (SUV)
July 2007	Holden Hummer (SUV) Lexus LS; Toyota Kluger
September 2007	Holden VE ute Mazda MPV; Mitsubishi Lancer Subaru Impreza
October 2007	Toyota Landcruiser, Hilux TRD ute
March 2008	Ford Falcon ; Holden VE wagon; Honda Civic Hatch
October 2008	Subaru Forrester

Source: GoAuto New Car Diary.

falling to 16.2% in 2005 from 19.9% in 1997. Western Europe's share of global automotive production has also tumbled, down to 24.7% in 2005 from 31.9% in 1998.

These divergent trends in global production also extend to manufacturers. The woes of US based General Motors (GM) and Ford continue to make headlines, whilst rumours abound of Germany's DaimlerChrysler looking to sell the Chrysler division that it merged with in 1998. However, across the Pacific, Japan's Toyota is performing so well that it may have more factories than GM in North America by the middle of the next decade. A recent report suggests that Toyota "is considering a plan that will double the number of its plants, to keep up with demand from US drivers and to head off a political backlash over its growing imports."¹ Such diversity in manufacturers' fortunes largely reflects recent growth in the demand for smaller, more fuel efficient vehicles as consumer tastes have changed and fuel prices have soared over the past few years.

Sales outlook

2005 was the biggest year ever for new vehicle sales. 2006 sales fell 2.6%, but the outlook for 2007 is looking stronger and may even pip 2005's record. In particular, annual trend growth for the dominant passenger car category has been positive and strengthening each month since October 2006 (see figure 11). We expect total sales for 2007 to fall just short of one million, at between 985,000 and 990,000. The million-sale mark is more likely to be reached in 2008 (see figure 12).

Passenger cars and SUVs

The key growth influences for passenger car and SUV sales in 2007 will be the strong position of Australian households in terms of employment, incomes and wealth. National unemployment will stay at or below 5% (below 3% in WA), and jobs growth will continue, albeit at a slower pace (see figure 14). This rosy picture is not, however, nationally uniform. The non-mining economies of the southeastern states — and especially NSW — continue to under-perform, and most of regional Australia has been hit hard by drought through 2006-07. Recent forecasts by the Bureau of Meteorology indicate the El Nino dry phase is finally shifting, and the drought should break in 2007.

After three interest rate rises in 2006, no further rises are likely in the near-term to eat further into household spending. Similarly, petrol prices have stabilised somewhat (albeit at an historically high level) and are no longer a direct dampener on car sales. Households appear to have now adjusted their spending to both of these higher costs. Petrol prices remain, however, a key influence for many purchasers' choice of vehicle type (and fuel type).

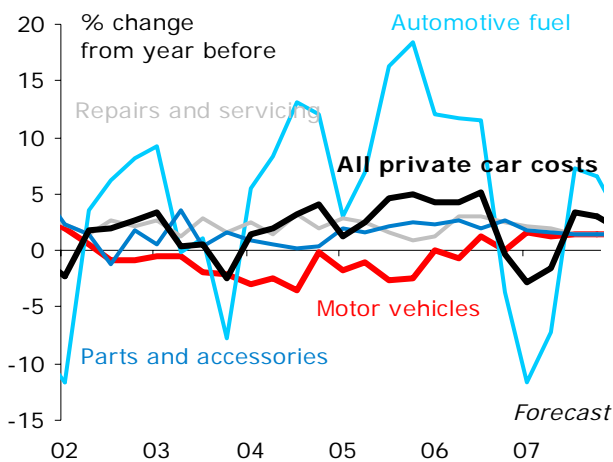
¹ Foley, Stephen, 'Toyota plans to overtake Ford in US,' *Canberra Times*, 13 January 2007, p. 21.

Figure 14: Key Australian economic forecasts

Annual growth %	2007(f)	2008(f)
Gross domestic product (GDP)	2.6	3.5
- non-farm GDP	2.9	3.0
- farm GDP	-10.7	25.6
Private consumption	3.2	3.7
Total business investment	0.3	0.1
- equipment investment	-3.0	-2.4
Employment	2.3	1.7
Unemployment rate (%)	4.7%	4.8%
Av. weekly earnings (AWOTE)	3.3	3.1
Consumer Price Index (CPI)	2.4	2.5

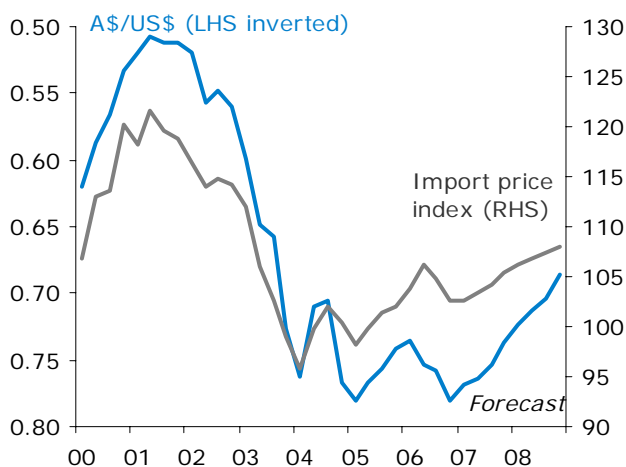
Source: Economics@ANZ (as at 28 February 2007).

Figure 15: Private motor vehicle operating prices



Source: ABS 6401.0; Economics@ANZ

Figure 16: Exchange rate and import prices*



* composition-adjusted import price deflator.
Source: ABS 5206.0; Datastream; Economics@ANZ.

No significant new passenger car models are due for release in 2007 that might prompt a sales spike. The next big one for the local automotive industry will be Ford's new Falcon in 2008 (see figure 13).

Business / commercial vehicles

After many years of very strong growth, the business investment cycle has reached a high-level plateau and has moved into a flat phase that will continue through 2007 and 2008. Business investment in plant and equipment (including vehicles) is forecast to fall and, on many measures, has already begun to do so. Commercial vehicle sales, which have been tracking a negative growth trend since early 2006 (see figure 11), can therefore be expected to stay flat (or even shrink further in some vehicle categories) for much of 2007.

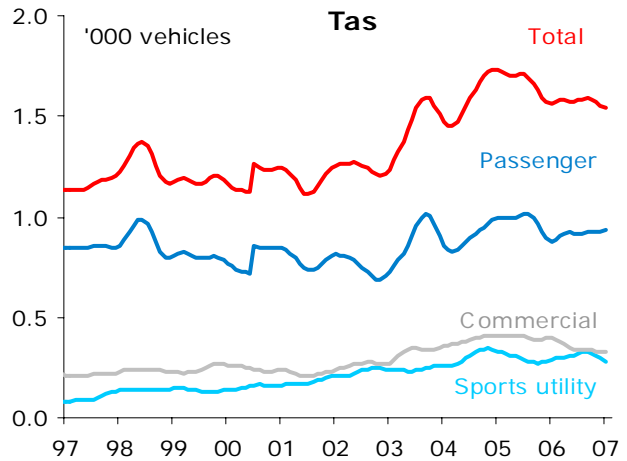
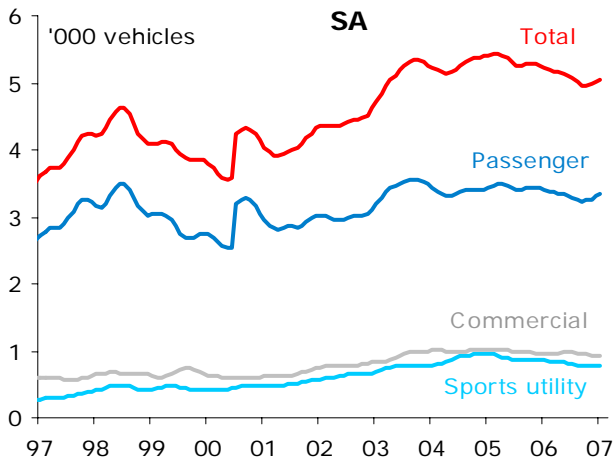
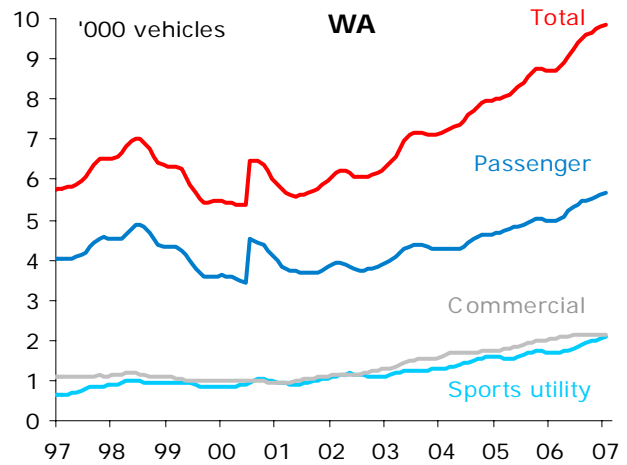
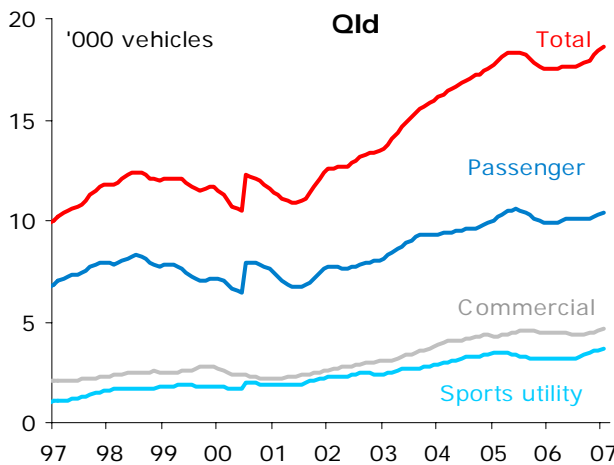
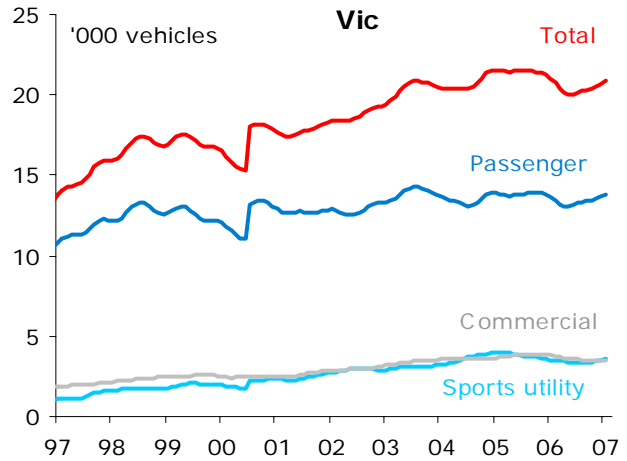
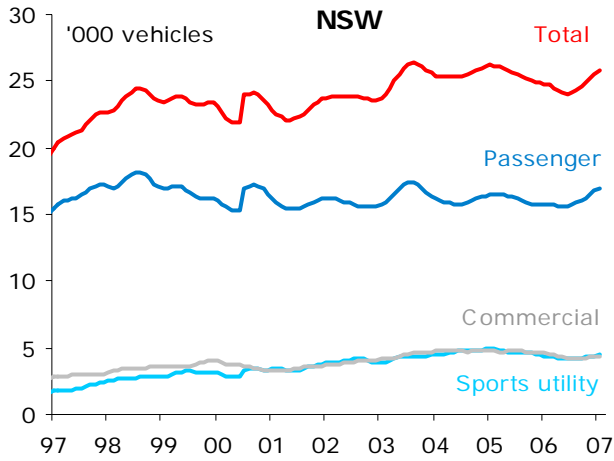
Going into 2008, business investment spending on plant and equipment is expected to remain slow, but to show signs of lifting again. By late 2007, the farm sector should have begun the slow post-drought recovery process, which normally includes replacing and upgrading equipment and vehicles as well as restocking. By late 2008, the all-important housing construction cycle should have started to swing up again nationwide, due to steadily increasing demand pressures for new housing in many locations. These influences will both contribute directly to a return to positive growth for commercial vehicle sales.

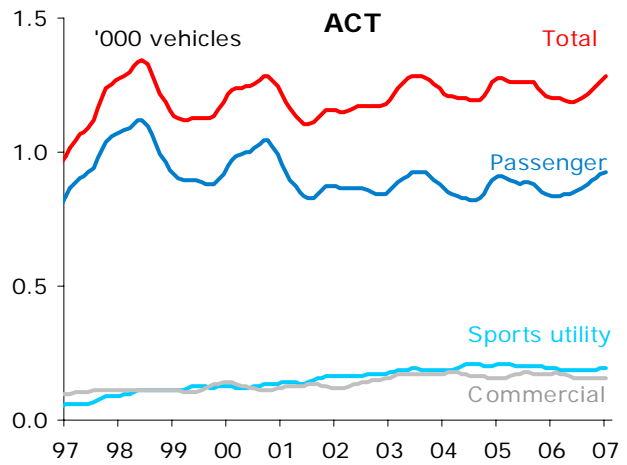
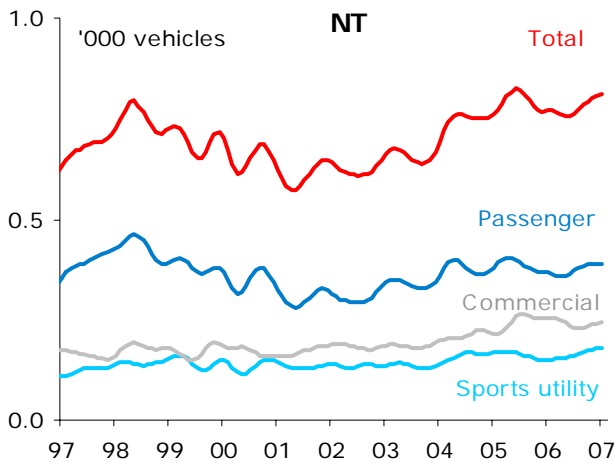
Prices outlook

After nearly five years of heading south (due to import tariff and tax changes; favourable exchange rates; and an ultra-competitive international automotive industry), average new car prices in Australia crept up in 2006, as indicated by the motor vehicle component of the CPI (see figure 15).

Australia's exchange rates and terms of trade are a major influence on new vehicle prices, since close to 80% of all new vehicles are now imported. This has worked to Australian car buyers' advantage in recent years, as high commodity prices and a strong international economy have kept the Australian dollar relatively strong (see figure 16). However, looking forward to 2007 and 2008, prices for several of Australia's key commodities have already peaked (as has our current interest rate cycle), so the Australian dollar is forecast to weaken relative to its recent strong position. This is likely to increase the local price of all imported items, including vehicles and automotive fuel (see figure 15). Any auto price increases will not be uniform across all categories and models of vehicle. Indeed, given the competitive nature of the international automotive industry, some models may continue to fall in price. Rising vehicle prices might therefore be expected to have a greater impact on the mix of types and models of new vehicles sold, than it will on the total number of new vehicles sold.

Appendix: new motor vehicle sales per month, by state (trend)





Source: ABS 9314.0

Data sources

Australian Automotive Intelligence (AAI)

Australian Bureau of Statistics (ABS)

Federal Chamber of Automotive Industries (FCAI)

Federation of Automotive Products Manufacturers (FAPM)

Ford

GoAuto New Car Diary

Holden

International Organization of Motor Vehicle Manufacturers / Organisation Internationale des Constructeurs d'Automobiles (OICA)

Snapdata International Group

Toyota

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