

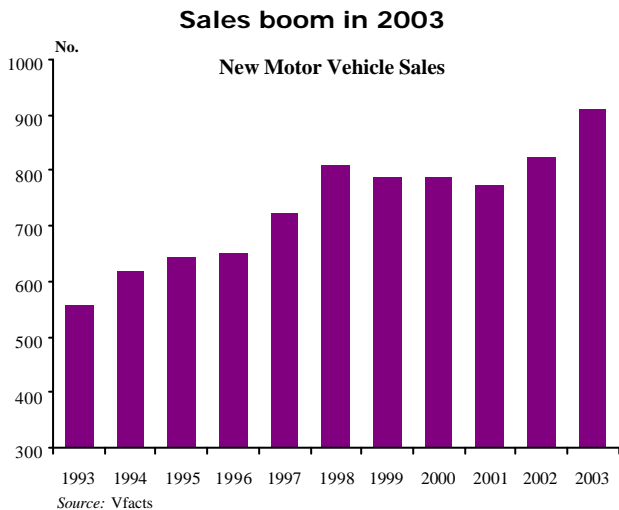
Motor Vehicle Outlook

1,000,000 – Is it possible?

The bulls are rampaging. New motor vehicle sales reached dizzy highs in the March quarter. At the current rate of sales growth, new motor vehicle sales will crack the one million mark this year – a level of dreams two years ago. Quickstep is the craze dance in new car showrooms across the land. We have been forced to abandon our soft shoe shuffle and raise our sales forecast for 2004. But, is the last tango nigh? Having just joined the dance we think not. We believe we can squeeze in a few rumbas. But by year's end we will be grateful for a waltz. This dance will slow.

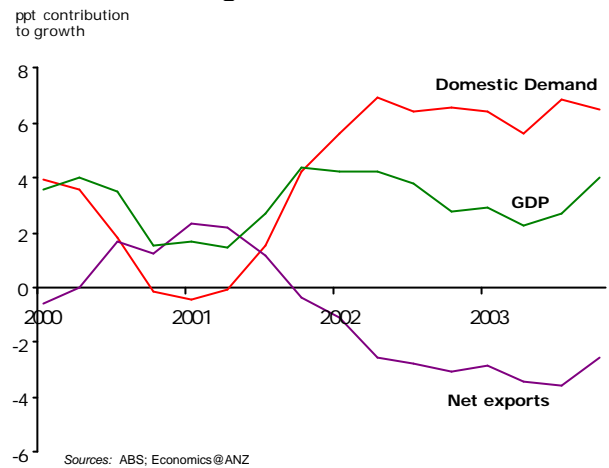
Gangbuster sales in 2003

New motor vehicle sales soared to record levels in 2003. Sales were up over 10% on 2002, itself a record year. Sales were strong in all major segments of the market. Passenger motor vehicles and sports utility vehicles rose 9% with growth even stronger in the heavy and light trucks area where the respective growth figures were 17% and 14%.



In 2003, economic factors were about as good as it gets for motor vehicle sales. All domestic indicators were extremely bullish. By year's end consumer confidence was at decade high levels and consumer confidence in their personal financial position twelve months forward was the highest since surveys had been conducted – 30 years. Interest rates were extremely low. Business profits were very strong and most businesses were awash with surplus funds. Domestic demand grew strongly, fuelled by strong growth in retail trade and a booming construction sector. More importantly any Australian with an interest in property saw strong growth in their personal wealth as property prices soared. These strong good feel effects led to unprecedented credit growth. Towards the end of 2003 household credit was growing at an annualised rate of 23%. Household savings fell into negative territory and Australians indulged in a new game, borrowing against the newly increased equity in their houses to finance spending.

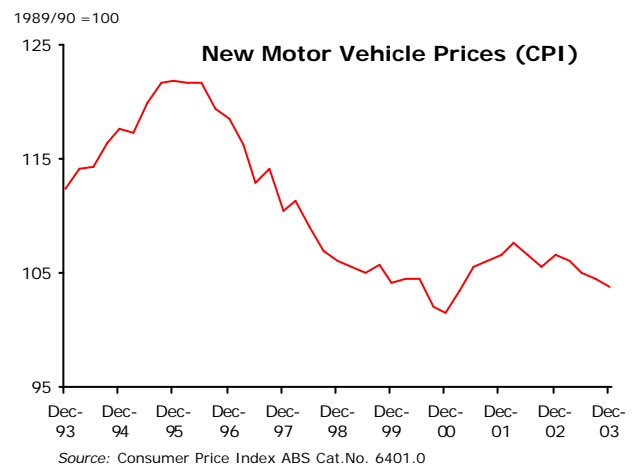
Strong domestic demand



To top it all off, rural Australia, which had been hard hit by drought in the early months of the year, showed signs of recovery with record grain harvests across southern Australia and strong beef cattle prices.

And if all these conditions were not enough to produce a sales bonanza the appreciating Australian dollar was having a favourable impact on prices at the retail level and supporting importer margins.

Prices fall in 2003



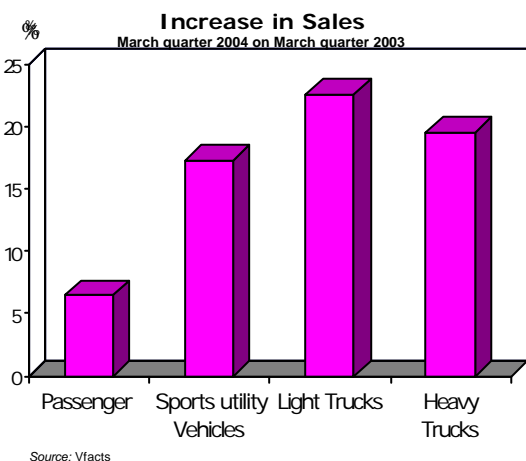
Current market conditions

The 2004 sales year has opened in spectacular fashion. Sales in the first three months of the year are running 11.1% ahead of last year. More staggering is the fact that each month this year has been stronger than the previous month suggesting that the growth rate is accelerating as the year proceeds. Even without a continuing acceleration in the growth rate, if the present growth rate is sustained, sales will reach the magical figure of one million this year.

Sales have been strong across the board. After two extremely strong years sales of trucks have been scintillating. Light truck sales are up 23% year to date and heavy truck sales are up close to 20%. The ongoing boom in the construction and mining sectors and the pick up in the rural sector are underpinning sales. Nonetheless, the strength of these sales also suggests strong demand across the entire business sector. Strong cash flows and buoyant profits are assisting decisions to upgrade vehicles.

Sports utility vehicle sales growth rates are accelerating from late last year and are up 17% year to date. This continues the strong growth rates of recent years. Since 1996 sports utility vehicles share of the market has more than doubled from 7.7% to 16.6%. Sales growth in the March quarter has been strongest at the upper end of the market.

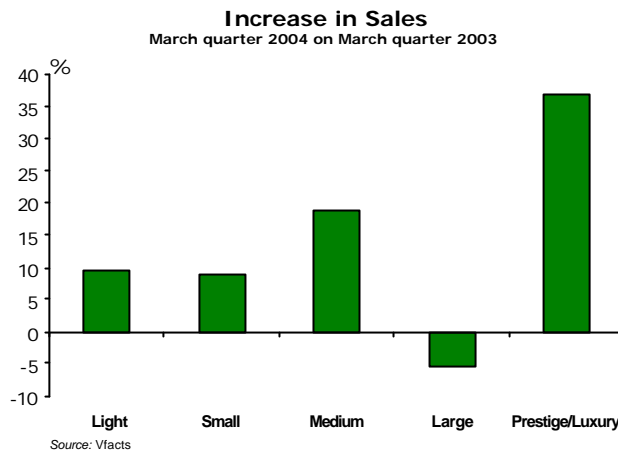
Commercial vehicle sales extremely strong



Passenger motor vehicle sales are also up strongly, albeit, not as strong as commercial vehicles. Overall growth rates would be stronger but for the large car segment. Sales growth for these big sixes is actually down on the March quarter last year. This may reflect model shifting, lower fleet activity and the continuing growth of novated leases.

As expected in a boom, prestige and luxury car sales are particularly strong but the former have surprised on the upside.

Large car growth disappoints



Why have industry forecasters got the market consistently wrong?

A key factor has been an underestimation of the strength of the domestic economy. In particular the boom in the construction sector has gone on for longer than expected. Try finding an old utility or cab chassis truck on a construction site anywhere in Australia. The buoyancy in this sector has flowed downstream through the rest of the economy.

A second factor has been an underestimation of the willingness of Australian households to take on debt. Household debt has risen significantly with the debt to income ratio more than doubling since 1996. The household saving ratio is now negative for the first time in Australia's history. The latest monthly credit figures for February show that housing credit was growing at a staggering annualised rate of 23.5% only 0.1% below the record set in the previous month while non-housing personal credit was growing at 15.5% the fastest rate in three years. Net equity withdrawal from housing has been accelerating rapidly and is now close to 10% of household incomes. Mortgage interest costs relative to disposable household income is at a record 7%, while the debt service ratio is at 8.7%, both figures higher than in the last boom of the late 1980's.

In short, Australian households encouraged by lower interest rates and buoyant economic times have taken on large slabs of debt. Much of this debt has been undertaken to purchase property. Post war baby boomers anxious to shore up retirement incomes have been a key driver. Lifestyle considerations have also been important. This penchant for debt and the obvious wealth benefits that many people have derived from incurring it in recent times in relation to property, has had wider

market impact. Many loans secured against property are being used for purposes other than real estate. The difficulty for forecasters is knowing how long this piece of string is. To what extent will households continue to take on debt?

Most studies suggest that until recent times the increase in household debt has been manageable. It has been offset by rapid rises in net wealth generated by booming house rises. Also, households capable of carrying this debt have undertaken the majority of the borrowing.

Rising levels of debt need not by itself herald an economic disaster. But it does throw a certain level of uncertainty into the market. In our view, while some individual households will probably suffer because of an overextended debt situation, the risks to the economy have, until now, being minimal. But with house price increases about to slow, further increases at present rates are unsustainable.

So will we see one million sales in 2004?

Sales in the early months of this year reflect buyer's reactions to economic conditions in late 2003. As mentioned in the earlier analysis, conditions in the economy at the end of 2003 were, for domestic sales, the best in living memory. Most buyers take some time from the initial decision to replace a car to the final purchase. However, once they are on stream they are unlikely to be way laid unless something dramatic changes their perception of economic conditions. And there is nothing happening in the early months of 2004 to cause them fright. There is plenty of economic momentum going forward with persistently strong credit growth, high levels of economic activity and general confidence.

This combined with a market that remains attractive to buyers with new product, huge variety, top quality and sensitive price entry points has helped to propel the strength in the market in the early months of 2004.

All this has led to much hoopla in the motor vehicle industry. Talk abounds of sales of over one million. We think not. At best we think 960,000, more realistically 930,000 and being conservative bankers we forecast that sales will be around last years level. But whatever the figure 2004 will be another strong year for new motor vehicle sales.

Why are we party-poopers?

Economic indicators suggest that the rate of growth in the domestic economy is about to slow – albeit to a healthy rate of growth. As the year proceeds, we believe that new car sales growth will slow and some elements of market saturation will begin to emerge. Sales may also slow towards the end of the

year as buyers delay purchases until after January 1 when a 5% tariff cut occurs on imported vehicles (although dealers will in all likelihood adjust prices in late 2004 to counteract this).

As economists it would be remiss of us not to indulge with some 'on the other hand'.

Is there any economic risk to the market? We do not think that it is likely to come from overseas. All factors are in place for buoyant economic growth with the two leading economies of US and Japan recovering strongly supported by continuing buoyancy in the Chinese and other Asian economies. There are some international risks in the continuation of high oil prices, exchange rate imbalances and some sectoral imbalances in the U.S. However these are unlikely to impact significantly in 2004.

At present, the domestic economy is panning out as forecast with the economy mildly deflating from the boom of late 2003. With relative low interest rates, healthy business balance sheets and strong employment there appears little to worry about. So if it was to occur where would the bolt from left field come. Namely, the property markets and in particular the investor housing market. The inability of some investors in property to meet their commitments could have major implications for the economic outlook and for new car sales.

But in the meantime the champagne continues to flow. The music is playing. Will you partner me for the next quickstep?

Ian James
Economics@ANZ

ANZ is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited
ABN 11 005 357 522
10th Floor 100 Queen Street, Melbourne 3000, Australia
Telephone +61 3 9273 6224
Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited
ACN 005 357 522
Minerva House, PO Box 7, Montague Close, London, SE1
9DH, United Kingdom
Telephone+ 44 207 378 2121
Fax+44 207 378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc.
(Member of NASD and SIPC)
6th Floor 1177 Avenue of the Americas
New York, NY 10036, United States of America
Tel: +1 212-801-9160
Fax: +1 212-801-9163

NEW ZEALAND by:

ANZ Banking Group (New Zealand) Limited.
Level 10 215-229 Lambton Quay Wellington, New Zealand
Telephone +64 4 496 7000,
Fax +64 4 496 7360

In Australia, ANZ Investment Bank is a business name of Australia and New Zealand Banking Group Limited, ACN 005 357 522 ("ANZ Bank"), which is a licensed securities dealer. In New Zealand, ANZ Investment Bank is a business name of ANZ Banking Group (New Zealand) Limited WN / 035976 ("ANZ NZ").

This report is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of ANZ Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person (s) receiving this report and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This report is being distributed in the United Kingdom by Australia and New Zealand Banking Group Limited, ("ANZ Bank, UK") for the information of its market counterparty and intermediate customers only. It is not intended for and must not be distributed to private clients. In the UK, ANZ Bank is regulated by, and is a member of, the Financial Services Authority ("FSA"). Nothing here excludes or restricts any duty or liability to a customer which ANZ Bank, UK may have under The Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

This research publication of ANZ Bank is issued on the basis that it is only for the information of the particular person to

whom it is provided. This report may not be reproduced, distributed or published by any recipient for any purpose. Any recommendations relating to securities contained herein are based on a consideration of the securities alone, and as such are conditional and must not be relied upon without specific advice from your securities advisor as to the appropriateness to you given your individual investment objectives, financial situation and particular needs. Under no circumstances is this report to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZ Bank, ANZ NZ, ANZ S, its affiliated companies, or their associates and employees may have an interest in any securities directly or indirectly the subject of this report (and may receive commissions or other remuneration in relation to the sale of such securities), or may perform services for, or solicit business from, any company the subject of this report. If you have been referred to ANZ Bank, ANZ NZ, ANZ S or its affiliated company by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this report accurately reflect the author's personal views about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this report and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed about any securities or issuers in this report. ANZ Bank, ANZ NZ, ANZ S, its affiliated companies, their directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.

For further information, please email Economics@anz.com