



Slow recovery for auto sales, continuing challenges for the auto industry

Key points

- Australian new vehicle sales will be down by at least 11% in 2009. They will begin to rise back toward their long-term trend from 2010.
- Australia's car industry struggles against falling local & global demand.
- The global industry continues its shift toward China, Asia and beyond.

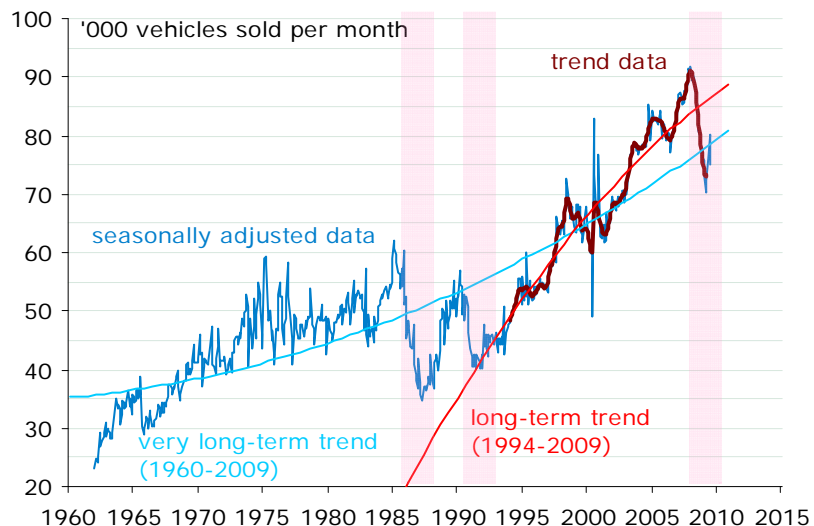
Australian auto sales outlook

In February we stated that "auto sales look likely to average as low as 75,000 per month through **2009**, implying an annual total of 900,000, or 11% lower than 2008." Unfortunately for the auto market, that forecast still looks to be on track, or even a touch optimistic, six months later. Sales to the end of July have averaged 74,000 per month — or 73,680 per month if we exclude the seasonal sales spike in June. Average monthly sales in H2 could go lower again, as household spending declines, and the sales boost resulting from the temporary increase in business tax rebates for plant and machinery (up to 50%) tails off. The tax rebate might induce another spike in sales to business buyers before it ends in December, but this is unlikely to be large enough to offset the fall from private buyers.

Although 2009's auto sales seem shocking compared to the boom of 2008, they are actually quite similar to the pattern seen in the 1980s and 1990s recessions (the last such events suffered by Australia). Indeed, in peak to trough terms, this recession cycle has not been as bad for auto sales as in the past; monthly sales fell 23% (seasonally adjusted) from January 2008 to March 2009, compared to 29% from March 1990 to October 1991 and a massive 44% from February 1985 to May 1987. This more moderate decline is due at least in part to the temporary business tax reprieve.

In 2010 we expect average sales to move back toward their long-term trend of 80,000 to 85,000 vehicles per month (see graph below). Sales are likely to remain weak in 2010, although a sales spike for some models may follow the scheduled import tariff cut for passenger cars from 1 Jan.

Vehicle sales have a history of falling hard & fast during recessions



Sources: ABS and ANZ. Long-term polynomial trend lines calculated from ABS seasonally adjusted data. ABS trend data available Jan 1994 to April 2009 only.

31 August 2009

Inside:

Australian private buyers	2
Australian business buyers.....	3
Which new vehicles?	4
Australia's auto industry	5
International auto industry	6
Appendix: Australian new motor vehicle sales by state.....	7
Data sources	8

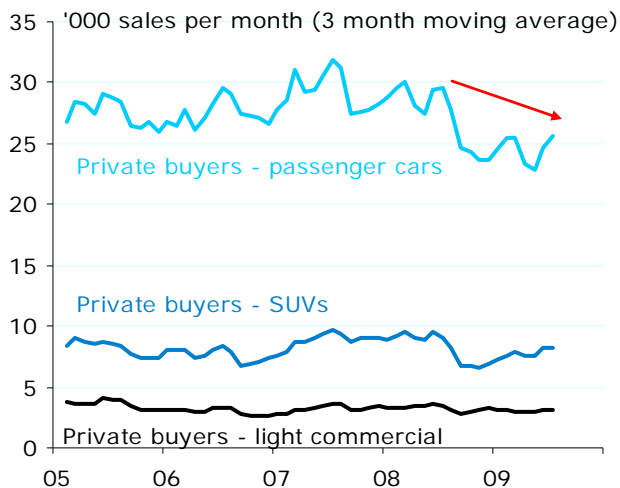
Author:

Julie Toth
Senior Economist
+61 3 9273 6252
Julie.Toth@anz.com

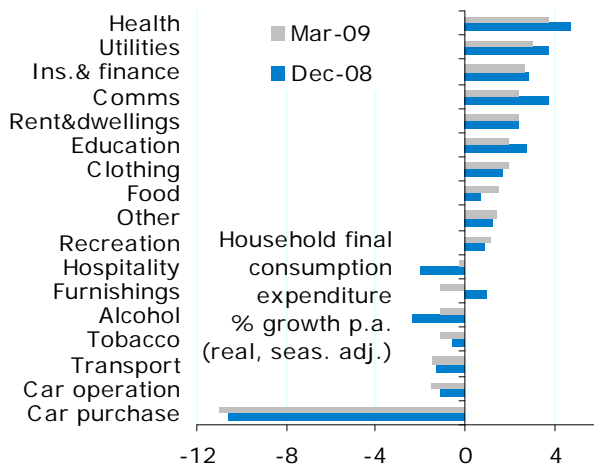
Our Vision:

For Economics & Markets Research to be the most respected, sought-after and commercially valued source of economics and markets research and information on Australia, New Zealand, the Pacific and Asia.

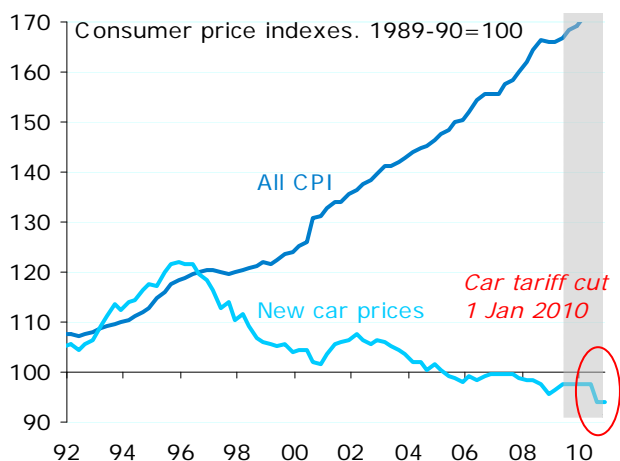
Private passenger car sales slump through 2009



Household spending on cars has fallen by more than any other spending category in this cycle



New car prices are set to fall to new lows after the import tariff is cut to 5% from 1 July 2010



Sources: ABS, FCAI

Australian private buyers

Private buyers (that is, non-business individuals) typically account for around 44% of total vehicle sales, including at least half of all passenger and SUV sales and a fifth of all light commercial sales.

Private auto sales suffered heavily in 2008-09, with private purchases of new passenger cars (the single largest component, equal to about 1/3rd of all vehicle sales) averaging 24,600 per month through 2008-09, compared to 28,800 the previous year. Private SUV sales also declined, while the smaller private commercial segment (mainly utes) was flat.

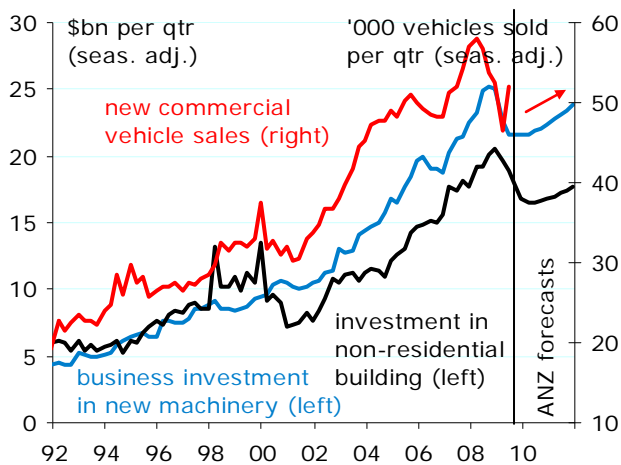
In terms of total dollars spent on new vehicles, an average of 3.6% of total household expenditure has been spent on vehicle purchases (plus another 6% on running them) over the past decade. In real value terms, total private spending on cars has dropped in every quarter since Dec 2007. By March 2009, real household spending on new cars was 11% lower than a year earlier, with car purchases suffering the biggest fall in spending of any household expenditure category (see graph left). And despite the steep reduction in interest rates, private buyers have borrowed far less to buy cars, with the value of personal finance for vehicle purchases falling 13.7% in 2008-09 from a year earlier (-16.8% for new cars and -14.3% for used).

This pattern is similar to that seen in the US, Europe and Japan, since in these mature, saturated markets, a new car is most householders' single largest item of discretionary expenditure, and the one most easily postponed or cancelled when incomes drop or budgets tighten. In the US, Germany and other countries, governments are offering financial incentives to householders to trade in their old cars, with much popularity and success.

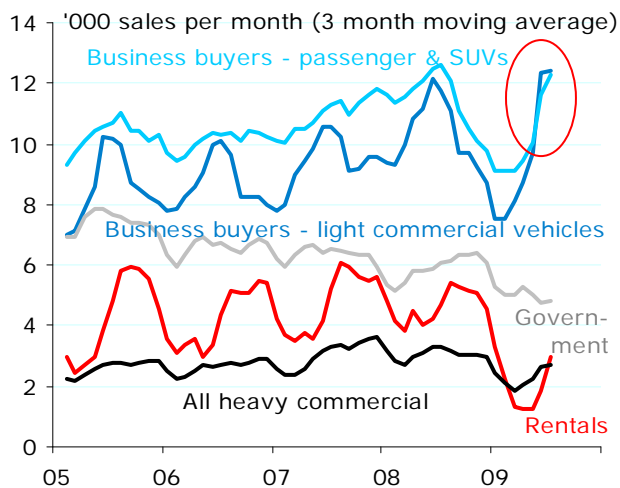
In Australia, the government's 'recession-beating' financial assistance to households was paid as a one-off cash bonus, with no requirements placed on how (or if) it must be spent. With most individuals receiving \$900 each, this helped to boost retail sales through H1 and keep total household consumption positive in every quarter, despite a negative GDP reading in Dec 2008. But it had no identifiable effect on householders' car purchases.

With no further bonuses or income boosts to come, we expect total household consumption will be flat through H2 2009, before returning to mildly positive growth in **2010**, as consumer confidence rebuilds. Trading conditions will remain tough for auto dealers who focus mainly on private customers. A sales spike is possible after the passenger car tariff drops from 10% to 5% from 1 Jan. With 85% of passenger cars now imported, this should see an average price fall of at least 4%. Fierce competition in the industry may see prices fall further, despite forecast price increases for metals and other inputs. In real terms, new car prices look set to fall to their lowest level since at least 1990, or possibly ever.

Commercial vehicle sales normally track closely to all business investment, which is in a trough



The temporary business tax rebates caused a sharp sales spike in June; this will be a one-off



2009 business tax rebates for vehicle purchases

Date	Tax measure
12 Dec 2008	Gov announces a bonus 10% business tax deduction on eligible plant and equipment (including vehicles) costing \$10,000 or more, purchased from 13 Dec '08 to 30 June '09 and delivered by 30 June '10. This is in addition to normal business tax depreciation allowances.
3 Feb 2009	Gov announces that small businesses (turnover under \$2mn) can claim a 30% tax deduction on eligible plant and equipment costing \$1,000 or more, purchased from 13 Dec '08 to 30 Jun '09 and delivered by 30 Jun '10. This drops to 10% for assets purchased from 1 Jul '09 to 31 Dec '09 and delivered by 31 Dec '10. Larger businesses can claim the same tax rebates on plant & equipment costing \$10,000 or more.
12 May 2009	Gov extends the 30% tax rebate to 50% for small businesses buying plant & equipment until 31 Dec '09 . Larger businesses can claim a 30% rebate on eligible plant & equipment costing \$10,000 or more, purchased by 30 Jun '09 , and 10% for purchases by 31 Dec '09 .

Sources: ABS, FCAI, Treasurer Press Releases, ATO.

Australian business buyers

Private businesses account for over 40% of all vehicle sales, with government and fleet/rental buyers accounting for another 5% each. Sales to all three markets collapsed in late 2008. The government's temporary business tax rebates — announced as part of the government's response to the cyclical downturn — had a marked effect on business vehicle purchases in Q2 2009, but most waited until June to act. This is probably because the big increase to the rebate, from 30% to 50% for small businesses, was not announced until the Federal Budget on 12 May. This didn't give businesses much time to respond by the end of the financial year, but clearly, a large number still managed to purchase a vehicle in time to benefit, with June's sales 12.5% higher than a year earlier.

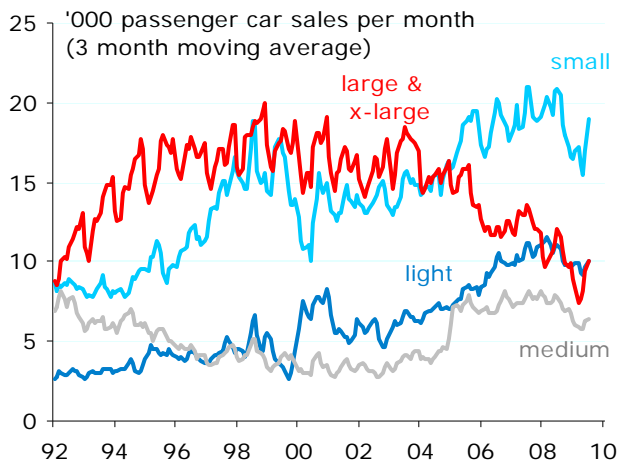
It is likely that at least some of these vehicle purchases were moved forward to take advantage of the temporary tax break, so this spike may detract from sales in H2. The small business tax incentive is currently scheduled to end on 31 December 2009 and is unlikely to be extended again. Another sales spike from small business buyers is possible in December, although traditionally, December is not a strong month for business investment in any form. Larger businesses are unlikely to ramp up their purchases again, because their rebate dropped from 30% to 10% on 1 July 2009 (see table, left).

Average monthly vehicle sales to businesses are more likely to fall or stay flat than to rise through **H2 2009**, in line with total business investment on plant and machinery, which we expect to be flat at best in each of Q3 and Q4 2009, but at levels of around 15% lower than a year earlier. Weak growth should return to business investment spending on plant and equipment, including on vehicles, through **2010** as local business confidence, profitability and forward orders return. Recovery in the construction sector is particularly important, since this industry is a major source of demand for auto dealers who sell vehicles to small and medium businesses.

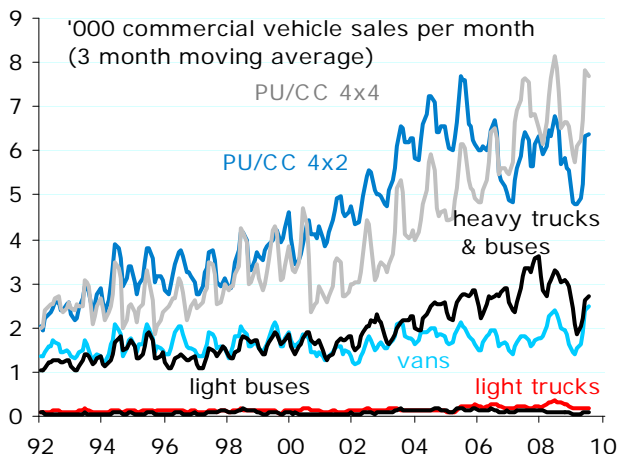
Fleet rental buyers did not respond to the temporary tax rebates in the same manner, with June 2009 sales down 53% from the previous year. July sales to rental buyers were better, but remained 16% below the same month of the previous year. Rental fleet purchases are highly cyclical, since vehicles must be replaced very frequently. From 2005 to 2008 they bought over 50,000 vehicles per year, but in H1 2009 they bought only 9,400. This very low sales level will cause a build-up in demand that will need to be met further down the track.

Sales to Government departments and agencies were unaffected by the tax rebate since they were not eligible for it. Government sales declined late in 2008 and have remained flat through H1 2009. Federal government Budget savings measures will keep government agencies' demand for new vehicles under pressure through 2010 and beyond.

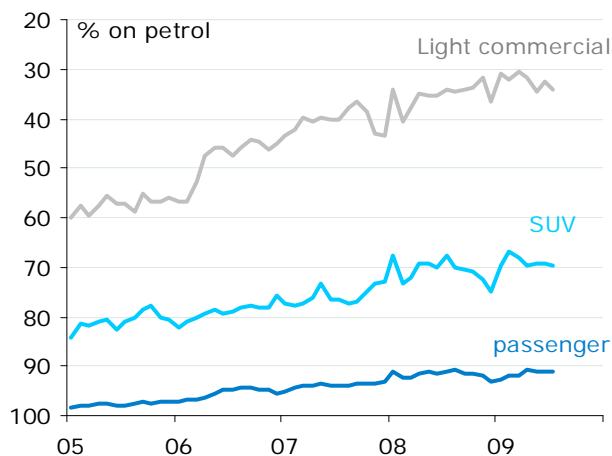
Even small car sales have been hit hard this year



Utes, vans & trucks benefited from the temporary increase in small business tax rebate in Q2 '09



Popularity of fuel types other than petrol have stalled, in line with petrol prices



Sources: FCAI

Which new vehicles?

Large passenger cars continue to lose market share. They took just 12% of all vehicle sales and 20% of passenger car sales in 2009 to date, compared to 26% of all sales and 37% of car sales a decade ago. Their replacements in the current market are small and light passenger cars and various sizes of SUV. This trend has had major implications for Australia's automotive industry, which continues to specialise in producing parts and assembly for larger passenger cars (see p. 5).

Since around 2004, commercial vehicles have typically accounted for over 20% of all vehicle sales (22% for 2009 to date). The June 2009 spike in business sales (see p. 3) flowed almost wholly into commercial vehicles, with monthly sales up 9.7% p.a., compared with -13.2% and -6.4% for passenger and SUV vehicles in June (seas. adj.). In year to date terms however, the June sales rush wasn't enough to pull total sales for H1 2009 above those of a year earlier; light commercial sales were 10.6% lower than in H1 2008, while heavy truck and bus sales were 25.4% down from H1 2008.

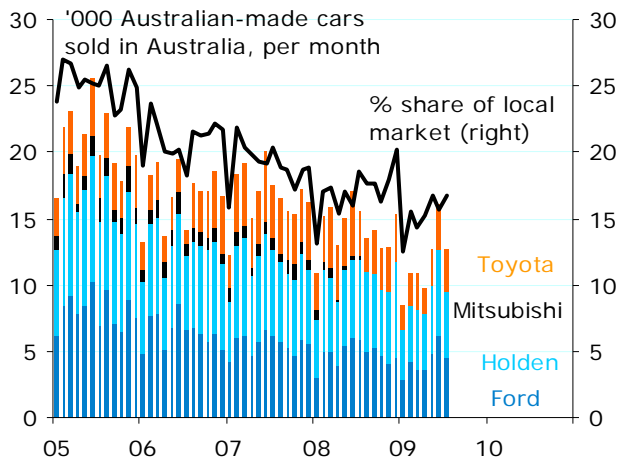
In terms of country of origin, Japan remains our single largest source country, supplying 36% of all new vehicles sold in 2009 to date. Thailand is now second (16%), Australia third (15%), Korea fourth (12%) and the EU collectively is fifth (13.7%). These top five account for 93% of sales. In July 2009, 274 vehicles were imported from China – our first since 2005. India also entered the market in a small way, with 110 sales in June and July 2009. Other top 10 marques include Mazda, Mitsubishi, Honda, Hyundai, Nissan, Subaru and Volkswagen.

The three local car assemblers, Toyota, Holden and Ford, retain the top spots as Australia's favourite marques (albeit by selling mostly imported not locally made vehicles). Toyota overtook Holden as our number one brand in 2003 and has continued to increase its market share each year since, taking close to a quarter of total sales in 2008-09.

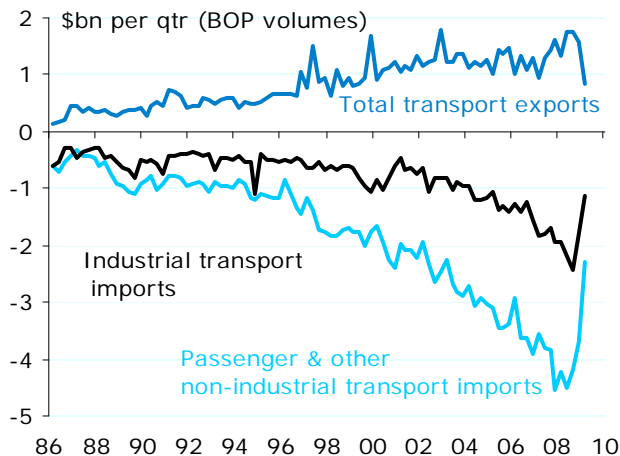
Over 90% of new passenger cars run on petrol. The proportion running on diesel has slowly grown from 1.5% of new passenger cars in 2005 to 6.5% in 2009. Hybrids account for less than 1% of the new car market, but interestingly, they are much more likely to be purchased by business than by private buyers (1.1% versus 0.2% of car sales in H1 2009). The proportion of new vehicles running on petrol has stabilised at around 70% of SUVs and crept back up to 35% of light commercial vehicles in 2009, with almost all of the remainder running on diesel. This pause in the previous trend toward non-petrol vehicles appears to be in direct response to the reversal and pause seen recently in petrol prices. The long-term trend away from petrol is likely to continue once petrol price increases resume.

Australia's auto industry

The slide in local demand for local cars continues



Australian auto exports halved in Q1 2009, but so too did our car and other transport imports



New model releases in Australia, 2009 to 2011

Month	Marque & model
Aug '09	Ford Mondeo
Sep '09	Holden Commodore VE/VM* Toyota Landcruiser 70
Oct '09	Toyota Camry*, Toyota Aurion Ford Kuga, Ford Fiesta diesel
Nov '09	Toyota Prado
Feb '10	Toyota Camry Hybrid*
Mar '10	Ford Territory SUV*
May '10	Holden Orlando
Jun '10	Toyota iQ
Mar '11	Ford Territory II SUV*
Apr '11	Toyota Celica sport
Oct '11	Toyota Kluger SUV*

* Assembled in Australia.

Sources: ABS, FCAI, Go Auto New Car Diary.

Australia's auto industry continues to specialise in parts and assembly for large passenger cars. Of the current fully assembled car models, only the Toyota Camry is not a larger, V6 model. Small trucks are also assembled in Australia for the local market. These specialisations are changing, albeit slowly.

Demand for Australian cars has been weakening, locally and internationally. Monthly sales in Australia slid under 15,000 in 2008, compared to 25,000+ prior to 2005. In Q1 2009, exports also collapsed as the global market shrank (see graphs left).

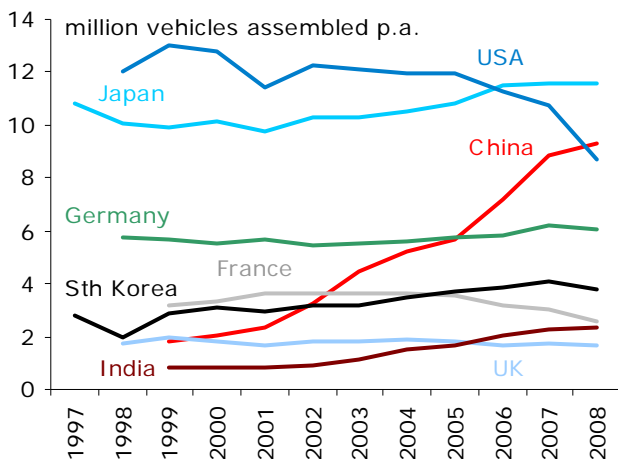
As of May 2009, 87,800 people were directly employed in 'transport equipment manufacturing' (mainly car production), 14% fewer than a year earlier and 22% fewer than the recent peak of 112,300 in Feb 2006. Further job cuts are expected, as future production volumes and even whole model lines are reviewed. Holden for example, is soon to close its facility at Fisherman's Bend in Melbourne and has announced a redundancy program for design and marketing staff at its Port Melbourne headquarters. Elsewhere, staff across the industry are working reduced hours in a bid to minimise further immediate job losses. Local components manufacturers have been hit hard by the downturn in demand for Australian-assembled cars, since over 80% of their output is sold locally (that is, to one of the three local assemblers). Recent examples include the closure of Nylex's Exacto plastics factory in Adelaide (100 jobs) and ACL Bearings, which has gone into receivership in Tasmania (280 jobs).

Future plans for Australian auto assembly have been scaled back, reflecting global shifts in the industry. At Ford, the planned new Focus model originally scheduled for a local launch in 2011, with annual production of up to 40,000 units, has been shifted to an (as yet unnamed) Asian location. At GM Holden, a plan to export Pontiac components ended when its parent company axed the Pontiac brand in the US. Holden's plans for a locally produced hybrid car are still at the prototype stage, as are Ford's, although both are looking to improve the fuel efficiency of their existing models and are adding diesel and LPG versions on some lines. On a more positive note, GM Holden will soon commence exporting V6 engines to China, and Toyota will commence a hybrid version of its locally made Camry in 2010.

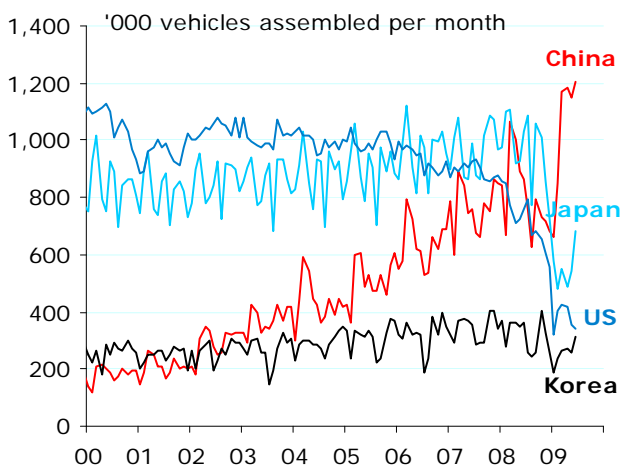
The Australian auto industry has a long history of government intervention. Most recently, the Federal Government announced a \$200mn line of credit to assist Holden Australia, in addition to funds already allocated to it from the 'Green Car' fund. This new credit is intended to "help boost exports to Europe, the Middle East, Africa and Asia". Further support from the Government's planned \$6.2bn industry assistance package may need to be re-negotiated, pending Parliamentary opposition to some of its detail. The Government is also tightening car emissions standards for all vehicles, including locally made ones, from 1 July 2010.

International auto industry

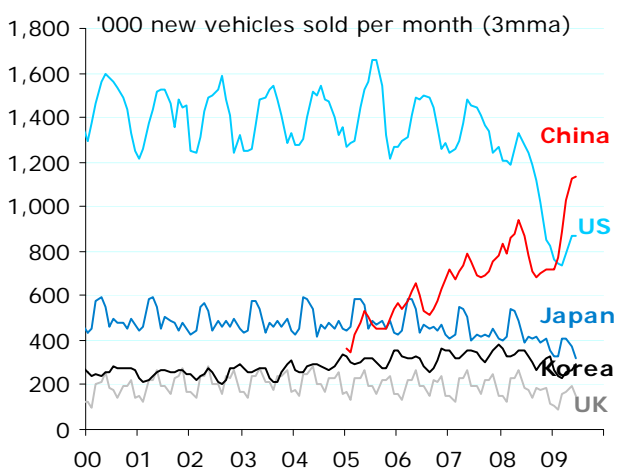
The global face of car manufacturing is changing



In raw volume terms, China has overtaken the US and Japan as the world's largest auto maker



China has also (temporarily?) overtaken the US as the world's largest auto market (by volume)



Sources: OICA, Bloomberg.

The global landscape of automotive manufacturing is changing rapidly. Until 2005, the US was the undisputed king of the auto industry, but it has since been overtaken by Japan and more recently, China. This has been due to both the decline in US production and the rise in Chinese output. Other rising centres for auto production include Thailand, India, Turkey, Mexico, Argentina and Brazil.

The US market collapsed dramatically in 2009, with production and sales both plunging (see charts). Nosediving US demand for new cars — from around 1.4mn units per month to as low as 800k — had an immediate impact on its own auto makers, but also on Japan's, which reduced their production volumes by a similar magnitude (see graphs left). With the much smaller Japanese car market set to stay flat for economic and demographic reasons, Japan's auto industry woes are unlikely to be relieved until sales volumes recover in the dominant US market.

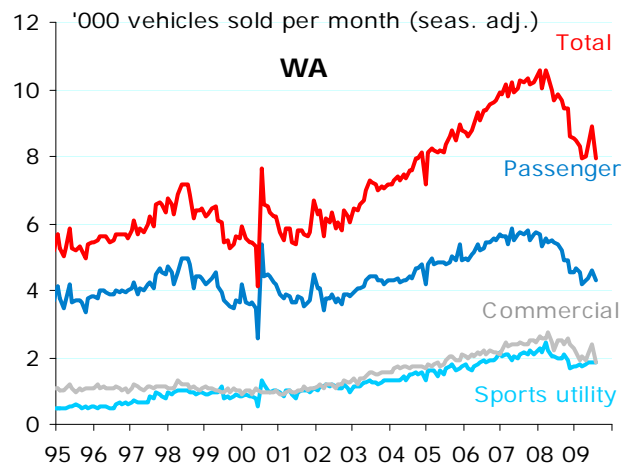
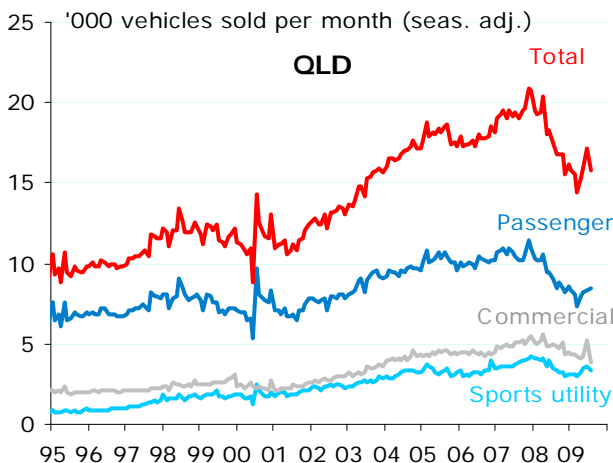
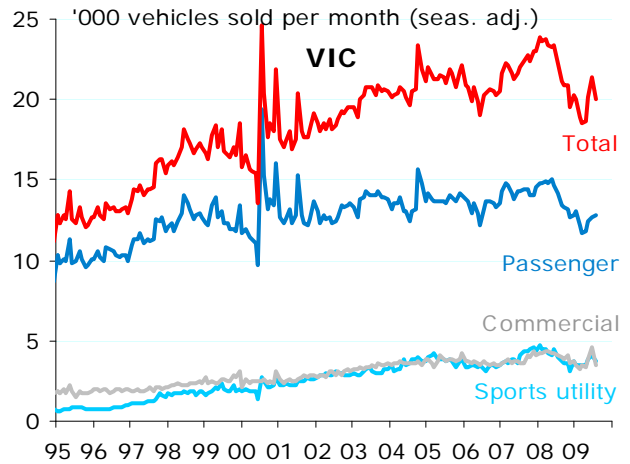
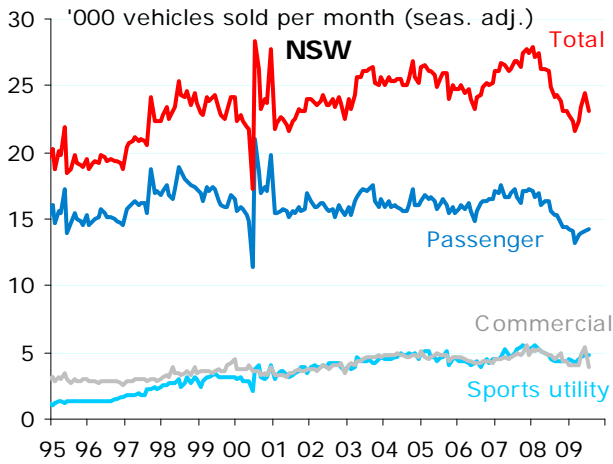
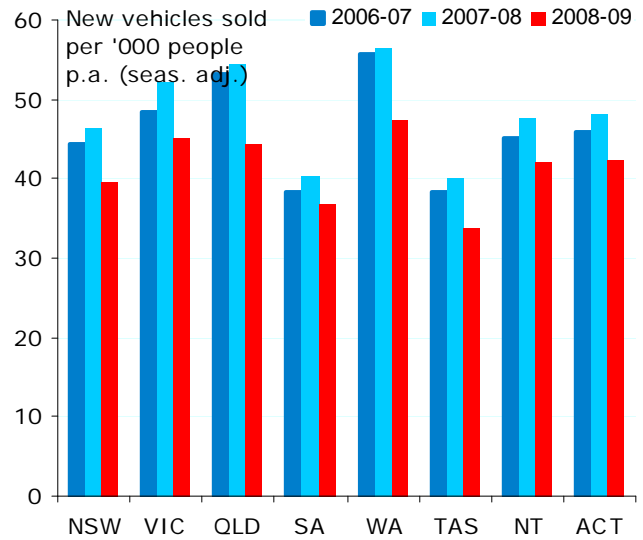
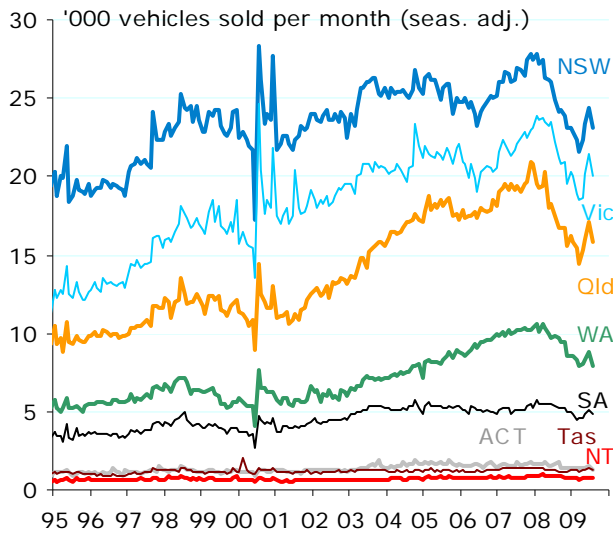
Western Europe (mainly Germany, France, Italy and Spain) remains important to global auto production, especially when measured in terms of value rather than volume, with many of the more expensive marques and models still based there. Europe's production centres are however, slipping eastwards, into the expanded EU zones of Poland and Slovakia. In 2009, the EU's auto industry was largely 'saved' by the success of new buyer incentives in Germany, Italy and elsewhere, that saw new car registrations in Germany rise from an average of 260k per month in 2008 to 343k in H1 2009, and new registrations for the Eurozone as a whole rise from 937k per month in 2008 to 992k in H1 2009.

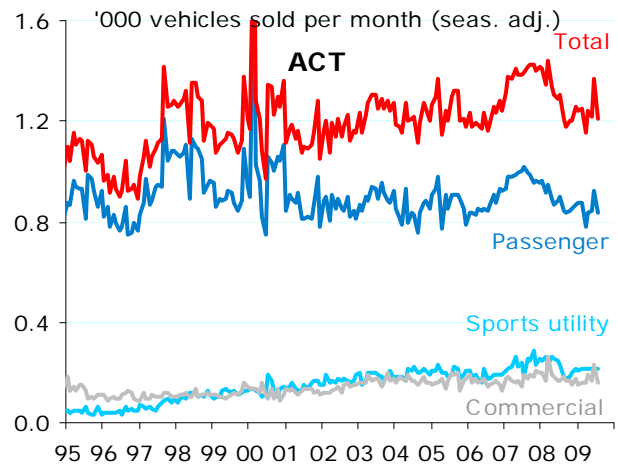
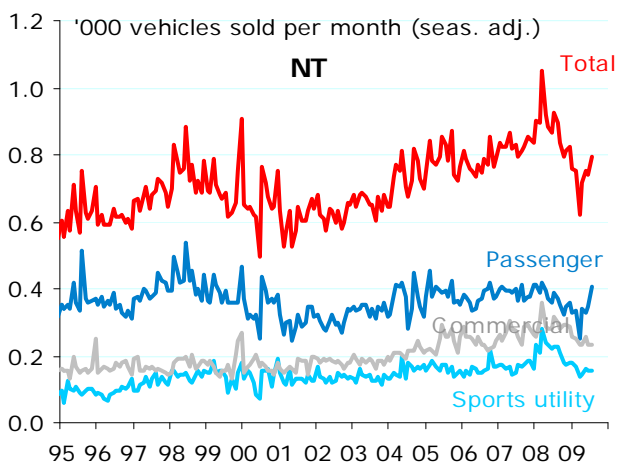
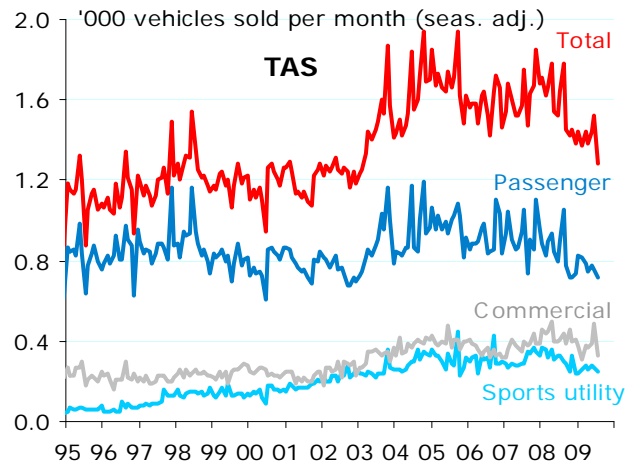
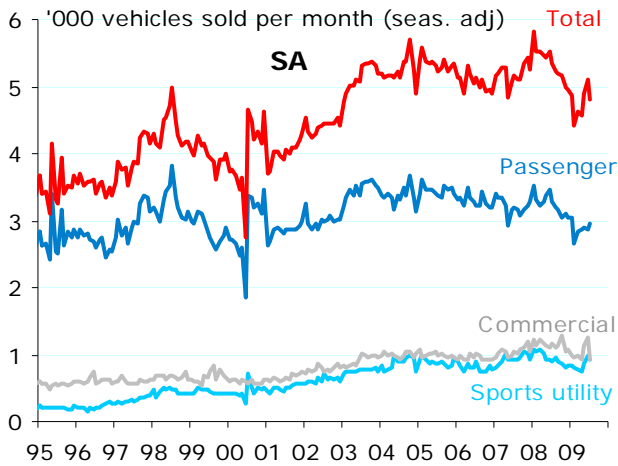
Chinese automotive production and demand leaped over both the US and Japan in 2009, by volume (although the relative value of their output is more difficult to assess). Monthly production has doubled in the past two years, and is now around 1.2mn vehicles per month. Most of China's vehicle output is currently being produced for the local market (also around 1.2mn vehicles per month and growing), but exports are beginning to ramp up also.

India is experiencing a similar pattern of automotive growth to China, with national annual production trebling between 1998 and 2008 (to 2.3mn). As for China, most of these units are destined for a rapidly expanding local market, with exports growing more slowly. Many Indian models are designed especially for the local market, most famously the '10,000 rupee' car, advertised as the world's cheapest car.

Production in India and China, plus a number of other smaller, but rapidly growing auto centres (including such unlikely contenders as Iran and Indonesia), will probably pull total global automotive production volumes for 2009 up towards the recent average of 70 mn vehicles (for 2006 to 2008), if not higher. This will however, mask the continuing slump in higher-value, export-oriented production from the US, Japan and to a lesser extent, Europe.

Appendix: Australian new motor vehicle sales, by state*





* Total new vehicle sales per month to July 2009.

Data sources

- ABS 5206.0, *Australian National Accounts* (quarterly)
- 5302.0, *Merchandise Trade* (quarterly)
- 5625.0, *Private New Capital Expenditure and Expected Expenditure* (quarterly)
- 5671.0, *Lending Finance Australia* (monthly)
- 5676.0, *Business Indicators* (quarterly)
- 9309.0 *Motor Vehicle Census* (annual)
- 9314.0 *Sale of New Motor Vehicles* (monthly)*

Bloomberg online.

Bracks Review, *Review of Australia's Automotive Industry, Final report*, 22 July 2008.

FAPM (Federation of Automotive Products Manufacturers),

FCAI (Federal Chamber of Automotive Industries), *VFACTS National Report, New Vehicle Sales* (monthly)

Go Auto New Car Diary, www.goauto.com.au/

OICA (International Organization of Motor Vehicle Manufacturers), www.oica.net/category/production-statistics/

Reuters news online.

* Data note: the ABS has suspended publication of its trend data series for motor vehicle sales from May 2009.

Important Notice

Australia and New Zealand Banking Group Limited is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11 005 357 522

100 Queen Street, Melbourne, Victoria, 3000, Australia

Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom

Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of FINRA [www.finra.org] and SEC)

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 National Bank Limited

Level 7, 1-9 Victoria Street, Wellington, New Zealand

Telephone +64 4 802 2000

This document ("document") is distributed to you in Australia and the United Kingdom by Australia and New Zealand Banking Group Limited ABN 11 005 357 522 ("ANZ") and in New Zealand by ANZ National Bank Limited ("ANZ NZ"). ANZ holds an Australian Financial Services licence no. 234527 and is authorised in the UK and regulated by the Financial Services Authority ("FSA").

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of ANZ), 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 document and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This document is being distributed in the United Kingdom by ANZ solely for the information of its eligible counterparties and professional clients (as defined by the FSA). It is not intended for and must not be distributed to any person who would come within the FSA definition of "retail clients". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document 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, ANZ NZ, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZ, ANZ NZ, ANZ S or their affiliated companies 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 document accurately reflect the author's personal views, including those 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 document and are subject to change without notice. No part of the author's compensation was, is or will directly or indirectly relate to specific recommendations or views expressed about any securities or issuers in this document. ANZ, ANZ NZ, ANZ S, their affiliated companies, their respective 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.