Automotive Industry Economic Survey

December Quarter 2002 - Survey 35

Perceptions, Performance and Expectations Of the Retail Automotive Industry, the Victorian Economy and the Australian Economy

Victorian Automobile Chamber of Commerce
7/464 St Kilda Road
Melbourne VIC 3004
Phone: (03) 9829 1111
Fax: (03) 9820 3401
E-mail: vacc@vacc.asn.au
Internet: www.vacc.asn.au

The Automotive Industry Economic Survey was sent to all VACC and TACC members during the first week of January 2003. All completed questionnaires were returned to VACC by January 17th, 2003.

Contents

Automotive Industry Economic Survey
December Quarter 2002

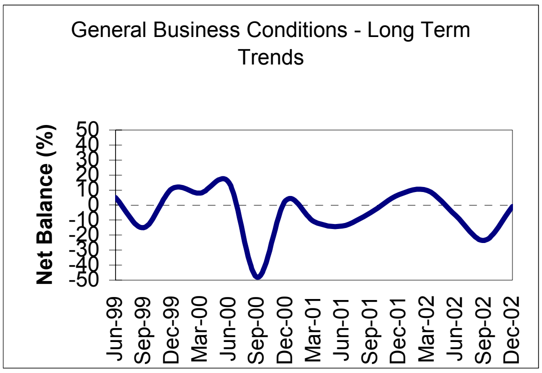
The Automotive Industry Economic Survey is conducted every quarter by the Victorian Automobile Chamber of Commerce. The survey provides valuable information on overall business activity and prospects within the Retail Automotive Industry. This quarter recorded 675 business responses in both metropolitan and non-metropolitan Victoria. The thirty-fifth Automotive Industry Economic Survey was conducted during January 2003 and reports business experience during the December Quarter 2002 and expectations of the December Quarter 2002 as well as expectations of the next 12 months.

VACC Division	Percentage of Total Survey Respondents
Australian Automobile Dealers Association	11.4
Automotive Electrical Division	3.7
Automobile Repairers Division	35.3
Body Repair Division	12.7
Commercial Vehicle Industry Association	2.5
Engine Reconditioners Association	3.3
Farm Machinery Dealers Association	4.3
Motorcycle Industry Division	3.9
Radiator Service Division	0.9
Service Station Division	4.1
Towing Operators Division	0.7
Used Car Traders Division	3.3
Victorian Tyre Dealers Association	4.4
General VACC Membership	9.5

Summary of Results

General Business Conditions

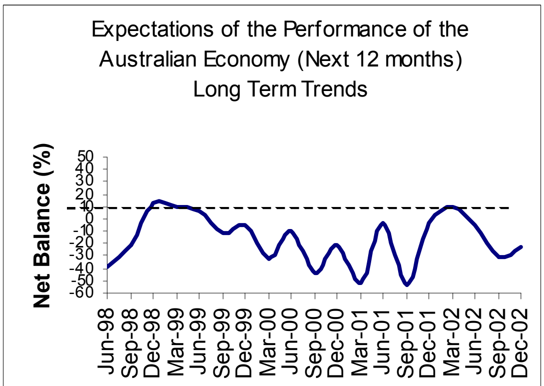
Business performance in the December quarter compared to the previous quarter was much stronger. General business conditions were reported as being worse by 28 per cent of respondents and better for 27 per cent, while 44 per cent indicated that business was much the same. This has brought overall business performance up to just under a positive level.



National Economy

After a decline in expectations of the Australian Economy in the September quarter, VACC members indicated in the December 2002 quarter that they expect the Australian economy to improve slightly over the next twelve months. However, expectations are not strong and indicative of a softening in growth.

Twelve per cent of respondents felt that the Australian economy would improve over the next twelve months compared to 35 per cent that are expecting it to worsen. Fifty-two per cent believe that the economy will stay much the same.

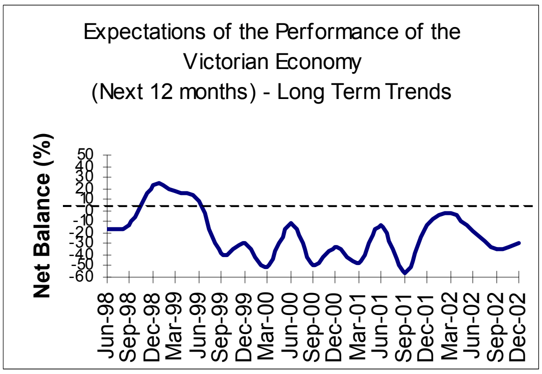


The December quarter results, while somewhat typical for the fourth quarter of the year, are disappointing.

Victorian Economy

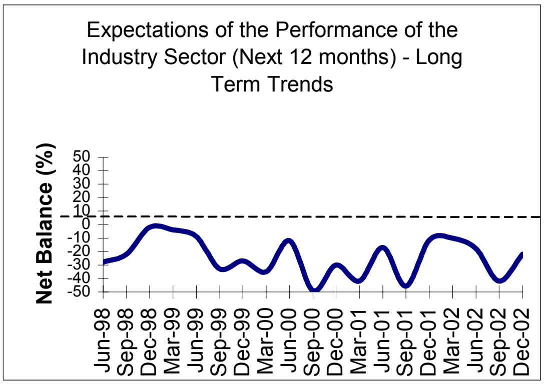
Expectations of the performance of the Victorian economy during the December quarter followed a similar pattern to that of the Australian economy.

Only 13 per cent of the respondents are expecting that the Victorian economy will perform better over the next 12 months, yet a massive 43 per cent believe that the economy will take a turn for the worse.



Industry Expectations

The overall expectations of the Retail Automotive Industry remain negative. The drought is severely impacting on businesses particularly in rural areas. Seventeen per cent felt optimistic that the sector would perform better over the next 12 months but 39 per cent believed that business conditions would get worse.

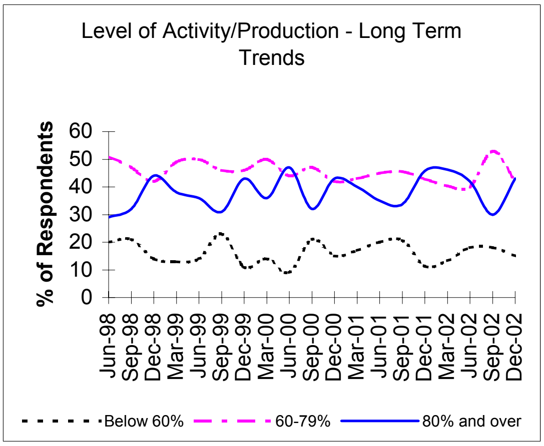


In summary, expectations of the performance of the National and State Economies as well as the performance of the Retail Automotive Industry have improved during the December quarter when compared to the September quarter. However, overall expectations are lower than December 2001 and with Australia in the midst of the worst drought since 1983 and with a strong possibility of war with Iraq the growth of the Australian economy could be severely affected.

Activity / Production Levels

Fifteen per cent of respondents worked at fewer than 60 per cent of capacity in the quarter – compared to 18 per cent in the last quarter.

Forty-two per cent of respondents worked between 60-79 per cent of capacity – last quarter, 53 per cent of businesses were working at this capacity. Forty-three per cent of businesses worked at 80 per cent or more of capacity –compared to 30 per cent in the September quarter.



Business Performance

Sales levels were higher than last quarter responses. Thirty per cent of businesses said that sales were up, whilst one third of the respondents (33 per cent) reported worse conditions. Thirty-seven per cent reported similar sales levels.

Average selling price declined for 19 per cent of businesses in the quarter. Eleven per cent of businesses recorded higher average selling prices compared to the previous quarter. The majority (89 per cent) of respondents experienced no change to the average selling price.

Profitability was reported lower for 42 per cent of businesses, 15 per cent reported higher profitability.

Average wages went up for 25 per cent of businesses and fell for 8 per cent. Non-wage labour costs went up for 26 per cent of businesses and fell for only 6 per cent of businesses.

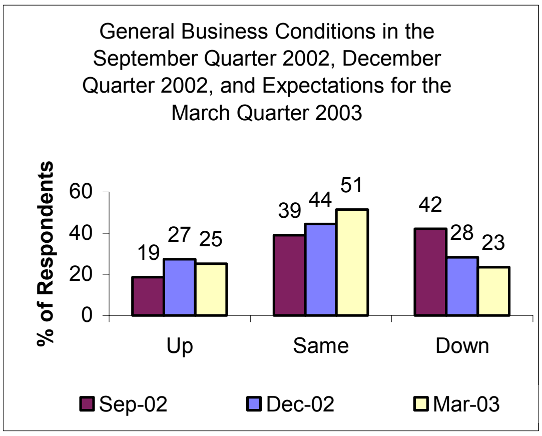
Employment levels improved from the previous quarter but still remain low. Employment levels dropped for 14 per cent of respondents but increased for 9 per cent of respondents.

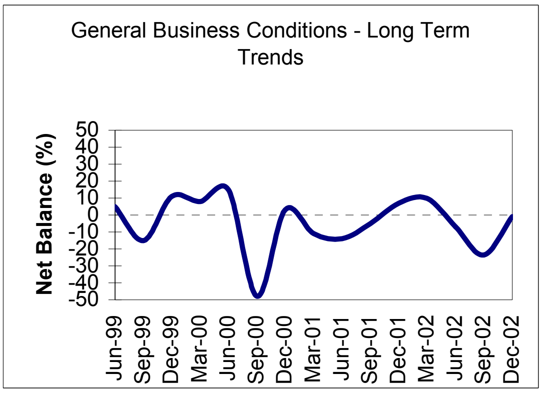
The December quarter survey highlighted stronger trading conditions in the Retail Automotive Industry. Traditionally, higher levels are experienced during the December quarter and the December 2002 quarter was no exception. However, despite the Christmas period, members are not convinced that sales and profits levels would measure up to those of March 2002; therefore they are reluctant to commit to investment.

Hindering Factors

Respondents were asked to list the factors that have hindered business performance during the quarter. Topping the list was taxes and charges (48.1 per cent) of respondents identified this as a hindering factor. The second most limiting factor was lack of demand and orders (38.5 per cent). Competitive discounting climbed to third place (34.1 per cent), in fourth place climate conditions (33 per cent), followed by shortages of skilled and suitable labour (32.6 per cent), competition from other sources (29.7 per cent) and labour cost and government regulation (27.5 per cent).

General Business Conditions





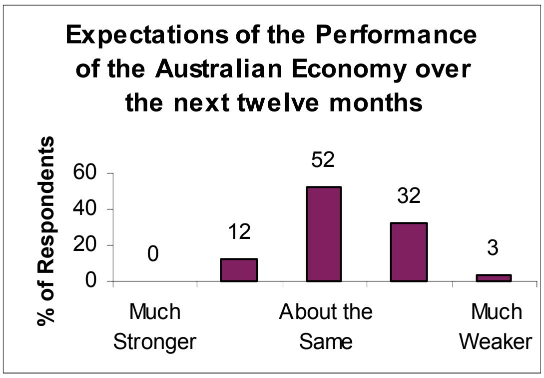
The outlook on general business conditions improved in the December 2002 quarter bringing it back to June 2002 levels.

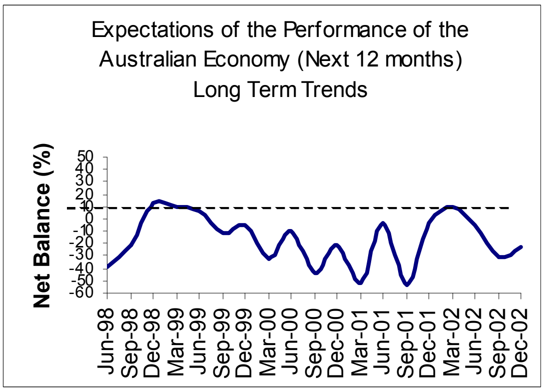
The survey revealed that 28 per cent of respondents experienced worse general business conditions in the December quarter compared to 42 per cent in the September quarter, while 27 per cent experienced better conditions compared to 19 per cent in the September quarter.

Twenty-five per cent of businesses expect that general business conditions will improve next quarter while 23 per cent of businesses are expecting general business conditions to deteriorate.

The number of respondents expecting the general business conditions to remain the same for the March quarter is 51 per cent.

Expectations of the Australian Economy





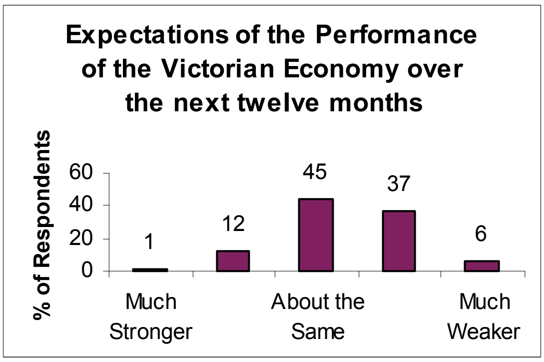
Expectations of the performance of the Australian Economy have become slightly more optimistic during the December 2002 quarter after a slump in the previous quarter.

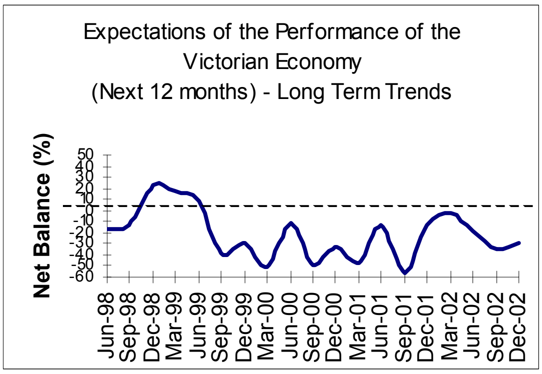
Twelve per cent of respondents felt that the Australian economy would improve over the next twelve months compared to 35 percent that are expecting it to worsen. Fifty-two per cent believe that things will stay pretty much the same.

However, overall confidence in the Australian Economy is still negative. The drought and the instability in the Middle East haven't gone unnoticed. VACC members are concerned that the lack of income in the agricultural sector is leading to reduce spending in the retail automotive sector.

In addition, respondents expressed their concern over the slow-down in the US economy and were worried about instability in the Middle East, which may potentially lead to a war.

Expectations of the Victorian Economy



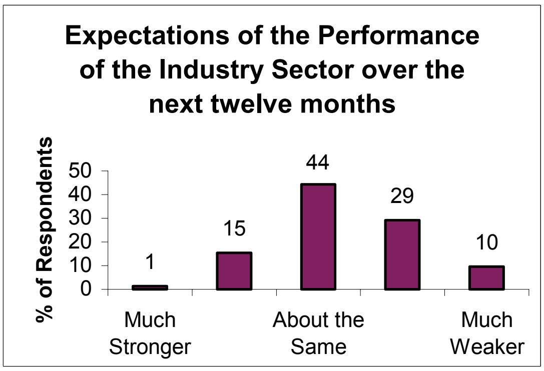


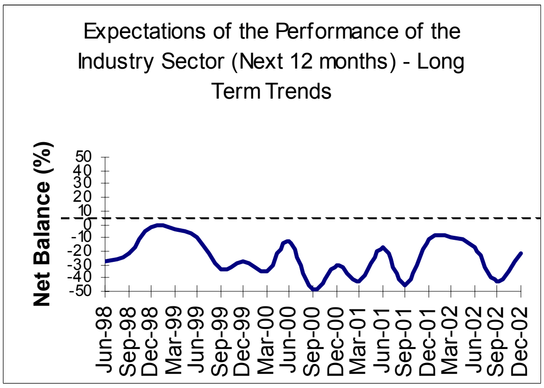
In line with the expectations of the Australian Economy, expectations about the performance of the Victorian Economy have also improved slightly during the December 2002 quarter.

Thirteen per cent of respondents felt that the economy would improve over the next twelve months, while 43 per cent are expecting a worse performance, and 45 per cent believe the economy will perform the same as it did in the past 12 months.

VACC members feel that the Victorian economy is slowing and mentioned that consumers remain cautious and believe that the economy is particularly vulnerable to the drought.

Expectations of the Industry



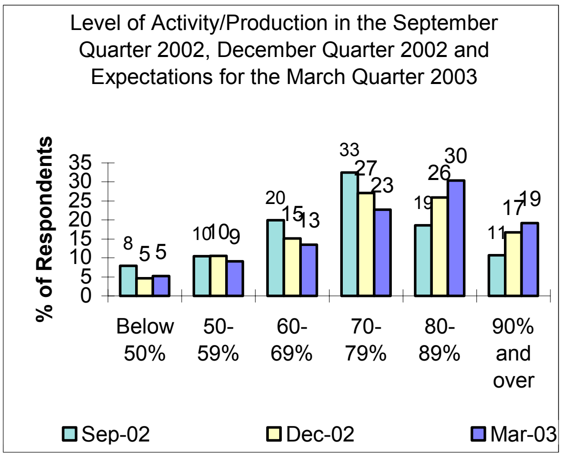


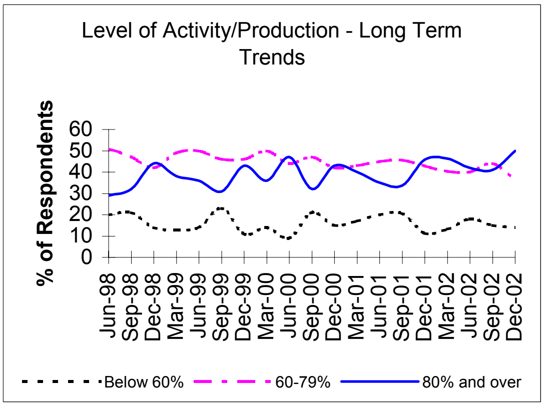
Expectations of the performance of the Retail Automotive Industry have taken a turn for the better during the December 2002 quarter. The survey revealed that 16 per cent of respondents are expecting the industry to perform better over the next twelve months, while 39 per cent are expecting the industry to perform worse.

Overall, the expectations have remained negative but improved from the September quarter. The results of the December 2002 quarter are comparable to those of June 2002.

Business conditions in the Retail Automotive sector are weak due to reduced spending, a spill over from the drought. In addition, government regulations and taxation are hindering small business performance. The increasing shortage of skilled labour in the automotive industry is noticeable and labour costs continue to rise along with insurance costs.

Level of Activity / Production





Production levels and capacity use of plant, equipment and labour were slightly up this quarter compared to the previous quarter.

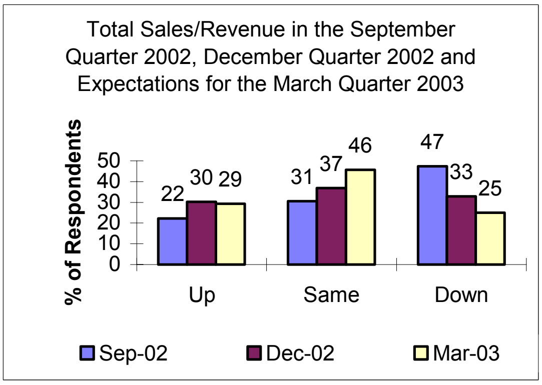
Fifteen per cent of respondents worked at under 60 per cent of capacity in the quarter – compared to 18 per cent in the previous quarter.

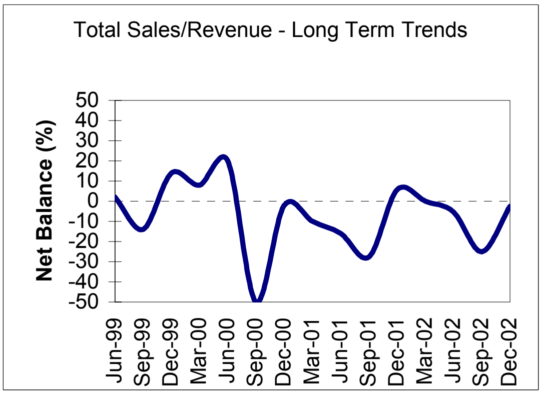
Forty-two per cent of respondents worked between 60-79 per cent of capacity – compared to 53 per cent in the previous survey.

Forty-three per cent of businesses worked at 80 per cent or more of capacity – compared to 30 per cent of businesses in the previous quarter.

VACC members have indicated that they expect to operate at very similar levels during the March quarter. Some however, have pointed out that they expect a general slowdown after the increased Christmas activity levels.

Total Sales Revenue





Sales/revenue levels have improved during the December quarter, to a similar level as during the June quarter.

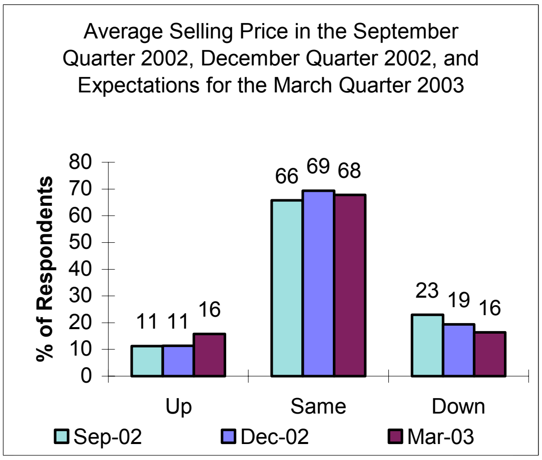
Thirty per cent of respondents experienced increased sales/revenue in the quarter compared to the previous quarter (22 per cent), while 33 per cent experienced lower sales/revenue (47 per cent during the September quarter).

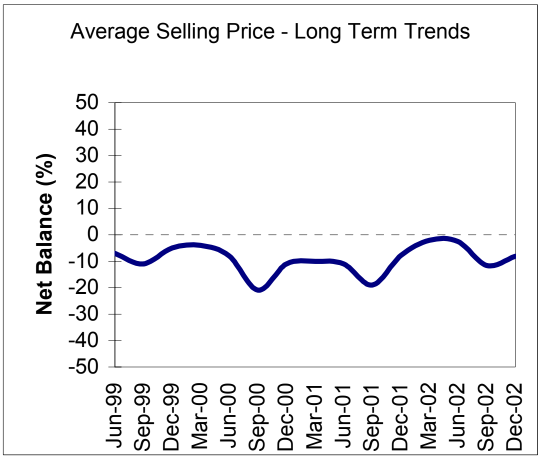
The remaining 37 per cent experienced similar sales/revenue to that achieved in the previous quarter, compared to 31 per cent in the September quarter.

Expectations are less optimistic for the March quarter. Sales/revenue is expected to fall slightly during this period with 46 per cent expecting no change, 25 per cent expecting a decrease and 29 per cent an increase.

Looking at the long-term trends, December has usually brought an increase in sales/revenue followed by a decrease for the March quarter, which is generally a slower period in the automotive industry.

Average Selling Price





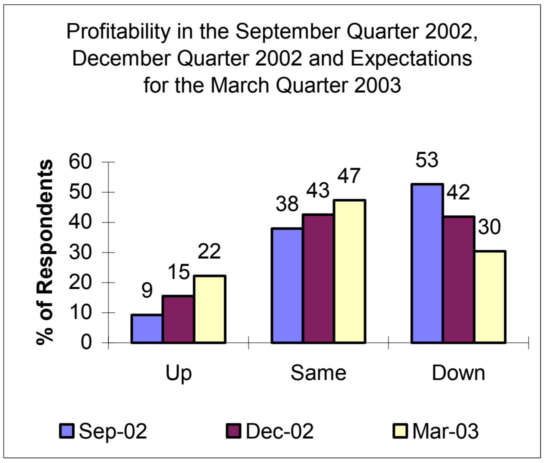
The December 2002 quarter has seen average selling prices rise slightly, suggesting that businesses have experienced higher demand and have been able to pass some of the higher cost on.

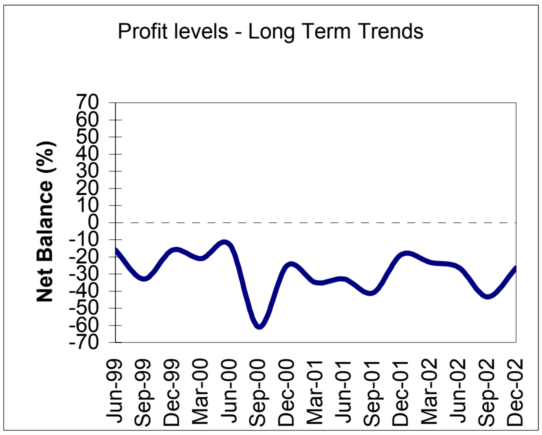
The average selling price declined for 19 per cent of businesses in the quarter. Conversely, 11 per cent of businesses experienced higher average selling prices. The remaining 69 per cent did not alter their average selling price in the quarter.

Average selling prices for business is expected to rise slightly during the March quarter with 16 per cent expecting average selling price to increase next quarter. Sixteen per cent are expecting a decrease and 68 per cent of businesses are expecting no change in average selling price.

It is predicted that average selling prices will stabilise during the March quarter, before starting to fall again during the June quarter.

Profitability



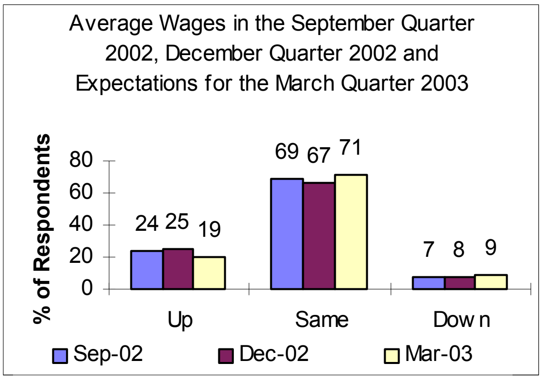


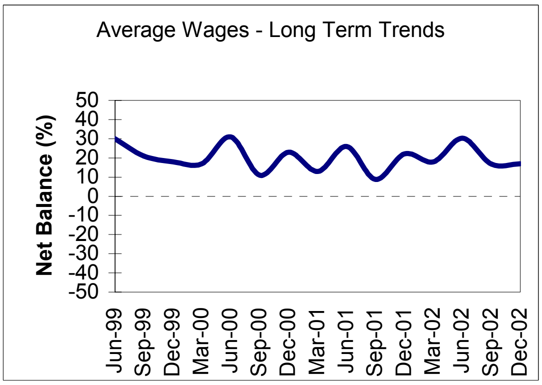
After a slow September quarter, profit levels have risen during the December quarter but have remained relatively low. A massive 42 per cent of businesses reported reduced profitability in the quarter. Conversely, only 15 per cent of businesses reported increased profitability in the quarter. The remaining 43 per cent experienced stable levels.

Twenty-two per cent of businesses are expecting an increase in profitability in the March quarter. However, 30 per cent are expecting profitability to fall – promising an overall better net result than for the December quarter.

Long term trends show that the industry continually experiences lower quarterly profitability over those experiencing higher profitability, yielding a negative net balance for all quarters since 1996. Low margins, a lack in demand and high overhead costs are still to blame for the relatively low profit levels.

Average Wages



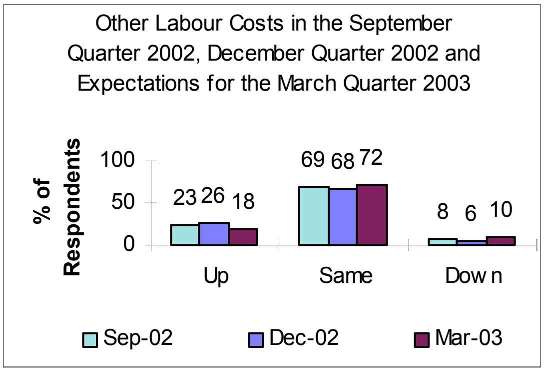


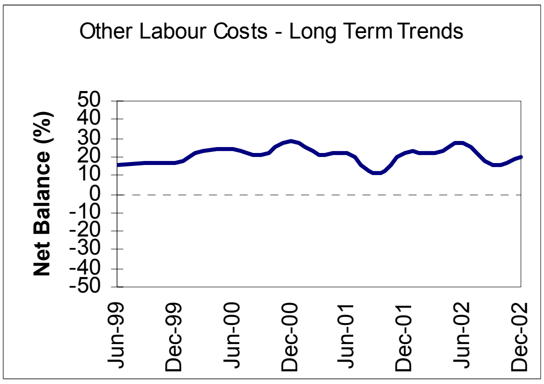
Average wage levels have been relatively stable during the December quarter. Wages costs went up for 25 per cent of respondents and down for only 8 per cent of respondents, 67 per cent reported no changes.

Respondents are expecting wage cost pressures to ease further during the March 2003 quarter. Only 19 per cent believe that wage costs will increase further and 9 per cent are expecting a decrease.

While the easing of wage cost pressures is good news for small business, members commented that the biggest challenge is to keep people in the industry and that there are not enough skilled people. They also commented that the incentive to train people was non-existent.

Other Labour Costs



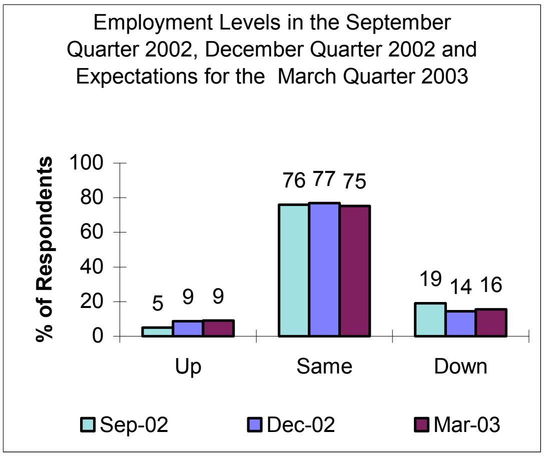


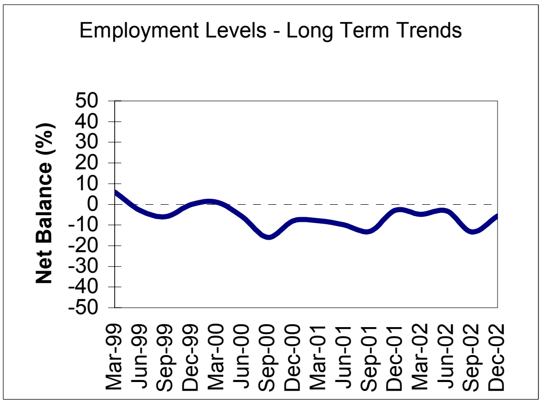
Superannuation, WorkCover and other labour on-cost continue to be of big concern to small business employers. Small businesses find it difficult to wear the cost and this may invariably influence their decision whether to hire new staff or not. Some respondents did also indicate that the cost of possible unfair dismissal claims is a main barrier to employing staff.

Twenty-six per cent of the respondents said that their other labour costs increased during the December quarter, up from 23 per cent in the September quarter. Six per cent experienced a decrease this quarter, last quarter this number was 8 per cent. The remaining 68 per cent did not experience any changes.

The outlook for the March quarter is for a further decline in other labour costs, which is reflected, in the expected decline in wage costs during the March quarter and lower employment levels.

Employment Levels





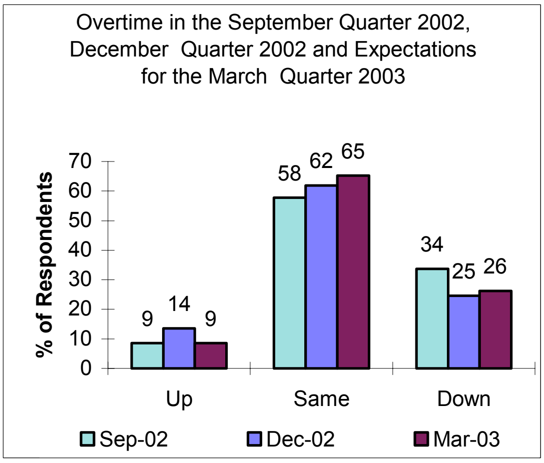
Employment levels have risen during the December quarter but continue to remain low.

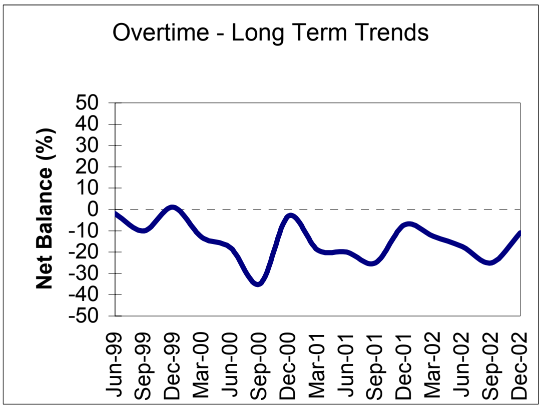
Employment levels dropped for 14 per cent of respondents and increased for only 9 per cent of respondents. Seventy-seven per cent did not experience any changes in employment levels.

The outlook is very similar for the March 2003 quarter, with 16 per cent of respondents expecting a decline, 9 per cent an increase and 75 per cent not expecting any changes in the employment levels.

General weak conditions in the automotive industry will more than likely lead to continued low levels of employment. High labour and other labour costs make small business owners hesitant to expand their work force.

Overtime



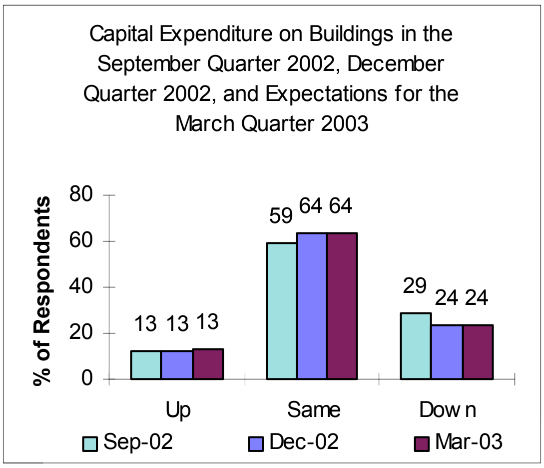


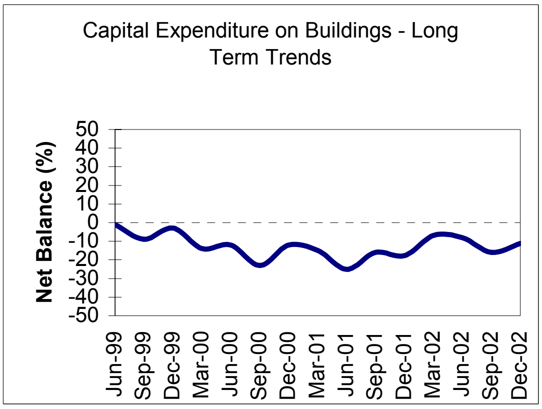
In line with increased pre-Christmas trading activities, overtime levels rose during the December 2002 quarter. However, the level of overtime worked did not reach the same levels as during the December 2001 quarter.

Sixty-two per cent of businesses reported unchanged levels of overtime, 14 per cent indicated higher overtime worked in the quarter and 25 per cent worked less overtime.

More members believe that the overtime levels will decrease during the March quarter. Twenty-six per cent expect a decrease in overtime, 65 per cent are not predicting any changes and 9 per cent expect an increase.

Capital Expenditure on Buildings

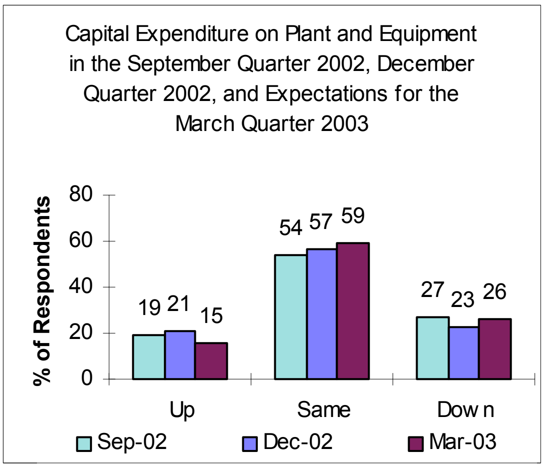


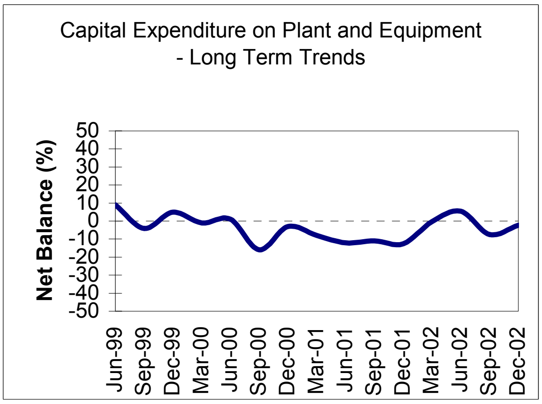


Sixty-four per cent of business reported no changes in building investment in the quarter, 24 per cent of businesses reported lower investment and 13 per cent an increase.

No significant changes are expected for the March quarter indicating that small business is not prepared to invest building during times of economic uncertainty. Thirteen per cent of respondents expect a rise in CAPEX on buildings, 24 per cent are expecting decreases. It is felt that the ongoing trend of low CAPEX on buildings could have very negative long-term effects and small business owners will be forced to revisit their budgets.

Capital Expenditure On Plant & Equipment





Similar to the levels of capital expenditure on buildings, capital expenditure on plant and equipment has further increased during the December quarter.

Twenty-one per cent of respondents reported an increase in investment and 23 per cent reported lower investment. Fifty-seven per cent of respondents did not alter investment levels in the quarter.

Investment expectations for the March quarter are set lower. Twenty-six per cent of businesses expect a drop in investment on plant and equipment while 15 per cent expect an increase.

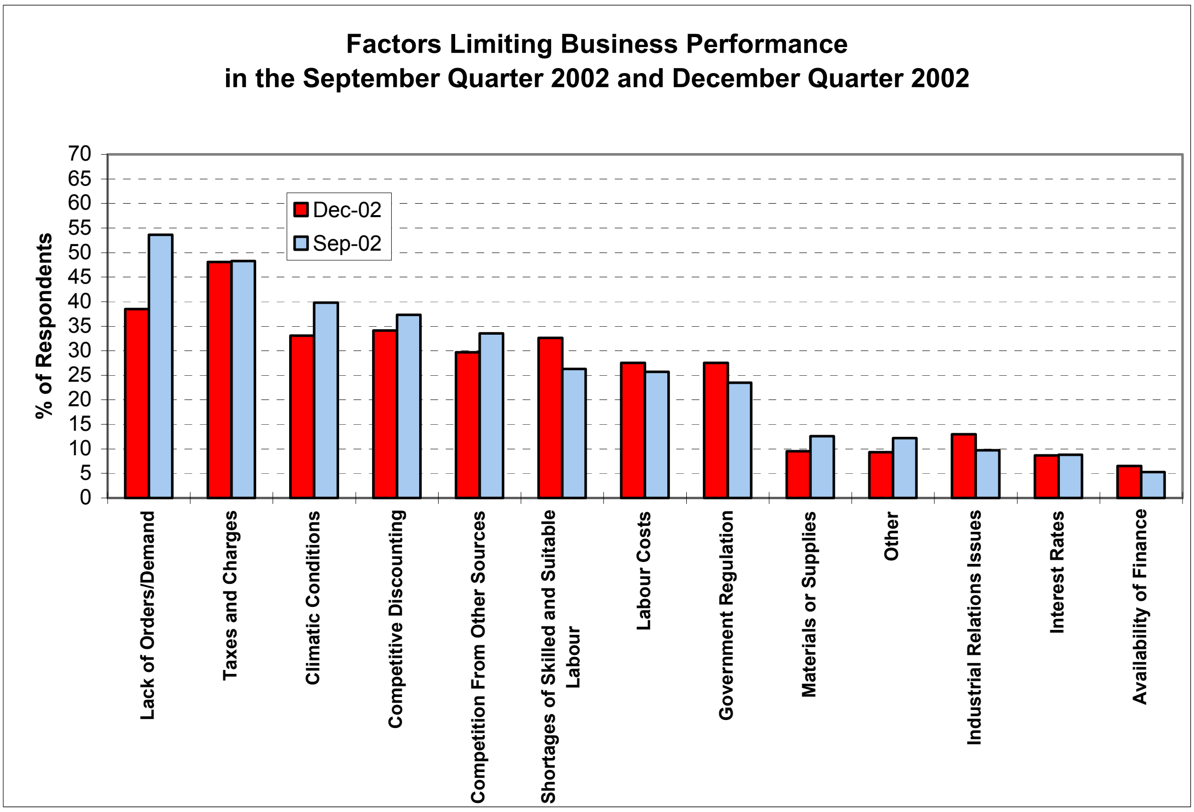
Capital expenditure on plant and equipment and buildings is traditionally not a high priority to VACC members – they don't tend to be confident enough to commit to large updates, especially not under the current volatile economic conditions.

Factors Limiting Business Performance

Respondents were asked to list the factors that have hindered business performance during the quarter. Topping the list with 48.1 per cent was taxes and charges for VACC members. The second most limiting factor was the lack of demand and orders, with 38.5 per cent of respondents identifying this as a hindering factor. Competitive discounting climbed to third place, with 34 per cent identifying it as a major factor.

Climate conditions, at 33 per cent, are followed by shortages of skilled and suitable labour at 32.6 per cent and competition from other sources at 29.7 per cent remain significant hindrances in business performance.

The graph below shows the relative importance of factors during this quarter in comparison to the past quarter.



<u>Other factors believed to hinder overall performance were:</u>

- Superannuation, payroll tax and OHS requirements.
- Spiralling costs of materials.
- Lack of consumer spending.
- Rising insurance premiums.
- Price setting methods of insurance companies.
- Exchange rate of $Australian against $US.
- Unfair dismissal laws which make employers reluctant to employ staff.

Comments by VACC members…

About the economy

"It appears that there is more confidence in the market, but it is just a matter of getting out there and selling our services and if you can't afford extra staff it makes it hard and you have to out in extra hours (ie personal/family time) hopefully a for a good result."

"Furl and the uncertainty of the world economic situations hinder the stability of small business. Rural areas also affected by climate, drought rain at inappropriate times etc. Consumers reluctant to spend on anything apart from basic needs."

"We are in a recession & do not want to except the situation."

"Everything looks favourable for a good year. Lets see if the yanks can mess it up!"

"Overall I think the economy is fairly buoyant and I don't trust the world economy especially with George W Bush holding the button. But in all I think we in the motor trade hold overseas back more than we think, we need to increase our labour rates to match - electricians and other similar trades."

About the effect of the drought

"Drought worst on record in area. Hopefully 2003 will be a boomer."

"Lack of rain has created a strong downturn which will probably intensify through the new year."

"While the next three months are expected to be slightly up and over the last 3 months, the drought is until being impacted in our country area."

"Drought affects more than farmers."

"This drought has the potential to cripple rural industries and hence rural Victoria in general. Will take years to recover."

"The drought and increased overheads are impacting now and will continue to do so for next 12 months or longer. Increased insurance costs, power costs etc are a major problem also."

"Drought and adverse weather conditions affect not only the farming sector but everyone."
"The drought conditions in an agricultural area have a huge impact on the whole economy of the region. We have experienced the worst 3 months period of any during 25 years in this business."

"I believe the nation wide drought will cause a downturn in sales."

"By lack of water, lack of work. If we don't get rain in the autumn it will be worse next year."

"Most of our business is with farms. Drought has effected us all, not as much $ to spend in the community."

"Whilst we have escaped the worst of the drought it has affected the costs to dairy farmers who we rely on."

About skill shortages

"Hard to get qualified Auto Electricians in rural areas."

"Lack of skilled mechanics becoming and urgent issue."

"I have had a professional and successful business for 10 years, but I believe this sector of the industry is being marginalised - shortage of labour shrinking margins, and the cost of GST compliance."

"We are currently knocking back contracts due to shortage of skilled labour ie. Sheet metal, welders, body builders."

"Lack of skilled qualified mechanics creates problems."

About regional issues

"Many people in rural are out of work. We are unable to change out or earn anywhere near the same as our city counterparts!"

"No support from government for country (rural) business."

"State government should abolish payroll tax for rural based country business to assist with reversal of population drift to metropolitan areas."

About general conditions in the Automotive Retail Industry

"I am concerned about the need for roadworthy licensing. It costs over 500 to have a technician accredited. I have paid for three technicians to be over the last 15 months two have been quoted to other jobs meaning I am continuing to payout although I pay good wages. I believe the accreditation is just a rip off by the tafe colleges."

"Our businesses are over regulated-we need lots of help to cope with all the standards to be met."

"Very difficult in our area to secure mechanics as the army contractor (tenix) have poached anyone they can because of a large army/defence contract."

"The banks are killing us!!"

"Finding business hard because of competition from supermarkets (Woolworths) we cannot buy fuel 7 cents below rack or wholesale price, we don't understand why we can't compete with them when fuel is a necessity."

"Not enough margin and too much cut through competition."

"The government need to help with reduced costs for small business such as insurances, super, workcover. Costs are rising and profit level is the same if not reduced."

"I think that the way Government is going you will have too many compliance issues in the future. This has to be streamlined so we can all understand were we stand."

"Due to a marketing programme we are expecting to increase our profitability by targeting more prestige vehicles and hopefully increasing margin."

"Once again Government hinders our growth with particular reference to unfair dismissal privacy and insurance being the greatest hindrances to growth."

"Safeway petrol plus to open in next three months. I'm all business cannot compete with 6 to 10% off + this is where they will start so we are destroyed. Who cares?"

"Competitive discounting - public private sector. Other sources competition - fleet system. Leasing companies - making deals with the dealership such as Holden, ford etc. have absorbed most of the business section - the dealers do not have to compete in pricing."

"I believe the trading environment will be competitive and tough but by hard work and attention to costs and service standards there is room to grow and at least maintain our current margins."

"More and more staff we required to comply with gov't issues ie. Got margins are down due to competition between dealer. Costs are up due to manufacture demands"

"This is truly a marginal industry at best."

"Motorcycle industry is seasonal, oct, nov, dec is always better than july, aug, sept this year is down on last years sales."

About the impact of the GST

"Keep pushing for no GST on 2nd hand/used cars please or let it right across the board ie. On private sales as well."

"Taxes charges paper work GST etc is getting very demanding on businesses."

"GST is still affecting our smaller trade clients. Superannuation cost increases have largely been absorbed & negatively affected profit. A catch up phase is expected to occur over the next year using differential pricing to achieve this whilst remaining competitive profitable, on "cheaper" work."

"The continuos high taxation of employees, companies, workcover costs, payroll tax, bank charges are making life extremely difficult in current climate. No incentives to invest + employ additional staff. Drought relief for farmers but not for their suppliers! Its tough!"

"Taxes and charges are a real problem."

"GST is still a drain on producing business time."

About the effect of Unfair Dismissal Laws

"Unfair dismissal laws are a major hindrance to employment."

"The current unfair dismissal laws are becoming a real problem to employ new people."

About the hourly rates paid to body repairers by insurers

"While insurance companies continue to direct work and stifle hourly rates then the body repair industry will continue to stagnate and subsequently decline."

"Hourly rates-slow payments by insurance companies."

"Insurance industry methods have wrecked the trade."

"The main factor hindering out business performance is insurance companies directing our long established customers to other repairers out of the areas and not satisfying our customer's requests."

"The major factor hindering my business is insurance companies trying to erode my customer base and not paying a reasonable hourly rate for quality repairs."

"Some insurance companies are playing hard now, it is harder to get the job from some of the insurance companies such as RACV & AAMI. In this case, other panel beater would do the work in the very cheap price, which is highly impossible to match the price. Just getting harder to survey in this competitive condition."

"Insurance work is keeping my business I am about to sell my factory and walk out of the trade."

Net Balance Analysis

Net Balance Analysis

	Much Stronger	Somewhat Stronger	About the Same	Somewhat Weaker	Much Weaker	Stronger	Weaker	**Net Balance**
Australian Economy	0	12	52	32	3	13	35	-22
Victorian Economy	1	12	45	37	6	13	43	-30
Industry Sector	1	15	44	29	10	17	39	-22

	Up	Same	Down	**Net Balance**
General business conditions	27	44	28	-1
Total Sales Revenue	30	37	33	-3
Average Selling Price	11	69	19	-8
Profitability	15	43	42	-27
Average Wages	25	67	8	17
Other Labour Costs	26	68	6	20
Employment Levels	9	77	14	-6
Overtime	14	62	25	-11
CAPEX on Buildings	13	64	24	-11
CAPEX on Plant and Equipment	21	57	23	-2