

Automotive Industry Economic Survey South Australia

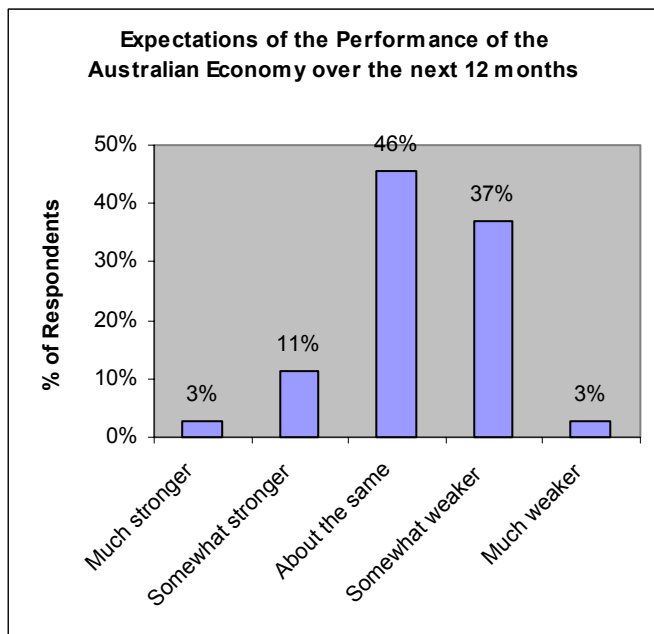
December Quarter 2002 – Survey 35

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

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*Automotive Industry Economic Survey
December Quarter 2002*

The Automotive Industry Economic Survey is conducted by The Motor Trade Association of SA Inc. The survey provides valuable information on overall business activity and prospects within the Retail Automotive Industry. This quarter recorded 73 business responses in both metropolitan and non-metropolitan South Australia. 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 March Quarter 2003 as well as expectations of the next 12 months.

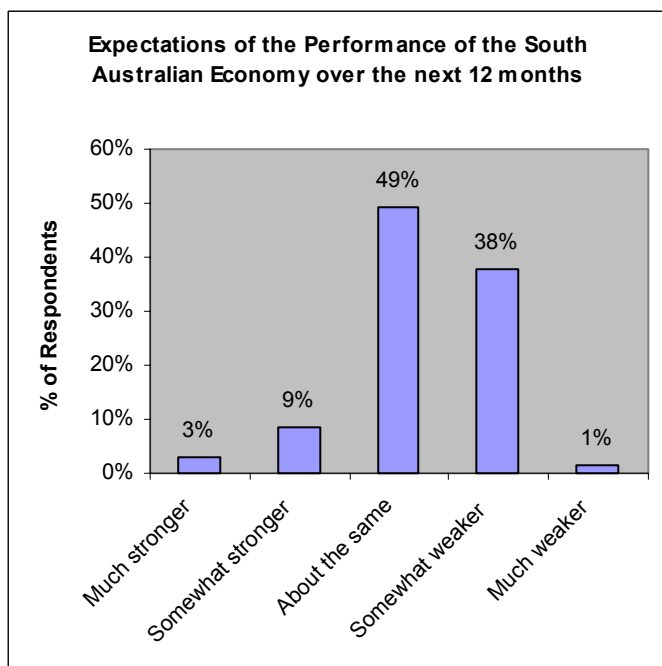


National Economy

South Australian members are pessimistic about the expected performance of the Australian economy over the next twelve months. Some 14% of respondents expected the economy would improve over the next year, whilst 40% believed the economy would be weaker. Almost half thought the economy would be about the same.

The December Quarter 2002 results represent a substantial decline from the corresponding period in 2001, when 43% expected the economy would be stronger over the next twelve months and 11% thought it would be weaker.

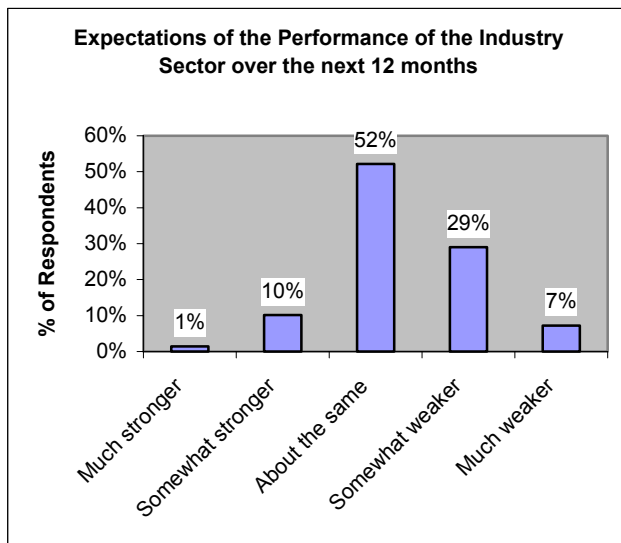
The Australian drought and instability in the Middle East are two key factors in members' lack of confidence in the economy.



South Australian Economy

Expectations of the performance of the South Australian economy over the next twelve months almost mirror respondents' expectations of the Australian economy. In the December quarter 2002, just 12% of respondents indicated that they expected a strengthening state economy over the next twelve months, with 39% expecting it to weaken. Again, almost half expected the economy would be about the same throughout the year ahead.

The outlook for the South Australian economy was much more optimistic twelve months ago, with 46% expecting a stronger economy and just 13% anticipating a weaker economy in the year ahead from December Quarter 2001.

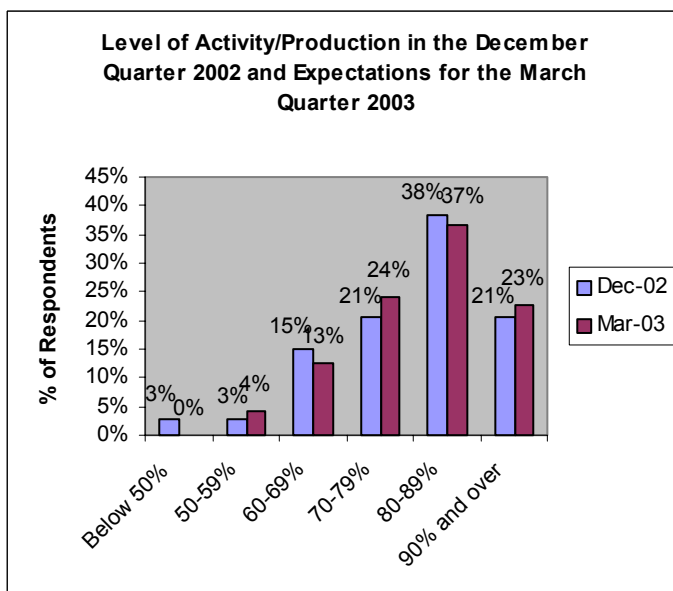


Industry Expectations

Not surprisingly, respondents were pessimistic about the future performance of the Retail Automotive Industry.

Only a small proportion (11%) of respondents expected the industry to be stronger over the next twelve months, with 36% expecting it to be weaker and 52% expecting little change.

Industry expectations in December Quarter 2002 are in stark contrast to those of December 2001, when 43% of respondents expected a stronger industry sector in the 12 months ahead. This equates to a decline of 32 percentage points in a twelve-month period, highlighting the difficult business conditions faced by members.

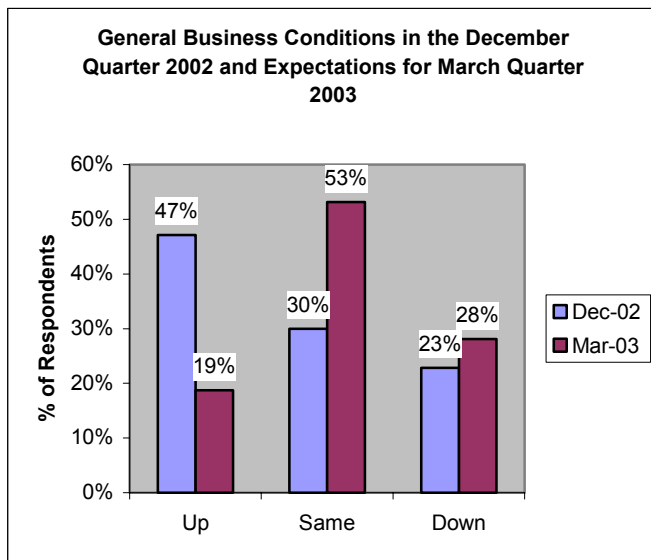


Activity/Production Levels

The majority of respondents were operating at moderate to high capacity levels during the December Quarter 2002. Some 21% reported they were operating at 90% and over capacity, with a further 59% operating at between 70-89%. The remaining 21% were operating at less than 70% capacity.

Whilst many businesses are running at a satisfactory capacity, other factors such as competitive discounting, taxes and charges, lack of demand, and shortage of skilled labour, make it difficult for members to sustain competitive and profitable enterprises.

Expectations of activity for the March Quarter 2003 were similar to the activity levels reported for the current quarter.



General Business Conditions

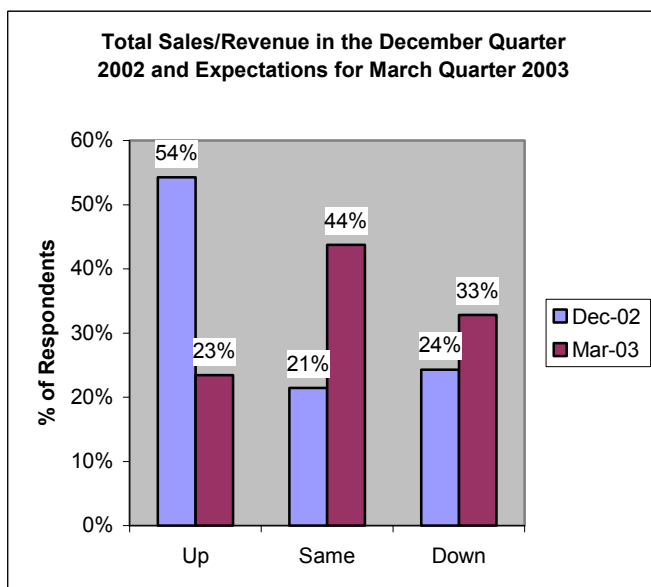
With the December quarter traditionally being a period of strong demand within the industry, it was not surprising that respondents reported favourable business conditions. Some 47% reported an improvement in business conditions in the December Quarter 2002, with 23% experiencing a decline. The net balance for the quarter was 24%, compared with 28% in December of 2001.

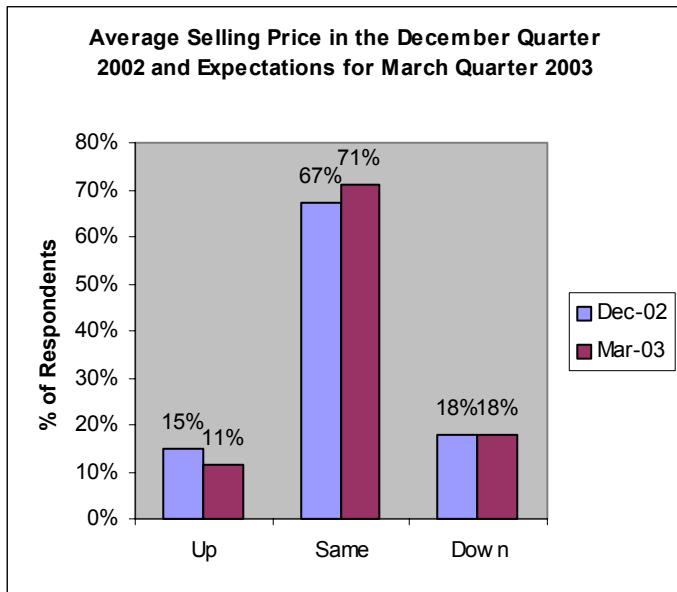
The outlook for March Quarter 2003 was much less favourable, with 19% of respondents expecting an improvement in business conditions, and 28% anticipating a decline. The net balance of expectations for March 2003 was -9%, significantly lower than the expectations for March 2002 of 9% (recorded in December 2001). This confirms that South Australian members are much more pessimistic about business conditions than they were twelve months ago, with the drought and unstable world economy having an adverse impact on their businesses.

Sales / Revenue

Sales and revenue were at a positive level in the December Quarter, with a net balance of 30%. The result was on a par with that of December 2001 (net balance of 32%), reflecting the increased activity in the Retail Automotive Industry each December quarter.

Respondents were, on balance, pessimistic about sales and revenue for the March quarter. Some 33% forecast a fall compared with 23% expecting sales to rise. Business conditions have clearly deteriorated in the past year, with the net balance of expectations for March Quarter 2003 standing at -10%, compared with 1% for March Quarter 2001 (recorded in December quarter 2001).



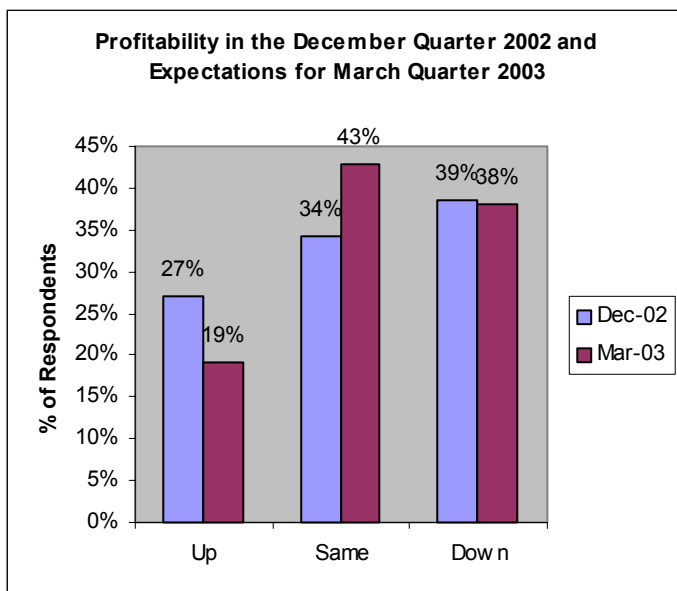


Average Selling Price

Average selling prices remained relatively stable in the December Quarter 2002 (net balance of -3%), and are expected to fall marginally in the March Quarter 2003 (net balance of -7%).

In the December Quarter 2002, 15% of respondents reported an increase in selling prices, 18% had a decrease, and 67% reported no change.

The anticipated further net fall in selling prices is bad news for members, who have identified competitive discounting as the number one factor that hinders the performance of their business.

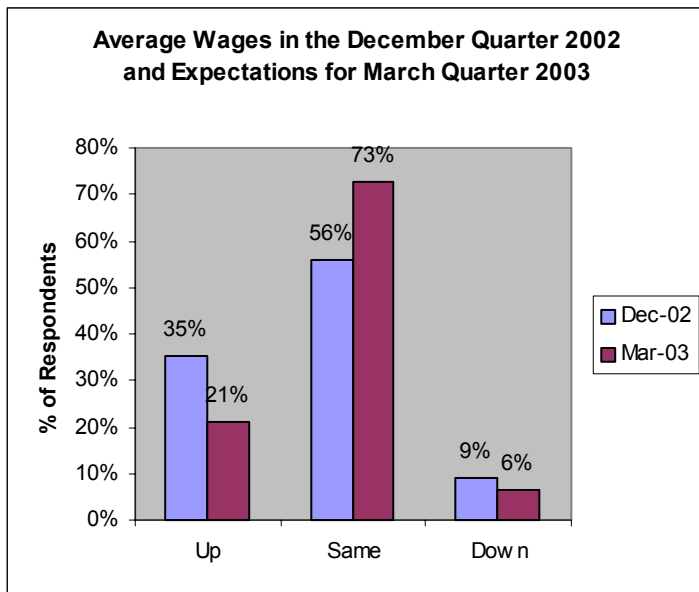


Profitability

Profitability in the Retail Automotive Industry has declined rapidly in the past twelve months. The net balance for profitability in December Quarter 2002 was -12% , 20 percentage points lower than the December 2001 net balance of 8% .

Alarming, respondents expected profitability to fall even further in the March Quarter. Some 19% expect an increase in profitability, 38% anticipate a fall, and 43% do not expect any change. This results in a net balance of -19% for the March Quarter.

Low margins, a lack of demand, and high overhead costs are still to blame for relatively low profit levels. Unfortunately, members in South Australia have little reason to be optimistic about profitability for the foreseeable future.

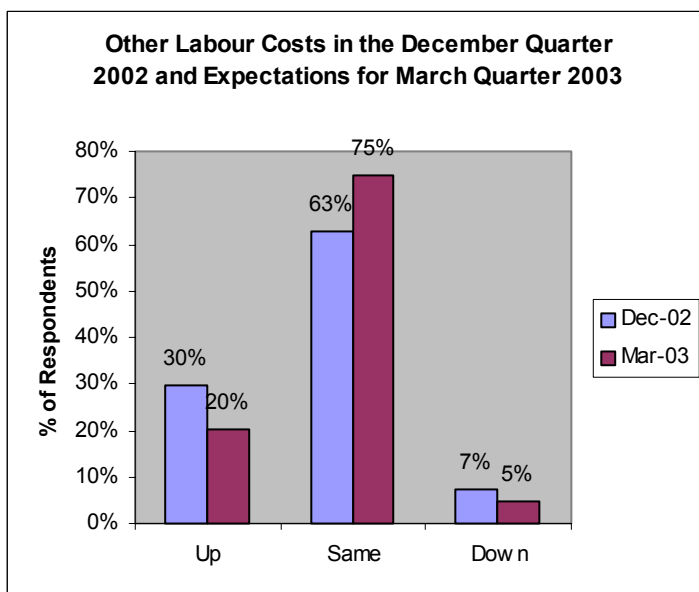


Average Wages

In the December Quarter 2002, members felt the impact of the record \$18 per week award safety net adjustment, with 35% reporting an increase in average wages. Just 9% of respondents had a reduced average wages bill.

Rising average wages is a consistent problem for members, with the net balance having been in excess of 25% in the past two December quarters (26% in December 2002 and 31% in December 2001). Increased wage costs are hurting members, with 32% of respondents identifying labour costs as a factor that is hindering their business performance.

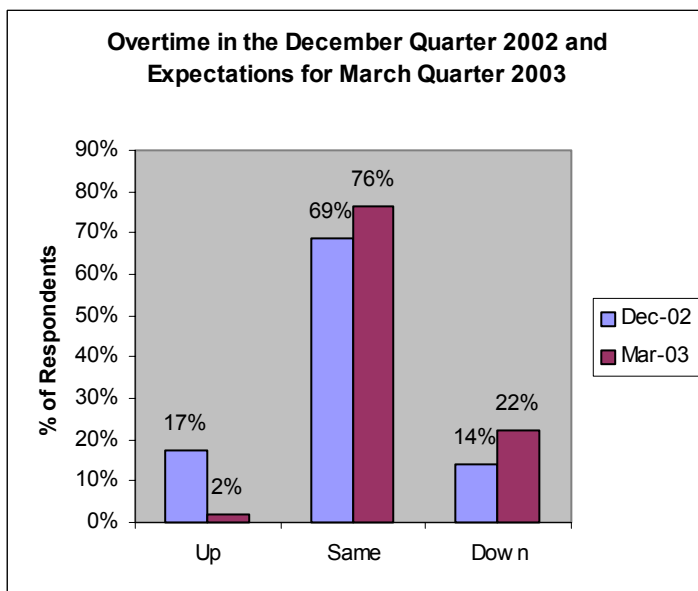
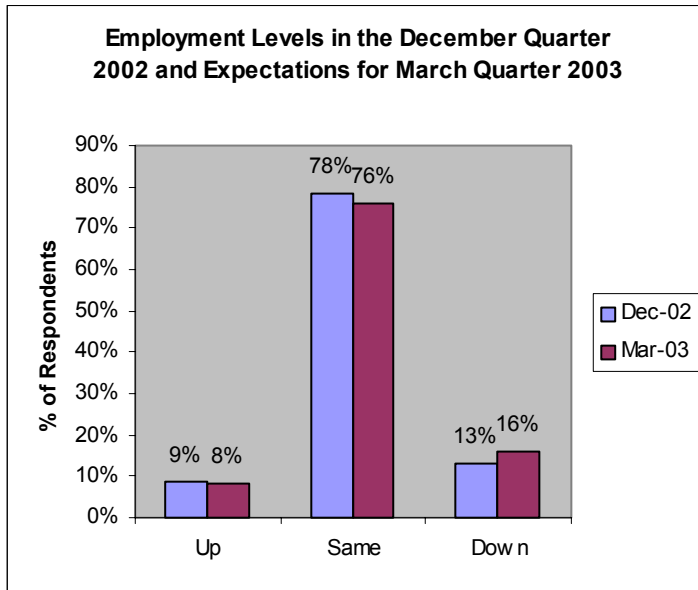
The proportion of respondents whose average wages bill increased is expected to fall in the March Quarter 2003, to 21%. This is most likely a reflection of the timing of the award safety net increase, which flows through to the majority of businesses in the September and December quarters.



Other Labour Costs

Other labour costs such as payroll tax, superannuation, paid leave, and workers compensation continue to be of concern to members. Some 30% of respondents reported rising labour costs in the December Quarter 2002, with a net balance of 23%.

The net balance for the corresponding quarter of 2001 was 31%, confirming the long-term nature of this ever-increasing problem for small business.



Employment Levels

Despite a high level of economic activity in the December Quarter 2002, employment levels fell. Utilisation of labour increased for 9% of respondents, it decreased for 13%, and remained about the same for 78%.

The net balance for employment was -4%, improving marginally on the December 2001 net balance of -7%. The net balance of expectations for March Quarter 2003 of -8% represents a further deterioration of employment levels in the industry. With generally weak conditions in the industry at present, it is expected that employment levels will remain low and possibly further deteriorate in subsequent quarters.

Overtime

Despite the seasonal increase in trading activity in the December Quarter 2002, there was only a small rise in overtime levels.

There was an increased level of overtime for 17% of respondents, 69% said that levels remained unchanged, and 14% recorded a fall in overtime worked.

With 79% of respondents operating at less than 90% capacity, much of the additional work of the December Quarter may have been absorbed without the need to pay overtime. Alternatively, as almost one third of respondents consider labour costs a hindrance to their business performance, it is possible that they just could not afford to pay their staff overtime, despite the increased level of economic activity.

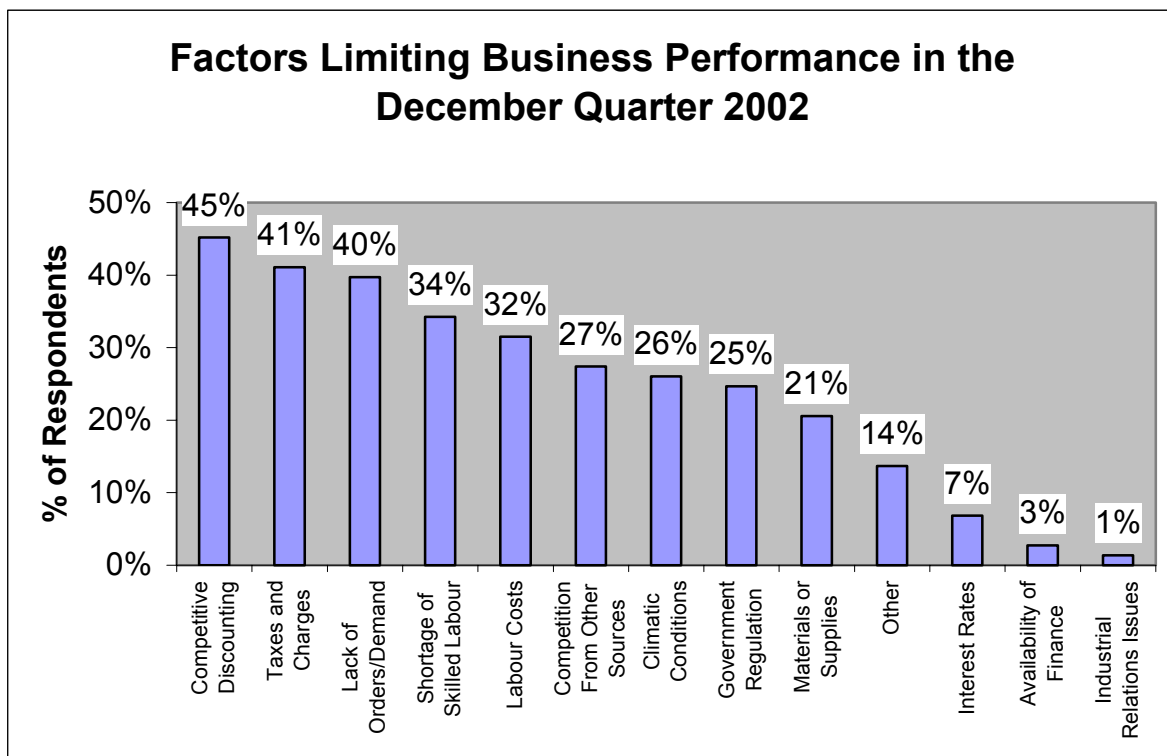
As further evidence of weak conditions in the Retail Automotive Industry, the net balance for overtime was 3% in December 2002, down from 8% in December 2001.

Factors Limiting Business Performance

Respondents were asked to list the factors that were limiting business performance during the quarter. Topping the list was competitive discounting (45% of respondents identified this as a hindering factor). The second most limiting factor was taxes and charges (41% of respondents), closely followed by lack of orders and demand (40%).

The labour market was identified as a significant hindrance to members. Shortage of skilled labour was a problem for 34% of respondents, and labour costs limited the performance for 32%.

The graph below shows the relative importance of factors limiting business performance during the December Quarter 2002.



Other factors identified by respondents which limited business performance included:

- Insurance companies;
- Increased overheads; and
- Economic uncertainty created by the threat of war.