



Economic outlook for Victorian Automotive Industry (report extract)

30 April 2010

Report by Access Economics Pty Limited for
Skills Victoria

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Automotive

Coverage: Automotive (passenger motor vehicles, light commercial, truck, bus, trailer, recreational vehicles) manufacturing, retail, service and repair, and allied industry (earthmoving and construction, outdoor power equipment, recreational boating, recreational vehicles, bicycles).

Specific industry and business cycle drivers: Interest rates, tax provisions, the \$A, tariff protection, Federal Government subsidies, petrol prices and the level of global capacity.

Recent relative sectoral performance rating: Low

Expected relative sectoral performance rating: Below average

Summary of ITAB advice and consultation

The latest Victorian Automotive ITAB advice details the following key change drivers and developments that will shape the industry in 2010 and beyond:

- Industry consolidation and rationalisation (supply side)
- Increasing competition from imports (supply side)
- Government policy developments (supply side)
- 'Green' technology developments (demand side).

In 2009, Australian vehicle output fell 31%¹, dropping to its lowest level in half a century. This occurred despite the boost in vehicle sales with the Federal Government's 'Investment Allowance'. The decline adds to the ongoing trend of lost market share for Australian automotive manufacturers - a trend that is expected to continue, particularly given the increased price competitiveness of imported vehicles since the 1 January 2010 tariff reductions. This trend continues to threaten the viability of Australian automotive manufacturers and their local network of componentry suppliers.

At the same time as Australian automotive manufacturing has been suffering, demand for vehicle service and repair continues to grow in line with the volume of cars on the roads. A strong \$A is also aiding the truck assembly industry in Victoria, given the reduced cost of the largely imported componentry.

In response to these recent market developments, **the Victorian automotive manufacturing industry has been restructuring its businesses into more consolidated positions**. Job losses and business closures have been highly publicised, in particular across automotive component producers. The industry response forms part of a global restructuring of automotive businesses, including a push toward further platform sharing and rationalisation of automotive brands. Although this trend will result in an even more competitive automotive industry

¹ VFACTS, 2010, Australian Automotive Industry – Monthly Production Volumes

landscape, it has created some potential export opportunities for Australian production platforms in the short run – the outcomes of these negotiations are likely to reveal themselves during 2010.

In the Victorian automotive service and repair industry, the demise of the independent repairer/mechanic and the increasing dominance of the manufacturer-backed business, is changing the industry landscape. As knowledge of new automotive technologies is increasingly kept in-house, the independent automotive service and repair business is struggling to supply services that meet the demand of the new car owner. In a similar fashion to the response across automotive manufacturing, the outcome of this **restructuring** looks to be that independent businesses - which have typically been small to medium in size - are either closing down or being absorbed into larger automotive groups.

Australian car manufacturers face an uncertain future, as Australians grapple with their traditional love affair of large cars. **Increasing competition from imports** can be expected to occur, driven by global industry restructuring, inevitable further advances in manufacturing in Asian Pacific economies (e.g. Japan, Korea, India and China), and further tariff reductions as part of government trade liberalisation policy commitments. The result for the domestic sector may well be greater levels of industry consolidation and off-shoring. Low volume niche manufacturing may emerge in its place. Automotive research and design capabilities are also expected to continue, though only where the ability to commercialise these findings exists.

Ongoing market developments aside, **the Federal Government will also play a significant role in determining the future of Australian automotive manufacturing.** In 2009, the government provided a major stimulus to the industry in the form of the Green Car Innovation Fund. At the same time however, the government changed the focus of the government vehicle fleet purchasing policy toward buying 'green', and away from buying Australian. This reduced government fleet purchases of Australian manufactured vehicles - traditionally the largest component of demand for Australian manufacturers. If the government maintains its stance on 'green vehicles' and does not provide further stimulus, the industry will be forced to expand its capability in 'green' technologies or face a more testing future.

The skill implication of these recent market developments has been an increase in demand for skilled trade labour. This demand is most acute in the automotive service and repair industry, where the rapid rate of technological development has outpaced the up-skilling of existing workers and updating of course content for newly trained workers. **Demand for skills in 'green' automotive technologies** - for use in small cars through to trucks, and in terms of materials use and efficient design through to incorporation of alternative fuels and electric drive - is a global phenomenon. More specific to the Australian automotive industry is the demand for electronics training for new and existing mechanics – driven by the increase in electronic control systems in new cars.

These skill implications are most critical for those new entrants into the automotive service and repair industry that don't have the benefit of an industry placement during their training. The Victorian Automotive ITAB believes that the lack of dissemination of knowledge on working with automotive electronics and green technologies is inhibiting the value of the training that is being provided by Technical and Further Education (TAFE) institutions – that is, the increased demand for specific training in new technologies is not being met. It is believed this outcome is the result of a lack of partnership arrangements between manufacturers and training providers – as part of a shift toward an in-house training model where training can be

optimised to particular functions. As a result, full time training (particularly with private training providers) is leading to poor job outcomes compared with manufacturer-backed apprenticeship training models.

Industry outlook

History suggests the large downturns in manufacturing employment are not clawed back during the subsequent recovery. As such, the compounding effect of recent market conditions will continue to negatively impact upon Victorian automotive manufacturing industry growth and employment prospects, and output and job losses experienced will be largely permanent.

Oil prices remain elevated relative to historical levels. Going forward, as supply dwindles and carbon pricing policies take effect, the price of oil is expected to remain high. The implication of this – and likely policy developments – is that future performance will be highly dependent upon the ability of the industry to undergo a ‘green transformation’.

Withdrawal of the government stimulus package measures is already having a significant impact on new motor vehicle sales, though this effect should only be temporary. Further, with interest rates on an upward cycle, the cost of borrowing (for motor vehicle finance) will increase, putting new vehicle purchase beyond reach of consumers at the margin. Against this, economy-wide jobs growth was strong at the end of 2009 providing some support to incomes, though overall the outlook for domestic demand is for only a modest paced recovery through 2010.

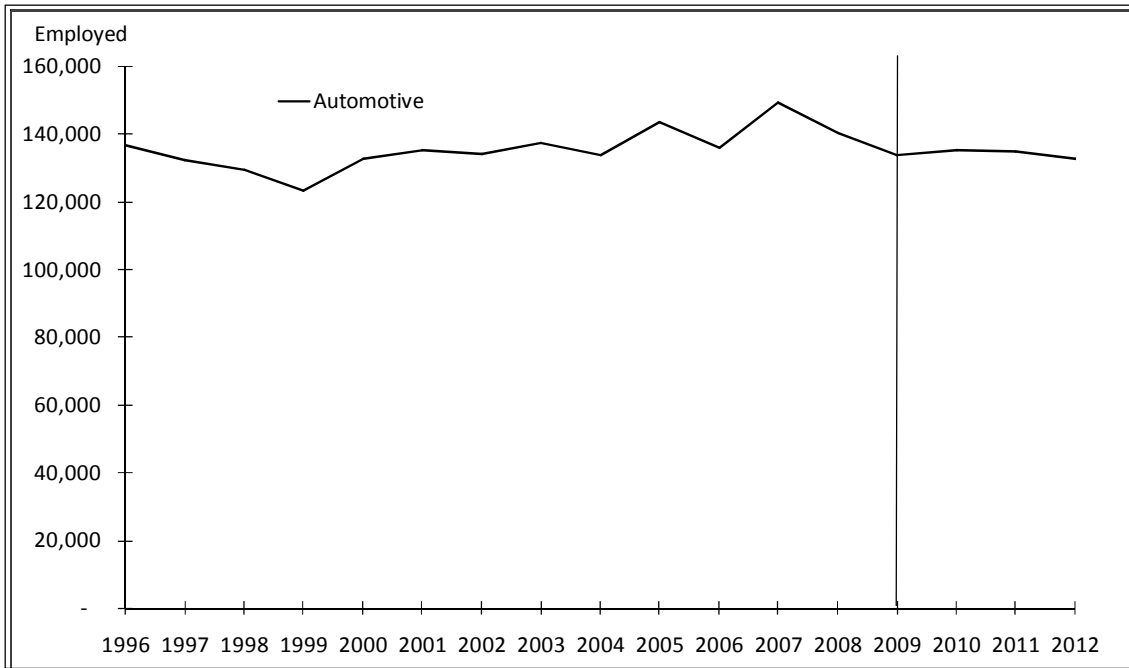
Revival of the mining boom will be a double edged sword for the automotive sector. While light commercial, truck and earth moving and construction equipment can be expected to prosper, the increased demand for the Australian dollar will hurt the prospects and profits of Australian passenger motor vehicle exporters (and any other manufacturers who can't sell to the resources sector). The mining boom may also draw skilled labour away from automotive manufacturing (including service and repair), given the greater employment prospects on offer.

The other looming impact is that of the government's proposed Emissions Trading Scheme on the cost of automotive manufacturing in Australia. Although a precise outcome is not yet known, expectations are for production price pressures to increase.

Chart 3.1 depicts a marginal improvement in industry employment² conditions in 2010 as incomes and accordingly demand improve from cyclical lows. However into 2011, continued competitive pressures and structural change are expected to revive the consolidation trend.

² The automotive industry for the purposes of employment forecasts comprises numerous ANZSIC categories, the largest of which are Motor vehicle and motor vehicle part manufacturing, and Automotive repair and maintenance.

Chart 3.1: Total employment in the automotive sector – Victoria



Source: Access Economics, ABS

Occupations in demand

Occupations which are likely to be in demand are those involved in repairs, given that the number of jobs in the production process were so hard hit in 2009. Indeed, the current economic environment points to an easing outlook for occupations tied to manufacturing (given the increased competitive pressures and the need to consolidate and rationalise automotive businesses) versus better news for those linked to repair work.

Hence a relatively better outlook is seen for occupations tied to the steadier demand associated with ongoing work such as repairs and maintenance. This is because the demand for mechanics and repair workers such as panel beaters is more related to the stock of vehicles (rather than to current sales of vehicles produced in Australia). With a growing volume of cars on the road thanks to strong sales in recent years, demand for these latter workers is expected to be strong.

Changing technology in vehicles should also see an increasing demand for mechanics with electronics knowledge, given that many new cars have increasingly sophisticated electronic requirements

The National Skills Needs List (January 2010) lists the following skills as experiencing persistent skills shortages in the Automotive sector:

- Automotive electrician
- Panel beater
- Motor mechanic
- Vehicle body maker

- Vehicle painter
- Vehicle trimmer

Advice from Automotive Training Victoria is that the following occupations will be in demand over the next year:

- Competitive manufacturing leaders and supervisors
- Production process and assembly workers, material handlers, fabricators and vehicle body makers, in heavy vehicle assembly
- Caravan manufacturers
- Automotive business managers
- Mechanics (across light vehicle, motor cycle, power equipment and marine)*
- Electricians (across light vehicle, motor cycle, power equipment and marine)*
- Specialists in particular electronic systems, drive and fuel technologies (across light vehicle, motor cycle, power equipment and marine)*
- Heavy vehicle mechanics (across road transport, earthmoving and construction and agriculture)*
- Panel beaters, body-makers, trimmers and glaziers, in vehicle body repair*
- Vehicle painters*
- Vehicle sales persons and parts interpreters

* Restricted to those with up-to-date knowledge in electronics and clean technologies

Critical skills shortages

Advice from Automotive Training Victoria is that the following occupations are in critical need:

- Mechanics (across light vehicle, motor cycle, power equipment and marine)*
- Electricians (across light vehicle, motor cycle, power equipment and marine)*
- Specialists in particular electronic systems, drive and fuel technologies (across light vehicle, motor cycle, power equipment and marine)*
- Heavy vehicle mechanics (across road transport, earthmoving and construction and agriculture)*

* Restricted to those with up-to-date knowledge in electronics and clean technologies

Qualifications required

Advice from Automotive Training Victoria is that to meet the occupational demand and skill shortages outlined above, the following qualifications will be required:

Manufacturing:

- Diploma/Advanced Diploma in Competitive Manufacturing
- Certificate IV/Diploma in Business Management

Heavy vehicle assembly:

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- Certificate II – Production Assembly (trainees)
 - Certificate III – Trade Body Building/Making (apprentices)

Caravan manufacture:

- Certificate II-III – Production Assembly (trainees)

Servicing and repair:

- Certificate II – Vehicle Servicing (trainees)
- Certificate III – Mechanics, Electronic Systems
- Certificate III – Body Repair – Panel, Paint (apprentices)
- Certificate III – Specialist in particular electronic systems, drive and fuel technologies (apprentices)
- Certificate III – Heavy Vehicle Mechanics, Electronic Systems

Sales:

- Certificate III – Sales – Vehicles, Parts (trainees)

Emerging green skills

- Green research and development, and commercialisation of technologies that significantly reduce fuel consumption and/or greenhouse gas emissions of passenger motor vehicles (the focus of the Green Car Innovation Fund).
- Green materials use and efficient design, alternative fuels and electric drive – which also promotes/requires electronics training for new and existing mechanics.