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Motor vehicle headwinds

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Toyota yesterday announced it would terminate automotive manufacturing operations in Australia by the end of 2017. Ford and General Motors (Holden) previously announced they would close their operations in 2016. The strength of the AUD has weighed heavily on an industry already struggling with inefficient scale and competition from low-cost operations elsewhere. The annual production of passenger motor vehicles, related light commercials and sports utility vehicles in Australia has declined from just over 400,000 units in 2004 to just 220,000 in 2012. Domestic sales of these cars more than halved from 286,000 in 2003 to 131,000 in 2012; export volumes have also declined. Over the same period, import volumes have almost doubled. According to the Commonwealth Department of Industry, the Australian vehicle manufacturing industry has not returned a trading profit since 2003 and, between then and 2012, has amassed losses of $4.37 billion.

The capacity of the Australian labour market to absorb a complete shutdown of these manufacturing operations will influence the extent to which the labour market will continue to soften. Media reports indicate that Toyota, Holden and Ford jointly directly employ around 8,000 people in vehicle assembly. Their joint closure, even if it occurred simultaneously, would not constitute the most serious one off retrenchment in Australian history: that distinction belongs to Ansett Airlines, which employed 16,000 people in 2001 and Ansett, unlike the vehicle plant closures, folded without warning.

However, there would be flow-on effects into automotive component manufacturing. Total motor vehicle and parts manufacturing employment in Australia was estimated by the ABS at around 45,000 in early 2013 (implying component part employment of around 37,000) – see table below. The main concerns relate to the risks of localised unemployment and the flexibility of people to obtain alternative employment. As a proportion of state employment, the car industry is biggest in Victoria (0.9%) and SA (0.6%): see table. Given that the closures are occurring over the next two or three years, there would seem to be time for some (but certainly not complete) adjustment in localised labour markets.

Evidence from Ansett suggests that 75% of affected employees had obtained alternative work (although of a lower ‘quality’) within a year of retrenchment. However, inter-industry mobility in that episode appeared limited because most retrenched Ansett workers were re-employed within the aviation industry.

Motor vehicle & parts manufacturing industry

State	Businesses	Employment	% of State Employment	% of State Manufacturing Employment
Victoria	1,024	25,100	0.9	9.2
New South Wales	748	6,320	0.2	2.3
Queensland	731	5,710	0.2	2.9
South Australia	252	4,930	0.6	6.2
Rest of Australia	387	2,970	0.2	2.3
Total	3,142	45,030	0.4	4.8

Source: Victorian Government submission to PC inquiry & Nab Group Economics

This employment adjustment task comes on top of the prospective loss of 60,000 jobs in mining construction through the course of 2014 as major projects are completed. The demise of the automotive construction industry can be expected to represent an additional headwind for the Australian labour market over the next twelve to eighteen months. We do not expect a national (or even state) recession in the popular sense of two successive quarters of negative growth. However, the final demise of the car industry and the loss of mining jobs will not help the struggling SA economy. Arguably, non-mining Victoria is better placed to weather these adjustments, although there will be a larger task in specific regions e.g. Geelong (Ford) and inner west Melbourne (Toyota).

In that context previous macro modeling suggests that while the job market at a national / state level can cope with these types of dislocations it will provide significant challenges for local labour markets and employees. In the past modeling of the car industry closure often sees significant job losses in Victoria and South Australia offset by job creation in the rest of Australia.

Of course in the near term uncertainty on the jobs market in the car industry can also be expected to dent confidence and consumers willingness to spend. That will be particularly so in an environment where we were already expecting unemployment to continue to rise (Nab's forecast remains for unemployment to peak at around 6½% by late 2014). Attempts to model the impact of the announced closure of car manufacturing in Australia are also complicated by the relatively long lead times currently envisaged – albeit that timetable may be brought forward.

Finally, from a public policy perspective, the end of taxpayer support for the auto industry will in itself potentially add to growth by helping to lower the cost of vehicles and redeploying labour into other (hopefully more productive) uses. However the reality is that local disruption will be inevitable and quite challenging. As noted above the Ansett closure saw a large proportion of displaced employees re-employed in the aviation industry. That option is unlikely to be available in the car industry example. Hence a considerable focus from a policy viewpoint appears to be needed on retraining opportunities and the bringing forward of alternative public projects – especially in the area of infrastructure. It also needs to be said that the stance of fiscal policy – both at the state and national levels – needs to recognize these changed circumstances and challenges.

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