



Summary Findings

Directions in Australia's Automotive Industry

An Industry Report 2021



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Motor Trades Association of Australia

PO Box 6298, Kingston, ACT, 2604
admin@mtaa.com.au

Preamble

This is the second edition of Directions in Australia's Automotive Industry – An Industry Report. The 2020/21 report provides updated information and builds on the themes developed in the first edition (2017) to provide a comprehensive and holistic picture of the current state of Australia's automotive industry, including key trends and their likely impacts on the industry over the next few years.

This report combines all automotive related sectors into one automotive industry entity, to inform both government and industry stakeholders of the size, scope, economic contribution and the challenges facing Australia's automotive industry. It is anticipated that this will help generate a greater understanding and awareness of the industry at both national and state/territory levels, that will help guide future industry policy and decision making over the short to medium term.

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- Victorian Automotive Chamber of Commerce
- Motor Trader's Association of New South Wales
- Motor Trade Association of Western Australia
- Tasmanian Automotive Chamber of Commerce
- Motor Trade Association of South Australia and Northern Territory



About the Author

Steve Bletsos is Senior Research Analyst at the Victorian Automotive Chamber of Commerce (VACC).

Steve has had a 20 year career in statistical analysis and publications development at the Australian Bureau of Statistics in Canberra and Melbourne. Steve has a deep understanding of the automotive environment including global vehicle trends, and has provided advice to federal and state government on the electrification of the Australian passenger car market. He has also written numerous automotive industry reports over the past decade and delivered national surveys through state and national industry associations. Steve's work encompasses data modelling to properly align industry statistics with official statistical classifications. He has also provided reports and advice to government on automotive industry trends, technology advancement, employment and skill shortages.

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Executive Summary

Australia's automotive industry has been in existence for more than 100 years. Over that period, it has faced many challenges, yet none larger than what is emerging now. For the first time in modern history, the industry is at a revolutionary turning point. This turning point not only encompasses the transition to zero emission vehicles over the next decade, but the integration of electric vehicles as assets within the electricity generation and transmission sector, that are capable of not only powering household energy needs, but can stabilise the electricity network in times of peak demand. These unprecedented developments will change the concept of the motor vehicle and potentially the scope of the automotive industry in the future.

As these developments evolve in the ensuing years, the automotive industry itself will undergo significant structural change. The evidence shows that such change is already emerging. Beyond the industry disruptions caused by COVID-19 during 2020, that still reverberate in the form of supply chain constraints in 2021, the transformation to electric, connected, and autonomous vehicles is also bringing visible changes to the automotive value chain, especially in terms of retail and after-market sales. With an increased industry focus to on-line sales, electric vehicles could also be the catalyst that significantly alters the traditional dealership network model, as witnessed by recent manufacturer agreements for the sale of electric vehicles on-line in Australia through local distributors.

The experience of Norway, a country well advanced in the path of electric mobility, also shows that the transition to electric vehicles requires significant investments by dealerships and automotive workshops in capital equipment and skills training. Not all automotive workshops will be able to compete in the automotive service and repair market for electric vehicles, with 20 per cent of automotive workshops expected to exit the repair market in Norway by 2030. These findings have significant implications for Australia as it transitions its vehicle fleet to electric.

All automotive businesses will need to obtain as much information as possible to make an informed decision on the future opportunities and risks of participating in the ensuing electric vehicle ecosystem.

Whilst Australia's electric vehicle uptake is low, ongoing technological advancements and economies of scale may bring about a quicker than expected price advantage for electric vehicles over internal combustion engine vehicles, and this may sway consumers to purchase electric vehicles sooner than expected. Such a scenario could place automotive businesses in an exposed position.

Australia's automotive industry is also experiencing compositional change and a redistribution of skilled labour. There is growing segmentation of the industry into large corporate businesses and sole traders. Evidence suggests skilled technicians are increasingly leaving their employers to set up their own businesses as sole traders. This has left a void for many small and medium size business owners who are struggling to replace these skilled tradespeople. Whilst the industry has made positive gains in regards to the Franchise Code of Conduct and access to technical repair information for independent repairers, addressing skill shortages and declining business profitability are key challenges that will test the resolve of the automotive industry over the next few years.

Governments have both a duty and obligation to understand these industry changes, including the impacts that electric vehicles will have on Australia's automotive industry and broader community. This would allow for long-term planning that oversees the transition of the industry and mitigates any employment and business losses within the community. For this to be successful, there must be an early and mutual interaction between government, automotive associations, and other industry stakeholders, where industry intelligence is shared, and appropriate policy measures are developed in consultation with affected parties.

For the first time
in modern history,
the industry is at
a revolutionary
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What represents the automotive industry?

Key Findings

- Australia's automotive industry is comprised of 13 different sectors. Automotive repair and maintenance is the largest sector, comprising more than half (56 per cent) of the industry.
- There were 72,521 registered businesses operating across the automotive industry as at 30 June 2020. Business growth is forecast to reach 74,981 businesses by 2022/23.
- Small and family owned businesses dominate the automotive industry, comprising 96.6 per cent of all businesses.
- Profit margins within automotive are amongst the lowest of all industries.
- There were 19.8 million registered vehicles on road as at 30 January 2020, an increase of 300,00 vehicles over the previous year.
- The vehicle fleet is getting older, with the average age now standing at 10.4 years as at 31 January 2020, up from 10.2 years in 2019.
- An estimated 762,777 vehicles were scrapped between 2019 and 2020. End-of-life vehicles are either recycled, exported, or go to landfill.
- There were 916,968 new vehicles sold in 2020, a decrease of 145,899 vehicles or 13.7 per cent over 2019. The used vehicle market stands at approximately 3.7 million sales in 2020, or 4 times the size of the new vehicle market.

How important is the automotive industry?

Key Findings

- There were 384,810 people employed nationally within the automotive industry in 2019/20, an increase of 5,415 people and 525 businesses from 2018/19.
- Industry employment has remained at relatively the same level since the end of local car manufacturing in October 2017.
- The automotive industry contributes \$39.35 billion to Australia's GDP. This represents approximately 2.1 per cent of Australia's economy.
- The automotive industry has extensive interconnections to over 90 per cent of Australian industry, including strong linkages to Road Transport, Construction and Mining which have large dependencies on automotive goods and services to sustain their operations.
- In 2019/20, imports of automotive goods amounted to \$34.7 billion, a decrease of \$5.7 billion or 14.1 per cent over 2018/19.
- The value of Australian automotive exports in 2019/20 was \$1.94 billion, an increase of \$41.3 million or 2.2 per cent over 2018/19.
- Automotive manufacturing still plays a significant role within the automotive industry and the broader Australian economy, with the potential to expand over time.
- The automotive industry has a key role to play in the sustainability of our environment through reductions in greenhouse gas emissions.
- Automotive qualifications and courses are consistently amongst the most popular within the Vocational Education and Training (VET) system, and are essential in developing workforce skills to support the needs of local businesses.

The current state of Australia's automotive industry

Key Findings

- Prior to the arrival of COVID-19, business conditions were positive to strong for most of the automotive industry in all jurisdictions.
- The arrival of the COVID-19 pandemic in 2020 had an immediate and varying impact on the automotive industry in each state and territory, with Victorian automotive businesses being the most seriously affected, and Queensland and Western Australian businesses being the least affected.
- The main impacts of COVID-19 on automotive businesses included a reduction in customers, a reduction in business turnover or cashflow of up to 30 per cent, and difficulties in sourcing stock or raw materials.
- Vehicle retailing, vehicle body repair, vehicle trimming, vehicle restorations, marine and vehicle hire were the most seriously affected automotive sectors during the pandemic in 2020, whilst the motorcycle and bicycle sectors were the best performing sectors.
- 66.2 per cent of automotive businesses nationally utilised the Federal JobKeeper Payment, which is the second highest uptake in the economy behind Accommodation and Food Services Industry (67%).
- The JobKeeper Program enabled many automotive businesses to maintain their operations and stay afloat in 2020.
- The primary response of most automotive businesses to the economic threats posed by the pandemic was to change their quantity of orders i.e. purchase less stock. This compounded the effects of emerging disruptions to automotive supply chains and left many businesses with insufficient stock holdings.
- Automotive business expectations beyond COVID-19 remain generally optimistic provided the pandemic is brought under control.

What trends are impacting on the automotive industry?

Key Findings

- In 2019/20, business growth was highest within two sectors - automotive body, paint and interior repair sector and the automotive mechanical repair sector (net growth of 295 and 227 businesses respectively over the previous year). The largest decline was recorded in car retailing (loss of 75 businesses).
- The car retailing sector is forecast to decline more than any automotive sector over the next three years (expected loss of 151 business by 2022/23).
- Industry growth in 2019/20 was heavily driven by the growth in sole trader businesses across the automotive industry (growth of 989 sole trader businesses). Small and medium sized automotive businesses declined by 454 and 34 businesses respectively, whilst large businesses grew by four over the period. These results represent a continuation of trends observed within these business cohorts over the past three years.
- Industry intelligence reveals that many skilled technicians are increasingly leaving their employers to set up their own businesses as sole traders. This redistribution of skilled labour is representative of structural change occurring within the industry, and has left a void for many business owners that are struggling to replace these skilled tradespeople.
- The most significant issues for automotive businesses over the next three years are economic conditions, maintaining business profitability, and the availability of skilled labour. The least important issues are technological change and electric vehicles.
- New vehicle sales over the next three years are forecast to be below sales levels recorded in 2018 and previous years. Shortages of vehicle stock and parts as a result of the COVID-19 pandemic are still a major issue, with an average waiting period of up to six months for most dealers.
- Industry research shows that 52 per cent of automotive businesses nationally are currently experiencing a shortage of skilled labour, up from 45.7 per cent in 2016/17. Skill shortages in regional areas are more severe than in metropolitan areas. Queensland and Western Australia have the highest skill shortages, and the Northern Territory the lowest.
- The current industry skilled labour deficit is estimated at 31,143 positions nationally, the highest number ever recorded. This deficit is forecast to rise to 38,700 positions by 2022/23. Light vehicle mechanics represent the largest single skill shortage (deficit of 17,509 positions in 2020).
- Demand for automotive apprentice is expected to be more subdued over the next two years. Potentially, there could be up to 11,000 fewer automotive apprentices hired by automotive businesses over the next two years.
- The main technology focus of automotive manufacturers over the next decade is electric mobility; hydrogen technology; connected vehicles; autonomous vehicles and shared mobility. Electric vehicles remain at the forefront of advancements in zero emissions mobility.
- By 2030, battery electric vehicles are expected to comprise up to 26 per cent of new vehicle sales in Australia.
- Electric vehicles could be the catalyst that significantly alters or dispenses with the existing dealership network model, by the supply of electric vehicles directly from the manufacturer to the consumer.

Industry challenges

Key Findings

- Electric vehicles are the biggest challenge facing Australia's automotive industry. Norway's experience shows that on an EV, there is an average reduction in revenue on labour hours of 25 per cent, and an average reduction in revenue on parts sold of 55 per cent. This translates into a total reduction in revenue per vehicle of 42 per cent for an automotive workshop or dealership.
- Significant capital investment is required by workshops for EV tooling and training of EV technicians. Norway's experience shows the typical EV tooling cost is around €50,000 (approx. \$77,000 AUD) and up to 10 days training for an EV technician above normal training requirements.
- Not all automotive workshops will be able to compete in the automotive service and repair market for EVs. By 2030, it is forecast that every fifth automotive workshop will exit the repair market in Norway.
- Whilst Australia's EV uptake is very gradual, ongoing technological advancements and economies of scale may bring forth a quicker than expected price advantage to EVs over ICE vehicles, and this may sway many consumers towards purchasing EVs very quickly. Such a scenario could place many automotive businesses in an exposed position.
- All automotive businesses will need to obtain as much information as possible to make an informed decision on the future opportunities and risks of participating in the ensuing EV ecosystem.
- Governments have a duty and obligation to understand the major changes and impacts that electric vehicles will have on Australia's automotive industry and broader community. This would allow for long-term planning that oversees the transition of the industry and mitigates any employment and business losses within the community.
- Recent analysis on the uptake of electric vehicles in China, Norway and the United States reveals that from the perspective of cost effectiveness, investing in electric charging stations is much more effective than subsidising consumer purchases to promote EV sales.
- There is considerable apprehension amongst consumers and businesses as to whether the Federal Government will also impose its own tax regime on low emission vehicles, on top of the state levies already being designed, i.e. 'double dipping'. If double dipping occurs, this will create a major disincentive for the purchase of electric vehicles.
- The automotive industry is in the bottom third of all industries in terms of average weekly earnings. Low wage levels cannot be dismissed as a reason for skill shortages within the industry
- Over 70 per cent of automotive apprentices and trainees still enrol in mechanically based qualifications, and only a small percentage undertake electrical training that is more relevant towards hybrid, plug-in-hybrid and battery electric vehicles.
- The introduction of a legislative bill to establish a mandatory scheme for the sharing of technical service and repair information by vehicle manufacturers, will promote greater competition in the motor vehicle repair market. It will, however, still be a work-in-progress and subject to further challenges.
- Relationships between body repairers and insurers and the operation of the Motor Vehicle Insurance and Repair Industry Code of Conduct, are a constant source of tension. The lack of independence of vehicle assessors and disagreements over the hourly rate the repairer can charge for labour costs are on-going challenges for the sector.
- Recent landmark reforms to automotive franchising follow many years of hard work by industry stakeholders. The challenge for the automotive industry is to persevere with government to ensure that these reforms commence as quickly as possible.
- More than 750,000 vehicles reach the end of their economic or safe operating life each year. The lack of regulatory requirements for these end-of-life vehicles (ELVs) means that many ELVs are simply destroyed, dismantled, or left to rot, without any attempt to remove pollutants such as oil, batteries, and other toxic substances, to the detriment of our environment.

Contributing automotive industry associations

Victorian
Automotive Chamber
of Commerce



Motor Traders
Association of
New South Wales



Motor Trade
Association of
Western Australia



Motor Trade Association
of South Australia and
Northern Territory



Tasmanian
Automotive Chamber
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