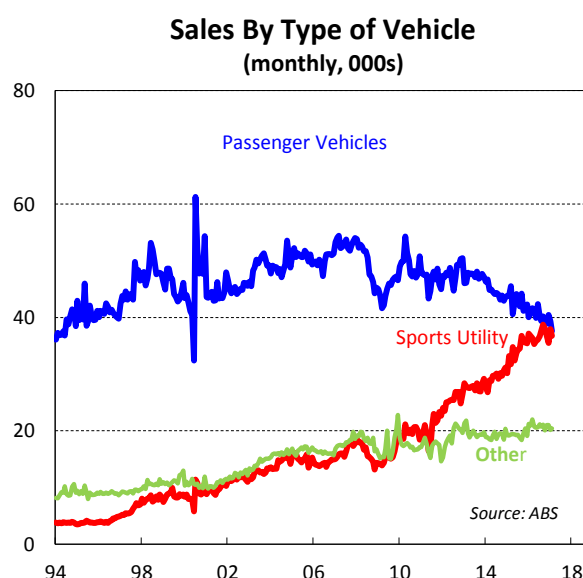
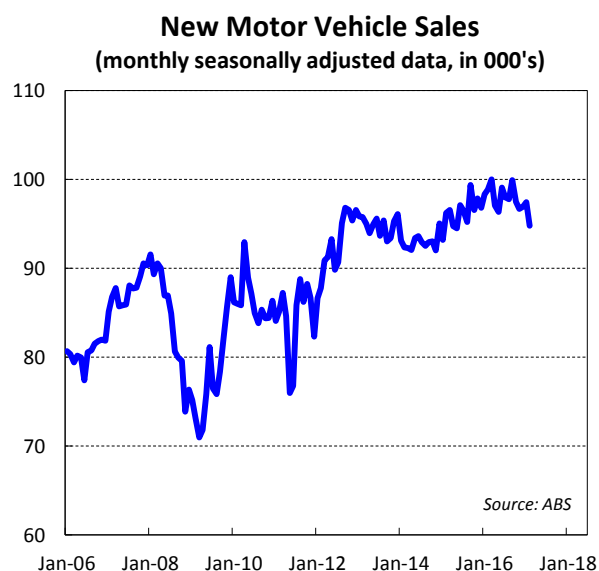


New Motor Vehicle Sales Drifting Lower?

- According to the ABS, new motor vehicles sales fell 2.7% in February and have now been on a downward trend over the last five months. On a year ago, sales contracted 4.1%, which is the largest annual contraction since 2011.
- Despite the decline, sales are only 5.2% lower than the record high set in March 2016, and remain at a relatively high level.
- On an annual basis, weakness was evident across States and territories. In the year to February, sales are now in contraction in NSW (-4.1%), Victoria (-2.2%) and the Northern Territory (-7.9%) after positive annual growth in January. The annual pace remained in decline in Queensland (-4.1%), South Australia (-6.3%) and Western Australia (-10.7%). Tasmania (4.2%) and the ACT (1.7%) were the only States or Territories to record positive annual growth.
- As a barometer of economic activity, new motor vehicle sales are suggesting that the pace of domestic demand is modest at best. Moreover, indicators on business spending have been mixed of late. While interest rates remain low, a soft pace of wage growth will put a lid on spending, particularly at a time when household debt levels are already at lofty levels. On balance, there does not appear to be much scope for strong growth in car sales, although a moderate pace of growth in domestic demand should keep sales at a relatively high level.
- In a separate release, the Westpac-Melbourne Institute consumer sentiment index edged up from 99.6 in February to 99.7 in March, sitting just below the 100 mark where optimists equal pessimists.



According to the ABS, new motor vehicles sales fell 2.7% in February and have now been on a downward trend over the last five months. On a year ago, sales contracted 4.1%, which was the largest annual contraction since 2011. That being said, sales are only 5.2% lower than the record high set in March 2016, and remain at a relatively high level.

The decline in the month was driven by passenger (-4.3%) and sports utility vehicles (-3.1%). It does not provide a positive sign for consumer spending, and might suggest that the strength in household consumption in the December quarter has not be sustained early into 2017.

Sales of 'other' vehicles (which includes utes, buses and trucks), which can be used as a proxy for business spending, rose 1.1% in February. However, the gain followed a 4.0% decline in January and sales were down 2.4% in the year to February.

By State

The decline in February was driven by Victoria, where sales fell 7.7%. Sales also declined in most other States including NSW (1.8%), South Australia (-3.3%), the ACT (-1.1%) and Western Australia (-0.2%).

Weakness was evident in annual rates across States. On an annual basis, sales are now in contraction in NSW (-4.1%), Victoria (-2.2%) and the Northern Territory (-7.9%) in February after positive annual growth in January. The annual pace remained in decline in Queensland (-4.1%), South Australia (-6.3%) and Western Australia (-10.7%). Tasmania (4.2%) and the ACT (1.7%) were the only States or Territories to record positive annual growth.

Implications and Outlook

As a barometer of economic activity, new motor vehicle sales are suggesting that the pace of domestic demand is modest at best. For 'other' vehicles, indicators on business spending have been mixed. Encouragingly, surveys continue to point to above-average levels of conditions.

Low interest rates and moderate employment growth should support consumer spending. However, the soft pace of wage growth will put a lid on spending, particularly at a time when household debt levels are already at lofty levels.

On balance, there does not appear to be much scope for strong growth in car sales, although a moderate pace of growth in domestic demand should keep sales at a relatively high level.

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