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New Zealand's 2024 Vehicle Sales To Rebound On Higher Demand For Utes Amid End Of EV Scheme

7 Nov 2023

Key View

- A combination of macroeconomic headwinds, together with uncertainty surrounding a potential removal of the Clean Car Discount scheme amid the local general elections, significantly affected vehicle demand in New Zealand in 2023.

- Cooling inflation and the prospective removal by end-2023 of the current electric vehicle (EV) scheme will serve as tailwinds to vehicle sales in 2024 as consumers' purchasing power strengthens and the demand for pick-up trucks (utes) surges.

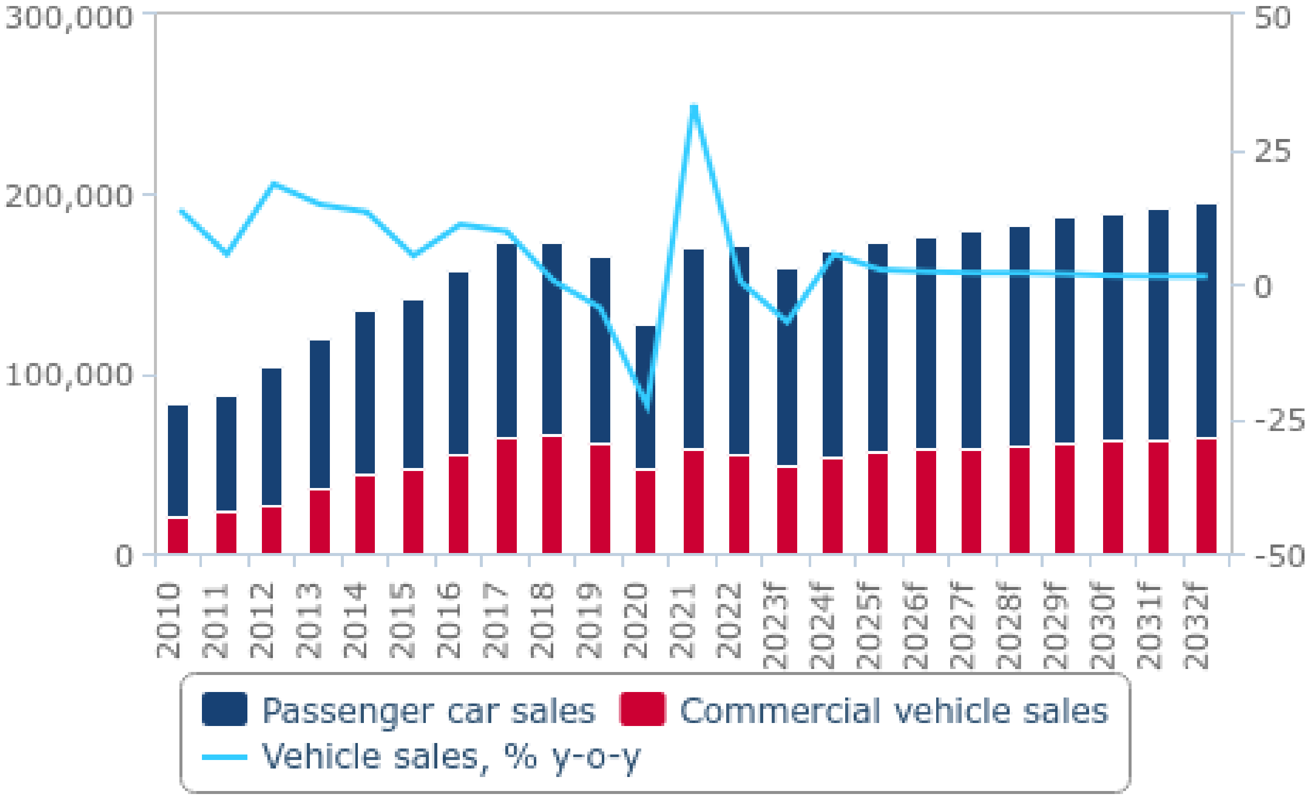
- The arrival of new Mainland Chinese EV models, from brands such as BYD, will continue to support New Zealand's shift towards e-mobility.

We have been compelled to revise down our 2023 vehicle sales forecasts for New Zealand, and now expect sales to decline 7.1% y-o-y to 159,700 units (previously: +2.5% growth). In our view, the weaker than expected vehicle demand seen in 2023 is primarily due to a combination of macroeconomic headwinds, which dampened vehicle demand, together with the uncertainty surrounding the results from the general election on the expectation that the Clean Car Discount could be removed by end-2023 (which negatively impacted the sale of 'utes').

From an economic perspective, we contend that the tighter financial conditions that saw the Reserve Bank of New Zealand (RBNZ) maintaining a hawkish stance throughout 2023, as a means to tame inflationary pressures, significantly affected vehicle demand. For instance, the RBNZ left its key policy rate on hold at 5.50% at its October 2023 meeting, as inflation expectations for a year ahead remain well above the Bank's target upper bound of 3%. According to our Country Risk team, this is likely one reason why the RBNZ reiterated that "policy rates are now expected to remain at restrictive levels for a sustained period of time". **In our view, such a hawkish stance on monetary policymaking negatively impacted vehicle demand in 2023, as it maintained borrowing costs high for consumers, hence eroding the demand for cars as vehicle financing costs remained elevated.**

New Zealand Autos Market Poised For Growth After Expected Decline In 2023

New Zealand - Total Vehicle Sales By Category (Units) & Chg. y-o-y (%) (2010-2032)



f = BMI forecast. Source: MIA, BMI

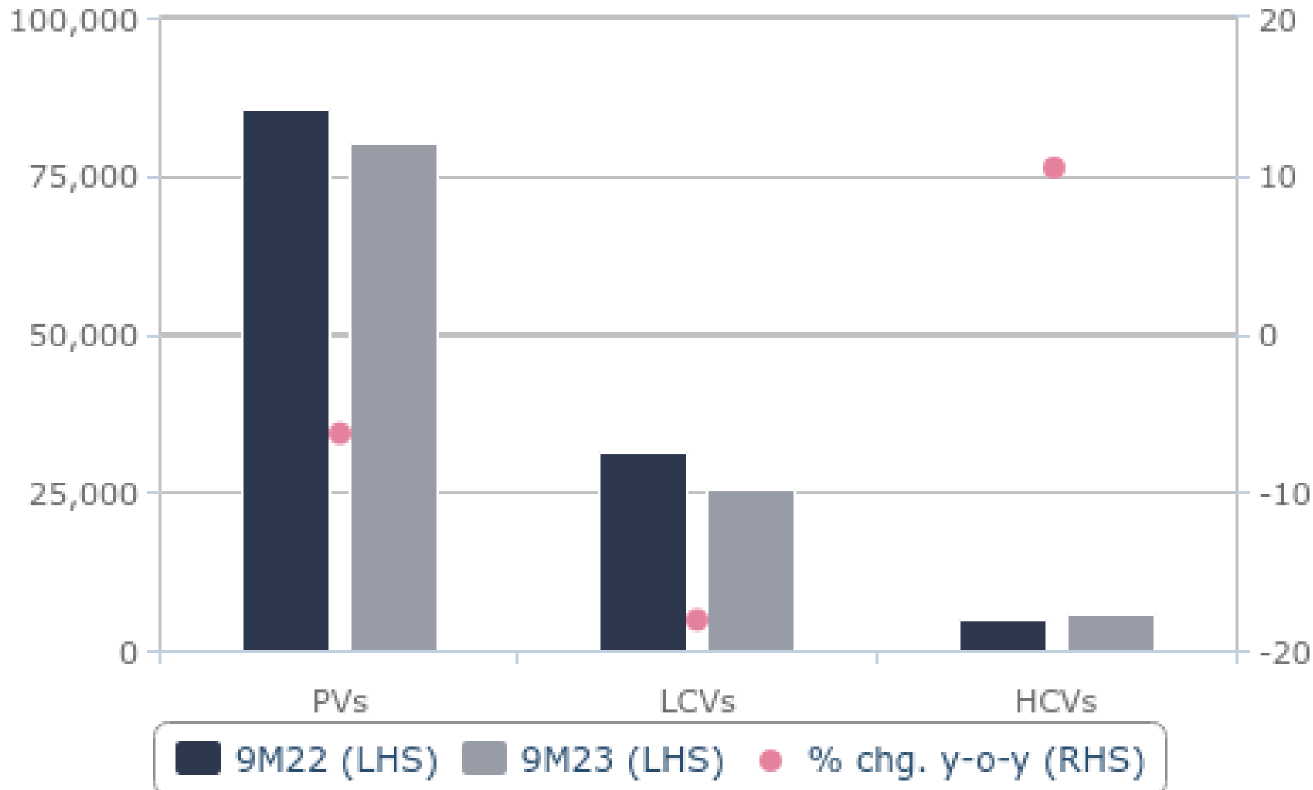
Moreover, the relatively weak year-to-date figures for New Zealand's autos market (sales are down 8.8% y-o-y in 9M23, *see chart below*) also reflect the somewhat sluggish economic growth the country has experienced in 2023 (the economy even experienced a technical recession in the first quarter of 2023). Moreover, our Country Risk team expects real GDP growth to decelerate from 2.2% in 2022 to 1.3% in 2023, partly due to the adverse effects on economic activity from the higher interest rate environment.

Examining the commercial vehicle (CV) segment, we believe that factors beyond the previously mentioned macroeconomic challenges likely influenced the market. We stress that the general elections, held on October 14 2023, are likely to have played a key role, with **many consumers holding off on light-commercial vehicle (LCV) purchases in anticipation of the election results, on the expectation that the Clean Car Discount (also known as the 'ute tax') would be removed by end-2023.** This anticipation arose from the National Party's pledge to eliminate the scheme if elected, which would result in high CO_2-emitting vehicles (like utes) no longer incurring additional fees from 2024 onwards. **We contend that this political**

landscape likely influenced the sales of LCVs during 2023, contributing to the 18.1% y-o-y drop seen in 9M23. As a result, we revised down our vehicle sales forecasts for New Zealand, and now expect sales to decline 7.1% y-o-y in 2023 to 159,700 units (previously: +2.5% growth to 176,300 units). Breaking down our 2023 vehicle sales forecasts, we now expect the sale of passenger vehicles (PVs) to decline 5.3% y-o-y (previously: +2.1%), whereas for the CV segment we forecast sales to drop 10.8% y-o-y (previously: +3.5%), with the LCV sub-segment dropping 15.2% y-o-y (previously: +3.5%).

Uncertainty Surrounding The End Of 'Clean Car Discount' Hampered 2023 LCV Sales

New Zealand - Vehicle Sales By Segment, Units & Chg. y-o-y %



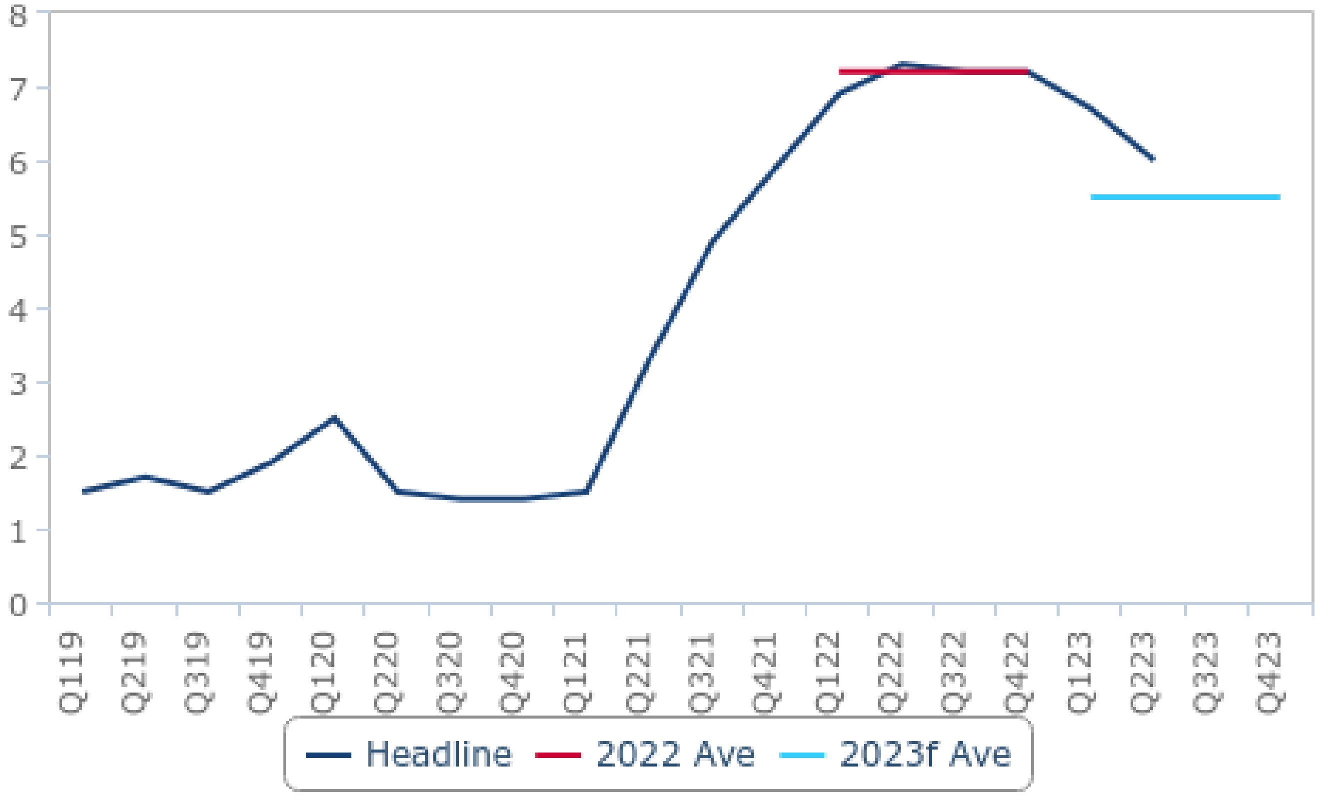
Note: PV = Passenger Vehicles, LCV = Light Commercial Vehicles, HCV = Heavy Commercial Vehicles. Source: MIA, BMI

Looking to 2024, we expect New Zealand's autos market to rebound and expand 5.5% y-o-y to 168,500 units. We highlight tailwinds to vehicle demand from the expected reduction in inflation as it strengthens consumers' purchasing power, and the expected removal of the Clean Car Discount scheme by end-2023 (given that the National Party won the elections), which will see the demand for pick-up trucks (utes) surge as the additional fees to high CO2-emitting cars are cut. Moreover, **risks to our 2024 vehicle sales forecast for New Zealand are tilted to the upside on the expectation that the RBNZ could embark on a cutting rate cycle**. This is because such a measure would underpin the demand for vehicles as borrowing costs decline and the use of autos loans picks up among consumers. Still, we note that our Country Risk team only expects the RBNZ to cut interest rates in H224, as they believe the entity would wait for inflation to reach 'more tolerable levels'.

In terms of the wider PV segment, **we expect the gradual easing of the semiconductor shortage to continue to support the autos market in 2024, as vehicle stocks keep improving amid the easing of bottlenecks in the supply chain**. Additionally, sustained tourism activity in 2024, following the full reopening of international tourism in Q322, will support PV sales in 2024, as the demand for cars from hospitality- and tourism-related sectors (including car rental services) sustains. We believe that most of the growth to New Zealand's autos market in 2024 will come from the electric vehicle (EV) segment, although we note that the expected removal of the Car Discount Scheme (starting from January 01 2024 onwards) threatens to slow the demand for EVs as the rebates provided for the purchase of lower CO2-emitting vehicles are cut. Still, **the arrival of new Mainland Chinese EV models, from brands such as BYD, will continue to support the country's shift towards e-mobility.** This is because many of the new Chinese EV imports are expected to be well-equipped and offered at competitive prices, hence offering a strong price-value proposition to consumers. In this regard, we highlight BYD's plan to launch in New Zealand in 2024 new electric SUV models (both PHEV and BEV), as well as an all-electric ute. The latter could prove to significantly boost EV demand, given the high popularity of utes (pick-ups) within the New Zealand consumer market. All in all, we forecast PV sales to grow 3.6% in 2024 to 114,200 units. Furthermore, we note that we expect that the growth in the local EV market will be key to driving growth in the broader local autos market in New Zealand, as we expect the passenger EV segment to expand 24.3% in 2024, whereas for the passenger internal combustion engine (ICE) car segment we expect a contraction of 3.1% y-o-y.

Cooling Inflation In 2024 To Support Vehicle Demand

New Zealand – Inflation, % y-o-y



Source: Macrobond, BMI

Furthermore, we predict an even greater rebound in sales within the CV segment. This is because much of the decline we anticipate to see in 2023 in local LCV sales is the result of consumers deferring the purchase of pick-up trucks to 2024, as previously mentioned. **We also expect the arrival of new electric ute models to support both local CV sales and EV uptake in the CV segment**. Furthermore, a continued expansion in construction activity (our Infrastructure team forecasts 2.1% growth for the sector in 2024) should support the demand for heavy commercial vehicles, which should aid the sale CVs, which we expect to expand by 9.7% in 2024 to 54,300 units, after an expected drop of 10.8% in 2023.