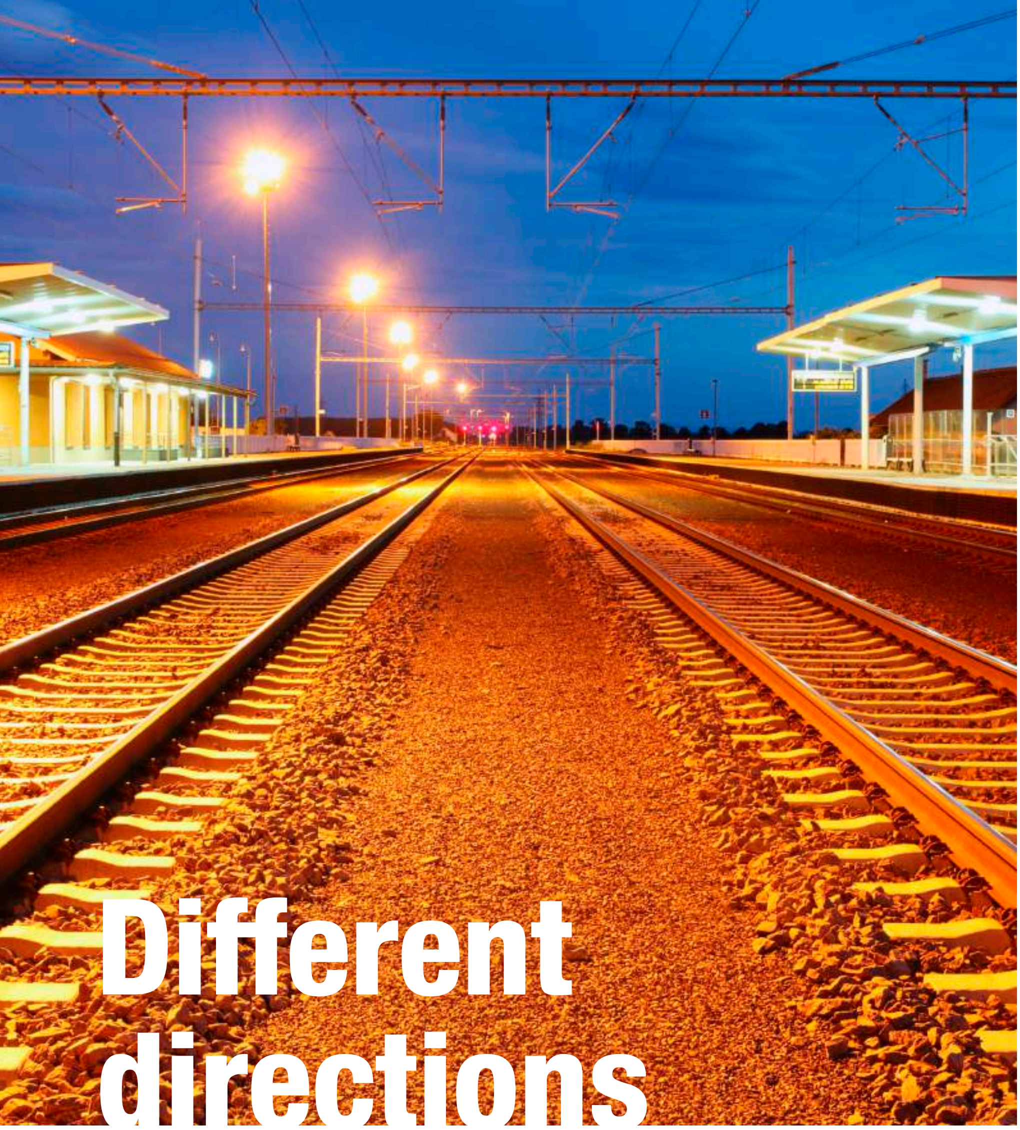

Different directions

Cars and trains are the two primary modes of passenger transport in Australia, but by 2017 cars will be produced solely overseas.

Both the motor vehicle manufacturing industry and the railway equipment manufacturing and repair industry have faced sustained strong import penetration and high local wage costs over the past five years. In spite of this, the two industries are on divergent paths.

The exits of Ford in 2016 and Toyota and GM Holden in 2017 will be strong drivers in the decline of local automotive manufacturing. In 2013-14, the motor vehicle manufacturing industry is forecast to sustain a decline in revenue of 0.9%.

Automotive manufacturers have struggled over the past five years. They have been influenced by lower demand for locally made vehicles combined with strong import penetration. The trend towards more fuel efficient vehicles has negatively affected local automotive manufacturers who tend to specialise in larger vehicles like the Ford Falcon.

While sales of locally produced vehicles have plummeted over the past five years, imports of small cars such as the Mazda3 have remained strong. This trend has been exacerbated by the strong Australian dollar over the period making imports more affordable.

The tariff reduction for imported vehicles in 2010, from 10% to 5%, has also contributed to the boost in imports. In addition, intensified competition from low cost countries like Thailand has negatively affected the viability of local automotive production.

In contrast, the railway equipment manufacturing and repair industry was forecast to grow by 2.4% in 2013-14.

The industry has grown over the past five years, even against the backdrop of a decline in Australian manufacturing in general.

Revenue growth has been supported by government initiatives to invest in infrastructure. This has translated into robust demand for freight and passenger rail.

Despite a strong Australian dollar for the majority of the past five years, the industry has benefited by focusing on high value production. Less complex manufacturing functions are being shifted to low cost countries as demonstrated in the offshoring of railcar shell manufacturing.

Nevertheless, *small and medium size enterprises have thrived in the industry by focusing on areas where high safety standards and technical sophistication are paramount and therefore cannot easily be offshored.*

Production of higher value products, such as specialised signalling and telecommunications systems used for trains, has remained onshore despite strong import penetration across other segments.

Environmental concerns and rising car running costs have contributed to the shift towards increased public transport patronage, which in turn has driven demand for train components.

In addition, railway manufacturers' varied clients include mining companies and government bodies who are likely to demand a certain level of customisation.

This is in contrast with motor vehicle manufacturing where production runs are large and have minimal differentiation making production more suited to low cost countries. The motor vehicle manufacturing industry is expected to continue to operate locally, though at a smaller scale, primarily supported by truck manufacturing and small amounts of engine manufacturing.

This reinforces the viability of small scale, high value production for local manufacturers competing against strong import penetration.