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HONGKONG SAYS *'NO'* TO MOTOR-CAR FINANCING: SO GERMANY STEPS UP TO THE PLATE

How Many HKSAR Motor-Car Dealerships Will Close In 2009 ?

In the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), the Germans are financing the sales of motor vehicles – because very few HKSAR banks, if any, are willing to finance the purchase of motor vehicle, new ones or second-hand vehicles.

In the case of the purchase of a new Mercedes Benz, financing is now available via Mercedes-Benz Financial Services Hongkong Ltd, a wholly owned subsidiary of Daimler AG, the parent company of Mercedes Benz.

The interest rate, being charged, is about 3.38 percent per annum, flat, which is considerably cheaper than the interest, charged by most banks in the territory.

Another vendor of luxury motor vehicles in the HKSAR, Rolls-Royce Motor Cars Ltd, is offering financing on 70 percent of the purchase price of a new $HK7.60-million, Rolls-Royce at an interest rate, ranging between 2.50 percent and 3.50 percent per annum, also flat, depending on the customer.

The financing of a Rolls-Royce is via Alphera Financial Services, a member corporate entity of the international network of BMW Group Financial Services, which is a division of Bayerische Motoren Werke AG, the BMW Group.

Rolls-Royce Motor Cars Ltd used to shunt motor-car financing to an entity of Standard Chartered Bank (Hongkong) Ltd, but this lending organisation has ceased its role in financing motor vehicles in the territory, at least, for the time being.

The motor group of Sime Darby Hongkong Ltd (), which markets in the HKSAR, BMW motor cars, Mini Cooper, Mitsubishi, Suzuki and the French-made, Peugeot motor vehicles, is making full use Alphera Financial Services, today, and is able to confound the problems, posed by HKSAR lending organisations, by offering financing via the BMW Group of Germany.

It appears that the Germans are not just willing to finance the purchases of luxury motor cars in the territory, but, also, some of the most-basic of motor vehicles.

In any country of the world, today, every family wants, first, to own its house/flat/condominium, etc, and, second, to own a motor car, the last-mentioned, being considered more of a luxury item in the HKSAR than a necessity.

Second only to the purchase of a home for the family, the purchase of the family motor car is the second-largest, single expenditure, in most cases.

As the worldwide recession deepens, in Asia, as well as in the US and Europe, consumer spending habits will, invariably, change; and, purse-strings will be tightened, considerably.

It seems inevitable – as well as being very necessary for the survival of many families.

Declining consumer confidence must mean that disposable income at the family level will dry up as fear will play its part in determining what will, and what will not, be spent out of the monthly family budget.

As these factors come to the fore, even deeper cuts in discretionary consumer spending will become more and more evident.

Sales of motor vehicles in the HKSAR, therefore, will be hit among the hardest.

This is because, as has, already, been stated, the motor car in these 416 square miles is more of a luxury item than a necessity.

Declining sales of motor vehicles, as is well known, now, have already taken place in the US where sales, during the month of November, shook the industry to its socks.

The following information comes courtesy of the US Government, augmented by industry data:

1. Industry-wide, sales of motor vehicles in the US, during the month of November, numbered 746,789 motor cars and lorries, a 25-percent drop, compared with the figures for September. It was the first time in 15 years that sales of motor vehicles had fallen below the one million, per-month level. Also, November's statistics marked the thirteenth, consecutive month of declining sales;

2. On a seasonally adjusted level, November's sales of motor vehicles in the US were off by about 37 percent, Year-On-Year, the lowest level of the past 26 years;

3. On a population-adjusted basis, November's sales figures indicated that they were the worst in the past 50 years;

4. The following are the Year-On-Year figures for US motor-vehicle sales in November:

a.	Chrysler LLC	Down 47 percent
b.	Nissan Motor Company	Down 42.20 percent
c.	General Motors Corporation	Down 41 percent
d.	Toyota Motor Company	Down 34 percent
e.	Honda Motor Company	Down 32 percent
f.	Ford Motor Company	Down 31 percent

5. General Motors Corporation, Ford Motor Company and Chrysler LLC are begging The Congress for bridge financing to help the Big Three out of the cash-crunch that the industry is facing.

Just looking at the above, confirmed statistics with regard to the sales of motor vehicles in the US for the month of November, tends to cause the icy fingers of fear to travel up and down one's spine.

And the statistics for December as well as the first quarter of 2009 are likely to be just as bad, if not worse, than those of last November.

It is not just in the US where motor-vehicle sales are falling because in the United Kingdom and parts of Europe, especially in Spain, sales of motor vehicles have plummeted between 20 percent and 40 percent, respectively.

One may expect to see quite a number of motor-car dealerships in the HKSAR go to the wall in 2009 in the same manner as electrical appliance shops are closing down, one after another.

It is not just a matter of a cycle that the US, Europe and Asia are experiencing, today, because it goes much deeper than just a shallow cycle: It is the unwillingness of consumers to buy anything other than necessities.

There is widespread concern among households as to when current employment will cease and the monthly pay cheque will be just a memory of yesteryear.

In the HKSAR, of late, there has been a spate of sackings, from some of the biggest banks: The Hongkong and Shanghai Banking Corporation Ltd, Standard Chartered Bank and The Bank of East Asia Ltd, just to name 3 such lending institutions.

Cathay Pacific Airways Ltd is offering hundreds of its staff the opportunity to take a one-year's unpaid leave.

In the Macau Special Administrative Region (MSAR) of the PRC, one construction project was shelved for the loss of about 10,000 jobs, 4,000 of which were in respect of workers from the HKSAR.

And so it goes on.In such a climate in this part of the world, sales of luxury goods, especially motor cars, have to be hit – and be hit hard.

In the PRC, proper, being distinct and separate from the HKSAR and the MSAR, unless the Government of the PRC can stimulate the economy, markedly, the likelihood is that there will be tens of thousands of workers, thrown out of work in the motor-vehicle industry.

It will not be just from the motor-car dealerships, but also from manufacturers of vehicles as well as those factories, producing components for motor vehicles.

The motor-vehicle industry is one that is characterised by extremely high fixed costs.

Also, this industry is unable, for the most part, to adjust capacity at short notice.

Cutbacks in motor-vehicle production in the PRC seem, also, inevitable.

Consumers in the PRC are not immune to the international, economic pressures that are coming to bear down on them and, as with their US and European counterparts, they will suffer to a greater or lesser extent, depending on a number of factors.

Entities from Detroit, Michigan, and parts of Europe have been in the PRC for some time and have formed joint-ventures with Chinese entrepreneurs and PRC State-owned factories in the production of American-designed and European-designed motor vehicles.

There have been some successes, but, for the most part, the successes have been limited.

Some of these joint ventures, today, must be considered suspect.

Depending on the speed of the motor-vehicle industry's decline will determine, without question, the extent of the carnage within this industry, from Detroit to Shanghai to Tokyo, Japan, Paris, France, to Wellington, New Zealand.

For the HKSAR, of course, the only real crisis in respect of this industry is the number of motor-vehicle dealerships that will cease to exist within the coming year.

Sime Darby Hongkong Ltd will be hurt, no doubt, but it will ride out the storm.

For many other HKSAR dealerships, which are not as financially healthy as Sime Darby, it is questionable that they will be open for business come this time, next year.

If the US Congress gives in to the entreaties of Detroit and affords bridge financing to The Big Three, it appears to be money, thrown into a bottomless pit because, within 2009, there will be more knocks at the *'door'* of The Congress with even further entreaties from The Big Three.

At this time, one is told that Detroit has passed round the begging bowl, looking for about $US34 billion.

To **TARGET**'s thinking, this is just the hors d'oeuvre. There is, still, the soup dish to follow, then the main course, and, then …

It is said that, should Detroit, or even a goodly part of it, go down the tubes, it would cause some 2.50 million US workers, to start walking the streets of US cities, looking for alternate employment.

That may or may not be true, but how deep are the pockets of the US taxpayers?

Dr Ben S. Bernanke, the Chairman of the US Federal Reserve, last Monday, told The Greater Austin Chamber of Commerce, inter alia:

> *'Our nation's economic policy must vigorously address the substantial risks to financial stability and economic growth … Households have continued to retrench, putting consumer spending on a pace to post another sharp decline in the fourth quarter … Although conventional interest-rate policy is constrained by the fact that nominal interest rates cannot fall below zero, the second arrow in the Federal Reserve's quiver, the provision of liquidity, remains effective … '.*

He went on to state that the current, US economic problem does not even approach the situation that existed at the time of The Great Depression of 1929.

This statement may come home to haunt this celebrated, American economist in the next year or so.

The world, and that includes Asia, is in for a rough ride in 2009, and, it appears, throughout most of 2010.

Watching the dwindling sales of motor vehicles could well become an indication of the health or otherwise of the economies of the world – and that includes the sixth largest economy of the world: The People's Republic of China.

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