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Current Situation and Future Outlook for Eco-friendly Car Subsidies

Program to run out of funds in August

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Summary

- The eco-friendly car subsidy program has led to brisk automobile sales, but attention is now focused on when the program will run out of funds. In fact, the application period for business-use car subsidies ended on 5 July.
- The average weekly value of private-use car subsidy applications was more than Y20 billion in April, but has since remained at Y10-14 billion. By 29 June, the balance remaining for subsidies stood at Y91.1 billion, suggesting that applications could still be approved for about another 900,000 cars.
- We think funds for private-use eco-friendly car subsidies will run out some time in August.

Current situation for eco-friendly car subsidies

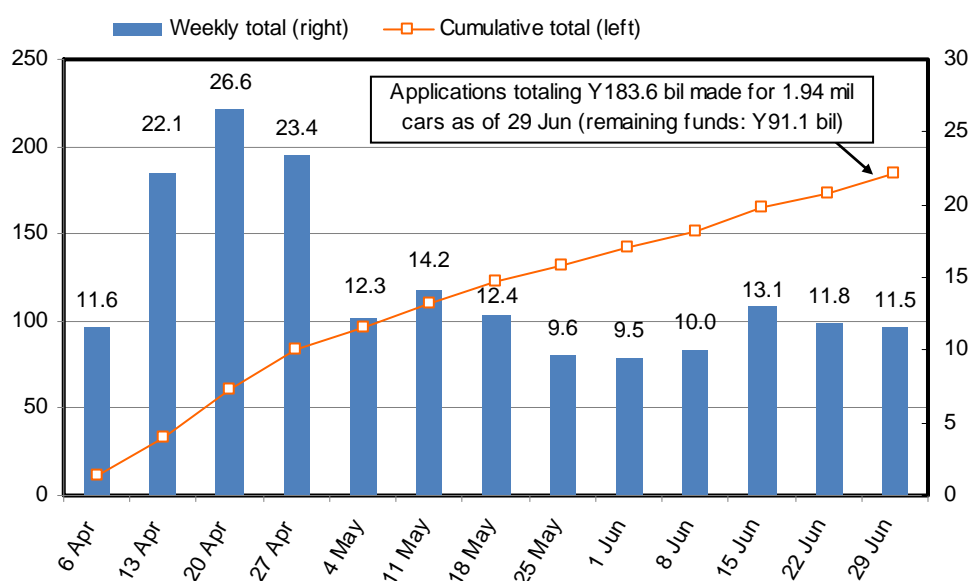
While overseas economies have been turbulent, largely due to Europe's sovereign debt crisis, domestic demand has been solid, driven by reconstruction demand following the Great East Japan Earthquake, and the recommencement of subsidies for eco-friendly cars based on provisions in the government's fourth supplementary budget for FY11. Since the subsidies were implemented, vehicle sales volumes have remained at record levels, apparently boosting Apr-Jun 2012 GDP by 0.1-0.2 points from the previous quarter. However, there is concern over the reactionary drop that will likely occur once the subsidy program runs out of funds, as sales plunged after the previous round of subsidies ended. With the application period for business-use car subsidies having ended on 5 July, attention is now focused on when private-use car subsidies will come to an end.¹

Value of eco-friendly car subsidy applications

Chart 1 shows the value of eco-friendly car subsidy applications (for private-use cars). The average weekly value of subsidy applications stood at a hefty Y20 billion in April, but has remained at Y10-14 billion since May. This is likely because the subsidies cover vehicles registered from 10 December 2011, when the fourth supplementary budget gained Cabinet approval, but acceptance of applications began in April 2012.

Meanwhile, the program required applications for vehicles registered by 31 May to be made by 29 June. Therefore, the value of applications made by 29 June should at least reflect the number of applicable vehicles registered by 31 May.

Value of Eco-friendly Car Subsidy Applications (private-use cars; Y bil) Chart 1



Source: Next Generation Vehicle Promotion Center; compiled by DIR.

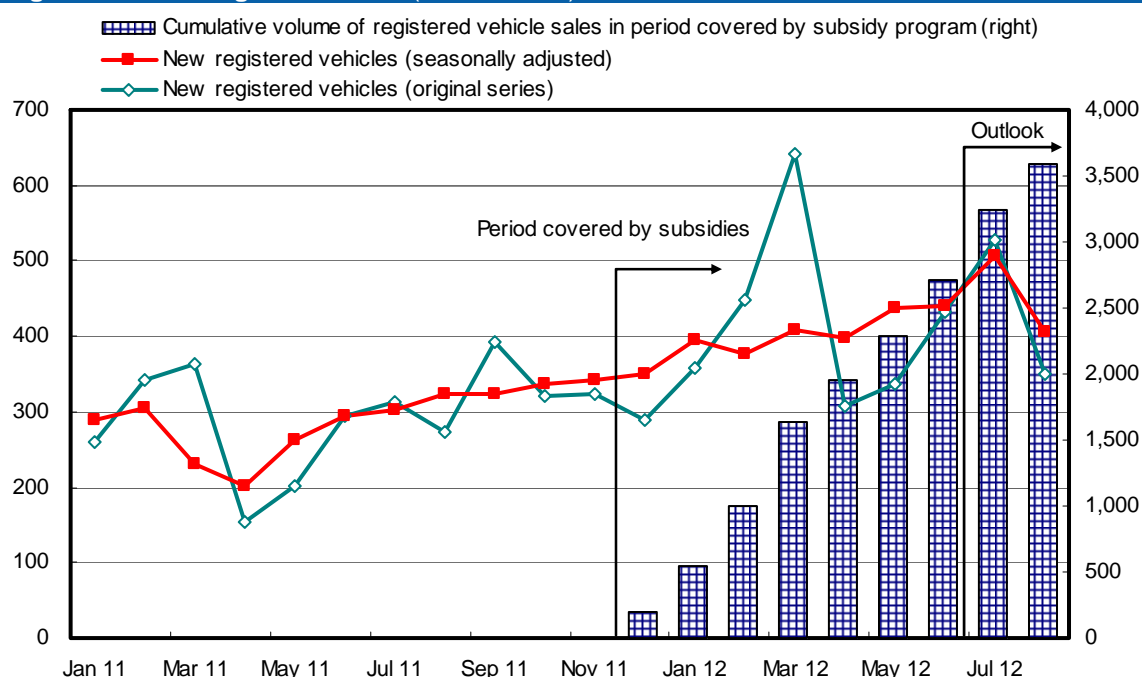
Note: Figures based on those given in official documents, but may differ from actual values due to retroactive revisions.

1. Y300 bil allocated to current eco-friendly car subsidy program: Y274.7 bil for private-use cars; Y21.8 bil for business-use cars; Y3.5 bil for administrative costs.

By end-May 2012, total sales of new registered vehicles since the recommencement of eco-friendly car subsidies stood at 2.29 million vehicles (passenger cars; incl. mini vehicles).² By end-June the figure had risen to 2.72 million.³ Subsidy applications were made for 1.94 million vehicles by 29 June, which means that applications were made for 71-85% of all new registered vehicles. We think applications were most likely made for about 80% of registered vehicles, since it is unlikely that applications were made for all applicable registered vehicles sold by 29 June.

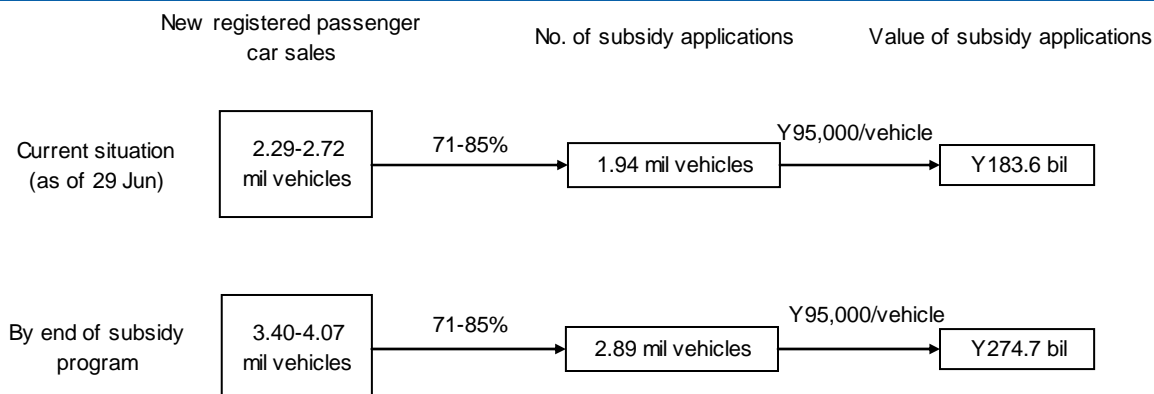
As of 29 June, the average per-vehicle value of subsidy applications was likely Y95,000, given that subsidies were made for 1.94 million vehicles, and total application value stood at Y183.6 billion. With Y91.1 billion in the budget remaining as of 29 June, these figures suggest that subsidies could be provided for about another 900,000 vehicles. Meanwhile, registered vehicle sales will probably reach about 500,000 units in July, factoring in a surge in demand due to the looming subsidy expiration. Given our assumptions for registered vehicle sales volume through July, and the estimated ratio of subsidy applications for such vehicles, we think the remaining budget at end-July will be sufficient to cover about 300,000 vehicle subsidies.

New Registered Passenger Car Sales (000 vehicles) **Chart 2**



Source: Japan Automobile Manufacturers Association (JAMA), Japan Mini Vehicles Association; compiled by DIR.
Note: Cumulative sales volume includes 2/3 of total registered vehicle sales in December.

New Registered Passenger Car Sales and Value of Eco-friendly Car Subsidy Applications **Chart 3**



Source: JAMA, Japan Mini Vehicles Association, Next Generation Vehicle Promotion Center; compiled by DIR.

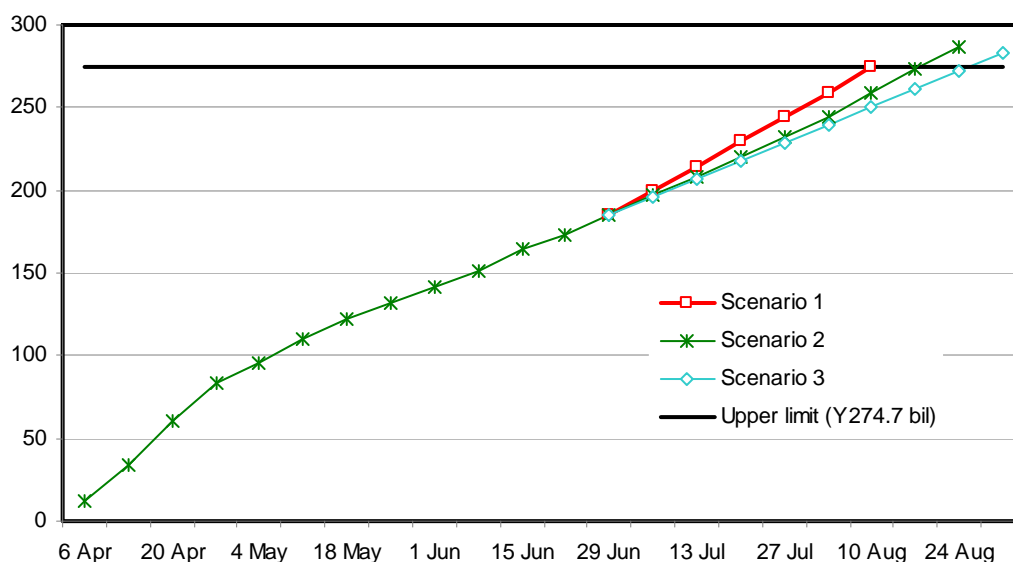
2. Subsidies for private-use cars cover passenger cars, freight vehicles, buses and trucks. We have only factored in registered vehicle numbers for passenger cars, as we expect these to account for the bulk of subsidy applications.

3. We assume that 2/3 of new registrations in December were made during the period covered by eco-friendly car subsidies.

Outlook on eco-friendly car subsidies

Chart 4 plots estimated subsidy application amounts based on three automobile sales volume scenarios. The first assumes a surge in demand before subsidies come to an end. The second shows our base scenario, in which applications continue at the recent pace, followed by a slight rise in demand shortly before the subsidy program ends. The third assumes that applications will continue at a moderate pace. We expect the eco-friendly car subsidy to end in early August if scenario 1 plays out, or in late August in the case of scenario 3.

Value of Eco-friendly Car Subsidy Applications (private-use cars; ¥ bil) **Chart 4**



Source: Next Generation Vehicle Promotion Center; compiled by DIR.