



NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

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Monday, May 18, 2020

**REPRESENTATIVES AT GENERAL MEETINGS
RECIPIENTS OF NAAMSA MEDIA RELEASES**

Ladies and Gentlemen,

**QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING INDUSTRY /
AUTOMOTIVE SECTOR: 1ST QUARTER 2020**

Attached, for information purposes, is a copy of NAAMSA's quarterly review of business conditions for the South African motor vehicle manufacturing industry, during the first quarter of 2020, as submitted to the Director-General, Department of Trade, Industry and Competition. Industry vehicle sales, export and import statistics for 2000 through 2019, together with current projections for 2020, are reflected on the attachment to the submission.

Key features: First Quarter 2020

- **First quarter 2020 industry employment reflected a decline of 670 jobs to reach 29 996 positions at end March, 2020;**
- **Industry capacity utilisation levels continue to reflect the prevailing weak business conditions in the various industry segments in terms of domestic and export sales during the quarter;**
- **Aggregate capital expenditure by the major vehicle manufacturers in 2019 recorded its second highest level on record at R7,274 billion;**
- **All vehicle segments reflected substantial year-on-year declines during quarter, linked to the recessionary macro-economic climate in the country coupled with the initial signs of the impact of the COVID-19 country lockdown also resulting in the closure of the entire automotive industry from midnight, 26 March 2020; and**
- **Against the backdrop of an already weak economy, the extent of the impact of the COVID-19 country lockdown on the domestic new vehicle market and export sales will only become clearer when full automotive production, along with the re-opening of the new vehicle dealer network commences.**

NAAMSA OFFICES: PRETORIA

Mr. Lionel OCTOBER

The Director-General:

Department of Trade, Industry and Competition

Private Bag X84

PRETORIA

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Dear Mr. OCTOBER,

QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: QUARTER ENDED 31ST MARCH 2020

NAAMSA submits the following report on business conditions in the South African new motor vehicle manufacturing industry and the automotive sector during the first quarter of 2020.

1. EMPLOYMENT LEVELS AND TRENDS

The number of persons employed by the South African new vehicle manufacturing industry - comprising the major new vehicle manufacturers and specialist commercial vehicle and bus manufacturers – during the first quarter of 2020 may be set out as follows:

| | Industry Total |
|------------------------------|-----------------------|
| Last pay week January, 2020 | 30 268 |
| Last pay week February, 2020 | 30 295 |
| Last pay week March, 2020 | 29 996 |

Industry employment levels and trends reflect employees on the payroll of vehicle manufacturers.

Aggregate Industry employment as at 31st March 2020 totalled 29 996, reflecting a decline of 670 jobs compared to the 30 666 industry head count as at the end of December, 2019.

The **average monthly** industry employment number for 2019 was 30 250.

2. NUMBER OF SHIFTS

Various manufacturers operate on a three-shift basis as well as multi-shifts in selected areas such as machining, press shops, paint shop operations and body shop. Three manufacturers operate on a three-shift basis. Two manufacturers operate double shifts in specific areas.

3. AVAILABILITY AND PRICE TRENDS OF COMPONENTS AND RAW MATERIALS

3.1. Imported components and raw materials

The availability and supply of imported components remained stable during the quarter. Prices of imported components and raw materials were negatively affected by exchange rate depreciation and higher logistics costs during the quarter, the latter related to supply and demand being affected by the global COVID-19 supply chain disruptions and capacity constraints.

3.2. Local components and raw materials

The availability and supply of local components and raw materials remained stable during the quarter. Raw material pricing trends remain a function of exchange rate movements and the global price index. Supply of components and raw materials were affected towards the end of the quarter as the entire automotive industry temporarily shut down due to COVID-19 country lockdown from midnight, 26 March 2020.

4. UTILISATION OF PRODUCTION CAPACITY: 2015 – 2019 AND FIRST QUARTER, 2020

Average motor vehicle assembly Industry capacity utilisation levels, by sector and for the years/quarters indicated, may be illustrated as follows:

| | Year 2015 | Year 2016 | Year 2017 | Year 2018 | Year 2019 | 1 st Quarter 2020 | 1 st Quarter 2019 range [High] [Low] | |
|-----------------------|--------------|--------------|--------------|--------------|--------------|------------------------------------|--|-------|
| Cars | 80.4% | 76.0% | 78.0% | 82.0% | 89.4% | 84.6% | 100% | 43.7% |
| Light Commercials | 80.6% | 77.9% | 85.3% | 72.2% | 75.8% | 81.7% | 90% | 72.1% |
| Medium Commercials | 97.6% | 88.5% | 82.9% | 66.9% | 65.4% | 55.6% | 55.6% | 55.6% |
| Heavy Commercials | 77.4% | 80.0% | 69.7% | 60.6% | 74.0% | 70.5% | 100% | 55.6% |

Capacity utilisation levels, during the first quarter of 2020, reflect the prevailing business conditions in the various industry segments in terms of domestic and export sales as well as the impact of the COVID-19 country lockdown towards the end of the quarter.

5. VEHICLE MANUFACTURING INDUSTRY CAPITAL EXPENDITURE: 2011 – 2019

NAAMSA reports the industry's aggregate capital expenditure on an annual basis. The aggregated data is based on Capital Expenditure details supplied by the seven major vehicle manufacturers. Details of actual Industry capex for 2011 through 2019, in **Rand millions**, are as follows:

| Capital Expenditure | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|----------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|
| Product/Local/Content/Export Investment/Production Facilities | 3 522.7 | 3 837 | 3 605 | 6 092 | 5 948.5 | 5 146.1 | 7 144.6 | 7 246.9 | 7 274.3 |
| Land and Buildings | 176.4 | 432 | 424 | 478 | 190.5 | 905 | 301.4 | | |
| Support Infrastructure [I.T., R&D, Technical] | 203.6 | 409 | 319 | 347 | 464.3 | 363.5 | 724.6 | | |
| Total | 3 902.7 | 4 678 | 4 348 | 6 917 | 6 603.3 | 6 414.6 | 8 170.6 | 7 246.9 | 7 274.3 |

2018 and 2019 data is based on data supplied by the 6 major OEMs and an estimate for one OEM

The continued high levels in capital expenditure are due to investment projects by manufacturers in terms of the Automotive Production Development Programme [APDP] and the higher levels of production for export markets.

6. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

Business Conditions: First quarter, 2020

2020 First quarter aggregate industry new car sales at 80 838 units recorded a decline of 5 506 units or a fall of -6.4% compared to the 86 344 new cars sold during the corresponding quarter of 2019. Aggregate industry commercial vehicle sales during the first quarter of 2020, at 36 418 units, recorded a decline of 10 508 units or a fall of -22.4% compared to the 46 926 units sold during the first quarter of 2019.

| Industry Domestic Sales Growth: Direction and Extent of Change [previous quarter's percentage changes are reflected in brackets] | | | | |
|---|--|----------|--|----------|
| | Qtr. ended 31 March 2020 compared with <u>previous Qtr. ended 31 December 2019</u> | | Qtr. ended 31 March 2020 compared with <u>corresponding Qtr. ended 31 March 2019</u> | |
| Passenger Cars | -16.0% | [+5.1%] | -6.4% | [+3.9%] |
| Light Commercial vehicles | -10.7% | [-16.6%] | -24.5% | [-11.8%] |
| Medium Commercial vehicles | -21.6% | [-2.5%] | -9.7% | [+5.5%] |
| Heavy Commercial vehicles | -27.9% | [-1.8%] | -7.8% | [-2.7%] |

All vehicle segments reflected substantial declines compared to the corresponding and previous quarters. Analysis of the figures reflects the impact of the recessionary macro-economic climate in the country coupled with the initial signs of the impact of the COVID-19 lockdown and closure of the entire automotive industry from midnight, 26 March 2020.

South Africa's Automotive Industry's Performance in a Global Context: 2001 – 2019 Production data

Global new motor vehicle production in 2019 declined to 91 786 861 vehicles. This represents a decrease of 5 082 159 vehicles produced or 5,2% compared to the 96 869 020 new vehicles produced during 2018. South African vehicle production increased to 631 983 vehicles in 2019 from 610 060 units produced in 2018 – an improvement of 21 923 vehicles or +3.6%. The following table reflects South Africa's share of Global **New Vehicle Production** [in millions] –

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | % change 2019 / 2018 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------------------|
| Global Production | 79.88 | 84.14 | 87.27 | 89.77 | 90.84 | 95.06 | 96.67 | 96.87 | 91.79 | -5.2% |
| South Africa Production | 0.533 | 0.547 | 0.546 | 0.568 | 0.617 | 0.600 | 0.601 | 0.61 | 0.63 | +3.6% |
| SA Share of Global Production | 0.67% | 0.65% | 0.63% | 0.63% | 0.68% | 0.63% | 0.62% | 0.64% | 0.69% | +7.8. % |

South Africa's share of global new motor vehicle production in 2019 improved to 0.69% with the country's ranking remaining at 22nd in the world. With regards to light commercial vehicle production South Africa was ranked 14th globally with a market share of 1.25%. South Africa's current vehicle population in 2019 was 12.70 million vehicles. 2020 Vehicle production is expected to decline significantly by about 26% to 466 500 units in line with the severe impact of COVID-19 on domestic new vehicle sales and export sales.

Comment on Industry Export Performance by major region –

| Changing Composition of SA Vehicle exports by major regions: 2016 – 2019 | | | | | |
|--|----------------|----------------|----------------|----------------|-------------------------|
| | 2016 | 2017 | 2018 | 2019 | % change 2019 / 2018 |
| Europe | 196 727 | 190 503 | 233 772 | 285 599 | +22.2% |
| Asia | 46 655 | 52 827 | 50 277 | 39 879 | -20.7% |
| Africa | 21 505 | 21 848 | 23 988 | 23 415 | -2.4% |
| Australasia | 22 735 | 25 125 | 22 767 | 17 350 | -23.8% |
| North America | 52 024 | 43 393 | 13 037 | 13 540 | +3.9% |
| South America | 4 750 | 3 588 | 5 787 | 6 093 | +5.3% |
| Central America | 410 | 812 | 1 511 | 1 249 | -17.3% |
| Total | 344 816 | 338 096 | 351 139 | 387 125 | +10.2% |

Source: NAAMSA, AIEC, SARS, Lightstone Auto

Vehicle exports into Europe, North and South America reflected growth in 2019, with Europe on the whole dominating as a region accounting for a substantial 73,8% of total vehicle exports. Africa remains a priority focus for the domestic automotive industry and the low motorisation rate on the continent, growing middle class and the African Continental Free Trade Area should stimulate future demand, albeit from a low base. Exports to North America declined substantially since 2017, which could be attributed to the same BMW and Mercedes-Benz models ranges manufactured in the USA, which used to be the top export market for previous model ranges manufactured in South Africa by the two OEMs.

Vehicle exports at 387 125 units in 2019 achieved a new record, for the second consecutive year, and reflected a substantial increase of 35 986 vehicles, or 10,2%, compared to the 351 139 vehicles exported in 2018.

Brief Comment on business conditions and the medium-term outlook

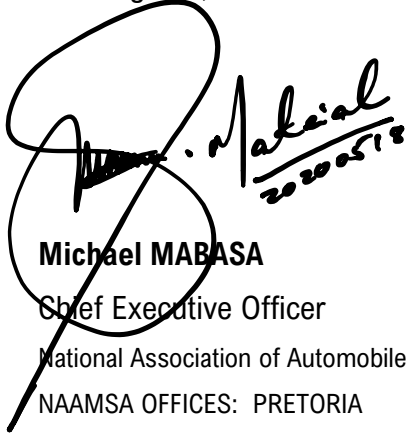
In line with the temporary closure of global facilities towards the end of the quarter, the entire domestic motor industry also suspended production in view of the nationwide lockdown imposed on midnight, 26 March 2020. As a result, the industry lost three working days during March 2020, impacting negatively on new vehicle sales and export sales during the month, indicating early signs of the impact of COVID-19 on the domestic automotive industry. South Africa was already in a recession before the COVID-19 had any significant impact with new vehicle sales continuing to mirror the deteriorating economic outlook in the country. The SARB's interest rate cut by 125 basis points during the quarter aimed to support an already fragile economy and to ease the financial conditions of households and firms. The unexpected tax relief for individual taxpayers in the Budget 2020 was also welcomed. However, the CO2 emissions tax increase and the lowering of the threshold on passenger cars as well as the increase in the tax on double cab bakkies effectively meant a price increase on vehicles, this during a sustained period of market decline. Smaller vehicles, comprising the major portion of sales in the domestic market and which were previously excluded, would also now attract CO2 taxes.

Businesses and consumers are currently uncertain on what the future holds through the lockdown restrictions, the unemployment rate increases, the negative exchange rate impact, the negative annualised GDP growth rate, and Moody's rating downgrade, all putting pressure on disposable income and debt levels. Only once full automotive production commences along with the re-opening of the new vehicle dealer network will the impact of COVID-19 on domestic new vehicle sales and exports become clearer. NAAMSA expects that demand for domestic new vehicles would continue to remain under pressure over the medium term until there is greater economic stability.

The performance of exports would remain a function of the performance and direction of global markets. The global automotive industry has been hit hard by the COVID-19 pandemic, with a significant fall in demand forecast for all the major automotive regions in 2020. The extent and impact of the fall in global vehicle demand would become clearer in the domestic industry's export sales over the short to medium term.

The standard attached schedule reflects updated industry sales, production, export and import numbers and a projection for 2020 plus updated schedule

Kind regards,



Handwritten signature of Michael Mabasa, dated 2020/05/18.

Michael MABASA

Chief Executive Officer

National Association of Automobile Manufacturers of South Africa [NAAMSA]

NAAMSA OFFICES: PRETORIA