NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

GROUND FLOOR, BUILDING F
ALENTI OFFICE PARK
457 WITHERITE ROAD, THE WILLOWS, X82
PRETORIA
PO BOX 40611, ARCADIA 0007
TELEPHONE: (012) 807-0152 / 807-0086
FAX: (012) 807-0054
WEB ADDRESS: www.naamsa.co.za
E-MAIL ADDRESS: naamsa@iafrica.com

N8/1 (e-mail)
11th May, 2016

REPRESENTATIVES AT GENERAL MEETINGS
RECIPIENTS OF NAAMSA MEDIA RELEASES

Ladies and Gentlemen

QUARTERLY REVIEW OF BUSINESS CONDITIONS: MOTOR VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 1ST QUARTER 2016

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 2016, as submitted to the Director-General, Department of Trade and Industry.

Industry vehicle sales, export and import statistics for 2000 through 2015, together for projections for 2016 and 2017, have been **updated** and are reflected on the attachment to the submission.

Key features: First Quarter 2016

- **Aggregate Industry employment levels remained stable**
- **Based on data collated at the beginning of the calendar year, 2016 Industry capital expenditure projected at a record R7.63 billion**
- **Industry capacity utilisation levels consolidated and trended lower**
- **Domestic new vehicle sales showed fairly substantial declines. In contrast, export sales continue to expand**
- **Industry production expected to rise further over the next few years on the back of the Automotive Production Development Programme and an increase in vehicle exports**
- **2016 is shaping up, domestically, as an extremely difficult year – offset to some extent by expected further growth in new vehicle exports.**
- **South Africa's share of global new vehicle production rose to 0.68% in 2015 up from 0.63% in 2014.**

NAAMSA OFFICES: PRETORIA

naamsa

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11th May, 2016

The Director-General: Mr L October
Department of Trade and Industry
Private Bag X84
PRETORIA
0001

Dear Sir

QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: QUARTER ENDED 31ST MARCH, 2016

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 2016.

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 2016 may be set out as follows –

	Industry Total
Last pay week January, 2016	31 287
Last pay week February, 2016	31 274
Last pay week March, 2016	31 258

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

Aggregate Industry employment as at 31st March, 2016 totalled 31 258 reflecting a decrease of 174 jobs or 0.5% compared to the 31 432 Industry head count as at the end of the fourth quarter of 2015.

The **average monthly** industry employment number for 2015 was 31 260 compared to 29 715 in 2014.

Overall, industry employment has been stable over the past three years.

2. NUMBER OF SHIFTS

An increasing number of 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.

Two manufacturers now operate on a three shift basis. Four manufacturers operate double shifts in specific areas.

3. AVAILABILITY AND PRICE TRENDS OF COMPONENTS AND RAW MATERIALS

3.1 COMPONENTS

Imported Components

The availability and supply of imported original equipment components, during the first quarter of 2016, generally remained good.

Prices of imported components continued to be affected by exchange rate movements.

Local Components

During the first quarter of 2016, the availability and supply of locally produced components, in general terms, remained satisfactory. However, a major original equipment manufacturer was badly impacted by capacity and supply constraints at a key supplier.

Local component prices generally were affected by consumer and production price movements whilst components with high levels of imported content continued to experience pricing pressure due to forex exposure.

3.2 RAW MATERIALS

Imported Materials

The availability of imported raw materials, where applicable, remained satisfactory.

Pricing trends remain a function of exchange rate movements and commodity prices. Steel prices beginning to come under pressure due to the 10% import duty on alloy and zinc coated steel.

Local Materials

Local raw material price movements were affected by exchange rate and commodity price movements.

During the quarter, no major concerns on local material pricing were reported.

4. UTILISATION OF PRODUCTION CAPACITY: 2010 – 2016

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

	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	1st Quarter 2016	1st Quarter 2016 Range (High)	(Low)
Cars	77.1%	81.6%	86.5%	68.0%	67.0%	80.4%	76.2%	100.0%	26.0%
Light Commercials	68.4%	73.5%	87.8%	75.3%	80.5%	80.6%	73.0%	93.8%	40.0%
Medium Commercials	77.2%	88.4%	84.3%	59.8%	85.7%	97.6%	86.3%	100.0%	60.0%
Heavy Commercials	77.5%	89.9%	86.9%	69.3%	80.7%	77.4%	79.5%	100.0%	50.0%

Following the relatively high sectoral capacity utilisation levels in 2015, capacity utilisation consolidated quite substantially during the first quarter of 2016 with the exception of the heavy truck manufacturing sector. The consolidation may be attributed in the main to the lower domestic sales levels experienced since the beginning of the year.

5. VEHICLE MANUFACTURING INDUSTRY CAPITAL EXPENDITURE: 2007 – 2016

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 and various truck producers. Details of actual Industry capex for 2007 through 2015, in **Rand millions**, as well as the projection for 2016 – are as follows –

Capital Expenditure	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016 projection**
Product/Local/Content/ Export Investment/ Production Facilities	2 458.7	2 807.7	2 215.9	3 351.1	3 522.7	3 837	3 605	6 092	5 948.5	5 904.4
Land and Buildings	382.4	329.1	178.7	441.2	176.4	432	424	478	190.5	1 174.9
Support Infrastructure (I.T., R&D, Technical, etc.)	254.4	153.1	74.1	202.4	203.6	409	319	347	464.3	555.4
Total	**3 095.5**	**3 289.9**	**2 468.7**	**3 994.7**	**3 902.7**	**4 678**	**4 348**	**6 917**	**6 603.3**	**7 634.7**

2016 data is based on data supplied by the 7 major OEM's

2015 Capital expenditure reflected at R6.6 billion represents the second highest yearly figure on record. The high levels in capital expenditure in recent and particularly future years may be attributed to Investment Projects by manufacturers in terms of the Automotive Production and Development Programme (APDP) and associated higher levels of production for export markets.

6. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

Business Conditions: First quarter, 2016

2016 first quarter aggregate Industry new car sales at 110 658 units recorded a decline of 11 276 units or a fall of -9.2% compared to the 121 934 new cars sold during the corresponding quarter of 2015. Aggregate Industry commercial vehicle sales during the first quarter of 2016 at 47 437 units recorded a decline of 7 229 units or a fall of -13.2%% compared to the 54 666 units sold during the first quarter of 2015.

Industry Domestic Sales Growth: Direction and Extent of Change
(previous quarter's percentage changes are reflected in brackets)

	Qtr ended 31 March 2016 compared with previous Qtr ended 31 December 2015		Qtr ended 31 March 2016 compared with corresponding Qtr ended 31 March 2015	
Passenger Cars	-3.4%	(-6.8%)	-9.2%	(-7.8%)
Light Commercial vehicles	-10.2%	(+0.2 %)	-13.0%	(+0.1%)
Medium Commercial vehicles	-33.0%	(+9.4 %)	-22.5%	(+1.4%)
Heavy Commercial vehicles	-21.3%	(+4.3%)	-10.1%	(+5.8 %)

On a year-on-year comparative basis, the consumer driven new car market registered further weakness, whilst investment led commercial vehicle segments recorded double digit declines.

South Africa's Automotive Industry's Performance in a Global Context: 2006 – 2015

Global new motor vehicle production in 2015 reached a record of 90 683 072 vehicles (2014: 89 776 465 units). This represents an increase of 906 607 million vehicles produced or 1.0% compared to the 89.77 million new vehicles produced during 2014. South African vehicle production increased to 615 658 vehicles in 2015 from 566 131 units produced in 2014 – a gain of 49 527 vehicles or 8.7%.

The following table reflects South Africa's share of Global **New Vehicle Production** -

	2000	2006	2010	2011	2012	2013	2014	2015	% change 2015 / 2014
Global Production	58.4	69.33	77.61	79.88	84.14	87.27	89.77	90.68	+1.0%
South Africa Production	0.357	0.588	0.472	0.533	0.546	0.546	0.566	0.616	+8.7%
SA Share of Global Production	0.61%	0.85%	0.61%	0.67%	0.64%	0.63%	0.63%	0.68%	+7.9%

South Africa's share of global new motor vehicle production in 2015 amounted to 0.68% - well above the country's share of global GDP of about 0.46%.

The current global vehicle population exceeds one billion vehicles.

2016 SA vehicle production is conservatively expected to grow to about 640 000 units or some 4.0% in volume terms.

Comment on Industry Export Performance

Changing Composition of SA Vehicle exports by major regions: 2013 – 2015				
	2013	**2014**	**2015**	**% change 2015 / 2014**
Africa	78 787	61 839	42 594	-31.1%
Europe	79 819	116 077	173 796	+49.7%
North America	63 457	48 408	53 804	+11.1%
Asia	36 482	33 520	34 165	+1.9%
Australasia	15 831	14 610	22 948	+57.1%
South America	85	2 482	6 537	+163.4%

Source: NAAMSA, AIEC, SARS, Lightstone Auto

Vehicle exports to Australasia, Europe and increasingly South America showed strong improvement. Vehicle exports to North America recorded modest growth but are likely to increase in 2016. Sales to African markets declined sharply for the second year in succession due to a combination of factors including ad-hoc duty increases and regulatory /technical specifications changes in various African countries compounded by difficult economic conditions in most African economies as a result of sharply lower commodity prices, including the oil price.

Comment on business conditions and the outlook for the balance of 2016

Domestically, based on the industry's general outlook and prevailing macro-economic conditions, the balance of 2016 is likely to continue to be characterised by subdued economic growth and pressure on consumer disposable incomes. Double digit new vehicle price increases in response to earlier Rand weakness and the possibility of further interest rate hikes would combine to further pressurise consumers and businesses at a time of rising retrenchments across a number of sectors. Above-inflation new vehicle price increases, estimated between 12% and 15% plus for the year, will put further downward pressure on sales of new motor vehicles.

In contrast, export sales are expected to reflect strong upward momentum over the balance of the year. New vehicle industry production should therefore continue to benefit from projected higher export numbers with 2016 export sales expected to expand to around 375 000 units.

The industry's contribution to South Africa's Gross Domestic Product during 2015 has been determined at 7.5% up from 7.2% in 2014.

The standard attached schedule reflects latest projections of industry sales, production, exports and imports. Projections include forecasts for the year 2016 and 2017. Projections for 2016 and 2017 have been revised downwards.

NMW VERMEULEN
DIRECTOR

INDUSTRY VEHICLE SALES, PRODUCTION, EXPORT AND IMPORT DATA : 2000 - 2017

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (Projection)	2017 (Projection)
CARS																		
Domestically Produced																		
Local Sales	172 373	172 052	163 474	176 340	200 264	210 976	215 311	169 558	125 454	94 379	113 740	124 736	120 417	113 356	122 610	112 566	100 000	104 000
Exports (CBU)	58 204	97 599	113 025	114 909	100 699	113 899	119 171	106 460	195 670	128 602	181 654	187 529	153 268	151 893	154 920	228 459	260 000	290 000
Total Domestic Production	**230 577**	**269 651**	**276 499**	**291 249**	**300 963**	**324 875**	**334 482**	**276 018**	**321 124**	**222 981**	**295 394**	**312 265**	**273 685**	**265 249**	**277 530**	**341 025**	**360 000**	**394 000**
Total Industry Car Imports	**61 749**	**79 508**	**78 128**	**81 919**	**127 389**	**208 892**	**266 247**	**265 095**	**203 808**	**163 750**	**223 390**	**271 556**	**323 796**	**338 592**	**318 012**	**301 336**	**267 000**	**270 000**
Re-exported imports													1 609	1 652	1 680	1 232		
TOTAL LOCAL CAR MARKET	**234 122**	**251 560**	**241 602**	**258 259**	**327 651**	**419 868**	**481 558**	**434 653**	**329 262**	**258 129**	**337 130**	**396 292**	**442 604**	**450 296**	**438 942**	**412 670**	**367 000**	**374 000**
LIGHT COMMERCIALS																		
Domestically Produced																		
Local Sales	104 121	113 111	101 956	102 007	123 467	146 933	159 469	156 626	118 641	85 663	96 823	108 704	121 638	127 051	137 044	140 310	131 000	133 000
Exports	9 148	10 229	11 699	11 283	9 360	25 589	60 149	64 127	87 314	45 514	56 950	84 125	123 448	121 345	118 585	102 664	115 000	125 000
Total Domestic Production	**113 269**	**123 340**	**113 655**	**113 290**	**132 827**	**172 522**	**219 618**	**220 753**	**205 955**	**131 177**	**153 773**	**192 829**	**245 086**	**248 396**	**255 629**	**242 974**	**246 000**	**258 000**
Total Industry LCV Imports	**4 114**	**4 535**	**5 291**	**5 377**	**8 938**	**23 199**	**40 208**	**47 760**	**50 825**	**32 496**	**36 911**	**40 597**	**38 741**	**41 253**	**37 052**	**34 557**	**29 000**	**30 000**
Re-exported imports													205	308	337	323		
TOTAL LOCAL LCV MARKET	**108 235**	**117 646**	**107 247**	**107 384**	**132 405**	**170 132**	**199 677**	**204 386**	**169 466**	**118 159**	**133 756**	**149 301**	**160 174**	**167 996**	**173 759**	**174 544**	**160 000**	**163 000**
MEDIUM & HEAVY COMMERCIALS																		
NAAMSA sales (incl. Imports)	12 275	13 323	14 335	16 957	21 464	27 406	33 080	37 069	34 659	18 934	22 021	26 656	27 841	30 924	31 558	30 535	28 500	30 000
Exports	679	465	582	469	448	424	539	650	1 227	861	861	803	1 076	1 206	1 414	1 124	1 000	1 200
TOTAL LOCAL MCV/HCV MARKET	**12 275**	**13 323**	**14 335**	**16 957**	**21 464**	**27 406**	**33 080**	**37 069**	**34 659**	**18 934**	**22 021**	**26 656**	**27 841**	**30 924**	**31 558**	**30 535**	**28 500**	**30 000**
TOTAL AGGREGATE MARKET	**354 632**	**382 529**	**363 184**	**382 600**	**481 520**	**617 406**	**714 315**	**676 108**	**533 387**	**395 222**	**492 907**	**572 249**	**630 619**	**649 216**	**644 259**	**617 749**	**555 500**	**567 000**
TOTAL AGGREGATE EXPORTS	**68 031**	**108 293**	**125 306**	**126 661**	**110 507**	**139 912**	**179 859**	**171 237**	**284 211**	**174 947**	**239 465**	**272 457**	**276 183**	**276 404**	**274 919**	**333 802**	**376 000**	**416 200**
TOTAL DOMESTIC PRODUCTION	**356 800**	**406 779**	**405 071**	**421 965**	**455 702**	**525 227**	**587 719**	**534 490**	**562 965**	**373 923**	**472 049**	**532,553**	**547 688**	**545 775**	**566 131**	**615 658**	**635 500**	**683 200**
GDP GROWTH RATE	**4,4%**	**2,9%**	**3,7%**	**2,9%**	**4,6%**	**5,3%**	**5,6%**	**5,4%**	**3,2%**	**- 1,5%**	**3,0%**	**3,2%**	**2,2%**	**2,2%**	**1,5%**	**1,3%**	**0,6%**	**1,0%**

Notes:
Domestically produced cars and lcvs total represents a proxy for aggregate local production.
Historical sales are based on data reported by NAAMSA member companies, vehicle manufacturers, importers and distributors.
Projections are based on NAAMSA analysis and demand assumptions and do not provide for supply side disruptions.
GDP growth rate represents GDP annual changes at market prices in real terms.
CBU Export figures are based on projects announced to date. Announcements of new CBU export programmes could change projections.
From 2012, imported vehicles which have subsequently been exported are reflected as "re-exported imports"