



NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

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N8/1 (e-mail)
28th July, 2016

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

Ladies and Gentlemen

**QUARTERLY REVIEW OF BUSINESS CONDITIONS: MOTOR VEHICLE MANUFACTURING INDUSTRY /
AUTOMOTIVE SECTOR: 2ND 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 second quarter of 2016, as submitted to the Director-General, Department of Trade and Industry.

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

Key features: Second Quarter 2016

- **Aggregate Industry employment levels remained stable and reflected a marginal decline of 74 jobs to reach 31 184 positions at end June, 2016**
- **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, in all four sectors, recorded an improvement compared to the first quarter**
- **Domestic new vehicle sales, with the exception of heavy truck sales, showed fairly substantial declines. In contrast, export sales held steady**
- **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 a limited extent by expected further growth in new vehicle exports**
- **An analysis of first half 2016 export sales data is included in the review and confirms the continuing decline in sales to African markets**



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28th July, 2016

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

**QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW VEHICLE MANUFACTURING INDUSTRY /
AUTOMOTIVE SECTOR: QUARTER ENDED 30TH JUNE, 2016**

NAAMSA submits the following report on business conditions in the South African new motor vehicle manufacturing Industry and the automotive sector during the second 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 second quarter of 2016 may be set out as follows –

	Industry Total
Last pay week April, 2016	31 085
Last pay week May, 2016	31 161
Last pay week June, 2016	31 184

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

Aggregate Industry employment as at 30th June, 2016 totalled 31 184 – reflecting a decrease of 74 jobs or 0.2% compared to the 31 258 Industry head count as at the end of the first quarter of 2016.

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 and a half 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 second quarter of 2016, generally remained good.

Prices of imported components continued to be affected by exchange rate movements. The volatile performance of the Rand exchange rate remained the single biggest factor impacting on the cost of imported components.

Local Components

During the second quarter of 2016, the availability and supply of locally produced components, in general terms, remained satisfactory.

Local component prices generally were affected by consumer and production price movements.

Economic reductions and resultant lower domestic market volumes continued to place pressure on local component manufacturers.

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 are 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, local steel prices moved upwards as did the prices of copper, aluminium and particularly lead.

4. UTILISATION OF PRODUCTION CAPACITY: 2011 – 2016

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

	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	1 st Quarter 2016	2 nd Quarter 2016	2 nd Quarter 2016 Range (High) (Low)	
Cars	81.6%	86.5%	68.0%	67.0%	80.4%	76.2%	77.3%	100.0%	32.0%
Light Commercials	73.5%	87.8%	75.3%	80.5%	80.6%	73.0%	78.7%	85.0%	71.0%
Medium Commercials	88.4%	84.3%	59.8%	85.7%	97.6%	86.3%	88.3%	105.0%	60.0%
Heavy Commercials	89.9%	86.9%	69.3%	80.7%	77.4%	79.5%	81.3%	100.0%	50.0%

Following the relatively high sectoral capacity utilization levels in 2015, capacity utilisation consolidated during the first quarter of 2016. However, during the second quarter, all sectors reflected improved capacity utilisation compared to the first three months of 2016.

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

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: Second quarter, 2016

2016 second quarter aggregate Industry new car sales at 92 452 units recorded a decline of 12 993 units or a fall of -12.3% compared to the 105 445 new cars sold during the corresponding quarter of 2015. Aggregate Industry commercial vehicle sales during the second quarter of 2016 at 47 944 units recorded a decline of 2 017 units or a fall of -4.0% compared to the 49 961 units sold during the second quarter of 2015.

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

	Qtr ended 30 June 2016 compared with <u>previous Qtr ended 31 March 2016</u>		Qtr ended 30 June 2016 compared with <u>corresponding Qtr ended 30 June 2015</u>	
Passenger Cars	-16.5%	(-3.4%)	-12.3%	(-9.2%)
Light Commercial vehicles	-0.5%	(-10.2%)	-4.0%	(-13.0%)
Medium Commercial vehicles	+5.4%	(-33.0%)	-15.5%	(-22.5%)
Heavy Commercial vehicles	+14.2%	(-21.3%)	+1.2%	(-10.1%)

On a year on year comparative basis, the consumer driven new car market registered further weakness. The investment-led commercial vehicle segments reflected a mixed picture with heavy commercial vehicle sales holding up relatively well.

Comment on Industry Export Performance: Changing Composition of SA Vehicle exports by major regions: 2013 – 2015 and comparison of Export data for first half of 2016 versus first half of 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, Lightstone Auto

	2015 First half	2016 First half	% change 2016/2015
Africa	25 550	11 617	-54.5%
Europe	86 943	91 523	+5.3%
North America	28 072	28 238	+0.6%
Asia	14 173	21 898	+54.5%
Australasia	11 209	11 969	+6.8%
South America	2 998	2 418	-19.3%
Total	168 945	167 663	-0.8%

Source: NAAMSA, Lightstone Auto

The latest export sales figures confirmed the continued sharp decline of sales to African markets. This may be attributed by difficult economic conditions in most African economies as a result of lower commodity prices, particularly the oil price. Further factors include ad-hoc duty increases in various countries including Nigeria and Zimbabwe as well as regulatory/technical specifications changes in various African countries. Vehicle exports to Europe increased off a high base whilst export sales to Asia showed remarkable growth.

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 low economic growth and increased pressure on consumer disposable income. Double digit new vehicle price increases in response to earlier Rand weakness, relatively high interest rates and fragile consumer and business confidence at a time of rising retrenchments across a number of sectors – will put further downward pressure on sales of new motor vehicles.

The decline in the Reserve Bank's leading business cycle indicator to 90.8 in May from 90.9 in April took the index to its lowest level since the 2008 global financial crisis. The decline reinforces the decision by global financial institutions and the Reserve Bank to revise downwards South Africa's growth outlook for 2016 and 2017.

In contrast, export sales are expected to show modest upward momentum over the balance of the year. New vehicle industry production should therefore hold steady with 2016 export sales numbers expected to expand to around 351 000 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 again 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	Projection	
																	2016	2017
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	235 000	250 000
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	335 000	354 000
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	260 000	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	360 000	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	548 500	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	279 606	276 404	274 919	333 802	351 000	376 200
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	610 500	643 200
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%	-0,1%	0,9%

Notes:
 Domestically produced cars and lcv's 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"