



NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

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N8/1 (e-mail)
7th August, 2018

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

Ladies and Gentlemen

**QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING INDUSTRY /
AUTOMOTIVE SECTOR: 2nd QUARTER 2018**

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 2018, as submitted to the Director-General, Department of Trade and Industry.

Industry vehicle sales, export and import statistics for 2000 through 2017, together with revised current projections for 2018 through 2020, are reflected on the attachment to the submission.

Key features: Second Quarter 2018

- **Second quarter 2018 industry employment remained stable and reflected a marginal decline in headcount of 72**
- **Record aggregate investment by the major vehicle manufacturers in 2017 amounting to R8.17 billion**
- **Sharp recovery in capacity utilisation in new car production, however, commercial vehicle production capacity utilisation remained under pressure affected by low utilisation levels at two plants**
- **Domestic new vehicle sales improved, year on year, whilst export sales experienced pressure due to model changeovers**
- **Expectations for 2018 are for modest growth in domestic sales, annual export sales numbers have been revised downwards**
- **Medium to long term prospects for new vehicle exports and domestic production remained positive**

NAAMSA OFFICES: PRETORIA



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7th August, 2018

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, 2018**

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 2018.

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 2018 may be set out as follows –

	Industry Total
Last pay week April, 2018	29 997
Last pay week May, 2018	29 904
Last pay week June, 2018	29 960

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

Aggregate Industry employment as at 30th June, 2018 totalled 29 960 reflecting a decrease of 72 jobs or a decline of 0.23% compared to the 30 032 Industry head count as at the end of March, 2018.

The **average monthly** industry employment number for 2017 was 30 050.

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. 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 components remained stable during the quarter. Prices of imported components were affected by the sharp deterioration in the exchange rate at the end of the second quarter.

Local Components

During the second quarter of 2018, the availability and supply of locally produced components, in general terms, remained stable. Second quarter component pricing generally was affected by annual price reviews. An increase in domestic inflation, electricity and Labour were the main contributing factors.

3.2 RAW MATERIALS

Imported Materials

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

Pricing trends remain a function of exchange rate movements. Imported raw material price increases were reported in respect of lead and aluminium. These were offset to some extent by exchange rate strength.

Local Materials

Supply and availability remained stable. Local steel prices increased by around 5%.

4. UTILISATION OF PRODUCTION CAPACITY: 2011 – 2017 AND SECOND QUARTER, 2018

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

	2012	2013	2014	2015	2016	2017	1 st Quarter 2018	2 nd Quarter 2018	2 nd Quarter 2018 Range (High) (Low)	
Cars	86.5%	68.0%	67.0%	80.4%	76.0%	78.0%	74.4%	83.4%	100.0%	29.0%
Light Commercials	87.8%	75.3%	80.5%	80.6%	77.9%	85.3%	74.1%	66.7%	97.7%	29.2%
Medium Commercials	84.3%	59.8%	85.7%	97.6%	88.5%	82.9%	69.9%	60.3%	97.0%	24.1%
Heavy Commercials	86.9%	69.3%	80.7%	77.4%	80.0%	69.7%	60.5%	55.1%	97.0%	24.1%

Capacity utilisation levels, during the second quarter of 2018, reflected the prevailing business conditions in the various industry segments in terms of domestic and export sales.

Capacity utilisation levels in the new car production segment recovered sharply, however, utilisation of production capacity in the commercial vehicle segments declined markedly – affected by operations at two manufacturers.

5. VEHICLE MANUFACTURING INDUSTRY CAPITAL EXPENDITURE: 2008 – 2017

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 2008 through 2017, in **Rand millions**, are as follows –

Capital Expenditure	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Product/Local/Content/ Export Investment/ Production Facilities	2 807.7	2 215.9	3 351.1	3 522.7	3 837	3 605	6 092	5 948.5	5 146.1	7 144.6
Land and Buildings	329.1	178.7	441.2	176.4	432	424	478	190.5	905	301.4
Support Infrastructure (I.T., R&D, Technical, etc.)	153.1	74.1	202.4	203.6	409	319	347	464.3	363.5	724.6
Total	3 289.9	2 468.7	3 994.7	3 902.7	4 678	4 348	6 917	6 603.3	6 414.6	8 170.6

2017 data is based on data supplied by the 7 major OEM’s

2017 Capital expenditure at R8.7 billion represents a new industry record. The high levels in capital expenditure are due to Investment Projects by manufacturers in terms of the Automotive Production and Development Programme (APDP) and the projected higher levels of production for export markets.

6. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

Business Conditions: Second quarter, 2018

2018 Second quarter aggregate Industry new car sales at 80 428 units recorded an improvement of 2 931 units or a gain of 3.8% compared to the 77 497 new cars sold during the corresponding quarter of 2017. Aggregate Industry commercial vehicle sales during the second quarter of 2018 at 45 713 units recorded an increase of 830 units or a gain of 1.8% compared to the 44 883 units sold during the second quarter of 2017.

Industry Domestic Sales Growth: Direction and Extent of Change (previous quarter’s percentage changes are reflected in brackets)			
	<u>Qtr ended 30 June 2018 compared with previous Qtr ended 31 March 2018</u>		<u>Qtr ended 30 June 2018 compared with corresponding Qtr ended 30 June 2017</u>
Passenger Cars	-16.1%	(+1.2%)	+3.8% (-3.4%)
Light Commercial vehicles	-1.5%	(-1.1%)	+1.1% (-4.9%)
Medium Commercial vehicles	+7.3%	(-12.6%)	-1.3% (-13.1%)
Heavy Commercial vehicles	+18.1%	(-14.1%)	+9.3% (-7.0%)

Analysis of the figures reflects a contrasting picture with the car and heavy truck vehicle segments performing relatively better, on a year on year basis, than the light and medium commercial segments.

Pre-emptive buying to avoid tax increases in the 2018 budget and the timing of public holidays also affected 2018 second quarter sales compared to the first quarter of the year.

Brief Comment on business conditions and the medium term outlook for the domestic market and export sales

South Africa's first quarter, 2018 economic performance was well below expectations and the subdued economic environment continued into the second quarter. Despite challenging trading conditions, second quarter 2018 domestic sales held up relatively well with car rental business contributing positively.

The March, 2018 0.25% interest rate reduction, surprisingly high consumer confidence and further improvement in new vehicle affordability with average new car price increases well below the inflation rate for the fourth consecutive quarter – should provide support for domestic sales going forward.

Assuming a slowly improving economic outlook, prospects for the short to medium term suggest that domestic sales could improve modestly by between 2% and 3% in volume terms.

Export sales projections will be influenced by global growth forecasts currently at around 3.7%. However, rising protectionism internationally and trade disputes have contributed to uncertainty and could result in lower global growth going forward and higher inflation. South African vehicle export numbers had been impacted by model run-outs and model run-ins as well as technology drivetrain timing delays at one of the plants. As a result, annual industry vehicle export projections for 2018 had been revised downwards.

Information provided by vehicle exporters indicated that order books remained fairly strong and consequently vehicle exports were expected to start improving over the balance of 2018 and to reflect strong upward momentum in 2019 and 2020 as well as subsequent years.

The standard attached schedule reflects updated and revised industry sales, production, export and import numbers and a projection for 2018 plus updated schedule

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