



NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

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N8/1 (e-mail)
16th November, 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: 3rd 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 third 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 projections for 2018 through 2020, are reflected on the attachment to the submission.

Key features: Third Quarter 2018

- **Third quarter 2018 industry employment registered an increase in headcount of 305 jobs**
- **Record aggregate investment by the major vehicle manufacturers in 2017 amounting to R8.17 billion**
- **Continued recovery in capacity utilisation in all vehicle manufacturing segments**
- **Domestic new vehicle sales declined, year on year, whilst export sales momentum reflects modest improvement**
- **Expectations for 2018 are for no growth in domestic sales, whilst annual export sales numbers also remain below expectations**
- **Medium to long term prospects for new vehicle exports and domestic production remain positive – particularly strong vehicle export sales are expected for 2019 and subsequent years**

NAAMSA OFFICES: PRETORIA



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16th November, 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 SEPTEMBER, 2018**

NAAMSA submits the following report on business conditions in the South African new motor vehicle manufacturing Industry and the automotive sector during the third 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 third quarter of 2018 may be set out as follows –

	Industry Total
Last pay week July, 2018	30 303
Last pay week August, 2018	30 312
Last pay week September, 2018	30 265

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

Aggregate Industry employment as at 30th September, 2018 totalled 30 265 reflecting an increase of 305 jobs or an improvement of 1.01% compared to the 29 960 Industry head count as at the end of June, 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.

Two 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 continued to be affected by exchange rate movement.

Local Components

During the third quarter of 2018, the availability and supply of locally produced components, in general terms, remained stable. Price trends remain in line with the Producer Price Index.

3.2 RAW MATERIALS

Imported Materials

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

Pricing trends remain a function of exchange rate movements. Imported raw material price increases were reported in respect of steel, aluminium, lead, resin and copper.

Local Materials

Supply and availability remained stable. A steel price increase is expected for quarter four.

4. UTILISATION OF PRODUCTION CAPACITY: 2012 – 2017 AND THIRD 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	3 rd Quarter 2018	3 rd Quarter 2018 Range (High) (Low)	
Cars	86.5%	68.0%	67.0%	80.4%	76.0%	78.0%	74.4%	83.4%	85.3%	100.0%	33.3%
Light Commercials	87.8%	75.3%	80.5%	80.6%	77.9%	85.3%	74.1%	66.7%	70.5%	99.9%	28.5%
Medium Commercials	84.3%	59.8%	85.7%	97.6%	88.5%	82.9%	69.9%	60.3%	74.2%	97.0%	25.6%
Heavy Commercials	86.9%	69.3%	80.7%	77.4%	80.0%	69.7%	60.5%	55.1%	63.8%	100.0%	25.6%

Capacity utilisation levels, during the third quarter of 2018, reflected the prevailing business conditions in the various industry segments in terms of domestic and export sales. Utilization levels rose in all of the four segments compared to the previous quarter.

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 R8.17 billion represents a new industry record. The capital expenditure reflect 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: Third quarter, 2018

2018 Third quarter aggregate Industry new car sales at 96 331 units recorded a decline of 301 units or a fall of 0.3% compared to the 96 632 new cars sold during the corresponding quarter of 2017. Aggregate Industry commercial vehicle sales during the third quarter of 2018 at 49 134 units recorded a decline of 744 units or a fall of 1.5% compared to the 49 878 units sold during the third quarter of 2017.

Industry Domestic Sales Growth: Direction and Extent of Change (previous quarter's percentage changes are reflected in brackets)				
	Qtr ended 30 th September 2018 compared with <u>previous Qtr ended 30th June 2018</u>		Qtr ended 30 September 2018 compared with <u>corresponding Qtr ended 30 September 2017</u>	
Passenger Cars	+19.8%	(16.1%)	-0.3%	(+3.8%)
Light Commercial vehicles	+7.0%	(-1.5%)	-3.1%	(+1.1%)
Medium Commercial vehicles	+11.5%	(+7.3%)	+8.3%	(-1.3%)
Heavy Commercial vehicles	+9.4%	(+18.1%)	+9.1%	(+9.3%)

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

Local Content Trend – 7 Major OEMs

Through an independent third party, data is aggregated on the performance of the seven major vehicle producers. One of the performance indicators monitors aggregate industry local content trends.

The following figures for 2013 through 2017 reflect the growth in aggregate local content by the seven major light vehicle producers –

2013	2014	2015	2016	2017
R41.7 billion	R46.9 billion	R52.8 billion	R58.3 billion	R61.1 billion

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

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

The domestic vehicle market is likely to stabilise in coming months, but any recovery will be modest. Current conditions of subdued vehicle price inflation should support aggregate sales. Overall growth, however, will be affected by pressure on disposable income due to higher taxes and increases in the price of fuel. Unsurprisingly, current market conditions are characterised by a buying-down trend in favor of entry level vehicles as well as small special utility vehicles and crossovers. The premium segment continues to experience significant pressure.

The recent investment summit served as a platform to re-establish trust between government and the private sector, to restore credibility in South Africa as a business friendly market economy and to generate a quantum increase in investment – so essential to grow and develop the economy. These investments, together with appropriate supporting policies, should translate into higher economic growth over the medium term. This would benefit new vehicle sales.

Vehicle exports remain a function of the direction of the global economy which continues to reflect fairly robust growth despite rising protectionism and trade disputes – which could ultimately negatively impact global growth. The momentum of export sales had increased over the past few months and, taking into account relatively strong order books reported by most vehicle exporters, exports should improve further and reflect strong upward momentum in 2019 and subsequent years. The projection of industry export sales for 2019 was currently at 385 000 export units compared to an estimated figure of about 340 000 for 2018.

The standard *attached* schedule reflects updated industry sales, production, export and import numbers and projections for 2018 through 2020.

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