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Tuesday, August 04, 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: 2nd 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 second quarter of 2020, as submitted to the Director-General, Department of Trade, Industry and Competition.

Industry vehicle sales, export and import statistics for 2011 through 2019, together with current projections for 2020, are reflected on the attachment to the submission.

Key features: Second Quarter 2020

- **Overall a quarter of extremities due to the COVID-19 impact but in line with domestic motor industry expectations and global trends in other major vehicle manufacturing countries;**
- **Second quarter 2020 industry employment reflected a decline of 467 jobs to reach 29 529 positions at end June 2020;**
- **Industry capacity utilisation levels in the various segments reflect the impact of the COVID-19 country lockdown restrictions on the automotive industry as well as the ongoing recessionary economic climate in the country 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 massive year-on-year declines during the quarter, linked to the temporary closure of the entire motor industry during the quarter due to the COVID-19 country lockdown restrictions as well as in mirroring the current negative economic growth rate in the country as a leading economic indicator;**

- **Aggregate new vehicle sales registered the biggest quarterly decline on record with the second quarter 2020 reflecting a massive fall of 63,4% compared to the second quarter 2019, which exceeds the 34,8% decline experienced in the first quarter 2009 as a result of the global financial crisis by far; and**
- **With the easing of COVID-19 lockdown restrictions in South Africa and abroad, expectations are for the domestic new vehicle market and export sales to improve during the second half of the year, but it is anticipated that the new vehicle market could drop back to the levels of 20 years ago.**

NAAMSA OFFICES: PRETORIA

The Director-General: Mr. Lionel OCTOBER
 Department of Trade, Industry and Competition
 Private Bag X84
 PRETORIA
 0001

Dear Sir,

QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: QUARTER ENDED 30TH JUNE 2020.

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 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 second quarter of 2020 may be set out as follows:

Period	Industry Total
Last pay week April 2020	29 698
Last pay week May 2020	29 548
Last pay week June 2020	29 529

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

Aggregate industry employment as at 30th June 2020 totalled 29 529, reflecting a decline of 467 jobs compared to the 29 996 industry head count as at the end of March 2020.

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



2. NUMBER OF SHIFTS

Under normal circumstances, 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.

Due to COVID-19 and the country lockdown restrictions during the quarter, two manufacturers operated on a combined single-, double- and three-shift basis, one manufacturer operated on a combined double and single shift, one manufacturer on a double-shift basis and three manufacturers on a single-shift basis.

3. AVAILABILITY AND PRICE TRENDS OF COMPONENTS AND RAW MATERIALS

3.1 Imported components and raw materials

The availability and supply of imported components were disrupted by the COVID-19 country lockdown restrictions resulting in supply chain disruptions and ports closures during the quarter. Prices of imported components and raw materials were negatively affected by exchange rate depreciation, higher logistics costs and the global price index.

3.2 Local components and raw materials

The availability and supply of local components and raw materials were disrupted by the COVID-19 country lockdown restrictions resulting in the temporary closure of the entire automotive industry during April 2020 and partial easing back into operations during May 2020, which made supply chain management challenging. Raw material pricing trends remain a function of exchange rate movements and the global price index and increases in certain raw material prices were noted during the quarter

4. UTILISATION OF PRODUCTION CAPACITY: 2015 - 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	2 nd Quarter 2020	2 nd Quarter 2020 range	
								[High]	[Low]
Cars	80.4%	76.0 %	78.0%	82.0%	89.4%	84.6%	37.7%	100%	11.5%
Light Commercials	80.6%	77.9 %	85.3%	72.2%	75.8%	81.7%	41.1%	97.1%	8.8%
Medium Commercials	97.6%	88.5 %	82.9%	66.9%	65.4%	55.6%	16.0%	22.0%	8.8%
Heavy Commercials	77.4%	80.0 %	69.7%	60.6%	74.0%	70.5%	41.8%	100.0%	8.8%

Capacity utilisation levels, during the second quarter of 2020, reflect by and large the impact of the COVID-19 country lockdown restrictions during the quarter as well as the prevailing negative business conditions in the various industry segments in terms of domestic sales.

5. VEHICLE MANUFACTURING INDUSTRY CAPITAL EXPENDITURE: 2013 – 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 2013 through 2019, in **Rand millions**, are as follows:

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

2018 and 2019 data are 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: Second quarter, 2020

2020 Second quarter aggregate industry new car sales at 28 201 units recorded a massive decline of 51 814 units or a fall of -64.8% compared to the 80 015 new cars sold during the corresponding quarter of 2019. Aggregate industry commercial vehicle sales during the second quarter of 2020, at 16 889 units, similarly recorded a substantial decline of 26 264 units or a fall of -60.9% compared to the 43 153 units sold during the second quarter of 2019.



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

	Qtr. ended 30 June 2020 compared with previous Qtr. ended 31 March 2020		Qtr. ended 30 June 2020 compared with corresponding Qtr. ended 30 June 2019	
Passenger Cars	-65.1%	[-16.0%]	-64.8%	[-6.4%]
Light Commercial vehicles	-55.8%	[-10.7%]	-62.7%	[-24.5%]
Medium Commercial vehicles	-47.4%	[-21.6%]	-54.9%	[-9.7%]
Heavy Commercial vehicles	-38.6%	[-27.9%]	-48.7%	[-7.8%]

All vehicle segments reflected huge declines compared to the corresponding and previous quarters. The entire domestic motor industry suspended production during April 2020 resulting in aggregate monthly new vehicle sales declining year-on-year by 98,4%, partially eased back into production in May 2020 resulting in aggregate monthly aggregate new vehicle sales declining year-on-year by 68,0%, and moved into full production in June 2020, the latter still reflecting a decline of 30,7% compared to June 2019. Analysis of the figures therefore reflects the impact of the COVID-19 country lockdown restrictions coupled with the ongoing recessionary macro-economic climate in the country.

South Africa's Automotive Industry's Performance in a Global Context: 2013 – 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 a record 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 vehicle production** for 2013 to 2019 [in millions]:

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



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South Africa's share of global 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%.

Following record vehicle production of 631 983 units in 2019, supported by the record vehicle export performance of the industry, 2020 vehicle production is expected to decline significantly by about 31% to 435 500 units. The severe impact of COVID-19 on domestic new vehicle sales and export sales is reflected in the substantial decline of 65,2% in vehicle production during the second quarter 2020 compared to the second quarter 2019.

The following table reflects South Africa's domestic **vehicle production** for 2015 to - 2020 Q2

	2015	2016	2017	2018	2019	2019 Q2	2020 Q2	% change Q1 2020/ Q1 2019
Passenger Cars	340 349	336 458	330 575	320 383	348 665	85 288	28 149	-67.0%
LCVs	243 534	235 333	242 300	261 086	254 450	58 746	21 013	-64.2%
MCVs	10 665	8 634	8 006	8 072	8 832	2 117	961	-54.6%
HCVs	5 831	5 597	5 466	5 590	5 223	1 296	538	-58.5%
XHCVs	13 838	12 489	12 640	13 751	13 817	3 254	1 715	-47.3%
Buses	1 227	1 300	1 151	1 178	996	217	136	-37.3%
	615 444	599 811	600 138	610 060	631 983	150 918	52 512	-65.2%

South Africa's current vehicle population in 2019 was 12.70 million vehicles.

Comment on Industry Export Performance by major region - 2016 to 2020

	2016	2017	2018	2019	First half 2019	First half 2020	% change H1 2020 / H1 2019
Europe	196 727	190 503	233 772	285 599	133 672	78 520	-41.3%
Asia	46 655	52 827	50 277	39 879	19 458	12 357	-36.5%
Africa	21 505	21 848	23 988	23 415	11 559	6 934	-40.0%
Australasia	22 735	25 125	22 767	17 350	9 432	6 144	-34.9%
North America	52 024	43 393	13 037	13 540	5 581	3 318	-40.6%
South America	4 750	3 588	5 787	6 093	2 231	1 563	-29.9%
Central America	410	812	1 511	1 249	428	106	-75.2%
Total	344 816	338 096	351 139	387 125	182 361	108 942	-40.3%



Vehicle exports into all major regions reflected substantial declines during the first half of 2020 compared to the first half of 2019. In 2019, Europe overall, dominated as a region accounting for a substantial 73,8% of total vehicle exports and this trend continued into the first half of 2020 with the region accounting for 72,1% of vehicle exports during this period. In view of the significance of Europe for South African vehicle exporters, developments in the region relating to COVID-19 therefore had a direct and measurable impact on South Africa vehicle exports during the first half 2020. Vehicle exports to Europe declined by 55 152 units, or 41,3% for the first half of 2020 compared to the first half of 2019 and comprised the bulk of the fall in vehicle exports of 73 419 units during the first half of 2020. The performance of domestic vehicle exports was similarly affected by the COVID-19 pandemic to all other major export regions. Africa's potential remains a priority focus for the domestic automotive industry, but due to COVID-19, the implementation of the African Continental Free Trade Area [AfCFTA], which aims to create the world's largest free trade bloc, has been postponed from 1 July 2020 to 2021.

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. For the first half 2020 vehicle exports were 73 419 units, or 40,3%, down compared to the first half of 2019. The domestic automotive industry's vehicle export performance for the second half of the year hinges on the successful implementation of the lockdown exit strategies in the domestic industry's major export destinations.

Brief Comment on business conditions and the medium-term outlook

The entire domestic motor industry suspended production under level 5 of the nationwide COVID-19 lockdown restrictions during April 2020, eased back into partial operation under level 4 during May 2020, and was able to commence full operation under level 3 in June 2020. New vehicle sales are generally linked to the strength of the economy and for South Africa, the pandemic unfortunately deepened an existing economic recession. Unsurprisingly and not dissimilar to other major vehicle manufacturing countries, the second quarter new vehicle sales performance registered the biggest quarterly decline on record, nearly double the decline registered in quarter 1, 2009, during the peak of the global financial crisis in 2008/2009.

The outlook on domestic demand for new vehicles will continue to remain under severe pressure as the projected negative annualised GDP growth in the country by National treasury and the SA Reserve Bank of over 7% does not bode well for the industry over the medium term. In addition, the uncertainty of the anticipated impact and extent of COVID-19 continue to cause planning constraints while the industry's responsiveness to react and adapt to market changes remain imperative going forward. A recovery in the new vehicle market will depend on how quickly the economy can break out of its low growth trap and how soon society will recover from the present COVID-19 lockdown. Under normal circumstances, positive factors such as the further 150 basis point interest rate cut to a near 50-year low during the quarter, dealer incentives and low inflation would be expected to support the new vehicle market. However, how far these dynamics will move consumers and businesses into new vehicle purchases over the balance of the year remains unclear. The industry is under no illusion that 2020 is going to be a very difficult year that will be testing its renowned resilience.

The performance of vehicle exports over the course of 2020 remains linked to the duration of the COVID-19 pandemic and its impact on the health of the global economy. As is the case in South Africa where the entire motor industry eased into full operation from 1 June 2020, the industry's major export destinations have also started to ease their lockdown restrictions and vehicle export numbers are therefore anticipated to start gaining momentum during the second half of the year.



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A good time to buy a car! South Africa has one of the most competitive trading environments in the world, and in 2019 offered consumers a choice of no fewer than 46 passenger car brands and 3 507 model derivatives. This afforded car buyers the widest choice to market-size ratio anywhere in the world. South African consumers therefore benefit from access to a wide variety of new models and a highly competitive pricing environment in which vehicle price inflation has remained below the CPI over the past three years.

	2017	2018	2019
CPI	5.3%	4.7%	4.1%
Passenger car CPI*	2.2%	0.3%	1.5%

**% change in weighted average price [Dealer list price]*

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

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