naamsa
LEADING THE SA AUTOMOTIVE INDUSTRY

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Monday, October 26, 2020 | N8/1 [e-mail]

REPRESENTATIVES AT GENERAL MEETINGS
RECIPIENTS OF NAAMSA MEDIA RELEASES

RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 3rd QUARTER 2020

Ladies and Gentlemen,

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 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: Third Quarter 2020

- **The easing to lower COVID-19 lockdown levels during the quarter drove the gradual improvement in business conditions in the vehicle manufacturing sector but the quarterly performance still remains under pressure, declining by 26,9% year-on-year compared to the corresponding quarter 2019;**

- **Third quarter 2020 industry employment reflected a welcomed uptick of 415 jobs to reach 29 944 positions at end September 2020;**

- **Industry capacity utilisation levels in the various segments reflect the remaining COVID-19 country lockdown restrictions, prevailing weak demand, and negative sentiment in the various industry segments in terms of domestic new vehicle sales;**

- **Aggregate capital expenditure by the major vehicle manufacturers in 2019 recorded its second highest level on record at R7,274 billion;**

- **As expected, all vehicle segments reflected massive improvements compared to the low-base, previous quarter when the entire automotive industry suspended production and sales. However, compared to the corresponding quarter 2019 the passenger car segment, in particular, continued to mirror the ongoing weak macro-economic climate in the country, with the heavy commercial vehicle segments reflecting some resilience;**

- **New vehicle sales are linked to the strength of the economy and expectations are for the domestic new vehicle market to remain under pressure for the balance of the year and, although steadily improving along with the easing of the country's lockdown restrictions, it is still anticipated that the new vehicle market could drop back to the levels of two decades ago;**

- **As an export-oriented industry, vehicle exports will depend largely on the recovery of the domestic automotive industry's main export regions, in particular Europe, which accounted for three out of every four domestically manufactured vehicles exported in 2019; and**

- **New features in the naamsa third quarterly review of business conditions include employment trends by the independent vehicle importers as well as a naamsa CEOs Confidence Index as an in-house leading business confidence indicator of current and future developments in the domestic automotive industry.**

naamsa OFFICES: PRETORIA

Monday, October 26, 2020

Mr. Lionel OCTOBER
The Director-General
Department of Trade, Industry and Competition
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0001

RE: <u>QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 3rd QUARTER 2020</u>

Dear DG,

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 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 third quarter of 2020 may be set out as follows:

Period	Industry Total
Last pay week July 2020	29 768
Last pay week August 2020	29 946
Last pay week September 2020	29 944

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

Aggregate industry employment as at 30th September 2020 totalled 29 944, reflecting an increase of 415 jobs compared to the 29 529 industry head count as at the end of June 2020.

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

A new addition to the quarterly review of business conditions is employment levels on the payroll of the independent vehicle importers at their head offices and dedicated dealerships.

Period	Total
Last pay week July 2020	4 701
Last pay week August 2020	4 639
Last pay week September 2020	4 672

Aggregate independent vehicle importers employment as at 30th September 2020 as submitted by member companies totalled a head count of 4 672. The employment data collection serves as an important reference point to commence with discerning trends in the independent vehicle importers' landscape.

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 shops.

Due to COVID-19 and the remaining country lockdown restrictions during the quarter, only one manufacturer operated on a combined single-, double- and three-shift basis, two manufacturers operated on a combined single- and double-shift basis, 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 continued to be disrupted by COVID-19 freight availability, delays, and increased logistics costs. Prices of imported components and raw materials were negatively affected by exchange rate depreciation and the global price index.

3.2 Local components and raw materials

The availability and supply of local components and raw materials continued to be disrupted by COVID-19 country lockdown related disruptions. Raw material pricing trends remain a function of exchange rate movements and the global price index.

4. UTILISATION OF PRODUCTION CAPACITY: 2016 - 2020

Average motor vehicle manufacturing industry capacity utilisation levels, by sector and for the years/quarters indicated, may be illustrated as follows:

	2016	2017	2018	2019	Q1:20	Q2:20	Q3:20	Q3: Range [High] | [Low]	
Cars	76.0%	78.0%	82.0%	89.4%	84.6%	37.7%	71.6%	100.0%	37.9%
LCV	77.9%	85.3%	72.2%	75.8%	81.7%	41.1%	50.5%	100.5%	13.0%
MCV	88.5%	82.9%	66.9%	65.4%	55.6%	16.0%	27.9%	44.5%	17.1%
HCV	80.0%	69.7%	60.6%	74.0%	70.5%	41.8%	37.2%	65.0%	17.1%

Capacity utilisation levels, during the third quarter of 2020, reflect the remaining COVID-19 lockdown restrictions, prevailing weak demand, volatile Rand exchange rate and negative sentiment 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		
Land and Buildings	424	478	190.5	905	301.4	7 246.9	7 274.3
Support Infrastructure [I.T., R&D, Tech, 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] which are normally spread over multiple years and the higher levels of production for export markets.

6. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

6.1. Business Conditions: Third Quarter, 2020

2020 Third quarter aggregate industry new car sales at 60 832 units recorded a massive decline of 30 748 units or a fall of -33,6% compared to the 91 580 new cars sold during the corresponding quarter of 2019. Aggregate industry commercial vehicle sales during the third quarter of 2020, at 42 068 units, similarly recorded a substantial decline of 7 018 units or a fall of 14,3% compared to the 49 086 units sold during the third quarter of 2019.

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

	Qtr. ended 30 September 2020 compared with previous Qtr. ended 30 June 2020		Qtr. ended 30 September 2020 compared with corresponding Qtr. ended 30 September 2019	
Passenger Cars	215.7%	[-65.1%]	-33.6%	[-64.8%]
LCV	255.6%	[-55.8%]	-15.9%	[-62.7%]
MCV	228.6%	[-47.4%]	-7.5%	[-54.9%]
HCV	219.5%	[-38.6%]	-4.6%	[-48.7%]

All vehicle segments reflected massive improvements, as expected, compared to the COVID-19 industry shut-down affected previous quarter. However, third quarter 2020 year-on-year aggregate new vehicle sales declined by 26,9% compared to the corresponding quarter 2019 with the passenger car segment, in particular, continuing to reflect the ongoing weak macro-economic climate in the country while the heavy commercial vehicle segments reflected some resilience.

6.2. 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 19/18
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. %

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. Third quarter total vehicle production reflected a decline of 29,7% compared to the corresponding quarter 2019.

With the easing of lockdown restrictions in South Africa and its export markets there was a rebound in domestic and global demand during the quarter compared to the severely affected COVID-19 previous quarter. However, the weak macro-economic climate in South Africa combined with the projected decline in global vehicle production and sales of around 15% to 20% in the domestic automotive industry's major export regions will have a severely negative impact on domestic vehicle exports, and subsequently vehicle production in 2020.

The following table reflects South Africa's domestic v**ehicle production** for 2015 to - 2020 Q3

	2015	2016	2017	2018	2019	2019 Q3	2020 Q3	% change Q3 2020/ Q3 2019
Passenger Cars	340 349	336 458	330 575	320 383	348 665	97 527	64 714	-33.7%
LCVs	243 534	235 333	242 300	261 086	254 450	75 192	55 369	-26.4%
MCVs	10 665	8 634	8 006	8 072	8 832	1 471	1 301	-11.6%
HCVs	5 831	5 597	5 466	5 590	5 223	1 285	1 195	-7.0%
XHCVs	13 838	12 489	12 640	13 751	13 817	3 632	3 386	-6.8%
Buses	1 227	1 300	1 151	1 178	996	177	94	-46.9%
Total	**615 444**	**599 811**	**600 138**	**610 060**	**631 983**	**179 284**	**126 059**	**-29.7%**

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 9 months 2019	First 9 months 2020	% change YTD 2020 / YTD 2019
Europe	196 727	190 503	233 772	285 599	218 694	132 869	-39.2%
Asia	46 655	52 827	50 277	39 879	31 113	20 857	-33.0%
Africa	21 505	21 848	23 988	23 415	17 716	12 474	-29.6%
Australasia	22 735	25 125	22 767	17 350	14 594	9 806	-32.8%
North America	52 024	43 393	13 037	13 540	10 311	6 394	-38.0%
South America	4 750	3 588	5 787	6 093	4 485	2 719	-39.4%
Central America	410	812	1 511	1 249	765	548	-28.4%
Total	**344 816**	**338 096**	**351 139**	**387 125**	**297 678**	**185 667**	**-37.6%**

Vehicle exports into all major regions continued to reflect substantial declines during the first nine months of 2020 compared to the corresponding period 2019. For the first nine months 2020 vehicle exports were now down by 112 011 units, or 37,6%, compared to the same period last year. Europe, the domestic automotive industry's main export region, reflects a decline of 39,2% in vehicle exports for the year to date. Considering the significance of exports for the South African automotive industry, a second wave of COVID-19 in Europe, in particular, poses some downside risks on the pace of recovery in domestic vehicle exports.

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 10,3%, compared to the 351 139 vehicles exported in 2018. For 2020 vehicle exports are projected to decline by around 30% year-on-year to 265 500 units.

6.3. naamsa CEOs CONFIDENCE INDEX

A further new addition introduced to the **naamsa** quarterly review is the inclusion of a **naamsa** CEOs Confidence Index as an in-house leading business confidence indicator of current and future developments in the domestic automotive industry. The **naamsa** Confidence Index is built to enhance the quarterly reporting with opinions canvassed anonymously from each of the **naamsa** CEOs. The questions focus on views related to automotive business conditions in particular as well as the country's economy in general.

3rd Quarter 2020 vs 3rd Quarter 2019

PERFORMANCE INDICATOR	UP	SAME	DOWN
Domestic new vehicle sales	23.5%	-	76.5%
Vehicle export sales	14.3%	14.3%	71.4%
Vehicle production volumes	16.7%	25.0%	58.3%
Vehicle import volumes	17.6%	-	82.4%
Employment – vehicle manufacturing	7.7%	46.1%	46.2%
Capacity utilisation	12.5%	18.7%	68.8%
Investment expenditure	17.6%	17.7%	64.7%
General new vehicle business conditions	17.6%	5.9%	76.5%

Despite the gradual relaxation of most of the country's COVID-19 restrictions during the third quarter 2020, the **naamsa** CEOs generally regarded the prevailing domestic automotive industry business conditions during the quarter as unsatisfactory. However, some CEOs representing the independent vehicle importers reflected positive sentiment pertaining to their specific brands outperforming current overall depressed market conditions during the third quarter 2020.

Next 6 months

PERFORMANCE INDICATOR	UP	SAME	DOWN
Domestic new vehicle sales	35.3%	17.7%	47.0%
Vehicle export sales	38.5%	23.0%	38.5%
Vehicle production volumes	58.3%	8.4%	33.3%
Vehicle import volumes	35.3%	11.8%	52.9%
Employment – vehicle manufacturing	33.3%	50.0%	16.7%
Capacity utilisation	56.3%	12.5%	31.2%
Investment expenditure	17.7%	35.3%	47.0%
General new vehicle business conditions	35.3%	23.5%	41.2%

The sentiment expressed by the **naamsa** CEOs relating to automotive business conditions over the next six months by and large remains pessimistic. However, a few CEOs representing specific brands or specific vehicle categories do expect an improved performance over the short term. The uncertainty of the impact and extent of COVID-19 persists as an ongoing concern and it remains imperative for automotive companies to adapt to the new operating and trading environment going forward.

6.4. Brief Comment on business conditions and the medium-term outlook

As expected, and in line with the country's gradual easing of most of its COVID-19 lockdown restrictions during the quarter, the domestic vehicle manufacturing sector improved steadily compared to the previous quarter when the entire automotive industry temporarily suspended production and sales. However, business conditions remain far from normal during the third quarter as the new vehicle market still faced severe challenges of slow demand, Rand exchange rate volatility and negative sentiment in the market.

The country's economy remains in a fragile situation while business and consumer sentiment continue to be heavily depressed. Since new vehicle sales are linked to the strength of the economy, expectations are for the domestic new vehicle market in 2020 to drop back to the levels of two decades ago.

Although the current low interest rates, coupled with low inflation, could be regarded as a building block to stimulate the economy, an important avenue for government to support this key coronavirus-hit sector of the economy is to address the illegal grey imports as well as to reduce taxes on new vehicle purchases to stimulate new vehicle sales. The tax loss to the Fiscus from grey imports conservatively amounts to around R3,8 billion per annum. Stricter law enforcement and a tax reduction on new vehicles, which would be tax neutral due to consequent higher new vehicle sales, would significantly stimulate the domestic new vehicle market and will therefore be of huge benefit to the country's economy.

The automotive industry is not only the largest manufacturing sector in South Africa's economy, comprising nearly one third of manufacturing output, it also invests billions of rand every year and represents nearly 500 000 direct jobs. Even with an anticipated rebound of the economy and new vehicle sales in 2021, the growth outlook remains weak and the next six to twelve months will be a defining time for many automotive businesses in the country.

Vehicle export numbers reflected a steady improvement during the quarter but the performance for the year to date still reflects a fall of 37,6% compared to the level of the same period last year. Vehicle export recovery for the balance of the year would depend on the degree of recovery in the world economy and on the pace that the lockdown measures are phased out in the domestic industry's main export markets. A second wave of COVID-19 infections in Europe, in particular, poses significant downside risks on the pace of recovery in domestic vehicle exports over the short to medium term.

Fuel for thought flash

New vehicle market price elasticity: The average price elasticity of new vehicles across all price ranges is -1,162. Interestingly, the most price sensitive new vehicle price range is for vehicles sold at a price from R214,200 to R303,283 where the price elasticity is -1.95. This means that a 1% increase in the price of new vehicles at this price point is associated with a 1.95% decrease in the demand for new vehicles.

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

Kind regards,

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