



naamsa
THE AUTOMOTIVE BUSINESS COUNCIL



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Monday, February 22, 2021

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

Ladies and Gentlemen,

**RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING
INDUSTRY / AUTOMOTIVE SECTOR: 4TH 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 fourth quarter of 2020, as submitted to the Director-General, Department of Trade, Industry and Competition.

Industry vehicle sales, export and import statistics for 2012 through 2020, together with current projections for 2021, are reflected on the attachment to the submission.

KEY FEATURES: FOURTH QUARTER 2020

- Aggregate new vehicle sales during the fourth quarter declined by 16,9% compared to the corresponding quarter 2019 but the improved performance of 11,2% compared to the previous quarter 2020 bodes well for the anticipated rebound in the new vehicle market in 2021;
- Fourth quarter 2020 industry employment reflected an increase of 218 jobs to reach 30 162 positions at end of December 2020;
- Industry capacity utilisation levels in the various industry segments continued their gradual improvement, reflecting improved national and international market conditions for vehicle sales and exports;
- Aggregate capital expenditure by the major vehicle manufacturers in 2020 recorded its highest level on record at R9,2 billion;

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NATIONAL OFFICE BEARERS: President | Andrew KIRBY | Chief Executive Officer | Toyota South Africa Motors
Vice-President: Original Equipment Manufacturers | Neale HILL | Managing Director | Ford Motor Company
Vice-President: Independent Vehicle Importers and Distributors | Gary SCOTT | Chief Executive Officer | Kia Motors
Vice-President: Heavy Commercial Vehicles | Fabio SOUZA | Managing Director | Scania South Africa

EXECUTIVE DIRECTOR: Chief Executive Officer: Mikel MABASA

REGISTRATION DETAILS: PBO No.: 930/023/609 | VAT No.: 4070109972 | **naamsa**NPC: 2021/358607/08



- All vehicle segments reflected sizeable decline compared to the corresponding quarter 2019, but encouragingly, once again reflected a gradual improvement compared to the previous quarter;
- Vehicle exports have been regaining upward momentum during the fourth quarter, but a recovery to pre-COVID-19 levels will depend on an improvement in the economic climate of the industry's main trading partners; and
- New features in the **naamsa** quarterly review of business conditions include employment and capital expenditure 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.

REIMAGINING THE FUTURE TOGETHER

naamsa is South Africa's Automotive Business Council. As a non-profit company, our mission is to actively and responsibly promote, represent, advance and protect our members' collective, non-competitive interests across the automotive value chain, to play a transformative role and contribute to the sustainable development of the country's productive economy.





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Monday, February 22, 2021

Mr. Lionel OCTOBER

Director-General

Department of Trade, Industry and Competition

Private Bag X84

PRETORIA

0001

Dear Mr. OCTOBER,

**RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW VEHICLE MANUFACTURING INDUSTRY /
AUTOMOTIVE SECTOR: QUARTER ENDED DECEMBER 31, 2020**

naamsa submits the following report on business conditions in the South African new motor vehicle manufacturing industry and the automotive sector during the fourth 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 fourth quarter of 2020 may be set out as follows:

Period	Industry Total
Last pay week October 2020	29 943
Last pay week November 2020	30 031
Last pay week December 2020	30 162

Industry employment levels and trends reflect employees on the payroll of vehicle manufacturers. Aggregate industry employment as at December 31, 2020 totalled 30 162, reflecting an increase of 218 jobs compared to the 29 944 industry head count as at the end of September 2020.



The **average monthly** vehicle manufacturing industry employment number for 2020 was 29 926 compared to the 30 250 in 2019. 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
End of Quarter 3: 2020	5 416
End of Quarter 4: 2020	5 579

Aggregate independent vehicle importers employment as at December 31, 2020 totalled a head count of 5 579, reflecting an increase of 163 jobs, compared to the head count of 5 416 at the end of September 2020. A further new addition to the quarterly review of business conditions is capital expenditure on an annual basis by the independent vehicle importers, at their head offices and dedicated dealerships.

Period	Total
2019	R11.8 mil
2020	R52.4 mil

The employment and capital expenditure data collection serve as important reference points to commence with discerning trends in the independent vehicle importers' landscape.

2. NUMBER OF SHIFTS

Pre-COVID-19, various manufacturers operated on a three-shift basis as well as multi-shifts in selected areas such as machining, press shops, paint shop operations and body shops. During the quarter, only two manufacturers operated on a combined single, double and three-shift basis, one manufacturer 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 logistics constraints for some OEMs during the quarter. Prices of imported components and raw materials remained subject to exchange rate movements 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 related disruptions. Some OEMs reported local steel shortages as well as a global shortage of electronic components, for instance semi-conductors, impacting on the supply chain. 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:

	Year 2016	Year 2017	Year 2018	Year 2019	Q1: 2020	Q2: 2020	Q3: 2020	Q4: 2020	Q4: 2020 range [High] [Low]	
Cars	76.0%	78.0%	82.0%	89.4%	84.6%	37.7%	71.6%	85.5%	100%	55%
Light Commercials	77.9%	85.3%	72.2%	75.8%	81.7%	41.1%	50.5%	65.7%	99.9%	28.3%
Medium Commercials	88.5%	82.9%	66.9%	65.4%	55.6%	16.0%	27.9%	49.9%	80%	19.8%
Heavy Commercials	80.0%	69.7%	60.6%	74.0%	70.5%	41.8%	37.2%	50.6%	80%	19.8%

Capacity utilisation levels, during the fourth quarter of 2020, reflected the improved utilisation of production capacity levels in the various industry segments in terms of domestic sales and exports, in line with the gradual improvement in markets conditions nationally and internationally.

5. VEHICLE MANUFACTURING INDUSTRY CAPITAL EXPENDITURE: 2014 - 2020

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 2014 through 2020, in **Rand millions**, are as follows:

Capital Expenditure	2014	2015	2016	2017	2018	2019	2020
Product/Local/Content/Export Investment/ Production Facilities	6 092	5 948.5	5 146.1	7 144.6	5 779.5	6 705.8	7 296.2
Land and Buildings	478	190.5	905	301.4	1 202.4	234.5	1 558.1
Support Infrastructure [I.T., R&D, Technical, etc.]	347	464.3	363.5	724.6	265.0	334.0	377.4
Total	6 917	6 603.3	6 414.6	8 170.6	7 246.9	7 274.3	9 231.7

Capital expenditure of R9,2 billion by the OEMs in 2020 represents the highest annual figure on record. 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 linked to higher levels of production for export markets.

6. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

Business Conditions: Fourth Quarter: 2020 | 2020 Fourth quarter aggregate industry new car sales at 76 664 units recorded a huge decline of 19 597 units, or a fall of 20,4%, compared to the 96 261 new cars sold during the corresponding quarter of 2019. Aggregate industry commercial vehicle sales during the fourth quarter of 2020, at 38 295 units, similarly recorded a decline of 3 765 units or a fall of 9,0% compared to the 42 060 units sold during the fourth quarter of 2019.

Industry Domestic Sales Growth: Direction and Extent of Change [previous quarter's percentage changes are reflected in brackets]				
	Qtr. ended 31 December 2020 compared with <u>previous Qtr. ended 30 September 2020</u>		Qtr. ended 31 December 2020 compared with <u>corresponding Qtr. ended 31 December 2019</u>	
Passenger Cars	+26.0%	[+215.7%]	-20.4%	[-33.6%]
Light Commercial vehicles	-8.9%	[+255.6%]	-8.2%	[-15.9%]
Medium Commercial vehicles	-14.4%	[+228.6%]	-19.3%	[-7.5%]
Heavy Commercial vehicles	-7.0%	[+219.5%]	-9.6%	[-4.6%]

All vehicle segments reflected sizeable declines compared to the corresponding quarter 2019, continuing to reflect the ongoing impact of COVID-19 as well as the weak macro-economic climate on consumer and business sentiment. Encouraging however, is the increase of 11,2% in fourth quarter compared to the third quarter 2020 aggregate new vehicle sales, signalling the improvement in particularly the performance of passenger cars, strongly supported by sales to the car rental industry during the quarter, in line with the easing of lockdown restrictions for the travel and tourism industry.

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. %

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 631 921 units in 2019, supported by the record vehicle export performance of the industry, 2020 vehicle production declined by a significant 29,2% to 447 213 units as a consequence of the temporary suspension of vehicle production under level 5 of the nationwide COVID-19 lockdown restrictions during the year.

Fourth quarter 2020 total vehicle production reflected a decline of only 6,1% compared to the corresponding quarter 2019. With the easing of lockdown restrictions in South Africa and its export markets there was a marked improvement in domestic and global demand during the quarter compared to the severely affected COVID-19 previous quarters.

The following table reflects South Africa's domestic **vehicle production** for 2015 to 2020 Q4.

VEHICLES	2015	2016	2017	2018	2019	2019 Q4	2020 Q4	% change Q4 2020/ Q4 2019
Passenger	340 349	336 458	330 575	320 383	348 665	85 011	72 716	-14.5%
LCVs	243 534	235 333	242 300	261 086	254 450	55 044	59 278	+7.7%
MCVs	10 665	8 634	8 006	8 072	8 832	2 322	1 887	-18.7%
HCVs	5 831	5 597	5 466	5 590	5 223	1 302	1 276	-2.0%
XHCVs	13 838	12 489	12 640	13 751	13 817	3 783	3 362	-11.1%
Buses	1 227	1 300	1 151	1 178	996	331	265	-19.9%
	615 444	599 811	600 138	610 060	631 983	147 793	138 784	-6.1%

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	2020	% change YTD 2020 / YTD 2019
Europe	196 727	190 503	233 772	285 599	197 355	-30.9%
Asia	46 655	52 827	50 277	39 879	29 440	-26.2%
Africa	21 505	21 848	23 988	23 382	16 983	-27.4%
Australasia	22 735	25 125	22 767	17 350	13 698	-21.1%
North America	52 024	43 393	13 037	13 540	9 463	-30.1%
South America	4 750	3 588	5 787	1 691	1 188	-29.8%
Central America	410	812	1 511	5 651	3 156	-44.2%
Total	344 816	338 096	351 139	387 092	271 283	-29.9%

Following record vehicle exports at 387 092 units in 2019 for the second consecutive year, 2020 vehicle exports at 271 283 units declined by a massive 115 809 units, or 29,9%, compared to 2019. Due to the severe global impact of COVID-19, vehicle exports into all major regions reflected substantial declines in 2020 compared to 2019. Europe, the domestic automotive industry's main export region accounting for 72,8% of total vehicle exports, reflected a decline of 30,9% in vehicle exports year-on-year in 2020.

Considering the significance of exports for the South African automotive industry to generate sufficient economies of scale and to achieve improved international competitiveness, developments in Europe have a direct and measurable impact on the domestic automotive industry. Announcements around the banning of internal combustion engine vehicles in favour of electric vehicles by some of South Africa's top automotive trading partners in Europe and elsewhere would require for **naamsa's** Electromobility Road Map implementation to be accelerated in 2021.

7. **naamsa CEOs CONFIDENCE INDEX**

Recently 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.

4th Quarter 2020 vs 4th Quarter 2019

Performance indicator	Up	Same	Down
Domestic new vehicle sales	38%	8%	54%
Vehicle export sales	8%	34%	58%
Vehicle production volumes	17%	33%	50%
Vehicle import volumes	23%	15%	62%
Employment - vehicle manufacturing	9%	55%	36%
Capacity utilisation	18%	46%	36%
Investment expenditure	15%	39%	46%
General new vehicle business conditions	23%	15%	62%

Despite a much-improved performance during the fourth quarter 2020, the **naamsa** CEOs generally regarded the prevailing domestic automotive industry business conditions during the fourth quarter still as unsatisfactory compared to the corresponding quarter of 2019. The CEOs representing the heavy commercial vehicle segment generally reflected a more positive sentiment on several performance indicators during the fourth quarter as the performance of the truck market tended to show more resilience as compared with the passenger car market. CEOs of selected independent vehicle importers also reflected positive sentiment pertaining to their specific brands outperforming the ongoing overall depressed market conditions during the fourth quarter of 2020.

NEXT 6 MONTHS

Performance indicator	Up	Same	Down
Domestic new vehicle sales	69%	23%	8%
Vehicle export sales	42%	33%	25%
Vehicle production volumes	64%	18%	18%
Vehicle import volumes	39%	38%	23%
Employment - vehicle manufacturing	27%	55%	18%
Capacity utilisation	50%	42%	8%
Investment expenditure	31%	46%	23%
General new vehicle business conditions	54%	23%	23%

The sentiment expressed by the **naamsa** CEOs relating to automotive business conditions over the next six months is one of cautious optimism. A rebound in the domestic as well as global GDP growth rates is generally anticipated for 2021, which bodes well for improved domestic new vehicle sales and production, from a very low-based COVID-19 affected 2020. In general, the CEOs across all vehicle manufacturing segments as well as the CEOs of the independent vehicle importers are fairly positive that domestic new vehicle market performance indicators and market conditions are likely to improve over the next six months.

BRIEF COMMENT ON BUSINESS CONDITIONS AND THE MEDIUM-TERM OUTLOOK

The gradual improvement in the vehicle manufacturing sector continued during the quarter but business conditions still remained well below the levels of the corresponding quarter 2019. An encouraging sign during the quarter was the increase in sales to the car rental industry in line with the easing of lockdown restrictions for the travel and tourism industry. However, considering that the 2020 new vehicle market recorded its lowest aggregate sales total in 18 years, addressing the COVID-19 risks and overcoming the severe domestic economic downturn remain imperative for the revival of the automotive industry over the medium term. The Reserve Bank's forecast of a domestic economic growth rate of 3,6% for 2021 bodes well for a rebound of the new vehicle market in 2021. A full recovery to pre-COVID-19 new vehicle sales levels, however, could take up to three years as the macroeconomic effects of the pandemic will continue to undermine business and consumer confidence and inhibit sustainable economic growth over the medium term.

Vehicle export numbers have been regaining upward momentum during the fourth quarter but for the full year 2020 declined by a significant 29,9% compared to the record export level of 2019. In terms of a timeframe for a full recovery, much will depend on an improvement in the economic climate of the South African automotive industry's main trading partners. A rebound in global economic growth is projected for 2021, spurred by mass vaccination campaigns in various countries to taper the COVID-19 pandemic, which is encouraging news as it will support domestic vehicle exports to regain their upward momentum.

FUEL FOR THOUGHT

Electric vehicle [EV] sales are forecast to exceed those of internal combustion engine vehicle sales by 2038, with 40% of sales in the EU projected to comprise EVs by 2030 and 80% by 2040. The UK, the domestic automotive industry's top vehicle export destination, announced its intentions to bring forward the banning of EVs by five years, from 2035 to 2030. Considering that three out of every four South African manufactured vehicles are destined for the EU, the evolution and advancement of electromobility in South Africa need to be accelerated.

The standard attached schedule reflects updated industry sales, production, export and import numbers. Projections include forecasts for 2021 and 2022.

Kind regards,



Mikel MABASA
Chief Executive Officer
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