

Monday, November 15, 2021

REPRESENTATIVES AT GENERAL MEETINGS
RECIPIENTS OF NAAMSA MEDIA RELEASES

RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE
MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 3RD QUARTER 2021

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 2021, 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 and 2022, are reflected on the attachment to the submission.

KEY FEATURES: THIRD QUARTER 2021

- ❓ Third quarter 2021 industry new vehicle sales recorded an increase of 14,7% compared to the corresponding quarter 2020 but compared to the third quarter 2019 still reflected a decline of 16,1%;
- ❓ Third quarter 2021 industry employment reflected a substantial increase of 864 jobs to reach 31 179 positions at end September 2021;
- ❓ Industry capacity utilisation levels in the various industry segments declined during the third quarter of 2021, reflecting the negative impact of the adverse events that occurred during the quarter on the various industry segments in terms of domestic new vehicle sales and vehicle 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: **Neale HILL** | Managing Director | Ford Motor Company
Vice-President: Manufacturing OEMs | **Billy TOM** | President and Chief Executive Officer | Isuzu Motors South Africa
Vice-President: Retailing OEMs | **Gary SCOTT** | Chief Executive Officer | Kia South Africa
Vice-President: Heavy Commercial OEMs | **Filip VAN DEN HEEDE** | Managing Director | UD Trucks
Immediate Past President: **Andrew KIRBY** | President and Chief Executive Officer | Toyota South Africa Motors

Executive Director: Chief Executive Officer: **Mikel MABASA**

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

- ❓ Third quarter 2021 vehicle production reflected a substantial decline of 21,2% compared to the corresponding third quarter 2020 which could be attributed to the adverse events that occurred during the quarter in the country as well as the ongoing COVID-19 related global supply chain disruptions;
- ❓ The upward momentum in vehicle exports grinded to a halt during the quarter due to the knock-on effects of the adverse events during the quarter and were down to 24,2% ahead of the first 9 months of 2020 while still being 22,5% below the corresponding pre-COVID-19 level of 2019;
- ❓ The **naamsa** CEOs Confidence Index, as an in-house leading business confidence indicator of current and future developments in the domestic automotive industry, reflects the sentiment expressed by the **naamsa** CEOs for the third quarter 2021 compared to the third quarter 2020 as well as for automotive and general business conditions over the next six months.

naamsa OFFICES: PRETORIA
Monday, November 15, 2021

Mme Malebo MABITJE-THOMPSON

The Director-General
Department of Trade, Industry and Competition
Private Bag X84
PRETORIA
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RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: QUARTER ENDED 30TH SEPTEMBER 2021

Dear Mme MABITJE-THOMPSON,

naamsa | The Automotive Business would like to submit the following report on business conditions in the South African new motor vehicle manufacturing industry and the automotive sector during the second quarter of 2021.

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 2021 may be set out as follows:

Period	Industry total
Last pay week July, 2021	31,128
Last pay week August, 2021	31,135
Last pay week September, 2021	31,179

Industry employment levels and trends reflect employees on the payroll of vehicle manufacturers. Aggregate industry employment as at September 30, 2021 totalled 31,179, reflecting a substantial increase of 864 jobs compared to the 30,315 industry head count as at the end of June 2021.

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 4, 2020	6 406
End of quarter 1, 2021	6 471
End of quarter 2, 2021	6 577
End of quarter 3, 2021	6 549

Aggregate independent vehicle importers employment as at 30th September 2021 totalled a head count of 6,549 reflecting a decline of 28 jobs, compared to the head count of 6,577 at the end of June 2021. A 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	R62.6 mil
2020	R53,3 mil

The employment and capital expenditure data collection serve as important reference points, mainly to discern trends in the independent vehicle importers' landscape.

2. NUMBER OF SHIFTS

Pre-COVID-19, various vehicle 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, one vehicle manufacturer operated on a three-shift basis, two vehicle manufacturers operated on a combined single-, double- and three-shift basis, one manufacturer operated on a combined single- and 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 price trends of imported components continued to be affected by COVID-19 related disruptions such as vessel delays, container shortages, a surge in container costs and ocean freight rates as well as the ongoing global shortage of semi-conductors and other imported parts impacting on vehicle manufacturing operations 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 price trends of local components and raw materials continued to be affected by COVID-19 related disruptions resulting in higher logistics costs, delays of some imported sub-components, higher fuel prices affecting transport inflation as well as the added costs relating to the increase in electricity tariffs during the quarter. Some OEMs reported local steel price increases. Raw material pricing trends remained a function of exchange rate movements and the global price index.

4. UTILISATION OF PRODUCTION CAPACITY: 2016 - 2021 Q3

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	Year 2020	1 st Quarter 2021	2 nd Quarter 2021	3 rd Quarter 2021	3 rd Quarter 2021 range [High] [Low]	
Cars	76.0%	78.0%	82.0%	89.4%	69.9%	79.1%	76.6%	66.5%	85.7%	42.9%
Light Commercials	77.9%	85.3%	72.2%	75.8%	59.8%	60.6%	61.0%	53.7%	92.8%	24.0%
Medium Commercials	88.5%	82.9%	66.9%	65.4%	37.4%	38.7%	51.3%	40.1%	57.9%	22.3%
Heavy Commercials	80.0%	69.7%	60.6%	74.0%	50.0%	52.3%	72.3%	60.1%	100%	22.3%

Average capacity utilisation levels reflected the negative impact of the adverse events that occurred during the third quarter 2021 on the various industry segments in terms of domestic new vehicle sales and vehicle exports and consequently vehicle production. National and international disruptions impacted differently on the different vehicle manufacturers and the gradual recovery therefore remained uneven amongst member companies in the various segments.

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	6,092.0	5,948.5	5,146.1	7,144.6	5,779.5	6,705.8	7,296.2
Land and Buildings	478.0	190.5	905.0	301.4	1,202.4	234.5	1,558.1
Support Infrastructure [I.T., R&D, Technical, etc.]	347.0	464.3	363.5	724.6	265.0	334.0	377.4
Total	6,917.0	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 represented 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: Third quarter, 2021

2021 Third quarter aggregate industry new car sales at 77,752 units recorded a noteworthy increase of 16,918 units, or a gain of 27,8% compared to the 60,834 new cars sold during the corresponding quarter of 2020. Aggregate industry commercial vehicle sales during the third quarter of 2021, at 40,239 units, recorded a decline of 1,828 units, or a fall of 4,4% compared to the 42,067 units sold during the third quarter of 2020.

Industry Domestic Sales Growth: Direction and Extent of Change [previous quarter's percentage changes are reflected in brackets]				
	Qtr. ended 30 September 2021 compared with <u>previous Qtr. ended</u> <u>30 June 2021</u>		Qtr. ended 30 September 2021 compared with <u>corresponding Qtr.</u> <u>ended</u> <u>30 September 2020</u>	
Passenger Cars	+9.0%	[-4.2%]	+27.8%	[+153.0%]
Light Commercial vehicles	-3.0%	[-2.6%]	-5.3%	[+149.6%]
Medium Commercial vehicles	+17.9%	[+4.1%]	-3.8%	[+86.6%]
Heavy Commercial vehicles	+4.3%	[+14.0%]	+1.9%	[+114.8%]

Aggregate new vehicle sales during the third quarter 2021 recorded an increase of 14,7% compared to the corresponding quarter 2020 but compared to the third quarter 2019 still reflected a decline of 16,1%. The various vehicle segments reflected a mixed performance compared to the corresponding quarter 2020 as well as the previous quarter 2021. The uptick in passenger car demand could be attributed to the rental companies returning to the market. Business activity has started showing signs of recovery during the quarter due to the relaxing of the country's lockdown restrictions and supported medium and heavy commercial vehicle sales.

South Africa's Automotive Industry's Performance in a Global Context: 2014 – 2020 production data

COVID-19 has turned out to be the biggest deterrent to growth for the global automotive industry in recent times, with supply chain bottlenecks and dwindling new vehicle sales resulting in losses worth billions. The most visible effect of COVID-19 is the fact that OEMs globally produced fewer vehicles in 2020 than in 2019. After a bleak 2019, which already saw a marked decline of 5,2% in global vehicle production, and which ended 10 years of growth, global vehicle production declined by a substantial 15,8% to reach 77,62 million vehicles, down from the 92,18 million units produced in 2019.

The following table reflects SA's share of global vehicle production for 2014 to 2020 [in millions].

	2014	2015	2016	2017	2018	2019	2020	% change 2020 / 2019
Global Production	89.77	90.84	95.06	96.67	96.87	92.18	77.62	-15.8%
South Africa Production	0.568	0.617	0.600	0.601	0.61	0.63	0.45	-29.2%
SA Share of Global Production	0.63%	0.68%	0.63%	0.62%	0.64%	0.69%	0.58%	-15.9%

Following record domestic vehicle production of 631,921 units in 2019, vehicle production declined by a massive 184,703 units, or 29,2% to 447,218 units in 2020. South Africa's share of global motor vehicle production in 2020 consequently decreased to 0,58%, from the 0,69% in 2019, although the country's ranking remained at 22nd in the world. With regards to light commercial vehicle production South Africa was ranked 15th globally with a market share of 1,08%. South Africa remained the dominant market on the African continent, and accounted for 447,218 vehicles, or 62,1% of total African vehicle production of 720,156 vehicles.

Third quarter 2021 domestic vehicle production reflected a significant decline of 21,2% compared to the corresponding third quarter 2020. All segments, with the exception of extra heavy commercial vehicles and buses, reflected declines which could be attributed to the adverse events that occurred during the quarter, including the civil unrest in Gauteng and KwaZulu-Natal, impacting on vehicle production. In addition, the ongoing global shortage of semi-conductors as well as other global supply chain related challenges, such as the interruption of shipping line activities, also affected the operations of the domestic vehicle manufacturers during the quarter.

The following table reflects South Africa's domestic vehicle production for 2016 to - 2021 Q3.

	2016	2017	2018	2019	2020	2020 Q3	2021 Q3	% change Q3 2021/ Q3 2020
Passenger Cars	336,458	330,575	320,383	348,665	238,216	64,393	45,702	-29.0%
LCVs	235,333	242,300	261,086	254,417	185,691	55,369	47,086	-15.0%
MCVs	8,635	8,006	8,072	8,803	6,874	2,194	2,116	-3.6%
HCVs	5,597	5,466	5,590	5,220	4,208	1,385	1,357	-2.0%
XHCVs	12,489	12,640	13,751	13,817	11,484	3,693	3,764	+1.9%
Buses	1,300	1,151	1,178	999	745	166	196	+18.1%
	599,812	600,138	610,060	631,921	447,218	127,200	100,221	-21.2%

South Africa had a vehicle parc [number of registered vehicles] of 12,70 million at the end of 2020, of which 7,50 million, or 59,1%, comprised passenger cars. Due to the annual scrappage rate and the significant year-on-year decline of 29,2% in new vehicle sales in the country in 2020, the vehicle parc for 2019 and 2020 remained similar.

Comment on Industry Export Performance by major region - 2017 to 2021 9 months

	2017	2018	2019	2020	9 Months 2020	9 Months 2021	% change 9M 2021 / 9M 2020
Europe	190,503	233,772	285,599	197,355	132,869	176,248	+32.7%
Asia	52,827	50,277	39,879	29,440	20,857	20,245	-2.9%
Africa	21,848	23,988	23,382	16,983	12,483	15,914	+27.5%
Australasia	25,125	22,767	17,350	13,698	9,806	9,115	-7.1%
North America	43,393	13,037	13,540	9,463	6,394	6,154	-3.8%
Central America	812	1,511	5,651	3,156	2,392	2,410	+0.8%
South America	3,588	5,787	1,691	1,188	875	525	-40,0%
Total	338,096	351,139	387,092	271,283	185,676	230,611	+24.2%

South African vehicle exports remain a function of the direction and performance of global markets and the domestic automotive industry therefore benefitted from the strong rebound in global economic activity and the favourable conditions abroad in 2021. Europe, accounting for a substantial 176,248 vehicles, or 76,4% of the total export volume during the first nine months of 2021, continued to dominate as a region. The automotive industry continues to capitalise on the various trade arrangements enjoyed by South Africa with the European Union, the Southern African Development Community [SADC] and the USA, which enhance exports.

During the third quarter 2021 vehicle exports suffered from the aftermath of the civil unrest in Gauteng and KwaZulu-Natal and the cyber-attack on Transnet operations. From being 65,8% ahead for the first six months of 2021 compared to the first six months of 2020, vehicle exports grinded to a halt during the quarter to now only being 24,2% ahead for the first nine months of 2021 compared to the first nine months of 2020 while still being 22,5% below the pre-COVID-19 level of the corresponding period 2019. It is anticipated that several new model introductions by major vehicle exporters in 2021 and 2022 would provide the impetus for vehicle exports to regain their strong upward momentum over the short to medium term.

7. naamsa CEOs Confidence Index

Introduced in 2020 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 as well as the country's economy in general.

3rd Quarter 2021 vs 3rd Quarter 2020

Performance indicator	Up	Same	Down
Domestic new vehicle sales	84%	8%	8%
Vehicle export sales	58%	25%	17%
Vehicle production volumes	50%	17%	33%
Vehicle import volumes	62%	15%	23%
Employment – vehicle manufacturing	9%	82%	9%
Capacity utilisation	36%	46%	18%
Investment expenditure	18%	64%	18%
General new vehicle business conditions	54%	31%	15%

The sentiment expressed by the **naamsa** CEOs generally reflect the ongoing gradual recovery in the vehicle manufacturing industry during the third quarter 2021. The CEOs of the OEMs, the heavy commercial vehicles and the independent importers were mainly aligned in their appraisal of the challenging market conditions during the quarter, also recognising that the majority of the key performance indicators were still below pre-COVID-19 levels. The adverse events that occurred during the quarter, including the civil unrest in Gauteng and KwaZulu-Natal, cyber-attack on Transnet's operations, escalating logistics costs as well as the ongoing global semiconductor shortages affecting vehicle production and hence also the availability of certain models, impacted to varying degrees on the performance of the different companies during the quarter.

Next 6 months

Performance indicator	Up	Same	Down
Domestic new vehicle sales	75%	17%	8%
Vehicle export sales	46%	45%	9%
Vehicle production volumes	55%	36%	9%
Vehicle import volumes	55%	36%	9%
Employment – vehicle manufacturing	17%	75%	8%
Capacity utilisation	36%	55%	9%
Investment expenditure	25%	67%	8%
General new vehicle business conditions	50%	33%	17%

The **naamsa** CEOs are cautiously optimistic that domestic market conditions will continue to support new vehicle sales, vehicle imports and vehicle production over the next six months, while for the remainder of the industry's key performance indicators to remain in gradual recovery mode. The strong rebound in South Africa's economic growth rate in 2021 is projected to taper off substantially in 2022 and combined with the challenging structural economic problems in the country as well as the COVID-19 global supply chain disruptions, expected to continue well into 2022, the views expressed by the CEOs are indicative of an anticipated protracted industry return to pre-COVID-19 levels.

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

Challenging business conditions characterised the third quarter 2021 due to a number of adverse events that occurred, along with the prolonged duration of the third wave of COVID-19 infections in the country affecting business and consumer sentiment negatively. The civil unrest in Gauteng and KwaZulu-Natal, the cyber-attack on Transnet's operations, delays in shipments with associated higher logistics costs, as well as the ongoing COVID-19 global supply chain disruptions, such as the shortage of semi-conductors, all impeded the industry's performance during the quarter. Encouragingly, however, was that new vehicle demand appeared to outstrip supply while renewed activity in the vehicle rental industry also supported the new vehicle market during the quarter. For the first nine months of 2021 the new vehicle market was now 30,3% above the corresponding period 2020 but still 13,3% below the pre-COVID-19 first nine months of 2019, highlighting that a full recovery would be protracted until around 2023.

The upward momentum in vehicle exports grinded to a halt during the quarter as the civil unrest in Gauteng and KwaZulu-Natal as well as the Force Majeure declared by Transnet after the cyber-attack caused massive logistical challenges on the N3 highway as well as at the country's major ports. The knock-on effects of the economic disruptions impacted negatively on the industry's export performance during the quarter. Over the short to medium term, however, vehicle exports will benefit from new model introductions by major vehicle exporters as well as increased demand linked to the favourable economic conditions abroad.

Fuel for thought flash

As its second largest export region accounting for R29,6 billion, or 16,9% of total automotive exports of R175,7 billion in 2020, Africa remains a priority focus for the South African automotive industry and the African Continental Free Trade Area [AfCFTA] as well as the Auto Pact will aim to expand market access opportunities into other regions on continent, beyond the SADC free trade area, which comprised 81,2% of the value of total automotive exports to the African continent in 2020. The standard attached schedule reflects updated industry sales, production, export and import numbers. Projections include forecasts for 2021 and 2022.

Mikel M. MABASA
20211115

Mikel M. MABASA
naamsa OFFICES: PRETORIA

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