

Tuesday, February 15, 2022

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

**RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE
MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 4TH 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 fourth quarter of 2021, as submitted to the Director-General, Department of Trade, Industry and Competition.

Industry vehicle sales, export, and import statistics for 2013 through 2021, together with current projections for 2022 and 2023, are reflected on the attachment to the submission.

Key features: Fourth Quarter 2021

- ❓ The pace of recovery in industry new vehicle sales slowed down in the fourth quarter 2021 with new vehicle sales recording an increase of 3,5% compared to the corresponding quarter 2020 and compared to the third quarter 2021 recording a modest increase of only 0,8%;
- ❓ Fourth quarter 2021 industry employment reflected an increase of 529 jobs to reach 31,708 positions at end December 2021;
- ❓ Average industry capacity utilisation levels in the various industry segments during the fourth quarter of 2021 reflected the varying impact of further adverse events that occurred during the quarter on the various industry segments in terms of domestic new vehicle sales, vehicle production and vehicle exports;
- ❓ Aggregate capital expenditure by the major vehicle manufacturers in 2021 recorded its second highest level on record at R8,8billion;

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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**

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- ② Fourth quarter 2021 vehicle production reflected a decline of 16,5% compared to the corresponding fourth quarter 2020 which could be attributed to the knock-on effects of the economic disruptions during the third quarter along with further adverse events that occurred during the fourth quarter 2021;
- ② Vehicle exports declined by 21,3% during the fourth quarter compared to the corresponding quarter 2020 as the industry's performance was still hampered by some economic disruptions during the third quarter along with further adverse events during the fourth quarter; and
- ② 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 fourth quarter 2021 compared to the fourth quarter 2020

Tuesday, February 12, 2022

Mme Malebo MABITJE-THOMPSON

Director-General

Department of Trade, Industry and Competition

Private Bag X84

PRETORIA

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RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 4TH QUARTER 2021

Dear Mme MABITJE-THOMPSON,

naamsa | The Automotive Business Council 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 fourth 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 fourth quarter of 2021 may be set out as follows:

Period	Industry total
Last pay week October 2021	31,471
Last pay week November 2021	31,659
Last pay week December 2021	31,708

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

Aggregate industry employment as at 31st December 2021 totalled 31,708 reflecting an increase of 529 jobs compared to the 31,179 industry head count as at the end of September 2021. The average monthly vehicle manufacturing industry employment number for 2021 was 30,697 compared to the 29,926 in 2020.

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	6,993
End of quarter 4, 2021	7,557

Aggregate independent vehicle importers employment as at 31st December 2021 totalled a head count of 7,557 reflecting an increase of 564 jobs, compared to the head count of 6,993 at the end of September 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
2021	R32.5 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, including the ongoing global shortage of semi-conductors impacting on vehicle manufacturing operations during the quarter. An increase in aluminium prices was reported 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 such as the global semi-conductor shortage negatively impacting on vehicle manufacturing volumes, while record fuel prices fuelled inflation and negatively affected local component prices. 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: 2017 - 2021 Q4

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

	Year 2017	Year 2018	Year 2019	Year 2020	1 st Quarter 2021	2 nd Quarter 2021	3 rd Quarter 2021	4 th Quarter 2021	4 th Quarter 2021 range (High) (Low)	
Cars	78.0%	82.0%	89.4%	69.9%	79.1%	76.6%	66.5%	71.9%	88.9%	62.6%
Light Commercials	85.3%	72.2%	75.8%	59.8%	60.6%	61.0%	53.7%	57.8%	92.5%	28.4%
Medium Commercials	82.9%	66.9%	65.4%	37.4%	38.7%	51.3%	40.1%	58.0%	78.0%	23.8%
Heavy Commercials	69.7%	60.6%	74.0%	50.0%	52.3%	72.3%	60.1%	69.6%	100%	23.8%

Average capacity utilisation levels continue to reflect the gradual recovery in vehicle manufacturing volumes but also reflected the varying impact of the adverse events that occurred during the fourth quarter 2021 on the various industry segments in terms of domestic new vehicle sales, vehicle exports, and consequently vehicle production. The gradual recovery remained uneven amongst member companies in the various segments.

5. VEHICLE MANUFACTURING INDUSTRY CAPITAL EXPENDITURE: 2015 - 2021

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 2015 through 2021, in Rand millions, are as follows:

Capital Expenditure	2015	2016	2017	2018	2019	2020	2021
Product/Local/Content/ Export Investment/ Production Facilities	5,948.5	5,146.1	7,144.6	5,779.5	6,705.8	7,296.2	4,910.8
Land and Buildings	190.5	905.0	301.4	1 202.4	234.5	1 558.1	3 641.4
Support Infrastructure (I.T., R&D, Technical, etc.)	464.3	363.5	724.6	265.0	334.0	377.4	248.5
Total	6,603.3	6,414.6	8,170.6	7,246.9	7,274.3	9,231.7	8,800.7

Capital expenditure of R8,8 billion in 2021 represented the second 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) and APDP2, 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, 2021

2021 Fourth quarter aggregate industry new passenger car sales at 80,768 units recorded an increase of 4,104 units, or a gain of 5,4% compared to the 76,664 new passenger cars sold during the corresponding quarter of 2020. Aggregate industry commercial vehicle sales during the fourth quarter of 2021, at 38,198 units, recorded a decline of 97 units, or a fall of 0,3% compared to the 38,295 units sold during the fourth quarter of 2020.

Industry Domestic Sales Growth: Direction and Extent of Change (previous quarter's percentage changes are reflected in brackets)				
	Qtr. ended 31 December 2021 compared with <u>previous Qtr. ended</u> <u>30 September 2021</u>		Qtr. ended 31 December 2021 compared with <u>corresponding Qtr.</u> <u>ended 31 December 2020</u>	
Passenger Cars	+3.9%	(+9.0%)	+5.4%	(+27.8%)
Light Commercial vehicles	-5.1%	(-3.0%)	-1.2%	(-5.3%)
Medium Commercial vehicles	-4.2%	(+17.9%)	+7.7%	(-3.8%)
Heavy Commercial vehicles	-5.4%	(+4.3%)	+3.7%	(+1.9%)

Aggregate new vehicle sales during the fourth quarter 2021 recorded an increase of 3,5% compared to the corresponding quarter 2020 but an increase of only 0,8% compared to the previous quarter. The various vehicle segments reflected a mixed performance compared to the corresponding quarter 2020 as well as the previous quarter 2021. The positive performance of the passenger car segment could be attributed to the sound seasonal contribution by the rental companies. However, the slowdown in the pace of recovery during the fourth quarter 2021 compared to the previous quarter could be linked to persistent COVID-19 fuelled challenges, the new Omicron COVID-19 variant and a first interest rate increase in three years to curb rising inflation.

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

Global 2021 vehicle production data will only be available in the next quarter. In 2020, 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. Global vehicle production declined by a substantial 15,8% to reach 77,62 million vehicles in 2020, down from the 92,18 million units produced in 2019.

The following table reflects South Africa'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	-29.4%
SA Share of Global Production	0.63%	0.68%	0.63%	0.62%	0.64%	0.69%	0.58%	-15.9%

In view of the year-on-year decline in vehicle production of 29,4% in 2020, South Africa's share of global motor vehicle production in 2020 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 62,1% of total African vehicle production.

Vehicle production for 2021 increased by 52,872 units to 499,087 units compared to the 446,215 units manufactured in 2020. Fourth quarter 2021 domestic vehicle production continued its second half of the year downward trajectory and reflected a further decline of 16,5% compared to the corresponding quarter 2020.

All segments, with the exception of the heavy commercial vehicle segments, reflected declines which could be attributed to the knock-on effects of some of the economic disruptions during the third quarter along with further adverse events that occurred during the fourth quarter, including the three-week steel and engineering strike, a first interest rate increase in three years, the new Omicron COVID-19 variant and the ongoing global shortage of semi-conductors impacting on the operations of the domestic vehicle manufacturers during the quarter.

The following table reflects South Africa's domestic vehicle production for 2017 to 2021 Q4.

	2017	2018	2019	2020	2020 Q4	2021 Q4	% change Q4 2021/ Q4 2020
Passenger Cars	330,575	320,383	348,665	238,216	72,267	52,754	-27.0%
LCVs	242,300	261,086	254,417	185,691	59,278	55,698	-6.0%
MCVs	8,006	8,072	8,803	6,874	1,887	2,019	+7.0%
HCVs	5,466	5,590	5,220	4,208	1,276	1,345	+5.4%
XHCVs	12,640	13,751	13,817	11,484	3,362	3,549	+5.6%
Buses	1,151	1,178	999	745	265	168	-36.6%
	600,138	610,060	631,921	447,218	138,335	115,533	-16.5%

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

	2017	2018	2019	2020	2021	% change 2021 / 2020
Europe	190,503	233,772	285,599	197,355	229,672	+16.4%
Asia	52,827	50,277	39,879	29,440	24,170	-17.9%
Africa	21,848	23,988	23,382	16,987	21,825	+28.5%
Australasia	25,125	22,767	17,350	13,698	10,621	-22.5%
North America	43,393	13,037	13,540	9,463	7,981	-15.7%
Central America	812	1,511	5,651	3,156	3,045	-3.5%
South America	3,588	5,787	1,691	1,188	706	-40.6%
Total	338,096	351,139	387,092	271,287	298,020	+9.9%

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 229,672 vehicles, or 77,1% of the total export volume during 2021, or nearly four out of every five vehicles exported, 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 fourth quarter 2021 vehicle exports declined by 21,3% to 67,410 units compared to the 85,612 units exported in the corresponding quarter 2020. The industry's export performance continued to suffer from the knock-on effects of the cyber-attack on Transnet operations in the third quarter 2021 while the three-week strike in the steel and engineering sector, loadshedding as well as the global shortage of semi-conductors, the latter also impacting domestic vehicle production, negatively impacted the industry's export performance during the fourth quarter.

Following a very promising first half of the year when vehicle exports were still on par with the pre-COVID-19 record level of 2019, vehicle exports grinded to a halt and declined for five out of six months during the second half of 2021. For the full year 2021 vehicle exports, totalling 298,020 units, however still reflected a sound increase of 26,733 units, or 9,9% compared to the 271,287 units exported in 2020. A favourable global economic climate along with further new model introductions by major vehicle exporters in 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**

The **naamsa** CEOs Confidence Index is 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 2021 vs 4th Quarter 2020

Performance indicator	Up	Same	Down
Domestic new vehicle sales	63%	12%	25%
Vehicle export sales	43%	43%	14%
Vehicle production volumes	57%	21%	22%
Vehicle import volumes	60%	0%	40%
Employment – vehicle manufacturing	40%	0%	60%
Capacity utilisation	41%	47%	12%
Investment expenditure	25%	56%	19%
General new vehicle business conditions	63%	12%	25%

The sentiment expressed by the **naamsa** CEOs generally reflect the ongoing gradual recovery in the industry during the quarter, duly acknowledging the slow-down in the pace of recovery.

Domestic economic disruptions as well as global COVID-19 fuelled disruptions experienced during the quarter impacted to varying degrees on the OEMs, the heavy commercial vehicle sector and the independent vehicle importers as expressed in their respective responses. The knock-on effects of the cyberattack on Transnet's operations during the previous quarter, the three-week strike in the steel and engineering sector, the ongoing global semi-conductor shortage affecting vehicle production and hence the availability of certain models, loadshedding as well as the first interest increase in three years to curb rising inflation hampered the operations and performance of the companies and segments differently during the fourth quarter.

Next 6 months

Performance indicator	Up	Same	Down
Domestic new vehicle sales	75%	19%	6%
Vehicle export sales	67%	33%	0%
Vehicle production volumes	85%	15%	0%
Vehicle import volumes	60%	20%	20%
Employment – vehicle manufacturing	29%	71%	0%
Capacity utilisation	56%	38%	6%
Investment expenditure	50%	31%	19%
General new vehicle business conditions	75%	19%	6%

The **naamsa** CEOs are generally upbeat that domestic and global market conditions will support the industry's key performance indicators over the next six months, although recognising that the pace of recovery is anticipated to slow down in line with the much lower economic growth expectations for South Africa in 2022. Despite persistent structural domestic economic challenges, ongoing COVID-19 global supply chain disruptions, a series of unprecedented domestic shocks and realities of rising costs of living in 2022, the views of the CEOs express the resilience of the industry to adapt to the constantly changing and uncertain future environment.

Brief Comment on business conditions and the medium-term outlook

The pace of the industry's gradual recovery slowed down further during the fourth quarter, linked to ongoing COVID-19 related disruptions as well as further domestic adverse events during the quarter, negatively impacting consumer and business confidence. The three-week strike in the steel and engineering sector, a first interest rate increase in three years, record fuel prices, power shortages, the ongoing COVID-19 global supply chain disruptions as well as the new Omicron COVID-19 variant impeded the industry's performance during the quarter. However, the motor industry showed its renowned resilience as all the industry's key performance indicators for the full year 2021 reflected very positive outcomes compared to the COVID-19 affected 2020 performance.

Despite the realities of rising interest rates in 2022 to curb rising inflation, forecasts of the country's economic growth rate to decelerate substantially in 2022 compared to 2021, as well as an ongoing uncertain operating environment linked to potential further COVID-19 waves, the new vehicle market trend is anticipated to remain upward over the medium term.

The strong surge in vehicle exports during the first half of 2021 was disrupted by the knock-on effects of the cyberattack on Transnet's operations during the third quarter of the year as well as further adverse events during the fourth quarter, including the three-week steel and engineering strike, power shortages, and the impact of the new Omicron COVID-19 variant on international markets. During 2022, vehicle exports are anticipated to benefit from further new model introductions by major vehicle exporters as well as increased demand linked to the favourable economic conditions abroad.

Fuel for thought flash

New vehicle sales are closely linked to the health of the economy and strongly rebounded year-on-year by 22,2% in 2021 in close correlation with the strong recovery in the country's GDP growth rate of nearly 5% compared to the COVID-19 affected economic contraction of -6,4% in 2020.

The standard attached schedule reflects updated industry sales, production, export and import numbers. Projections include forecasts for 2022 and 2023.

Kind regards,



Mikel M. Mabasa
2022.02.15

Mikel M. MABASA
Chief Executive Officer
naamsa | The Automotive Business Council