

Monday, August 22, 2022

REPRESENTATIVES AT GENERAL MEETINGS  
RECIPIENTS OF naamsa MEDIA RELEASES

**RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE  
MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 2ND QUARTER 2022**

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 second quarter of 2022, 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: Second Quarter 2022

- Multiple headwinds slowed down the momentum in industry new vehicle sales during the second quarter 2022, recording an increase of 4,7% compared to the corresponding quarter 2021 but a fall of 13,8% compared to the first quarter 2022;
- New energy vehicle (NEV) sales by 13 industry brands declined by 47,3% from 1, 401 units in the first quarter to 738 units in the second quarter 2022;
- Second quarter 2022 industry employment reflected an increase of 1,609 jobs to reach 33,690 positions at end June 2022;
- Average industry capacity utilisation levels during the second quarter 2022 reflected an overall decline in line with the adverse impact of the KwaZulu-Natal flooding disaster on vehicle production and sales during the quarter;
- Aggregate capital expenditure by the major vehicle manufacturers in 2021 recorded its second highest level on record at R8,8 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

- South African vehicle production during the second quarter 2022 reflected a decline of 17,0% compared to the corresponding quarter 2021, impacted upon by the devastating floods in KwaZulu-Natal along with the associated logistical disruptions;
- Second quarter 2022 vehicle exports declined by 15,3% compared to the corresponding quarter 2021 as the flooding disaster in KwaZulu-Natal as well as the ongoing repercussions of the geopolitical conflict with Russia's invasion of the Ukraine hampered export volumes to key markets, in particular Europe; and
- 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 second quarter 2022 compared to the second quarter 2021 as well as automotive business conditions and the country's economy in general for the next 6 months.

Monday, August 22, 2022

**Mr. Shabeer KHAN**

Acting 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: 2ND QUARTER 2022**

Dear Mr KHAN,

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 second quarter of 2022.

**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 2022 may be set out as follows:

Period	Industry total
Last pay week April 2022	33 085
Last pay week May 2022	33 600
Last pay week June 2022	33 610

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

Aggregate industry employment as at 30<sup>th</sup> June 2022 totalled 33,610 reflecting an increase of 1,609 jobs compared to the 32,001 industry head count as at the end of March 2022.

The average monthly vehicle manufacturing industry employment number for 2021 was 30,697 compared to the 29,926 in 2020.

An 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 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
End of quarter 1, 2022	7,635
End of quarter 2, 2022	7,680

Aggregate independent vehicle importers employment as at 30<sup>th</sup> June 2022 totalled a head count of 7,680 reflecting an increase of 45 jobs, compared to the head count of 7,635 at the end of March 2022. An 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

In line with the steady recovery in vehicle production to pre-pandemic levels, various vehicle manufacturers have returned to operations 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, two vehicle manufacturers 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 two 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 were affected by disruptions to the country’s major logistics network linked to the KwaZulu-Natal flooding disaster as well as the ongoing global shortage of semi-conductors which impacted 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

Increases in raw material prices such as steel, aluminium, copper and rubber along with increased logistics costs linked to higher oil prices were noted during the quarter. Raw material pricing trends remain a function of exchange rate movements and the global price index.

### 4. UTILISATION OF PRODUCTION CAPACITY: 2017 - 2022 Q2

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	Year 2021	1 <sup>st</sup> Quarter 2022	2 <sup>nd</sup> Quarter 2022	2 <sup>nd</sup> Quarter 2022 range (High) (Low)	
Cars	78.0%	82.0%	89.4%	69.9%	73.5%	86.3%	61.1%	99.1%	4.5%
Light Commercials	85.3%	72.2%	75.8%	59.8%	58.3%	63.1%	46.3%	92.0%	29.8%
Medium Commercials	82.9%	66.9%	65.4%	37.4%	47.0%	67.4%	45.6%	65.1%	26.0%
Heavy Commercials	69.7%	60.6%	74.0%	50.0%	63.6%	80.2%	72.8%	100%	26.0%

Average industry capacity utilisation levels declined during the second quarter 2022 compared to the first quarter 2022 in line with lower new vehicle sales and production volumes. The performance remained uneven amongst member companies in the various segments. The impact of the severe floods in KwaZulu-Natal directly impacted vehicle production at the Toyota Prospecton plant along with associated road, rail, and Durban port disruptions while the ongoing global shortage of semi-conductors continued to affect domestic vehicle production.

## 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
<b>Total</b>	<b>6,603.3</b>	<b>6,414.6</b>	<b>8,170.6</b>	<b>7,246.9</b>	<b>7,274.3</b>	<b>9,231.7</b>	<b>8,800.7</b>

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. INDUSTRY TRANSFORMATION

Industry evolution is punctuated by endogenous or exogenous events that define how industry develops. Transformation as an industry license to operate took a multi-layered stage for the automotive sector:

- The industry went through an era of ferment, where locally manufacturing OEMs were embracing their role and prerogative to industry transformation;
- Then the industry convergence towards the new, with the development and implementation of the Automotive Industry Transformation Fund (AITF); and
- The last stage of the process is creating a stable structure, which is the new normal for the automotive industry around transformation.

Understanding how different sources and patterns of transformation influence competitive heterogeneity is an important line for a transformation strategy. Reflective of the efficiency of the strategies employed by the sector is evidenced below, with all locally manufacturing OEMs now fully meeting APDP requirements to be Level 4 or better by December 2021.

	Year	Total	Ownership [25]	Management Control [15]	Enterprise & Supplier Development [40]	Skills Development [20 +5]	Socio-Economic Development [5]
OEM A: Level 4	Pre EEIP	54.41	0.00	13.07	27.00	9.34	5.00
	2022	83.80	15.00	13.00	37.23	13.57	5.00
OEM B: Level 1	Pre EEIP	62.58	0.00	8.42	30.18	18.98	5.00
	2022	99.60	25.00	10.24	35.78	14.58	5.00
OEM C: Level 2	Pre EEIP	60.53	0.00	9.99	23.38	23.16	4.01
	2022	95.18	15.00	11.23	32.05	16.97	5.00
OEM D: Level 2	Pre EEIP	60.72	0.00	11.43	27.36	17.02	4.91
	2022	82.00	15.00	11.45	28.65	21.90	5.00
OEM E: Level 3	Pre EEIP	66.79	0.00	8.89	31.36	21.54	5.00
	2022	90.75	15.00	10.85	33.44	16.46	5.00
OEM F: Level 3	Pre EEIP	57.77	0.00	9.96	31.42	11.39	5.00
	2022	77.29	15.00	9.93	33.93	15.59	3.74
OEM G: Level 4	Pre EEIP	60.53	0.00	9.99	23.38	23.16	4.01
	2022	88.06	25.00	10.41	32.91	14.74	5.00

## 7. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

Business Conditions: Second Quarter, 2022

2022 Second quarter aggregate industry new passenger car sales at 82,665 units recorded an increase of 11,320 units, or a gain of 15,9% compared to the 71,345 new passenger cars sold during the corresponding quarter of 2021. Aggregate industry commercial vehicle sales during the second quarter of 2022, at 34,683 units, recorded a decline of 6,052 units, or a fall of 14,9% compared to the 40,735 units sold during the second quarter of 2021.

Industry domestic sales growth: Direction and extent of change (previous quarter's percentage changes are reflected in brackets)				
	Qtr. ended 30 June 2022 compared with <u>previous Qtr. ended 31 March 2022</u>		Qtr. ended 30 June 2022 compared with <u>corresponding Qtr. ended 30 June 2021</u>	
Passenger Cars	-11.7%	(+15.9%)	+15.9%	(+25.7%)
Light Commercial vehicles	-22.8%	(+14.7%)	-18.5%	(+2.9%)
Medium Commercial vehicles	-3.8%	(-10.1%)	-2.3%	(+5.7%)
Heavy Commercial vehicles	+4.6%	(-1.4%)	-0.2%	(+11.1%)
Buses	+75.3%	(-43.3%)	-1.2%	(-37.6%)

Aggregate new vehicle sales during the second quarter 2022 recorded an increase of 4,7% compared to the corresponding quarter 2021 but a fall of 13,8% compared to the first quarter 2022. The strong performance of the passenger car segment during the second quarter 2022 compared to the corresponding quarter 2021 related to higher passenger car imports as well as sound support from the vehicle rental companies. The slowdown in momentum in sales during the second quarter 2022 compared to the first quarter 2022 could be attributed to the impact of the severe floods in KwaZulu-Natal on vehicle production and sales, logistical import, and export challenges at the Durban port as well as a weak economic climate.

During the second quarter 2022, new energy vehicle (NEV) sales by 13 industry brands declined by 47,3% from 1,401 units in the first quarter to 738 units in the second quarter 2022. However, for the first half of 2022 a total of 2,139 NEVs have been sold compared to the 896 NEVs sold during the full year 2021.

The following table reveals the diversity of drivetrain sales in the South African NEV landscape from 2017 through to 2022 Q2.

	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	1 <sup>st</sup> Quarter 2022	2 <sup>nd</sup> Quarter 2022
Plug-in hybrid	121	89	72	77	51	32	50
Traditional hybrid	182	55	181	155	627	1,257	593
Electric	68	58	154	92	218	112	93
Total NEVs	371	202	407	324	896	1,401	738

On 18 May 2021, the DTIC published an Automotive Green Paper on the advancement of new energy vehicles in South Africa. The Green Paper highlighted that the NEV challenge in South Africa is two dimensional, encompassing both demand and supply side considerations, and that it is an inevitable transition for the South African automotive industry, as it will be the future driving technology adopted by the global automotive industry. The outcome of the jointly funded 2022 **naamsa** and DTIC NEV research study will aim to develop an appropriate fiscal and regulatory framework that will make South Africa a leading, highly competitive location for global NEV production.

South African Automotive Industry's Performance in a Global Context: 2015 - 2021 production data  
 In 2021, COVID-19 continued to impede personal mobility needs, while supply chain disruptions slowed down the post-pandemic recovery of the global new vehicle market. The intensifying global semi-conductor shortage continued to limit vehicle production around the world. Global vehicle production increased by a modest 3,1% to reach 80,2 million vehicles in 2021, up from the 77,7 million units produced in 2020, but it was still 13,0% below the pre-COVID-19 level of 92,2 million vehicles produced in 2019.



The following table reflects South Africa's share of global vehicle production for 2015 to 2021 (in millions).

	2015	2016	2017	2018	2019	2020	2021	% change 2021 / 2020
Global Production	90.84	95.06	96.67	96.87	92.18	77.71	80.15	+3.1%
South Africa Production	0.617	0.600	0.601	0.61	0.63	0.45	0.50	+11.8%
SA Share of Global Production	0.68%	0.63%	0.62%	0.64%	0.69%	0.58%	0.62%	+6.9%

South African vehicle production increased by 11,8%, from 446,215 units produced in 2020 to 499,087 units produced in 2021, exceeding the modest year-on-year increase in global vehicle production of 3,1% in 2021. Subsequently the country's global vehicle production ranking improved to 21<sup>st</sup> in 2021, up from 22<sup>nd</sup> in 2020, and its global market share increased to 0,62%. In terms of global LCV production, South Africa was ranked 14<sup>th</sup> with a market share of 1,25%. South Africa remained the dominant market on the African continent and accounted for 53,6% of total African vehicle production in 2021.

Second quarter 2022 domestic vehicle production reflected a decline of 17,0% compared to the corresponding quarter 2021. The massive decline in the light commercial vehicle segment could be attributed to the impact of the severe floods in KwaZulu-Natal and the temporary closure of the Toyota Prospecton plant during the quarter as well as the ongoing global shortage of semi-conductors affecting vehicle production.

The following table reflects South Africa's domestic vehicle production for 2017 to 2022 Q2.

	2017	2018	2019	2020	2021	2021 Q2	2022 Q2	% change Q2 2022 / Q2 2021
Passenger Cars	330,575	320,383	348,665	237,214	239,267	69,382	69,399	+0.02%
LCVs	242,300	261,086	254,417	185,691	232,166	65,532	41,109	-37.3%
MCVs	8,006	8,072	8,803	6,874	7,643	1,794	1,734	-3.3%
HCVs	5,466	5,590	5,220	4,208	5,151	1,341	1,639	+22.2%
XHCVs	12,640	13,751	13,817	11,484	14,175	3,606	3,615	+0.3%
Buses	1,151	1,178	999	745	685	171	202	+18.1%
	<b>600,138</b>	<b>610,060</b>	<b>631,921</b>	<b>446,216</b>	<b>449,087</b>	<b>141,826</b>	<b>117,698</b>	<b>-17,0%</b>

South Africa had a vehicle parc (number of registered vehicles) of 12,96 million at the end of 2021, of which 7,65 million, or 59,0%, comprised passenger cars.

The domestic automotive industry continues to capitalise on the various trade arrangements enjoyed by South Africa with the European Union, the UK, the Southern African Development Community (SADC) and the USA, which enhance exports. 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.

#### Industry export performance by major region - 2017 to 2022 Q2

	2017	2018	2019	2020	2021	Q2 2021	Q2 2022	% change Q2 2022 / Q2 2021
Europe	190,503	233,772	285,599	197,355	229,672	70,519	52,732	-25.2%
Asia	52,827	50,277	39,879	29,440	24,170	8,178	9,738	+19.1%
Africa	21,848	23,988	23,382	16,987	21,825	5,532	5,135	-7.2%
Australasia	25,125	22,767	17,350	13,698	10,621	3,502	2,750	-21.5%
North America	43,393	13,037	13,540	9,463	7,981	2,255	5,735	+154.3%
Central America	812	1,511	5,651	3,156	3,045	1,164	683	-41.3%
South America	3,588	5,787	1,691	1,188	706	199	567	+184.9%
<b>Total</b>	<b>338,096</b>	<b>351,139</b>	<b>387,092</b>	<b>271,287</b>	<b>298,020</b>	<b>91,349</b>	<b>77,340</b>	<b>-15.3%</b>

During the second quarter 2022 vehicle exports declined by 15,3% to 77,340 units compared to the 91,349 units exported in the corresponding quarter 2021. In addition to the impact of the devastating flooding in KwaZulu-Natal on vehicle production along with logistics challenges related to the inbound movement of automotive parts and components and the outbound movement of vehicles via the Durban port during the quarter, the repercussions of the geo-political conflict with Russia's invasion of the Ukraine continued to hamper export volumes to key markets, in particular Europe.

#### 8. **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. 2<sup>nd</sup> Quarter 2022 vs 2<sup>nd</sup> Quarter 2021

Performance indicator	Up	Same	Down
Domestic new vehicle sales	91%	9%	-
Vehicle export sales	55%	27%	18%
Vehicle production volumes	30%	40%	30%
Vehicle import volumes	70%	30%	-
Employment – vehicle manufacturing	10%	90%	-
Capacity utilisation	30%	50%	20%
Investment expenditure	27%	64%	9%
General new vehicle business conditions	55%	27%	18%

The sentiment expressed by the **naamsa** CEOs generally reflect the challenging business conditions on the industry's key performance indicators during the second quarter 2022. Both business and consumer confidence were weaker, indicating negative sentiment and lower demand for big-ticket items in view of the impact of increased power outages, a weaker exchange rate, record fuel prices as well as the associated inflationary pressures leading to higher interest rates. Adding to that, the KwaZulu-Natal flooding disaster left its mark on the industry's performance and the country's major logistics network during the quarter.

#### Next 6 months

Performance indicator	Up	Same	Down
Domestic new vehicle sales	55%	36%	9%
Vehicle export sales	50%	40%	10%
Vehicle production volumes	50%	40%	10%
Vehicle import volumes	70%	30%	-
Employment – vehicle manufacturing	-	100%	-
Capacity utilisation	40%	50%	10%
Investment expenditure	20%	80%	-
General new vehicle business conditions	40%	20%	40%

The **naamsa** CEOs remain cautiously optimistic that, despite persisting downside risks, the gradual recovery in the domestic automotive industry will continue to support the industry's key performance indicators over the next six months, albeit at a slower pace. Elevated inflation and the upward trend in interest rates are eroding households' spending power while vehicle stock shortages, linked to the ongoing global semi-conductor shortage, will continue to dampen the industry's ability to take advantage of the demand that exists. However, the lifting of all COVID-19 lockdown restrictions in the country during the quarter will go a long way to enhance the economic climate going forward.

#### Brief Comment on business conditions and the medium-term outlook

Following a fairly upbeat first quarter 2022 industry performance, the impact of the devastating floods in KwaZulu-Natal along with weaker business and consumer confidence levels have weighed heavily on the new vehicle market's performance during the second quarter 2022. As consumers felt the pinch of rising inflationary pressures along with increasing interest rates, the new vehicle market experienced the spill-over effects of reduced disposable income resulting in lower demand. Consumer price inflation exceeded the top end of the South African Reserve Bank's (SARB's) target range of 3% to 6% to reach 7,4% in June 2022, the highest level since May 2009 while the 50-basis points interest rate increase by the SARB in May 2022 was the largest since January 2016. On a positive note, the South African government has removed all COVID-19-related restrictions and entry requirements for travellers as of 23 June 2022, which would support a recovery in business conditions and increased international tourists.

The impact of the flooding disaster in KwaZulu-Natal on vehicle production and exports along with the deteriorating global growth outlook and tighter global financial conditions dampened vehicle exports during the quarter. Vehicle export volumes to key markets such as Europe, the domestic automotive industry's top export region, further declined during the quarter in view of the region being first in line among advanced economies to be affected by the repercussions of the geopolitical conflict between Russia and the Ukraine due to its geographic proximity. Vehicle export prospects for the remainder of the year, however, remain optimistic on the back of further new locally manufactured model introductions.

**Fuel for thought flash**

Considering that 49,6% of the total automotive component export value, and 77,1% of the domestic automotive industry's vehicle export volume were destined for the EU in 2021, developments in the region, such as the transition to eco-friendly vehicles via government regulation by 2035, have a measurable and direct impact on the South African automotive industry.

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*  
20220822

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