

Friday, November 18, 2022

## REPRESENTATIVES AT GENERAL MEETINGS

## RECIPIENTS OF naamsa MEDIA RELEASES

### **RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 3RD 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 third 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: Third Quarter 2022

- The strong performance in new vehicle sales increasing by 16,9% compared to the corresponding quarter 2021 and 17,6% compared to the previous quarter should be seen in the context of the impact of the adverse economic disruptions that occurred during the third quarter 2021 and the recovery from the impact of the severe flooding in KwaZulu-Natal in the previous quarter 2022;
- New energy vehicle [NEV] sales by 13 industry brands increased by 29,1% from 738 units in the second quarter to 953 units in the third quarter 2022;
- Third quarter 2022 industry employment reflected an increase of 690 jobs to reach 34,300 positions at end September 2022;

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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

- Average industry capacity utilisation levels during the third quarter 2022 reflected an overall increase in line with the recovery in vehicle production following the impact of the KwaZulu Natal flooding disaster during the previous quarter;
- Aggregate capital expenditure by the major vehicle manufacturers in 2021 recorded its second highest level on record at R8,8 billion;
- South African vehicle production during the third quarter 2022 reflected a substantial increase of 49,2% compared to the corresponding quarter 2021 when vehicle production was negatively affected by the cyberattack on Transnet's operations as well as the adverse economic disruptions in the country at the time;
- Third quarter 2022 vehicle exports increased by a massive 92,2% compared to the corresponding quarter 2021 which was characterised by the cyberattack on Transnet's operations and force majeure declared which negatively impacted port operations at the Durban port and consequently the industry's vehicle export performance at the time; 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 third quarter 2022 compared to the third quarter 2021 as well as automotive business conditions and the country's economy in general for the next 6 months.

Friday, November 18, 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: 3RD 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 third 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 third quarter of 2022 may be set out as follows:

Period	Industry total
Last pay week July 2022	34,076
Last pay week August 2022	34,167
Last pay week September 2022	34,300

Industry employment levels and trends reflect employees on the payroll of vehicle manufacturers. Aggregate industry employment as at 30<sup>th</sup> September 2022 totalled 34,300 reflecting an increase of 690 jobs compared to the 33,610-industry head count as at the end of June 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
End of quarter 3, 2022	7,711

Aggregate independent vehicle importers employment as at 30<sup>th</sup> September 2022 totalled a head count of 7,711 reflecting an increase of 31 jobs, compared to the head count of 7,680 at the end of June 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 logistical challenges at the ports delaying raw material imports 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 and consequently the depreciating Rand exchange rate as well as the stronger US Dollar negatively impacted price trends during the quarter.

#### 3.2. Local components and raw materials

Increases in raw material prices such as steel, plastic and rubber were reported while load shedding at a supplier affected production at an OEM during the quarter. Raw material pricing trends remain a function of exchange rate movements and the global price index and a depreciating Rand exchange rate affected price trends negatively during the quarter.

### 4. UTILISATION OF PRODUCTION CAPACITY: 2018 - 2022 Q3

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

	Year 2018	Year 2019	Year 2020	Year 2021	1 <sup>st</sup> Quarter 2022	2 <sup>nd</sup> Quarter 2022	3 <sup>rd</sup> Quarter 2022	3 <sup>rd</sup> Quarter 2022 range [High] [Low]	
Cars	82.0%	89.4%	69.9%	73.5%	86.3%	61.1%	72.1%	96.0%	54.1%
Light Commercials	72.2%	75.8%	59.8%	58.3%	63.1%	46.3%	74.5%	100%	33.3%
Medium Commercials	66.9%	65.4%	37.4%	47.0%	67.4%	45.6%	88.5%	105.5%	60.0%
Heavy Commercials	60.6%	74.0%	50.0%	63.6%	80.2%	72.8%	94.7%	105.5%	68.0%

Average industry capacity utilisation levels increased during the third quarter 2022 compared to the second quarter 2022 in line with the recovery in vehicle production following the severe impact of the KwaZulu-Natal flooding disaster on vehicle production at the Toyota Prospecton plant along with associated road, rail, and Durban port disruptions. The performance continued to remain uneven amongst member companies in the various segments as the impact of the ongoing global semi-conductor shortage varies from OEM to OEM.

## 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>

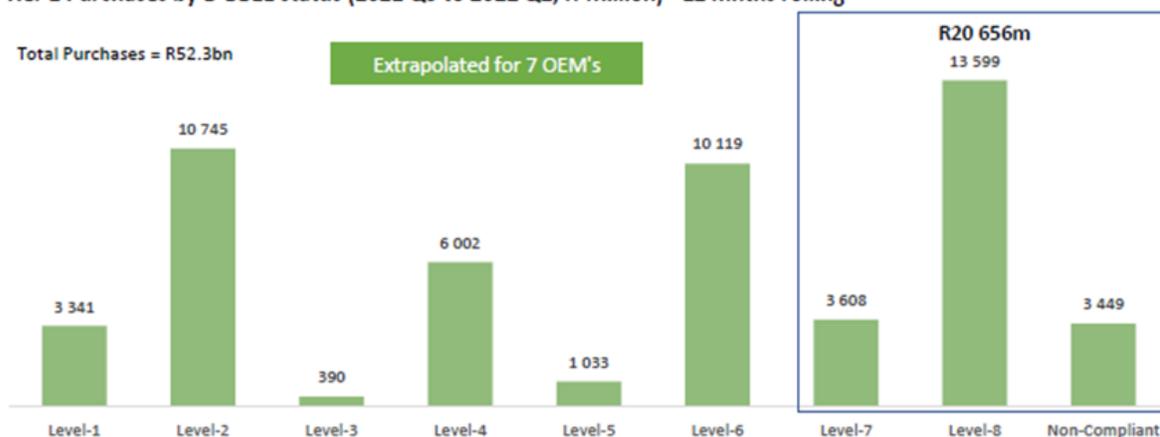
Capital expenditure of R8,8 billion in 2021 represented the second highest annual figure on record. The continued high levels in capital expenditure are due to investment projects by manufacturers in terms of the Automotive Production Development Programme [APDP] and APDP2, which are normally spread over multiple years and linked to higher levels of production for export markets. In view of the follow strategy applied by multinational component suppliers to follow the investments of the OEMs, the component sector invested a record R5,7 billion in 2021.

## 6. INDUSTRY TRANSFORMATION

Supply chain transformation globally refers to the technological innovation and digitization of an organisation's supply chain. Having a proficient supply chain operation is integral in business success. In the South African context this is further supplemented by the need for suppliers to achieve such new levels of efficiency with right B-BBEE profile. When APDP2 was published this was a consideration for the automotive industry and an expectation was placed for the supply chain to reach BBBEE level 6 by 2023.

Recognising how the two variables share a weighting in how industry achieves a faster and more cost-effective business operation, an exercise was completed to establish status core. The graph below reflects this status core, with 40% of the current Industry procurement spent, still with suppliers not meeting the B-BBEE level expectation.

Tier 1 Purchases by B-BBEE status (2021 Q3 to 2022 Q2, R-Million) - 12 mnths rolling



A silver lining and glimmer of hope for a better performance is the possibility of 30 Tier 1 Suppliers completing an Equity Equivalent Investment Programme and joining the AITF. This will improve the compliance level from the current 60% to 88%. Presenting a better coverage for 2024, when suppliers are expected to reach B-BBEE level 4 and the projection is for the supply chain performance to reach 80%. The implementation of the EEIP programme has, however, been slow paced with no noticeable progress for the past 8 months. Getting the process back on track not only would create predictability for the industry but it will also help industry save losses in Local Content which has a direct impact on Trade TRIM - PI and VALA.

## 7. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

### Business Conditions: Third quarter, 2022

2022 Third quarter aggregate industry new passenger car sales at 94,231 units recorded an increase of 16,479 units, or a gain of 21,2% compared to the 77,752 new passenger cars sold during the corresponding quarter of 2021. Aggregate industry commercial vehicle sales during the third quarter of 2022, at 43,730 units, recorded an increase of 3,490 units, or a gain of 8,7% compared to the 40,240 units sold during the third quarter of 2021.

Industry domestic sales growth: Direction and extent of change [previous quarter's percentage changes are reflected in brackets]				
	Qtr. ended 30 September 2022 compared with <u>previous Qtr. ended</u> <u>30 June 2022</u>		Qtr. ended 30 September 2022 compared with <u>corresponding Qtr.</u> <u>ended 30 September 2021</u>	
Passenger Cars	+14.0%	[-11.7%]	+21.2%	[+15.9%]
Light Commercial vehicles	+27.9%	[-22.8%]	+7.5%	[-18.5%]
Medium Commercial vehicles	+36.3%	[-3.8%]	+12.9%	[-2.3%]
Heavy Commercial vehicles	+19.5%	[+4.6%]	+14.0%	[-0.2%]
Buses	+25.6%	[+75.3%]	+10.2%	[-1.2%]

Aggregate new vehicle sales during the third quarter 2022 recorded an increase of 16,9% compared to the corresponding quarter 2021 and a gain of 17,6% compared to the second quarter 2022. The strong performance of the passenger car segment during the third quarter 2022 compared to the corresponding quarter 2021 related to higher passenger car imports as well as sound seasonal support from the vehicle rental companies.

The strong performance of the third quarter 2022 compared with the third quarter 2021 should be viewed in the light of the impact of the adverse economic disruptions and the cyberattack on Transnet’s operations at the time. Compared with the second quarter 2022, the new vehicle market recovered from the impact of the severe floods in KwaZulu-Natal on vehicle production and sales as well as the consequent logistics challenges at the Durban port.

During the third quarter 2022, new energy vehicle [NEV] sales by 13 industry brands increased by 29,1% from 738 units in the second quarter to 953 units in the third quarter 2022.

The following table reveals the diversity of drivetrain sales in the South African NEV landscape from 2017 through to 2022 Q3.

	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	1 <sup>st</sup> Quarter 2022	2 <sup>nd</sup> Quarter 2022	3 <sup>rd</sup> Quarter 2022
Plug-in hybrid	121	89	72	77	51	32	50	22
Traditional hybrid	182	55	181	155	627	1,257	593	788
Electric	68	58	154	92	218	112	95	143
<b>Total NEVs</b>	<b>371</b>	<b>202</b>	<b>407</b>	<b>324</b>	<b>896</b>	<b>1,401</b>	<b>738</b>	<b>953</b>

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. Industry is awaiting clarity from government on the outcome of the recommendations to stimulate demand and to manufacture NEVs and NEV components in the country.

## SA 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 SA's share of global vehicle production: 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.

Third quarter 2022 domestic vehicle production reflected a huge increase of 49,2% compared to the corresponding quarter 2021. The significant increases in vehicle production in all segments of the market during the third quarter 2022 compared to the third quarter 2021 reflect the negative impact on vehicle production relating to the adverse economic disruptions, cyberattack on Transnet's operations resulting in a force majeure declared as well as level 4 lockdown restrictions in the country at the time.

The following table reflects South Africa's domestic vehicle production for 2018 to 2022 Q3.

	2018	2019	2020	2021	2021 Q3	2022 Q3	% Change Q3 2022 / Q3 2021
Passenger Cars	320,383	348,665	237,214	239,267	45,721	80,667	+76,4%
LCVs	261,086	254,417	185,691	232,166	47,086	60,341	+28,2%
MCVs	8,072	8,803	6,874	7,643	2,116	2,386	+12,8%
HCVs	5,590	5,220	4,208	5,151	1,357	1,653	+21,8%
XHCVs	13,751	13,817	11,484	14,175	3,764	4,294	+14,1%
Buses	1,178	999	745	685	196	213	+8,7%
	<b>610,060</b>	<b>631,921</b>	<b>446,216</b>	<b>449,087</b>	<b>100,240</b>	<b>149,554</b>	<b>+49,2%</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 - 2018 to 2022 Q3

	2018	2019	2020	2021	Q3 2021	Q3 2022	% change Q3 2022 / Q3 2021
Europe	233,772	285,599	197,355	229,672	36,610	71,790	+96,1%
Asia	50,277	39,879	29,440	24,170	4,296	10,435	+142,9%
Africa	23,988	23,382	16,987	21,825	5,019	4,967	-1,0%
Australasia	22,767	17,350	13,698	10,621	2,323	3,104	+33,6%
North America	13,037	13,540	9,463	7,981	1,005	6,191	+516,0%
Central America	1,511	5,651	3,156	3,045	462	801	+73,4%
South America	5,787	1,691	1,188	706	72	401	+456,9%
<b>Total</b>	<b>351,139</b>	<b>387,092</b>	<b>271,287</b>	<b>298,020</b>	<b>49,787</b>	<b>97,689</b>	<b>+92,2%</b>

During the third quarter 2022 vehicle exports increased by 92,2% to 97,689 units compared to the 49,787 units exported in the corresponding quarter 2021. Vehicle exports during the corresponding quarter 2021 were distorted by the cyberattack on Transnet's operations and the force majeure declared which negatively impacted port operations at the Durban port and consequently the industry's vehicle export performance during the quarter.

## 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 as well as the country's economy in general.

3<sup>rd</sup> Quarter 2022 vs 3<sup>rd</sup> Quarter 2021

Performance indicator	Up	Same	Down
Domestic new vehicle sales	70%	30%	-
Vehicle export sales	88.9%	11.1%	-
Vehicle production volumes	88.9%	11.1%	-
Vehicle import volumes	70%	30%	-
Employment – vehicle manufacturing	40%	50%	10%
Capacity utilisation	66.7%	33.3%	-
Investment expenditure	20%	80%	-
General new vehicle business conditions	70%	10%	20%

The sentiment expressed by the **naamsa** CEOs generally reflect the improvement in the industry's key performance indicators during the third quarter 2022 compared to the corresponding quarter 2021 which was curtailed by economic disruptions caused by the civil unrest in KwaZulu-Natal and Gauteng, the cyberattack on Transnet's operations leading to a force majeure as well as the adjusted level 4 lockdown restrictions in the country at the time. The industry also recovered from the impact of the KwaZulu-Natal flooding disaster along with major logistics challenges experienced during the previous quarter. However, trading conditions have become increasingly challenging as aggressive interest rate increases to curb elevated inflation continued during the quarter which has put a damper on the ability and willingness to purchase new vehicles.

### Next 6 months

Performance indicator	Up	Same	Down
Domestic new vehicle sales	55.6%	33.3%	11.1%
Vehicle export sales	66.7%	33.3%	-
Vehicle production volumes	77.8%	22.2%	-
Vehicle import volumes	66.7%	33.3%	-
Employment – vehicle manufacturing	22.2%	66.7%	11.1%
Capacity utilisation	44.4%	55.6%	-
Investment expenditure	11.1%	88.9%	-
General new vehicle business conditions	33.3%	44.5%	22.2%

The **naamsa** CEOs remain optimistic that 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. The new vehicle market's performance is expected to remain resilient despite weakening domestic economic indicators as a result of load shedding, a downward revision of the domestic growth outlook for 2022 and 2023, and a deteriorating global growth outlook. The ongoing global semi-conductor shortage will also continue to dampen the industry's ability to take advantage of the demand that exists.

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

The new vehicle market's strong performance during the third quarter compared to the corresponding quarter 2021 should be viewed in the context of the adverse economic disruptions, cyberattack on Transnet's operations as well as the adjusted level 4 lockdown restrictions impacting on the industry's performance at the time. The industry also recovered from the impact of the severe floods in KwaZulu-Natal and consequent logistics challenges experienced during the previous quarter. However, during the quarter annual consumer inflation reached a 13-year high, increasing to 7,8% along with the sixth consecutive increase in interest rates since November 2021. September 2022 was also by far the worst month of the year in terms of the cumulative amount of load-shedding. The higher stages of load-shedding seem to have an amplified negative impact on production and the South African economy as a whole. The recovery in business and leisure travel was, however, providing some support to the new vehicle market to counter the growing pressures on household incomes.

Vehicle exports continued their strong upward momentum during the quarter. However, global economic conditions have deteriorated significantly given persistently high inflation and aggressive interest rate hikes in many advanced and developing countries. The risks to export sales therefore reside on the downside but growth prospects for domestic vehicle exports remain optimistic on the back of new locally manufactured model introductions during the fourth quarter 2022.



**FUEL FOR THOUGHT FLASH**

*For the first nine months of 2022 a total of 3,092 NEVs have been sold, representing an increase of 245,1% compared to the total of 896 NEVs sold during the full year 2021.*

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**  
Chief Executive Officer  
naamsa | The Automotive Business Council