

Tuesday, February 21, 2023

REPRESENTATIVES AT GENERAL MEETINGS
RECIPIENTS OF naamsa MEDIA RELEASES

**RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE
MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 4TH 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 fourth quarter of 2022, as submitted to the Director-General, Department of Trade, Industry and Competition.

Industry vehicle sales, export, and import statistics for 2014 through 2022, together with current projections for 2023 and 2024, are reflected on the attachment to the submission.

KEY FEATURES: FOURTH QUARTER 2022

- New vehicle sales increased by 16,0% compared to the corresponding quarter 2021 but only by 0,1% compared to the previous quarter 2022 highlighting the above expectations performance in 2022 but at the same time the impact of supply chain disruptions and economic pressures on the new vehicle market;
- New energy vehicle [NEV] sales by 15 industry brands increased by 66,0% from 953 units in the third quarter to 1,583 units in the fourth quarter 2022 and year-on-year by a significant 431,7% in 2022;
- Fourth quarter 2022 industry employment reflected a decline of 823 jobs to reach 33,477 positions at end December 2022 but still reflected an overall positive performance for the full year;
- Average industry capacity utilisation levels during the fourth quarter 2022 continued to recover from the severe impact of the KwaZulu-Natal flooding disaster earlier in the year despite a Transnet strike and consequent force majeure declared along with persistent loadshedding during the quarter;
- Aggregate capital expenditure by the major vehicle manufacturers in 2022 amounted to R7,1 billion, linked to new generation model investments;

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Non-Executive Directors: Neale HILL [President] | Billy TOM [Vice-President: Manufacturing OEMs] | Gary SCOTT [Vice-President: Retailing OEMs] |
Filip VAN DEN HEEDE [Vice-President: Heavy Commercial OEMs] | Andrew KIRBY [Immediate Past President]

Executive Director: Mikel MABASA [Chief Executive Officer]

Registered Information: **naamsa** NPC, trading as The Automotive Business Council
Registration No.: 2021/358607/08 | VAT No.: 4750308951 | PBO No.: 930/023/609

- Fourth quarter 2022 domestic vehicle production reflected an increase of 25,7% compared to the corresponding quarter 2021, with all segments reflecting growth in line with higher domestic demand and export growth;
- During the fourth quarter 2022 vehicle exports increased by 31,1% to 88,394 units compared to the 67,410 units exported in the corresponding quarter 2021, despite a deteriorating global economic environment;
- 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 2022 compared to the fourth quarter 2021 as well as automotive business conditions and the country's economy in general for the next 6 months.

Tuesday, February 21, 2023

Mme Malebo MABITJE-THOMPSON

Acting Director-General
Department of Trade, Industry and Competition
Private Bag X84
PRETORIA
0001

RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 4TH QUARTER 2022

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 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 fourth quarter of 2022 may be set out as follows:

PERIOD	INDUSTRY TOTAL
Last pay week October 2022	33,811
Last pay week November 2022	33,745
Last pay week December 2022	33,477

Industry employment levels and trends reflect employees on the payroll of vehicle manufacturers. Aggregate industry employment as at 31st December 2022 totalled 33,477 reflecting a decline of 823 jobs compared to the 34,300-industry head count as at the end of September 2022. The average monthly vehicle manufacturing industry employment number for 2022 was 33,321 compared to the 30,697 in 2021. Employment in the vehicle manufacturing industry is generally linked to production and the substantial increase in employment in 2022 was in line with the recovery in vehicle production to pre-pandemic levels as well as supported by the launch of new generation models by some OEMs for the period under review.

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
End of quarter 4, 2022	7,610

Aggregate independent vehicle importers employment as at 31st December 2022 totalled a head count of 7,610 reflecting a decline of 101 jobs, compared to the head count of 7,711 as at the end of September 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
2022	R54.3 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

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 due to a Transnet strike and consequent force majeure declared during the quarter as well as the ongoing global shortage of semi-conductors, which impacted on vehicle manufacturing operations. 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, unionised labour rate increases, persistent loadshedding, the ongoing global semi-conductor shortage as well as the Transnet strike affected vehicle production during the quarter. Raw material pricing trends remain a function of exchange rate movements and the global price index.

4. UTILISATION OF PRODUCTION CAPACITY: 2019 - 2022 Q4

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

	Year 2019	Year 2020	Year 2021	Year 2022	Q1: 2022	Q2: 2022	Q3: 2022	Q4: 2022	Q4: 2022 Range [High] [Low]	
Cars	89.4%	69.9%	73.5%	75.5%	86.3%	61.1%	72.1%	82.3%	90.6%	76.5%
Light Commercials	75.8%	59.8%	58.3%	65.2%	63.1%	46.3%	74.5%	76.7%	100%	33.3%
Medium Commercials	65.4%	37.4%	47.0%	69.1%	67.4%	45.6%	88.5%	74.7%	100%	40.0%
Heavy Commercials	74.0%	50.0%	63.6%	83.8%	80.2%	72.8%	94.7%	87.4%	100%	60.0%

Average industry capacity utilisation levels during the fourth quarter 2022 continued to recover from the severe impact of the KwaZulu-Natal flooding disaster during the second quarter of the year, despite a Transnet strike and consequent force majeure declared along with persistent loadshedding during the quarter. In addition, the impact of the ongoing global semi-conductor shortage varied from OEM to OEM and therefore the performance continued to remain uneven amongst member companies in the various segments.

VEHICLE MANUFACTURING INDUSTRY CAPITAL EXPENDITURE: 2016 - 2022

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 2016 through 2022, in Rand millions, are as follows:

CAPITAL EXPENDITURE	2016	2017	2018	2019	2020	2021	2022
Product/Local/Content/ Export Investment/ Production Facilities	5,146.1	7,144.6	5,779.5	6,705.8	7,296.2	4,910.8	6,443.9
Land and Buildings	905.0	301.4	1 202.4	234.5	1,558.1	3,641.4	203.8
Support Infrastructure [I.T., R&D, Technical, etc]	363.5	724.6	265.0	334.0	377.4	248.5	464.6
TOTAL	6,414.6	8,170.6	7,246.9	7,274.3	9,231.7	8,800.7	7,112.3

Capital expenditure amounted to R7,1 billion in 2022. 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 new generation model investments and higher levels of production for export markets.

5. 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 was 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 focus 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 APDP2 requirements to be at Level 4 or better by December 2022.

	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

6. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

Business Conditions: Fourth Quarter - 2022

2022 Fourth Quarter aggregate industry new passenger car sales at 93,156 units recorded an increase of 12,387 units, or a gain of 15,3% compared to the 80,769 new passenger cars sold during the corresponding quarter of 2021. Aggregate industry commercial vehicle sales during the fourth quarter of 2022, at 44,905 units, recorded an increase of 6,684 units, or a gain of 17,5% compared to the 38,221 units sold during the fourth quarter of 2021.

INDUSTRY DOMESTIC SALES GROWTH: DIRECTION AND EXTENT OF CHANGE [PREVIOUS QUARTER'S PERCENTAGE CHANGES ARE REFLECTED IN BRACKETS]				
	Qtr. ended 31 December 2022 compared with <u>previous Qtr.</u> ended 30 September 2022		Qtr. ended 31 December 2022 compared with <u>corresponding Qtr.</u> ended 31 December 2021	
Passenger Cars	-1.1%	[+14.0%]	+15.3%	[+21.2%]
Light Commercial vehicles	+3.6%	[+27.9%]	+17.3%	[+7.5%]
Medium Commercial vehicles	+4.8%	[+36.3%]	+23.4%	[+12.9%]
Heavy Commercial vehicles	-4.1%	[+19.5%]	+15.5%	[+14.0%]
Buses	+12.1%	[+25.6%]	+40.9%	[+10.2%]

Aggregate new vehicle sales during the fourth quarter 2022 recorded an increase of 16,0% compared to the corresponding quarter 2021 and a gain of only 0,1% compared to the third quarter 2022.

The strong performance of all the vehicle segments during the fourth 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 weak performance of the fourth quarter 2022 compared with the previous quarter 2022 should be viewed considering the higher inflationary pressures and higher interest rate environment reducing disposable income along with the persistent power outages dampening consumer and business sentiment.

During the fourth quarter 2022, new energy vehicle [NEV] sales by 15 industry brands increased by 66,0% from 953 units in the third quarter to 1,582 units in the fourth quarter 2022. Overall, NEV sales reflected a significant year-on-year increase of 431,7% from 896 units in 2021 to 4,764 units in 2022. The following table reveals the diversity of drivetrain sales in the South African NEV landscape from 2018 through to 2022 Q4.

	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	1 st Quarter 2022	2 nd Quarter 2022	3 rd Quarter 2022	4 th Quarter 2022
Plug-in hybrid	89	72	77	51	122	32	50	22	18
Traditional hybrid	55	181	155	627	4,050	1,257	593	788	1,412
Electric	58	154	92	218	502	112	95	143	152
Total NEVs	202	407	324	896	4,764	1,401	738	953	1,582

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 2021 **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 during the February 2023 Budget Speech on the outcome of the recommendations to stimulate demand and to manufacture NEVs and NEV components in the country.

South African Automotive Industry's Performance in a Global Context: 2016 - 2022 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 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 Africa's global vehicle production ranking improved to 21st in 2021, up from 22nd in 2020, and its global market share increased to 0,62%. In terms of global LCV [bakkie] production, South Africa was ranked 14th 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. In 2022, South African vehicle production increased by 56,802 units, or 11,4%, from 499,087 units produced in 2021 to 555,889 units in line with the stronger domestic new vehicle market and vehicle export performance.

Fourth quarter 2022 domestic vehicle production reflected an increase of 25,7% compared to the corresponding quarter 2021. Fourth quarter 2022 vehicle production continued to recover from the impact of the devastating floods in KwaZulu-Natal but was affected by a Transnet strike and consequent force majeure declared during the quarter. All the segments reflected growth compared to the corresponding quarter 2021, which was affected by a three-week strike in the steel and engineering sector at the time.

The following table reflects South Africa's domestic vehicle production for 2018 to 2022 Q4.

	2018	2019	2020	2021	2022	2021 Q4	2022 Q4	% change Q4 2022 / Q4 2021
Passenger Cars	320,383	348,665	237,214	239,267	309,423	52,754	78,708	+49.2%
LCVs	261,086	254,417	185,691	232,166	215,472	55,698	58,094	+4.3%
MCVs	8,072	8,803	6,874	7,643	8,478	2,019	2,546	+26.1%
HCVs	5,590	5,220	4,208	5,151	6,270	1,345	1,535	+14.1%
XHCVs	13,751	13,817	11,484	14,175	15,501	3,549	4,133	+16.5%
Buses	1,178	999	745	685	745	168	233	+38.7%
	610,060	631,921	446,216	449,087	555,889	115,533	145,249	+25.7%

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. Access to global markets has been enhanced through bilateral trade arrangements with South Africa's major trading partners in the European Union, the UK, the Southern African Development Community [SADC] and the USA. In 2022, Europe, accounting for a substantial 255,709 vehicles, or 72,7% of the total export volume, or nearly three out of every four vehicles exported, continued to dominate as a region.

Industry export performance by major region – 2018 to 2022 Q4

	2018	2019	2020	2021	2022	Q4 2021	Q4 2022	% change Q4 2022 / Q4 2021
Europe	233,772	285,599	197,355	229,672	255,709	53,424	64,733	+21.2%
Asia	50,277	39,879	29,440	24,170	35,154	3,925	8,727	+122.3%
Africa	23,988	23,382	16,987	21,825	22,564	5,912	5,878	-0,6%
North America	13,037	13,540	9,463	7,981	21,684	1,827	4,429	+142.4%
Australasia	22,767	17,350	13,698	10,621	12,389	1,506	3,498	+132.3%
Central America	1,511	5,651	3,156	3,045	2,759	635	757	+19.2%
South America	5,787	1,691	1,188	706	1,527	181	372	+105.5%
Total	351,139	387,092	271,287	298,020	351,786	67,410	88,394	+31.1%

During the fourth quarter 2022 vehicle exports increased by 31,1% to 88,394 units compared to the 67,410 units exported in the corresponding quarter 2021. The knock-on effects of the cyberattack on Transnet's operations and the force majeure declared at the time were still visible on vehicle exports during the fourth quarter 2021 while the fourth quarter 2022 export performance was affected by a Transnet strike and consequent force majeure declared.

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.

4th Quarter 2022 vs 4th Quarter 2021

Performance Indicator	Up	Same	Down
Domestic new vehicle sales	58%	17%	25%
Vehicle export sales	55%	27%	18%
Vehicle production volumes	46%	36%	18%
Vehicle import volumes	55%	18%	27%
Employment – vehicle manufacturing	18%	82%	-
Capacity utilisation	55%	27%	18%
Investment expenditure	33%	34%	33%
General new vehicle business conditions	42%	50%	8%

The sentiment expressed by the **naamsa** CEOs generally reflect the improvement in the industry's key performance indicators compared to the corresponding quarter 2021 but also recognising the myriad of negative economic pressures during the fourth quarter 2022. In addition to rising interest rates, drastic levels of load shedding, a weak economy and ongoing stock supply shortages, a Transnet strike resulted in a consequent force majeure declared with associated supply chain disruptions during the quarter. The industry, however continued to recover from the impact of the KwaZulu-Natal flooding disaster on vehicle production and logistics challenges.

Next 6 months

Performance Indicator	Up	Same	Down
Domestic new vehicle sales	67%	25%	8%
Vehicle export sales	73%	27%	-
Vehicle production volumes	70%	30%	-
Vehicle import volumes	82%	18%	-
Employment – vehicle manufacturing	9%	91%	-
Capacity utilisation	45%	55%	-
Investment expenditure	8%	67%	25%
General new vehicle business conditions	33%	50%	17%

The **naamsa** CEOs remain cautiously optimistic about prospects relating to the automotive industry's key performance indicators over the next six months, despite a deteriorating domestic and global economic environment. New vehicle business conditions are expected to remain challenging due to persistent and higher stages of power outages, ongoing inflationary pressures and a higher interest rate environment reducing disposable income and dampening consumer and business sentiment. Many downside risks to growth persist and the new vehicle market's renowned resilience will again be duly tested in 2023.

Brief Comment on business conditions and the medium-term outlook

Despite a depressed economy, structural economic problems and cost of living increases, the new vehicle market continued to outperform expectations during the fourth quarter 2022. However, business conditions continued to be challenging as the South African Reserve Bank raised interest rates for the eighth consecutive time since November 2021 during the quarter as part of its most aggressive monetary policy tightening cycle in at least two decades aiming to tame inflation by suppressing demand in the economy.

Furthermore, a Transnet strike during the quarter resulted in a consequent force majeure declared with associated supply chain disruptions as well as severe costs to the economy. However, leading up to the festive season, the recovery in business and leisure travel provided some support to the new vehicle market to counter the growing pressures on household incomes. As far as 2023 is concerned, the same challenges that confronted the economy and the automotive industry in 2022 would be carried over into the year ahead.

The Reserve Bank has adjusted the country's GDP growth rate for 2023 down to only 0,3% due to extensive load-shedding and other logistical constraints. The Bank estimated that loadshedding would deduct as much as 2 percentage points from growth in 2023. It is anticipated that unpredictability in the new vehicle market will prevail but that sales would exceed the pre-COVID19 level in 2023.

Vehicle exports continued their upward momentum during the quarter despite the logistical disruptions caused by the Transnet strike and consequent force majeure declared. The impact of the economic downturn, the protracted geopolitical conflict risks as well as loadshedding, the latter not only impacting on the cost but also the ability to do business in South Africa, remain major concerns for 2023. However, prospects for vehicle export growth remain optimistic on the back of further new model introductions by major exporters in the domestic market.



Fuel for thought flash

Sales of battery electric vehicles breached the 500 units per year mark in South Africa for the first time ever with sales of 502 units in 2022.

The standard attached schedule reflects updated industry sales, production, export and import numbers. Projections include forecasts for 2023 and 2024.

Kind regards,



Mikel M. Mabasa
20230221

Mikel M. MABASA
Chief Executive Officer
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