naamsa
THE AUTOMOTIVE BUSINESS COUNCIL

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Our Strategy: Re-imagining the future, TOGETHER

Friday May 19, 2023

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

RE: QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 1ST QUARTER 2023

Ladies and Gentlemen,

Attached is a copy of **naamsa**'s quarterly review of business conditions for the South African motor vehicle manufacturing industry, during the first quarter of 2023, 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: FIRST QUARTER 2023

- New vehicle sales during the first quarter 2023 recorded an increase of 1,6% compared to the corresponding quarter 2022 and a gain of 0,2% compared to the fourth quarter 2022, reflecting a stressed business and consumer environment;
- New energy vehicle [NEV] sales by 14 industry brands increased by 18,8% from 1,401 units in the first quarter 2022 to 1,665 units in the first quarter 2023;
- First quarter 2023 aggregate industry employment as at 31st March 2023 totalled 33,392 reflecting a decline of 85 jobs compared to the 33,477-industry head count as at the end of December 2022;
- Average industry capacity utilisation levels during the first quarter 2023 continued to reflect the recovery to pre-pandemic levels but the ongoing global semi-conductor shortage impact OEMs differently while loadshedding and unplanned outages also impacted the operating conditions of the companies in the various segments;
- Aggregate capital expenditure by the major vehicle manufacturers in 2022 amounted to R7,1 billion, linked to new generation model investments;

- First quarter 2023 domestic new vehicle sales reflected a decline of 1,1% compared to the corresponding quarter 2022 with the passenger car segment declining by 7,5% but the light commercial vehicle segment increasing by 6,8%, the latter supported by new domestically manufactured model introductions;

- During the first quarter 2023 vehicle exports declined by 4,0% to 84,811 units compared to the 88,363 units exported in the corresponding quarter 2022 as the performance continued to be affected by the stagflationary shock amplified by the protracted Russia/Ukraine geopolitical conflict; 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 first quarter 2023 compared to the first quarter 2022 as well as automotive business conditions and the country's economy in general for the next 6 months.

Friday, May 19, 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: 1ST QUARTER 2023

Dear Mme MABITJE-THOMPSON,

naamsa 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 first quarter of 2023.

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 first quarter of 2023 may be set out as follows:

PERIOD	INDUSTRY TOTAL
Last pay week January 2023	33,272
Last pay week February 2022	33,487
Last pay week March 2022	33,392

Industry employment levels and trends reflect employees on the payroll of vehicle manufacturers. Aggregate industry employment as at 31st March 2023 totalled 33,392 reflecting a decline of 85 jobs compared to the 33,477 - industry head count as at the end of December 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
End of quarter 1, 2023	7,402

Aggregate independent vehicle importers employment as at 31st March 2023 totalled a head count of 7,402 reflecting a decline of 208 jobs, compared to the head count of 7,610 as at the end of December 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 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

Persistent loadshedding, unplanned power outages and inflationary pressures along with the ongoing global semi-conductor shortage continued to result in supply chain disruptions and increased costs in the domestic supply chain. 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	1st Quarter 2023	1st[h] Quarter 2023 range	
						[High]	[Low]
Cars	89.4%	69.9%	73.5%	75.5%	91.5%	100%	82.5%
Light Commercials	75.8%	59.8%	58.3%	65.2%	77.2%	100%	33.3%
Medium Commercials	65.4%	37.4%	47.0%	69.1%	70.5%	100%	40.0%
Heavy Commercials	74.0%	50.0%	63.6%	83.8%	84.7%	100%	60.0%

Average industry capacity utilisation levels during the first quarter 2023 continued to reflect the recovery to pre-pandemic levels but the ongoing global semi-conductor shortage impact OEMs differently while loadshedding and unplanned outages also impacted the operating conditions of the 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

The role of the automotive in driving industrial development in South Africa cannot be understated. Thus, establishing a long-term BBBEE compliance solution in the upstream – covering both suppliers and MHCV assemblers, is important. In the first quarter of 2023, industry stakeholders have wrestled with the subject of industry transformation in both BBBEE terms and technological terms.

These conversations covered subjects such as:

- Supply chain transformation where out of 198 Tier 1 Suppliers, 97 are at Level 1-6, 45 at level 7 to 8 and 56 non-compliant - reflecting a compliance runway of 141 Tier 1 suppliers to cross over the BBBEE line to level 4;

- MCHCV compliance where only 2 out of 8 MHCV companies receiving Rebate 317.07 are currently complying with the BBBEE Level 4 requirement to access the rebate, and the framework for compliance is not supported by current production volumes;

- Deepening Tier 2/3 participation where the potential for empowerment and new entrepreneurial entry into the market by Black participants is heightened;

- The impact of industry standard material suppliers, raw material producers, on the industry’s supply chain's ability to be compliant. A critical factor to consider, with the advent of domestic battery production, which will introduce a new bouquet of standard material suppliers to the industry;

- Investment mobilisation for new technology suppliers as part of building local New Energy Vehicle production is important and the impact of BBBEE on investment support and subsidy programmes is crucial; and

- There is also consideration for the fit of the standard Generic BBBEE scorecard on the various segments of the automotive upstream, which is an outstanding conversation.

In the evolution of the industry over the past decade, several developments have become crucial in anchoring transformation performance. This included the Transformation Capital fund system developed by Equity Banks who have solutions for the Ownership challenges in the market. However, a government-industry success story is the establishment of the Automotive Industry Transformation Fund [AITF] which has played a crucial role in OEM compliance and presents a set of new possibilities for the challenges highlighted above.

These subjects and many more take center at the **naamsa** | Thought Leadership Roundtable scheduled to take place on 22 June 2023 in Melrose Arch, as industry, government and partners begin to have meaningful dialogue on the development of industry and the subject of Transformation beyond compliance. The gathering is dubbed, “Drivers of Change”.

6. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

Business Conditions: First Quarter: 2023

2023 First quarter aggregate industry new passenger car sales at 92,247 units recorded a decline of 1,397 units, or a fall of 1,5% compared to the 93,644 new passenger cars sold during the corresponding quarter of 2022. Aggregate industry commercial vehicle sales during the first quarter of 2023, at 46,057 units, recorded an increase of 3,509 units, or a gain of 8,3% compared to the 42,548 units sold during the first quarter of 2022.

Industry domestic sales growth: Direction and extent of change [previous quarter's percentage changes are reflected in brackets]				
	Qtr. ended 31 March 2023 compared with previous Qtr. ended 31 December 2022		Qtr. ended 31 March 2023 compared with corresponding Qtr. ended 31 March 2022	
Passenger Cars	-1,0%	[-1.1%]	-1,5%	[+15.3%]
Light Commercial vehicles	+6,1%	[+3.6%]	+8,3%	[+17.3%]
Medium Commercial vehicles	-17,8%	[+4.8%]	+13,0%	[+23.4%]
Heavy Commercial vehicles	-15,0%	[-4.1%]	-10,2%	[+15.5%]
Extra Heavy Commercials	-6,3%	[-4,4%]	+11,9%	[+15,8%]
Buses	-48,5%	[+12.1%]	+28,0%	[+40.9%]

Aggregate new vehicle sales during the first quarter 2023 recorded an increase of 1,6% compared to the corresponding quarter 2022 and a gain of only 0,2% compared to the fourth quarter 2022. The mixed performance of the vehicle segments during the first quarter 2023 compared to the corresponding quarter 2022 reflects the stressed consumer environment with the passenger car segment remaining under pressure in view of higher interest rates and cost of living increases and the heavy commercial vehicle segments mirroring economic activity affected by load shedding and business sentiment in the country. The light commercial vehicle segment, however, benefitted from new domestically manufactured bakkie launches supporting the segment.

During the first quarter 2023, new energy vehicle [NEV] sales by 14 industry brands increased by 18,8% from 1,401 units in the first quarter 2022 to 1,665 units in the first quarter 2023. Overall, NEV sales reflected a significant year-on-year increase of 421,7% from 896 units in 2021 to 4,674 units in 2022, comprising 0,88% of total new vehicle sales.

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	1st Quarter 2022	1st Quarter 2023
Plug-in hybrid	89	72	77	51	122	32	25
Traditional hybrid	55	181	155	627	4,050	1,257	1,408
Electric	58	154	92	218	502	112	232
Total NEVs	**202**	**407**	**324**	**896**	**4,764**	**1,401**	**1,665**

The DTIC published Green Paper on the advancement of new energy vehicles in South Africa in May 2021 highlighted that the NEV challenge in South Africa was two dimensional, encompassing both demand and supply side considerations, and that it was an inevitable transition for the South African automotive industry in the global race to transition from the internal combustion engine [ICE] era, into electro-mobility solutions and technologies. In its comprehensive NEV Thought Leadership Paper to support and strengthen the country's long-term strategy towards NEVs released in February 2023, **naamsa** concluded that consumers are becoming smarter and technologically more educated and are demanding newer technology vehicles at a modest price.

However, despite lower running costs, the high upfront purchasing cost of NEVs [linked to higher production costs, mainly related to battery production] has been the main inhibitor to increased NEV uptake in South Africa. This is exacerbated by the effects of the value-added tax [VAT]; the ad valorem excise duty based on a sliding scale up to 30%, and the import tariff; limited product availability; and awareness issues emanating from range anxiety, security of electricity supply and a limited understanding of the technology. Driving a meaningful NEV transition in South Africa will require a careful balance between incentivising a sustained shift in domestic market demand to NEVs; establishing an appropriately aligned, renewable energy-based charging infrastructure; and supporting a shift in South African vehicle production, away from ICE vehicles to a mix of hybrid electric vehicles [HEVs], plug-in hybrid electric vehicles [PHEVs], and battery electric vehicles [BEVs]. The **naamsa** NEV Thought Leadership Paper can be accessed at naamsa.net/nevs-thought-leadership-discussion.

South African Automotive Industry's Performance in a Global Context: 2016 - 2022 production data. In 2022, the beleaguered global automotive industry, already reeling from the supply chain and semi-conductor shortage crises, witnessed further shocks due to the geopolitical conflict between Ukraine and Russia. The entire automotive value chain, including raw material sourcing, component production, vehicle manufacturing, and sales, was impacted. Global vehicle production increased by 6,0% to reach 85,02 million vehicles in 2022, up from the 80,21 million units produced in 2021, but was still 7,7% below the pre-pandemic level of 92,12 million vehicles in 2019.

The following table reflects South Africa's share of global vehicle production for 2016 to 2022 [in millions].

	2016	2017	2018	2019	2020	2021	2022	% change 2022 / 2021
Global Production	95.06	96.67	96.87	92.18	77.71	80.21	85.02	+6,0%
South Africa Production	0.600	0.601	0.61	0.63	0.45	0.50	0.56	+11,4%
SA Share of Global Production	0.63%	0.62%	0.64%	0.69%	0.58%	0.62%	0.65%	+4,8%

South African vehicle production increased by 11,8%, from 499,087 units produced in 2021 to 555,889 units produced in 2022, exceeding the global year-on-year increase in global vehicle production of 6,0% in 2022. The country's global vehicle production market share thus increased to 0,65%, but its global vehicle production ranking declined to 22nd as Malaysia, ranked at number 20, surpassed South Africa's in the global rankings. In terms of global LCV production, South Africa was ranked 16th with a market share of 1,1%. South Africa remained the dominant market on the African continent, and accounted for 555,889 vehicles, or 54,4% of the total African vehicle production of 1,022,783 vehicles in 2022.

First quarter 2023 domestic vehicle production reflected a decline of 1,1% compared to the corresponding quarter 2022. Vehicle production in the passenger car segment declined by 7,5% in the first quarter 2023 compared to the corresponding quarter 2022, reflecting the weak macro-economic climate in the country as well as a deteriorating global economy impacting on export sales. Light commercial vehicle production was supported by new domestically manufactured model introductions while in the heavy commercial vehicle segment the mixed performance reflected rail transport inefficiencies and increased business activities in some sectors of the economy.

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

	2018	2019	2020	2021	2022	2022 Q1	2023 Q1	% change Q1 2023 / Q1 2022
Passenger Cars	320,383	348,665	237,214	239,267	309,423	80,649	74,630	-7,5%
LCVs	261,086	254,417	185,691	232,166	215,472	55,928	59,732	+6,8%
MCVs	8,072	8,803	6,874	7,643	8,478	1,812	2,076	+14,6%
HCVs	5,590	5,220	4,208	5,151	6,270	1,444	1,322	-8,5%
XHCVs	13,751	13,817	11,484	14,175	15,501	3,459	3,882	+12,2%
Buses	1,178	999	745	685	745	96	128	+33,3%
	610,060	631,921	446,216	449,087	555,889	143,388	141,770	-1,1%

South Africa had a vehicle parc [number of registered vehicles] of 13,3 million at the end of 2022, of which 7,87 million, or 59,2%, comprised passenger cars.

South Africa has advantageous access to world markets through free trade agreements with major markets such as Europe and the UK, and a preferential trade arrangement with the US. Europe continued to dominate as a region and accounted for 72,7%, or nearly three out of every four vehicles exported in 2022. The future of South Africa's vehicle exports to Europe is overshadowed by the increasingly strict emission regulations.

New European emission regulations include the proposed introduction of Euro VII emission standards [2025 for passenger cars and 2027 for trucks], which could add a significant cost to any vehicle produced in the domestic market for exports to the region. Furthermore, the legislation to ban the sales of new internal combustion engine [ICE] vehicles in the EU by 2035, and 2030 in the UK, in favour of new energy vehicles, could pose a significant risk to vehicle exports. Domestic vehicle production, therefore, needs to align with the overall technology shift of the global value chains in which the OEMs operate to safeguard the country's future vehicle exports.

Industry export performance by major region – 2018 to 2023 Q1

	2018	2019	2020	2021	2022	Q1 2022	Q1 2023	% change Q1 2023 / Q1 2022
Europe	233,772	285,599	197,355	229,672	255,709	66,454	65,363	-1,6%
Asia	50,277	39,879	29,440	24,170	35,154	6,254	7,217	+15,4%
Africa	23,988	23,382	16,987	21,825	22,564	6,584	5,668	-13,9%
North America	13,037	13,540	9,463	7,981	21,684	5,329	3,291	-38,2%
Australasia	22,767	17,350	13,698	10,621	12,389	3.037	2,643	-13,0%
Central America	1,511	5,651	3,156	3,045	2,759	518	401	-22,6%
South America	5,787	1,691	1,188	706	1,527	187	228	+21,9%
Total	351,139	387,092	271,287	298,020	351,786	88,363	84,811	-4,0%

During the first quarter 2023 vehicle exports declined by 4,0% to 84,811 units compared to the 88,363 units exported in the corresponding quarter 2022. The vehicle export performance continued to be affected by the stagflationary shock amplified by the protracted Russia/Ukraine geopolitical conflict which saw GDP growth in some of South Africa's key export destinations, such as the UK, the US, and Europe, moderate sharply in 2022. These economies continue to face multiple headwinds, including rising interest rates, supply chain disruptions, as well as producer and consumer inflation at their highest levels in decades.

7. 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.

1st Quarter 2023 vs 1st Quarter 2022

PERFORMANCE INDICATOR	UP	SAME	DOWN
Domestic new vehicle sales	47%	33%	20%
Vehicle export sales	50%	50%	0%
Vehicle production volumes	58%	33%	9%
Vehicle import volumes	57%	43%	0%
Employment – vehicle manufacturing	8%	75%	17%
Capacity utilisation	39%	46%	15%
Investment expenditure	7%	79%	14%
General new vehicle business conditions	36%	21%	43%

The sentiment expressed by the **naamsa** CEOs generally reflect the increasing challenging business conditions during the first quarter of the year with intensified loadshedding, a volatile Rand exchange rate and a higher interest rate environment reducing disposable income and dampening consumer and business sentiment. Economic growth continued to stagnate in the first quarter of the year while the 75 basis points hike in interest rates and inflation remaining elevated were all factors that continued to hold the economy at ransom.

Next 6 months

PERFORMANCE INDICATOR	UP	SAME	DOWN
Domestic new vehicle sales	43%	21%	36%
Vehicle export sales	54%	46%	0%
Vehicle production volumes	54%	23%	23%
Vehicle import volumes	43%	36%	21%
Employment – vehicle manufacturing	8%	75%	17%
Capacity utilisation	38%	46%	15%
Investment expenditure	7%	79%	14%
General new vehicle business conditions	36%	14%	50%

The views of the **naamsa** CEOs reflect a pessimistic outlook for nearly all of the automotive industry's key performance indicators over the next six months. With the country's economic growth rate projected to decline further with higher interest rates and lower global growth reducing aggregate demand, new vehicle business conditions are expected to remain extremely challenging over the short to medium term. The knock-on effect of electricity supply shortages on the economy and business confidence are of major cost concern and it is becoming increasingly clear that the weakness in the economy has become quite broad-based, with most sectors under severe pressure.

Brief Comment on business conditions and the medium-term outlook

The new vehicle market remained flat during the first quarter 2023 and as a leading economic indicator reflected the close correlation with a stagnating economy. The South African Reserve Bank raised interest rates twice during the quarter and in total by 425 basis points since November 2021. The Bank highlighted that due to extensive loadshedding and logistical constraints the supply performance of the economy remained severely impaired and lowered its forecast for GDP growth for 2023 to 0,2% from the 0,3% expected in January. Ongoing inflationary pressures as well as the continuous and ever-increasing energy challenges remain impediments to the new vehicle market while the substantial increases in interest rates may result in accelerating the buy down trend in the market. A host of new model introductions and improved new vehicle stock are expected to support new vehicle sales over the balance of the year but many downside risks to growth persist and the new vehicle market's renowned resilience will again be duly tested in 2023.

Vehicle exports declined during the quarter reflecting the growing concerns about global stagflation, the economic impact and disruption of supply chains resulting from the protracted geopolitical conflict, and the pace of tighter monetary policy in major markets continuing to pose the risk of a potential global recession. This is not good news for the export-oriented South African automotive industry but prospects for vehicle export growth remain optimistic on the back of new model introductions by major exporters in the domestic market.

FUEL FOR THOUGHT FLASH

The export value of vehicles and automotive components increased from R207,5 billion in 2021 to a record R227,3 billion in 2023 with the export value of vehicles increasing to a record R157,0 billion and the export value of components to a record R70,3 billion.

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

Kind regards,

20230518

Mikel M. MABASA
Chief Executive Officer
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