



NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

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Wednesday, August 14, 2019

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

Ladies and Gentlemen,

**QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING
INDUSTRY / AUTOMOTIVE SECTOR: 2ND QUARTER 2019**

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 2019, as submitted to the Director-General, Department of Trade and Industry.

Industry vehicle sales, export and import statistics for 2000 through 2018, together with current projections for 2019, are reflected on the attachment to the submission.

Key features: Second Quarter 2019

- **Second quarter 2019 industry employment reflected an increase of 86 jobs to reach 30 118 positions at end June 2019;**
- **Aggregate capital expenditure by the major vehicle manufacturers in 2018 recorded its second highest level on record at R7,247 billion;**
- **Industry capacity utilisation levels reflect the prevailing business conditions in the various industry segments in terms of domestic and export sales but some vehicle segments' capacity was affected by low utilization levels at two plants;**
- **All vehicle segments, with the exception of the low volume medium commercial vehicle segment, declined year on year, whilst export sales continued to reflect substantial upward momentum during the quarter;**
- **Expectations for 2019 are for the new vehicle market to consolidate further but for export sales growth to continue; and**
- **South Africa's global vehicle production ranking remained at 22nd in the world in 2018, with a market share of 0,64%, increasing marginally from 0,62% in 2017.**

NAAMSA OFFICES: PRETORIA

The Director-General: Mr. Lionel OCTOBER
Department of Trade and Industry
Private Bag X84
PRETORIA
0001

**QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW VEHICLE MANUFACTURING INDUSTRY /
AUTOMOTIVE SECTOR: QUARTER ENDED JUNE 30, 2019**

Dear Mr. OCTOBER,

NAAMSA submits the following report on business conditions in the South African new motor vehicle manufacturing industry and the automotive sector during the second quarter of 2019.

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 2019 may be set out as follows:

	Industry Total
Last pay week April, 2019	29 717
Last pay week May, 2019	29 596
Last pay week June, 2019	30 118

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

Aggregate Industry employment as at June 30, 2019 totalled 30 118, reflecting an increase of 86 jobs compared to the 30 032 industry head count as at the end of March 2019.

The **average monthly** industry employment number for 2018 was 29 855.

2. NUMBER OF SHIFTS

Various manufacturers operate on a three-shift basis as well as multi-shifts in selected areas such as machining, press shops, paint shop operations and body shop.

Three manufacturers operate on a three-shift basis. Four manufacturers operate double shifts in specific areas.

3. AVAILABILITY AND PRICE TRENDS OF COMPONENTS AND RAW MATERIALS

3.1 COMPONENTS

Imported Components

The availability and supply of imported components remained stable during the quarter. Prices of imported components were negatively affected by exchange rate movements during the quarter with the Rand weakening against major currencies.

Local Components

During the second quarter of 2019, the availability and supply of locally produced components, in general terms, remained stable. Container delays and sub-supplier capacity constraints were noted due to the Transnet container terminals service disruption during the quarter. Second quarter component pricing generally remained in line with expectations and in line with producer price inflation.

3.2 RAW MATERIALS

Imported Materials

The availability of imported raw materials, where applicable, remained stable. Imported price increases on rubber and copper were noted during the quarter while a concern was raised with regards to the additional safeguard duties applied for on imported steel grades. Pricing trends remain a function of exchange rate movements and the global price index.

Local Materials

Supply and availability remained stable but it was reported that exchange rate fluctuations caused parity pricing on the local steel grade.

4. UTILISATION OF PRODUCTION CAPACITY: 2014 – 2018 AND SECOND QUARTER, 2019

Average motor vehicle assembly Industry capacity utilisation levels, by sector and for the years/quarters indicated, may be illustrated as follows –

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	1 st Quarter 2019	2 nd Quarter 2019	2 nd Quarter 2019 Range [High] [Low]	
Cars	67.0%	80.4%	76.0%	78.0%	82.0%	95.1%	90.8%	105.0%	58.1%
Light Commercials	80.5%	80.6%	77.9%	85.3%	72.2%	60.7%	78.6%	105.1%	30.6%
Medium Commercials	85.7%	97.6%	88.5%	82.9%	66.9%	54.6%	71.8%	115.3%	28.3%
Heavy Commercials	80.7%	77.4%	80.0%	69.7%	60.6%	70.5%	71.8%	115.3%	28.3%

Capacity utilisation levels, during the second quarter of 2019, reflect the prevailing business conditions in the various industry segments in terms of domestic and export sales.

5. VEHICLE MANUFACTURING INDUSTRY CAPITAL EXPENDITURE: 2010 – 2018

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 2010 through 2018, in **Rand millions**, are as follows:

Capital Expenditure	2010	2011	2012	2013	2014	2015	2016	2017	2018
Product/Local/Content /Export Investment/ Production Facilities	3 351.1	3 522.7	3 837	3 605	6 092	5 948.5	5 146.1	7 144.6	7 246.9
Land and Buildings	441.2	176.4	432	424	478	190.5	905	301.4	
Support Infrastructure [I.T., R&D, Technical]	202.4	203.6	409	319	347	464.3	363.5	724.6	
Total	3 994.7	3 902.7	4 678	4 348	6 917	6 603.3	6 414.6	8 170.6	7 246.9

2018 data is based on data supplied by the 6 major OEMs, an estimate for one OEM as well as a figure for Beijing Automotive International Corporation [BAIC]

The high levels in capital expenditure are due to investment projects by manufacturers in terms of the Automotive Production Development Programme [APDP] and the projected higher levels of production for export markets.

6. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

Business Conditions: Second quarter, 2019

2019 Second quarter aggregate industry new car sales at 80 015 units recorded a decline of 413 units or a fall of -0.5% compared to the 80 428 new cars sold during the corresponding quarter of 2018. Aggregate industry commercial vehicle sales during the second quarter of 2019, at 43 153 units, recorded a decline of 2 560 units or a fall of -5.6% compared to the 45 713 units sold during the second quarter of 2018.

Industry Domestic Sales Growth: Direction and Extent of Change [previous quarter's percentage changes are reflected in brackets]				
	Qtr. ended 30 June 2019 compared with previous Qtr. ended 31 March 2019		Qtr. ended 30 June 2019 compared with corresponding Qtr. ended 30 June 2018	
Passenger Cars	-7.3%	[-6.8%]	-0.5%	[-9.9%]
Light Commercial vehicles	-10.6%	[+4.3%]	-6.4%	[+3.1%]
Medium Commercial vehicles	+5.8%	[-8.5%]	+11.7%	[+13.3%]
Heavy Commercial vehicles	+10.3%	[-23.8%]	-5.7%	[+1.0%]

Analysis of the figures reflects a mixed picture with particularly the consumer driven passenger car segment as well as the light commercial vehicle segment performing relatively poorly compared to the other segments.

South Africa's Automotive Industry's Performance in a Global Context: 2000 - 2018 Production data

Global new motor vehicle production in 2018 declined to 95 634 593 vehicles [2017: 96 671 427 units]. This represents a decrease of 1 036 834 vehicles produced or 1.1% compared to the 96.67 million new vehicles produced during 2017. South African vehicle production increased to 610 854 vehicles in 2018 from 601 338 units produced in 2017 – an improvement of 9 516 vehicles or +1.6%.

The following table reflects South Africa's share of Global **New Vehicle Production** [in millions]:

	2000	2011	2012	2013	2014	2015	2016	2017	2018	% change 2018 / 2017
Global Production	58.4	79.88	84.14	87.27	89.77	90.84	95.06	96.67	95.63	-1.1%
South Africa Production	0.357	0.533	0.547	0.546	0.568	0.617	0.600	0.601	0.611	+1.6%
SA Share of Global Production	0.61%	0.67%	0.65%	0.63%	0.63%	0.68%	0.63%	0.62%	0.64%	+3.2. %

South Africa's share of global new motor vehicle production in 2018 amounted to 0.64% with the country's ranking remaining at 22nd in the world. With regards to light commercial vehicle production South Africa was ranked 15th globally with a market share of 1.24%. The current global vehicle population exceeds one billion vehicles. South Africa's current vehicle population is around 12.46 million vehicles. 2019 Vehicle production is expected to expand to about 648 600 units.

Comment on Industry Export Performance by major region:

Changing Composition of SA Vehicle exports by major regions: 2015 – 2018					
	2015	2016	2017	2018	% change 2018 / 2017
Europe	173 883	196 727	190 503	233 772	+22.7%
Asia	34 929	46 655	52 827	50 277	-4.8%
Africa	41 431	21 505	21 848	23 988	+9.8%
Australasia	22 946	22 735	25 125	22 767	-9.4%
North America	53 606	52 024	43 393	13 037	-70.0%
South America	6 554	4 750	3 588	5 787	+61.3%
Central America	496	410	812	1 511	+86.1%
Total	333 845	344 816	338 096	351 139	+3.9%

Source: NAAMSA, AIEC, SARS, Lightstone Auto

Vehicle exports into Europe, Africa, Central and South America reflected growth in 2018, with Europe on the whole dominating as a region. The increase in vehicle exports into Africa suggests that demand from the continent has stabilised and is starting to recover, albeit from a low base. Exports to North America declined substantially from 2017 to 2018, which could be attributed to the same BMW and Mercedes-Benz models ranges manufactured in the USA, which used to be the top export market for previous model ranges manufactured in South Africa by the two OEMs.

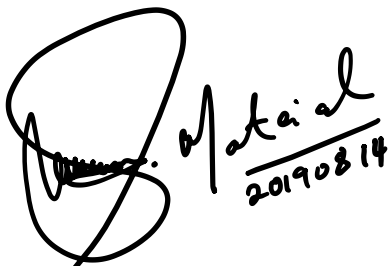
For the first half of the year vehicle exports remain well on track to achieve a new record in 2019 with exports running 29 459 units, or 19.3%, ahead of the same period last year. A record 351 139 vehicles were exported in 2018.

Brief Comment on business conditions and the medium-term outlook

NAAMSA expects that underlying demand conditions for new vehicles would remain weak for the remainder of the year. A close correlation exists between domestic new vehicle sales and the overall performance of the economy and the new vehicle market at present is merely mirroring the weak macro-economic climate in the country. The current forecast for the South Africa economy is to expand by only 0.7% in 2019, half of what was estimated in January 2019. Consumer and business confidence levels are low, household disposable income remains under pressure due to rising costs of living and lower local and global economic growth forecasts continue to signal moderation in new vehicle sales. Demand for domestic new vehicles, particularly the new passenger car market, therefore, would continue to remain under pressure over the medium term

The upward momentum on the export side, however, remains strong and industry vehicle production levels would continue to benefit from strong vehicle export sales.

The standard attached schedule reflects updated industry sales, production, export and import numbers and a projection for 2019 plus updated schedule.

A handwritten signature in black ink, appearing to read 'Michael M. Mabasa', is written over a large, stylized circular scribble. To the right of the signature, the date '20190814' is written in a similar cursive style.

Michael M. MABASA
NAAMSA OFFICES: PRETORIA