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N8/1 (e-mail)
23rd November, 2016

REPRESENTATIVES AT GENERAL MEETINGS
RECIPIENTS OF NAAMSA MEDIA RELEASES

Ladies and Gentlemen

QUARTERLY REVIEW OF BUSINESS CONDITIONS: MOTOR VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 3RD QUARTER 2016

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 2016, as submitted to the Director-General, Department of Trade and Industry.

Industry vehicle sales, export and import statistics for 2000 through 2017 have been **updated** and are reflected on the attachment to the submission.

Key features: Third Quarter 2016

- **Aggregate Industry employment levels improved by 205 jobs to reach 31 389 positions at end September, 2016**
- **Based on data collated at the beginning of the calendar year, 2016 Industry capital expenditure projected at R7.63 billion**
- **Industry capacity utilisation levels reflected a mixed picture with reductions in the car and light commercial manufacturing sectors and an improvement in the medium and heavy truck sectors**
- **Domestic new vehicle sales, with the exception of heavy truck sales, showed fairly substantial further declines. In contrast, export sales held steady**
- **Industry production expected to rise further over the next few years on the back of the Automotive Production Development Programme and an expected increase in vehicle exports**
- **2016 is shaping up, domestically, as an extremely difficult year – offset to some extent by modest growth in new vehicle exports**
- **An analysis of first nine months of 2016 export sales data is included in the review and confirms the continuing sharp decline in sales to African markets**

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N8/1
23rd November, 2016

The Director-General: Mr L October
Department of Trade and Industry
Private Bag X84
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Dear Sir

QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: QUARTER ENDED 30TH SEPTEMBER, 2016

NAAMSA submits the following report on business conditions in the South African new motor vehicle manufacturing Industry and the automotive sector during the third quarter of 2016.

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 2016 may be set out as follows –

	Industry Total
Last pay week July, 2016	31 456
Last pay week August, 2016	31 465
Last pay week September, 2016	31 389

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

Aggregate Industry employment as at 30th September, 2016 totalled 31 389 – reflecting an increase of 205 jobs or 0.8% compared to the 31 184 Industry head count as at the end of the second quarter of 2016.

The average monthly industry employment number for 2015 was 31 260 compared to 29 715 in 2014.

Overall industry employment has been stable over the past four years.

2. NUMBER OF SHIFTS

An increasing number of 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 now operate on a three shift basis. Three 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 original equipment components, during the third quarter of 2016, generally remained good.

During the quarter, the Rand strengthened against major currencies, providing some relief on imported component prices.

Local Components

During the third quarter of 2016, the availability and supply of locally produced components, in general terms, remained satisfactory – however – volume reductions placed cost pressures on component manufacturers.

Local component prices generally were affected by production price movements which remain above the consumer price inflation rate.

3.2 RAW MATERIALS

Imported Materials

The availability of imported raw materials, where applicable, remained satisfactory.

Pricing trends remain a function of exchange rate movements and commodity prices.

Local Materials

Local raw material price movements were affected by exchange rate and commodity price movements.

During the quarter, local steel prices remained stable whilst prices of copper, aluminium and lead increased marginally in dollar terms. The increases were offset by the stronger exchange rate.

4. UTILISATION OF PRODUCTION CAPACITY: 2012 – 2016

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

	Year 2012	Year 2013	Year 2014	Year 2015	1st Quarter 2016	2nd Quarter 2016	3rd Quarter 2016	3rd Quarter 2016 Range (High)	(Low)
Cars	86.5%	68.0%	67.0%	80.4%	76.2%	77.3%	75.8%	100.0%	32.0%
Light Commercials	87.8%	75.3%	80.5%	80.6%	73.0%	78.7%	73.8%	88.2%	39.0%
Medium Commercials	84.3%	59.8%	85.7%	97.6%	86.3%	88.3%	96.0%	100.0%	92.0%
Heavy Commercials	86.9%	69.3%	80.7%	77.4%	79.5%	81.3%	81.5%	100.0%	55.0%

Following the relatively high sectoral capacity utilization levels in 2015, capacity utilisation consolidated further during the third quarter of 2016. However, during the third quarter, the medium and heavy commercial manufacturing sectors reflected improved capacity utilization.

5. VEHICLE MANUFACTURING INDUSTRY CAPITAL EXPENDITURE: 2007 – 2016

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 and various truck producers. Details of actual Industry capex for 2007 through 2015, in **Rand millions**, as well as the projection for 2016 – are as follows –

Capital Expenditure	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 projection
Product/Local/Content/ Export Investment/ Production Facilities	2 458.7	2 807.7	2 215.9	3 351.1	3 522.7	3 837	3 605	6 092	5 948.5	5 904.4
Land and Buildings	382.4	329.1	178.7	441.2	176.4	432	424	478	190.5	1 174.9
Support Infrastructure (I.T., R&D, Technical, etc.)	254.4	153.1	74.1	202.4	203.6	409	319	347	464.3	555.4
Total	**3 095.5**	**3 289.9**	**2 468.7**	**3 994.7**	**3 902.7**	**4 678**	**4 348**	**6 917**	**6 603.3**	**7 634.7**

2016 data is based on data supplied by the 7 major OEM's

The high levels in capital expenditure in recent and particularly future years may be attributed to Investment Projects by manufacturers in terms of the Automotive Production and Development Programme (APDP) and associated higher levels of production for export markets.

NAAMSA plans to obtain details of the Beijing Automobile International Corporation (BAIC) investment in plant and facilities in Coega for incorporation into the industry's 2017 CAPEX figures.

6. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

Business Conditions: Third quarter, 2016

2016 Third quarter aggregate Industry new car sales at 104 102 units recorded a decline of 18 779 units or a fall of -15.3% compared to the 122 881 new cars sold during the corresponding quarter of 2015. Aggregate Industry commercial vehicle sales during the third quarter of 2016 at 48 370 units recorded a decline of 5 383 units or a fall of -10.0% compared to the 53 753 units sold during the third quarter of 2015.

Industry Domestic Sales Growth: Direction and Extent of Change (previous quarter's percentage changes are reflected in brackets)

	Qtr ended 30 Sept 2016 compared with previous Qtr ended 30 June 2016		Qtr ended 30 Sept 2016 compared with corresponding Qtr ended 30 Sept 2015	
Passenger Cars	+12.6%	(-16.5%)	-15.3%	(-12.3%)
Light Commercial vehicles	+0.5%	(-0.5%)	-10.2%	(-4.0%)
Medium Commercial vehicles	+11.0%	(+5.4 %)	-14.2%	(-15.5%)
Heavy Commercial vehicles	-0.3%	(+14.2%)	-6.5%	(+1.2%)

On a year on year comparative basis, the consumer driven new car market registered further weakness. The investment-led commercial vehicle segments reflected a mixed picture with heavy commercial vehicle sales holding up relatively well.

Comment on Industry Export Performance by continent

Changing Composition of SA Vehicle exports by major regions: 2014 – 2016 First three quarters				
	Jan – Sept 2014	**Jan – Sept 2015**	**Jan – Sept 2016**	**% change 2016 / 2015**
Africa	46 018	35 307	16 382	-53.6%
Europe	70 839	135 782	147 545	+8.7%
North America	39 052	42 238	41 712	-1.2%
Asia	21 740	24 582	36 319	+47.7%
Australasia	16 371	17 779	18 277	+2.8%
South America	840	4 881	3 593	-26.4%

Vehicle exports to Europe and Asia continued to show growth. Vehicle exports to African markets recorded substantial declines. This was due to a combination of factors including ad-hoc duty increases (Nigeria, Zimbabwe), regulatory restrictions (Algeria) and weaker economic conditions across most African countries due to the decline in commodity prices.

Ultimately, export sales remain a function of the growth performance of international markets and export sales continue to hold up relatively well – despite an uncertain global outlook and downward revisions in global growth projections.

The latest export sales figures confirmed the continued sharp decline of sales to African markets. This may be attributed by difficult economic conditions in most African economies as a result of lower commodity prices, particularly the oil price. Further factors include ad-hoc duty increases in various countries including Nigeria and Zimbabwe as well as regulatory/technical specifications changes in various African countries. Vehicle exports to Europe increased from a high base whilst export sales to Asia showed remarkable growth.

Comment on business conditions and industry prospects

The domestic new vehicle market continued to contract sharply, on a year on year basis, during the third quarter, although it performed somewhat better on a quarter on quarter basis. The South African economy avoided a technical recession by expanding at an annualized rate of 3.3% during the second quarter following the annualized contraction of 1.2% during the first quarter of 2016. It is generally anticipated that the economy expanded marginally in the third quarter.

Looking ahead, the short to medium term domestic outlook remains one of low economic growth and further pressure on consumers' disposable income. Double digit new vehicle price increases, as a result of earlier exchange rate weakness and vehicle production inflation of over 14.0% for the first nine months of 2016, relatively high interest rates, low levels of consumer and business confidence – will combine to further pressurize sales of new motor vehicles, particularly new cars.

One major positive feature providing optimism of a possible turnaround in economic activity levels is the composite leading business cycle indicator of the Reserve Bank which increased, quite sharply, for the second successive month. The September, 2016 year on year leading indicator increase to 1.6% suggests a modest improvement in future economic growth.

New vehicle sales for 2016, in aggregate terms, are expected to show a decline of around 12.0% compared to calendar 2015 – serving to confirm the ongoing difficult economic conditions. On the assumption that the South African economy will expand by approximately 1.0% in 2017, new vehicle sales next year are projected to improve by up to 4.0% in volume terms.

On the other hand, new vehicle exports for 2016 at a projected record figure of 346 000 should register a modest improvement of 3.5% on the 2015 total number of vehicles exported of 333 802 units. New vehicle exports in 2017 are expected to improve by around 11.5% in unit terms to reach a figure of around 376 000 vehicles.

The standard attached schedule reflects latest projections of industry sales, production, exports and imports. Projections include forecasts for the year 2016 and 2017. Projections for 2016 and 2017 have been revised.

NMW VERMEULEN
DIRECTOR