



NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

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24th May, 2017

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

Ladies and Gentlemen

**QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW MOTOR VEHICLE MANUFACTURING INDUSTRY /
AUTOMOTIVE SECTOR: 1ST QUARTER 2017**

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 first quarter of 2017, as submitted to the Director-General, Department of Trade and Industry.

Industry vehicle sales, export and import statistics for 2000 through 2016, together with current projections for 2017 and 2018 have been **updated** and are reflected on the attachment to the submission.

Key features: First Quarter 2017

- **First quarter 2017 industry head count remained stable. Fourth quarter 2016 employment figures restated**
- **Based on data collated at the beginning of the calendar year, 2017 Industry capital expenditure projected at a record R8.17 billion**
- **Industry capacity utilisation levels trended lower**
- **Domestic new vehicle sales showed modest gains, year on year, whilst export sales also continued to expand modestly**
- **2016 turned out to be an extremely difficult year domestically – offset to some extent by growth in new vehicle exports. 2017 likely to shape up as another difficult year.**
- **South Africa's share of global new vehicle production declined to 0.63% in 2016 down from 0.68% in 2015.**

NAAMSA OFFICES: PRETORIA



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24th May, 2017

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 31ST MARCH, 2017

NAAMSA submits the following report on business conditions in the South African new motor vehicle manufacturing industry and the automotive sector during the first quarter of 2017.

1. EMPLOYMENT LEVELS AND TRENDS INCLUDING A CORRECTION TO 4TH QUARTER 2016 EMPLOYMENT NUMBERS

Following enquiries by NAAMSA, it was established that one major industry employer had, during the fourth quarter of 2016, reported head count numbers substantially lower than actuals. Whilst there was a reduction in total industry employment during the final quarter of 2016, the figure was lower than the originally reported fall of 1 900 jobs and the actual figure now reflects a fall of 1 339 positions for the fourth quarter last year. First quarter, 2017 employment numbers remained stable and reflect a marginal increase.

Updated and corrected data regarding 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 last quarter of 2016 and first quarter of 2017 are set out as follows –

	Industry Total
Last pay week October, 2016	30 815
Last pay week November, 2016	30 902
Last pay week December, 2016	30 050
Last pay week January, 2017	30 237
Last pay week February, 2017	30 251
Last pay week March, 2017	30 197

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

Aggregate Industry employment as at 31st March, 2017 totalled 30 197 reflecting an increase of 147 jobs or 0.5% compared to the 30 050 Industry head count as at the end of the fourth quarter of 2016.

The **average monthly** industry employment number for 2016 was 30 953 compared to 31 260 in 2015.

With the exception of the fourth quarter last year, industry employment has remained 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.

Two manufacturers now 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 original equipment components, during the first quarter of 2017, generally remained good.

Prices of imported components continued to be affected by exchange rate movements.

Local Components

During the first quarter of 2017, the availability and supply of locally produced components, in general terms, remained satisfactory. Second quarter component pricing likely to be affected by annual (labour and overheads) price reviews.

Local component prices were generally stable.

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 with increases in steel prices and lead noted.

Local Materials

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

During the quarter, no major concerns on local material pricing were reported.

4. UTILISATION OF PRODUCTION CAPACITY: 2010 – 2017

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

	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	1 st Quarter 2017	1 st Quarter 2017 Range (High) (Low)	
Cars	77.1%	81.6%	86.5%	68.0%	67.0%	80.4%	76.0%	75.1%	100.0%	23.1%
Light Commercials	68.4%	73.5%	87.8%	75.3%	80.5%	80.6%	77.9%	86.9%	100.0%	63.7%
Medium Commercials	77.2%	88.4%	84.3%	59.8%	85.7%	97.6%	88.5%	83.9%	93.0%	78.9%
Heavy Commercials	77.5%	89.9%	86.9%	69.3%	80.7%	77.4%	80.0%	74.3%	94.0%	50.0%

Following the relatively high sectoral capacity utilisation levels in 2015, capacity utilisation consolidated quite substantially during 2016 with the exception of the heavy truck manufacturing sector. Further consolidation, with the exception of the light commercial vehicle segment, continued during the first quarter of 2017.

5. VEHICLE MANUFACTURING INDUSTRY CAPITAL EXPENDITURE: 2008 – 2017

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 2016, in **Rand millions**, as well as the projection for 2017 – are as follows –

Capital Expenditure	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 Projection
Product/Local/Content/ Export Investment/ Production Facilities	2 807.7	2 215.9	3 351.1	3 522.7	3 837	3 605	6 092	5 948.5	5 146.1	7 144.6
Land and Buildings	329.1	178.7	441.2	176.4	432	424	478	190.5	905	301.4
Support Infrastructure (I.T., R&D, Technical, etc.)	153.1	74.1	202.4	203.6	409	319	347	464.3	363.5	724.6
Total	3 289.9	2 468.7	3 994.7	3 902.7	4 678	4 348	6 917	6 603.3	6 414.6	8 170.6

2017 data is based on data supplied by the 7 major OEM's

2016 Capital expenditure reflected at R6.4 billion represents the third highest yearly figure on record. The high levels in capital expenditure in recent years may be attributed to Investment Projects by manufacturers in terms of the Automotive Production and Development Programme (APDP) and the expected higher levels of production for export markets. The projection for 2017 represents an all time record.

6. BUSINESS CONDITIONS, PERFORMANCE INDICATORS AND COMMENT

Business Conditions: First quarter, 2017

2017 first quarter aggregate Industry new car sales at 110 931 units recorded a slight improvement of 273 units or a gain of 0.2% compared to the 110 658 new cars sold during the corresponding quarter of 2016. Aggregate Industry commercial vehicle sales during the first quarter of 2017 at 49 326 units recorded a gain of 1 889 units or an improvement of 4.0% compared to the 47 437 units sold during the first quarter of 2016.

Industry Domestic Sales Growth: Direction and Extent of Change (previous quarter's percentage changes are reflected in brackets)				
	Qtr ended 31 March 2017 compared with <u>previous Qtr ended 31 December 2016</u>		Qtr ended 31 March 2017 compared with <u>corresponding Qtr ended 31 March 2016</u>	
Passenger Cars	+8.9%	(-2.2%)	+0.2%	(-11.1%)
Light Commercial vehicles	+2.8%	(+1.2%)	+4.0%	(-9.1%)
Medium Commercial vehicles	-9.7%	(-3.3%)	+2.2%	(-24.1%)
Heavy Commercial vehicles	-4.7%	(-3.9%)	+4.3%	(-13.8%)

On a year-on-year comparative basis, whilst all segments recorded modest growth – the base in 2016 was lower due to the Easter holidays which fell during March, 2016.

South Africa's Automotive Industry's Performance in a Global Context: 2000 – 2016 Production data

Global new motor vehicle production in 2016 reached a record of 94 976 569 vehicles (2015: 90 843 939 units). This represents an increase of 4 132 630 million vehicles produced or 4.5% compared to the 90.84 million new vehicles produced during 2015. South African vehicle production decreased to 600 007 vehicles in 2016 from 617 683 units produced in 2015 – a fall of 17 078 vehicles or -7.3%.

The following table reflects South Africa's share of Global **New Vehicle Production** -

	2000	2010	2011	2012	2013	2014	2015	2016	% change 2016 / 2015
Global Production	58.4	77.61	79.88	84.14	87.27	89.77	90.84	94.97	+4.4%
South Africa Production	0.357	0.472	0.533	0.547	0.546	0.568	0.617	0.600	-2.8%
SA Share of Global Production	0.61%	0.61%	0.67%	0.65%	0.63%	0.63%	0.68%	0.63%	-7.3%

South Africa's share of global new motor vehicle production in 2016 amounted to 0.63% - well above the country's share of global GDP of about 0.42%.

The current global vehicle population exceeds one billion vehicles.

2017 SA vehicle production is expected to grow to be at least similar to the levels recorded for 2016.

Comment on Industry Export Performance

Changing Composition of SA Vehicle exports by major regions: 2014 – 2016				
	2014	2015	2016	% change 2016 / 2015
Africa	61 839	42 594	21 564	-48.0%
Europe	116 077	173 796	195 764	+12.6%
North America	48 408	53 804	52 430	-2.9%
Asia	33 520	34 306	47 616	+38.8%
Australasia	14 610	22 948	22 735	-0.9%
South America	2 482	6 554	4 750	-27.50%

Source: NAAMSA, AIEC, SARS, Lightstone Auto

Vehicle exports to Asia and Europe showed improvement. Vehicle exports to North America recorded a modest decline. Sales to African markets declined sharply for the third year in succession due to a combination of factors including the impact of past duty increases and regulatory /technical specifications changes in various African countries compounded by difficult economic conditions in most African economies as a result of lower commodity prices, particularly the oil price.

Comment on business conditions and the outlook for the balance of 2017

Following the modest improvement in new vehicle sales experienced during the first three months of 2017, the outlook for the balance of the year remains uncertain on the back of the extra-ordinary political events at the end of March, 2017 and early April, 2017. Political and social polarisation in South Africa, together with prospects of lower domestic growth over the short to medium term – continued to weigh on business confidence and consumer sentiment. Domestic new vehicle sales are closely correlated with the overall performance of South Africa's economy and confidence levels. The key performance factors driving new vehicle demand include Gross Domestic Product growth, the direction of interest rates and the exchange rate. The International Monetary Fund (IMF) and a number of South African banks have revised downwards 2017 prospects for South Africa's growth. NAAMSA anticipated that greater clarity would be forthcoming over the next two to three months regarding the impact of socio-political events on the direction of the economy.

Industry new vehicle exports will remain a function of the performance and direction of global markets. Indications for the global economy were reasonably positive with the latest IMF projections anticipating global growth at around 3.6%. This should benefit vehicle exports to Europe, Australasia, Asia, the United States and South America. NAAMSA anticipates that export sales could register modest upward momentum over the balance of 2017.

The standard attached schedule reflects latest projections of industry sales, production, exports and imports. Projections include forecasts for the year 2017 and 2018. The projections represent NAAMSA's best estimates at this juncture given the prevailing political and economic uncertainties.

The projections are premised on the following assumptions –

- That SA will avoid further credit ratings agencies downgrades
- That interest rates will not be increased over the short to medium term
- That economic growth for 2017 and 2018 will show some improvement, albeit off a low base
- That the exchange rate, whilst remaining volatile, is unlikely to depreciate markedly

Should any of these assumptions prove wrong, particularly the first one, projections will have to be revised.

**NMW VERMEULEN
DIRECTOR**

INDUSTRY VEHICLE SALES, PRODUCTION, EXPORT AND IMPORT DATA : 2000 - 2018

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Projection	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018							
CARS																			
Domestically Produced																			
Local Sales	172 373	172 052	163 474	176 340	200 264	210 976	215 311	169 558	125 454	94 379	113 740	124 736	120 417	113 356	122 610	112 576	97 824	97 000	102 000
Exports (CBU)	58 204	97 599	113 025	114 909	100 699	113 899	119 171	106 460	195 670	128 602	181 654	187 529	153 268	151 893	156 600	229 723	238 546	235 000	240 000
Total Domestic Production	230 577	269 651	276 499	291 249	300 963	324 875	334 482	276 018	321 124	222 981	295 394	312 265	273 685	265 249	279 210	342 299	336 370	332 000	342 000
Total Industry Car Imports	61 749	79 508	78 128	81 919	127 389	208 892	266 247	265 095	203 808	163 750	223 390	271 556	323 796	338 592	318 008	301 086	264 411	264 000	270 000
Re-exported imports													1 609	1 652	1 680	1 264	831		
TOTAL LOCAL CAR MARKET	234 122	251 560	241 602	258 259	327 651	419 868	481 558	434 653	329 262	258 129	337 130	396 292	442 604	450 296	438 938	412 398	361 404	361 000	372 000
LIGHT COMMERCIALS																			
Domestically Produced																			
Local Sales	104 121	113 111	101 956	102 007	123 467	146 933	159 469	156 626	118 641	85 663	96 823	108 704	121 638	127 051	137 044	140,790	130 364	130 000	137 000
Exports	9 148	10 229	11 699	11 283	9 360	25 589	60 149	64 127	87 314	45 514	56 950	84 125	123 448	121 345	118 922	103 001	105 219	115 000	125 000
Total Domestic Production	113 269	123 340	113 655	113 290	132 827	172 522	219 618	220 753	205 955	131 177	153 773	192 829	245 086	248 396	255 966	243 791	235 583	245 000	262 000
Total Industry LCV Imports	4 114	4 535	5 291	5 377	8 938	23 199	40 208	47 760	50 825	32 496	36 911	40 597	38 741	41 253	36 785	33 911	28 641	30 000	32 000
Re-exported imports													205	308	337	336	232		
TOTAL LOCAL LCV MARKET	108 235	117 646	107 247	107 384	132 405	170 132	199 677	204 386	169 466	118 159	133 756	149 301	160 174	167 996	173 492	174 365	158 773	160 000	169 000
MEDIUM & HEAVY COMMERCIALS																			
NAAMSA sales (incl. Imports)	12 275	13 323	14 335	16 957	21 464	27 406	33 080	37 069	34 659	18 934	22 021	26 656	27 841	30 924	31 314	30 470	26 997	27 500	28 000
Exports	679	465	582	469	448	424	539	650	1 227	861	861	803	1 076	1 206	1 414	1 123	1 057	1 100	1 200
TOTAL LOCAL MCV/HCV MARKET	12 275	13 323	14 335	16 957	21 464	27 406	33 080	37 069	34 659	18 934	22 021	26 656	27 841	30 924	31 314	30 470	26 997	27 500	28 000
TOTAL AGGREGATE MARKET	354 632	382 529	363 184	382 600	481 520	617 406	714 315	676 108	533 387	395 222	492 907	572 249	630 619	649 216	643 744	617 233	547 174	548 500	569 000
TOTAL AGGREGATE EXPORTS	68 031	108 293	125 306	126 661	110 507	139 912	179 859	171 237	284 211	174 947	239 465	272 457	279 606	276 404	276 936	338 847	344 822	351 600	366 200
TOTAL DOMESTIC PRODUCTION	356 800	406 779	405 071	421 965	455 702	525 227	587 719	534 490	562 965	373 923	472 049	532,553	547 688	545 775	567 904	617 683	600 007	600 600	633 200
GDP GROWTH RATE	4,4%	2,9%	3,7%	2,9%	4,6%	5,3%	5,6%	5,4%	3,2%	- 1,5%	3,0%	3,2%	2,2%	2,5%	1,7%	1,3%	0,3%	0,9%	1,8%

Notes:
 Domestically produced cars and lcvs total represents a proxy for aggregate local production.
 Historical sales are based on data reported by NAAMSA member companies, vehicle manufacturers, importers and distributors.
 Projections are based on NAAMSA analysis and demand assumptions and do not provide for supply side disruptions.
 GDP growth rate represents GDP annual changes at market prices in real terms.
 CBU Export figures are based on projects announced to date. Announcements of new CBU export programmes could change projections.
 From 2012, imported vehicles which have subsequently been exported are reflected as "re-exported imports"