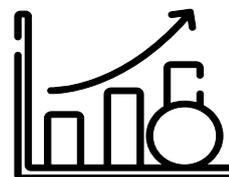
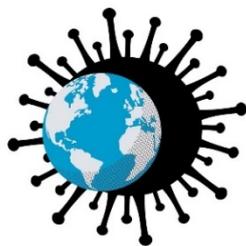




# REIMAGINING THE FUTURE TOGETHER

ECONOMIC IMPACT OF COVID-19 ON THE SOUTH AFRICAN AUTOMOTIVE SECTOR, MAY 2020

COVID-19 OVERALL IMPACT ON INDUSTRY OPERATIONS



**National Association of Automobile Manufacturers of South Africa [NAAMSA]**

“the most credible and respected thought leader and partner of a globally competitive and transformed automotive industry that actively contributes to the sustainable development of South Africa”

# Economic Impact of COVID-19 on the South African Automotive Industry

## NAAMSA

PRETORIA | Date: MAY 2020

Author: Sharon MODIBA

### Automotive Industry Assessment: COVID-19 overall Impact on industry operations

The COVID-19 pandemic relates to three simultaneous shocks; health shock, which will stretch the resources of South Africa’s healthcare system to its limit; economic shock, which will substantially reduce the SA fragile economic growth even further; and consequently the demand side relating to sales and exports. COVID-19 lockdown shocks reduce economic activity and negatively impact business from both the demand side and supply side of the automotive sector and the entire manufacturing value chain belt. Figure 13 and 14 depict COVID-19 related demand and supply surplus destructions. Eventually if not mitigated against through loosening up the lockdown levels with clear review time frames, the potential business and social disruption of COVID-19 will be larger than the loss experienced during recessionary periods.

<p><b>Figure 13: PRE-COVID19 ECONOMIC DISTRESS AND INITIAL LOCKDOWN IMPACT ON THE SA AUTOMOTIVE INDUSTRY DEMAND AND SUPPLY ACTIVITIES</b></p>	<p><b>Figure 14: COVID-19 EXTENDED LOCKDOWN SHOCKS ON THE SA AUTOMOTIVE INDUSTRY DEMAND AND SUPPLY ACTIVITIES. [FEEDBACK LOOP]</b></p>
<p><b>Supply Side Shocks;</b></p> <ul style="list-style-type: none"> <li>▪ Slow global economic growth, SA weak currency and recent double-dip recessions had a negative</li> </ul>	<p><b>Supply side Shocks;</b></p> <ul style="list-style-type: none"> <li>▪ Trade disruptions, global supply chain disruptions – Logistics network pressures.</li> </ul>

impact on input cost, components imports and the value of exports sales.

- Disruptions in global supply – Components imports affected.
- Workers are having been at home for the duration of the lockdown [2 months].
- vehicle exports are supplied at low quantities but for higher prices- affects consumers; the cost of inputs increase.

**Therefore, supply shock - [AS<sub>0</sub> ⇒ AS<sub>1</sub>]**

**Demand Side Shocks;**

- NAAMSA announced that in March 2020, the aggregate domestic new vehicle sales numbers declined sharply by 29,7% and total vehicle exports fell by 21,5%, compared to the corresponding period last year on the back of the recent developments around COVID-19 and compounded by persistent and recessionary pressures our economy has been experiencing in the recent past.
- Production investment initiatives activities halted for the duration of the COVID-19 uncertainty.

**[AD<sub>0</sub> ⇒ AD<sub>1</sub>]**

- It becomes more difficult and expensive to import vehicle part from SA automotive trading partners being the hardest hit by the Coronavirus. The unknown duration of the trading partners lockdown adds to business planning pressures.
- Quarantine and social distancing – decline in labour supply.
- Prolonged production halts.

**Supply feedback loop shocks [AS<sub>0</sub> ⇒ AS<sub>1</sub> ⇒ AS<sub>2</sub>]**

**Demand side Shocks;**

- For April 2020, total vehicle units sold were 574, reflecting a 98,4% and vehicle exports declined by 97,3% compared to the same month last year. This is due to the prolonged shutdown in automotive sector activities, amongst other external factors, such as consumer behaviour etc. It is anticipated that vehicle sales and exports will decline by almost 45% for the month of MAY 2020 compared to the corresponding period last year.
- Uncertainty about the progress of the disease- Wait and see demand purchase disruptions occur.
- Households increase precautionary savings, avoiding purchasing vehicles for the foreseeable future.
- Liquidity concerns causing companies to hold-off on expansion programs.
- Loss of earnings for workers because of companies' cash flow concerns.
- Reduced trading hours at automotive retail sections affecting buyers.
- Uncertainty about economic policies and the overall economic effect COVID-19.

[AD<sub>0</sub> ⇒ AD<sub>1</sub> ⇒ AD<sub>2</sub>]

## OVERALL EFFECTS

COVID-19 potentially will have more undesired consequences on the automotive sector.

- Uncertainty, panic, and lockdown policies to drive the large drop in demand and supply disruptions;
- Comparing figure 11 and 12, The overall COVID-19 effect has a larger impact on the economy than the previous economic depression loops.

### Mitigation strategies

- Ultimately suppressing the virus will ultimately lead to improved economic activity.

Sectors are required to prepare the return to work planning tools and risk-adjusted measures to mitigate against the impact of COVID-19 on business activities and to reduce the risk of infection in all areas of operations after lockdown. The return to work strategies put entails business continuity considerations, the identification of organisational vulnerabilities, as well a review of the automotive customer and supplier behavioural shifts during the COVID1-19 epidemic.

While most of the industry scenario analysis have approximated their strategies to predicted lockdown dates and others according to the severity of shocks [mild, medium to severe etc.], this report considers the South African COVID-19 recorded lockdown extension reality thus far, long-term COVID-19 impact perspective, and collective recovery considerations for the automotive industry value chain.

## **ADDITIONAL NOTES FOR INFORMATION**

- This is section 5.1 of the NAAMSA document - Economic Impact of COVID-19 on the South African Automotive Industry.
- NAAMSA is a pre-eminent industry representative body that actively and responsibly represents, promote, advance and protect the interests of local manufacturers and assemblers of passenger, light and heavy commercial vehicles as well as major importers and distributors of new vehicles in South Africa. We represent 41 companies;
- Our vision is to be the most credible and respected thought leader and partner of a globally competitive and transformed automotive industry that actively contribute to the sustainable development of South Africa;
- For more on this report contact: Michael M. MABASA, Chief Executive Officer, [mike@naamsa.co.za](mailto:mike@naamsa.co.za) or Sharon MODIBA, Executive manager: Economic Policy & Data Management, [sharon@naamsa.co.za](mailto:sharon@naamsa.co.za)
- More information can be found on [www.naamsa.co.za](http://www.naamsa.co.za).

## **NAAMSA OFFICES: PRETORIA | MAY 2020**