



NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

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N8/1 (e-mail)
22nd July, 2013

REPRESENTATIVES AT GENERAL MEETINGS

RECIPIENTS OF NAAMSA MEDIA RELEASES

Ladies and Gentlemen

QUARTERLY REVIEW OF BUSINESS CONDITIONS: MOTOR VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: 2ND QUARTER 2013

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 2013, as submitted to the Director-General, Department of Trade and Industry.

Industry vehicle sales, export and import statistics for 2000 through 2015 have been **updated** and are reflected on the attachment to the submission.

Key features: Second Quarter 2013

- **After five successive quarters of employment gains, aggregate Industry employment levels declined by 396 jobs to reach 29 903 positions at end June, 2013**
- **Industry capital expenditure remains close to record levels and should exceed R5 billion in 2013**
- **Industry capacity utilisation levels in all sectors remain at relatively high levels**
- **Domestic new vehicle sales reflect further modest growth**
- **Export vehicle sales reflect strong growth – momentum set to continue over balance of 2013 and into 2014. Africa, North America and Asia to feature more prominently as export destinations**
- **Industry production expected to rise significantly – particularly light commercial vehicles – over the next few years on the back of the Automotive Production Development Programme**

NAAMSA OFFICES: PRETORIA



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22nd July, 2013

The Director-General - Mr L October
Department of Trade and Industry
Private Bag X84
PRETORIA
0001

Dear Sir

QUARTERLY REVIEW OF BUSINESS CONDITIONS: NEW VEHICLE MANUFACTURING INDUSTRY / AUTOMOTIVE SECTOR: QUARTER ENDED 30TH JUNE, 2013

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 2013.

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 2013 may be set out as follows –

	Industry Total
Last pay week April, 2013	30 095
Last pay week May, 2013	29 969
Last pay week June, 2013	29 903

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

Aggregate Industry employment as at 30th June, 2013 totalled 29 903 – reflecting a decline of 396 jobs or 1.3% compared to the 30 299 Industry head count as at 31st March, 2013.

Employment levels at most of the vehicle manufacturing facilities remained fairly stable.

Employment levels are expected to stabilize at current levels and could increase, over the medium term, as manufacturers ramp up production for export markets.

The **average monthly** Industry employment number for 2012 was 29 180 (2011: 28 292).

2. NUMBER OF SHIFTS

An increasing number of manufacturers operate double shifts in selected areas such as machining, press shops, paint shop operations and body shop.

Various manufacturers operate a third production shift.

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 second quarter of 2013, overall remained satisfactory. Some shipment delays, due to construction at Durban Harbour, were reported.

Prices of imported components in foreign currency remained stable but landed costs of components were affected by exchange rate weakness resulting in substantial increases in component pricing.

Local Components

During the second quarter of 2013, the availability and supply of locally produced components was reported generally as satisfactory. Instances of industrial action at some suppliers did compromise supply.

Sustained and relentless focus on global cost competitiveness and general cost reduction targets continues to pressurise suppliers. Cost pressures – mainly labour, energy and transport – continue to impact suppliers' competitiveness.

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.

4. UTILISATION OF PRODUCTION CAPACITY: 2006 - 2013

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

	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	1 st Qtr 2013	2 nd Qtr 2013	2 nd Qtr 2013 Range	
										(High)	(Low)
Cars	80.1%	67.7%	68.3%	59.4%	77.1%	81.6%	86.5%	78.2%	69.3%	100.0%	12.4%
Light Commercials	87.8%	82.7%	73.9%	56.5%	68.4%	73.5%	87.8%	69.1%	92.6%	100.0%	81.8%
Medium Commercials	97.9%	91.7%	89.9%	64.6%	77.2%	88.4%	84.3%	64.3%	65.0%	100.0%	5.8%
Heavy Commercials	95.1%	95.3%	87.6%	66.1%	77.5%	89.9%	86.9%	64.0%	73.1%	100.0%	22.0%

Industry average capacity utilisation levels, during the second quarter of 2013, reflect a mixed picture with car manufacturing trending lower and commercial vehicle production improving. One manufacturer reported very low capacity utilisation levels, in three sectors, for the quarter which has contributed to the lower Industry sectoral capacity utilisation figures.

5. NEW INVESTMENT/INVESTMENT APPROVALS: 2012 ACTUAL AND 2013 UPDATED PROJECTION

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 two truck producers. Details of actual industry capex for 2005 through 2012, in Rand millions, as well as the updated projection for 2013 – are as follows –

Capital Expenditure	2005	2006	2007	2008	2009	2010	2011	2012	2013 Projection
Product/Local/Content/Export Investment/ Production Facilities	2 805.3	5 058.1	2 458.7	2 807.7	2 215.9	3 351.1	3 522.7	3 837.2	4 525.5
Land and Buildings	512.1	758.0	382.4	329.1	178.7	441.2	176.4	431.9	301.0
Support Infrastructure (I.T., R&D, Technical, etc.)	258.7	398.8	254.4	153.1	74.1	202.4	203.6	409.2	393.1
Total	3 576.1	6 214.9	3 095.5	3 289.9	2 468.7	3994.7	3 902.7	4 678.3	5 219.6

The relatively high levels in capital expenditure in recent years may be attributed in large part to Investment Projects by manufacturers in terms of the Automotive Production and Development Programme (APDP).

6. BUSINESS CONDITIONS AND PERFORMANCE INDICATORS

Business Conditions: Second quarter, 2013

2013 Second quarter aggregate Industry new car sales at 108 420 units recorded an improvement of 8 164 units or 8.1% compared to the 100 256 new cars sold during the corresponding quarter of 2012. Aggregate Industry commercial vehicle sales during the second quarter of 2013 at 50 058 units recorded an increase of 5 573 units or a gain of 12.5% compared to the 44 485 units sold during the second quarter of 2012.

Industry Domestic Sales Growth: Direction and Extent of Change				
(previous quarter's percentage changes are reflected in brackets)				
	Qtr ended 30 June 2013 compared with <u>previous Qtr ended 31 March 2013</u>		Qtr ended 30 June 2013 compared with <u>corresponding Qtr ended 30 June 2012</u>	
Passenger Cars	-4.9%	(+2.4%)	+8.1%	(+3.0%)
Light Commercial vehicles	-0.8%	(+9.6%)	+12.5%	(+8.1%)
Medium Commercial vehicles	+8.6%	(+6.4%)	+23.4%	(+6.1%)
Heavy Commercial vehicles	+22.9%	(-5.8%)	+6.9%	(-1.1%)

All sectors registered solid gains during the second quarter of 2013 compared to the corresponding quarter in 2012. The configuration of public holidays during the comparative second quarters would account in large part for the percentage differences. In 2012, the Easter holidays fell during the second quarter contributing to a lower base, whilst in 2013 the holidays occurred at the end of the first quarter contributing to a higher second quarter total.

Medium Term Outlook: Domestic Sales

Premised on international developments and the sharply lower domestic first quarter gross domestic product figures, a number of local and international institutions have recently lowered economic growth forecasts for South Africa with the average projection for 2013 currently around 2% GDP growth in real terms. NAAMSA believes that the downward revisions may turn out to be too pessimistic and that South Africa's economic growth performance for 2013 will be in excess of 2.0% - probably closer to 2.4% for the year.

South Africa's first quarter GDP performance was affected by statistical distortions arising from the configuration of public holidays. Stronger than expected wholesale and retail sales for April and May, 2013 as well as other recent positive economic data – lend support to the view that growth could turn out better than generally expected. At this stage, NAAMSA's forecast for 2013 GDP growth remains at 2.4%.

The medium term outlook for the automotive sector will continue to be affected by the overall performance of the economy and by new vehicle pricing pressures as a result of the weaker exchange rate and the April, 2013 increase in CO₂ vehicle emissions taxes on cars and certain categories of light commercials. This is expected to result in some moderation in the rate of growth in sales over the balance of the year. However, various factors should lend support to the Industry and these include the continuing low interest rate environment, low debt servicing costs, strong replacement demand, the highly competitive trading environment with attractive incentives and high tech new model introductions. On the other hand, rising inflationary pressures facing consumers will affect consumers' real disposable income and could also impact on future vehicle sales.

Over the balance of the year, however, growth in domestic sales is expected to moderate.

Export sales

Export sales remain a function of the performance and direction of global markets. Vehicle exports into Europe remain under pressure as a result of the recession and debt crisis in the Euro zone, however, projected higher exports into Africa, Asia and North America and factoring in the contribution of various new export programmes – should enable the Industry to achieve record production levels in 2013. 2013 Aggregate exports were estimated to reach about 337 000 vehicles compared to the 277 893 vehicles exported in 2012.

Changing Composition of SA Vehicle exports by major regions: First half 2012 versus first half 2013			
	January – June 2012	January – June 2013	% change
Africa	37 684	42 243	12.1%
Europe	42 031	41 062	-2.3%
North America	26 186	37 398	42.8%
Asia	9 385	18 950	101.9%
Australasia	10 162	7 963	-21.6%

Despite the recession in the Eurozone, exports to Europe are holding up relatively well.

As expected, exports into Africa continue to show solid growth, whilst vehicle exports into Asia and North America registered strong gains.

The standard attached schedule reflects latest projections of Industry sales, production, exports and imports. Projections include forecasts for the year 2013, 2014 and 2015. Domestic new vehicle sales are expected to grow by up to 6.5% in volume terms. On the back of growth in Industry new vehicle exports, Industry production is projected to register strong growth in 2013 and into 2014.

**N.M.W. VERMEULEN
DIRECTOR**