

## Sales reversed in February

Growth in new vehicle sales, as reported by the National Association of Automobile Manufacturers in South Africa (NAAMSA), moderated further in February to -12% y/y from -9.4% y/y in January, leaving total sales for the year so far down 10.8% relative to the corresponding period last year. The weakness in annual growth in passenger car sales in February (-14.8% y/y from -14.6% y/y in January) was augmented by a sharp annual decline in the sales of (light) commercial vehicles (-7.5% y/y from 1.7% y/y in January). Demand for new cars contracted by -9.6% m/m in February, but the strong growth of 11.7% m/m in the commercial vehicle space has limited the extent of weakness in the overall vehicle market since January. February saw a 2% m/m decline in total vehicle sales, following a seasonal spike in January. When including sales of Associated Motor Holdings (AMH – who does not officially report into NAAMSA), total vehicle sales declined by 13.5% y/y in February, representing a 3.1% m/m decline.

### Passenger car market

The number of cars sold in February declined by 2 978 to 27 505. Given this relatively strong decline, which was exacerbated by January's seasonally high carryover of sales for new year registration purposes, the vehicle selling rate per day declined by 6.2% m/m, or 72 less cars were sold per day than in January. Even though February had an additional shopping day relative to February 2007, the selling rate per day declined by 18.1% y/y to only 1 100 cars sold per day relative to the average 1 292 over the past three years. While this below-average performance may, in part, be ascribed to delayed vehicle delivery following the rolling blackouts at the end of January, the deterioration in sales was rooted in the wave of uncertainty that beset local participants and foreign investors. This was reflected in the rand's average 68c plunge against the dollar in February, despite positive rhetoric from the President in the State of the Nation Address, and a healthy Budget delivery by the Minister of Finance.

Indeed, the economy's growth potential has been questioned in the light of political uncertainties, the energy crisis, and seemingly runaway inflation. Furthermore, unfavourable news, which may warrant further interest rate hikes, has compounded such fears. To this end, consumer confidence has taken a knock, despite the South African Reserve Bank's (SARB) decision at the end of January not to hike interest rates further. Consumers, especially at the entry-level segment of the car market, would have been deterred by the sizable petrol price under-recovery, which at the end of the month resulted in a petrol price hike of 61c/l. This pushed the petrol price above the psychological R8/l mark, which is bound to be pushed higher by the government's Budget announcement of an 11c/l increase in fuel levies due for April. The onslaught on individuals' finances from the higher petrol prices, inflation, and debt servicing cost, will become entrenched in car sales this year. The section below provides some colour to the constitution of last

TABLE 1: VEHICLE SALES – FEBRUARY 2008

	% y/y	% m/m	% YTD
<b>New passenger cars</b>	<b>-14.8</b>	<b>-9.6</b>	<b>-14.7</b>
<b>Commercial vehicles</b>	<b>-7.5</b>	<b>11.7</b>	<b>-3.4</b>
Light	-10.7	9.3	-6.3
Medium	2.2	14.2	12.1
Heavy	9.4	38.2	11.6
Extra heavy	22.2	28.3	16.7
Buses	72.1	60.3	49.6
<b>Total</b>	<b>-12.0</b>	<b>-2.0</b>	<b>-10.8</b>

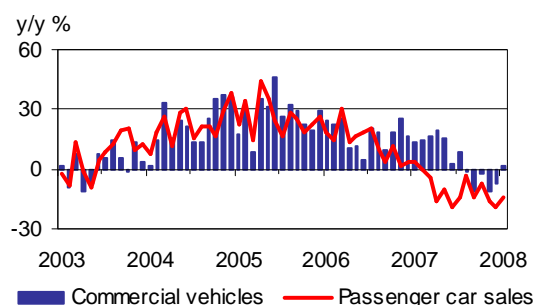
Source: NAAMSA

TABLE 2: VEHICLE EXPORTS – FEBRUARY 2008

	% y/y	% m/m	% YTD
<b>New passenger cars</b>	<b>56.8</b>	<b>66.7</b>	<b>59.6</b>
<b>Commercial vehicles</b>	<b>-16.9</b>	<b>113.1</b>	<b>-15.0</b>
<b>Total</b>	<b>23.3</b>	<b>78.7</b>	<b>27.3</b>

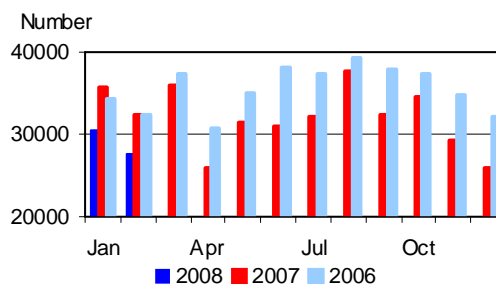
Source: NAAMSA

FIGURE 1: CARS AND COMMERCIAL VEHICLES



Source: NAAMSA

FIGURE 2: MONTHLY VOLUMES OF PASSENGER CAR SALES



Source: NAAMSA



year's sales, giving rise to the expectation that the easing in car sales growth this year may become broad-based.

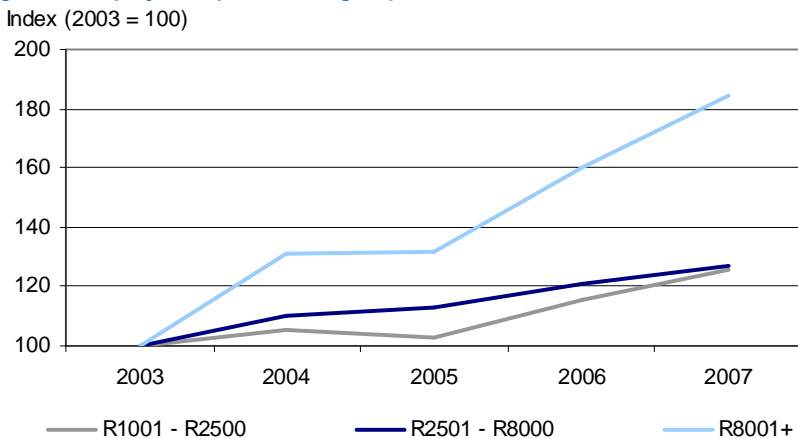
### Underlying trends in passenger car sales since 2003

Interest rates have increased by 4 percentage points since June 2006, which has rendered dealers' showroom floors nothing short of listless. Explaining, in part, the strong declines in vehicle sales growth since last year is the total number of new car purchases since 2003, following the onset of the 6.5 percentage points decline in the repo rate. Over 1.4 million new cars were sold over this period, and employment in the non-agricultural formal and informal sectors increased by around 10%, or 1.3 million individuals between March 2003 and 2007. As a result, a larger employment pool gave rise to some 56% growth in income over this period, while the number of new cars increased by nearly 40% over this period. However, given the current economic environment, lower employment and income growth may therefore not be strong enough to provide fresh impetus to the market this year.

Employment gains have important implications for the car market. Interestingly, though, total employment growth has been weighed by the cumulative decline of employment in the very-low-income group (750 000 individuals or -23%), those earning between R1 and R1 000 per month. This income group accounted for 36% of total employment in 2003 relative to the present 26%. The number of employed in the lower-middle- to high-income groups has risen by some 33.3% (2.5 million individuals) over this period, contributing to the substantial increase in the width and depth of consumption expenditure. Employment of individuals earning R8 000 per month and more has grown by 84% since 2003, while employment of those earning R1 001 – R2 500 per month and R2 501 – R8 000 per month has grown by 26% and 27% respectively over this period (see Figure 3). Therefore, the run-up in household debt is not only a function of favourable macrofinancial conditions but also of strong employment growth.

This significant increase in employment in the middle- to higher-income groups left its mark on the new car market. More specifically, the number of new cars sold in the lower entry segment (R120 000 and lower) of the market increased substantially by some 88% between 2003 and 2006. However, when including 2007, when the impact of the 2006 rate hikes began to bite, and the tightening campaign was extended, this growth rate collapsed to 38%. This serves to confirm the relative indebtedness of these individuals, as financing costs rose by around 40% once rates had started moving higher. Furthermore, the impact of tighter credit lending standards suggested that lower-income individuals were less likely to obtain access to credit, especially if they were already overextended. The number of new cars priced between R120 000 and R250 000 grew by 84% between 2003 and 2006, falling to 57% when 2007 is included, and the number of cars sold priced between R250 000 and R450 000 grew by 104% between 2003 and 2006 and accelerated further to 108% including sales in 2007. Sales of cars priced above R450 000 accelerated by 109% between 2003 and 2006 and 110% between 2003 and 2007.

Figure 3: Employment per income group from 2003



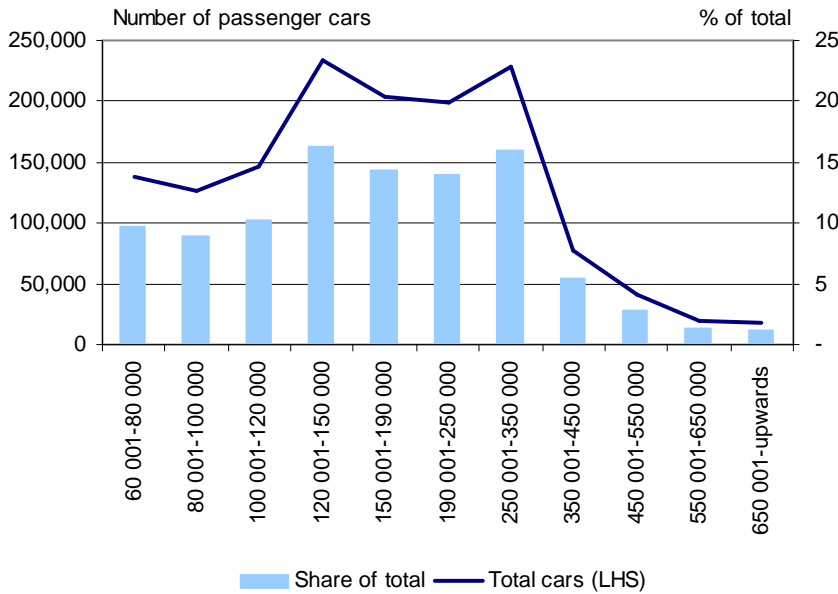
Source: Stats SA, Standard Bank Group

As indicated in Figure 4, the total number of vehicles sold since 2003 has been concentrated in the R120 000 – R150 000 and R250 000 – R350 000 price bands. These price bands represent middle- to high-income households, where strong employment and income growth have been recorded. In the low-



income categories, individuals may have been burdened by high debt levels and associated servicing costs, while, at the top end of the scale, this interest rate sensitivity seems to be less pronounced.

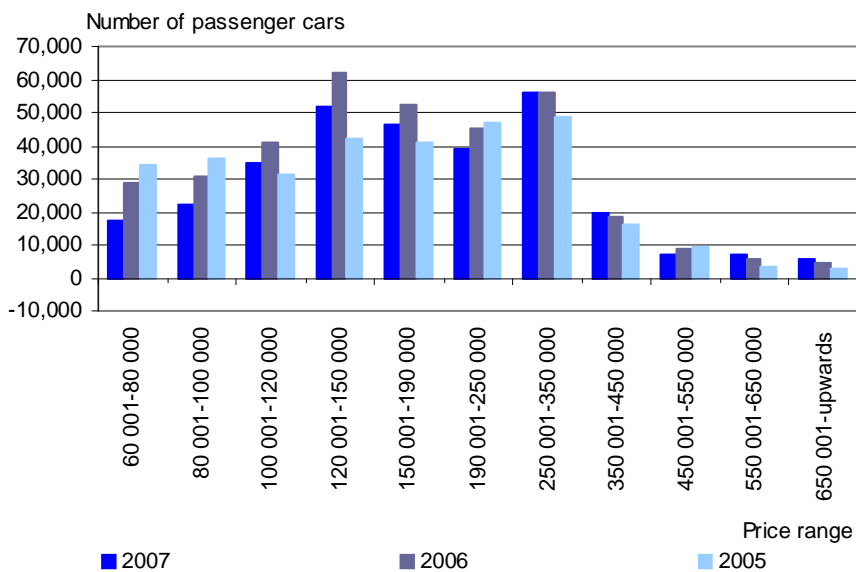
**Figure 4: Total car sales per price band since 2003**



Source: Response Group Trendline, Standard Bank Group

Figure 5 clearly shows that, while in 2007 a lower number of vehicles drove onto SA's roads in comparison to 2006, the luxury end of the market (R550 000 and higher) and vehicles priced within the R250 000 to R350 000 target band remained lofty, if not higher. Factors supporting such demand relate to more creative financing options, such as higher residual values, balloon payments and the like, while income growth may also have been stimulated by relatively strong house price growth and favourable advances in the equity market. In 2008, given the tightness in global economies, and a more challenging corporate profit growth environment, sales in the premium market may struggle to keep pace with the buoyancy of the past two years.

**Figure 5: New passenger cars per price band (2005 – 2007)**



Source: Response Group Trendline, Standard Bank Group



Table 3: Selling rates per day (SRPD)

	SRPD		Sales per day		
	February '08		Feb '08	Feb '07	Jan '07
	y/y %	m/m %			
Passenger cars	-18.2	-6.0	1100	1345	1171
Light commercial vehicles (LCM) (<3.5 tons)	-14.3	13.7	621	724	546
Medium commercial vehicles (MCV) (3.5 – 8.5 tons)	-1.9	18.8	50	51	43
Heavy commercial vehicles (HCV) (8.5 – 16.5 tons)	5.0	43.8	25	24	18
Extra heavy commercial vehicles (EHCV) (> 16.5 tons)	17.3	33.4	49	42	37
Buses	65.2	66.7	5	3	3
<b>Total</b>	<b>-15.5</b>	<b>1.9</b>	<b>1850</b>	<b>2189</b>	<b>1816</b>

Source: NAAMSA, Standard Bank Group

**Bottom Line:** Growth in car sales was pressured in February by the growing uncertainty in the economy, which was underpinned by the negative foreign investor sentiment in the economy. This was reflected in the rand's significant fallout against the dollar exchange rate in February. Underlying trends in the motor market point to a difficult year ahead, with the previous support from the premium market likely to fade as economic activity and income growth slows, while prices in the used car market is likely to fall further as vehicle repossessions increase. Further underpinning the sluggish outlook is the bearish sentiment in financial markets and zero to negative growth in house prices, which imply that households may see less support from wealth effects this year. While the commercial vehicle market will pick up some of the slack in the passenger car market, sales growth is undoubtedly expected to cool off from the exorbitant rates last year. Anecdotal evidence point to smaller enterprises and some manufacturers cutting back on new investment spending – a trend which will weigh on growth prospects in the commercial vehicle market this year.



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