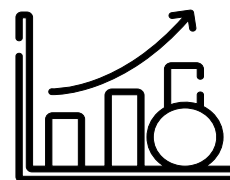
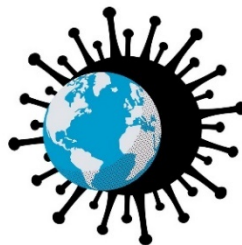




REIMAGINING THE FUTURE TOGETHER

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

AUTOMOTIVE SECTOR RISK ADJUSTED MEASURES



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 Sector Risk Adjusted Measures

INFLUENCING FACTORS	RETURN TO WORK SCENARIO STRATEGIES FOR THE AUTOMOTIVE SECTOR			
		SHORT TERM [35 DAYS LOCKDOWN AND TRADING PARTNERS LOCKDOWN]	POSSIBLE DOMESTIC LONG-TERM EXTENSIONS AND TRADING PARTNERS DISRUPTIONS	RECOVERY STRATEGIES
BUSINESS CONTINUITY & FINANCING	Cost of doing business has significantly increased- The South African Rand has depreciated significantly against all major currencies during the Covid-19 pandemic, due to all three major credit rating agencies having had downgraded SA into non-investment grade ¹ . The exchange rate affects inflation through two channels, namely, the prices of	The automotive value chain and SKD assembly lines were shut down for the lockdown. The lockdown alert level proposed and the implementation Level 4 restrictions on employment level [50%] could lead to short-times for labour for an extended period, impacting production, sales, and export 2020 targets.	Set up of a Pandemic Response Team [PRT] which is a cross-functional team led by Plant Manager. The Plant Manager has overall responsibility for the site's pandemic preparedness and response plan, coordinating and aligning with industry established PRTs. Evaluate working capital and liquidity requirements.	

¹ Moody's, Fitch and S&P rating agencies downgraded SA between the 27 March-29 April 2020

		imported finished products, as well as the prices of input costs for the automotive sector <i>[automotive import distributors and import of components effects]</i> .	Considerations for prior business expansion strategies and vehicle production orders may need to be reviewed in line with the country's lockdown extensions.	Control discretionary operating costs and CAPEX. Negotiate more flexible financing terms with lenders for the duration of the lockdowns. Due to the unexpected financial difficulties companies are experiencing currently and possibly for the rest of the 2020 financial year, fixed costs reliefs from the government to be applied for include, the consideration of ESKOM to introduce rebates and/ or waivers for the 2020 winter tariffs [June to August]. Considerations to be made as a qualification criteria for this tariff rebate can be any OEM or component company confirmed as a participant in the automotive manufacturing value chain, using the same auditable qualification criteria as for APDP [either R10 million p.a. or 25% of turnover into an OEM value chain].
	SUPPLY CHAIN DISRUPTIONS	Logistics challenges and delivery disruptions at the national ports of entry and on national roads because of miscommunication between different	Important considerations: Domestic market- Lockdown extensions lead to shortages in raw materials and input used in the production of cars.	Domestic market- Vehicle manufacturers produce vehicles on the strength of orders received from the dealers which accounts for more than 36% of all vehicles manufactured locally. During the lockdown

	<p>state-owned entities and law enforcement agencies.</p> <p>Important contemplations- during a pandemic, industrial sectors compete with the essential service- health sector for material inputs for ventilators and other medical machinery and equipment, causing supply chain delays for the duration COVID-19 epidemic.</p>	<p>Trading partners- Delayed response shocks due to significant reductions in imports and exports for 6-7 months due to lockdown in trading countries.</p>	<p>period, there must be collaboration, synergy and alignment in the entire automotive value chain operation. Administrative and other functionaries, such as roadworthy assessment and testing centres, other testing stations, and local licensing and registration departments should be aligned to vehicle manufacturing and auto retail & dealership network.</p> <p>International supply back-lock disruptions will be depended on the speed at which our trading partners can recover from the Coronavirus crisis and be fully open to trade.</p>
<p>PRODUCTION PRESSURES</p>	<p>The manufacturing sector has experienced production shortfalls due to supply chain disruptions of import goods sourced from China [January-Mid April 2020]. The lockdown regulations have impacted production. Exports fell by 21,5% as a result of the three days lost in March 2020.</p> <p>A full month of production has been lost in April 2020. Exports and sale have</p>	<p>Important considerations- Plant managers to reassess what proportion of the assembly sites operate manually vs. mechanized operation, to readjust contracts and production targets accordingly.</p>	<p>Reinvent and create new products [protective face shields, ventilators, for the duration of the lockdowns and the extensions, epidemic and the allowed minimum normal automotive vehicle production.</p>

		decreased by 90% for the month of April 2020.		
	LABOUR FORCE CONSIDERATIONS	A collective automotive industry position communicate on the industry challenges and strategies surrounding COVID-19 developments should be continuously communicated with labour. This will assist in addressing unnecessary impasse between labour and employers that may arise because of prior obligations and some expectations having to be delayed or withdrawn due to the unplanned business challenges posed by the coronavirus epidemic.	<p>Exposure of employees to the COVID-19 would need to be monitored through screening even after the relaxation of lockdown levels. If the workforce becomes a large part of the total number of COVID-19 infected cases in the country, then inadvertently production will be impacted.</p> <p>South African government COVID-19 advisors have argued that SA is in still in the early stages of the pandemic. In the long-run automotive companies will have to:</p> <ul style="list-style-type: none"> - Reassess the ability to meet payroll, - The proportion of the workforce likely to be retrenched or short-time considerations? 	<p>Labour related risk and collective communication plan must be put in place,</p> <p>Put Supportive measures for employees COVID-19 screening and testing before and after returning to work as and when the need arises.</p> <p>Encourage self-isolation for employees who test positive to COVID-19.</p> <p>Prepare and implement numerous protection measures to enable employees to start work.</p> <ul style="list-style-type: none"> - All employees to be provided with face masks and other Personal Protective Equipment [PPE]. - Encourage remote working for those employees who do not have to be on site.

				<p>- Enforcement of social distancing of up to 1,5m across workstations at all our manufacturing facilities and at all shared spaces such as canteens, change rooms, meeting areas, and turnstiles.</p> <p>The government must assist with special incentives for employers who retain their staff to protect against job losses or short-time/short-pay strategies.</p>
	<p>MANAGING CONSUMER EXPECTATIONS</p>	<p>Uncertainty about the progress of the disease- “Wait and see” demand purchase disruptions.</p> <p>Households increase precautionary savings, avoiding purchasing vehicles for the foreseeable future.</p>	<p>E-commerce- remote/virtual vehicle sales will increase as most customers observe social distancing and COVID-19 lockdowns. Vehicle advertising strategies must factor this going forward.</p>	<p>Home services for customers- for the delivery of purchased vehicles and purchases of vehicle parts.</p> <p>As personal contact continues to be kept to a minimum, vehicle financing, insurance and all validation may have to move online.</p> <p>Online vehicle auctioning to be adopted.</p>

ADDITIONAL NOTES FOR INFORMATION

- This is section 5.2 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 or Sharon MODIBA, Executive manager: Economic Policy & Data Management, sharon@naamsa.co.za
- More information can be found on www.naamsa.co.za.

NAAMSA OFFICES: PRETORIA | MAY 2020