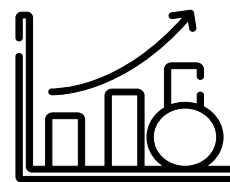
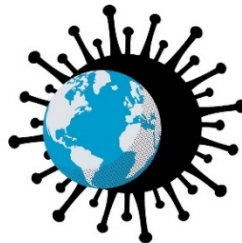




REIMAGINING THE FUTURE TOGETHER

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

IMPACT OF COVID-19 ON THE SA AUTOMOTIVE SECTOR



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

NAAMSA

PRETORIA | Date: MAY 2020

Author: Sharon MODIBA

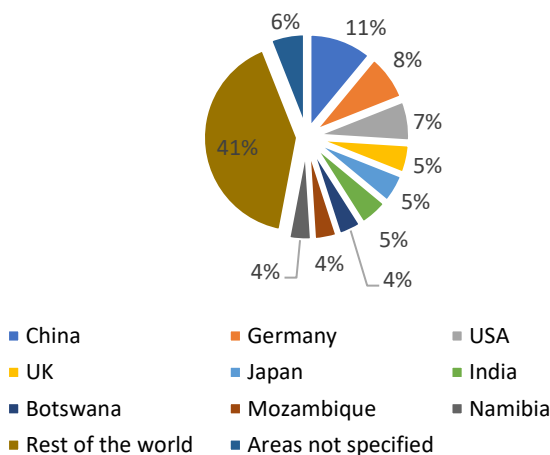
Impact of COVID-19 on the SA Automotive Sector

The uncertainty surrounding the duration and severity of the COVID-19 crisis makes it hard to anticipate how a recovery could unfold for the industry. The COVID-19 pandemic and its attendant effect on markets and commercial activity will likely present a range of challenges to the Automotive industry - challenges that could deepen depending on the severity and length of the crisis in South Africa and globally.

“China, Europe & US have been severely affected by COVID-19 pandemic”

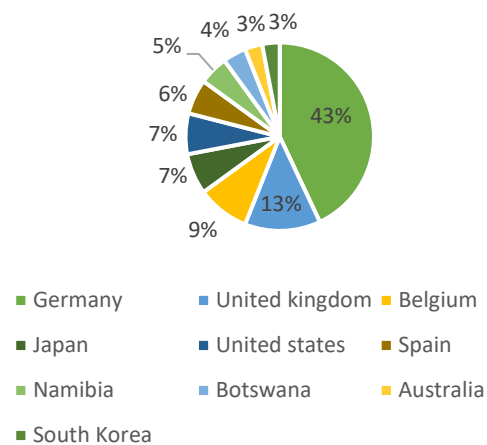
The South African automotive industry exported to 151 countries in 2019 to diversify risk, however, most of these countries have now been affected by COVID-19: Europe, Asia [China], and the US [see figure 6]. Consequently, the domestic markets ability to export will depend on the lockdown regulations and periods in trading countries. Naturally, this implies the SA automotive sector’s supply chains and assembly lines have been negatively impacted. Additionally, even though sourcing principles still apply, the speed with which trading partners can recover and open trade is a critical factor for the All South African export-orientated sectors. The risk exposure to suppliers from affected COVID-19 countries could present a case for potential localisation opportunities in South Africa.

Figure 5: South African Total Manufacturing Exports per country



Source: NAAMSA using StatsSA, 2020

Figure 6: South African Automotive Industry's top export destination



Source: AIEC & SARS, 2019

Global development

In a global context, China with vehicle production of 25,7 million vehicles in 2019, accounted for 28% of total global vehicle production of 91,8 million vehicles and sales of 25,8 million units, or 28,2%, of global vehicle sales of 91,3 million units. China's total vehicle production and sales market exceed European Union, United States, and Japan markets combined. China is currently the centre of the global automotive industry and many OEMs have partnerships with Chinese domestic OEMs and own plants in the country. Almost 80% of the world's automotive supply chain is connected to China. Developments in China, therefore, have a significant and measurable impact on the global automotive industry in general. The global automotive industry is expected to witness significant delays in demand for this year, with global vehicle sales forecast to decline by more than between 12% up to 20% based on various industry commentators. Vehicle sales in China fell by 20% in January 2020, by 80% in February 2020 and by 50% in March 2020 [China Automotive flash report, 2020]. The country resumed production of vehicle and component the last week of February 2020.

In 2019, China was South Africa's 7th largest automotive trading partner with imports of R18,6 billion of which R4,6 billion original equipment components and R12,5 billion aftermarket components. As a result of the knock-on effect from China, South Africa's new vehicle sales fell by nearly 30% in February 2020. By the last week of February, more than 90% of over 300 automotive component suppliers outside Hubei had resumed production. While all plants have reopened in China, production rates were however still low given the decline of orders from OEMs around the world, logistics problems as well as uncertainty around the coronavirus epidemic.

US market forecasts for 2020 US auto sales to be 14.4 million units, down by at least 15.3% year over year. The US volume downgrade forecast is 2.4 million units for 2020. Europe is South Africa's automotive sector main trading region. In monetary terms, the region comprised of R129,7 billion, or 64,3% of South Africa's vehicle and component exports sales and R119,2 billion, or 51%, of the country's vehicle and component imports of R233,7 billion for the 2019 period. While in volume terms, vehicle exports to the EU comprised 285 599 vehicles, or 73,8%, of total vehicle exports of 387 125 vehicles in 2019. EU passenger cars demand for the year 2020 is set at 15.6 million units, down by 13.6% from the 2019 passenger cars demand. This represents a volume downgrade of 1.9 million units versus pre-coronavirus settings [HIS Markit, 2020].

Europe vehicle demand for 2020 is projected to be down by 15 to 20% over 2019, US demand by 15 to 20%, China demand by 8 to 10% and the rest of the world by 15%. Total global vehicle sales forecast, and subsequently vehicle production, is projected to decline by around 15%+ to less than 80 million units in 2020 from 90,3 million units in 2019 due to the Covid-19 outbreak, with knock-on effects into 2021. A fall of 12% in global vehicle sales for 2020 would already be considerably worse than the two-year peak-to-trough decline of 8.0% during the global recession in 2008/2009.

Sub-Saharan Automotive industry development

SA Automotive footprint in Africa

The World Bank is forecasting that growth across sub-Saharan Africa [SSA] will fall sharply to between - 2.1% and -5.1% in 2020, from an expansion of 2.4% in 2019, and plunge the region into its first recession in 25 years. Africa was the domestic automotive industry's second largest export region in 2019 with exports amounting to for R31,9 billion, or 15,8%, of the country's total automotive exports of R201,7 billion. The following table1 reveals that the main export destinations for trucks and buses have consistently been South Africa's neighbouring countries in the Southern African Development Community [SADC] region. Zimbabwe was the overall top destination for all truck and bus exports in 2019, and this included extra-heavy commercial vehicles, heavy commercial vehicles, and buses, while for medium commercial vehicles the top destination was Mozambique.

Table 1: Top destinations and region for medium, heavy commercial vehicles and buses exported - 2015 to 2019

Country	2015	2016	2017	2018	2019
Total [R billion]	3,9	4,1	3,7	4,3	4,6
Ranking of exporters	MAN	Volvo Group	Volvo Group	Volvo Group	Volvo Group
Number 1 to Number 5	Volvo Group	Scania	FAW	MAN	Toyota
	Scania	GM/Isuzu Trucks	Iveco	Scania	Scania
	GMSA/Isuzu Trucks	Iveco	MAN	FAW	MBSA
	Iveco	FAW	Scania	MBSA	MAN
Zimbabwe	278	294	181	277	294
Mozambique	213	201	227	304	199
Zambia	126	165	210	189	194
Tanzania	143	201	173	94	52
Mauritius	7	15	20	65	31
Malawi	64	64	92	47	28
Mauritania	0	0	0	12	15
Uganda	42	43	19	111	6
Angola	20	2	0	0	6
Saudi Arabia	0	0	0	4	2
Kenya	219	55	54	23	0
Other	28	10	14	10	0
AFRICA	1 112	1 041	980	1 126	825
Total [units]	1 120	1 050	990	1 136	827

Source : NAAMSA/Lightstone Auto, SARS, 2019

Even before the COVID-19 epidemic, the African continent has been going through challenges ranging from political to economic instability. China has a significant footprint in the manufacturing activities in Sub-Saharan Africa. Although China is slowly recovering from COVID-19 and began manufacturing activities, this has not translated into 'a green light' for most of the African country trading with china, as most are currently on lockdown. Companies with heavy production and sales footprint in Asia, Western Europa and North America will be highly affected if the wave of Coronavirus continues globally.

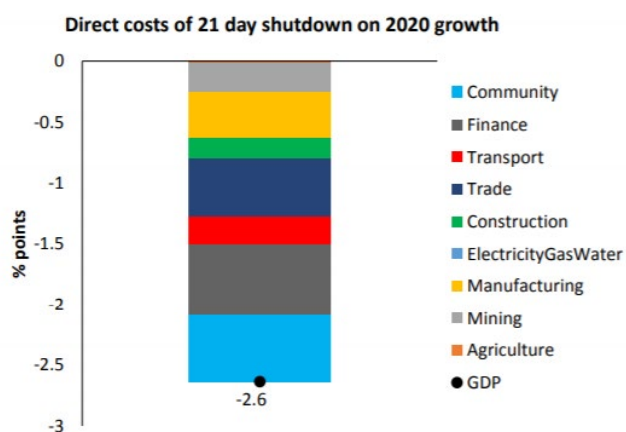
The rebound of African economies coming out of COVID-19 lockdowns should coincide with the implementation of the African Continental Free Trade Agreement [AfCFTA] in July 2020. The most important deliverable for AfCFTA after COVID-19 will be to harmonise investment, trade, and infrastructure environment to boost economic growth and manufacturing capabilities of African countries.

In relation to the automotive sector, the Automotive African Association of Automotive Manufacturers [AAAM] objective is to assist in advancing industrialisation and automotive manufacturing in Africa. After the epidemic, the main pillars driving the work of the AAAM should be reprioritised to drive the outcomes below;

- **Trade policy** - investment and manufacturing capability;
- **Technical matters** - the industry is immensely complicated [e.g. emission standards, vehicle inspection, fuel quality] and countries require technical expertise that will be able to speedily respond to the current crisis at hand among other issues;
- **Skills adjustments** - beyond the coronavirus crisis, it is clear that the right type of skills for the automotive industry needed to be developed in Africa are technical skills which will be able to operate in the innovation of mobility in the automotive sector and the gradual movement to digital migration.

Domestic market Impact

Figure 6: IMPACT OF THE 35 DAYS LOCKDOWN [SA]

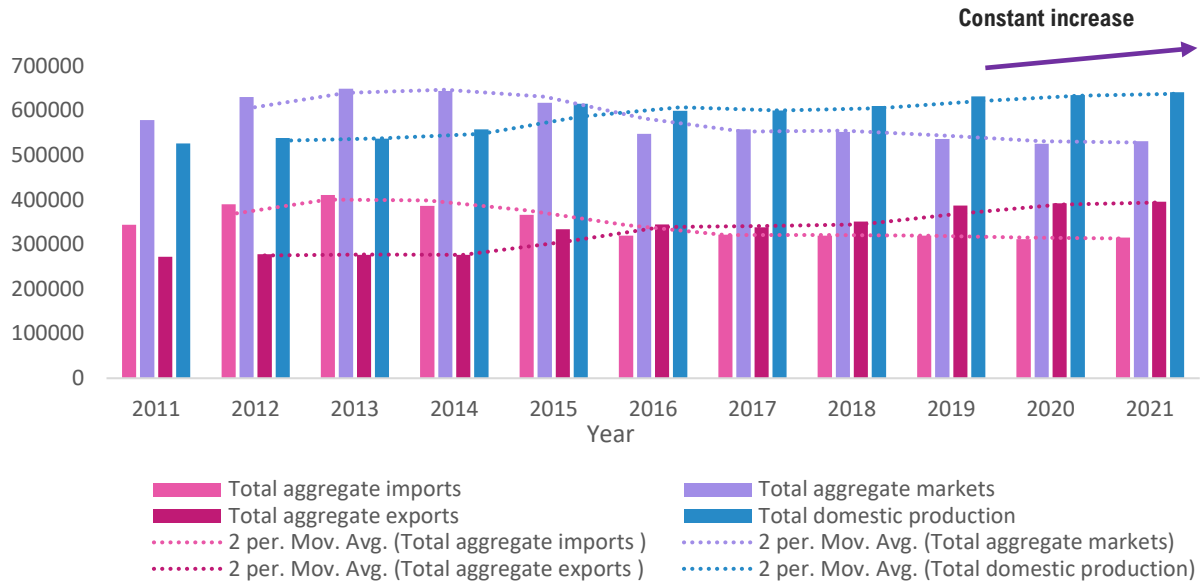


Source: South African Reserve Bank, 2020

The Coronavirus has resulted in mass production shutdown and supply chain disruptions across various sectors of the economy. SARB [2020], has reported that the direct effect of the shutdown of industries is bound to detract from projected annual growth rates, shown in Figure 6. South Africa's Top 10 OEMs have diversified production and sales footprint in the world.

However, with the envisaged distraction on the demand and supply side and a very uncertain economic outlook, the automotive industry, just like all other industries will have to undergo rapid consolidation. The direct impact on production, export and sales activities is shown in Figures 7 and 8.

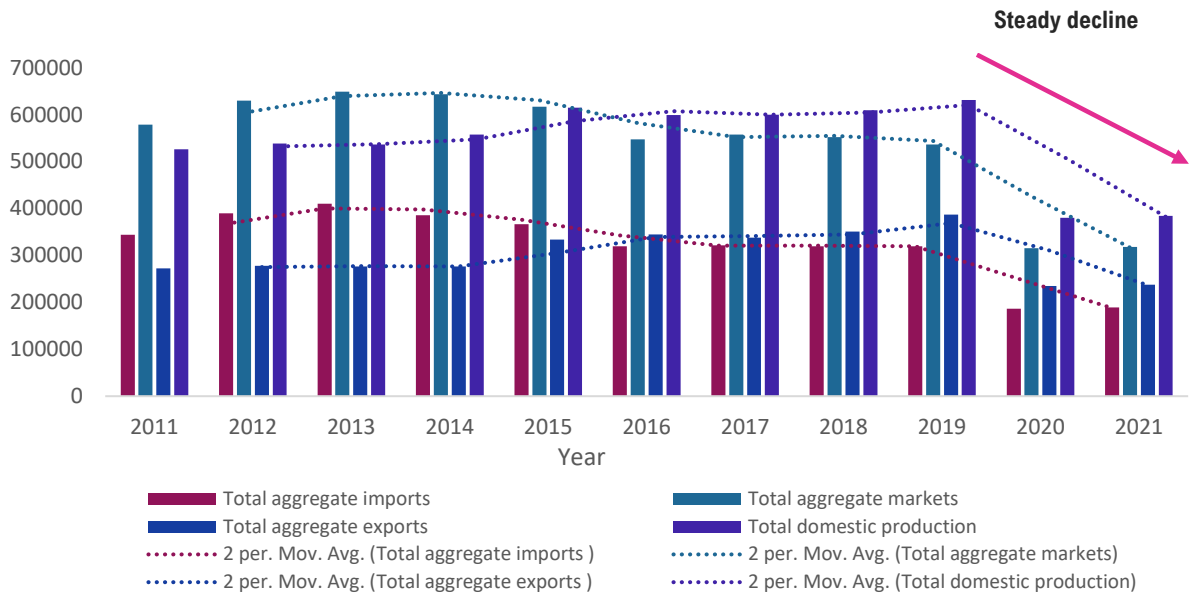
Figure 7: South African Automotive Market Volumes [Before COVID-19]



Source: NAAMSA, 2020

Figure 7 shows the overall performance of the automotive sector, in terms of production, exports, imports, and the aggregate market volumes. The 2020 and 2021 projections in figure 7 are based on NAAMSA’s analysis and demand assumptions and do not factor in supply-side disruptions. On average, before the COVID-19 market disruptions, 2020 was projected to yield a total domestic of production, export of 634 400 and 391 900 units respectively, with a total aggregate market of 525 500 vehicles. Similarly, the projection for 2021, was set at 641 000, 396 000, and 531 000 units for total domestic production, total exports, and total aggregate market. In the absents of COVID-19 fuelled lockdowns and halt in production activities total domestic production, total exports, and aggregate markets show percentage point increases of 1,05; 1,05 and 1,04 respectively. The graph shows that over time, total aggregate imports have declined in the automotive sector. For the period between 2011 to 2019, imports decreased by 7,08% and prior COVID-19 epidemic, the projected decline for imports for the period 2011 to 2020 was 9,49%, which is 2,41% lower than in 2019. The predicted declines in imports are particularly important for the localisation targets set out in the South African Automotive Masterplan 2035.

Figure 8: South African Automotive Market Volumes [during COVID-19]

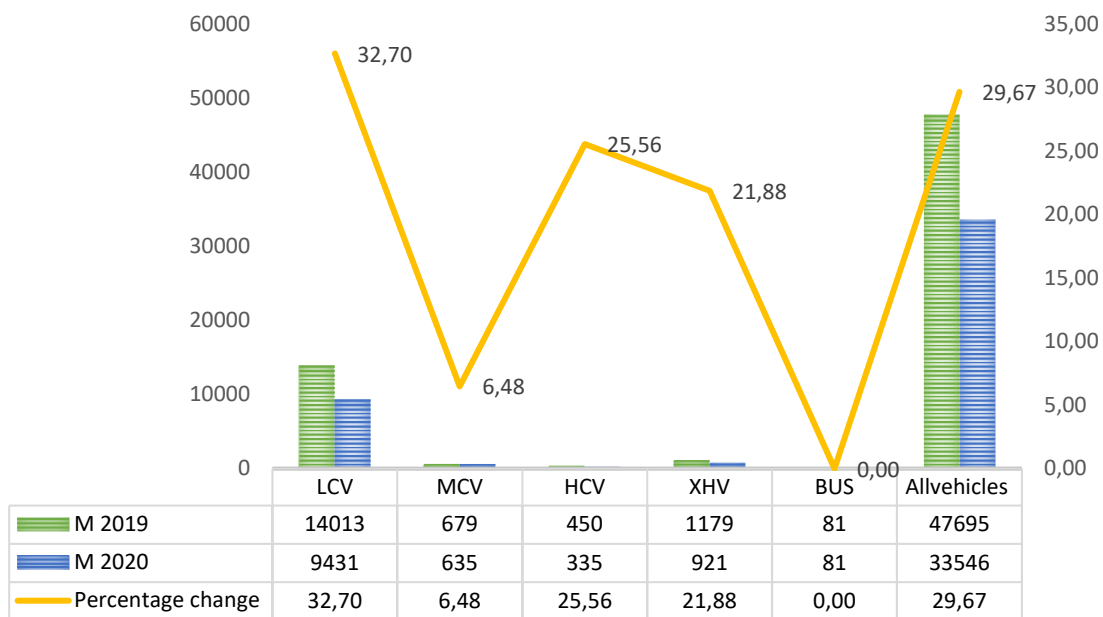


Source: NAAMSA, 2020

Figure 8 shows the South African automotive volume performance of vehicle aggregate imports, exports, production, and total market linked to the duration of the COVID-19 epidemic. The industry lost three working days during the of month March and a further whole month of April, negatively impacting production, domestic new vehicle sales, and exports. Taking into consideration the supply chain disruptions, possible global lockdown extension in SA and abroad, and that SA is said to be facing its first spread of the COVID-19 virus, the South African automotive market might take a knock as high as 40% in 2020 as predicted through the moving average trendline between 2019 and 2020.¹

¹ Predictions are made on the worst-case scenario

Figure 9: South African Automotive Sector Local sales Market [Y-on-Y]



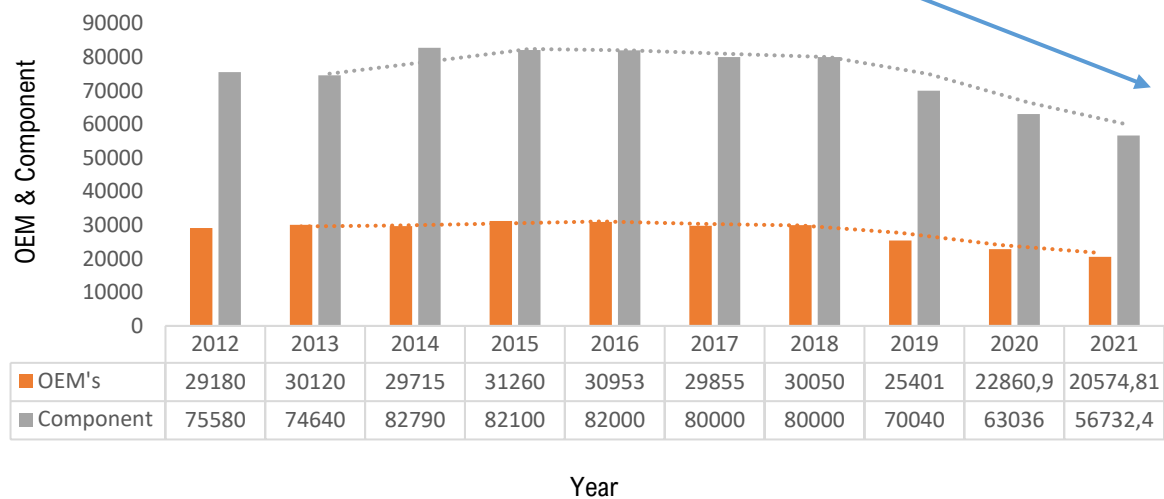
Source: NAAMSA, Lightstone, 2020

Figure 9 shows that in March 2020, aggregate domestic new vehicle sales numbers continued to decline at the back of the recent developments around the coronavirus and challenging economic conditions in the country. The new vehicle sales statistics for March 2020 reflects a substantial decline of 29,7% compared to March last year while export sales showed a huge fall of 21,5% compared to March last year. Light car vehicles reflect the highest decline of 32,70% y-on-y, base month-March. Medium and Heavy vehicle market showed a collective decline of 32,04%.

The extension of the national lockdown, totalling 25 working days, will have huge implication for production, new vehicle sales and exports for the month of April 2020. Vehicle sales and exports could decline as low as around 80% for the month of April. New vehicle sales statistics for April 2020 reflects the expected decline of 98,4% [36 213 units] from the 36 787 vehicles sold in April last year to the aggregate domestic sales of 574 units in April 2020. Equally, export sales at 901 units also registered a huge fall of 31 928 units or a decline of 97,3% compared to the 32 829 vehicles exported in April last year. Overall, out of the total reported industry sales of 574 vehicles, an estimated 275 units or 47,9% represented dealer sales, 37,8% sales to government, an estimated 12,4% represented sales to the vehicle rental industry, and 1,9% to industry corporate fleets.

It should be noted that A fall of between 12% and 40% for 2020 would be considerably worse than the two-year peak-to-trough decline of 8.0% during the global recession in 2008/2009.

Figure 10: Total Employment OEM & Component Manufactures [COVID-19 impact]



Source: ALEX, 2012-2019

The domestic automotive sector's significance is premised on its contribution to export earnings, employment, and GDP growth. The sector employs workers across various skills levels and is also central to re-industrialising the economy of South Africa. In 2019 the automotive sector created 468 000 formal jobs in the automotive industry. A further 588 273 formal jobs were created through industry linkages with other industries in the value chain. In total, the automotive industry supports over 1 million employees in the formal sector. The automotive sector contribution to the total compensation of employees in the formal and informal sector is 3,5%, about R78,7% billion [Econometrix, 2020]. Workers compensation will be impacted because of the closure of business during the lockdown period.

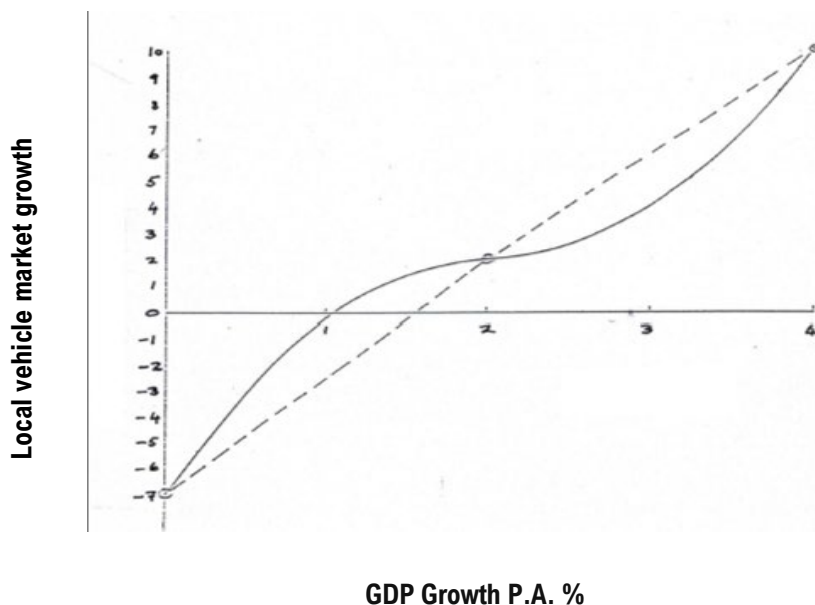
Figure 10 estimates national lockdown periods could lead to job losses of between 21% and 30% in the automotive industry. The real effect will be known with time lags. *The automotive risk-adjusted proposed by NAAMSA members to the SA government will be discussed in section 5.*

Economic Growth Impact

South African Reserve Bank

There is a close correlation between GDP growth and new vehicle sales. GDP growth in the range of 2,5% to 4,5% would tend to result in volume growth of 10% to 20% per annum. NAAMSA estimates that growth of between 1,5% and 2,5% is necessary to ensure modest growth in vehicle sales. Negative GDP growth of -4,5% would translate into negative volume growth of -20% and negative GDP growth of -6% to negative volume growth of -30%+. The SARB's latest prediction that the economy will contract by 4-6% in 2020. Such a contraction in GDP will mean it will be South Africa's worst economic performance since 1931 during the Great Depression. According to the World Bank, the potential macroeconomic impacts of the country's response to the global Covid-19 pandemic indicates that South Africa's GDP could slump by between 8% and 10% in 2020 and that more than a million jobs could be lost.

Figure 11: Relationship between GDP growth & domestic vehicle market growth



IMF predicts global growth will contract by 3% this year. This implies that COVID-19 impact on the economy is predicted to be the worst recession since the great depression of the 1930s and far worse than the global financial crisis of 2008/2009. Vehicle and automotive component export growth in 2020 will remain a function of the direction and performance of global markets. Vehicle sales declined by around 50% in coronavirus inflicted Western Europe in March and 40% in the US. Europe sales are expected to slump by over 80% in April 2020 while USA sales are expected to drop by at least 60%.

ADDITIONAL NOTES FOR INFORMATION

- This is section 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.

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