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Growth in new vehicle sales declined again in November 2019 after a mild rebound

Highlights

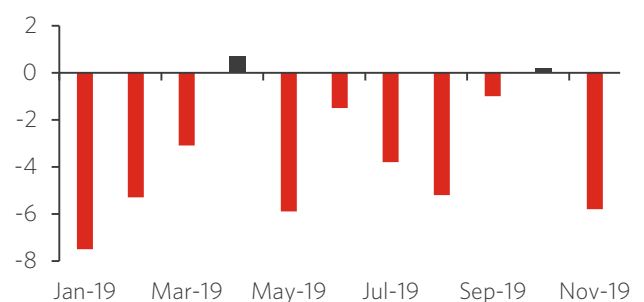
- In November 2019, growth in new vehicle sales declined by 5.8% down from 0.2% in October 2019. Together with the November 2019 number, there were nine out of 12 months where growth in new vehicle sales reported a contraction in 2019.
- New passenger vehicle sales accelerated at a slower pace and grew by 1.3%, down from 2.5% in October 2019. Growth remained in positive territory, boosted by the rental industry representing 21.9% of new passenger vehicle sales.
- Growth in new commercial vehicle sales reported a deeper contraction of 19.1% in November 2019, previously declining by 4.4% in October 2019.
- New export vehicle sales slipped back into negative territory and declined by 0.9% in November 2019, before rebounding to 21.1% in October 2019. New vehicle exports for 2019 surpassed the annual 351 139 units recorded in 2018 and are at a record of 374 215.
- The appropriateness of the current time to buy durables (a sub-index of the consumer confidence index) weakened further into negative territory in the third quarter of 2019, indicating a growing decline in appetite to buy durable items, such as new vehicles.
- Continued consumer headwinds are likely to see a muted growth in new vehicle sales in the coming months.

Short-lived rebound in new vehicle sales ended in November 2019

Growth in new vehicle sales data released by the National Association of Automobile Manufacturers of South Africa (Naamsa) for November 2019 contracted after reporting a marginal positive improvement in October 2019.

In November 2019, new vehicle sales declined by 5.8% in year-on-year (y/y) terms, down from 0.2% y/y in October 2019 (see chart 1). With the November 2019 number, nine out of 12 months reported a contraction in new vehicle sales growth in 2019.

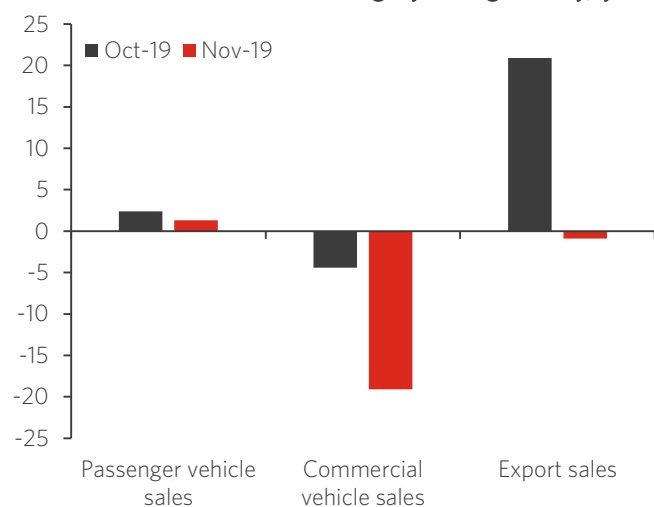
Chart 1: Growth in new vehicle sales weakened once again (%y/y)



Source: Naamsa, Momentum Investments

Although new passenger vehicle sales accelerated at a slower pace and grew by 1.3% y/y, down from 2.5% y/y in October 2019, it remained in positive territory (see chart 2). Luxury vehicles sold, namely, Maserati and Porsche, increased to 15 units from 6 units and to 119 units from 112 units respectively in November 2019, indicating that appetite for luxurious new passenger vehicle spends exists among specific consumers.

Chart 2: New vehicle sales category changes (% y/y)



Source: Naamsa, Momentum Investments

The car rental industry continued to support new passenger vehicle sales in November 2019. The share of new passenger vehicle sales taken up by the rental industry rose to 21.9%, up from 20.3% in October 2019.

New commercial vehicle sales reported a more profound contraction of 19.1% y/y in November 2019, previously

declining by 4.4% y/y in October 2019. New light commercial vehicles reported a deeper decline of 22.1% y/y in November 2019 from a softer 5.9% y/y decline in October 2019. Medium new commercial vehicle sales slumped into negative territory and declined by 7.6% y/y, down from 8.1% in October 2019. Heavy new commercial vehicle sales contracted by 1.8% in November 2019 down from growth of 1.7% in October 2019.

In November 2019 dealerships represented 78.6% (previously 76.7%) of new vehicle sales, the rental industry represented 15.9% (down from 20.3%), corporate fleets' share declined to 3.1% (from 3.7%) and the share of new vehicle sales taken up by government rose to 2.4% (up from 1.8%).

New export vehicle sales slipped back into negative territory and declined by 0.9% y/y in November 2019, before rebounding to 21.1% y/y October 2019. Year-to-date new vehicle exports for 2019 have surpassed the annual 351 139 units for 2018 and are at a record of 374 215.

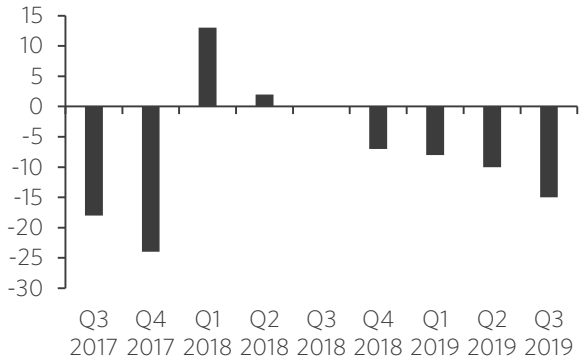
New vehicle sales are likely to disappoint in the fourth quarter of 2019 given the significant dip in November 2019 and nearly flat growth for October 2019. Significant growth in the December number would be needed to lift the fourth quarter number, which could in part be helped along by the sale of older models.

Used vehicles are still financially more attractive relative to new vehicles

Consumer confidence retreated into negative territory in the third quarter of 2019 to negative seven index points from five index points in the second quarter of 2019. The appropriateness of the current time to buy durables (a sub-index of the consumer confidence index) weakened further into negative territory in the second quarter of 2019 (see chart 3).

The index weakened to negative 15 index points from negative 10 index points in the second quarter of 2019. Consumer sentiment to buy new vehicles is significantly low. Low-income groups had the most significant deterioration in the appropriateness of time to buy durables, dipping by 12 index points to negative 17 index points.

Chart 3: Time to buy durables reading contracted further (net balance)



Source: BER, Momentum Investments

Household private sector credit has risen steadily from 3.5% y/y in October 2017 to 6.7% in October 2019 according to data released by the SA Reserve Bank (Sarb). However, this credit growth has not translated into spending on durable goods, including new vehicle sales.

New vehicle sales will likely continue to underperform in the near term, given the current low growth trajectory. Household spending is also expected to remain soft in the near term, given the high unemployment trajectory and low confidence. Continued consumer headwinds are likely to see growth in new vehicle sales remaining muted in the coming months.

