momentum investments

in the moment

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Milder decline in new vehicle sales in September 2019

Highlights

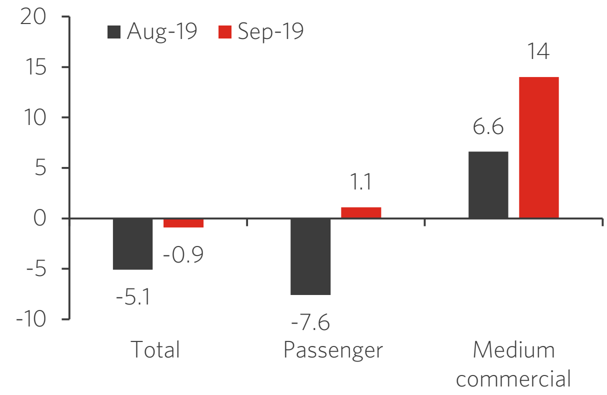
- The growth decline in new vehicles sales slowed in September 2019 to 0.9% from a deeper 5.1% contraction in August 2019.
- The third quarter of 2019 showed a deeper contraction in new vehicle sales to 3.2% from 2.2% in the second quarter.
- Passenger vehicle sales grew by 1.1% in September 2019 after declining by 7.6% in August 2019. Light commercial vehicle sales declined by 6.2% (previously 0.5%), medium commercial vehicle sales grew by a stronger 14.0% (previously 6.6%) and heavy vehicle sales contracted by 10.2% in September 2019.
- Export sales surprised to the downside and declined 3.0% in September 2019 from robust growth of 35.9% in August.
- The weakness in surveyed sales realised of used vehicle dealers in the ongoing downturn is more significant than the median of previous downturns, suggesting a struggling consumer.
- Slowing growth in South Africa's (SA) trade partners could further detract from new vehicle exports.
- Growth in new vehicle sales is unlikely to stage a major recovery in the near term due to weak domestic fundamentals and signs of a global slowdown materialising.

New vehicle sales still declined in September 2019, however at a slower pace

Growth in new vehicle sales for September 2019 improved moderately, however failed to rebound into positive territory according to the National Association of Automobile Manufacturers of SA (Naamsa). The data reported a decline of 0.9% in year-on-year (y/y) terms from a wider contraction of 5.1% y/y in August 2019 (see chart 1).

New vehicle sales reported a deeper deterioration in the third quarter of 2019 to 3.2% y/y from 2.2% y/y in the second quarter of 2019, representing softening momentum on a quarterly basis.

Chart 1: Decline in growth in new vehicle sales moderates (% y/y)



Source: Naamsa, Momentum Investments

This highlights that the significant durable spending rebound in the second quarter of 2019 is unlikely to have been sustained for the third quarter of 2019. Ongoing retrenchments since the start of 2019 and pressure on disposable incomes are likely manifesting with a decline in spend on big-ticket items.

The rental industry increased its share of new vehicle sales in September 2019 to 18.9% from 12.6% in August 2019. The rest of the categories' share of new vehicle sales declined in September 2019. Dealerships' share deteriorated to 76.7% from 81.6%, corporate fleets' share declined to 3.1% from 3.9% and government's share deteriorated to 1.3% from 1.9%.

The milder decline in growth in new vehicle sales was largely attributable to passenger vehicle sales which grew by 1.1% y/y in September 2019, previously declining by 7.6% y/y in August 2019. This rebound was driven by the rental industry, which represented 27.3% of passenger vehicle sales.

New light commercial vehicles declined by 6.2% y/y in September 2019 from the marginal 0.5% growth recorded in August 2019.

Medium commercial vehicle sales, however, grew by 14.0% y/y in September 2019 up from 6.6% y/y in August 2019, but heavy commercial vehicles declined by a shallower 10.2% y/y (previously declining 26.1% y/y).

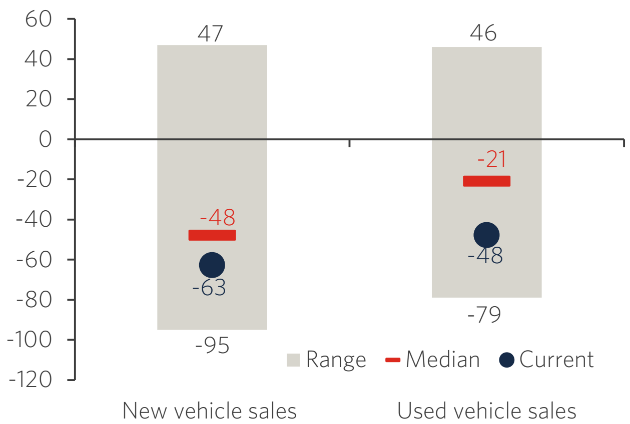
Export vehicle sales surprised to the downside and declined 3.0% y/y in September 2019 from the healthy 35.9% y/y rate in August 2019. Export sales are well underway to set another record in 2019, now 18.8% higher than what was recorded in the same period a year ago.

Domestic sales is weaker in the current downturn relative to the past

The retail survey published by the Bureau of Economic Research (BER) reported significant weakness in the vehicle sector of the survey, specifically for sales realised in new vehicle sales and used vehicle sales. Data in the third quarter of 2019 indicated that sales realised for both new and used vehicles has slumped significantly below the median surveyed during previous economic downturns in SA, however these values are still far from the bottom of the range (see chart 2).

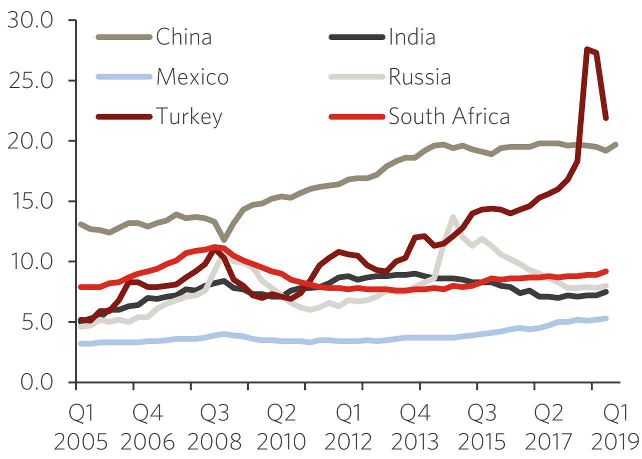
Although the recent readings for both new and used vehicles are below their median point, the index point differential between the current and median readings for used vehicle sales is wider than that of new vehicles sales. This could highlight how stretched consumers are in the current downturn. The lack of demand is therefore deeper than what has previously been experienced in used vehicles sales, which is generally an indicator of how constrained buyers are.

Chart 2: New and used vehicle sales realised in previous economic downturns (net %)



Source: BER, Momentum Investments, net % = % of respondents experiencing an increase in sales realised minus the % of respondents experiencing a decrease in sales realised

Chart 3: Private non-financial sector debt service cost (% of GDP)



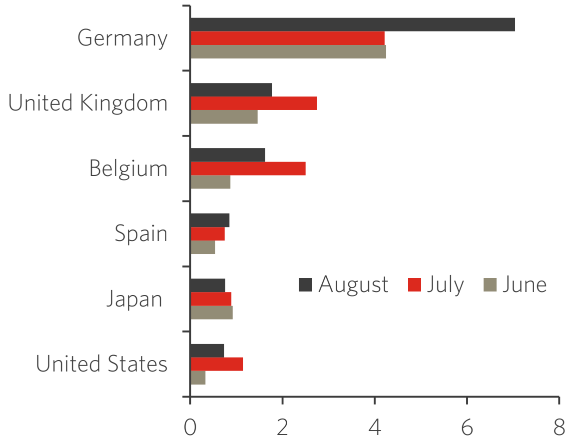
Source: BIS, Momentum Investments

Emerging markets are in the early to mid-cycle of the economic growth phase, which is traditionally supported by credit growth as was the case in the period prior to the global financial crisis. This is usually accompanied by a rise in debt-service costs as inflation and interest rates rise, however the SA private non-financial sector has delevered significantly post the global financial crisis and debt-service costs are still moderate in SA relative to peers (see chart 3). This indicates that there is room for further credit uptake in a moderate debt-service cost trajectory against a low inflation and interest rate environment. Nevertheless, the moderate credit cycle currently underway in SA is significantly stifled by weak demand in the economy, shown in both new and used vehicle sales, alongside sales of other big-ticket items.

Signs of the global slowdown materialising

The slump in export sales in September 2019 could likely be an indirect effect of the ongoing trade dispute. SA's largest vehicle export destinations are primarily based in the Eurozone (see chart 4). Although exports to these economies have slowed marginally, there was a significant rise in August to Germany (the largest export market in Europe) and Spain.

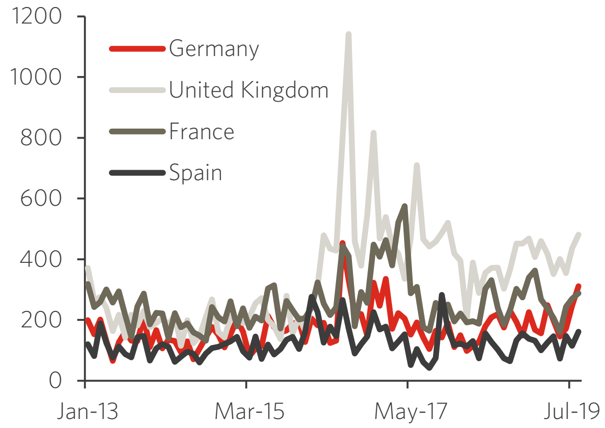
Chart 4: SA's vehicle and vehicle parts exports by destination (R'bn)



Source: Sars, Momentum Investments

These destinations have seen a rise in policy uncertainty as the trade disputes have detracted from growth (see chart 5).

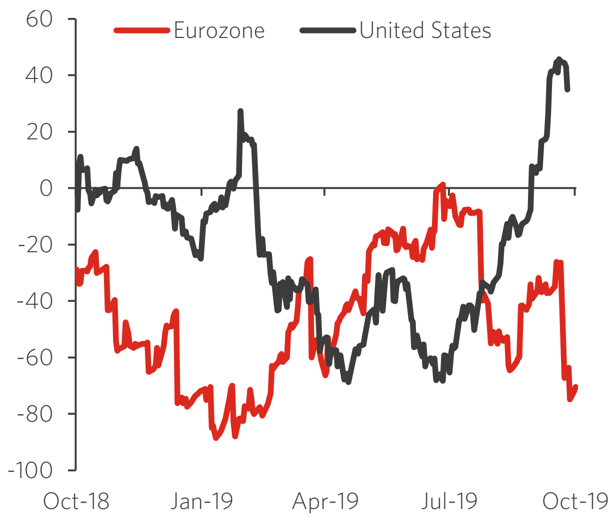
Chart 5: Rising policy uncertainty



Source: Political uncertainty.com, Momentum Investments

The United Kingdom has experienced a sharper rise in policy uncertainty attributable to the ongoing Brexit crisis, while all the other European economies and the United States are feeling the drench of geopolitical issues.

Chart 6: Economic surprise index



Source: Bloomberg, Momentum Investments

Economic data in the United States has remained fairly resilient and has been surprising to the upside (see chart 6). Economic data in the Eurozone has been surprising to the downside in the last year as the economy has been facing domestic structural changes amid increasing anti-globalisation and a backdrop of slowing global growth. A sharper growth slowdown in the Eurozone or the materialisation of a recession in the United States pose further risks to a deeper decline in new vehicle sales exports.

Growth in new vehicle sales is unlikely to stage a major recovery in the near term due to weak domestic fundamentals and signs of a global slowdown materialising.