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New vehicles sales print disappoints for May 2019

Highlights

- New vehicle sales declined by 5.7% in year-on-year (y/y) terms in May 2019 from an upwardly revised 1.2% y/y expansion in April 2019 (previously recorded at 0.7%).
- Passenger vehicle sales declined by 1.4% y/y and commercial vehicle sales contracted further by 12.6% y/y in May 2019, in line with depressed consumer and business sentiment.
- The decline in new vehicles sales is underpinned by weak domestic demand in the economy and ongoing financial strain among households, visible in the rise of vehicle and asset finance defaults.
- New vehicle exports unexpectedly declined by 8.8% y/y in May 2019, after growing robustly above 20% since the start of 2019.
- There has been an increase in the United States (US) and China's political risk scores, in line with an escalation in negative trade developments, which is negative for global and South African (SA) trade.
- Growth in new vehicle sales is expected to remain under pressure in the near term, given subdued consumer and business confidence capping growth prospects for durable goods and fixed investment, respectively. Less political uncertainty should, however, support higher levels of confidence and domestic demand in the medium term.

Rebound in new vehicle sales was short lived

The National Association of Automobile Manufacturers of South Africa (Naamsa) released the new vehicles sales print for May 2019. New vehicle sales declined by 5.7% in year-on-year (y/y) terms in May 2019 (see chart 1) from an upwardly-revised 1.2% y/y expansion in April 2019 (previously recorded at 0.7%). Growth in new vehicle sales had previously contracted for five consecutive months between November 2018 and March 2019, before the positive print in April 2019. Year-to-date new vehicle sales amounted to 211 749 units, which is lower than the 220 747 units sold for the same period a year ago.

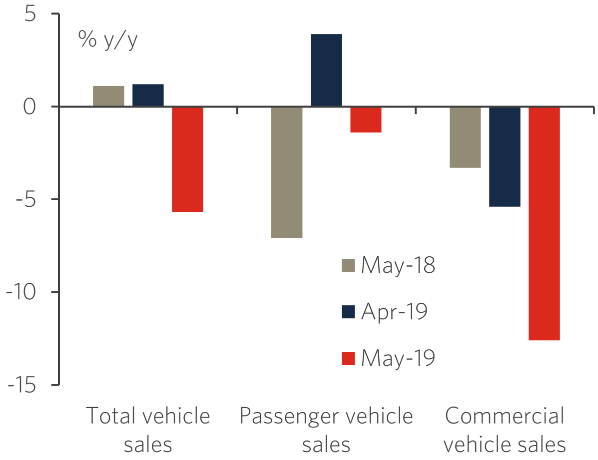
Passenger vehicle sales declined by 1.4% y/y in May 2019 from a robust 3.9% y/y in April 2019. Commercial vehicle sales contracted further by 12.6% in May 2019 from a 5.4% y/y dip in April.
Weak domestic demand in the economy and ongoing financial strain among households (visible in the rise of vehicle and asset finance defaults, which are included in the R16.2 billion retail sector debt default exposure in the SA Reserve Bank's (Sarb) financial stability review) have placed growth in new vehicles sales under pressure in recent months.

Growth in nominal disposable income has been shrinking and slowed from 6.5% in the first quarter of 2018 to 4.9% in the last quarter of 2019.
Lenders' willingness to extend credit has also weakened, as credit rejection rates to consumers have

been on the rise. Rejection rates reached 10.4% in the fourth quarter of 2018 from 9.4% in the third quarter of 2019. The change between the fourth quarter of 2017 and the fourth quarter of 2018 was significant at 28.6%. In addition, consumers' appetite for durable goods remains in the doldrums. In the Bureau of Economic Research's Consumer Confidence Index for the second quarter of 2019, consumers rated the appropriateness of the time to buy durables at negative 10 index points (from 0 or neutral in the third quarter of 2018).

Momentum Investments expects spend on durable goods to show a modest recovery in 2020, in line with a marginal improvement in jobs, household net wealth and confidence.

Chart 1: Short-lived rebound in growth in new car sales

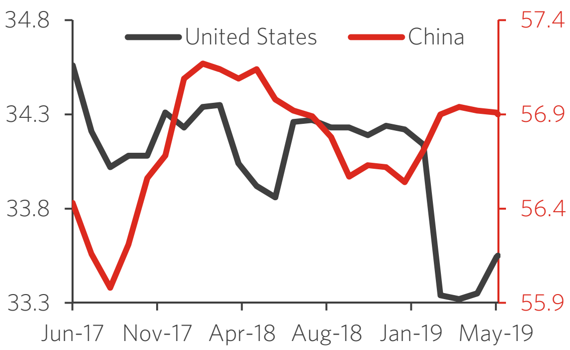


Source: Naamsa, Momentum Investments

New vehicle exports decline as global political instability remains high

New vehicle exports declined by 8.8% y/y in May 2019 from growth of 53.8% y/y in April 2019. New vehicle exports sustained robust growth above 20% between January and April 2019. Anti-globalisation rhetoric has hurt global trade sentiment. The escalating trade war between the US and China remains a threat to global trade and continues to create uncertainty across the globe. A spillover into Europe from the trade war has a high likelihood of materialising. This is particularly negative for SA vehicle exports, given Europe is one of the largest trading partners for SA's exports of new vehicles.

Chart 2: A deterioration in political risk scores



Source: Bloomberg, Momentum Investments, higher scores indicate more instability

The US and China have seen an increase in their political risk scores in recent months (see chart 2). This, in turn, could have a negative effect on global trade relationships, including with SA. Research from Standard Bank shows the latest round of tariffs between the US and China could see SA shave off 0.02% and 0.06% from growth in the third and fourth quarter of 2019.

The Africa Continental Free Trade Area (AfCFTA), which has the objective to grow inter-African trade by eliminating 90% of all tariffs, came into force in May 2019. This will hopefully fill the trade gaps likely to occur if the US-China trade war persists, could provide new trade partners and open new avenues for SA's vehicle export market.

Growth in new vehicle sales is expected to remain under pressure in the near term, given subdued consumer and business confidence capping growth prospects for durable goods and fixed investment, respectively. Less political uncertainty should, however, support higher levels of confidence and domestic demand in the medium term.

Investment implications

Momentum Investments' well-diversified outcome-based solutions provide protection against SA economic weakness by also having appropriate exposure to local fixed-income investments that benefit from a poor-performing SA economy and low inflation.

They also have meaningful global exposure that is unaffected by weak local growth conditions, while gaining from the rand weakness likely associated with fragile local growth conditions.