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New vehicle sales report positive growth in October 2019

Highlights

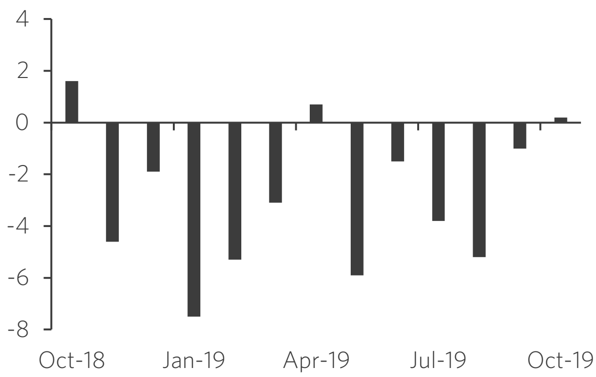
- Growth in new vehicle sales rose by 0.2%, up from a revised negative 0.9% (previously negative 1.1%) in September 2019. Growth in total new vehicle sales finally broke into positive territory after contracting for five consecutive months.
- New passenger vehicle sales grew by a promising 2.5% from 1.0% in September 2019.
- The rental industry continued to show significant growth in new vehicle sales in October 2019. The component increased its share of new vehicle sales to 20.3%, up from 18.9% in September 2019.
- Growth in new commercial vehicle sales contracted for the third consecutive month by 4.4% in October 2019, previously declining by a deeper 4.9%.
- Growth in new export vehicle sales rebounded in October 2019 and grew by 21.1% after surprising negatively in September 2019 with a decline of 3.2%.
- The TransUnion used-to-new vehicle ratio continued to rise in the third quarter of 2019. Vehicles priced below R200 000 represented the largest share of financial asset financing.
- In our view the likelihood of weak employment and growth, alongside low consumer confidence, should cap spend on new vehicles in the near term.

Mildly positive growth in new vehicle sales in October 2019

The National Association of Automobile Manufacturers of South Africa (Naamsa) released new vehicle sales data for October 2019 and reported another marginal improvement. Growth in new vehicle sales rose by 0.2% in year-on-year (y/y) terms, up from a revised negative 0.9% y/y (previously negative 1.1% y/y) in September 2019 (see chart 1). Growth in total new vehicle sales finally broke into positive territory after contracting for five consecutive months.

New passenger vehicle sales showed an increase in growth momentum in October 2019. The component grew by 2.5% y/y from 1.0% y/y in September 2019.

Chart 1: Mild growth rebound in new vehicle sales (%y/y)



Source: Naamsa, Momentum Investments

The latest reading for October 2019 marks the second consecutive positive growth print, previously declining for four consecutive months. The rental industry continued to show significant growth in new vehicle sales in October 2019. The sector increased its share of new vehicle sales to 20.3%, up from 18.9% in September 2019. Dealerships' share deteriorated further to 74.2% in October 2019 from 76.7%, corporate fleets' share rose slightly to 3.7% as a share of total new vehicles sales (from 3.1% in September 2019) and the share of new vehicle sales represented by government rose to 1.8% from 1.3% in the same period.

New commercial vehicle sales contracted for the third consecutive month by 4.4% y/y in October 2019, previously declining by a deeper 4.9% y/y. New light commercial vehicles showed a softer decline in October 2019, dropping by 5.9% y/y, previously 6.3% y/y in September 2019. Although medium commercial vehicle sales slowed, growth remained in positive territory. In October 2019 medium vehicle sales grew by a softer 8.1% y/y from 14.0% y/y in September 2019. Heavy new commercial vehicle sales showed increased momentum and reported positive growth in October 2019 of 1.7% y/y, after contracting by 1.6% y/y in September 2019.

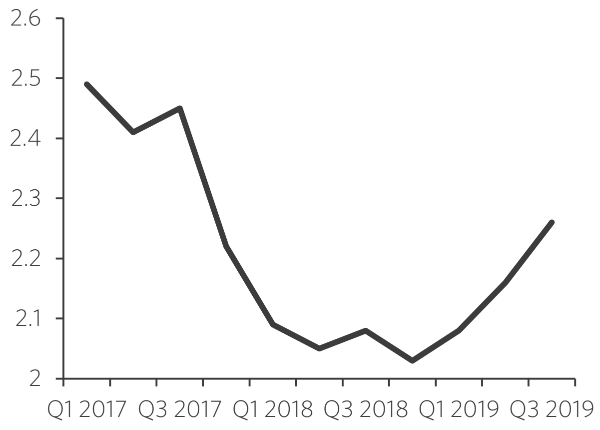
New export vehicle sales rebounded in October 2019 and grew by 21.1% y/y after surprising negatively in September 2019, declining by 3.2% y/y.

The consumer remains significantly constrained in the current low growth environment. The rise in the unemployment rate to a new record high of 29.1 % highlights that consumer confidence will likely remain low in the near term alongside subdued business sentiment. The purchasing managers' index and the lead indicator indicates that the status quo of sluggish growth will likely persist in the near term. The current weak economic climate will continue to weigh on consumer affordability prospects, which in turn limits spend on big-ticket items like new vehicle sales.

Used vehicles are still financially more attractive relative to new vehicles

The TransUnion used-to-new vehicle ratio continued to rise in the third quarter of 2019. Finance houses are financing 2.26 used vehicles for every new vehicle purchased relative to 2.16 used vehicles financed for every new vehicle in the second quarter of 2019. When analysing the ratio to a similar period a year ago, 2.08 used vehicles were financed for every new vehicle (see chart 2).

Chart 2: Used-to-new vehicle ratio



Source: TransUnion, Momentum Investments

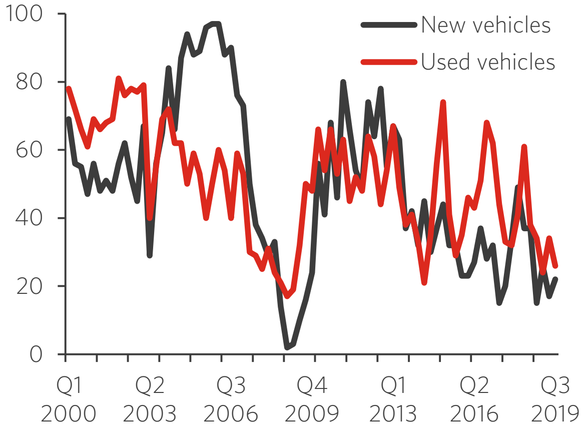
Vehicle inflation continues to trend below headline consumer inflation. Used vehicle price inflation fell to 1.1% in the third quarter of 2019 below 2.1% for the third quarter of 2018, but slightly above the 1.0% reported in the second quarter of 2019. New vehicle inflation was recorded at 3.3% in the third quarter of 2019, up from 3.1% reported in the second quarter of 2019 and 2.3% reported for the same period a year ago. This offers a reprieve to consumers, but not to vehicle manufacturers because they are selling below production costs, which will eventually become unsustainable.

Financing houses have also persistently been skewed towards financing vehicles below R200 000.
The third quarter of 2019 reported that vehicles priced below R200 000 represented 38% of vehicle asset financing. This trend is underpinned by the weakness in disposable income and low employment prospects.
The weakness in consumer confidence warrants the stagnation in new vehicle purchases above R300 000.

Vehicle retailers have shown a decline in confidence in 2018, with a mild recovery in 2019, however, skewed towards used vehicles (see chart 3). New and used vehicle confidence has shown volatility, but confidence among used vehicle retailers has been higher than that of new vehicle retailers, which is generally expected under the current business climate.

A constrained consumer, facing higher utility costs and a bleak employment outlook underpinned by a tepid growth outlook and rising retrenchment announcements in various sectors in the economy, is likely to contribute to muted spend on new vehicles in the near term.

Chart 3: Business confidence index for vehicle dealerships



Source: BER, Momentum Investments