momentum investments

in the moment

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New vehicle sales slumped further in July 2019

Highlights

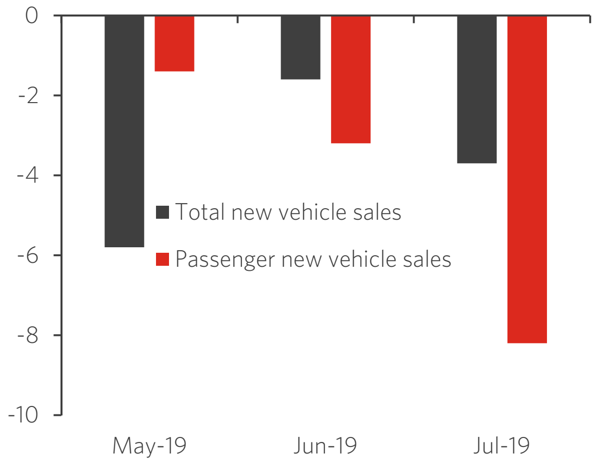
- Growth in new vehicle sales dipped further and contracted by 3.7% (previously contracting by 1.6% in June 2019).
- The decline emanated from passenger vehicle sales which declined by 8.2% from a softer 3.2% contraction in June 2019, due to weak spend on durables amid consumers' constrained purchasing ability.
- Robust growth was recorded in July 2019 for extra heavy commercial vehicles of 31. 2%, previously growing at a meagre 1.3%.Buses showed a significant recovery to 24.7%, having previously contracted by 17.4% in June 2019.
- Growth in the vehicle export market remained robust, increasing to 22.1% in July 2019 from 14.5% in June 2019.
- Growth in total outstanding balances of vehicle credit has declined persistently since the first quarter of 2018 from 7.9% to 0.2% in the first quarter of 2019. Similarly, total originations for vehicles have also declined and contracted by 2.5% from the growth of 3.9% in the same period.
- The used-to-new ratio increased to 2.13 in the first quarter of 2019 from 2.09 in the first quarter of 2018, indicating consumers are buying more used vehicles relative to new vehicles because it is more affordable.
- Momentum Investments does not see the likelihood of new vehicles sales rebounding significantly in the near term. The consumer is still holding back on big-ticket item purchases, such as new vehicles, in the current environment of low confidence and subdued growth, amid intensified uncertainty.

Growth in new vehicle sales contracts again

Growth in new vehicle sales dipped further and contracted by 3.7% in year-on-year (y/y) terms in July 2019, previously contracting by 1.6% y/y in June 2019, as published by the National Association of Automobile Manufacturers of South Africa (Naamsa) (see chart 1). The decline emanated from passenger vehicle sales which declined by 8.2% y/y from a softer 3.2% y/y contraction in June 2019, due to weak spend on durables amid consumers' constrained purchasing ability.
Light commercial vehicle sales edged higher by 2.9% y/y in July 2019 from 1.2% y/y. There was a slight deterioration in the growth rate of medium commercial vehicle sales to 14.9% y/y from 16.0% y/y in June 2019, but growth in this category remained solid. Heavy commercial vehicle sales rebounded in July 2019 by 2.3% y/y, having previously contracted 12.5% y/y in June 2019. Robust growth was recorded in July 2019 for extra heavy commercial vehicles of 31. 2% y/y, previously growing at a meagre 1.3% y/y. Buses showed a significant recovery, growing by 24.7% y/y, having previously contracted 17.4% y/y in June 2019.

Domestic demand from the consumer remains intact but constrained consumers have little confidence to buy big-ticket items in the current low growth environment.

Chart 1: Persistent weakness in vehicle sales



Source: Naamsa, Momentum Investments

The number of total new vehicle sales reached 303 701 units year to date, relative to 315 266 units for the corresponding period in 2018. New vehicle sales in 2019 could perform weaker than last year if robust sentiment, triggering additional spending, does not materialise.

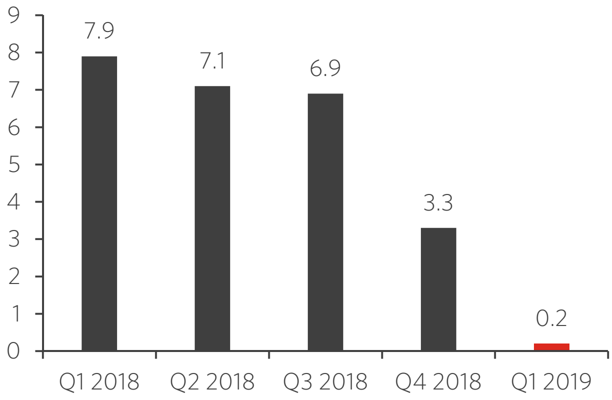
Vehicle exports, however, increased by 22.1% y/y in July 2019 from 14.5% y/y in June 2019. These robust growth levels may not be sustained given the deteriorating global outlook. Vehicle exports accounted for 14.3% of gross domestic product (GDP) in 2018 and could therefore negatively affect the already subdued growth outlook.

Consumer credit suggests appetite remains low for big-ticket purchases

Growth in total outstanding balances of vehicle credit has persistently declined since the first quarter of 2018 to 0.2% y/y in the first quarter of 2019 (see chart 2). This highlights how the consumer has prioritised large credit repayments and does not have the appetite to renew or add to that pre-existing debt.

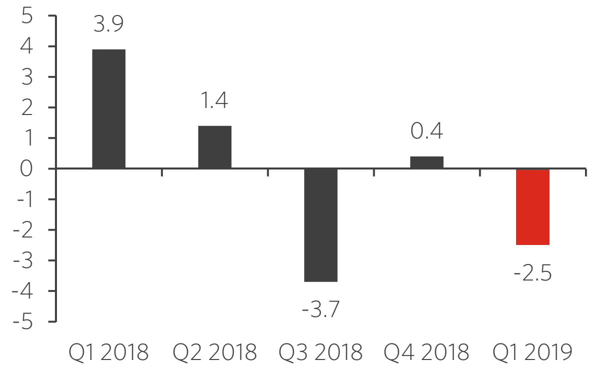
the first quarter of 2018 and is also higher than the fourth quarter ratio of 2.03. The new vehicle price index remained unchanged at 2.3% y/y in the first quarter of 2018 relative to the first quarter of 2019. The used vehicle price index softened to 1.6% y/y in the first quarter of 2019 from 2.9% y/y in the first quarter of 2018.

Chart 2: Total outstanding balances (%y/y)



Source: TransUnion, Momentum Investments

Chart 3: Total new originations (% y/y)

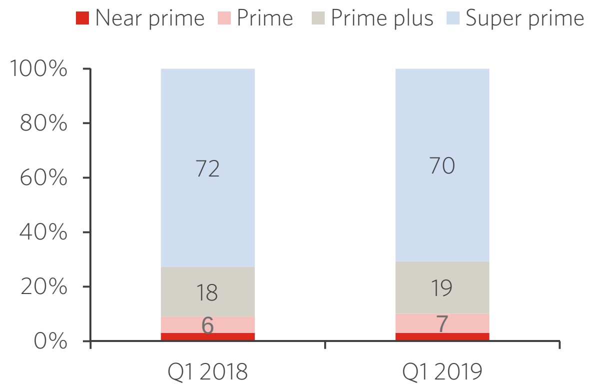


Source: TransUnion, Momentum Investments

Total originations for vehicles have also declined and contracted by 2.5% y/y in the first quarter of 2019 from growth of 3.9% y/y in the first quarter of 2018 (see chart 3). Consumers are more inclined to purchase used vehicles relative to new vehicles. The used-to-new ratio, which TransUnion bases on registered vehicle finance deals, assesses whether consumers buy more used vehicles relative to new vehicles. This ratio increased to 2.13 in the first quarter of 2019 from 2.09 in

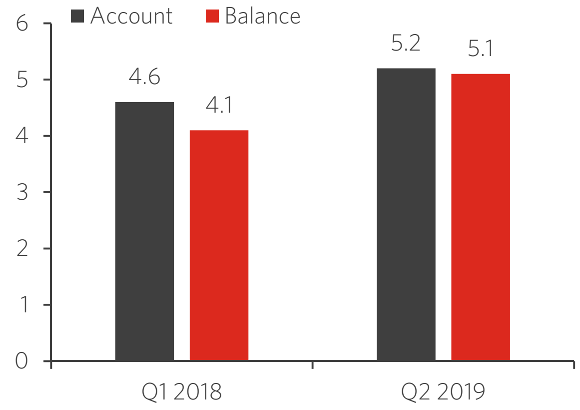
There has however been a slight increase in vehicle originations towards riskier consumers (see chart 4). The share of super- prime vehicle originations of all risk tiers declined from 72% in the first quarter of 2018 to 70% in the first quarter of 2019. Similarly, the share of near-prime vehicle organisations of all risk tiers increased from 6% to 7% between the first quarter of 2018 and the first quarter of 2019.

Chart 4: Vehicle origination by risk tiers (% share)



Source: TransUnion, Momentum Investments

Chart 5: Delinquency rates (% y/y)



Source: TransUnion, Momentum Investments

Delinquency rates have also increased between the first quarter of 2018 and the first quarter of 2019 (see chart 5). This is an indication of the consumer showing financial distress.

The automotive industry contributed 6.8% to GDP in 2018. This share could decline if growth in vehicle sales remains this downbeat for the remainder of 2019.

Momentum Investments does not see the likelihood of new vehicles sales rebounding significantly in the near term. The consumer is still holding back on big-ticket item purchases, such as new vehicles, in the current environment of low confidence and subdued growth, amid intensified uncertainty.