

MOTOR INDEX

OCTOBER 2024

Drive Motor Index (DMI) recovers well in October

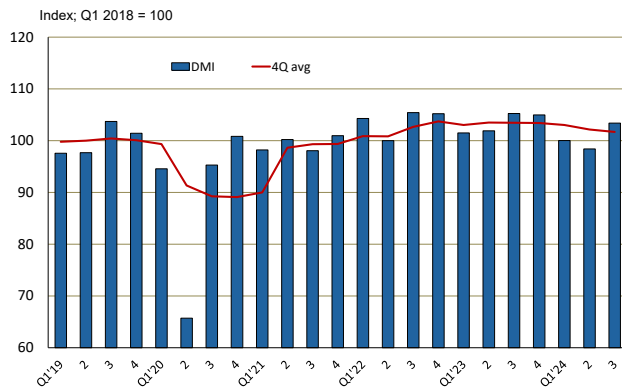
The Penta Motor Group (PMG) has released the findings of the Drive Motor Index (DMI), a monthly barometer of business conditions in the motor sector, compiled by renowned economist Dr Roelof Botha, a long-standing adjunct faculty member at GIBS and economic advisor to the Optimum Investment Group.

Drive.co.za represents a seamless car subscription approach to driving a new car, which has never been available in South Africa before. It eliminates the need for credit applications and is up for grabs right now for anyone that wants to experience the thrill of driving a brand-new car every single year with same-day approval.

The DMI is a composite index that measures the real percentage change in key indicators of the motor vehicle industry (manufacturing and sales of vehicles and associated indicators). It comprises twelve different indicators, weighted according to their perceived importance in gauging the overall state of the motor sector in South Africa.

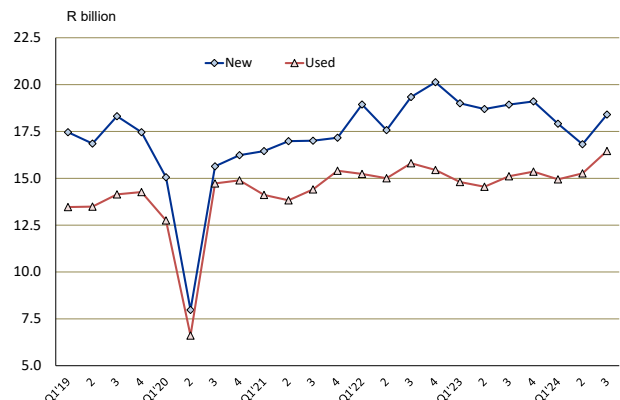
Drive.co.za Motor Index (DMI) - October 2024

(Note: Based on available monthly data)



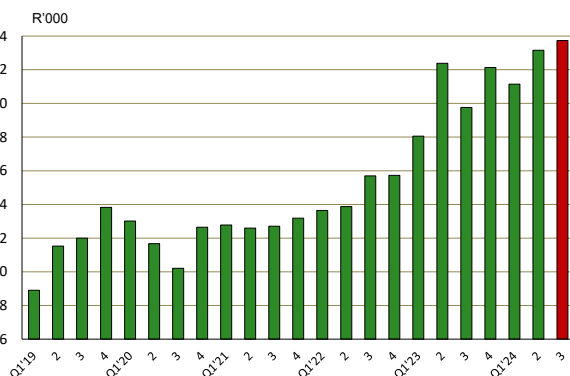
Average monthly value of new and used motor vehicle sales at constant 2024 prices

(Source: Stats SA; own calculations)



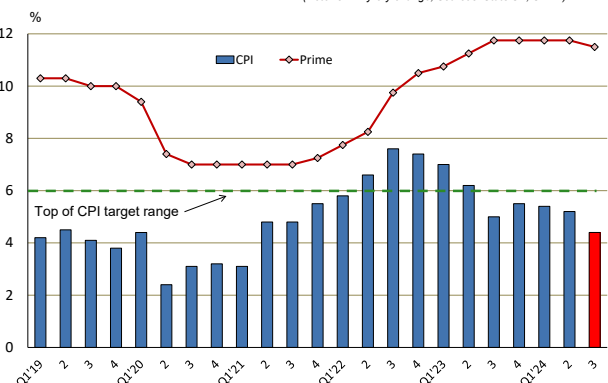
Average monthly income of home buyers with loans administered by BetterBond

(Sources: BetterBond; own calculations)



Prime overdraft rate and the consumer price index (CPI)

(Note: CPI = y-o-y change; Sources: Stats SA; SARB)



RESULTS

of the DMI for October 2024

The decision in September by the Monetary Policy Committee of the Reserve Bank to lower the official bank rate (the repo rate) by 25 basis points has been met with a large measure of relief by representatives of the motor vehicle sector.

Unfortunately, the decline has been insignificant when adjusted for the effect of inflation, as the consumer price index (CPI) dropped by 20 basis points in August, which served to keep the real prime rate at 7.1% (nominal prime of 11.5% minus the CPI of 4.4%).

As a result, four of the key indicators comprising the Drive.co.za Motor Index (DMI) have not been able to record positive year-on-year growth in real terms, which has also kept the change in the DMI in negative territory. Fortunately, the presence of three other indicators with a combined weighting of 30% have ensured have served to mitigate the year-on-year downward trend.

Furthermore, the increase of more than 5% since the second quarter of 2024 is most welcome news for motor traders and manufacturers alike and suggest that further can be achieved in the fourth quarter of the year. During the third quarter, the stand-out performers out of the core group of constituent indicators were the sales values of new and used vehicles, as well as the number of vehicles sold in the domestic market. A succession of lower monthly fuel prices has also assisted the strong quarter-on-quarter performance of the DMI.

The largest concern of the latest DMI reading is the substantial drop in the value of exports of vehicles and components, as recorded by South African Revenue Services. The year-on-year decline of more than 27% could eventually place upward pressure on the prices of locally-produced vehicles, as an erosion of economies of scale will lead to higher fixed overhead costs of manufacturing.

The stronger rand exchange rate is also serving to favour imported vehicles, which will exacerbate the challenges being faced by local producers and assemblers.

Looking ahead, economist Dr Roelof Botha, who compiles the index on behalf of Drive.co.za & the Penta Motor Group, the DMI has a good chance of upward momentum, mainly due to the prospects for further interest rate cuts in November.

Several analysts are predicting a drop in the prime rate (via the repo rate) of 50 basis points, which could see further growth in the number and value of vehicle sales.

According to Dr Botha, further declines in commercial lending rates are almost guaranteed, due to the decline over the past six months of more than 170 basis points in the 10-year government bond yield, country's long-term interest rate.

Drive Motor Index (DMI) - October 2024 % Real change in constituent indicators

| | Q2'24-Oct'24 | y-o-y |
|-----------------------------------|--------------|-------------|
| Diesel price (reciprocal) | 18.4 | 14.2 |
| Petrol price (reciprocal) | 18.5 | 10.6 |
| Used vehicles sales values | 7.8 | 8.9 |
| Avg. BetterBond home buyer income | 0.9 | 6.7 |
| Prime rate (reciprocal) | 2.2 | 2.2 |
| S&P Global PMI for South Africa | 0.7 | 1.2 |
| Accessories sales | 6.3 | -0.8 |
| Workshop income | 9.9 | -1.2 |
| DMI | 5.1 | -1.8 |
| Number of vehicle sales | 14.3 | -2.7 |
| New vehicle sales values | 9.5 | -2.8 |
| Fuel sales | -2.0 | -4.6 |
| Exports of vehicles & components | -9.7 | -27.4 |

Notes:

1. Ranked by year-on-year real % change
2. All percentages expressed in real terms
3. Real vehicle sales values adjusted for qualitative coefficient
4. Based on available monthly data

Compared to the second quarter of 2024, only one of the 12 constituent indicators of the DMI has declined in meaningful terms. Ever since the formation of the GNU, good news on the economics front has been in abundance, especially with regard to the recovery of retail trade sales, a further strengthening of the surplus on South Africa's trade balance with the rest of the world and the consistent decline in the consumer price index.

The latest good news for the motor industry is the announcement by President Cyril Ramaphosa of some initial progress with the implementation of the Electric Vehicle White Paper, which was released last year. The relevant government departments were in conversation about the measures required for assisting a gradual transition of South Africa's automotive industry to include the production of new-energy vehicles (NEVs) of all types.

BACKGROUND to the Drive Motor Index (DMI)



Dr Roelof Botha

Economic Advisor to the Penta Motor Group



A Distinguished Economist & Public Speaker

Botha delivers engaging keynote speeches on the country's economic and political landscape. With over 40 years of experience, he wears multiple hats as a lecturer, financial editor, columnist, and researcher.

His accurate economic forecasts have earned him recognition as the Finmedia Economist of the Year. Dr. Botha also teaches economics part-time at the Gordon Institute of Business Science (GIBS) and advises the Optimum Financial Services Group.

Beyond economics, Dr. Botha enjoys cricket, soccer coaching, and skydiving. Notably, his eldest son, who shares his name, has made significant contributions in Silicon Valley, co-founding PayPal and playing a key role in YouTube's acquisition by Google.

One of the reasons for the decision by the Penta Motor Group to undertake the research underpinning the index is the fact that different indicators of motor industry often contradict each other within a particular month. A need clearly existed for an overall gauge of business conditions in this crucial sector, which makes a substantial contribution to South Africa's GDP.

South Africa is fortunate to possess an independent, multi-brand, automotive industry (including the distribution, servicing and repair of vehicles. This sector plays an indispensable role in providing mobility to the whole of the population, promoting consumer choice, and maintaining vehicles on the country's roads, which constitutes the second reason for the establishment of the DMI.

Based on data from Statistics SA, the Automotive Business Council (Naamsa), the National Traffic Information System (eNaTIS), the Automotive Industry Export Council (AIEC), the Gauteng Automotive Cluster (GAC), the South African Petroleum Industry Association (Sapia), South African Revenue Services (SARS) and the Department of Trade, Industry and Competition (DTIC), salient macroeconomic characteristics of the motor industry at large include the following:

- Contribution to the gross domestic product (GDP) comprising 4,9% (2,9% manufacturing and 2% retail)
- The manufacturing and retail segments of the automotive industry, combined with the industry's strong multiplier effects, are responsible for a combined employment number of 580,000 jobs in the South African economy. This figure includes estimates for the jobs at filling stations, vehicle servicing & repairs and the distribution of petrol & diesel for vehicle consumption.
- Since the transition to democracy, approximately R130 billion has been invested in the industry by domestic original equipment manufacturers.
- Vehicle & component manufacturers represent South Africa's largest manufacturing sector. In 2023, this sector contributed 17.7% to the country's total factory output, valued at R537 billion.
- In 2023, the exports of vehicles and components amounted to R240 billion, making the industry the third largest generator of foreign exchange. Only minerals (including iron ore, coal, chromium and manganese) and precious metals are larger export earners.

Against this background, the current downward trend in business activity in the motor industry value chain should be taken seriously by policy makers, as it may eventually lead to job losses, whilst also lowering South Africa's international competitiveness via a reduction in economies of scale.