

# MOTOR INDEX

SEPTEMBER 2024

## Drive Motor Sector Index (DMI) recovers well in September

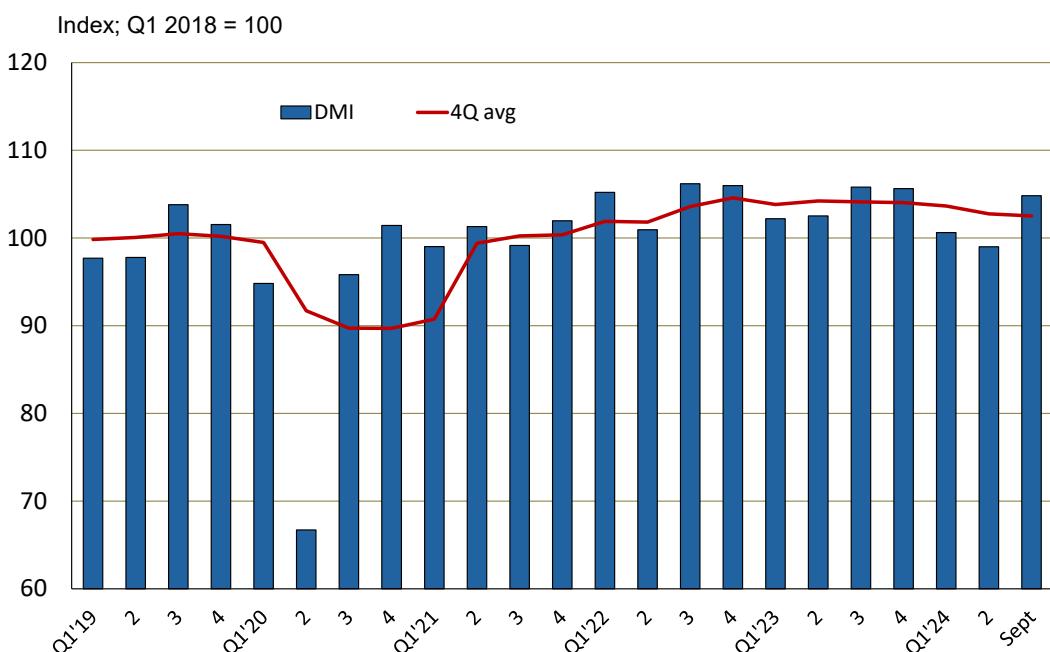
The Penta Motor Group (PMG) has released the findings of the Drive Motor Index (DMI), a monthly barometer of business conditions in the motor sector, compiled by renowned economist Dr Roelof Botha, a long-standing adjunct faculty member at GIBS and economic advisor to the Optimum Investment Group.

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 Motor Index (DMI) - September 2024

(Note: Based on available monthly data)



# RESULTS OF THE DMI for September 2024

During the past three months, business confidence has improved as a result of the commitment by the new Government of National Unity (GNU) to private sector participation in designing growth-enhancing economic policies.

Combined with the long-awaited decline in the official lending rate (albeit marginal), these fortuitous developments have exerted a significant positive impact on South Africa's motor sector.

Although the index remains below the level achieved in the third quarter of last year, the increase of almost 6% since the second quarter of 2024 is impressive and most welcome for the country's large and diversified motor vehicle sector.

During the third quarter of the year thus far, 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 domestic vehicles sold.

On a year-on-year basis, it is encouraging that eight of the twelve indicators recorded positive real growth, with notable growth rates for the value of used vehicle sales and the average income of BetterBond home buyers.

The improvement in the DMI is in line with a substantial rise in retail trade sales during July, following a lacklustre trend that kicked in shortly after interest rates were raised to their highest level in 14 years. Several other indicators of economic activity have also responded favourably to the improved business climate, including the value of manufacturing sales and the Afrimat Construction Index.

According to economist Dr Roelof Botha, who compiles the index on behalf of Drive.co.za & the Penta Motor Group, the DMI has an inverse relationship with domestic lending rates - the lower the cost of credit and of working capital, the more favourable the financial disposition of households will be.

Dr Botha points out that the consumer price index (CPI) has now fallen to below the mid-point of the Reserve Bank's target range for inflation (3% to 6%).

"Combined with signs of further downward pressure on key groups included in the consumer price index calculation, this should lead to further declines in the Reserve Bank's repo rate (and, as an inference, also the prime overdraft rate)", says Botha.

The repo rate is pegged at 3.5 percentage points below the prime rate. According to Botha, further declines in lending rates are almost guaranteed, due to the drop of more than 200 basis points since the end of April in the country's long-term interest rate.

**Drive Motor Sector Index (DMI) - September 2024**  
% Real change in constituent indicators

	Q2'24-Sept'24	y-o-y
Diesel price (reciprocal)	11.7	7.7
Used vehicles sales values	5.7	7.1
Avg. BetterBond home buyer income	0.6	6.3
Petrol price (reciprocal)	12.4	4.9
Workshop income	15.8	4.0
Prime rate (reciprocal)	2.2	2.2
Sales of vehicle accessories	8.8	1.5
S&P Global PMI	-0.1	0.4
<b>DMSI</b>	<b>5.9</b>	<b>-1.1</b>
New vehicle sales values	11.5	-1.3
Number of domestic vehicle sales	14.2	-2.7
Fuel sales	-2.2	-4.8
Exports of vehicles & components	-0.3	-19.8

**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

Ever since the national elections and the formation of the GNU, good news on the economics front has been in abundance, especially with regard to the strength of the rand exchange rate and the consistent decline in the consumer price index.

Over the past two years, motorists have benefited from successive declines in fuel prices, with 95 octane petrol and low sulphur diesel now selling for 12% less and 21% less, respectively, than in the third quarter of 2022. Compared to the second quarter of 2024, not a single constituent indicator of the DMI has declined in meaningful terms, with nine of the twelve indicators in positive territory.

# BACKGROUND

## Background to the Drive Motor Index (DMI)

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.



### 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.