MOTOR INDEX

QUARTER 4 2024

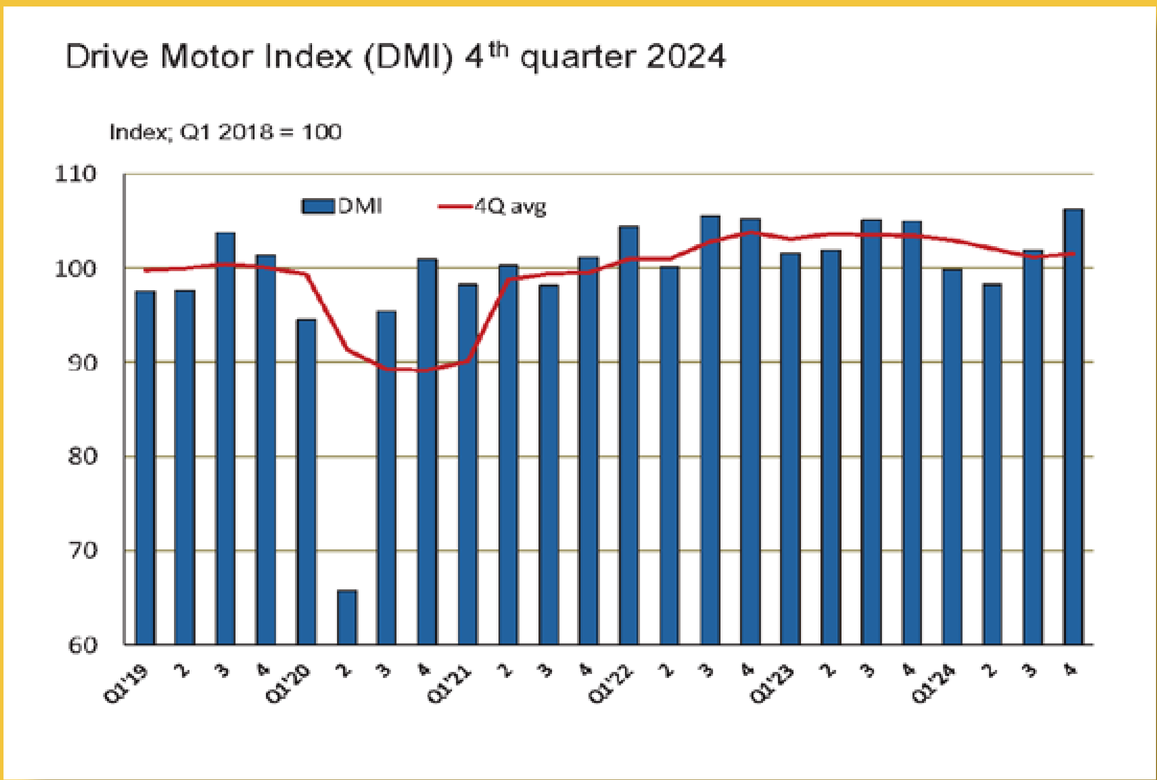
Drive Motor Index (DMI)

reaches all-time high in 4th quarter of 2024

Drive.co.za has released the findings of the Drive Motor Index (DMI) for the 4th quarter of 2024, which has recovered lost ground on the back of a marginally lower commercial lending rate.

The DMI is 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. The DMI is a composite index that measures the real percentage change in key indicators of the motor vehicle industry (including 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 represents a seamless car subscription approach to driving a new car, which has only recently been adopted in South Africa. It eliminates, inter alia, the need for bank credit applications and several other administrative tasks associated with personal car ownership, including licensing, traffic offences and insurance.



RESULTS
of the DMI for the 4th quarter of 2024

The decision by the Monetary Policy Committee of the Reserve Bank to lower the official bank rate (the repo rate) by 25 basis points in September and again in December has been met with a large measure of relief by representatives of the motor vehicle sector. Although the total number of vehicles sold and the real sales valued of used vehicles have increased on a quarter-on-quarter and a year-on-year basis, the value if sales of new vehicles, adjusted for inflation, remains lower than in the 3rd quarter of 2024.

Paradoxically, the lower prime rate of 11% (compared to 11.75% until August 2024) has been accompanied by an increase in the real cost of credit (and of capital), as the inflation rate has declined by a significantly larger margin. The real prime rate (prime minus inflation) increased by 160 basis points between December 2023 and December 2024, namely from 6.65% to 8.25. It is clear that monetary policy has, in fact, not been relaxed from this perspective and that the inordinately high cost of credit in South Africa continues to stifle demand for many durable goods.

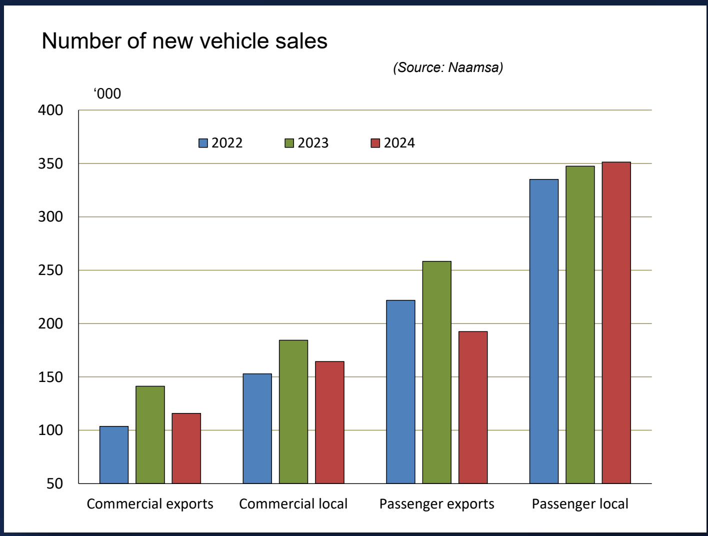
Fortunately, the nominally lower interest rate, combined with a significant increase in average incomes and lower fuel prices than in the 4th quarter of 2023, has resulted in seven of the twelve DMI indicators recording positive year-on-year growth, whilst nine of the indicators recorded positive quarter since the third quarter of 2024, including the three indicators that enjoy a combined weighting in the DMI of 50%. As a result, the DMI has reached its highest level since inception during the first quarter of 2018. This translates into a full recovery from the negative effects of the Covid pandemic and, of late, overly restrictive monetary policy, which led to the highest interest rates in 15 years.

Drive Motor Index (DMI) - 4th quarter 2024
% Real change in constituent indicators

	Q-o-Q	y-o-y
Diesel price (reciprocal)	9.1	28.5
Petrol price (reciprocal)	7.7	15.3
Avg. BetterBond home buyer income	6.5	9.4
Number of vehicle sales	4.5	6.8
Used vehicles sales values	2.7	5.5
Prime rate (reciprocal)	2.2	4.4
S&P Global PMI for South Africa	0.4	2.4
DMI	4.3	1.2
Accessories sales	-1.6	-1.1
New vehicle sales values	5.7	-1.5
Exports of vehicles & components	15.7	-2.7
Workshop income	-4.6	-7.7
Fuel sales	-2.6	-19.0

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

As predicted in the DMI report for the third quarter of 2024, a further interest rate cut occurred in November 2024, which was welcome news for motor traders and manufacturers alike, whilst also having been reflected in a 4.3% quarter-on-quarter increase in the latest DMI reading. The year-on-year increase of 1.2% was more muted, but managed to outperform the total economy, which posted year-on-year real GDP growth of only 0.6%.



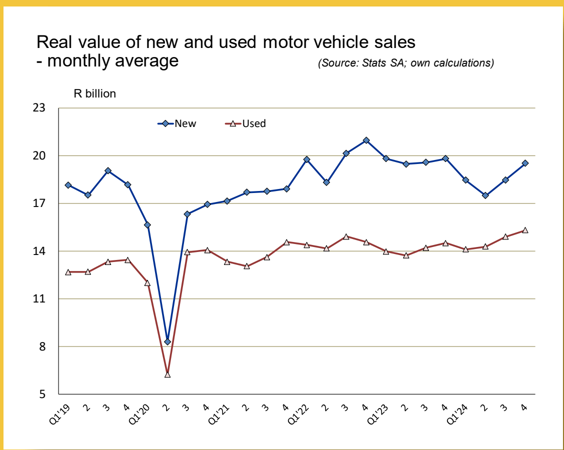
During the fourth quarter, the stand-out performers out of the core group of constituent indicators were the sales values of new and used vehicles, as well as the number of vehicles sold in the domestic market. A succession of lower monthly fuel prices during 2024 has also assisted the performance of the DMI.

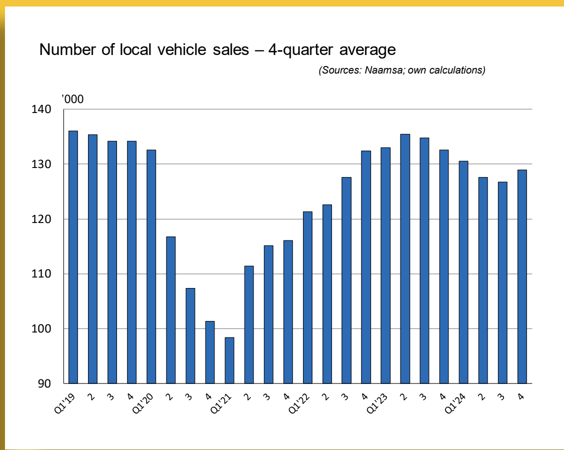
A lingering concern of the latest DMI reading is the drop in the number of vehicles exported, as well as the value of exports of vehicles and components. The year-on-year declines of 26% and 18%, respectively, for the numbers of passenger vehicles and commercial vehicles, may eventually place upward pressure on the prices of locally-produced vehicles through an erosion of economies of scale.

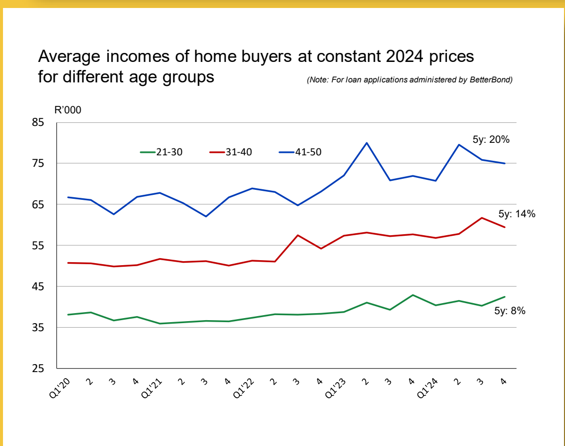
RESULTS
of the DMI for the 4th quarter of 2024

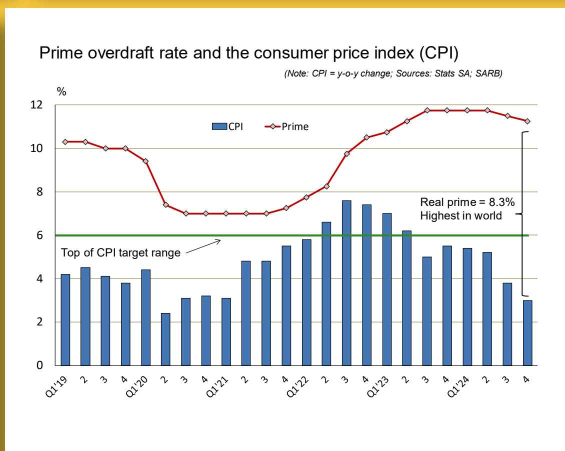
Looking ahead, the DMI has a good chance of maintaining its upward momentum during the first quarter of 2025, mainly due to the interest rate reduction in January, a further increase in real incomes of prospective home-owners (monitored by BetterBond) and the welcome increase of 90,000 formal sector jobs during the last quarter of 2024.

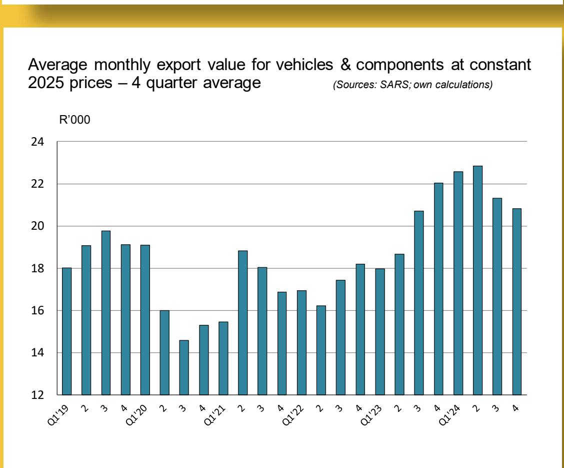
According to Dr Botha, further declines in commercial lending rates are necessary, in light of the weak fourth quarter GDP data and the dire need to stimulate economic growth and create more jobs. Hopefully, the country's Monetary Policy Committee (MPC) will heed these realities and continue with the rate-cutting cycle.

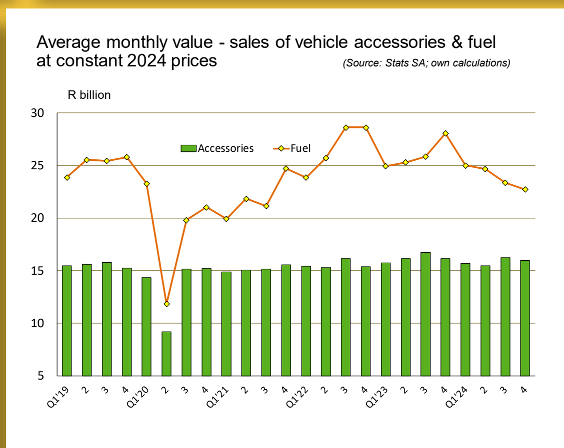












BACKGROUND
to the Drive Motor Index (DMI)

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 Drive.co.za to undertake the research underpinning the index is the fact that different indicators relating to the motor industry often contradict each other within a particular month or even quarter. A need clearly existed for an overall time-series 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, maintaining vehicles on the country's roads and providing ample facilities for refuelling and convenience store shopping.

Based on data from a variety of sources, including Statistics SA and the Automotive Business Council (Naamsa), salient macroeconomic characteristics of the motor industry at large include the following:

·Contribution to the gross domestic product (GDP) comprising an estimated 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 an estimated 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, current and likely future trends in business activity in the motor industry value chain should be taken seriously by policy makers, in order to ensure that policies are in place to prevent job losses, whilst also maintaining South Africa's international competitiveness via sufficient economies of scale.