SA motor industry could be in trouble

By David Furlonger

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Local vehicle sales are plunging, prices are soaring, jobs are being lost and a possible industry-wide strike is looming. Still, it could be worse: the SA motor industry could really be in trouble. Despite everything, many industry executives remain determinedly bullish.

Mike Whitfield, MD of Nissan SA and president of the National Association of Automobile Manufacturers of SA (Naamsa), put out a statement a few days ago reminding everyone of the importance of the local motor industry to the SA economy: how it accounts for 7.5% of GDP, 33.5% of manufacturing output, 14.6% of exports and provides nearly 500,000 direct jobs in vehicle manufacture, distribution, retail and servicing.

Why the need for a reminder? Because almost every bit of news coming out of the industry this year is horrible.

A brake on the market

New-vehicle sales are on track to fall 12% from 2015 - the third consecutive year of decline. Rising interest rates, low business confidence, economic and political uncertainty, suffocating household debt and limited disposable consumer income have all put a brake on the market.

And then there's prices. The weak rand has played havoc with the cost bases of importers and local manufacturers; the latter still source many of their components from overseas, as well as many of the vehicles they sell in SA. Some companies have already increased prices five times in 2016 and don't rule out more hikes before the year is out. Overall, prices are expected to rise by up to 14%. Even that's not enough to compensate for the rand-related pain. "The industry is nowhere near recovering its costs," says Whitfield.

So why does he, like so many of his peers, remain positive? Because of exports. There have been a couple of hiccups along the way but manufacturers are confident that the number of vehicles shipped from SA this year will top last year's record 333,802, possibly reaching 376,000. If that happens, it is expected to also take combined industry production to a record high - 635,000 against last year's 615,658.

Possible export fall-out from Britain's planned exit from the European Union is too far in the future to be occupying minds at present. Volkswagen SA MD Thomas Schaefer, whose company plans to send more than 38,000 Polos to the UK this year - more than half its total exports - says: "There is no effect to date and it is too early to assess the medium- and long-term effect."

Industrial action

There is a more immediate threat. Manufacturers and the National Union of Metalworkers are currently engaged in the industry's three-yearly wage negotiations. Despite soothing words from both sides, there is a real fear of a repeat of the strike that brought chaos to the industry last time they bargained, in 2013. Officially, motor companies hope industrial action can be avoided. Unofficially, some have increased production to stockpile vehicles in case of stoppages.

Forecast long-term industry production growth, rather than short-term crises, is why global motor companies and their components suppliers, encouraged by government's incentives-driven Automotive Production & Development Programme (APDP) and duty-free trade deals with Europe and North America, continue to pour billions of rands into their SA operations. The APDP, introduced in 2013, has already attracted nearly R50bn in investments, either spent or committed.

In the past four months alone, Toyota has completed a R6.1bn capex programme at its Durban factory and Ford has announced a R2.5bn product investment in its Silverton, Pretoria assembly plant. Volkswagen and BMW are among other global companies that have announced multi-billion dollar plans for their SA subsidiaries. Schaefer says VWSA's R4.5bn project to build the next generation Polo in SA from next year is on schedule. BMW SA will assemble the X3 sports utility vehicle from 2019.

Low-volume exporters

But these are all export-focused companies. For those with limited foreign demand, the picture is less pleasing. General Motors SA, which has by far the lowest export numbers among SA's seven major vehicle manufacturers, recently announced plans to cut its 1,800-strong workforce through voluntary retrenchments and early retirement. The company expects to build about 40,000 vehicles this year, down from 45,000 in 2015.

Spokesman Denise van Huyssteen says: "The first consultation with stakeholder groups was facilitated recently by the CCMA, with a second scheduled to follow during August. We will not be in a position to confirm any details until the consultation process has concluded."

Nissan SA, another low-volume exporter, is also cutting production by about 10% but Whitfield says it expects to avoid lay-offs. He adds: "We all have to pursue exports. We can't rely on the SA market alone. It's too small, too volatile."