

Economic Commentary

Vehicle sales

Vehicle sales recovered in October

- Vehicle sales rose in October as activity in the car retail sector normalise following strike action in September
- Both passenger and commercial categories recorded strong increases over the month, but impressive performance was seen in the commercial category.
- Exports also rebounded strongly in September
- Consumer confidence will be maintained by low interest rates and income growth, which combined with low inflation, should support car sales in the months ahead. However, part of the benefit will be offset by job insecurity and high debt levels.
- Sales of commercial vehicles will remain subdued on weak investment activity.
- We expect the Monetary Policy Committee to pause in November, with a possible 50 basis point cut in the first quarter of next year.

Table 1 : Vehicle sales

	October Y-o-y%	M-o-m%	September Y-o-y%	Nedbank Forecast Y-o-y%	Market Forecast Y-o-y%
Total	22.1	5.3	16.5	n/a	n/a
Passenger	25.0	2.6	26.0		
Commercial	15.8	12.3	-2.2		

Source: NAAMSA

Comment

Vehicle sales recovered in October as activity in the retail motor and vehicle component returned to normal following strike action in September. Over the month, both passenger and commercial categories recorded sales growth.

Passenger vehicle sales, up by 2,6% m-o-m and 25% y-o-y, continued to benefit from better consumer confidence, low inflation and low interest rates.

Sales of commercial vehicles rose by an impressive 12,3% over the month, with all its sub categories recording growth. However, the strongest contribution came from the light commercial vehicle category, which accounts for about 85% of total commercial sales. Sales in this category rose by 13,7% m-o-m. Sales of heavy commercial vehicles also performed well over the month, increasing by 6,8% m-o-m and by 48,8% y-o-y. In September, 1 421 heavy commercial vehicles were sold, which was the highest number of units sold in one month since November 2008. However, performance of medium commercials remained sluggish compared with other categories. Sales in this category increased by 2,3% m-o-m and 0,6% y-o-y in October.

Exports also rebounded strongly following strike-related interruptions in August and September. Over the month, 27 338 units were exported, up by 118% compared with the previous month, with exports of passenger vehicles rising by 144% and that of commercial vehicles by 45%.

Group Economic Unit

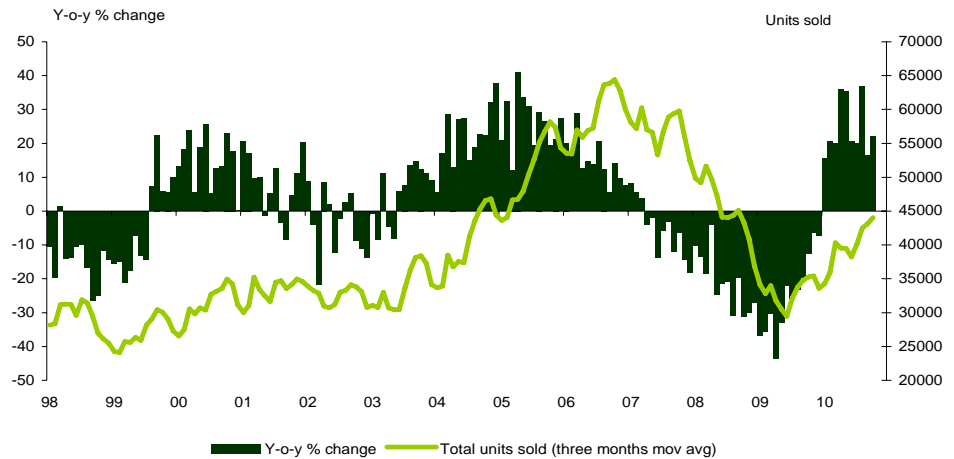
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Chart 1 : Sales of total new vehicles



Source: NAAMSA

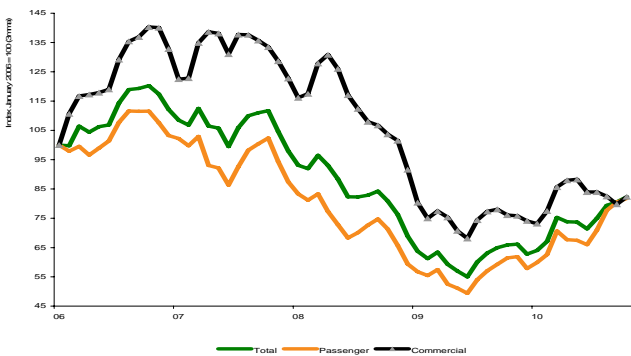
Outlook

Sales of passenger vehicles should continue to benefit from lower interest rates, better consumer confidence and low inflation. However, the benefit will partly be offset by job insecurity and high debt levels. During the next two months, sales could also be affected by the normal seasonal factors. In the last months of the year, consumers tend to focus of festive season spending and postpone purchases of new cars to the new year in order to get new year registrations.

Commercial vehicle sales could remain sluggish due to weak fixed investment activity.

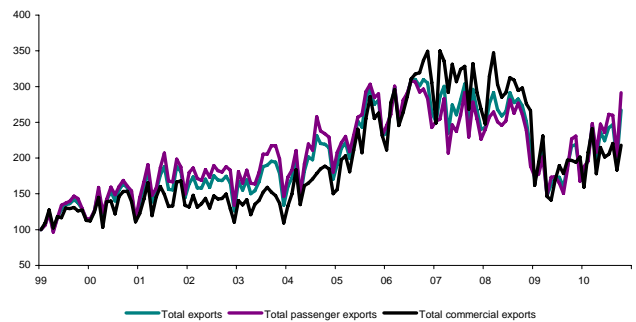
The global recovery remains slow and fragile, which combined with the strong currency, could partly hamper export performance in the months ahead.

Chart 2 : Vehicle sales performance



Source: NAAMSA and BER

Chart 3 : Exports performance



Source: NAAMSA

Implications

The latest vehicle sales numbers, together with other recent releases indicate that the local economy is recovering. However, the recovery remains weak. This, against the backdrop of a strong rand and lower inflation, has increased chances of another interest rate cut in this cycle. However, the Reserve Bank has historically been reluctant to cut rates at consecutive meetings towards the end of the cycle, opting rather to adopt a wait-and-see approach before deciding whether further easing is required. As a result, we expect the Reserve Bank's Monetary Policy Committee to pause in November, with a possible 50 basis point cut in the first quarter of next year.

Table 2 : Breakdown of vehicle sales

	Total			Passenger			Commercial		
	Actual number	M-o-m%	Y-o-y %	Actual number	M-o-m%	Y-o-y %	Actual number	M-o-m%	Y-o-y %
Dec-07	44927	-14.2	-18.1	28679	-13.2	-6.6	16248	-15.9	-7.8
Dec-08	32825	-10.3	-26.9	21009	-4.2	-27.7	11816	-19.5	-27.3
Dec-09	30470	-11.0	-7.2	19158	-16.4	-10.5	11310	-0.1	-4.3
Jan-10	38071	24.9	15.5	27004	41.0	20.1	11067	-2.1	5.3
Feb-10	39284	3.2	20.5	25979	-3.8	27.3	13305	20.2	9.0
Mar-10	43541	10.8	19.9	28464	9.6	21.9	15077	13.3	16.4
Apr-10	35707	-18.0	35.8	23578	-17.2	40.7	12129	-19.6	27.3
May-10	39166	9.7	35.3	25724	9.1	36.3	13442	10.8	33.4
Jun-10	39874	1.8	20.5	26794	4.2	25.7	13080	-2.7	11.1
Jul-10	41345	3.7	19.9	29211	9.0	32.4	12134	-7.2	-2.2
Aug-10	46292	12.0	36.7	33525	14.8	49.5	12767	5.2	11.6
Sep-10	41825	-9.6	16.5	29981	-10.6	26.0	11844	-7.2	-2.2
Oct-10	44055	5.3	22.1	30752	2.6	25.0	13303	12.3	15.8

Source: NAAMSA

Table 3 : Breakdown of vehicle exports

	Total			Passenger			Commercial		
	Actual number	M-o-m%	Y-o-y %	Actual number	M-o-m%	Y-o-y %	Actual number	M-o-m%	Y-o-y %
Dec-07	16344	-3.5	12.4	10706	-11.1	48.1	5638	15.2	-22.9
Dec-08	20905	-21.7	27.9	11041	-41.0	3.1	9864	23.9	75.0
Dec-09	16346	-28.9	-21.8	11176	-38.5	1.2	5170	7.3	-47.6
Jan-10	9137	-44.1	-14.7	6775	-39.4	-11.8	2362	-54.3	-22.1
Feb-10	14132	54.7	-5.0	9839	45.2	-8.6	4294	81.8	4.3
Mar-10	21296	50.7	19.0	16160	64.2	40.3	5136	19.6	-19.5
Apr-10	17587	-17.4	51.6	14556	-9.9	63.2	3038	-40.8	13.2
May-10	24180	37.5	77.9	19440	33.6	66.8	4740	56.0	144.6
Jun-10	20447	-15.4	73.9	16569	-14.8	78.7	3910	-17.5	56.5
Jul-10	23254	13.7	107.5	18419	11.2	130.7	4835	23.7	50.0
Aug-10	19605	-15.7	117.2	14212	-22.8	148.6	5393	11.5	62.9
Sep-10	12534	-36.1	-10.3	9299	-34.6	-4.4	3235	-40.0	-23.8
Oct-10	27338	118.1	30.5	22651	143.6	41.4	4687	44.9	-4.9

Source: NAAMSA

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