

## **Comment on the New Passenger Car Market – July 2011**

During July 2011 a total of 32030 new passenger cars were sold in South Africa. Total new passenger car sales in July, including sales not reported in detail to NAAMSA, increased by 1.9 percent when compared to June 2011, and grew by 9.7 percent when compared to July 2010, bringing year-to-date sales of new passenger cars in 2011 to a level 18.2 percent above January to July sales in 2010.

While probably slightly below general expectations the performance of the new passenger car market in July was consistent with the emergence of slower underlying momentum in demand for new cars. While some after effects of the Japanese tsunami in March are probably still affecting supply of both product and components indications are that growth in the new car sales cycle has slowed. However, from the perspective of the seasonal pattern of demand for new cars coming months are likely to be supported by stronger demand from rental car companies which was already evident in July, with rental car demand contributing over 17 percent of the market.

Slower growth in demand for new cars is, however, not inconsistent with developments in the broader economy. Led by the emergence of slower economic growth globally and ongoing fragility and caution in international economic circumstances it appears that economic growth slowed during the second quarter of 2011. Real retail sales in May fell by 4.7 percent when compared to April and registered zero growth on an annual basis, while manufacturing production registered only marginally positive growth in April and May and appears to be under increasing pressure with the Kagiso PMI falling for the fourth consecutive month in July, a month in which the index plunged 9.7 points to a two year low of 44.2, well below the break even level of 50. The second quarter of 2011 also saw a significant decline in the confidence levels of both retailers and wholesalers with the Ernst & Young/BER retailer confidence index falling from 58 to 47 index points, and the percentage of wholesalers rating business conditions as satisfactory falling dramatically from 65 to 47. Not surprisingly overall business confidence levels weakened during the second quarter, a situation that will probably have carried into the beginning of the third quarter of 2011. The level of employment in the formal sector also declined slightly during the second quarter of 2011 and the Reserve Bank's leading indicator of economic activity declined for the third consecutive month in May. Furthermore, growth in credit extension to the private sector and growth in the money supply continue at low levels by historic standards as does growth in private sector fixed capital formation. Real disposable incomes of households are probably also under growing pressure as inflation slowly increases and the impact of fuel, food and administered price increases make themselves felt on household budgets. Under these circumstances it is becoming increasingly unlikely, but not impossible dependent upon inflation developments, that the Reserve Bank will increase interest rates during 2011 thereby removing an element of potential further pressure on the new car sales cycle.

Demand for new passenger cars in coming months will be supported by not only seasonal strength in demand from rental car companies but also by an acceleration in the rate of decline in real new vehicle prices and a likely intensification in competitive activity in the market.

**Dr N.S. Bruton**  
**2 August 2011**