

Comment on the New Passenger Car Market – June 2010

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During June 2010 a total of 26810 new passenger cars were sold in South Africa. Total new passenger car sales in June, including sales not reported in detail to NAAMSA, increased by 4.2 percent when compared to May 2010, and by 25.8 percent when compared to June 2009, bringing the year-to-date June market in 2010 to a level 27.9 percent above the same period for 2009.

From the perspective of sales reported to NAAMSA, 21761 new passenger car sales were reported during June 2010. Sales in June were 4.7 percent higher than the market recorded in May 2010 and 14.4 percent above the June 2009 market, bringing the year-to-date June market in 2010 to a level 19.1 percent above the same period for 2009.

The new passenger car market performed well in June with the selling rate of new cars per day for the month coming in at levels above those recorded in both April and May but slightly below selling rates per day recorded during the first quarter of the year. With second quarter 2010 new passenger car sales 33.7 percent above sales recorded during a very weak second quarter of 2009, new passenger car sales in the second quarter of 2010 came in 6.6 percent below sales recorded during the first quarter of the year resulting in a sharp slowdown in the rate of growth of the new car sales cycle. Importantly, however, it is likely that the weaker performance in second quarter 2010 new passenger car sales resulted largely from sharply lower sales to rental car companies during the quarter in comparison to the first quarter of the year, with dealer sales of new passenger cars probably holding up relatively well. The World Cup football tournament may also have slowed sales of new cars to some extent in June.

While the economy continues on a path of recovery with manufacturing production up 8.7 percent on an annual basis and real retail sales reflecting more encouraging annual growth of 3.2 percent in the month of April, supported by sound growth of 5.1 percent in the real disposable income of households during the first quarter of 2010, there are indications that the pace of economic recovery may slow in coming months. Factors that suggest a potential slowdown in the pace of recovery include a weakening in both business and consumer confidence during the second quarter of

2010, four consecutive months of decline in the Kagiso Purchasing Managers Index with the index falling below 50 in June, suggesting that the pace of manufacturing production has eased in recent months, weaker performance in the country's exports, and volatile performance in the JSE all share index currently some eight to ten percent down on levels achieved in March and April 2010. Business and consumers also continue to remain wary of debt with growth in credit extension to the private sector, while reflecting slight improvement in May, continuing at historically low levels. Furthermore, sustained high levels of household debt and the ongoing decline levels of employment recorded in the first quarter of 2010 will weigh on the pace of economic recovery in coming months.

The rate of growth in new vehicle prices, however, continues to slow, with the annual change in real new vehicle prices falling into negative territory in May for the first time since December 2008. Declining real new vehicle prices, slow but steady growth in replacement demand for passenger cars and ongoing, if possibly somewhat slower, improvement in general economic circumstances, will continue to support demand for new passenger cars in coming months, but the rate of growth in the new car sales cycle that characterized the market earlier in 2010 looks set to slow down.