

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

During August 2011 a total of 36197 new passenger cars were sold in South Africa. Total new passenger car sales in August, including sales not reported in detail to NAAMSA, increased by 13 percent when compared to July 2011, and grew by 8 percent when compared to August 2010, bringing year-to-date sales of new passenger cars in 2011 to a level 16.7 percent above January to August sales in 2010.

The new passenger car market performed well in August driven strongly by seasonal demand from rental car companies that contributed 20 percent to new cars sold during the month. From the perspective of dealer sales of new cars to other purchasers, however, the market moved sideways with the selling rate of new cars per day through the dealer organization in August falling slightly short of the January to July selling rate per day average for 2011.

The slowdown in the rate of growth in the new car sales cycle continued in August in line with softening replacement demand and sharply slower growth in the South African economy during the second quarter of 2011. Growth in the country's GDP declined to 1.3 percent in the second quarter, down from 4.5 percent in the first quarter, also adjusted downwards from a previous figure of 4.8 percent.

In both the US and the EU growth rates have slowed sharply and financial markets contracted substantially during August discounting the possibility of the emergence of renewed global financial crisis on the back of slower rates of economic growth and sovereign debt concerns in circumstances where the means of addressing such a development are far more limited than in 2008 and 2009.

In South Africa the second quarter of 2011 saw slower rates of economic activity with manufacturing down -7 percent on a seasonally adjusted and annualised basis and with monthly manufacturing production through June 2011 only marginally up on an annual basis and the second quarter down by -2 percent when compared to the first quarter of 2011 on a seasonally adjusted basis. Difficult circumstances in manufacturing also seem set to continue in coming months with the Kagiso PMI coming in at 46.7 in August, continuing below the break-even level of 50 and containing downbeat expectations for future business conditions.

Similarly, while in real terms, retail trade sales for the second quarter of 2011 reflected an increase of 4.1 percent when compared with the second quarter of 2010, second quarter 2011 real retail sales grew only marginally by 0.1 percent from the first quarter on a seasonally adjusted basis.

Growth in the SA economy has been driven by household consumption spending since late 2009 averaging a rate of growth of 5 percent. However, the sustainability of this performance is under growing pressure as real free disposable income of households is increasingly impacted by slowly rising inflation, a range of administered price increases and the more specific impact of increasing food and fuel prices on household budgets. Growth in consumption spending will furthermore have been impacted and will be restrained in coming months by the slow pace of growth in employment, ongoing high debt levels, slow growth in bank credit extension and negative wealth effects emanating from a weak housing market and the recent sharp downward adjustment in JSE equity prices.

The third quarter of 2011 will in all probability also yield lower rates of economic growth which will weigh on the pace of growth in the new car sales cycle and while new car sales will continue to be supported by sales to rental car companies in coming months the full year 2011 new car market at this time appears likely to end up around 15 percent up on the 2010 market.

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