Vehicle industry on the road to growth

By David Furlonger

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The motor industry improved its annual trade balance considerably last year through a combination of record exports and slower import growth. But is this the first surplus since the automotive policy was introduced more than 20 years ago?

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A table in the Automotive Export Manual, produced by the Automotive Industry Export Council, calculates that vehicle and component manufacturers participating in the government's incentive-driven Automotive Production and Development Programme (APDP), posted a R5.3b surplus last year. This was achieved through R151.5bn of exports, outweighing imports of R146.2b.

After-market parts

Record vehicle exports of 333,082 cars and commercial vehicles earned R101.9b, while imported vehicles cost the country R61.6b. The R40.3b surplus more than offset the R35b deficit for original equipment components: R84.6b of imports and R49.6b of exports. However, the only imported components included are those destined for vehicle production lines. It does not take account of R50.5b in after-market spare parts brought into SA by imported car brands and local producers.

The after-market parts were excluded from the council's statistics from 2013 - when local customs union partners Botswana, Namibia, Swaziland and Lesotho were reclassified as export markets. The result was an instant year-on-year slashing of the deficit, from R42.3b to R24bn, which shrunk to R15.8b last year.

Critics of the components decision say after-market parts are a legitimate part of automotive trade and their absence distorts the picture. In the new annual, a second table includes them, turning the R5.3b surplus into a R45.2b deficit.

Including after-market parts, total automotive trade between SA and its global partners amounted to R348.2b. SA exported a record R151.5b of goods but imported R196.7b. The R45.2b deficit is a more than 27% improvement on the previous year's R62.2bn.

Sustainable improvement

Since the 1995 launch of the Motor Industry Development Programme, succeeded in 2013 by the APDP, there has never previously been a surplus, with or without imported parts. The APDP has brought nearly R50b in investment and created about half-a-million jobs inside and beyond the motor industry. Despite this, critics point to the trade deficits as evidence that the industry is a drain on the exchequer and that government support should be withdrawn.

Mike Whitfield, MD of Nissan SA and president of the National Association of Automobile Manufacturers of SA, said on Friday he believed last year's improvement was sustainable. Vehicle exports were forecast to grow again this year, while local sales were expected to retreat for the third year in a row, possibly as much as 12%.

Since the middle of last year Volkswagen, BMW, Ford and Beijing Automotive Industries have announced export-focused investment projects over the next four years, while Toyota has completed a R5bn investment to launch its new Hilux. Dave Coffey, president of the National Association of Automotive Components and Allied Manufacturers, said more investment announcements were expected soon.

Increase localisation

Whitfield said the weak rand made SA an attractive production base. Increased localisation (use of more homesourced components) would benefit the industry's trade balance. Though some firms claim more than 70% local content in their vehicles, the industry average is less than 50%. Coffey said cooperative industry programmes identifying components best suited for localisation were going well.

A recent APDP change, lowering the annual volume threshold at which motor companies could access incentives, would attract new vehicle manufacturers and offer opportunities for components suppliers.

Source: Business Day