Ease in y/y motor trade growth expected

Year-on-year (y/y) growth in the value of motor trade sales conformed to our expectations, and eased to 8.8% y/y in March 2012, from 12.7% y/y in February.

All the categories of motor trade sales showed sharp slowdowns in March, in particular used vehicle sales and workshop income.

For several months now, we have been predicting an easing in the y/y growth rate of vehicle sales, despite the maintenance of interest rates at extremely low levels by historical standards, which should be favouring personal and corporate balance sheets in such a way as to encourage vehicle purchases.

There are two main reasons why we have been generally more sober about the outlook for vehicle sales than many others in the industry.

Firstly, vehicle sales were particularly strong, and unexpectedly so, during 2011, and one would therefore progressively be comparing current sales with a high base of sales for a year earlier, thus causing the y/y growth rate to decline.

Secondly, related to this, one of the key reasons for the strength of vehicle sales in the second half of last year, was the fact that the sharp fall in the rand between August and November encouraged pre-emptive buying of cars, in the belief that prices would begin rising sharply.

Thus, generally, one would expect growth in vehicle sales to continue sliding over the remainder of the year, possibly into negative territory, and as households become increasingly debt stressed.

The performance of new vehicle sales dovetails with the rise in unsecured loans, which have been far more abundantly available in recent months than in years gone by.

In addition the income from convenience store sales ties in with the optimistic performance recently displayed by retail sales.

The lower rate of growth in vehicle sales may be interpreted by the monetary authorities as another indication of the economy not being terribly strong.

Accordingly, at the margin, these latest figures will support the view that interest rates will remain lower for longer.

However, one cannot rule out the possibility that interest rates will indeed not be raised during the latter part of the year on account of rising growth in unsecured lending and fears on the part of the Reserve Bank that maintenance of interest rates at extremely low levels in real terms, over an extended period of time, could unleash unintended consequences.