



## Quarterly NAACAM Local Value Index

Reviewed Quarter: Ending 31 March 2018.

### Introduction

This is a quarterly automotive supplier local value index and report. The report considers the period ending 31 March 2018 and contains industry information from a representative sample of automotive component manufacturers located across South Africa. Reporting is based on a 'quarter on quarter' comparison as well as a 'same quarter this year on same quarter last year' comparison. NAACAM is the National Association for Automotive Component and Allied Manufacturers. The administration of the survey and compilation of its results is undertaken by B&M Analysts on behalf of NAACAM.

### Sales

Total sales levels for suppliers improved by 2.1% from the last quarter of 2017 (2017 Q4) to the first quarter of 2018 (2018 Q1). This slight increase represents a combination of total export sales growth of 10.5% accompanied by a slight domestic sales decline of 1.3%.

When comparing the 2018 Q1 sales against those for the same quarter a year ago (2017 Q1) the picture is less positive with total sales 7.4% lower:

- Domestic sales were largely unchanged, although there was highly varied performance for direct and P&A sales to OEMs (up 7.1%), to other local automotive suppliers (up 27.5%), and for the aftermarket (down 13.3%).
- Export sales were 18.6% lower, reflected in weaker direct exports (down 19.6%) and exports via OEMs (down 10.4%).

The growth in sales to OEMs for local production is encouraging as total OEM production for 2018 Q1 was down by around 5% compared to 2017 Q1.

Indicator	2017 Q4 Oct-Dec 2017	2018 Q1 Jan-Mar 2018	YoY change %
Total sales	100	102.09	(7.43)
Domestic sales	100	98.72	(0.10)
Export sales	100	110.54	(18.64)

### Localisation and investment

Internal value addition (defined as sales less materials) considers the level of local value that is generated by suppliers, with local sourcing reflecting material purchases placed with local suppliers.

- Internal local value addition for 2018 Q1 improved by 19.2% versus the previous quarter because of sales growth of 2.1% and total purchases decreasing by 6.6%.
- Versus the comparative quarter from the previous year levels are however largely unchanged.

The levels of investment in capital amongst the suppliers in Q1 of 2018 declined by 53.3% compared to 2017 Q4, with the latest quarterly level 55.5% lower than the figure for 2017 Q1. The investment level as a percentage of sales is 3.2% for 2018 Q1, far lower than the levels for 2017 Q4 and 2017 Q1 of 6.9% and 6.6% respectively. The decline in investment levels for 2018 Q1 is likely linked to OEM model cycles, with the most recent OEM model launch taking place in April 2018.

Indicator	2017 Q4 Oct-Dec 2017	2018 Q1 Jan-Mar 2018	YoY change %
Internal value addition	100	119.20	(0.86)
Local sourcing	100	101.50	(5.63)
Investment	100	46.67	(55.52)

## Employment and empowerment

Total employment levels amongst local suppliers declined marginally in the last quarter versus the previous quarter (by only 0.5%). More positively, however, levels have improved by 2.2% against the quarter from the previous year. The growth in employment is linked to increases in permanents, with 2018 Q1 levels 9.5% higher than those for the previous year, possibly suggestive of the industry slowly gravitating away from the contract employment model. Average B-BBEE levels for 2018 Q1 of suppliers have also improved by 6.9% versus the previous quarter, and by 5.3% versus the previous year. The average B-BBEE score for 2018 Q1 for the sample is 6.3.

Indicator	2017 Q4 Oct-Dec 2017	2018 Q1 Jan-Mar 2018	YoY change %
Employment	100	99.54	2.22
B-BBEE score	100	106.86	5.34

## Outlook

The outlook for the quarter ahead (2018 Q2) is projected to be positive for sales and local sourcing, with employment expected to remain relatively stable. Internal value addition is projected to be negative with this due to local purchases and in particular imports projected to increase at a higher rate than sales. This somewhat odd combination of observations is likely linked to the impact of forex movements on purchases in particular and unlikely represents a significant shift in procurement strategy or long-term value addition.

Indicator	Sample median	Indicator	Sample median
Sales	Positive	Local sourcing	Positive
Internal value addition	Negative	Employment	Stable

## Opinion/Analysis

The quarter under review revealed some interesting insights on the relative contribution of certain market segments and sub-sectors to the growth of the industry over the past year.

- While total OEM production volumes for the first quarter of 2018 versus the same quarter in 2017 are down by 4.5%, direct sales to OEM sales are up by 5.8%. This suggests increased localisation activity at a Tier 1 level. In addition, sales to other local component suppliers have grown by 27.5% compared to the quarter a year ago.
- Considered from a sub-sector perspective it is evident that the catalytic convertors sub-sector has shown some growth over the last year, followed by the metal forming/pressing and replacement parts sub-sector firms.

In the absence of significant short-term growth in local OEM volumes, as well as pressure existing in the export markets, local suppliers with growth orientated objectives would do well to consider the significance of this information.

**NAACAM**

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