What does a 'technical recession' mean to the SA Automotive Industry?

For the first time in nine years, South African is in a 'technical recession' and South Africans all over the country have reacted with alarm and panic to the devaluation of the rand and the news. However, when it comes to the automotive industry specifically, this is not just a doom and gloom scenario.

Source: pixabay.com

According to George Mienie, AutoTrader CEO, original equipment manufacturers (OEMs) could actually benefit from this situation. “We have a large and vibrant vehicle manufacturing industry. Companies such as Nissan, Toyota, VW, BMW, Mercedez-Benz, Ford, and Isuzu all build cars here. Vehicle exports are predicted to grow to 384,000 units next year (from an expected 340,000 this year), and a weaker rand is obviously good news for exporters,” he explains.

Vehicle exports rose by 7.7% over August 2018 – versus a 2.5% decline in domestic car sales.

Mienie explains that local component manufacturers that are exporting will also benefit from the weaker rand. “We have a strong component industry here in South Africa. Catalytic converters have typically been the number one export (catalytic converters to the value of R18.7 billion were exported last year) but engine parts, tyres and engines are exported too,” he reveals.

However, while the weaker currency is good news for exporters, the downside is that the prices of imported components and vehicles will rise. But Mienie says that this could present a unique opportunity to used car buyers right now. “We’ve seen that used car prices only increase about six months after new cars. Accordingly, if new car prices rise by 10% within the next month or two, used car prices will only rise by the same percentage about six months later. This means that used car buyers can get good value in the used car market right now. This is especially the case in top-end cars (vehicles costing over R500 000),” he says.

Mienie says buyers are already getting value like never before. “Vehicle values are shifting dramatically – and, in many cases, downwards. This is why live market valuations are important; dealers need to meet the educated consumer at a place of practical truth.”

Finally, while Mienie understands the concern surrounding recent developments, he says that both motorist and the motor industry will survive the current crisis. “The simple fact of the matter is this: South Africans rely on cars, buses and taxis for mobility. We don’t have a widespread train or tram network. Maybe we will need to tighten our belts and purchase used cars (instead of new) or we will have to buy down.

Maybe we will need to hang onto our vehicles for longer (which will have positive spinoffs for service stations). Maybe motorists will buy cheaper cars (that emanate from China). But one thing is clear: South Africans will always need wheels,” he concludes.