Economic & socio-economic impact of SA automotive industry

Dr. Johannes Jordaan, Jeffrey Dinham, Ilse Fieldgate & Sam Rolland

Econometrix
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Structure of the industry
Defining the industry and the terms of this report

2 major segments

Manufacturing: Assembly of Passenger vehicles, LCVs, MCVs and components

Trade: Automotive retail and aftermarket wholesale

7 major vehicle manufacturers BMW, Ford, Mercedes-Benz, Nissan, Toyota, Volkswagen, General Motors

9 MCV, HCV and bus assemblers

500 Automotive component suppliers

587,000 vehicles produced (2017)

58% Exported  42% Sold locally
Gross Domestic Product (GDP*)
What percentage of the full South African Gross Domestic Product is made up by the automotive industry?

Direct impact
R104bn
2.9%

Direct & indirect impact
R277bn
7.1%

Direct, indirect & induced
= Economy wide impact
R312bn
7.7%

*Technically GVA, 2015 data
One step back...

All industries exert both **upstream** and **downstream** impact on the economy.
Manufacturing production
Industry is 4th largest contributor to total SA manufacturing sales

Manufacturing is NB in light of country’s de-industrialisation and make-up of the labour force

Direct impact
R25bn
4.7%

Direct & indirect impact
R154bn
29.1%

Of total domestic manufacturing GVA

Intermediate consumption of automotive industry = 3rd largest in economy

If SA lost it’s domestic auto manufacturing production means - no replacement industry would arise
Employment creation
10th highest share of 153 sub-sectors

Direct impact
Automotive industry employs 468,502 individuals
2.9% of all formal and informal employment
4.7% of formal sector

Economy wide (upstream, downstream, linkages to other sectors)
468,000 additional jobs created
900,000 economy wide dependant jobs (2015)
8.6% of formal sector

For every 1 job opportunity created in the auto manufacturing industry 8.4 jobs are created in the overall economy – 7th / 62 sectors
International trade
Vehicles and components going to 154 international markets

Export earnings R171.1bn
Share in total SA merchandise exports 16.2%

5th largest of all 104 exporting sectors
Gold export share 4.8%

Vehicles: R118bn
Passenger and LCV: R114bn

Catalytic converters
10% of global demand

Industry trade balance
R23.2bn (surplus)
2016
Summary of findings  All topics covered by the full report

Economic impact of automotive industry on SA economy

- **Gross domestic product (GDP)**: 3% (Direct) 8% (Indirect)
- **Intermediate Consumption**: 5%
- **Government Revenue**: 7%
- **Labour income / compensation of employees**: 8%
- **Capital expenditure / total investment**: 3%
- **Employment**: 9%
- **International trade (exports)**: 16%
- **Manufacturing output**: 12% (Direct) 17% (Indirect)
- **Retail/Wholesale trade output**: 13% (Direct) 18% (Indirect)

**Auto industry direct share > Agriculture direct share**

- **3rd largest in economy, after government and construction**
- **2nd highest import tax of 23 importing sectors.**
- **9th highest share of 62 sectors.**

- **Bigger share in than construction industry, on par with agriculture**

- **Auto sales, repair and maintenance > manufacturing**

- **Gold export share just 4.8%**
Australian case
Domestic consequences

2013 – 2016: Domestic vehicle manufacturers exit, all vehicles and components are imported

Based on 2012 data

- 8.0% fall in GDP, including all linkages
- 588,453 formal sector jobs would be lost
- Compensation of employees would fall by R84.5bn
- Overall taxes and import duties would fall by R37.4bn
- Trade deficit would increase by a massive R75bn

Higher import taxes would not match the larger fall in exports, corporate and personal income taxes as well as sales taxes (import taxes amount to around R12bn)

Exports fall by a far larger value than imports rise.

Significant negative effects on the rand and macroeconomic stability.
Socio-economic impact
Looking beyond economic contribution

Narrowing focus to just the 7 OEMS

Firms are increasingly being asked to account for activities outside their traditional profit maximisation imperative

Corporate Social Responsibility (CSI)
Data gathered through a survey i.e. self-reported

Broad-Based Black Economic Empowerment (B-BBEE)
Data gathered through actual scorecard and certificate submissions
Corporate social responsibility

Contribution in addition to direct, indirect and induced effects

Data gathered on seven CSI themes

CSI per category
(% contribution, 2015-2017)

- Social Upliftment: 5.1%
- Conservation and Environment: 1.9%
- SMME and business development: 15.8%
- Healthcare: 2.3%
- Education: 7.6%
- Training & Skills Development: 61.8%
- Sports and Event Sponsorships: 5.5%

Total nominal CSI: FY 2015 - 2017: R2.4 billion

- FY 2015: R765 335 186
- FY 2016: R725 016 900
- FY 2017: R955 501 675

Source: Econometrix

Growth of 32% - far greater than inflation

Only sport & event sponsorships with a developmental outcome included
Corporate social responsibility

OEMs outperform

Total CSI expenditure in SA: **R9.1bn**
Excluding training and development. **7 OEMs** contribute **R346.2m**

**4%** of total CSI expenditure in South Africa

OEMs contribute **R50m** each on average

Of these, only **33** companies out of the top 100 contributed more than R50million each

The 7 OEMs form part of just 33 companies at the top of the CSI ladder

Data collected from 2017 Trialouge ‘Business In Society Handbook, 20th edition’
Transformation
An important part of the social contract

Total B-BBEE points scored

<table>
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<th>Year</th>
<th>Level</th>
<th>Old Scorecard</th>
<th>New Scorecard</th>
<th>Total BEE Points Scored</th>
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<td>2015</td>
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B-BBEE scorecard results (aggregated)

- **Ownership**: 0% (2016), 0% (2017)
- **Management & control**: 48% (2016), 53% (2017)
- **Skills development**: 94% (2016), 102% (2017)
- **Enterprise & supplier development**: 67% (2016), 68% (2017)
- **Socio-economic development**: 100% (2016), 97% (2017)
Transformation

Again OEMs outperform

Comparison with: 22 manufacturing companies, listed on JSE with generic scorecards and annual turnover of more than R50 million p.a.

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<th>Category</th>
<th>2017</th>
<th>OEMs</th>
<th>Manufacturing</th>
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<td>Socio-economic development</td>
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<td>97%</td>
<td>90.7%</td>
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<tr>
<td>Enterprise &amp; supplier development</td>
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<tr>
<td>Skills development</td>
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<td>105%</td>
<td>67.5%</td>
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<tr>
<td>Management &amp; control</td>
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<td>53%</td>
<td>51.5%</td>
</tr>
<tr>
<td>Ownership</td>
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<td>0%</td>
<td>73.0%</td>
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</table>

Total scorecard points

- Manufacturing sector: 72 (Level 6)
- OEMs - Current: 62 (Level 8)
- OEMs - Potential: 82 (Level 4)
Summary
Automotive industry provides substantial benefits to the country

- The automotive sector’s impact on the overall economy and employment within the economy is substantial and far-reaching.
- Production and sale of automotive products generates profits for a wide range of industries up- and downstream.
- A loss of just the seven OEMs to South Africa would have unprecedented spill over effects both financially and socially that would far outweigh the current subsidies the manufacturers are receiving.

Even beyond these measurable effects

- The seven OEMs are socially responsible companies, committed to the upliftment of communities, and the supplier development.
- The OEM’s are also clearly committed to the social contract of transformation.
- In addition, there has been a clear improvement in commitment towards transformation and CSI, despite a difficult environment in recent years.