

14 October 2019

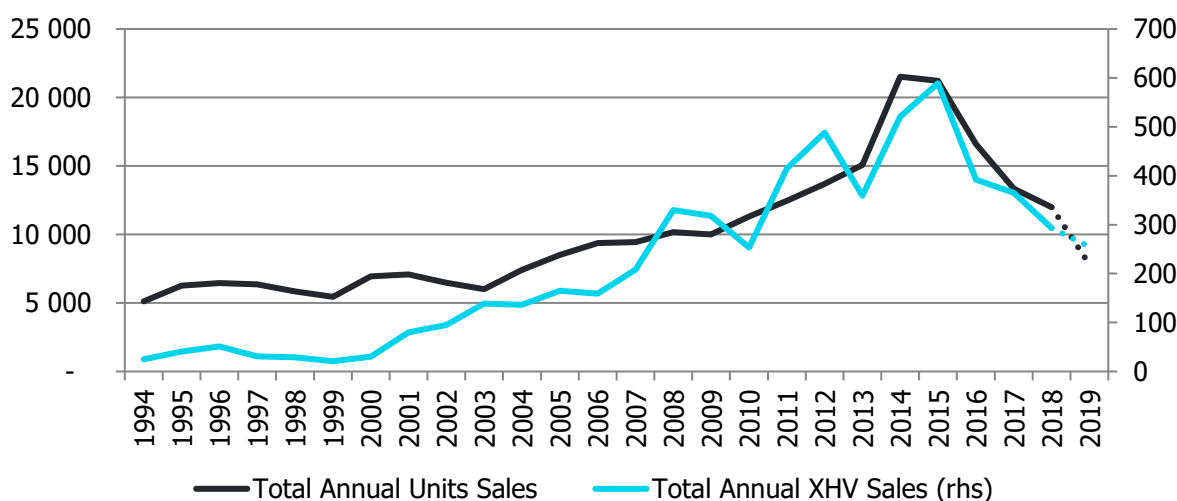
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September Vehicle Sales Note

Overview

September 2019 vehicle sales statistics illustrate no change to the “new normal” of declining growth rates. Total sales contracted by 17.9% year-on-year and were two units shy of last month’s level. Households and corporates alike are facing challenging prospects as the broader economy continues to stagnate with no meaningful growth stimuli. Annual cumulative sales are now 1,357 fewer when compared to the same period last year, while long term contractions are likely to persist for the remainder of the year. A clear co-movement, observable in Chart 1 below, suggests that both the total unit sales and the heavy commercial vehicles (XHV) will be at their lowest levels of the decade.

Chart 1: Annual Unit Sales

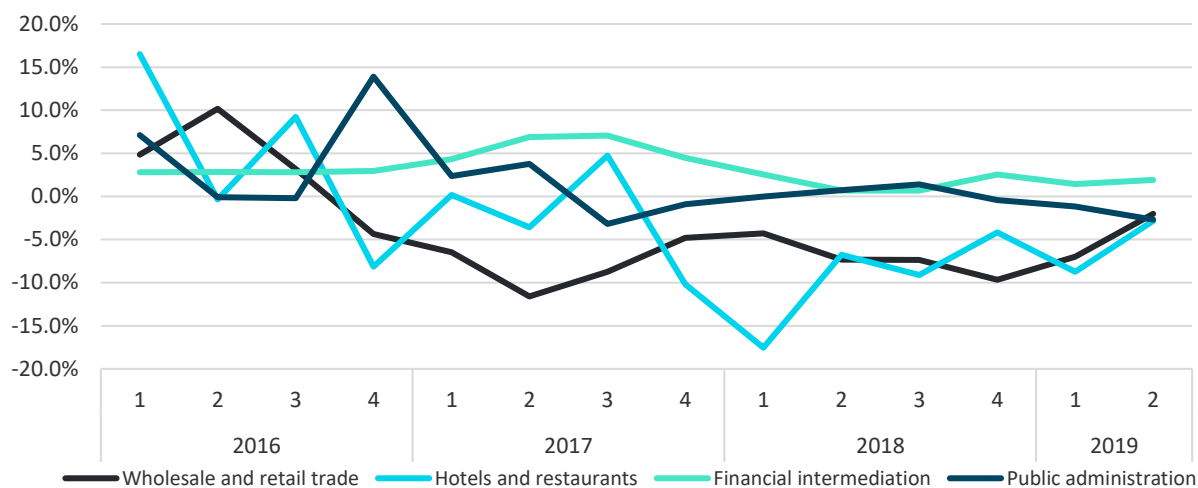


Source: Cirrus, Lightstone Auto

We expect contractionary trends across the components of the tertiary industries in the national accounts to remain throughout the year. The latest data from the NSA shows that Wholesale and retail trade recorded a contraction of 2.0% in Q2 2019. This is the smallest contraction recorded for this sector in its 11 consecutive quarters of contraction. However, the vehicle sales numbers lack statistical evidence to suggest any upswing in wholesale and retail trade is to be expected in the near term. With households remaining under pressure, particularly with high levels of (and increasing) unemployment, low wage adjustments and very high indebtedness, disposable incomes remain tight and household spending capabilities are not expected to improve soon.

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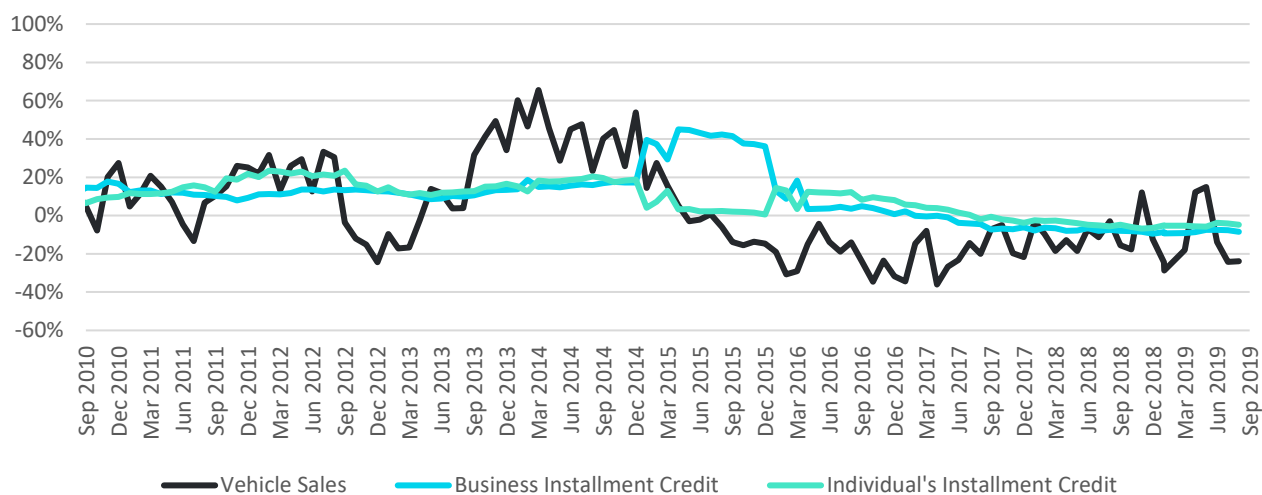
Chart 2: Tertiary Industries Growth (real)



Source: NSA

The private sector credit extension statistics are one of the economic indicators that are correlated to vehicle sales. Credit extended to the private sector continued to slow into August with YoY growth of 6.1%, 1.3 percentage points lower than the comparable period in 2018 and 1.1 percentage points lower than growth experienced in July 2019. Both extensions to individuals and businesses experienced a slowdown, dropping to 6.7% and 6.0% respectively, however businesses saw more significant drops in growth dropping 2.3 percentage points over the month and 2.4 percentage points as compared to the period the prior year.

Chart 3: Vehicles vs PSCE Growth Rates



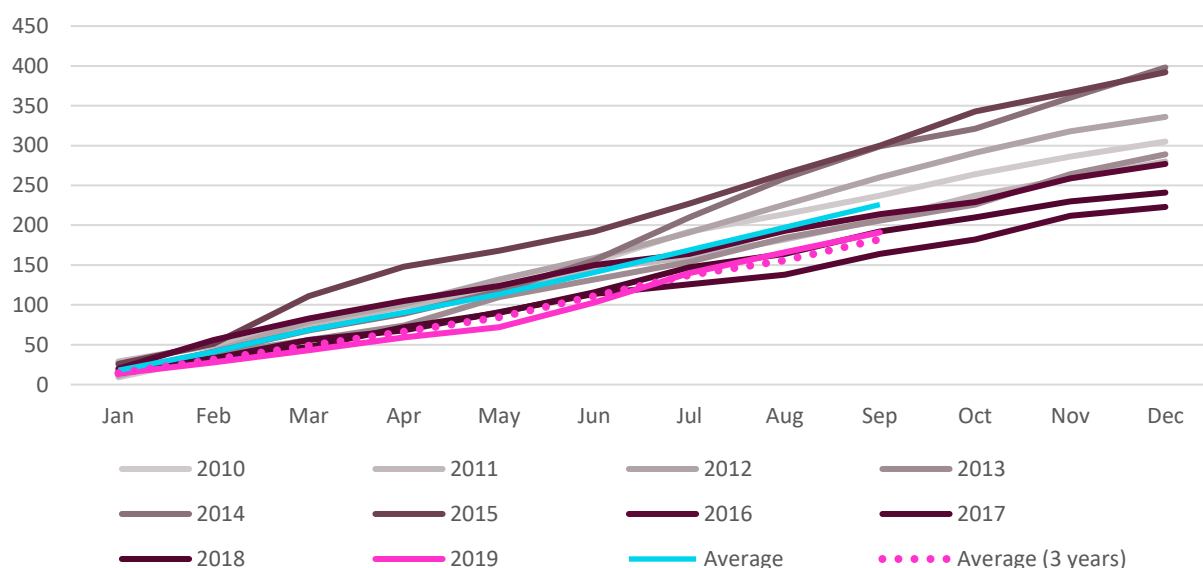
Source: Cirrus, Lightstone Auto

Instalment credit for individuals continued to be a drag on growth with attributable contributions of -0.7 percentage points, growing at -5.4% and amounting to N\$6.5 billion in August 2019. This has been the norm since August 2017 and, with continued weak vehicle sales, it is forecasted to persist. Moreover, corporate instalment credit growth also continued to deteriorate posting negative growth of 8.5% as businesses too opt to save costs and not purchase new vehicles.

Commercial Vehicles

The commercial vehicles category recorded an annual contraction of 25.1%, the fifth consecutive annual contraction, and has posted positive growth just once since June 2016. Monthly rates somewhat bucked the trend to average +3.0% since the start of the year, boosted by this category posting an 8.5% monthly growth rate in September. This short-term spur in growth is attributable to medium and heavy commercial vehicles as monthly contractions slowed significantly to -3.8% from -29.7% for the medium subcategory and 150% from -33.3% for the heavy subcategory. A noteworthy mention is that medium commercial vehicle numbers are now trending above the three-year average, similar to last year's levels but are still below the long-term average.

Chart 4: Medium Commercial Vehicles YTD Sales



Source: Cirrus, Lightstone Auto

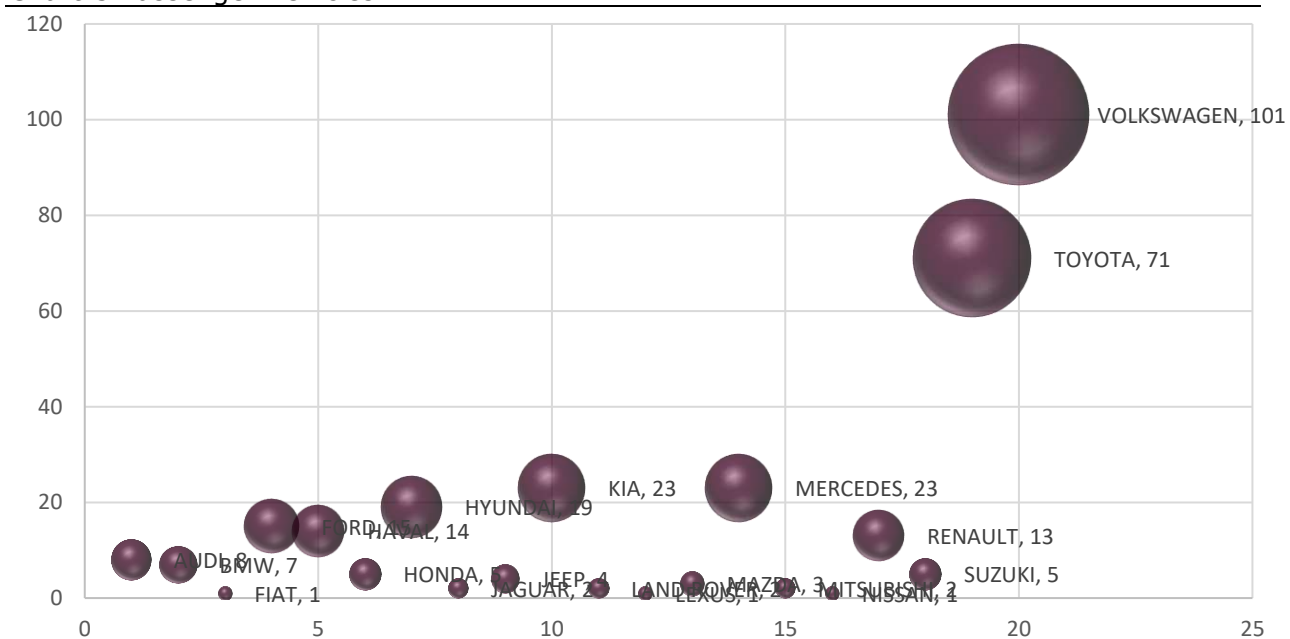
Passenger Vehicles

Contractionary annual growth rates have persisted in the single largest category by sales, the passenger vehicles category, setting a downbeat tune for aggregate growth rates. Units sold for this category contracted both on a monthly and annual basis, 11.1% and 3.9% respectively, for a second consecutive month. This the first time that we see two consecutive months of contraction in both the monthly and annual growth rates since the start of the year, indicative of persistent spending constraints on households. Annual cumulative sales for 2019

contracted 12.9% with expectations of this to remain persistent over the long term due to the squeeze which households find themselves in.

Another indicator of tight consumer spending is the shift in the type of vehicles purchased, as households opt for a balance between budget and reliability brands. We notice preference shifting from popular luxury brands such as Audi, BMW, Jaguar and Mercedes Benz to economical options in the Volkswagen and Toyota brands, particularly the Polo and Polo Vivo (Volkswagen).

Chart:5 Passenger Vehicles



Source: Cirrus, Lightstone Auto