Car assemblers need price rises

By Artwell Dlamini

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The sickly rand is taking its toll on vehicle makers, which are making losses at a time when plunging vehicle sales and declining production volumes have kept the lid on car price hikes thus far.

Toyota SA chairman Johan van Zyl says vehicle assemblers and importers require car price increases as high as 40% just to reach break-even, the point at which costs and revenue match.

Taking into account the state of the economy — which is on the brink of recession — and the depressed vehicle market, Van Zyl says 40% price hikes will not be possible.

Van Zyl says Toyota SA, the local vehicle assembler which increased prices by 9% last year, expects to see price increases reach up to 20%, much lower than the break-even point of 40%.

It is unclear at this stage how much losses have amounted to, nor how long affected companies will be able to sustain these losses. Most vehicle manufacturers do not open their books to the public.

Econometrix economist Tony Twine says that most vehicle suppliers are operating at a loss. If their loss position deteriorates further, Twine says, some companies may leave the local market.

Twine says vehicle prices cannot rise fast enough because vehicle demand is low — both in the local and in cross-border markets.

Earlier this month, the National Association of Automobile Manufacturers of SA (Naamsa) reported that new domestic vehicle sales plunged 36.3% last month. Over the period, Naamsa said, new vehicle exports fell by 27.5%.

Nico Vermeulen, executive director of Naamsa, confirms that a number of vehicle manufacturers and importers are probably in a loss-making situation as a result of lower vehicle sales and declining production volumes, making car price rises inevitable.

Vermeulen says the weighted average new vehicle price hike last year was 8.5% and it looks as though prices will rise above the inflation rate this year. He stressed that vehicle manufacturers and importers priced vehicles independently.

He says price increases are a reflection of cost increases, which are predominantly driven by the weak rand, and adds that these hikes at present probably do not fully recover production costs. He says vehicle importers, in particular, are exposed to the full effects of the rand depreciation.

Richard Sloman, spokesman for Chrysler SA, which imports built-up vehicles, mostly from the US, says that when currency fluctuations exceed forecast and budgeted provisions, the company has no alternative but to increase prices.

The company, he says, added 6% price increases in January as a result of the weak rand, which has lost 26% of its value against the dollar in recent months.

Sloman says nobody expected this currency movement or had this large a buffer in their budgets. If currency fluctuations continued and the rand depreciated further, he said, the company would be forced to adjust car prices accordingly.

Alyson Strever, Renault SA spokeswoman — another importer, which hiked prices by an average 12% last year — says it has increased prices by 1.4% on average this month.

Strever says the weak rand has a significant effect on prices of imported vehicles sold locally. She says the rand weakened from R9,50 against the euro in 2007, before racing to R14 in December last year.

She says lower production volumes and high fixed costs are affecting manufacturers, which have been cutting costs by shortening working hours and shedding jobs, among other methods. More losses suggest even deeper cost-cutting is likely.

Unlike importers of built-up cars, Vermeulen says local assemblers such as Volkswagen SA and General Motors SA are cushioned to some extent against the effects of the weak rand as they obtain certain components at home — but he adds that they remain exposed in respect of imported content.

Rory Schulz, GM for corporate planning and marketing at Nissan Diesel SA, the truck assembler, sheds light on this.

Schulz says the yen has put huge pressure on the company to boost vehicle prices.

Nissan Diesel SA, he says, has pushed up prices by 17% so far this year.

“Should the yen remain stable we don't anticipate any further movement for the year,” he says. Nissan Diesel SA pays in rands for about 90% of imported components that are priced in yen, leaving the company with high operational costs, he says.

Van Zyl says the local currency shed 41% against the yen last year.

Despite the difficulty of raising prices in a distressed market, Twine says vehicle suppliers may escalate vehicle prices, whatever the costs might be in terms of volumes.

He says big price increases do happen and cites the 1980s, characterised by much worse market conditions than now, as a benchmark.

In 1982, Twine says, vehicle prices surged 32% and prices climbed steeply in 1985 (23%), 1986 (37%) and 1987 (23%).

“We are going to see large car price increases, but over how long they will be spread remains to be seen,” Twine says.

Whether vehicle manufacturers can sneak in big price hikes remains unclear. Sloman says in a depressed market efforts are made to keep price increases to an absolute minimum.

The local economy shrank 1.8% in the fourth quarter last year, signalling more troubles for vehicle makers.

Like Van Zyl, Standard Bank economist Danelee van Dyk also says car makers have signalled a price increase of up to

20% this year.

Van Dyk says the decline in prices of commodities such as steel has not been sufficient to offset the weak rand.

She says vehicle manufacturers may get away with the mooted price increases given the decline in interest rates. She says the interest rate cycle, which had turned decisively downward, may conceal car price increases.

Much depends on the ability of consumers to obtain credit. Banks have reasons to remain conservative in their lending practices, Van Dyk says.

Vermeulen says that, assuming further interest rate reductions and factoring in the budget's fiscal stimulation, new vehicle sales should start to recover modestly during the second half of this year.

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