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Vehicle sales drop as disposable income growth slows

By John Loos

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The May vehicle retail sales figures are further evidence of the very cyclical durable goods consumer spend category being under pressure. Unlike the 'upside' surprise in May's 'mainstream' retail sales growth to the tune of 2.4%, Stats SA May vehicle and related retail sales continues to show a very weak picture.

Stats SA vehicle sales numbers are published in nominal terms, but even the nominal value's rate of change could not mask the weakness. After the previous month's year-on-year decline of -6.6%, the value of new and used vehicle retail sales dropped yet again to the tune of -5.9% in May.

Using a 3-month moving average for smoothing purposes, for the 3 months to May the year-on-year rate of change was -3.4%. In real terms, using the most recent Consumer Price Index (CPI) for new and used vehicle sales in May to adjust the sales value, this translates into a more significant decline of -11.2%.

Potential causes of weakness

• Interest rates - the weakness is unsurprising, given that, firstly, the positive impacts of the interest rate cutting cycle up until 2012 have worn off, and then more recently we have moved into the start of the interest rate hiking phase since late-January 2014, with more rate hiking expected. Vehicle sales are always sensitive to interest rate moves, given the credit dependency of many vehicle buyers.
• Affordability Factors - however, the causes of the deterioration in sales arguably go further than interest rates. In recent times, we have seen the CPI inflation rate for motor vehicles accelerating and, although not at extreme levels yet, this higher price inflation must make some difference to vehicle demand should it start contributing to a deterioration in affordability or at least the end of affordability improvements.
• The CPI for Vehicles has shown a noticeable further acceleration in year-on-year inflation from 4.2% in January 2014 to 6% as at May. This may have much to do with a sustained bout of Rand weakness, which affects the cost of not only imported vehicles but imported vehicle components too.
• Economic growth and disposable income factors - the cause of vehicle retail weakness goes further. Overall Household Sector real disposable income growth, which encapsulates not only average income per worker but the number of people being employed too, has been on a broadly slowing trend.

Vehicle sales are also going through less than ideal times at the moment. (Image: NARA)

In the first quarter of 2014, real disposable income growth slowed further to 1.9% year-on-year, from 2.2% previous, the slowest rate of growth since late 2009, and this is heavily reflected in the vehicle sales growth trend, which tracks the broad disposable income trend relatively well.

And it is possible that real disposable income growth may have deteriorated further in the 2nd quarter of 2014, with a year-on-year decline in the SARB Leading Indicator in the initial months of 2014 moving in sync with the real decline in vehicle sales (a leading indicator itself).

Unlike the impact of interest rates, the negative impact of weak real disposable income growth can often be seen in other areas of retail, and even vehicle-related retail that are not directly credit-driven.

In negative territory

For such impacts, we look to the trends in Garage Convenience Store sales and we find during May, convenience store nominal sales value declined slightly by -0.1% year-on-year, with the 3-month moving average recording a very slight positive growth of +0.4%. In real terms, this remains well down in negative territory given far higher consumer price inflation at above 6%, and even higher food price inflation.

Cutting back in convenience store purchases, often unnecessary and expensive, is very much a function of disposable income and affordability constraints.

The situation now looks every bit as weak in the area of Vehicle Workshop Income, which also showed a slight year-on-year decline of -0.1% in May, while the 3-month moving average showed anaemic growth of +2.8%. The cutback on vehicle accessories spend by consumers was also evident in the numbers, with a May decline in this value to the tune of -0.6% year-on-year (+0.3% on a 3-month moving average basis but slowing).

Conclusion

According to Stats SA, all vehicle-related and convenience store retail sales declined in nominal value by -3.9% year-on-year in May, the 2nd successive month of decline. This implies an even more substantial decline in real terms, given consumer price inflation up around 6%.

This bodes ill for the area of durable consumer spending, with personal transport equipment being the main component of durable consumer goods spend.

Durable goods consumption was still a key driver of growth for overall consumer spending as recently as late 2013, but that status was fast dwindling, with further slowdown in growth the 1st quarter of 2014 and it is likely that there was further slowdown in the 2nd quarter too, if vehicle and related sales numbers are anything to go by.

The weak growth in the value of other areas of vehicle-related retail sales (including vehicles, accessories, workshop and convenience store sales but excluding fuel sales), especially in the area of convenience store sales, points to pressure on households not only emanating from interest rates, but from economic pressures on disposable income too.

Given that the vehicle sector is usually a good leading indicator, the vehicle retail sector's numbers suggest a very mediocre consumer period ahead, and as such we expect real consumer spending growth to slow further in 2014, for the year as a whole, from last year's 2.6% to 1.9% in 2014.

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