SA car market faces challenging 2021

According to the latest TransUnion SA Vehicle Pricing Index (VPI), the South African automotive industry faces a challenging 2021, with new vehicle prices continuing to climb well above the inflation rate in a market already severely constrained by the financial effects of the Covid-19 pandemic...

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The VPI measures the relationship between the increase in vehicle pricing for new and used vehicles from basket of passenger vehicles which incorporates 15 top volume manufacturers. The index is created using vehicle sales data from across the industry.

Vehicle prices rose above the inflation rate for the third successive quarter in Q4 2020, at a time when consumers were financially constrained and many car dealers are battling to stay in business.

Kriben Reddy, vice president of auto information solutions for TransUnion Africa, said this trend could hera further car price increases in 2021. "The positive indicators of lower petrol prices, interest rates and inflatio are not enough to move consumers into new vehicle purchases at this stage, with consumer confidence lo as a result of the Covid-19 pandemic and ongoing unemployment rate concerns, negative economic grow rates and pressure on disposable income all having an impact."

Pricing index outcomes

As expected, total financial agreement volumes in the passenger vehicle market decreased by 9% in Q4 2020 compared to the same period in 2019, with new vehicle finance deals down 14.8% and used vehicle down 6.2%. At the same time, the VPI for new vehicles rose sharply to 9.6% in Q4 2020 from 2.9% in Q4 2019, with the used vehicle VPI rising to 2.9% from 1.2% over the same period.

The used-to-new vehicle ratio in Q4 2020 remained largely consistent, at 2.31. This means that for every new vehicle financed, 2.31 used vehicles are financed. The make-up of used vehicle sales shows that 35% of vehicles financed are under two years old, with demo models making up 6% of used financed deals, which indicates an ongoing preference for older vehicles while pressure on disposable income remains.

The percentage of cars (new and used) being financed below R200,000, R200,000 to R300,000 and ove R300,000 saw a clear movement out of the below R200,000 bracket towards vehicles in the R200,000-R300,000 bracket. This reflects the fact that as inflation drives new car prices up, there is a greater demar for used vehicles, which in turn drives used vehicle prices up as well.

Shifting gears to recovery

On the upside, the South African vehicle export market is forecast to recover in line with the global econor While total exports declined 30% from 2019 to 2020, this is expected to trend with the Covid-19 waves, which is the biggest underlying factor impacting demand right now.

Where 2020 was a time of 'keeping the lights on' for many dealers and industry players, Reddy believes tl theme for 2021 will shift more to refocusing and recovery as the industry looks to adapt to new buying patterns and customer behaviours. This includes repurposing local manufacturing plants to meet the grow demand for electric vehicles, and dealers looking to digital tools to transform the buying and selling experience for consumers.

"This is a tough time for dealers, and 2021 will still be a challenging year. We are confident that we will see an increase in vehicle sales over 2020, but the real reference will be how quickly we can recover to 2019 levels," said Reddy.