

Trends that will shape the vehicle industry in the short to medium term

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6 Jan 2021

There are signs of an economic recovery afoot, bringing with it a promise of improved business and consumer confidence and further release of pent-up demand. But it may yet be too early to confirm an ease of pressure on the sales pitch.



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Growth was evident in many sectors of the economy, leading to a rebound in GDP during the third quarter in South Africa, albeit off a low base and coinciding with the easing of Covid-19 lockdown restrictions. Manufacturers have reported an improvement across subsectors and raised demand which, if sustained, will support momentum into the new year. Despite headwinds that include global restrictions on supply chains to curb the spread of the coronavirus, the sector's production has reached levels similar to those of a year ago.

Although a renewed coronavirus outbreak could threaten the economic recovery, the incremental improvement in the economic environment stirs belief that any gain will cascade to the automotive sector too.

We have noted a rising interest in first-time car ownership, perhaps largely a factor of favourable interest rates - as with homeownership - and concomitant with that is an ample supply and readiness from the market particularly notable in the entry-level, sub-small and small segments.

Further growth is anticipated for the entry-level, sub-small and small segments. This will be fueled by the downscaling trend, where many households change from luxury vehicles to one to two-year-old vehicles in order to reduce financial exposure in the tough economic environment.

We have further identified possible trends which are likely to elucidate potential pockets of growth.

Maintaining current vehicles for longer

Certain groups of consumers may opt to save by maintaining their current vehicle for a prolonged period of time, instead of upgrading every three, four or five years. This presents an opportunity for OEMs and groups to play a more significant role in the aftermarket value-added products and services (Vaps) market, possibly through proactive targeted campaigns to return customers.

We anticipate that the emerging trend of consumers who turn to longer-term rental options/and or vehicle sharing models will continue to see slow traction in South Africa. This is a nation where car ownership is prized as a symbol of status and independence.

Independence is a theme evident in the mushrooming e-commerce sector and entrepreneurship. The resurgence of Covid-19 and the absence of a vaccine means consumers will continue to avoid dense public spaces such as shopping malls. This will strengthen the e-commerce boom and demand for delivery vehicles as consumers increasingly shop online.

A rise in this is further confirmed by an upward trajectory of domestic sales of new light commercial vehicles, bakkies and minibuses in November, as reported in the recent National Association of Automobile Manufacturers of South Africa (Naamsa) vehicle sales.

An expansion of sales of crossovers, SUVs

Interestingly, a steady expansion of sales of crossovers, sport utility vehicles (SUV) and multipurpose vehicles (MPV) is likely to continue whereas growth in the luxury and exotic vehicle segments, will remain pedestrian as it has for at least the past decade.

While technology eases the vehicle purchasing process, we expect that consumers may prefer to complete only certain elements of the activity online for the foreseeable future, including finance pre-approval, the insurance application, licence disc renewals and requesting provisional trade-in valuations.

There is a used car supply gap in the market which we continue to monitor. Rental companies typically defleet a year or two after purchasing stock in a particular year. The reduction in the number of vehicles purchased by rental companies during 2020 will likely create a future supply gap of one to two-year-old vehicles and there is a need to prioritise solutions to this future constraint.

As we look forward, we maintain our forecast of a recovery for the automotive sector sales to 2019 levels in 2022, pending recovery of the domestic tourism sector.

However, sales strategies need to be agile enough to withstand the volatility of the current environment in the short-term yet also account for potential future trends and the impact thereof.