Market recovers in 2010

After analysing sales in the fourth quarter of 2010, in the year-on-year comparison, it was evident that the pleasing overall market growth pattern had been supported by all four segments, says FRANK BEETON

The South African market for trucks, buses and vans staged a significant recovery in 2010. With total sales of 1 537 units reported in the final month of December, the cumulative year sales total was propelled to a level of 22 021 units, resulting in an improvement of 16,3% on the result of the preceding calendar year. To place this volume in perspective, the market has therefore recovered to a level better than any annual total reported during the twenty-two year period between 1983 and 2005, and moved substantially above the disappointing 18 934 unit total recorded in 2009. It remained, however, significantly short of its all-time record volume of 37 059 units recorded in 2007.

The quarter-on-quarter volume comparison with the third quarter revealed an almost flat transition into the October-December period for the total market, with a steady performance for the goods vehicle groupings, but substantial growth for the bus segment. This latter manifestation was surprising, and reflected a revival of commuter bus sales in the market, whereas deliveries during the first half of the year had been dominated by luxury coach models. In the year-on-year comparison, it was evident that the pleasing overall market growth pattern had been supported by all four segments, but the performance of premium XHCV units was particularly outstanding, with growth of 32% over this category's emaciated 2009 result.

In retrospect, it should be remembered that the South African commercial vehicle supply industry had started off the 2010 calendar year on a very cautious note, with **FOCUS** on Transport and Logistics magazine's survey conducted among a representative selection of participants turning in a less than 10% consensus forecast of growth expectations. This conservative approach, which may have led to restricted availability of some individual models early in the year, was understandable however, given the extremely difficult trading conditions experienced by manufacturers, importers and dealers in 2009, when acquisition financing, particularly for the most expensive XHCV units, had proved to be extremely difficult to secure, and the outlook for global financial recovery was far from certain. Added to these factors, South Africa had faced prospects for the upcoming Soccer World Cup tournament with considerable divergence in opinion on the extent or nature of its impact on the local economy.

As the first half of the year progressed, an admirably calm approach by the local business community to SWC preparations was noted, with minimal distortion of the truck market caused by obvious last-minute buying. There were some predictable short-term increases in the rate of passenger and distribution MCV, HCV vehicle deliveries, but the magnitude of these was not sufficient to significantly disturb the natural balance of the market. Then, after the inevitable disruption of four weeks' intense focus on the soccer tournament, the country got back to business, and it was soon evident that any earlier apprehension regarding a post-SWC market collapse was completely unfounded. Reported sales volumes grew steadily, in absolute terms, from August to November, and it was notable that the penetration of premium XHCV units was strengthening, which suggested that the financing environment was on the mend. However, it was also noted that some larger operators were circumventing any possible obstacles to their vehicle acquisition plans by making use of accumulated cash reserves to fund their purchases.

SEGMENTATION DYNAMICS:

The continuing revival in the fortunes of premium XHCV sales was fully reflected in the market segmentation pattern evident in the final quarter of 2010. This segment has regained its former market leadership position with slightly more than 40% share of total volume. Combined sales of entry-level MCV trucks, vans and buses finished the year with a penetration of 33,5%, having given up market leadership during the course of the year, while the distribution-rich HCV segment maintained its long-running station in close proximity to the 20% market share line, finishing 2010 at 19,3% penetration. Bus sales, which during the first half of 2010 included a substantial number of luxury coaches specially imported to support the movement of SWC teams, officials and spectators, finished the year with a market

Quarterly review

This commentary reflects the state of the South African commercial vehicle market with Gross Vehicle Mass (GVM) ratings above 3 500 kg, as reported to the National Association of Automobile Manufacturers of South Africa (Naamsa). In line with the current reporting regime of that organisation, the market has been divided into the following segments:

MCV – Medium Commercial Vehicles (GVM 3 501 to 8 500 kg)
HCV – Heavy Commercial Vehicles (GVM 8 501 to 16 500 kg)
XHCV – Extra Heavy Commercial Vehicles (GVM 16 501 kg and above)
Buses – Passenger Vehicles (GVM 8 501 kg and above).

Manufacturer Annual Performance 2010									
Manufacturer	MCV Units	HCV Units	XHCV Units	Bus Units	Total Units	Market Share		Market Position	
						This Year	Last Year	This Year	Last Year
Mercedes-Benz SA	2031	742	2718	694	6185	28,09	27,47	1	1
Change						0,62		0	
Hino/Toyota	1808	1018	322	0	3148	14,30	15,49	2	2
Change						-1,19		0	
UD Trucks SA	469	1173	891	0	2533	11,50	12,53	3	3
Change						-1,03		0	
MAN Group	0	193	1177	446	1816	8,25	7,85	5	5
Change						0,40		0	
GMSA (Isuzu)	1270	926	252	0	2448	11,12	10,68	4	4
Change						0,44		0	
Volvo Trucks	0	0	1189	92	1281	5,82	3,42	6	9
Change						2,40		3	
Iveco	451	10	169	114	744	3,38	3,31	9	10
Change						0,07		1	
International	0	0	615	0	615	2,79	2,31	11	11
Change						0,48		0	
Scania	0	0	892	183	1075	4,88	4,51	7	6
Change						0,37		-1	
Tata	596	353	77	8	1034	4,70	4,10	8	7
Change						0,60		-1	
Peugeot	123	0	0	0	123	0,56	0,55	13	14
Change						0,01		1	
Volkswagen	706	0	0	0	706	3,21	3,98	10	8
Change						-0,77		-2	
VDL	0	0	0	19	19	0,09	0,22	17	16
Change						-0,13		-1	
Babcock/DAF	0	0	41	0	41	0,19	0,18	15	18
Change						0,01		3	
Fiat	83	0	0	0	83	0,38	0,40	14	15
Change						-0,02		1	
Nissan	20	0	0	0	20	0,09	2,02	16	12
Change						-1,93		-4	
Powerstar	0	0	150	0	150	0,68	0,76	12	13
Change						-0,08		1	
Totals	**7557**	**4415**	**8493**	**1556**	**22021**	**100,00**			

share of 6,6%, after a fairly erratic voyage through 2010. The recent historic profile of this segment's performance confirms that passenger vehicle operators had started their SWC preparations early, back in 2009, in recognition of the extended lead-times required to process large volumes of buses and coaches through bodybuilders, whether this was done at home or abroad.

Although the market has recovered significantly in volume terms, it may still be early to rely too heavily on the forecast value of this most recent segmentation profile. There is no doubt that preparations for SWC 2010 exerted an influence on this market for a considerable period before the event took place, and it is to be expected that it will take some time for the "normal" cycle of fleet replacement, replenishment and expansion to be restored. As the year 2011 progresses, results more typical of these normal buying patterns are expected to emerge, and it may be advisable to await the results from one or two quarters in the new year before firming up segmentation expectations for the period going forward.

MANUFACTURER PERFORMANCE:

Please refer to the table, which illustrates the relative market performance and ranking of each participating manufacturer in the quarter just completed, as compared to the returns for the immediately equivalent preceding period.

Readers should please note some recent changes to the groupings of manufacturers contained in this section of the report. The rule employed is that if a manufacturer/group sells more than one brand through its distribution channels, then all sales for those brands will be consolidated in the result for the manufacturer/group. Thus, Mercedes-Benz includes Freightliner and Fuso, Toyota/Hino contains both brands, MAN includes Volkswagen (Constellation) trucks and Volksbus passenger units, but not VW commercial vans (listed separately), GMSA includes Isuzu and Opel, Volvo Trucks includes Mack and Renault, and Super Group has now become Powerstar SA and distributes only Bei Ben products. Babcock/DAF trucks and VDL buses/coaches are now listed independently.

Mercedes-Benz SA

The traditional market leader extended its "reign" into 2010, recording market share growth of 0,6% in the year-on-year comparison, to end at slightly more than 28% market share, and a margin of 1¼% in the fourth quarter over its immediate predecessor. 2010 Year leadership of the MCV, XHCV and Bus segments was also achieved, the latter driven by extensive deliveries of SWC-related luxury coach units. All three brands in the family supported the corporate gains in 2010 by reporting market share increases over their 2009 performance. Promotionally, considerable emphasis was placed on relaunching the entire Fuso lineup during the fourth quarter, slightly ahead of the early-2011 global announcement that Daimler had increased its shareholding in Mitsubishi Fuso Truck and Bus to just less than 90%. The Mercedes-Benz family enjoyed benefits from its availability of in-house financing in 2009, and has continued to promote this facility in the year just ended.

Hino/Toyota

Perennial runner-up in the South African market, Hino gave up 1,2 % market share in the full year analysis, together with its traditional leadership of the HCV segment, which was usurped, during 2010, by UD Trucks. However, at 14,3% penetration, Hino's overall second place was not in immediate danger, and some ground was recovered in the fourth quarter when market share for that period recovered to just more than 15%. A 42% year-on-year improvement in XHCV sales volumes should have brought much satisfaction to local Hino management at the end of 2010.

UD Trucks SA

2010 was a pivotal year for UD Trucks in South Africa, when it assumed responsibility for the almost 50-year heritage of the Nissan Diesel brand in this country. In celebration of the corporate name change, the company maintained third position in the overall market, assumed leadership of the important HCV segment over the full year, and held this position into the final quarter, while maintaining its dominant position among Japanese-sourced XHCV units for yet another year. Unfortunately, some overall market share was lost, to the tune of just more than one percentage point for the full twelve-month period, mainly due to a shortage of MCV product early in the year. Although the position has been partially recovered since the launch of new Euro 2-compliant turbocharged light trucks in May, UD's quarterly MCV volumes are still some way off historic levels achieved with previous generation naturally-aspirated units.

Tata

In terms of overall market performance, Tata consolidated its position during 2010 gaining 0,6% in market share, making 4,7% of the available sales, which reversed to just less than 4% during the final quarter. Closer analysis, however, reveals a substantial recent drop in XHCV segment participation, with only 10 multi-axled units being reported in the final quarter. Tata's overall market ranking dropped from seventh in 2009 to eighth in 2010, while in the October to December period, it took a further step down into ninth position. Tata's new "Global Truck" range can be expected in SA during 2011, together with efforts to re-establish a better level of participation at the upper end of the market.

MAN Group

The fifth-placed MAN Group enjoyed 0,4% improvement in overall market share during 2010, reflecting good early market acceptance of its recently-launched TGS-WW range of XHCV segment products, featuring a four-year/600 000 km driveline warranty. Increased year-on-year sales volumes of extra-heavies, to the tune of 38%, compensated for loss of leadership in the Bus segment, which passed to Mercedes-Benz (see above). However, fourth quarter market results showed a healthy recovery in MAN's Bus sales performance, now that the market has returned to a more familiar pattern of commuter bus purchasing. Unfortunately, MAN's recent acquisition of the Volkswagen Constellation range has yet to show any significant benefit to the group's overall performance, and technical revisions to this product, to make it more attractive to the target distribution sector, can be expected.

GMSA (Isuzu)

Isuzu Truck South Africa was the sole representatives of the General Motors family in this market during 2010, and returned a most satisfactory performance. Overall market share improved by 0,4% to edge above the 11% level, and the fourth place ranking was further consolidated during the final quarter. The recent series of new product launches, up to and including the new FX models that entered the upper strata of the market as the fourth quarter commenced, has strengthened the brand's image, and it was notable that Isuzu's well-positioned N-Series was the main beneficiary of UD's reduced presence in the MCV segment early in the year. Isuzu's stated objective of becoming Number One in the local truck market will hinge mainly on its ability to gain traction in the XHCV segment, where the FX range has expanded the marque's presence, but further progress will depend on a more substantial contribution from the flagship Gigamax unit, whose sales have reached only modest levels since introduction.

Volvo Trucks

Volvo Trucks was the outstanding performer in the SA truck market in 2010, with an improvement in market share of nearly 2,5%, and three positions improvement in ranking to end the year in sixth place. This performance was driven by both XHCV truck and bus sales, the former taking advantage of the strengthening market demand for premium trucks during the second half of the year, and the latter boosted by BRT unit orders from the Port Elizabeth and Cape Town areas. A substantial contribution (134 units) was also made by Renault trucks, which now appear to be establishing a firmer foothold in the local market. Volvo's major promotional activity during the latter part of the year was centred on the introduction of the FMX dedicated construction vehicle.

Scania

Despite improving its market share by a margin of 0,4% in the 2010 vs 2009 comparison, Scania gave up one position in market ranking for the past year, ending in seventh place. Considerably improved volumes of XHCV truck deliveries were offset in 2010 by reduced bus sales, Scania having enjoyed the major portion of its SWC-related passenger vehicle business in 2009. However, during the fourth quarter, an improved market share of 5,9% placed considerable upward pressure on the full-year average of 4,9%, and a one-position improvement in market ranking, for the final three-month period, resulted. Considerable media mileage was generated by the supply of an ethanol-fuelled evaluation bus to the Johannesburg Metro during the second half of the year.

Iveco

Iveco held firm in terms of market share during 2010, with an overall result that differed only marginally from one year earlier, although altered market dynamics resulted in an improvement of one position in market ranking to achieve ninth place in the year's standings.

The major feature of the year's business was a substantial increase in MCV volumes, assisted by the launch of Power Daily models sourced from a Chinese joint venture, coupled with improved XHCV truck sales. Iveco's bus volume, which is largely dependent on orders from PUTCO, declined during the year, but showed signs of resurgence during the fourth quarter.

Navistar International

Initial details of the local involvement of NC^2, the global joint venture between Navistar International and Caterpillar, finally came to light during the final quarter of 2010. The local NITSA operation is to assume the identity NC^2 Trucks Southern Africa, and intends to sell a full range of products to local operators. Meanwhile, the International brand single-handedly enjoyed a 0,5% improvement in 2010 market share, retaining 11th place overall in the overall market standings with products reported solely in the XHCV segment. The 2,8% penetration level achieved across the twelve-month period edged up to slightly more than 3% in the final quarter, suggesting that recent management efforts to consolidate and expand the dealer network are having a positive impact.

Powerstar

Another company now facing a more confident future following the announcement of an offshore investment, Powerstar effectively trod water in 2010, in terms of market share, but exhibited encouraging signs of a stronger performance in the fourth quarter. With its image firmly rooted in value-for-money conservative Bei Ben product from China, there are now suggestions that a more aggressive strategy may be imminent, and that additional market niches are to be explored.

Babcock/DAF

The recently-established Babcock/DAF partnership kicked off local sales conservatively in the final quarter, with only four units reported. The DAF brand's year-on-year performance reflected an unchanged market share of 0,2%, but an improvement of three places in the rankings resulted from marketplace dynamics, and the brand ended 2010 in 15th place overall.

VDL

Of the Bus segment participants, 17th-placed VDL appeared to derive the least benefit from SWC stimulation, registering only 19 deliveries for the 2010 calendar year. The majority of these units were reported in the 4th quarter however, which may indicate some momentum gain just prior to the commencement of 2011 business.

Van Manufacturers

Several vehicle manufacturers compete in the MCV segment of this market only with European-sourced integral van-derived products. Of these, Peugeot (13th position, 0.6% penetration) was the only one to record an improved market share in 2010, while, Fiat (14th position, 0,4%) and Nissan (16th position, 0,1%) recorded reduced market shares during the 2010 calendar year. In fact, Nissan, after considerable success with its Interstar product over recent years, disappeared completely from this segment during the final quarter of the year. The recent exit of both the Nissan and Opel-badged joint venture van products from the South African market bears comment, and poses possible questions about upcoming product changes, or reduced commitment by these manufacturers to future MCV van sales activity in South Africa.

Readers should please note that sales volumes of several commercial vehicle brands, including FAW, Warrior (Dong Feng), Hyundai and Ashok Leyland, are not yet reported to Naamsa, and are, therefore, excluded from the comments and data contained in this report.

GENERAL MARKET COMMENTS:

In the final analysis, the 2010 truck market result presented as highly positive, both in its own right, and as an indicator of activity in the broader local business environment. In the aftermath of 2009, when the market suffered a 45% reduction in total volume compared to its 2008 result, the commercial vehicle supply industry was seeking to re-establish a firm platform from which to grow its future sales volumes, and this has been achieved during the second half of 2010.

The most recent "mix" profile demonstrated in the market, with sales of XHCV units recovering well, will give considerable comfort to analysts and commentators keeping track of local macro-economic activity. After the completion of preparations for the Soccer World Cup during the first half of 2010, with considerable emphasis placed on the construction and renovation of stadia, it could have been anticipated that the tempo of Gross Fixed Capital Formation may have declined. An improved sales rate for premium trucks, however, indicates that fixed investment-related activity has not become dormant. It was also notable that this increase in premium truck sales momentum has been mainly driven by truck-tractor units, suggesting that long-distance linehaul transport operators had come back into the market following the difficulties that they faced with asset financing during the latter part of 2008 and early 2009. While not sparkling, demand for fast moving consumer goods has also improved, providing work for trucks in the distribution-heavy HCV category. Local demand for luxury coaches, however, tailed off while the stocks of SWC-related vehicles became available for redeployment, but it is worth noting that future bus sales volumes will receive added stimulation from the completion of the Gautrain feeder network, and the equipment of numerous BRT-type operations around the country as these are rolled out.

In the immediate future, however, the threat of industrial action remains as a serious potential disruption to economic activity. More specifically, a protracted truck drivers' strike can exercise a multiple negative effect on the truck market, impacting on both the level of general economic activity in the country, and compromising the businesses of the professional and own-account operators who are the buyers of trucks and vans. Increasingly, the country has become dependant on road transport as the main means of keeping its economic arteries flowing, and no suggestion of any substantial shift by shippers to the rail mode has, as yet, appeared on the horizon.

Looking further ahead, the global financial picture still remains largely uncertain, but it has become evident that South Africa is generating much of its own economic momentum, based on increasing trade with other developing economies, including its SADEC neighbours, for whom road haulage is an economic necessity. Positives include good demand for export commodities, increased global interest in African commodity resources, interest rates at recent historic lows, a strong Rand to support importation of capital equipment, and plans for a considerable level of national infrastructure development, estimated at more than R800-billion. While the levels of spectacular growth in truck sales experienced during the first eight years of the 21st Century are not likely to be repeated in the immediate future, the industry can now look forward to sustained steady growth in 2011, and prospects for truck sales are likely to remain positive for several years thereafter. ∎