

While business confidence remains a concern, the truck market is growing. So says FRANK BEETON in his review of the third quarter of 2011 (July to September)

The South African truck market experienced volume growth of 6,7% during the third quarter of 2011, compared to its performance one quarter earlier. This positive result was influenced by a very strong sales month in September, when volumes rose 14% above the average going rate established during the preceding eight months.

The total market also reflected year-to-date growth of 23%, compared to its equivalent position at the end of the first nine months of 2010. Some evidence of restricted product supply, stemming from the Tōhoku earthquake and tsunami that struck Japan early in March, is, however, still present in relation to specific models and variants. Confirmation of this influence is to be found in the analysis of several individual market participants later in this report.

Evidence persists that operators with cash resources and strong balance sheets have protected their interests by

buying up the available stock from dealers, manufacturers and importers, which would have added impetus to the market. The good market performance seen thus far in 2011 has also flown in the face of less favourable sentiment in the broader economy caused by industrial action, an extremely volatile rand, and steadily rising fuel prices – all of which have put pressure on operators' financial results.

The general climate of business confidence in the country during the review period has not always been supportive of truck sales activity, with even the most recent report of the Kagiso Purchasing Managers' Index still reflecting contraction in the areas of employment prospects and new sales orders. Despite this, the market has continued to consolidate its gains and shift its mix in favour of the most expensive units in the EHCV segment.

Much of the motivation for this shift can be ascribed to the inability of the rail sector to capture its rational share of long-distance and over-border freight

## Quarterly review

This commentary reflects the state of the South African "Truck Market" for all Commercial Vehicles with Gross Vehicle Mass 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 3 501-8 500 kg.

HCV – Heavy Commercial Vehicles, GVM 8 501-16 500 kg.

EHCV – Extra Heavy Commercial Vehicles, GVM 16 501 kg and above.

Buses – Passenger Vehicles, GVM 8 501 kg and above.

These reviews are presented on a quarterly timescale, in order to reduce the impact of short-term market distortions which are often created by specific bulk-buy deliveries, the launch of new products, and/or the run-out of obsolete product ranges.



Truck market shows  
**growth!**

Manufacturer Quarterly Performance 2011- 3rd Quarter									
Manufacturer	MCV Units	HCV Units	EHCV Units	Bus Units	Total Units	Market Share		Market Position	
						This Quarter	Last Quarter	This Quarter	Last Quarter
Mercedes-Benz SA	591	175	1 089	23	1 878	26.98	27.68	1	1
Change						-0.70		0	
Toyota/Hino	449	255	81	0	785	11.28	12.00	3	3
Change						-0.72		0	
UD Trucks SA	212	371	321	0	904	12.98	12.12	2	2
Change						0.86		0	
MAN Group	0	71	439	104	614	8.82	7.56	5	6
Change						1.26		1	
GMSA	316	296	91	4	707	10.16	10.90	4	4
Change						-0.74		0	
Volvo Trucks	0	0	464	11	475	6.82	7.74	6	5
Change						-0.92		-1	
Iveco	166	10	40	35	251	3.61	3.16	10	10
Change						0.45		0	
International	0	0	262	0	262	3.76	3.22	9	9
Change						0.54		0	
Scania	0	0	306	25	331	4.75	5.49	8	7
Change						-0.74		-1	
Tata	182	92	50	21	345	4.96	4.69	7	8
Change						0.27		1	
Peugeot	47	0	0	0	47	0.68	0.95	13	12
Change						-0.27		-1	
Volkswagen	226	0	0	0	226	3.25	3.08	11	11
Change						0.17		0	
VDL	0	0	0	4	4	0.06	0.15	16	15
Change						-0.09		-1	
Babcock/DAF	0	0	52	0	52	0.75	0.31	12	14
Change						0.44		2	
Fiat	33	0	0	0	33	0.47	0.14	15	16
Change						0.33		1	
Nissan	0	0	0	0	0	0.00	0.00	n/a	n/a
Change						0.00		n/a	
Citroen	1	0	0	0	1	0.01	0.00	17	n/a
Change						0.01		n/a	
Powerstar	0	0	47	0	47	0.68	0.81	13	13
Change						-0.13		0	
<b>Totals</b>	<b>2223</b>	<b>1270</b>	<b>3242</b>	<b>227</b>	<b>6962</b>	<b>100.00</b>			

traffic. There can be no doubt that South Africa and its neighbours are becoming increasingly dependent on road haulage to sustain their economies and growth prospects

#### SEGMENTATION DYNAMICS

During the third quarter of 2011, the premium payload EHCV segment has continued to consolidate and strengthen its market leadership, having occupied the premier position for the five most recent quarters. Over the past three months, it reached a penetration level of 46,6%, setting a new all-time record for this category. Recent anecdotal evidence suggests that some major local suppliers to this segment possess full order books and will not be in a position to match supply and demand until well into 2012.

At the opposite end of the spectrum, the entry level MCV grouping has recovered

slightly from its recent low of 30,7% market share recorded in the second quarter, and is now positioned at just below 32%, not having threatened the EHCV segment's dominance since the first quarter of the 2010 calendar year.

Restrictions on the availability of some Japanese brands that dominate the truck chassis sub-segment of the MCV category have led to a narrowing of the gap between chassis/cab and integral van shares, with the split currently lying at 56:41 in favour of the former, whereas the recent trend under conditions of more normal availability has been more typically 63:35.

It has now become apparent that the recent softening of the market penetration of the HCV segment, which mainly comprises the larger 4x2 trucks employed in the distribution sector, can be ascribed to a combination of reduced recent national levels of consumption activity, and some

level of restriction in post-tsunami product availability out of Japan, which is, by far, the dominant source for trucks in the category.

Although it has been difficult to accurately quantify the impact of these shortages from the monthly sales results reported by individual suppliers, the drag on the category's share of the overall market has become more entrenched as the year has unfolded. It has not been able, as yet, to recover from its current level of 18,2% to reclaim the 20% ratio that it has occupied solidly for much of the past decade.

Bus sales continue to consolidate at modest levels, but, at 3,3% market share, they have re-entered territory occupied prior to the stimulatory effect of the 2010 Soccer World Cup. With several hundred new luxury coaches imported during that period, most recent support for the segment has come from the mainstream commuter bus operating community, and this is likely to

continue until the extra capacity generated by SWC 2010 has been taken up, or additional Bus Rapid Transit routes are put into operation.

#### MANUFACTURER PERFORMANCE

Please refer to the chart, 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 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), while Volvo Trucks includes Mack and Renault.

#### Mercedes-Benz SA

With a market share of 27% and volume growth of 4% when compared to the preceding three-month period, perennial market leader Mercedes-Benz South Africa celebrated its 125th corporate anniversary by maintaining premier position in the truck market during the third quarter of 2011.

The individual marques within the Group enjoyed mixed fortunes, with parent brand Mercedes-Benz, at 18,3%, maintaining its second quarter market share performance, while American subsidiary Freightliner gained 0,13%, and Japanese affiliate Fuso gave up three-quarters of a percentage point – reputedly due to supply-side restrictions from its home manufacturing facilities.

The Group enjoyed leadership of the entry-level MCV segment, primarily due to a very strong Sprinter result and the premium payload EHCV category, where Mercedes-Benz was strong enough to stand alone at the top of the listing, while the combined Group performance took it well clear of any competitive threat. Exhibits at the recently

completed Johannesburg International Motor Show included a substantially-revised Freightliner Argosy premium hauler, an all-electric Mercedes-Benz Vito van, the Euro-5 compliant Actros, Econic dedicated low profile specialist design with natural gas engine for short haul applications, and a parallel hybrid version of Fuso's MCV Canter truck.

#### Hino/Toyota

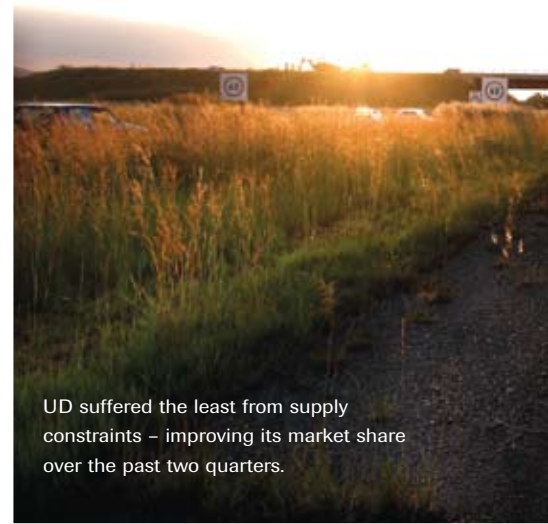
Toyota SA's truck operation continued to be handicapped by Japanese supply disruption during the third quarter, which denied the third-ranked supplier any chance of recovering its long-running second position overall in the rankings, or its previous leading position in either the MCV or HCV segments.

A volume improvement of 0,3% in the third quarter was insufficient to generate a market share gain in the growing market, and the resulting 11,3% penetration level was nearly three-quarters of a percentage point off Hino's second quarter result. Hino's JIMS exhibit was headlined by the latest-generation 300 Series MCV truck line-up, including an important double-cab variant which is due for local assembly and sale during 2012.

#### UD Trucks SA

Of the Japanese-sourced brands present in the South African market, UD Trucks seems to have suffered the least from supply constraints, improving its market share consistently over the past two quarters and consolidating a clear second place ranking in the overall market. Third quarter market share came in at a fraction under 13%, driven by a 14,3% volume improvement on the second quarter outcome. The marque consolidated its absolute leadership in the HCV segment during this quarter and remained well ahead of all other Japanese opposition in the premium EHCV category.

JIMS exhibits included an example of the Volvo Group's new GH7 mid-displacement global engine, providing a foretaste of the power unit that will be used in the upcoming UD Condor range of HCV segment product. Pre-show announcements of structural changes in the Volvo organisation, placing more emphasis on geographic regions



UD suffered the least from supply constraints – improving its market share over the past two quarters.

and less on brand differentiation, can be expected to exert some influence on the future shape of UD's South African operations.

#### Tata

Tata's South African market performance continues to fluctuate and, following a loss of momentum in the second quarter, it moved once again into positive territory during the July-September period. Market share growth of 0,3% was accompanied by a volume improvement of 12¼%, and promotion by one position to seventh in the overall market standings. Tata's substantial JIMS display included examples of the much-anticipated Prima heavy duty "World Truck" range and several exhibits illustrating this Indian manufacturer's growing interest in the local market for full-sized buses and coaches.

#### MAN Group

MAN arrested its recent slide in market share performance during the third quarter, improving volume sales by nearly 25% over its second quarter outcome, which led to the German group's overall market share recovering to 8,8% - enabling the recapture of fifth position that had been lost to Volvo one quarter earlier.

With the recent normalisation of the bus segment following the 2010 World Cup,



MAN has reasserted its traditional position at the top of heavy passenger vehicle sales. In contrast, Volkswagen-branded products lost some momentum during the review period, only recording slightly more than 1% overall market share.

MAN's impressive stand-alone pavilion at JIMS exhibited a wide range of Group products, the most impressive of which was the imposing Lion's Explorer 27-metre bi-articulated bus-train, created to exploit expected changes in local legislation that will allow articulated buses to exceed the present overall length limit of 22 m when operating on unrestricted public roads.

#### **GMSA (Isuzu)**

Fourth-placed Isuzu Trucks South Africa is another supplier of Japanese-originating products that seems to have managed its supply position better than most, carrying much of the momentum gained during the second quarter into the just-completed three-month period.

Similar absolute volumes did, however, result in a market share reduction of three-quarters of a percentage point in the growing market, accompanied by some enrichment of Isuzu's recent market mix in favour of HCV and EHC derivatives of the latest F & FX-Series line-ups. With a comprehensive and broad renewal of the product range already completed, Isuzu's

JIMS display concentrated mainly on the promotion of specific variants including an upcoming AMT-equipped option in the F-Series catalogue.

#### **Volvo Trucks**

Volvo Trucks fell back from its impressive second quarter result, giving up 0,9% in market share and one ranking position to end in sixth during the July-September period. This resulted from a 5,9% reduction in delivered volumes in a growing market, which placed the group sixth overall in the third quarter market standings.

During this period, affiliate Renault's individual market share also declined by 0,2 percentage points to finish at 1,1%, with both brands continuing to operate exclusively in the EHC segment of the goods vehicle market, while Volvo was also active in the Bus category. Somewhat surprisingly, neither Volvo nor Renault Trucks were on view at JIMS, leaving UD as the sole representative of the global Volvo Group at the exhibition.

#### **Scania**

Following suit with its Swedish compatriot, Scania also gave up some of its second quarter gains during the review period, which resulted in a one position demotion to eighth place in the market. The quarter-on-quarter reduction of 7,5% in absolute

volume resulted in a market share of 4,75%, nearly three-quarters of a percentage point off the April-June outcome.

Scania's JIMS display was mainly centred on an array of special edition prime movers celebrating Nordic gods, an eight-wheeled 50 tonne payload tipper intended for open-cast mining applications, and a Chinese-built Scania Higer luxury coach.

#### **Iveco**

Although retaining 10th place overall in the market standings, Iveco returned a significantly improved third quarter result with a 21,8% increase in delivered volumes and half-a-percentage point improvement in market share over its April-June outcome – finishing at 3,6% penetration. Most of this improvement was driven by increased Daily sales in the MCV segment, while performance in the other segments shifted largely sideways. Along with Volvo/Renault, Iveco was the other significant market participant which elected to stay away from JIMS 2011.

#### **NC<sup>2</sup> - International Trucks**

NC<sup>2</sup>, which builds and markets International Trucks in South Africa, built on its positive second quarter result with further improvements in volume and market share during the third quarter. Although retaining ninth position in the overall ranking, a volume increase of nearly 25% drove a market share improvement of more than half a percentage point to reach a third quarter level of 3¼%. Significant new product from this manufacturer was on view at JIMS, including the TranStar-bonnetted 6x4 prime mover optimised for single semi-trailer operation, and the all-new MetroStar range of forward-control freight carriers that will extend International's market coverage down into the HCV market segment.

#### **Powerstar**

Chinese manufacturer Powerstar returned fewer volume sales during the review period, compared to its performance during the previous quarter, ending with a slightly reduced 0,7% share of the total market, but retaining 13th position in the standings. With Chinese management now in control at its local operation, plans are being put

in place to refresh and extend its product range. As evidence of this, the all-new V3 prime mover and facelifted VX construction line-up were prominently displayed at JIMS.

#### Babcock/DAF

The local DAF operation more than doubled its sales volume in the quarter-on-quarter comparison, resulting in an improvement to 0,75% overall market share in the third quarter, and a two-place improvement in the standings to occupy 12th position. A comprehensive selection

12,4% improvement in volume and a 0,2% improvement in market share over the second quarter of 2011. **Fiat** (15th position, 0,47% market share) more than doubled its volume performance of the previous quarter. **Peugeot** (13th position, 0,7% market share) lost ground, with 24% fewer sales than in April-June, while PSA stable-mate **Citroën** recorded its first unit sale in the MCV segment to finish this market review in 17th and last, position.

#### Non-Reporting Manufacturers

Readers should please note that local sales

would be 5,2%. During the third quarter, **Foton** has been promoting a comprehensive range of vehicles, and soliciting dealer appointments, while **FAW**, **Dong Feng** and **Foton** were active with new model introductions at the JIMS exhibition.

#### GENERAL MARKET COMMENTS

The substantially improved market performance evident as the third quarter ran out, provided encouraging signs that previous 2011 predictions of around 25 000 units for the year could be exceeded. That volume, in itself, was substantially greater than many forecasts ventured by vehicle importers and manufacturers at the beginning of the year, and anecdotal evidence suggests that the level of demand has placed pressure on inventories held by some local suppliers, who are reporting full order books through into next year.

As the market enters the final quarter of 2011, however, the spectre of Japanese product shortages has reappeared and this situation now seems unlikely to recover fully before the end of this year. This has been joined by a highly volatile rand in threatening to undo some of the good that has been done in the preceding three quarters. Downward movements in the rand's exchange rate versus key foreign currencies presents as a double-edged sword, exerting upward pressure on the local pricing of new vehicles and components coming forward from overseas plants, and increasing the local price of fuel.

Although the more sophisticated members of the haulage community should be able to invoke escalation clauses in their contracts to obtain relief from clients for increased fuel costs, the most likely outcome will be tightening of margins in the broader transport industry. As noted earlier, there is also likely to have been some pulling forward of vehicle acquisition activity by well-financed operators, in order to secure available product before shortages take their toll, which may result in diminished inventories being available to support October and November deliveries. The possibility of lower absolute sales volumes during the final quarter of the year cannot, therefore, be ignored. ■



DAF more than doubled its sales volume in the quarter-on-quarter comparison.

of current product, all positioned within the EHCV segment, was placed on view at JIMS.

#### VDL

Still concentrating mainly on its signature front-engined ladderframe chassis in 4x2 or 6x2 configurations, this bus specialist continues to sell only small numbers of vehicles to local operators, and ended the third quarter in 16th position, with less than one percentage point of overall market share. Representative models were displayed at JIMS.

#### Van Manufacturers

Four vehicle manufacturers compete in the MCV segment of this market only with European-sourced integral van-derived products. Of these, **Volkswagen Commercials** (retained 11th ranking position, 3,25% penetration) recorded a

volumes of several commercial vehicle brands, including **FAW**, **Warrior (Dong Feng)**, **Foton** and **Ashok Leyland** are not yet reported to NAAMSA and are, therefore, excluded from the comments and data contained in this report.

It should also be noted that **Associated Motor Holdings** has recorded some sales in the MCV segment during the review period. In line with the policy of that group, no details of the individual models sold have been disclosed to NAAMSA, but from observation we can deduce that these vehicles are from the **Hyundai** HD Series of light trucks.

These volumes are not subject to the full NAAMSA verification process and consequently have not been included in the Chart database. However, if the volumes were to be included in an expanded market for this quarter, **AMH's** overall penetration would be 1,7%, and its MCV segment share