Trends Driving the African Automotive Industry in 2016 and 2017

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The global automotive business is in its most disruptive era since the advent of the industry over a century ago, creating an abundance of opportunities for new and established companies in the global automotive market. Frost & Sullivan anticipates the market to grow by 2%, reaching 91 million new units sold in 2016.

African economic growth is slowing in 2016, with countries like Nigeria and South Africa showing significantly lower GDP growth rates. Commodity-dependant countries in Africa are feeling the pressure of the sustained low oil and commodity prices. Even with lower growth, the automotive industry is expected to show signs of transition in many countries. Africa is forecast to grow between 3% and 3.7% in 2016 with East Africa retaining its position as the fastest growing region on the continent. The African growth narrative of yester-year has become nuanced as key industries begin to emerge as drivers of this growth.

Africa’s automotive market remains relatively underdeveloped in comparison to Europe, Asia and North America. Increasing industrial prospects on the continent are shifting with growing local manufacturing, better infrastructure and strong economic growth. The opportunities for the automotive industry in Africa are looking increasingly attractive.

Frost & Sullivan identifies keys trends driving the automotive industry in Africa:

**Auto manufacturing investment in Africa will continue to boom**

Frost & Sullivan sees manufacturing as one of the key future industries in Africa. The sector currently faces capital, labour and infrastructure challenges which are likely to become less burdensome with improved government policy, private sector investment and better business environments. One industry which does show considerable promise in Africa is automotive manufacturing and assembly. Automotive manufacturers are moving closer to African markets to produce vehicles. This is regarded as a practice that has primarily been adopted due to the local content promotion policies instituted by countries like Nigeria and Kenya. These policies have resulted in restrictions on imports of second-hand vehicles as well tariffs on new vehicles.
Nigeria has become one such hub where global manufacturers like Nissan, Ford and Volkswagen, together with local partners, have begun assembly of vehicles. Nissan currently operates at its semi-knocked down plant in Lagos, which has been operational since 2014, and Ford has also begun assembly of its popular Ranger pickup in the country.

This is largely attributed to the successful adoption and implementation of the National Automotive Industry Development Plan (NAIPD), driving the growth of automotive manufacturing in the country. The plan aims to limit the amount of second-hand car imports through steeper tariffs. The push to local content promotion by government has also led to the establishment of assembly plants in the country.

Mitsubishi is also eyeing Nigeria. In a statement last year, Anand Singh, West Africa head for Mitsubishi said the company was currently at the early stages of its planning and negotiations with Nigerian stakeholders.

The arrival of Chinese brands, and the pace at which Nigeria’s automotive hub is developing, is setting a precedent for what can be achieved on the continent when prudent policies are followed by sound implementation.

New vehicles sales continue to fall. Recently; however, key automakers BMW, Toyota, Volkswagen, and Ford have all grown their investment in South Africa’s automotive sector, expanding their operational and automotive manufacturing capacity. This investment is seen as a positive indication of not only commitment to South Africa as a manufacturing hub but to the continent as a whole.

Toyota has invested R6.1 billion in their Durban plant, BMW is set to invest R6 billion in their Rosslyn plant, VW has earmarked 4.5 billion investment for their Uitenhage plant and Ford R2.5 billion in their Rosslyn plant, with Mercedes Benz investing R3 billion in their East London plant in 2013/14.

Indian motor company Mahindra & Mahindra has also made strong indications that it plans to manufacture in South Africa, prospectively with an investment in the East London industrial development zone.

The export of vehicles from South Africa is currently on the increase and automakers are seeing the opportunity of using South Africa as the base for their vehicle manufacturing, while looking at foreign markets like Europe.
The interest in South Africa is certainly a product of the strong export market as local demand has tapered off due to sluggish economic growth in 2015, together with lower growth of only 0.6% expected in 2016. This is expected to recover slightly to 1.3% in 2017, but vehicle sales are expected to remain subdued in South Africa until at least 2018.

**Transport infrastructure projects will expand**

Despite significant challenges relating to finance constraints and long construction times in Kenya and Nigeria, these countries have been forging ahead with key road transport projects. The downturn in oil prices could further hamper Nigeria’s financial contributions to its infrastructure budget, leading to less wealth creation in the shorter term than expected. This will negatively impact on vehicle demand in Nigeria.

The expanding transport corridor projects in East Africa are expected to reveal greater logistics opportunities and increase the demand for commercial vehicles in East Africa significantly over the next 5 years. Frost & Sullivan is currently undertaking an analysis of the commercial vehicle demand in East and West Africa and how this will be driven and influenced by upcoming transport infrastructure projects.

**Consumer preferences will shift gear**

Over the past decade, South Africa’s annual new car sales have decreased. This is expected to remain unchanged in 2016 as consumers look to the very attractive second-hand vehicle market; very slight growth in new vehicle sales is expected in 2017 in South Africa.

The concept of car ownership is changing globally with a significant shift to car-pooling and ride sharing concepts in congested European cities. This trend is not expected to be adopted in sub-Saharan Africa, as the ownership of a vehicle in these cities is still seen as an aspirational value, and the automotive market is relatively new when compared to that of more mature European and American markets.

In South Africa, there is a shift to multi modal transport solutions, but this shift is taking place at a slow scale due to significant challenges faced in implementing large-scale, and integrated, public-transport solutions at a city level.

**Conclusion**
The decreased rate of wealth creation in many African economies in 2016 and 2017 will only slightly negatively impact the automotive sectors in these countries. Local content policy will continue to assist in pushing local assembly of vehicles in Nigeria and Kenya. In 2017, Frost & Sullivan anticipates more automakers will approach these markets, especially in the luxury, hatch and pickup segments.

South Africa remains the automotive powerhouse of the continent, but manufacturers in this market will shift their production lines to cater for the export market as local demand in South Africa will remain subdued in the next 5 years.

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