

Brexit implications for local car market a waiting game

Britain's move to leave the European Union sent reverberations around the world, and analysts and economists are still scrambling to determine the impact. While South Africa may be 10,000 miles away, the UK is one of the country's most important automotive trading partners and there will be an impact, says Jeff Osborne, head of Gumtree Automotive.



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"We don't yet know the influence that Brexit will have on the motor industry," says Osborne. "While auto stocks were battered when the news broke, this is likely due to investors exercising caution and opting to observe the market before making any rash decisions. The effect will be a marked decline in the short term."

These short term effects were felt keenly by large global exporters such as General Motors and Ford in the United States, and Tata Motors (which includes top performers Jaguar and Land Rover) in Europe. Automakers including Honda, Nissan and Ford all have large manufacturing bases in the UK, and are major exporters to the rest of Europe.

"British car manufacturers were braced for a decline this year, regardless of the outcome of the Brexit vote, and this is expected to be further exasperated by the drop in the country's Gross Domestic Product and the devaluation of the pound," says Osborne. "In times of economic instability, consumers hold off purchasing new cars."

Important export market

Britain remains an important market for vehicle exports from South Africa with the likes of Mercedes-Benz, Volkswagen, BMW, Toyota and Ford exporting a total 48,669 passenger and light commercial vehicles to the UK last year. "Vehicle and component exports have been on the rise consistently over the last few years, in some instances by 50%, bolstered by the weak rand and the financial recovery from northern hemisphere markets. It is crucial that trade agreements with Britain are renegotiated to minimise economic impact."

Osborne says this is particularly important as major African markets increasingly move away from South African imports. "As countries such as Algeria's policies on vehicle imports tighten and Nigeria focuses on its own budding manufacturing industry, South Africa is dependent on Europe, while Angola's loss of oil revenue also cut government spending on imports significantly."

But Osborne says we must bear in mind that the move from the EU will take time. "There are hundreds of agreements, taxes and funding and treaties to be disentangled. And Britain will have to renegotiate thousands of these trade agreements, influencing companies and consumers. We can't predict what this will mean for UK or global operations until those negotiations are complete, which may take years."



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Trade agreements

Osborne explains that in a free trade zone, there are no tariffs between countries. “That means that a car can be manufactured in Britain, for example, and sold in Germany, without any necessary change in price. But without those agreements, a car made in Britain might have its sales taxed in Germany, which could potentially double the cost for the consumer. Which means that if you are based in the UK, you might be better off moving your plant to Germany or France and selling to your European neighbors where the free trade zone is still in effect.”

If one considers that companies such as UK-based Toyota sold 75% of their 190,000 cars in EU member countries last year, while only 10% were sold on their home soil, one can see why manufacturers are pressured to preserve these trade agreements. (In 2015, the UK exported 77% of the 1.59 million vehicles manufactured in the country, across all makes.)

Evercore Automotive Research figures the combined damage will be roughly \$9b in lost profits to automakers, and an as-of-yet unquantified impact on auto production jobs. “Conversely, Japanese car manufacturer [Toyota invested R6 billion](#) (\$384 million) in the Durban economy, opening a plant to produce Hilux and Fortuner models – perhaps this investment will be further expanded in light of recent events, as South Africa may have more favorable agreements with the EU than Britain has in the near future,” says Osborne.

Used car market

Osborne says that the only determination he makes with certainty is that the second hand car market will see even further growth in South Africa. “Cars are the barometer of the strength of the economy, with the current conditions being what they are, we will see more and more South Africans turning to the second hand market to purchase their vehicles. New vehicle sales are continuing to decline, despite low margins, and second hand sales will be extremely important to keep the shop doors open.”

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