SA car prices compare favourably

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In May 2004, the competition commission announced an industrywide investigation into new motor vehicle prices and sales practices in response to "public outcry regarding new car prices remaining high despite the country's currency strengthening".

The commission states: "Our analysis thus far indicates that new car prices in our country are much higher than in other countries."

It adds that it is concerned that "the motor industry development programme [MIDP] in our view may be the main reason for the high car prices in our country".

It is not our intention here to assess the various technical elements of the MIDP in detail. Rather, we are concerned with a single issue - comparative vehicle prices. This is an empirical issue requiring research and sound evidence, rather than speculation.

Is there evidence that vehicle prices excluding taxes and other add-ons are indeed higher in South Africa than elsewhere?

If they are comparable to global prices, then the MIDP would appear to be meeting one of the measurable objectives set for it in 1995, when originally promulgated - to support vehicle affordability.

Conversely, if South African vehicle prices are higher than those in other economies, the MIDP has to be assessed on the basis of its wider benefits, and in particular the spin-off ("external") benefits reaped by other sectors.

We have compared South African and UK car prices of comparable models at different exchange rates: R11.53 a pound, recorded in the first half of 2005, and R12.29 a pound, the rate on June 21. While these two rates are not the lowest and highest over the year they do form reasonable lower and upper limits.

The outcome of this price comparison is obviously very sensitive to the exchange rate, but perhaps not quite as sensitive as might initially seem.

This is because South African vehicles have a high import content, exceeding 50 percent in many cases, and while exchange rate appreciation has an adverse effect on final product prices, it reduces the cost of imported inputs.

We compared the following range of different models: cars produced in South Africa and exported, cars not produced in South Africa and imported, and budget cars.

To ensure that we were comparing apples with apples, we excluded all taxes levied on cars in the South African and UK markets and took account of special incentives offered in the domestic markets.

This meant stripping out from the South African retail price VAT (14 percent), the vehicle additional tax, excise duties and motor plans, which accompany purchased vehicles. In the UK this meant excluding VAT (17.5 percent), delivery and preparation charges, and road taxes.

None of these cars are currently sold in the UK with motor plans as is now increasingly standard in South Africa, although this may change in the near future.

The UK car market is a reasonable comparator and is not out of sync with European prices. For many years it was argued that UK car prices were abnormally high, in order to protect the country's domestic industry.

But in recent years, with the adoption of the euro, there there has been a movement towards price conversion, and the EU competition commission concluded that "the latest report on car prices - based on May 1 2004 figures - shows a further price convergence for new cars across markets in the euro zone".

The cars produced in South Africa and exported that we used to as price comparisons are:

- Volkswagen (VW): The South African Golf Comfortline compared with the UK Golf 1.6 FSI;

- Toyota: The South African 1.4i GLS and 1.6i compared with the UK 1.4 and 1.6 WT-I T2;

- BMW: The South African 320i compared with the UK 320i; and

- Mercedes-Benz: The South African C180K Classic compared with the UK C180 Kompressor Classic

We took account of the technical specifications to measure comparable vehicles. South African cars produced for export are virtually identical and sold in the UK without country-of-origin labels, while all vehicles are produced and sold with similar quality expectations.

Given that the cars are either exactly or sufficiently similar, how do the prices compare?

The motor plan costs were provided on a strictly confidential basis by two South African manufacturers at both ends of the price spectrum.

For the other two manufacturers, we extrapolated the value of their motor plans using a formula based on value and comparable motor plan cost provided.

Following discussion with key industry informants, we are confident that these estimates are close to the actual costs of these motor plans.

The pricing for the models at both exchange rates revealed that two of the five models were cheaper in South Africa at the lower exchange rate, while four of the five were cheaper at the higher rate.

Moreover, the differentials are small, ranging from 11 percent more costly in South Africa to 13.3 percent cheaper. On average, the differential is about 5 percent, with no pattern of being more expensive or cheaper evident.

What do our results tell us? The evidence generated from the price analysis is complex but it clearly does not support the general claim that the prices of South African manufactured cars are "much higher than in other countries".

When the car prices are made comparable by stripping out the various additional taxes and the add-ons, the South African prices are indeed often lower than the UK prices. Furthermore, where South African prices are higher, the differentials are relatively small and change markedly depending on the weakness of the exchange rate.

This is an important finding in the context of the MIDP, as the models selected for analysis represent those being exported from South Africa into Australia, western Europe, Japan and North America as part of MIDP-induced export programmes.

These exports have resulted in the latest technology vehicles being made available in South Africa at no comparative cost disadvantage, excluding taxes and other sales add-ons. What about the relative prices of imported cars sold in South Africa?

Our rationale for choosing comparator models here was to explore if there was an unintended consequence of the MIDP. While it has clearly made for comparable prices of locally manufactured cars, did a premium result with respect to cars imported into South Africa?

Comparative specifications are unimportant here, since exactly the same models are imported into South Africa as are sold in Europe.

We still had to strip out taxes, including a special fiscal tax, which is levied on all imported cars in South Africa. We have selected models to reflect the luxury, middle range, and lower affordable market segments. In line with sampling the range of income level imported cars, we researched comparator prices of the following models:

- BMW 530i four-door;
- Alfa-Romeo 147 three-door; and
- Renault Clio 1.2 16v Expression five-door.

Consistently with the locally manufactured vehicle findings, we found that two of the three models were cheaper in South Africa at both the lower and higher of the exchange rates selected.

At the lower exchange rate, the vehicles were up to 1.9 percent cheaper in South Africa, while at the higher exchange rate the figure was as high as 8 percent.

The more expensive model was 3.5 percent dearer in South Africa at the higher exchange rate. Once again the results do not support the claim that South African consumers are paying "much more" for imported cars, despite the strengthening rand.

What about comparing the budget range of car prices?

This is important since the express policy of the government when launching the MIDP was to make cars more affordable at the lowest-income ranges. The major problem with attempting to research comparative prices is the danger of comparing apples and pears.

We have chosen cars at the lowest end of the South African and UK markets. But South African budget cars are "hangover" model ranges, which have been discontinued in other markets, while the budget models at the lowest end of the price range in the UK are not sold in South Africa and may not be sufficiently specified to compete in this market.

The models we compared were:

- South Africa: Toyota Tazz 130;
- South Africa: VW Citi Golf;
- UK: Perodua Kelisa 1.0 Ex (2005: Hatchback 1.0 EX five-door); and

- UK: Perodua Kelisa 1.0 Exi (Hatchback 1.0 GXi five-door).

The technical specifications are different as the UK budget vehicles are sold with power steering and air bags as standard. However, their engine sizes and interior spaces are significantly smaller than the South African budget cars, while their robustness has received poor ratings in the UK.

Hence they are likely to perform less well on South African roads.

How do the prices compare? There seems more of a price problem in the budget range than in the other categories.

The very lowest-end UK budget cars are far cheaper than the popular locally produced budget vehicles (up to 20 percent). They also have higher specifications on electric windows and air bags.

This obviously has to be counterbalanced against the greater power, the larger interior space and the probably greater robustness of the South African budget cars.

However, given the explicit aim of our domestic policy to make cars more affordable, especially in the lower-income range, this is clearly a concern, and should be more vigorously addressed by vehicle assemblers.

So, what do we generally conclude from the empirical evidence?

Despite the allegations that South African consumers are disadvantaged by higher car prices, the empirical evidence does not support the bald assertion that South African car prices are "much higher than in other countries".

On the whole, our car prices compare favourably with the UK (and hence Europe) when taxes and add-ons are stripped out to ensure that we are comparing like with like.

Furthermore, at the top and middle of the market, the specifications for cars produced in, or available as imports in South Africa are very similar and domestic consumers are not disadvantaged in this respect either.

Obviously, these prices depend on the exchange rate, and a marginal weakening of the rand makes a significant difference where South African prices are slightly higher than their UK equivalents. However, given the high import content of South African-manufactured cars, an appreciating exchange rate has less impact than might appear at first glance.

With some qualification concerning engine and interior size, South African consumers do, however, appear to be paying more for budget cars.

This is a concern because the MIDP aims to provide cheaper cars to lower-income and first-time buyers.

Furthermore, the domestic second-hand car pool is well known to be too large, particularly with older vehicles. This has a knock-on effect on road safety and efforts have been made to shift the balance in favour of new cars.

We conclude that the debate should be more focused and sharper, and concerned with providing cheaper, safer cars at the budget end of the market.

Finally, when considering the pricing of South African vehicles at the dealers, two important additional issues emerge.

The first is that luxury vehicles in South Africa are comparatively very highly taxed, with the effect of VAT at 14 percent compounded by an excise tax of up to 20 percent.

This means that certain luxury vehicles are effectively taxed at 34 percent, assuming that no import duties are paid. While this may be justified given South Africa's socioeconomic position, it does mean that scrutinising the MIDP as a possible reason for excessively high vehicle costs misses the point.

The second issue is that affordability needs to be understood in both demand and supply terms. In terms of supply, our research clearly shows that, net of taxes and dealer add-ons, vehicles are comparatively priced in South Africa.

This does not, however, make them affordable for the majority.

However, this is also fundamentally due to the distribution of income and lower disposable incomes of the majority of South Africans relative to other developed economies. This cannot be attributed to the MIDP.

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