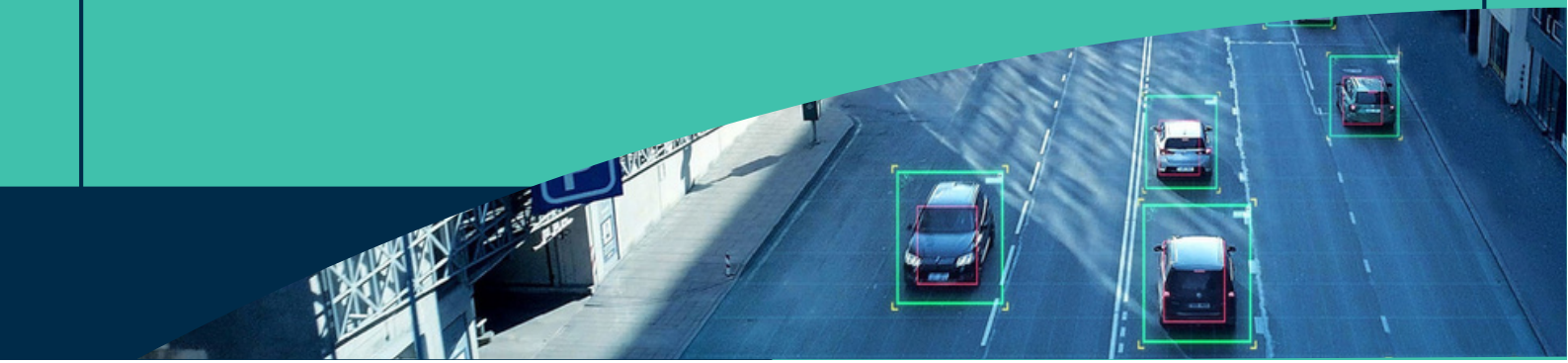




The South African logistics sector loses momentum in June.

Release Date: 28 July 2023



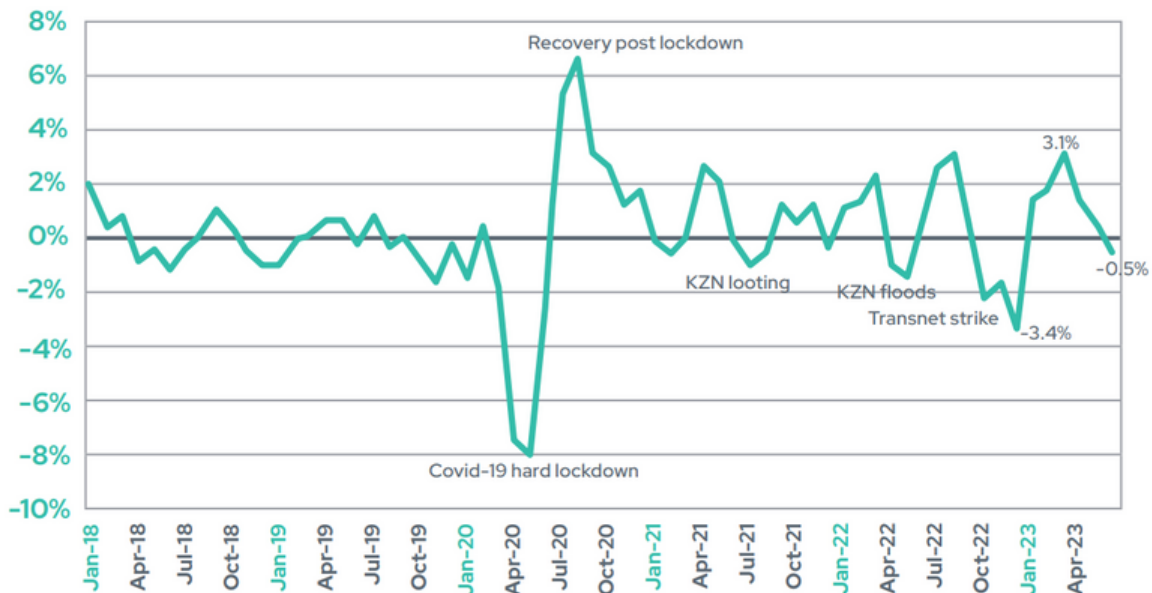
After reaching its highest index level on record at a revised 122.6 in May, the Ctrack Transport and Freight Index (Ctrack TFI) declined by 0,5% in June 2023 to 122.0. This is the first monthly contraction in six months and signals the loss of momentum in the logistics sector. In addition, three of the six sub-sectors that make up the Ctrack Transport and Freight Index declined on a monthly basis (Rail, Road and Air Freight), two recorded marginal growth (Pipeline transport and Sea Freight), while Storage and Handling were the only sub-sector to show strong growth. On an annual basis, the Ctrack Transport and Freight Index is tracking 6,5% higher in June, compared to the 7,5% year-on-year level measured in May, but near-term challenges will likely dampen momentum further in coming months.

“The transport sector’s resilience has been incredible, but unfortunately, a variety of additional geopolitical factors has put an end to its recent good performance,” says Hein Jordt, Chief Executive Officer of Ctrack Africa.

Graph 1: Ctrack Transport and Freight Index – monthly change



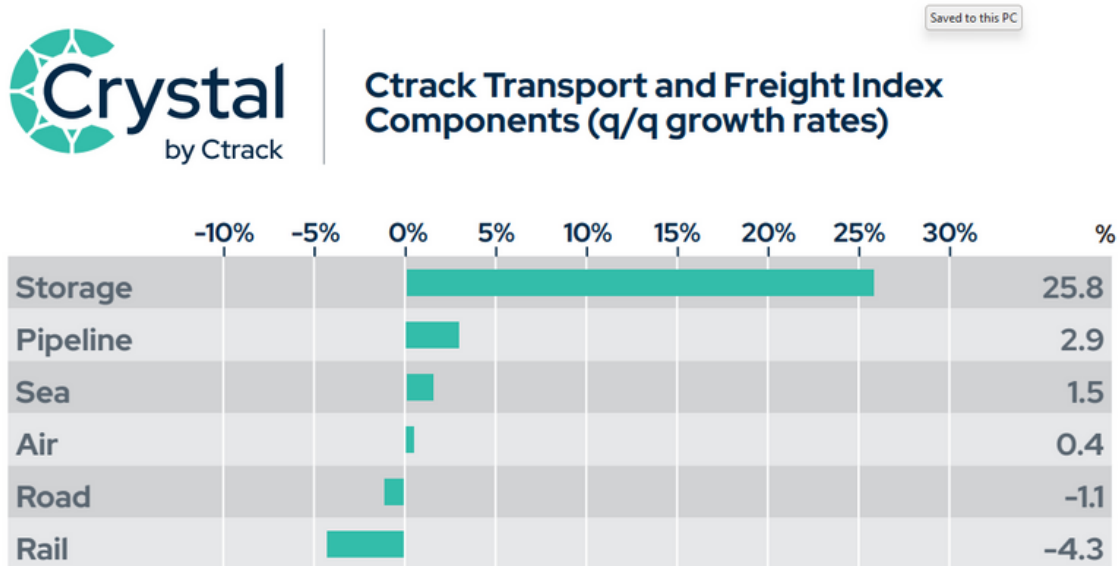
Ctrack Transport and Freight Index monthly change



Source: Ctrack

Derailing the hope of a continued synchronised recovery is the fact that only four of the six sub-sectors increased on a quarterly basis in June 2023. Rail and Road Freight were the laggards during the second quarter, while the latter's underperformance might have played a role in the star performance of the storage and handling sub-sector. On an annual basis, four of the six sub-sectors have declined, despite the overall index level increasing by a still healthy 6,5% compared to a year earlier. Among the sub-sectors, Road Freight, which is also the biggest sub-sector, has always been the most resilient, but annual growth has now subsided notably to 12,0% year on year in June 2023, a far cry from annual growth of 28,2% measured during August 2022.

Graph 2: Quarterly growth in sub-components of the Ctrack Transport and Freight Index (%)



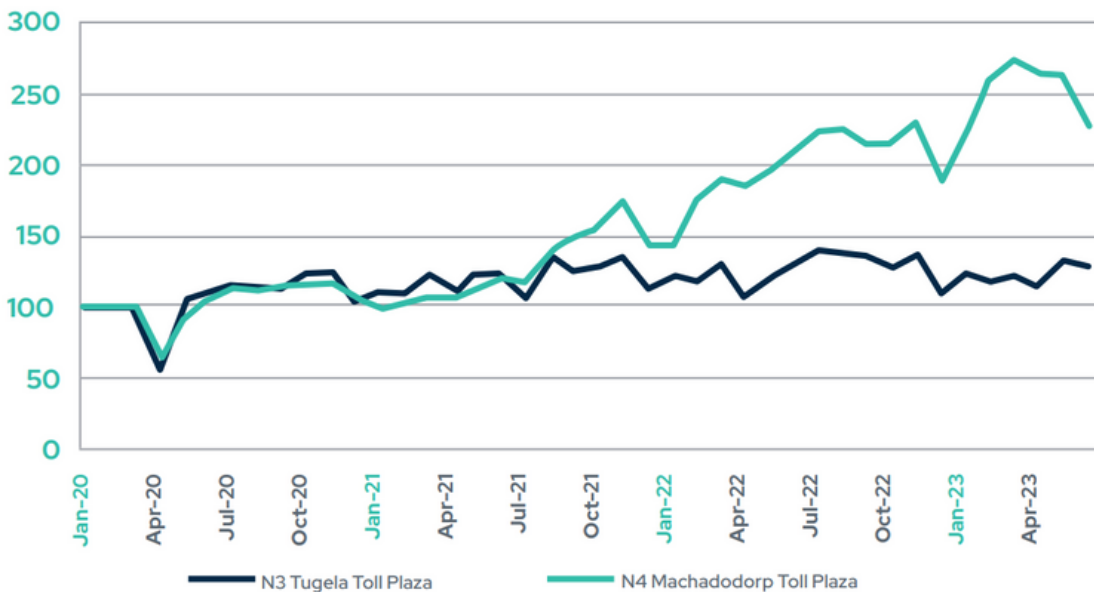
Source: Ctrack

Road Freight has experienced multiple headwinds in the past two months. Early in June, an IT glitch delayed the electronic clearance of vehicles going through the borders, causing widespread congestion and delays for cargo transporters. Although this issue was resolved within days, the congestion took some time to unravel and had a material impact, especially on the number of heavy vehicles that could traverse the N4 route. While heavy vehicle traffic subsided on both the N3 and N4 routes during June, the latter recorded a double-digit monthly decline. Early in July, the sector was also the victim of a spate of arson attacks targeting trucks on the N3 in KwaZulu-Natal, which subsequently spread to Mpumalanga and Limpopo. The negative impacts thereof will, in all likelihood, be felt in the July Ctrack Transport and Freight Index too.

"While incidents of violence have caused major setbacks during the last two months, it has highlighted the importance of fleet management systems and linked hardware such as camera systems as it was these systems that assisted police in identifying and arresting persons targeting drivers and trucks," says Jordt.



Ctrack Transport and Freight Index Class 4 extra heavy trucks



Source: Ctrack

In addition, the Road Freight payload for the country as a whole, as published by StatsSA in its monthly Land Transport Survey, also declined by 6,2% on a monthly basis. The Ctrack Transport and Freight Index Road Freight sub-sector actually declined on both a monthly and quarterly basis in June. Given its importance, the sector will surely bounce back. According to the Road Freight Association (RFA), trucks carry around 80% of goods in and around the country, but recurring incidents of violence and destruction continue to damage the sector's reputation. The RFA warns that those who use South Africa as a transit hub into Africa might turn away from us and move to other countries that are safer and more efficient.

The Rail Freight sub-sector also subsided further in June, after having recovered notably in February and March (though of an extremely low base). The sub-sector remains deeply in negative territory on an annual basis, declining by 9.2% year on year in June 2023, the 15th consecutive decline recorded and confirming that rail remains firmly on the back foot.

Transnet Freight Rail's woes have been a major hurdle in South Africa's road to recovery, costing the mining industry, in particular, tens of billions a year in lost exports, which also impact negatively on the fiscus given reduced tax receipts. The sub-sector is in urgent need of a turnaround strategy.

The Sea Freight component, one of the sub-sectors hardest hit by the Transnet strike in October 2022, is still in an uninspiring recovery phase. While both container handling and other cargo handling increased during June, the Sea Freight subsector increased by a mere 0.4% on a monthly basis and slipped into negative territory again compared to levels of a year ago (-0.5% y/y). Given the ongoing underperformance of South African ports, the fact that Transnet has started to embrace the private sector as a partner for service delivery is indeed welcomed and could be a game changer for ports' efficiency and performance. In a ground-breaking development, Transnet has selected International Container Terminal Services Inc (ICTSI), a logistics firm based in the Philippines with an extensive international footprint, to upgrade and operate a container terminal in Durban. ICTSI will run the Pier 2 container terminal for the next 25 years, with an option to extend to 30 years.

Pier 2 is the largest container terminal in the Durban port, with a current installed capacity of 2.2 million 20-foot equivalent units (TEUs). But this installed capacity is not being used owing to inefficiencies. Currently, the terminal has an average volume throughput of 1.8 million TEUs a year. Inviting private sector involvement spurs hope that the demise of Transnet could be stemmed, and if the involvement could be broadened to include other ports and the rail network, it could indeed transform the logistics sector for the better.

The Air Freight sub-sector of the Ctrack Transport and Freight Index, which turned out to be one of 2022's star performers, has been under pressure during the first six months of 2023. Air Freight declined by 2.6% on a monthly basis in June and remained 4.7% below a year earlier. It is clear that strain on the global economy is still filtering through to air cargo activity. According to the International Air Transport Association (IATA), lower demand for air cargo is still evident across the globe. Air cargo tonne-kilometres (CTKs) to Africa was down by 2.4% in June, while cargo load on planes also declined by 1.3%, the third consecutive month of declines. The number of unscheduled flights typically chartered for cargo purposes also declined again in June.

The transport of liquid fuels via Transnet Pipelines (TPL) increased by a marginal 0.1% in June 2023, with the pipeline component of the Ctrack Transport and Freight Index now moderately up on a quarterly basis (+2.9%) but remaining in negative territory on an annual basis, with growth of -11.5% recorded.

The Storage and Handling sub-sector of the Ctrack Transport and Freight Index was the star performer in June, with a notable increase of 7.4% compared to May, while tracking 10.8% higher on an annual basis. A noteworthy increase in transshipments contributed to the healthy growth, while issues in the rail and road freight sub-sectors could have spilled over in higher inventory levels, supporting storage and warehousing activity.

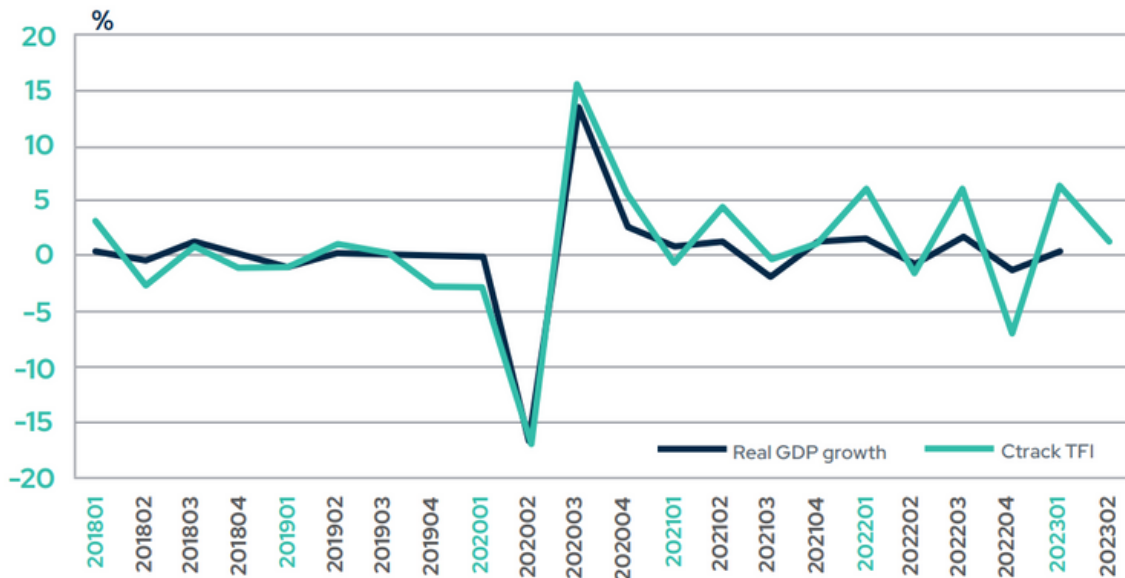
Ctrack TFI and GDP growth

The transport sector was among the top three sectoral performers in Q1 2023, growing by 1.1% compared to the previous quarter seasonally adjusted (vs. 0.4% for the total economy), contributing positively to the overall economic performance of the South African economy. Despite the moderation in June, the Ctrack Transport and Freight Index is still tracking 1.4% higher in June compared to March, indicative of a positive contribution to the second quarter GDP. The economic narrative remains generally dismal, dampened by ongoing load-shedding, elevated interest rates, a lacklustre job market and low confidence levels. However, indications that some industries have become progressively more resilient to the effects of load-shedding, as companies reduce their energy dependence on the embattled Eskom, is an underlying positive development that supports an otherwise dismal story.

Graph 4: Real GDP growth vs Ctrack TFI (q/q change)



Ctrack Transport and Freight Index Real GDP growth vs Ctrack TFI (q/q change)



Source: Ctrack

Table 1: Change in Ctrack Transport and Freight Index in June 2023

June 2023 Tables

Percentage change between	Rail	Road	Pipeline	Sea	Air	Storage & Handling	Ctrack Transport & Freight Index
June 2023 vs June 2022 (y/y)	-9.2%	12%	-11.5%	-0.5%	-4.7%	10.8%	6.5%
June 2023 vs May 2023 (m/m)	-2.1%	-1.6%	0.1%	0.4%	-2.6%	7.4%	-0.5%
Quarter to June 2023 vs. Quarter to March 2023 (q/q)	-4.3%	-1.1%	2.9%	1.5%	0.4%	25.8%	1.4%

Note: the row highlighted in blue is the main Ctrack Transport and Freight Index values used.

Source: economists.co.za, TNPA, StatsSA, SARS, N3 and N4 toll concessions, ACSA, ACOC, IATA.

Source: Ctrack