Quarterly Report – Q3 2024

Ctrack Transport & Freight Index

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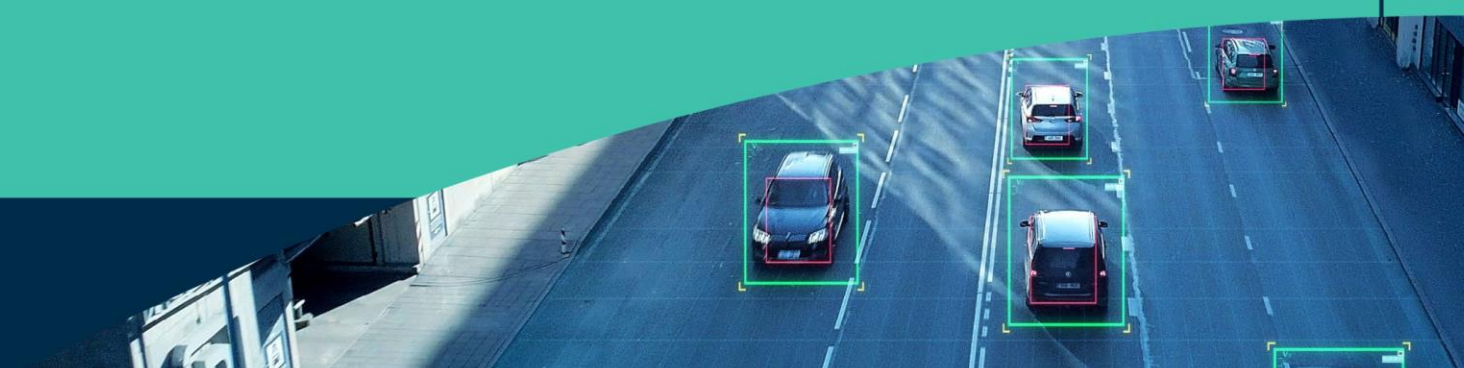
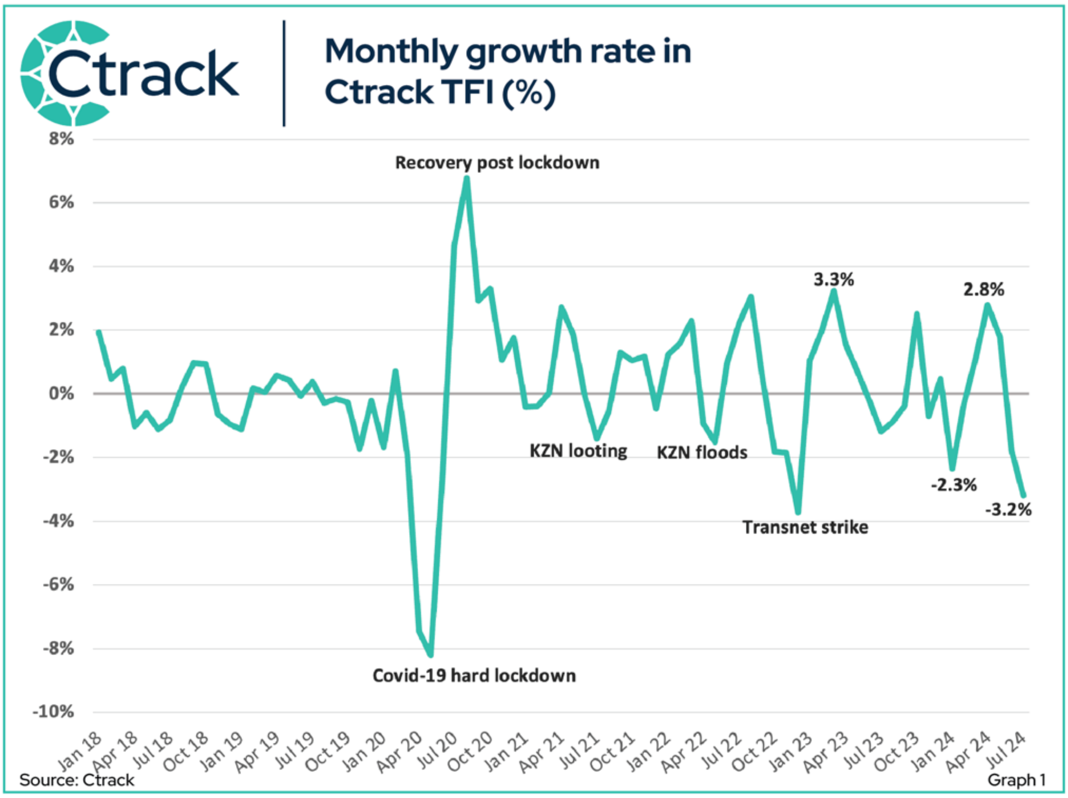


The logistics sector under pressure in the past two months

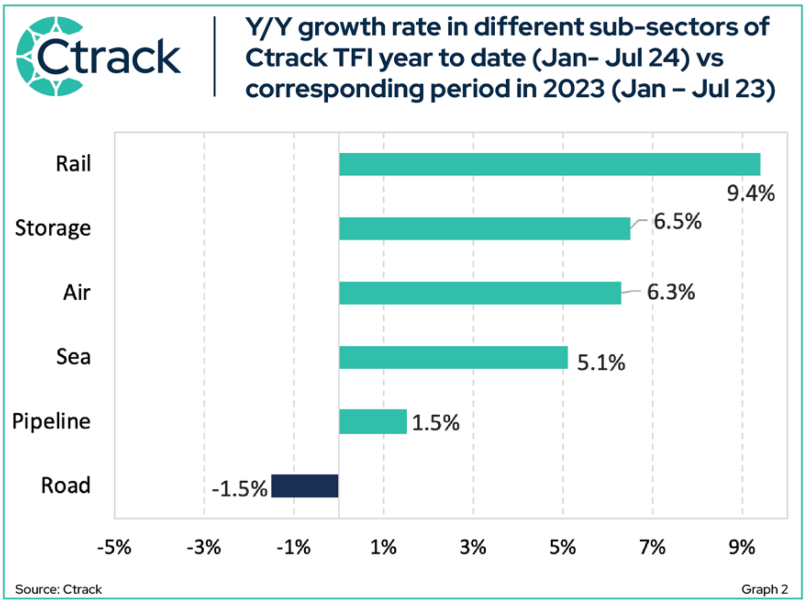
After having increased for three consecutive months, the Ctrack Transport and Freight Index (Ctrack TFI) declined notably in the past two months to reach an index level of 119.8 in July, the lowest since February 2024. The weakness evident in the logistics sector has been quite broad-based with five of the six sub-sectors declining on a monthly basis in June, followed by further declines in July in four sub-sectors. Overall, the Ctrack TFI moved into contractionary territory on an annual basis, 1.0% lower in July 2024 compared to a year earlier, while a sizeable 3.2% lower compared to the three months ending April. While the weakness started in June, the index average for Q2 is still 2.8% higher than Q1, confirming our expectation that the transport sector should be a positive contributor to overall GDP in Q2.



Source: Ctrack

Graph 1

While the last two months' performance is indeed disappointing, it masks a better performance of the logistics sector overall, year to date. A comparison of the first seven months of 2024 to the corresponding period in 2023 revealed better performances in five of the six sub-sectors, with only the heavy-weighted road freight sub-sector contracting, see graph 2.



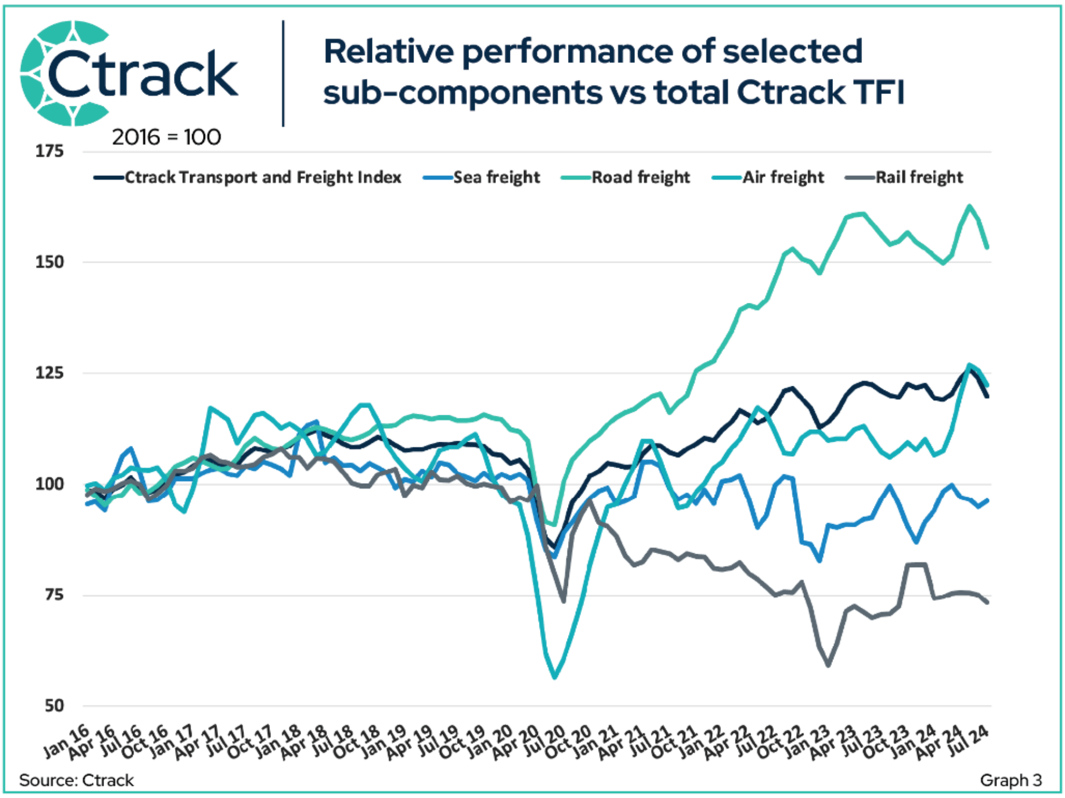
The **Rail Freight** sub-sector lost ground in July, declining by 2.4% compared to June, but continues its gradual recovery overall. For the first seven months of 2024, rail freight increased by 9.4% compared to the corresponding period in 2023. Though off a very low base, progress has been made despite many ongoing challenges plaguing the sector. The sharp focus on the sector as one of government's main structural reform initiatives to revive the economy, with the much-needed help of the private sector, is indeed welcomed and has already started to bear fruit in some cases as evident in progress made to deliver coal to the Port of Richard Bay. As a commitment to continued service improvement and ramp-up of tons migrating from road to rail in line with the overall recovery plan, Transnet Freight Rail (TFR), has recently undergone a successful shutdown on the Coal Export Line, which mostly delivers coal to the Port of Richards Bay. The shutdown was primarily focused on initiatives to unlock train slots on the coal line. To this end, two additional slots and 28 km of speed restrictions were unlocked, enabling TFR to increase from 24 planned train slots per day to 28 at the Richards Bay Coal Terminal. Similarly, the GF Coal channel, which facilitates the export of coal through the Richards Bay Multi-purpose Terminals (MPT), and the Navi Trade Terminals, had seen a ramp-up from 21 trains a week to 28 planned trains a week in the first six months of the calendar year. As a result of the shutdown activities this channel is now undertaking a further ramp up to 32 trains a week by 30 September 2024. This will equate to a further 1 035 truckloads off the road, according to Railways Africa. On other fronts, however, progress is slower than initially anticipated as evident in Transnet's decision to postpone the privatisation process for the container corridor between Johannesburg and Durban. The public-private partnership initiative was originally scheduled to be completed by this year, but has now been postponed by three years as Transnet responded to market participant concerns and are back at the drawing board.

The heavily weighted **Road Freight** sub-sector, which has grown notably in recent years and currently accounts for 83.6% of all freight payload in South Africa, subsided again in June and July, after three consecutive positive monthly growth rates. The sector has generally been on a downward trend for most of the previous 12 months as is also evident in a drop of 1.5% in the first seven months of 2024, compared to the corresponding period in 2023. Government's structural reform initiatives, as outlined in the recently published Freight Logistics Roadmap, aim at restoring and growing rail capacity in South Africa, to ultimately reduce trucks on the roads in the medium term and to reset to a more sustainable road/rail freight balance. However, the task at hand is dauntingly big and it will take some years before a notable trend reversal will be evident. On a monthly basis, road freight declined by 1.8% in June and further by 3.9% in July and is 3.1% lower on a quarterly basis. Some of the underlying data, among others N3 and N4 heavy vehicle traffic, have shown signs of recovery during July.

The **Air Freight** has been a star performer among the sub-sectors since the start of 2024, aligning with global trends. According to the International Air Transport Association (IATA), industry-wide Cargo Tonne-Kilometers (CTK) rose 13.6% year-on-year, maintaining record year-to-date demand. International air cargo demand increased 14.3% compared to July 2023, driven by all regions and major trade lanes. Asia Pacific carriers recorded the largest expansion at 17.7% year-on-year, and demand on the Middle East Europe trade lane outpaced all others with an impressive 32.2% annual surge. In South Africa, comparing July's air freight index level to December 2023, revealed a still notable increase of 11.1% in air freight activity. However, over the past two months, slack was evident in some of the underlying components. Specifically, cargo load on planes dropped by 7.2% m/m in July, but still remains 16.3% above year ago levels. Unscheduled flights, that are normally associated with cargo loads, also declined somewhat in July.

Port operations at all major commercial ports were disrupted by severe weather conditions, equipment breakdowns and shortages during July. The Port of Cape Town lost more than 70 operational hours in the second week of July due to strong winds and heavy rain, while strong winds and vessel ranging also caused extensive delays in the Eastern Cape. Equipment breakdowns and shortages persisted in Durban, while strong winds also caused operational delays. Following on better months in May and June, July turned out to be a challenging month for the **Sea Freight** sub-component. Overall, for all ports in South Africa, the number of containers that landed declined by 7.9% m/m in July (vs 1.9% in June), and the number of containers shipped collapsed by a notable 24.0% m/m following an increase of 7.9% during June. Other cargo handled (excluding vehicles) also dropped notably by 10.4% in July, following an increase of 4.9% in June. Despite a few dismal months (January, April and July), year-to-date sea freight is still up by 5.1% on the corresponding period in 2023 – see graph 2. Sea freight remains one of the main focus areas of South Africa's structural reform efforts and given the under-performance of the sector relative to other transport modalities (see graph 3), the focus is indeed welcomed. However, progress will not be in a straight line as evident in the recent announcement that the privatisation process for the container terminal at the Port of Ngqura was postponed due to potential bidders complaining that the conditions attached to the tender were too stringent and costly for the private sector to fully participate.

The **Storage and Handling sub-sector** of the Ctrack Transport and Freight Index declined further by 3.9% on a monthly basis in July, and sagged 8.4% below year-ago levels. Inventory indicators declined during July, while total transhipments, both landed and shipped containers, tumbled in both June and July. Lastly, the **transport of liquid fuels** via Transnet Pipelines (TPL) increased by 0.3% m/m in July, and by 2.5% on a quarterly basis, but still declined by 0.3% on an annual basis, partly reflecting the sluggishness of the economy.

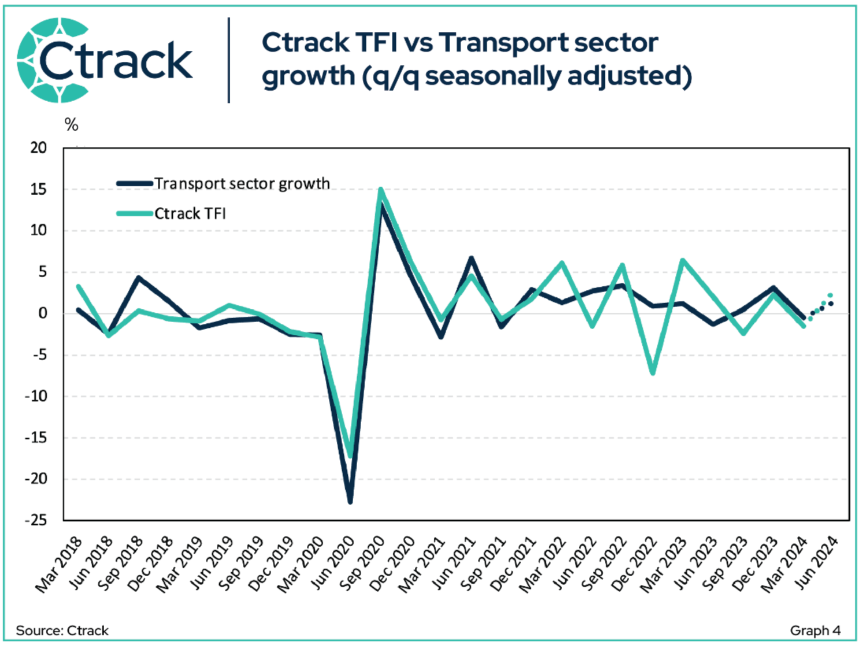


The Ctrack TFI signals that the transport sector could likely be a positive contributor to Q2 2024 GDP

While the drop in July's Ctrack TFI suggests the logistics sector started Q3 on the backfoot, the index average for Q2 is still 2.8% higher than Q1, confirming our earlier expectation that the transport sector should be a positive contributor to overall GDP in Q2 – see graph 4. The transport & communication sector has frequently been an outperformer among the other economic sectors, like in 2023 when the transport sector grew by 4.1% vs. overall GDP growth of a mere 0.7%. However, in Q1 2024, the transport & communication sector under-performed the broader economy, contracting by 0.5% q/q seasonally adjusted vs the overall GDP contraction of 0.1%. Although a sluggish start to the year, the economy recovered in Q2, partly due to load shedding reprieve and real growth of 0.5% q/q, seasonally adjusted is forecast for the overall economy (release date: 3 September). Real growth for the transport and communication sector is forecast at 1.4% q/q seasonally adjusted in Q2 compared to a contraction of 0.5% in Q1.

The unexpected election outcome that has resulted in the formation of a Government of National Unity (GNU) has triggered an initial positive market response, as evidenced by favourable movements on the rand exchange rate and government bond yields. Early indications are that the GNU will sharpen its focus on accelerating structural reforms, specifically also the logistics sector, to bolster inclusive growth and job creation. This positive sentiment fuelled by the potential for a better outcome for South Africa in the medium term, in combination with ongoing reprieve from load shedding, has already started to be reflected in some economic activity indicators.

While still early days, the power of a U-turn on confidence levels should not be underestimated. Confidence is an invisible economic factor with incredible power. It is often said that an improvement in confidence is the cheapest way to stimulate the economy. A confident household will commit to expenditure, especially of a durable nature. Corporates are more inclined to commit to capital expenditure projects in an environment of trust, confidence and regulatory certainty. While it will take time for the GNU to gain momentum and surely it will be a rollercoaster ride at times, additional skills, new plans and greater oversight in parliament, could collectively bode well for South Africa's medium term growth prospects.



"While the drop in July's Ctrack TFI suggests the logistics sector started Q3 on the backfoot, an overall positive sentiment is evident in the economy. We are encouraged by early signs that the newly formed Government of National Unity will sharpen its focus on accelerating structural reforms, among others in the critically important logistics sector, which could result in a better growth outcome for South Africa in the medium term", says Hein Jordt, Chief Executive Officer of Ctrack.

Change in Ctrack Transport and Freight Index in July 2024

May 2024 Percentage Change between	Rail	Road	Pipeline	Sea	Air	Storage	Ctrack TFI
July 2024 vs July 2023 (y/y)	3.8%	-1.8%	-0.3%	-0.4%	14.1%	-8.4%	-1.0%
July 2024 vs June 2024 (m/m)	-2.4%	-3.9%	0.3%	1.5%	-2.6%	-3.9%	-3.2%
Quarter to July 2024 vs. Quarter to April 2024 (q/q)	-3.2%	-3.1%	2.5%	-0.8%	1.7%	-8.1%	-3.2%

Note: The row highlighted in teal is the main Ctrack Transport and Freight Index Values used.

Table 1

For more information or further insights on the Ctrack Transport and Freight Index, feel free to reach out to us at nicolaas.vanreede@ctrack.com or visit our website at www.ctrack.com - Your journey towards a more informed and resilient transport and logistics operation begins with Ctrack. For past editions, visit: https://ctrack.com/transport-and-freight-index/

Notice from Ctrack: *Moving forward, the Ctrack Transport and Freight Index, will be published on a quarterly basis to provide insights into key industry trends and performance metrics. The next edition is schedule for the end of November.*

Contact: **Ctrack**
Nicolaas van Reede van Oudtshoorn / Communication & Content Specialist
082 746 1664 / nicolaas.vanreede@ctrack.com