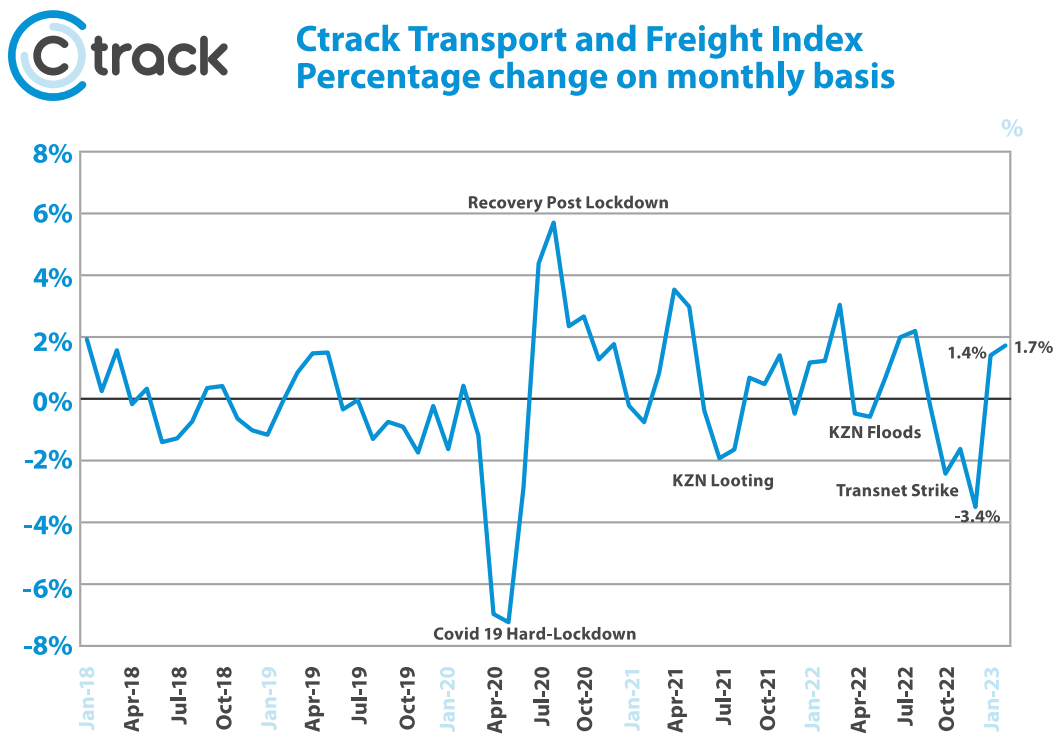


The South African logistics sector continued to improve during February.

Following a challenging 2022, the South African logistics sector bounced back somewhat during January 2023, and that momentum was sustained during February. The Ctrack Transport and Freight Index (Ctrack TFI) increased by 1.7% in February compared to the previous month, following a revised monthly increase of 1.4% in January (and declines in the preceding four months). On an annual basis, the Ctrack Transport and Freight Index increased by 2.5%, which is a welcome improvement even though the increases are far below the annual growth rate of 13.7%, which was recorded as recently as August 2022. However, all indications are that the industry is on a sustained positive trajectory.

Graph 1: Ctrack Transport and Freight Index % change on a monthly basis



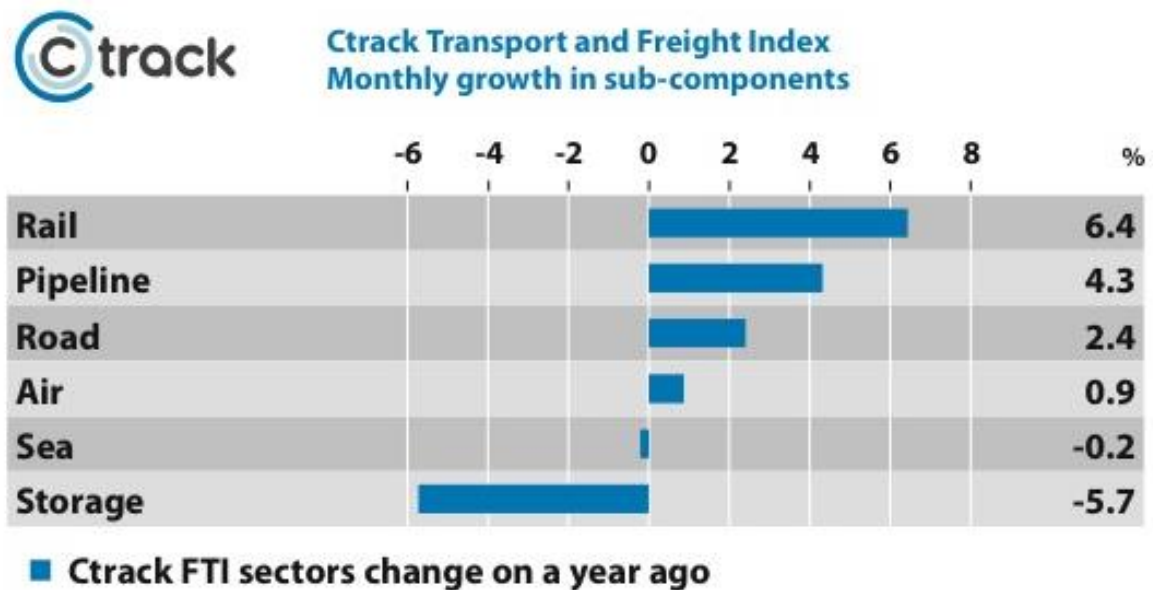
Source: Ctrack

Source: Ctrack

All the sub-sectors of the logistics sector continue to reflect vastly different performances, which proved to be a major factor in the overall industry's resilience. The detrimental impact of the strike on Sea and Rail Freight has, for example, turned out to be a boosting factor for Air Freight and Road Freight, thus offsetting the overall negative impact. In February, four of the six sub-sectors declined on an annual basis, whereas four of the six increased on a monthly basis, indicating positive near-term momentum.

Zooming into the sub-sectors revealed a welcome improvement in the performance of Rail Freight, although of an extremely low base. While still deep in negative territory on an annual basis, the Rail Freight component of the Ctrack Transport and Freight Index increased by 6.4% on a monthly basis. On an annual basis, the Rail Freight component returned a decline of 20.9% in February 2023, the 11th consecutive decline recorded and confirmation that rail remains the Achille's heel of the South African logistics sector. Having underperformed for years, the government has finally invited the private sector to get involved in a potential solution. Enabling third-party access to the rail network is critical for addressing the declining performance of Rail Freight, and therefore, the plan to separate the infrastructure and operational aspects of the rail business and to establish a separate infrastructure manager within Transnet Freight Rail are seen as crucial steps towards creating a level playing field for public and private operators on the country's rail network. These steps to address the sector's challenges are indeed welcomed and could potentially be a major game changer for the logistics sector if they do reach fruition.

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



Source: 2023 National Budget

While the obvious beneficiary of the dismal state of Rail Freight has been the Road Freight sub-sector, the growing number of heavy trucks on South African roads is having a negative impact on the quality of the road network and accelerates the need for ongoing maintenance while also contributing to increased greenhouse emissions. The growing focus on

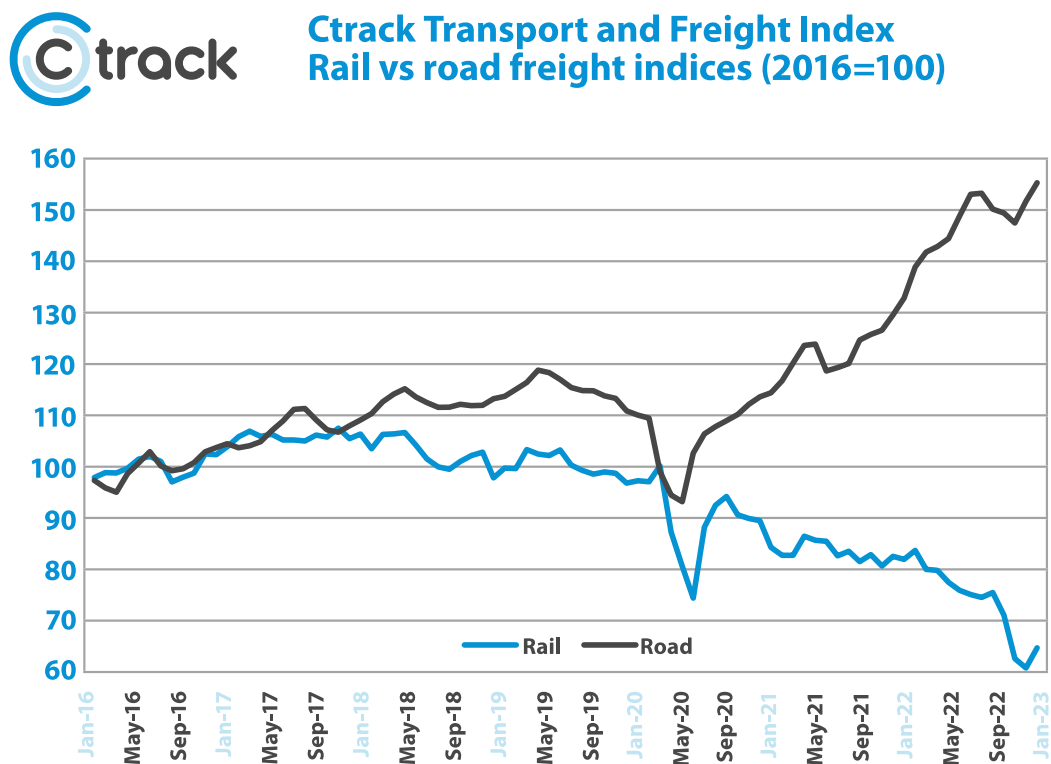
environmental concerns has recently placed the unhealthy split between road and rail transport under the spotlight. A report themed 'Decarbonising South Africa's Transport Sector' states that to enable South Africa to cut greenhouse gases in the transport sector to zero, between 15% to 20% of road traffic must move to rail.

This would represent a major U-turn on a multi-year trend, and the report noted: "This will require integrated policy support, coordinated infrastructure investments and collaboration amongst all key stakeholders. Without a deliberate and coordinated local effort, South Africa's transport sector will be on a trajectory that is inconsistent with South Africa's climate commitments or Nationally Determined Contribution under the Paris Agreement by 2030 and inconsistent with net-zero by 2050." The report is part of a series of publications from the Climate Pathways and Just Transition Project run by the National Business Initiative (NBI) in partnership with Business Unity South Africa and Boston Consulting Group.

"While reducing the number of vehicles on the road is an easy way to reduce emissions, that might not be possible in a South African context. However, a sophisticated and well-managed fleet management system can significantly contribute to the more efficient running of large fleets, and in that way, emissions can be reduced," says Hein Jordt, Chief Executive Officer of Ctrack Africa.

In February 2023, the Road Freight component of the Ctrack Transport and Freight Index increased by 16.9% on an annual basis, the 23rd straight month of double-digit annual growth rates recorded. When examining this trend in detail, some interesting, divergent trends become evident. The number of heavy trucks on the N4 toll routes increased by double digits during February 2023, while the number of heavy trucks on the N3 toll route declined by 3.0%. During the same period, overall road freight payload for the country showed continuous growth.

Graph 3: Rail vs road freight indices (2016=100)



Source: Ctrack

The Air Freight sector, which turned out to be one of 2022's star performers, had a mixed performance in February. The Air Freight component of the Ctrack Transport and Freight Index increased by 0.9% on a monthly basis in February and was only 2.0% higher compared to a year earlier (vs 4.6% year on year in January). Cargo loaded onto planes increased by 8.7% on a monthly basis after having declined for three straight months. All the other underlying components of the Air Freight sector declined. According to the International Air Transport Association (IATA), lower demand for air cargo is now evident across the globe, reflecting the multiple headwinds facing the global economy and spilling over to trading partner countries. Air cargo tonne-kilometres (CTKs) to Africa declined by 9.5% in February, following on from January's 10% annual decline. Total consolidated airport flight movements were down by 4.3%, the fourth consecutive monthly decline.

The Sea Freight component of the Ctrack Transport and Freight Index declined by 10.7% in February compared to a year ago and declined marginally on a monthly basis (-0.2%), reflecting a month of mixed performance at the ports. Container handling declined by 7.0% on

a monthly basis in February and remains 24.5% below the September 2022 pre-strike level. General cargo handling increased by 5.5% in February but also remains 7.0% below pre-strike levels. The Sea Freight sector only partially recovered from the detrimental impact of the Transnet strike in October 2022, confirming fears that it might be impossible for the industry to recover fully.

The Storage and Handling sub-sector of the Ctrack Transport and Freight Index remained under pressure for most of 2022, with a trend of declining inventory levels evident before the Transnet strike made matters worse. The sub-sector declined by 20.5% in February on an annual basis, 5.7% on a monthly basis and 15.9% on a quarterly basis.

The transport of liquid fuels via Transnet Pipelines increased by 4.3% on a monthly basis in February 2023, with the pipeline component of the Ctrack Transport and Freight Index improving by 12.3% on a quarterly basis, however, this is still 2.3% lower than a year earlier.

Ctrack TFI and GDP growth

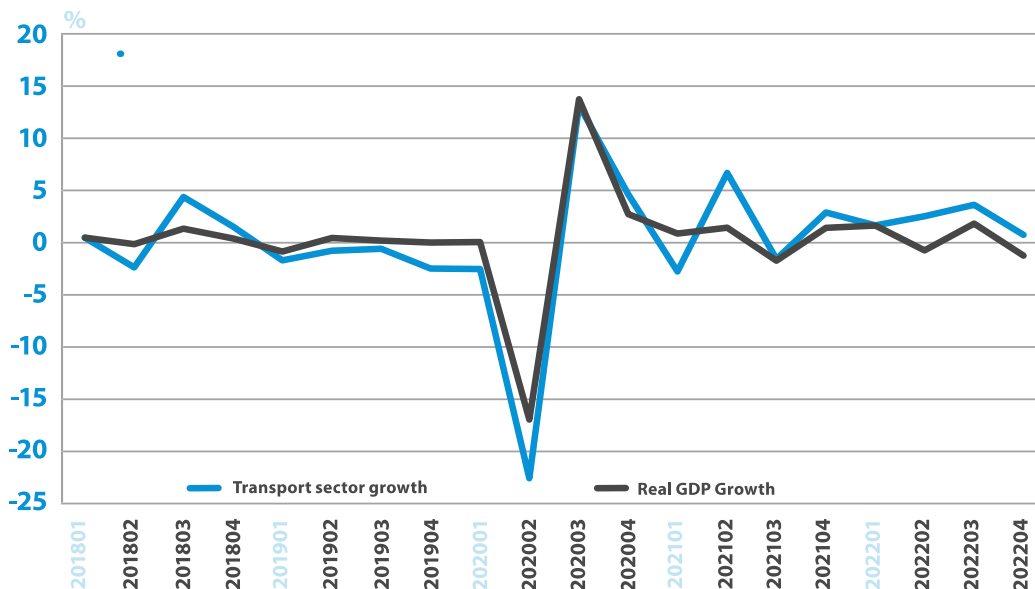
The transport sector defied expectations of under-performance in the fourth quarter of 2022 to be the best sectoral performer, admittedly amongst multiple laggards. The negative impact of the prolonged Transnet strike had depressed the transport sector's contribution, with the sector growing by only 0.7% on a quarterly seasonally adjusted basis compared to growth of 3.6% in the third quarter. However, given that the overall economic performance was worse, with real GDP contracting by 1.3% on a quarterly seasonally adjusted basis, the transport, storage and communication sub-sectors were the star performers. This talks to the resilience and diversity of the sector, despite multiple headwinds.

The ongoing challenges of harsh load shedding, high cost of living, high production costs due to high fuel prices, rising wage demands and elevated interest rates all contributed to the country's dismal economic performance in the fourth quarter of 2022. With little indication of a notably different economic environment in 2023, but rather even lower economic growth forecasted for 2023 compared to 2022, the economic environment is expected to remain dismal and challenging.

"While a lot of focus remains on short-term challenges, with many sectors and companies in survival mode, government and stakeholders must remain focused on structural reforms to improve the efficiency and competitiveness of the transport sector in the long term and return to thriving mode," concludes Jordt.

Graph 4: Real GDP growth vs Transport sector growth (q/q change)

Ctrack Transport and Freight Index
Real GDP growth vs Ctrack TFI



Source: StatsSA, Ctrack

Table 1: Change in Ctrack Transport and freight Index in February 2023

Table 1: Change in Ctrack Transport and freight Index in February 2023



Jan 2023 Tables

Percentage change between	Rail	Road	Pipeline	Sea	Air	Storage & Handling	Ctrack Transport and Freight Index
February 2023 vs February 2022 (y/y)	-20.9%	16.9%	-2.3%	-10.7%	2.0%	-20.5%	2.5%
February 2023 vs January 2023 (m/m)	6.4%	2.4%	4.3%	-0.2%	0.9%	-5.7%	1.7%
Quarter to Feb 2023 vs. Quarter to Nov 2022 (q/q)	-8.9%	3.9%	12.3%	5.0%	-0.7%	-15.9%	-0.3%

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.

Ctrack

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