

Managing the Dragon

Business in China - From the Ground Up **By Jack Perkowski**

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Strong Demand Drives China Vehicle Sales in 1H2016

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Demand for all types of vehicle transportation in China has been surprisingly strong so far in 2016. Despite achieving record sales of 24.5 million trucks, buses, and cars in 2015, and a slowing economy in 2016, total vehicle sales through June increased by 8.1 percent over the same period last year. While auto analysts attribute the unexpected strong demand at least partially to the reduction of the purchase tax on autos in 2015's final quarter, as well as monetary easing in this year's second quarter, strong auto sales in 2016 indicate that the China auto market has strong underlying demand and that the industry is a long way from saturation levels.



A model poses next to a BYD S7 SUV on media day at the Shanghai auto show in Shanghai on April 20, 2013. Chinese carmaker BYD gave pride of place to its new S7 at the show while another of its models, a fully-electric vehicle, languished in a corner with only a handful of visitors, a contrast which is indicative of the battle in the auto sector with gas-guzzling SUVs blazing past green-energy cars despite state incentives to promote cleaner vehicles in a bid to tackle the country's air pollution crisis. AFP PHOTO/Peter PARKS

Of the total number of vehicles sold, passenger cars were by far the largest segment and registered the fastest growth. During the first six months, just over 11.0 million sedans, MPVs and SUVs were sold, a 9.2 percent increase over the same period in 2015. Trucks, the second-largest segment, increased by 4.0 percent to 1.5 million units, with sales of heavy duty trucks registering a strong 15.2 percent increase to 340,000 units and medium trucks growing at a similarly large percentage increase of 16.0 percent to 108,000 units. Buses were the only category to decrease, declining by 9.5 percent.

Although China has been widely expected to be primarily a small car market, actual experience so far suggests otherwise. Sales of large cars have been booming, suggesting that many Chinese consumers are more concerned about safety than they are about price and operating costs. Large cars are inherently safer than small cars, and the Chinese have been quick to understand this tradeoff.

As a result, SUVs were the fastest-growing models within the passenger car category for the third year in a row. Sales of SUVs grew by 44 percent in the first half to 3.9 million units, and accounted for over one-third of all passenger cars sold during the period. Sedans, which account for one-half of all passenger cars, actually declined by 2.9 percent.

Demonstrating a good understanding of the Chinese consumer, local Chinese car companies were the first to recognize the importance of both safety and price and have led the way in designing new budget SUV models that combine both features. From 2014 to 2016, there have been over 70 new budget SUV launches, most of them by the local car companies. This has enabled the local operators to gain market share at the expense of their international rivals.

Another important development in the first half of 2016 was the continued strong sales of new energy vehicles (NEVs). In 2015, sales of NEVs (pure electric vehicles and plug-in hybrids) in China increased fourfold to over 330,000 units. While still only a small percentage of the total vehicles sold every year in the country, last year's impressive sales increase indicates a growing trend. On the heels of the strong rise in 2015 NEV sales, 170,000 NEVs have been sold so far in 2016, a 162 percent over 2015. China has now surpassed the US and Europe in terms of NEV sales, and its global leadership position is likely to continue to expand in the years ahead.

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What is the prognosis for China's auto industry for the balance of 2016 and 2017? Because industry observers expect the purchase tax on cars to be increased to 7.5 percent from the current 5.0 percent in January, pre-buying is taking place this year, inflating somewhat sales in 2016 at the expense of sales in 2017. As a result, sales volumes are expected to moderate in the fourth quarter of 2016 and into 2017.

Whatever the case with the overall car market, sales of NEVs are likely to show continued strong growth in China. It is **reported** that eight domestic brands will release 10 types of electric SUVs in 2016, with most based on current gasoline-engine models. In addition to the existing players, at least 20 new electric vehicle companies have been formed with the past two years, all funded by well-heeled individuals and corporations.



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