

## Auto Sales Soar in China

By: Jack Perkowski | November 1, 2016

Unit sales of trucks, buses and passenger cars in China soared 26.3 percent in August, and a further 29 percent in August—racking up double digit rates of growth that haven't been seen in a few years. In fact, September's jump in car sales was the largest monthly gain since January 2013. Strong sales performance in the third quarter brought total vehicle sales to 19.4 million for the first nine months of this year, a 13.2 percent increase from the same period in 2015.

Within the overall numbers, passenger cars increased by 14.8 percent to 16.8 million units, while trucks, led by a 20.4 percent increase in sales of heavy duty trucks, increased by 6.5 percent to 2.2 million units. SUV's continue to be the single strongest product category with sales surging by 45.9 percent to 6.0 million units for the first three quarters of the year.

Strong sales in the third quarter are accounted for, at least in part, by pre-buying in advance of an expected increase in the purchase tax on small cars at year end. In order to stimulate sluggish car sales last year, China cut the purchase tax on cars with engines of 1.6 liters or less in October, 2015—from 10 percent to 5 percent. It is widely expected that the government will increase the purchase tax to at least 7.5 percent at year-end, and consumers expecting to buy a car within the next twelve months understandably want to take advantage of the lower tax rate. However, other factors are at work as well.

### New Models:

In an increasingly competitive market, the local car companies, as well as the joint ventures with the international original equipment manufacturers ("OEM's"), have [introduced](#) dozens of new models during the first nine months of 2016. Increased advertising and promotion activities surrounding new model introductions create excitement with consumers and draws them to the showrooms.

### Used Car Sales:

Purchasing a used car is gaining acceptability in China, providing first time car buyers with an affordable way to enter the market. In the United States, a vibrant used car market [recycles](#) approximately 40 million used cars every year and lays the foundation for sales of new models. The same is now happening in China. During the third quarter, 2.0 million used cars were traded in China, a 48 percent increase from the prior year. As a result, 36 percent of the new car sales during the September quarter were replacement sales, with consumers trading in cars for newer models. Interestingly, Chinese consumers tend

to upgrade to larger and luxury car models when they buy a replacement vehicle.

### Auto Financing:

According to a recent research report by Robin Zhu, an auto analyst at Sanford C. Bernstein & Co. who closely monitors the China auto market, OEM's and dealers alike have placed increased emphasis on using auto financing to drive sales. A recent dealer survey conducted by Bernstein suggests that "the rise in auto financing penetration in China has accelerated meaningfully in 2016." Bernstein estimates that auto financing penetration will increase to 30 to 35 percent in 2016, compared to 25 percent in 2015.

### Sales of New Energy Vehicles ("NEV's"):

While sales of NEV's are still small in comparison to the overall totals, they are gaining momentum and represent a trend that bears watching. During the first nine months of the year, sales of NEV's doubled to 289 thousand units.

Going forward, analysts generally expect auto sales to remain strong for the balance of 2016 as consumers continue to buy cars in advance of an expected purchase tax increase at year-end. Preliminary data suggests that October will be another month of strong car sales.

While auto sales in 2017 may be adversely impacted by the pre-buying that has occurred this year, the longer term outlook for China's auto market remains positive. Many industry observers expect annual auto sales to increase from the current level of 27 million units to 40 million by 2025. As lofty as that number may be, it would only represent 5 percent annual increases in unit sales over the next eight years. Despite the rapid growth of auto sales in China, there are still only 128 cars for every 1,000 people in the country, [compared](#) to almost 800 in the United States, suggesting that China's auto industry, already the largest car market in the world, still has a long way to go.

For more information on China's auto industry, please refer to my recent [interview](#) with CCTV America on the subject.

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