

China Autos: 2016 Wrap and 2017 Prospects

By: Jack Perkowski | January 19, 2017

2016 turned out surprisingly well for China automakers. Among other factors, auto sales benefitted from the cut in the purchase tax on small cars initiated by the Chinese government in the final quarter of 2015 to boost flagging demand. The resulting surge in sales carried over into 2016, and when rumors surfaced later in the year that the tax cut might be reversed, sales received another bump as consumers bought in advance of a potential tax increase.

The initial purchase tax cut, and the expectation later in the year of a reversal, clearly boosted auto sales in 2016. In addition, though, increased liquidity in China's economy and a stable stock market were other factors that caused sales of trucks, buses and passenger cars to increase by 13.9 percent in 2016 to just over 28 million units. Double digit percentage increases of a large ticket item like autos is notable in any market. The fact that auto sales in China, already the world's largest vehicle market, could manage such an increase is especially noteworthy.

Passenger Cars: By far, purchases of passenger cars by individuals account for the largest portion of the total vehicle market in China. In 2016, sales of passenger cars accounted for 24.4 million of the 28 million vehicles sold, an increase of 15.3 percent. Within the passenger car category, SUV's continued their strong performance, following 2015's 53.5 percent increase with a further 45.3 percent increase in unit sales. When SUV sales of over 9 million units are combined with unit sales of MPV's, large passenger vehicles now account for approximately one-half of the total passenger car market in China. So much for the notion that China would be a predominantly small car market.

Trucks: After several difficult years, China's truck market also showed signs of life last year, increasing by 8.9 percent. Except for sales of light trucks, which declined by 1 percent, sales of mini, medium and heavy trucks all registered increases. In particular, sales of heavy duty trucks, the highest priced and most profitable segment of the truck industry, increased by over 33 percent to almost 733 thousand units in 2016. Sales of heavy trucks are now at the same level as in 2015.

New Energy Vehicles: While still a relatively small percentage of the overall market, electric vehicles continue to increase in popularity. Sales of all New Energy Vehicles ("NEV's"), which include both plug-in hybrids and pure electrics, increased by 53.1 percent to 507 thousand units in 2016. Of this amount, more than 80 percent were pure electric vehicles. While plug-in hybrids accounted for most of the NEV market several years ago, they are rapidly losing market share as more companies [enter](#) the electric vehicle space and more charging [stations](#) are put in place.

The numbers for NEV's sold in China, as well the numbers

for total vehicles, do not include the over 700,000 low priced, low speed electric vehicles currently being sold in China's Tier 2 and Tier 3 cities. Low speed electric vehicles are not counted in the official figures for autos because they are not recognized by China's Central Government and there are no national standards in place. However, sales of low speed EV's are expanding, nearly doubling since 2014, and are being supported by a number of provincial governments. As a result, national standards are expected to be promulgated in 2017.

Other Updates: China's total vehicle population now numbers 172 million, and is projected to reach 300 million, approximately the same number as in the United States by 2020. Unlike the U.S., where large, national companies have developed over the years to provide aftermarket parts and services, China's aftermarket remains extremely fragmented and one of the great opportunities in China's auto industry.

An increased use of auto financing has represented one of the positive structural trends in the Chinese auto industry in recent years, and this trend continued in 2016. Anecdotal evidence suggests that there was a sharp tick-up in financing activity in the fourth quarter, with penetration levels reaching 40 percent in the mass market, and 50 percent in the premium car segment. By comparison, over 80 percent of American consumers finance or lease their new cars.

Prospects for 2017: So far in 2017, January car sales were sharply lower than sales in December, and February sales are likely to remain weak due to the Spring Festival holiday.

Taking into account the pre-buying that occurred in 2016 and other factors, Sanford C. Bernstein & Co., a well-regarded equity research firm that covers China's auto industry, is predicting a 4.6 percent growth rate in auto sales, with sales increasing to 29.3 million units for the year as a whole. If national standards for low speed EV's are put in place, as expected, and the official figures begin to reflect the sales of these vehicles, the official vehicle number could surpass the magic 30 million unit mark this year.

One reason why large passenger cars account for such a high percentage of all vehicle sales may be that small car sales have simply not yet penetrated the lower tier market. If that is the case, then China auto sales have a lot of room to grow.

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