

Managing the Dragon Blog Post

Vehicle Sales in China: First Nine Months

By: Jack Perkowski | October 25, 2017

For the first nine months of 2017, total sales of trucks, buses and passenger cars in China were up 4.5 percent to 20.2 million units, close to the 5 percent increase that most auto analysts are predicting for the full year. China is on track to being the world's largest car market for the eighth consecutive year.

Within the overall numbers, however, three segments---heavy trucks, passenger car electric vehicles ("EVs") and SUVs---showed above average, double digit growth. Heavy trucks led the way with a 77.7 percent increase to 875 thousand units; passenger car EVs followed close behind with a 75.1 percent increase to 258 thousand units; while sales of SUVs continued their momentum with a 16.1 percent increase to nearly seven million units.

Heavy Trucks. Percentage wise, heavy trucks were the best performing vehicle category through September. According to the China Association of Automobile Manufacturers, sales of heavy trucks increased 91 percent year on year in September, and almost 78 percent for the first nine months of the year. The continued stabilization of the Chinese economy, increased spending on infrastructure projects and steady growth in the country's manufacturing sector are the reasons given for the [strength](#) in demand.

For the entire year, heavy truck sales are expected to exceed 1.1 million units. While this will be an impressive increase over 2016, it only represents a return to the level of sales achieved over six years ago in 2010. During the first ten years of this century, when China was building out its infrastructure and the national highway system was being put in place, heavy truck sales [increased](#) at an annual compound rate of 28.1 percent, from 85,000 units in 2000 to just over one million units in 2010. Over the next five years, sales declined steadily to below 600,000 units in 2015. After rebounding in 2016, sales are surging in 2017.

Passenger Car EVs. While admittedly growing from a small base, passenger car EVs continued to show impressive sales gains, increasing by 75.1 percent during the first nine months. Although subsidies for New Energy Vehicles ("NEVs") are scheduled to be phased out in 2021, central and local government payments of up to \$9,000 per vehicle will continue to provide a powerful incentive for consumers until then.

Offsetting sales increases in EV passenger cars, sales of

electric commercial vehicles, primarily electric buses, declined by 3.5 percent through September. In order to [combat](#) the fraudulent use of subsidies, so called "Green Car Fraud," the Chinese government aggressively audited electric bus companies in the first quarter, negatively impacting sales. Moreover, it is rumored that China may slash electric bus subsidies by as much as 65 percent in 2018.

At the same time that it plans to phase out subsidies for New Energy Vehicles ("NEVs"), China is taking a number of steps to ensure that the country remains the dominant player in NEVs globally. In September, China's Ministry of Industry and Information Technology proposed new rules that will require automakers to produce and sell a certain number of NEVs in China. In order to encourage the flow of EV technology to China, the country is relaxing its requirement that foreign companies have a Chinese partner in order to produce vehicles in the country. Tesla has reportedly reached an [agreement](#) with the Shanghai government to build a production facility in the city's free-trade zone. Other than an export only factory in which Honda was allowed to take a 65 percent ownership interest in 2003, Tesla's factory will be the only car assembly plant in China in which a foreign company owns more than 50 percent.

Beijing's new policy initiatives are having a decided impact on the China strategies of local and foreign car companies alike. In order to ensure its ability to comply with China's proposed NEV rules, the Ford Motor Company announced in August that it was [exploring](#) the establishment of a joint venture with Anhui Zotye Automobile Co., a little known Chinese car company, to build electric passenger vehicles in the country. In October, Changan, the fourth largest Chinese vehicle maker that sold 3.0 million units in 2016, [said](#) it would stop selling internal combustion-engine cars in 2025 and would invest RMB 100 billion (\$15.1 billion) to implement a new energy strategy. Changan is the first automaker in China to make such an announcement.

SUVs. While sales of SUVs registered a somewhat lower percentage increase through September than either heavy trucks or passenger car EVs, the fact that its 16.1 percent increase came on top of a base of almost 6.0 million units made this increase the most impressive of all. For a variety of reasons, China was expected to develop as a small car country. Instead, the country has ([next page](#))

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gone the other way, with Chinese consumers preferring larger vehicles. Four in ten passenger cars sold in China are now SUVs.

The strong growth of SUV sales is at least partly due to the general tendency of Chinese consumers to prefer premium brands in everything from autos to alcohol and to all types of luxury goods. Every year, Bernstein, a well-regarded Wall Street research firm, does an on-line survey with 1,500 Chinese consumers to gauge their appetite for buying cars and their latest brand preferences. According to Bernstein's most recent report: *"The single most notable takeaway from our 2017 survey was the overwhelming desire of our panel of consumers to buy a premium car. The proportions of consumers indicating an intention to buy premium jumped sharply versus past years, across all city tiers, age groups, and income bands."*

In addition to being a status symbol, premium cars, including SUVs, are attractive to Chinese consumers due to their greater functionality in terms of performance, safety and comfort. Rising incomes, lower oil prices and policies allowing more children are other factors that are triggering a fundamental shift in the world's largest auto market to premium cars and SUVs.

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