AUTOMOBILE SALES

China's vehicle market: back to (modest) growth

LMC Automotive forecasts a return to rising car sales in the Middle Kingdom, if perhaps not at the breakneck levels of the past

Shanghai / Oxford, 22 January 2019. After the first year of decline in the 21st century in 2018, China's light vehicle sales are likely to grow again this year, albeit slightly, according to LMC Automotive. The market intelligence and forecasting specialist also sees stable increases thereafter in the world's largest automobile market.

LMC Automotive expects sales of vehicles under 6 tonnes in China to rise by around 1% this year to just over 28 million units after shrinking by 3% in 2018.

"After a promising start, the past year was wrought by a number of negative factors," says Alan Kang, senior market analyst at LMC Automotive in Shanghai.

For one, a temporary reduction in the purchase duty on smaller-displacement vehicles (under 1.6 litres) ended last January. The levy was cut from 10% to 5% in late 2015 and then to 7.5% in 2017, encouraging consumers to pull purchases forward and adding fuel to a car market boom that propelled sales over 28 million units for the first time in 2016.

Speculation circulating in late 2018 about a renewal of the purchase duty discount and bringing forward implementation of the new China VI emissions standard in several parts of the country then led buyers to delay purchases. Neither rumour has materialised. The central government rejected tax cut proposals by the China Automobile Dealers Association and the National Development and Reform Commission. And regional governments in places like Beijing and Tianjin as well as the provinces of Hebei, Henan and Shandong have decided to stick to their original schedules and implement China VI (in most cases) in July.

Despite the added economic uncertainty caused by the ongoing U.S.-China tariff conflict, LMC Automotive is more optimistic about the current year. There are fewer reasons for the Chinese to put off buying a car. A combination of policy measures, including personal and corporate tax cuts as well as increased investment expected from the central government, should also encourage people to spend more.

The general outlook for European carmakers is mixed. German luxury brands Audi, BMW and Mercedes-Benz, which already hold a 70% share of China's premium vehicle market, will continue to benefit from Chinese consumers moving upmarket.
contrast, mainstream producers like PSA Peugeot Citroen lacking a strong brand image in China could struggle amidst intensifying competition. Overall, the consultancy expects steady if modest annual increases in light vehicle sales of up to 5% in the coming years. But it also warns of risks, such as bloated dealership inventories and of course the trade dispute.

“A full-blown trade war with the U.S. could further damage consumer confidence and seriously upset the Chinese light vehicle market, especially in the larger tier 1 and tier 2 cities whose economies depend heavily on exports,” says Kang. “But China’s car market still has plenty of room for growth in the medium term with a vehicle density rate of only 145 per 1,000 adults.” That’s well below the levels in Western Europe (650) and Japan (500).

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About LMC Automotive

**LMC Automotive** is the leading independent and exclusively automotive focused provider of global forecasting and market intelligence in the areas of vehicle sales, production, powertrains and electrification. Highly respected for its responsive customer support, the company’s client base from around the globe includes car and truck makers, component manufacturers and suppliers, financial, logistics and government institutions.

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