



## China Light Vehicle Sales Update

### Will the Current Boom in China's NEV Market Stand the Test of Time?

China's Passenger Vehicle (PV) sales in November fell by 15.7% year-on-year (YoY) to 2.24 mn units, while the Light Commercial Vehicle (LCV) sector increased by 5.1% YoY. This led to an overall decline in the Light Vehicle (LV) market of 13.7% YoY, on total sales of 2.54 mn units. PV production fell by 20.1% in the month, dragging year-to-date (YTD) growth down to -3.2%. Total LV output amounted to 24.04 mn units in the year to November, a decline of 2.6% YoY.

The seasonally adjusted annualized rate (SAAR) of LV sales in November was 25.3 mn units, a 3.3% drop from October, the seventh consecutive month of month-on-month (MoM) decline, and a clear indication of an extended market downturn.

The CADA dealer inventory index stood at 1.92 months at the end of November, 50% up compared with the same month last year, and 2% up on October. The rate was still above the warning level of 1.5 months and much higher than the levels recorded in the month of November over the last six years. The considerable pressure exerted by such inflated inventories on OEMs will continue to impact wholesales in December 2018 and into the first quarter of 2019.

The decline in the PV market in November came as little surprise, given the elevated base set in the same month of 2017. We expect a similar scenario for December 2018, as wholesales in the year-ago period were inflated to a record high of 2.6 mn units as a result of the buying rush that took place in the final month of the temporary purchase tax, prior to its expiry at the end of 2017.

We made a further cut to our Passenger Vehicle growth forecast for 2018, to -4%, for two key reasons: 1) the payback effect in Q4 2018 was more pronounced than expected; and 2) rumors that the implementation of State VI emissions standards may be brought forward in certain regions led to consumers delaying vehicle purchases as very few State VI-compliant models are currently available to buy.

There does, however, remain one bright spot in the market in the form of the new energy vehicle (NEV) segment, which encompasses both plug-in hybrid electric vehicles (PHEVs) and battery electric vehicles (BEVs). Wholesales of domestic NEVs rose by a dramatic 83% YoY in the January-November period, compared to a 3% decline for the overall market.

While this huge increase was flattered by a low base in 2017, demand in the sector has, nevertheless, been boosted by the implementation in April this year of CAFC and the NEV dual-credit system.

This exceptionally strong growth is not, however, being driven by private consumption. It is certainly true that some consumers have purchased NEV models in cities like Shanghai and Beijing, where the local authorities have imposed traffic control measures and restrictions on the availability of vehicle license plates. But purchasing decisions are more likely to have been influenced by the opportunity to acquire a free – or more readily obtainable – license plate, and to benefit from the privileged right-of-way granted to NEV drivers, rather than by personal preference.

Insurance data indicate that PHEV sales in Shanghai accounted for around 21% of total PHEV sales nationwide between January and September 2018. A PHEV license plate is typically worth about US\$13,000, but is free of charge in Shanghai. As such, if these local governments were to revoke their free license plate policies, NEV demand would suffer. One such rumor surfaced recently when NEV dealers in Shanghai claimed that the free PHEV license plate policy had been suspended since November. While no official government confirmation has yet come to light, if the rumor turns out to be true, it would be a crushing blow for the local PHEV market.



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Looking at the bigger picture, the business model for China's overall electric vehicle (EV) market is still relatively unclear. The vast majority of EVs are used in the car-sharing sector, which explains the growing number of car-sharing subsidiary companies being set up by automakers. Notable examples are the Cao Cao and Xiangdao ride-hailing services established by Geely and SAIC, respectively. These platforms effectively provide OEMs with a ready-made outlet for their NEV products. Indeed, a recent report states that around 27k units of the Emgrand EV are currently operated by Geely's Cao Cao service.

Our short-term view is that the robust momentum in China's NEV market will carry over into 2019, driven by the official NEV credit requirements. Sales will increase by around 40% when compared to 2018, on an estimated total of 1.4 mn units. But with so little clarity on how demand will evolve, couple with the unpredictability of government policy, the NEV market's long-term future is by no means assured.

Market Top Lines						
	Nov	Δ	YTD	Δ	2018f	Δ
<b>Sales</b>	<b>2,656,354</b>	<b>-13%</b>	<b>26,452,551</b>	<b>-2%</b>		
PV	2,242,927	-16%	22,092,767	-3%	24,396,127	-4%
LCV	295,475	5%	3,005,977	4%	3,345,344	4%
M&H CV	117,952	-9%	1,353,807	-3%		
<b>Production</b>	<b>2,505,158</b>	<b>-19%</b>	<b>25,341,719</b>	<b>-3%</b>		
PV	2,098,992	-20%	21,105,721	-3%	23,335,735	-4%
LCV	287,042	-9%	2,932,505	2%	3,270,242	2%
M&H CV	119,124	-18%	1,303,493	-7%		

Best Selling Models						
	Nov	Δ	Share	YTD	Δ	Share
<b>PV</b>						
Volkswagen Lavida	46,241	-3%	2.1%	428,472	4%	1.9%
Wuling Hongguang	51,117	-9%	2.3%	416,864	-11%	1.9%
Haval H6	47,719	0%	2.1%	353,979	-11%	1.6%
<b>LCV</b>						
Wuling Mini Truck	37,319	84%	12.6%	353,897	52%	11.8%
Foton Light Truck	22,940	-14%	7.8%	272,586	10%	9.1%
Changan Light Truck	14,939	48%	5.1%	187,420	67%	6.2%

Top Brands (Sales)							
	#	Brand	Nov	Δ	YTD	Δ	YTD Share
Passenger Vehicle	1	Volkswagen	290,522	-2%	2,900,544	-1%	13.1%
	2	Honda	151,443	10%	1,314,892	2%	6.0%
	3	Geely	129,340	-8%	1,292,876	18%	5.9%
	4	Toyota	139,307	31%	1,270,021	13%	5.7%
	5	Nissan	118,543	-5%	1,072,747	6%	4.9%
	6	Buick	96,847	-23%	976,846	-11%	4.4%
	7	Changan	68,026	-34%	809,000	-16%	3.7%
	8	Baojun	66,750	-48%	790,133	-10%	3.6%
	9	Hyundai	71,345	-25%	702,386	6%	3.2%
	10	Haval	106,390	9%	658,484	-14%	3.0%
	11	Audi	58,798	-6%	618,604	9%	2.8%
	12	Chevrolet	62,927	-17%	615,291	17%	2.8%
	13	Mercedes-Benz	49,703	-5%	607,871	10%	2.8%
	14	BMW	59,073	8%	568,378	11%	2.6%
	15	Trumpchi	44,166	2%	484,926	4%	2.2%
	16	BYD	49,645	9%	440,408	24%	2.0%
	17	Roewe	42,919	8%	423,171	22%	1.9%
	18	Dongfeng	37,928	-43%	422,019	-29%	1.9%
	19	Wuling	51,117	-9%	416,866	-13%	1.9%
	20	Beijing	39,317	-48%	406,481	-22%	1.8%
<b>Passenger Vehicle Total</b>			<b>2,242,927</b>	<b>-16%</b>	<b>22,092,767</b>	<b>-3%</b>	<b>88.4%</b>
Commercial Vehicle	1	Wuling	62,134	62%	629,613	15%	20.9%
	2	Foton	27,229	-20%	327,575	-7%	10.9%
	3	Changan	25,337	29%	309,378	6%	10.3%
	4	Dongfeng	25,277	-12%	243,012	-4%	8.1%
	5	JAC	16,001	17%	189,661	5%	6.3%
	6	JMC	16,613	-16%	159,345	-1%	5.3%
	7	Jinbei	13,223	-40%	126,810	18%	4.2%
	8	Great Wall	13,677	16%	124,566	18%	4.1%
	9	CNHTC	11,962	26%	104,352	24%	3.5%
	10	Maxus	8,726	137%	84,613	147%	2.8%
<b>Commercial Vehicle Total</b>			<b>295,475</b>	<b>5%</b>	<b>3,005,977</b>	<b>4%</b>	<b>11.6%</b>

Top Manufacturers (Production)							
	#	Manufacturer	Nov	Δ	YTD	Δ	YTD Share
Passenger Vehicle	1	SAIC Volkswagen	197,180	-1%	1,919,974	2%	9.1%
	2	FAW Volkswagen	192,202	-6%	1,851,871	3%	8.8%
	3	SAIC GM	184,318	-14%	1,798,689	0%	8.5%
	4	Geely Group	122,449	-23%	1,387,058	19%	6.6%
	5	Dongfeng Nissan	131,380	0%	1,220,640	8%	5.8%
	6	SAIC GM Wuling	95,136	-47%	1,161,921	-18%	5.5%
	7	Great Wall Motor	120,453	2%	789,469	-3%	3.7%
	8	Changan Automobile Grc	54,412	-48%	749,068	-18%	3.5%
	9	Beijing Hyundai	73,001	-33%	725,801	4%	3.4%
	10	GAC Honda	77,279	7%	693,623	5%	3.3%
	11	Dongfeng Honda	69,947	0%	669,070	3%	3.2%
	12	SAIC Motor	61,849	0%	655,080	37%	3.1%
	13	FAW Toyota	72,525	15%	651,813	2%	3.1%
	14	GAC Toyota	63,860	80%	537,960	34%	2.5%
	15	GAC Motor	46,652	-6%	509,230	9%	2.4%
	16	Chery	52,189	-14%	469,361	-6%	2.2%
	17	Beijing Benz	43,683	4%	444,228	11%	2.1%
	18	BYD	49,400	7%	443,913	24%	2.1%
	19	Brilliance BMW	48,794	24%	443,240	23%	2.1%
	20	Changan Ford	25,337	-70%	391,915	-48%	1.9%
<b>Passenger Vehicle Total</b>			<b>2,098,992</b>	<b>-20%</b>	<b>21,105,721</b>	<b>-3%</b>	<b>88.0%</b>
Commercial Vehicle	1	SAIC GM Wuling	44,864	-13%	582,730	8%	19.9%
	2	Beiqi Foton	25,365	-26%	325,847	-6%	11.1%
	3	Changan Automobile Grc	26,225	-12%	288,764	3%	9.8%
	4	Jiangling Motors	32,531	8%	262,967	3%	9.0%
	5	Dongfeng Automobile	23,623	-1%	204,101	-6%	7.0%
	6	Jianghuai Automotive	15,120	-7%	182,627	2%	6.2%
	7	Great Wall Motor	14,203	16%	127,907	18%	4.4%
	8	Brilliance Auto	11,965	-45%	126,259	18%	4.3%
	9	CNHTC	11,787	13%	104,751	23%	3.6%
	10	SAIC Commercial	9,328	322%	84,106	156%	2.9%
<b>Commercial Vehicle Total</b>			<b>287,042</b>	<b>-9%</b>	<b>2,932,505</b>	<b>2%</b>	<b>12.0%</b>

7<sup>th</sup> January 2019

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