



## China Light Vehicle Sales Update

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### Stocks Reduced in January 2019

China's Passenger Vehicle (PV) sales (i.e., wholesales) in January 2019 fell by 17.2% year-on-year (YoY) to 2.11 mn units, while the Light Commercial Vehicle (LCV) segment declined by 6.6% YoY to 0.25 mn units. The overall Light Vehicle (LV) market ended the first month of 2019 with a drop of 15.8% YoY, on total sales of 2.37 mn units. In line with the sales downturn, PV production fell by 14.8% to 1.97 mn units, dragging LV output for the month down by 12.7% YoY, on total build of 2.24 mn units.

The seasonally adjusted annualized rate (SAAR) of LV sales in January was 25.2 mn units, a 2.3% drop compared to December 2018, suggesting that the market is still struggling and will require more time to fully recover.

A more optimistic scenario emerges, however, if we consider actual retail sales, as reflected in the insurance data. We then find a sizable increase in demand for domestically made vehicles in January, with growth of around 26% to 2.6 mn units – a far rosier picture than that painted by the wholesales trend.

So how can we explain this paradox? Our take is that it is simply a matter of built-up inventories being unwound. If we turn to the figures for last December, retail sales of domestic PVs surpassed the wholesale result by 0.26 mn units. The gap in January was even wider, at 0.39 mn. The bottom line is that automakers had no choice but to balance production volumes with wholesale demand to reduce bloated dealership stocks and take some of the financial pressure off their distributors.

The CADA dealer inventory index stood at 1.4 months at the end of January, 12% down compared with the same month of 2018, and 19% down on December last year. The rate finally fell below the warning line of 1.5 months, having remained above it throughout the whole of 2018. This healthy start to 2019 further supports our view that high stock levels have been reduced, allowing the market to move forward unburdened.

The alarm was first raised when the market crashed in the final quarter of 2018. But there are two key factors to account for this downturn.

Firstly, the payback effect triggered by the phasing-out and eventual expiry of the purchase tax incentive on small-engine vehicles. Secondly, the power of rumor. One such rumor suggested that the government was on the verge of formally reinstating the tax cut, which convinced many buyers to postpone purchases.

It was then rumored that the implementation of State VI emissions standards might be brought forward in certain regions, leading to some consumers delaying the purchase of State V-compliant vehicles. Amid all this uncertainty, and with so many buyers holding off, it comes as little surprise that the market deteriorated so sharply at the end of last year.

With the rumors now cleared up and the insurance data to hand, there is no denying the resilient rebound in PV retail sales, which supports our view that pent-up demand from Q4 2018 is now being released. January's healthy result not only shows that demand is still there, but should also go some way to reviving confidence in the industry.

Turning our attention to the macroeconomic environment, the tension between China and the US appears to be diminishing, following several rounds of negotiations between the two sides. If the negative pressure created by the trade dispute can be lifted, we may see a strong resurgence in consumer confidence. Added to which the government pledged a new stimulus measure for rural automotive markets earlier this year.



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Although still at the guideline stage, the new policy underscores the government's determination to ensure continued growth in the industry.

To base an optimistic prediction of the market's prospects purely on the positive January retail result would be unwise. We can, however, take some comfort from the upturn – along with the improving macroeconomic climate and the promise of future industry incentives – that the situation is perhaps not as dire as many had envisaged.

Market Top Lines						
	Jan	Δ	YTD	Δ	2019f	Δ
<b>Sales</b>	<b>2,486,514</b>	<b>-15%</b>	<b>2,486,514</b>	<b>-15%</b>		
PV	2,112,965	-17%	2,112,965	-17%	24,698,888	1%
LCV	252,118	-1%	252,118	-1%	3,385,899	1%
M&H CV	121,431	-9%	121,431	-9%		
<b>Production</b>	<b>2,370,954</b>	<b>-12%</b>	<b>2,370,954</b>	<b>-12%</b>		
PV	1,965,294	-15%	1,965,294	-15%	23,432,979	1%
LCV	274,036	7%	274,036	7%	3,407,832	4%
M&H CV	131,624	0%	131,624	0%		

Best Selling Models						
	Jan	Δ	Share	YTD	Δ	Share
<b>PV</b>						
Volkswagen Lavida	58,537	32%	2.8%	58,537	32%	2.8%
Haval H6	39,630	-24%	1.9%	39,630	-24%	1.9%
Wuling Hongguang	38,203	-31%	1.8%	38,203	-31%	1.8%
<b>LCV</b>						
Wuling Mini Truck	30,577	21%	12.1%	30,577	21%	12.1%
Foton Light Truck	22,985	34%	9.1%	22,985	34%	9.1%
JAC Light Truck	17,989	5%	7.1%	17,989	5%	7.1%

Top Brands (Sales)							
	#	Brand	Jan	Δ	YTD	Δ	YTD Share
Passenger Vehicle	1	Volkswagen	280,931	-20%	280,931	-20%	13.3%
	2	Toyota	165,702	18%	165,702	18%	7.8%
	3	Geely	145,805	-2%	145,805	-2%	6.9%
	4	Honda	139,835	-1%	139,835	-1%	6.6%
	5	Nissan	103,830	7%	103,830	7%	4.9%
	6	Buick	93,107	-17%	93,107	-17%	4.4%
	7	Haval	86,152	10%	86,152	10%	4.1%
	8	Changan	76,582	-33%	76,582	-33%	3.6%
	9	Mercedes-Benz	73,678	1%	73,678	1%	3.5%
	10	BMW	72,714	14%	72,714	14%	3.4%
	11	Baojun	72,188	-24%	72,188	-24%	3.4%
	12	Chevrolet	60,665	-6%	60,665	-6%	2.9%
	13	Audi	59,124	-22%	59,124	-22%	2.8%
	14	Dongfeng	44,266	-35%	44,266	-35%	2.1%
	15	BYD	43,257	2%	43,257	2%	2.0%
	16	Roewe	41,336	-16%	41,336	-16%	2.0%
	17	Wuling	38,203	-31%	38,203	-31%	1.8%
	18	Chery	37,986	9%	37,986	9%	1.8%
	19	Trumpchi	33,896	-45%	33,896	-45%	1.6%
	20	Hyundai	32,037	-47%	32,037	-47%	1.5%
<b>Passenger Vehicle Total</b>			<b>2,112,965</b>	<b>-17%</b>	<b>2,112,965</b>	<b>-17%</b>	<b>89.3%</b>
Commercial Vehicle	1	Wuling	49,609	-1%	49,609	-1%	19.7%
	2	Foton	27,423	17%	27,423	17%	10.9%
	3	JAC	25,973	6%	25,973	6%	10.3%
	4	Changan	21,215	-17%	21,215	-17%	8.4%
	5	Dongfeng	20,128	-14%	20,128	-14%	8.0%
	6	Great Wall	11,464	4%	11,464	4%	4.5%
	7	CNHTC	10,425	14%	10,425	14%	4.1%
	8	Jinbei	9,261	-8%	9,261	-8%	3.7%
	9	Karry	8,285	556%	8,285	556%	3.3%
	10	JMC	7,898	-22%	7,898	-22%	3.1%
<b>Commercial Vehicle Total</b>			<b>252,118</b>	<b>-1%</b>	<b>252,118</b>	<b>-1%</b>	<b>10.7%</b>

Top Manufacturers (Production)							
	#	Manufacturer	Jan	Δ	YTD	Δ	YTD Share
Passenger Vehicle	1	FAW Volkswagen	189,339	10%	189,339	10%	9.6%
	2	SAIC GM	179,976	-21%	179,976	-21%	9.2%
	3	SAIC Volkswagen	161,965	-20%	161,965	-20%	8.2%
	4	Geely Group	157,500	19%	157,500	19%	8.0%
	5	SAIC GM Wuling	138,161	-15%	138,161	-15%	7.0%
	6	Dongfeng Nissan	118,610	2%	118,610	2%	6.0%
	7	Great Wall Motor	100,208	9%	100,208	9%	5.1%
	8	Changan Automobile Grc	80,324	-20%	80,324	-20%	4.1%
	9	GAC Honda	67,446	1%	67,446	1%	3.4%
	10	Dongfeng Honda	65,699	-5%	65,699	-5%	3.3%
	11	FAW Toyota	61,475	-5%	61,475	-5%	3.1%
	12	GAC Toyota	60,627	50%	60,627	50%	3.1%
	13	SAIC Motor	58,664	-18%	58,664	-18%	3.0%
	14	Brilliance BMW	51,824	26%	51,824	26%	2.6%
	15	Chery	48,716	18%	48,716	18%	2.5%
	16	Beijing Benz	46,431	4%	46,431	4%	2.4%
	17	BYD	40,364	-8%	40,364	-8%	2.1%
	18	GAC Motor	38,774	-22%	38,774	-22%	2.0%
	19	Beijing Hyundai	34,250	-43%	34,250	-43%	1.7%
	20	Dongfeng Yueda Kia	31,800	2%	31,800	2%	1.6%
<b>Passenger Vehicle Total</b>			<b>1,965,294</b>	<b>-15%</b>	<b>1,965,294</b>	<b>-15%</b>	<b>87.8%</b>
Commercial Vehicle	1	SAIC GM Wuling	62,295	37%	62,295	37%	22.7%
	2	Beiqi Foton	30,547	-2%	30,547	-2%	11.1%
	3	Jianghuai Automotive	26,075	5%	26,075	5%	9.5%
	4	Changan Automobile Grc	23,695	9%	23,695	9%	8.6%
	5	Dongfeng Automobile	20,013	-5%	20,013	-5%	7.3%
	6	Jiangling Motors	12,009	-26%	12,009	-26%	4.4%
	7	CNHTC	12,002	15%	12,002	15%	4.4%
	8	Great Wall Motor	12,000	-9%	12,000	-9%	4.4%
	9	Chery	8,263	1103%	8,263	1103%	3.0%
	10	Brilliance-Renault	8,059	-24%	8,059	-24%	2.9%
<b>Commercial Vehicle Total</b>			<b>274,036</b>	<b>7%</b>	<b>274,036</b>	<b>7%</b>	<b>12.2%</b>

1<sup>st</sup> March 2019

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