



## China Light Vehicle Sales Update

### The Market Suffers in the Lead-up to the Early Implementation of State VI Emissions Standards

China's Passenger Vehicle (PV) sales (i.e., wholesales) in April fell by 17.1% year-on-year (YoY) to 1.63 mn units, while the Light Commercial Vehicle (LCV) segment grew by 3.9% YoY to 0.30 mn units. The overall Light Vehicle (LV) market ended the month with a 14.4% YoY decline, on total sales of 1.93 mn units. The market fell back into double-digit contractionary territory, following a less pronounced drop in March. In line with the sales downturn, PV production contracted by 17.9% to 1.61 mn units. In contrast, LCV production grew by 3.6% to 0.30 mn units. Overall LV output for the month was down by 15.2% YoY, on total build of 1.91 mn units.

The seasonally adjusted annualized rate (SAAR) of LV sales in April was 23.6 mn units, down by 11.5% from a relatively strong March, pointing to sluggish wholesale demand.

The "Blue Sky Defense" concept aimed at reducing air pollution in China was originally put forward by the central government in 2017. Local governments responded rapidly and one of the key policies to emerge from the proposal was the tightening of vehicle emissions standards. In mid-2018, a number of local authorities formally suggested bringing forward the enforcement of State VI emissions regulations to 1 January 2019. However, the objections from interested parties were sufficiently strong to prompt the government to compromise by deferring the implementation date.

As 2019 began, a number of local authorities confirmed that State VI standards would come into force on 1 July this year, with some regions opting for State VI-a standards and others, such as Shanghai, Tianjin and Guangdong, leapfrogging straight to the far stricter State VI-b standards. Despite the delay, the new date of 1 July 2019 is still well ahead of the original schedule, which called for the nationwide application of State VI-a, starting from 1 July 2020, and State VI-b, starting from 1 July 2023.

The earlier date effectively shortens the interim period between State V and State VI to less than three years, thus cutting down the lead time for OEMs to prepare, particularly those without the requisite technical expertise.

Some weaker Chinese brands are simply not equipped to offer State VI-compliant models in the short term. The global OEMs and high-tier local brands, however, are already primed to supply State VI-ready models.

Initial concerns focused on how the supply of State VI models would impact the PV market, but it turns out that the transition period between State V and State VI standards has been far more damaging. The reason? In short, bloated inventories of State V models at dealerships. The CADA inventory index shows that dealers are currently holding approximately 2 months' worth of stocks.

The regions where State VI will come into force on 1 July account for around 63% of the total PV market. Bringing the implementation forward has affected both distributors and consumers in those areas. On the one hand, distributors are refusing to purchase State VI models from OEMs until their State V vehicle stocks are depleted. On the other, consumers are reluctant to purchase State V models, despite the attractive discounts being offered by retailers, as they will have far less scrappage value in the future. This stalemate was behind the sharp decline in sales in April and the situation is likely to have continued into May.

Local dealership associations in some regions are now appealing to OEMs to help their distributors unwind State V vehicle stocks and assist them in transferring surplus models to distributors located in areas that are not scheduled to implement State VI in July 2019.



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The overriding message is that the impact of advancing the new standards has been far more negative than anticipated. Meanwhile, the tariff issue resurfaced in May, which will further weaken consumer confidence. Added to this, the central government has not yet announced the full details of its new incentive policies, despite several mentions already this year. In light of these factors, we decided to cut our PV growth forecast for 2019 from 1.3% to 0.03%. And it would be unwise to overlook the fact that if stocks of State V models are not successfully unwound, and if no new incentive policies come into play, then the market may suffer an even worse fate this year, with sales potentially dropping into negative territory, at around -6%.

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Market Top Lines						
	Apr	Δ	YTD	Δ	2019f	Δ
<b>Sales</b>	<b>2,076,532</b>	<b>-14%</b>	<b>8,706,689</b>	<b>-12%</b>		
PV	1,629,240	-17%	7,048,654	-15%	24,390,853	0%
LCV	303,779	4%	1,124,613	3%	3,354,145	0%
M&H CV	143,513	-5%	533,422	-2%		
<b>Production</b>	<b>2,054,961</b>	<b>-15%</b>	<b>8,401,927</b>	<b>-11%</b>		
PV	1,613,190	-18%	6,747,973	-14%	23,155,449	0%
LCV	298,720	4%	1,129,899	8%	3,359,443	3%
M&H CV	143,051	-5%	524,055	-3%		

Best Selling Models						
	Apr	Δ	Share	YTD	Δ	Share
<b>PV</b>						
Volkswagen Lavida	36,112	19%	2.2%	177,588	28%	2.5%
Wuling Hongguang	23,182	-27%	1.4%	126,558	-30%	1.8%
Toyota Corolla	30,403	24%	1.9%	116,905	-8%	1.7%
<b>LCV</b>						
Wuling Mini Truck	33,528	31%	11.0%	125,215	14%	11.1%
Foton Light Truck	32,337	12%	10.6%	109,134	15%	9.7%
Changan Light Truck	18,542	10%	6.1%	68,556	-7%	6.1%

Top Brands (Sales)							
	#	Brand	Apr	Δ	YTD	Δ	YTD Share
Passenger Vehicle	1	Volkswagen	236,210	-1%	961,770	-8%	13.6%
	2	Honda	132,348	23%	492,921	14%	7.0%
	3	Toyota	115,265	18%	472,001	13%	6.7%
	4	Geely	93,788	-22%	431,447	-11%	6.1%
	5	Nissan	84,140	-13%	355,338	1%	5.0%
	6	Buick	64,372	-31%	297,785	-18%	4.2%
	7	Changan	40,921	-41%	265,649	-27%	3.8%
	8	Haval	58,444	6%	264,482	12%	3.8%
	9	Mercedes-Benz	55,323	-4%	241,047	3%	3.4%
	10	BMW	61,654	27%	232,589	19%	3.3%
	11	Hyundai	51,024	-27%	219,107	-6%	3.1%
	12	Audi	45,730	-9%	192,332	-14%	2.7%
	13	Baojun	21,841	-69%	186,252	-45%	2.6%
	14	Chevrolet	44,202	-27%	182,073	-17%	2.6%
	15	BYD	36,563	0%	152,201	3%	2.2%
	16	Roewe	36,787	-7%	138,419	-16%	2.0%
	17	Chery	34,001	-3%	127,089	-6%	1.8%
	18	Wuling	23,182	-27%	126,558	-30%	1.8%
	19	Dongfeng	17,324	-51%	117,483	-42%	1.7%
	20	Trumpchi	26,832	-38%	114,870	-40%	1.6%
<b>Passenger Vehicle Total</b>			<b>1,629,240</b>	<b>-17%</b>	<b>7,048,654</b>	<b>-15%</b>	<b>84.3%</b>
Commercial Vehicle	1	Wuling	60,677	21%	221,902	8%	19.7%
	2	Foton	38,867	12%	133,407	15%	11.9%
	3	Changan	28,862	-3%	110,371	-13%	9.8%
	4	Dongfeng	26,519	-2%	95,599	5%	8.5%
	5	JAC	16,660	-18%	81,453	-6%	7.2%
	6	JMC	14,497	-9%	50,804	-11%	4.5%
	7	Great Wall	13,099	1%	49,595	11%	4.4%
	8	Jinbei	15,419	31%	47,392	17%	4.2%
	9	CNHTC	10,468	8%	41,458	14%	3.7%
	10	FAW	7,570	22%	31,611	39%	2.8%
<b>Commercial Vehicle Total</b>			<b>303,779</b>	<b>4%</b>	<b>1,124,613</b>	<b>3%</b>	<b>15.7%</b>

Top Manufacturers (Production)							
	#	Manufacturer	Apr	Δ	YTD	Δ	YTD Share
Passenger Vehicle	1	FAW Volkswagen	158,246	-9%	607,624	2%	9.0%
	2	SAIC Volkswagen	152,866	-13%	575,530	-18%	8.5%
	3	SAIC GM	115,699	-30%	540,523	-18%	8.0%
	4	Geely Group	107,415	-21%	481,279	-3%	7.1%
	5	Dongfeng Nissan	113,337	5%	404,845	1%	6.0%
	6	SAIC GM Wuling	50,685	-56%	354,005	-38%	5.2%
	7	Great Wall Motor	72,104	3%	320,401	10%	4.7%
	8	Changan Automobile Grc	56,067	-21%	276,027	-16%	4.1%
	9	GAC Honda	69,584	17%	250,034	7%	3.7%
	10	Beijing Hyundai	49,500	-28%	237,500	7%	3.5%
	11	FAW Toyota	65,624	42%	232,246	8%	3.4%
	12	Dongfeng Honda	56,231	4%	227,848	-4%	3.4%
	13	SAIC Motor	47,001	-35%	200,793	-22%	3.0%
	14	Beijing Benz	48,942	27%	186,042	20%	2.8%
	15	GAC Toyota	45,126	4%	184,740	24%	2.7%
	16	Chery	45,654	16%	174,513	13%	2.6%
	17	Brilliance BMW	32,775	-7%	171,289	20%	2.5%
	18	BYD	38,499	7%	152,596	3%	2.3%
	19	GAC Motor	32,039	-38%	137,474	-29%	2.0%
	20	Dongfeng Yueda Kia	31,900	-7%	117,200	0%	1.7%
<b>Passenger Vehicle Total</b>			<b>1,613,190</b>	<b>-18%</b>	<b>6,747,973</b>	<b>-14%</b>	<b>84.4%</b>
Commercial Vehicle	1	SAIC GM Wuling	66,386	25%	226,918	18%	20.1%
	2	Beiqi Foton	28,178	-5%	147,650	25%	13.1%
	3	Changan Automobile Grc	32,178	5%	109,097	2%	9.7%
	4	Dongfeng Automobile	21,755	7%	79,894	2%	7.1%
	5	Jianghuai Automotive	15,953	-14%	78,753	-3%	7.0%
	6	Jiangling Motors	22,659	-12%	76,731	-13%	6.8%
	7	Great Wall Motor	13,265	0%	50,388	7%	4.5%
	8	Brilliance-Renault	17,534	49%	46,853	17%	4.1%
	9	CNHTC	10,066	3%	42,771	11%	3.8%
	10	FAW GM	8,135	25%	30,937	36%	2.7%
<b>Commercial Vehicle Total</b>			<b>298,720</b>	<b>4%</b>	<b>1,129,899</b>	<b>8%</b>	<b>15.6%</b>

31<sup>st</sup> May 2019

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