

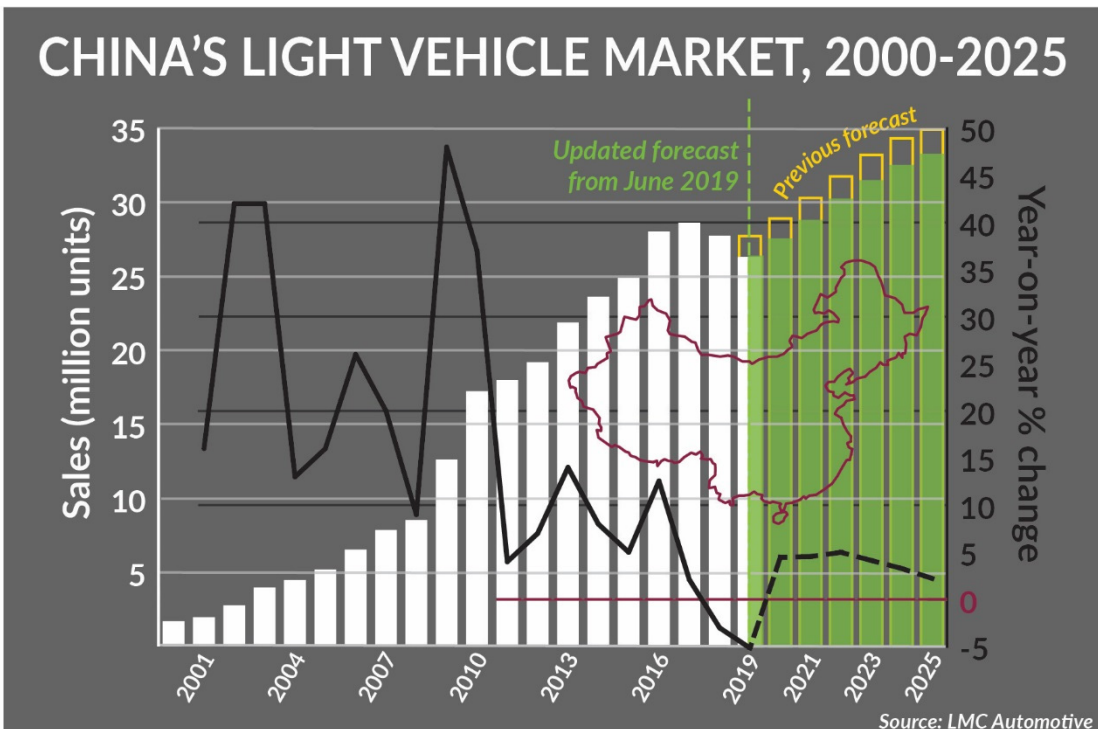
LIGHT VEHICLE MARKET

Forecast: China car market to shrink again in 2019

LMC Automotive cuts outlook for the world's largest car market, predicting a second-consecutive contraction in 2019 and citing potential for further weakness

Shanghai / Oxford, 27 June 2019. LMC Automotive has lowered its light vehicle (LV) sales forecast for China through 2025. Blaming tougher emission laws, disappointing government support and waning consumer confidence exacerbated by trade dispute risks, the market intelligence and forecasting specialist now sees LV turnover falling for the second year in a row in 2019 before recovering gradually.

For 2019, LMC Automotive anticipates a 5% year-on-year drop in sales of vehicles under 6 tonnes in the Middle Kingdom to 26.3 million units, down from the previous forecast in May of 27.7 million and flat growth. That follows a 3% decline in 2018 – the market's first contraction since the 1990s. Modest growth should return in 2020, but annual LV sales will not recover to 2017 levels until 2021.



“The single most important factor is the emissions regime, which has had a far more negative impact than anticipated,” says Alan Kang, a Shanghai-based senior market analyst at LMC Automotive. The China VI standard – largely equivalent to Euro VI – goes into force on 1 July in regions representing 63% of the Chinese LV market. Dealership inventories of China V models, shunned by buyers, have piled up, hitting wholesale turnover from distributors lacking capacity and unwilling to purchase new China VI models. “This, in turn, has forced carmakers to cut production.”

Consumers were also hoping to see the government revive generous purchase incentives. They have been disappointed. Two key elements of a proposed package to spur car sales – increasing the number of new car licenses by half in major cities (incl. Beijing and Shanghai) and re-introducing purchase duty discounts in rural areas – were

left out of the final policy published earlier in June. This will hit 2019 LV sales to the tune of almost 1m units.

“The incentives do not support a strong rebound and are unlikely to give the market the kind of boost we previously expected,” says Kang.

The ongoing trade dispute with the U.S., meanwhile, risks further dampening consumer spending. It has accelerated the shift by multinationals of manufacturing (and jobs) to places like Vietnam with cheaper labour. The uncertainty over U.S. policy could drag on past the 2020 presidential elections, too, delaying investment in China and preventing a major recovery in LV sales through 2021. Other potential threats include additional trade restrictions by the U.S. as well as rising oil prices and Brexit.

On the brighter side, an end to the trade tensions would considerably enhance the outlook for LV sales. The current situation isn’t as bad as the overall numbers indicate, either: Retail sales* were down only 2% year-on-year in May (compared to a wholesale figure of -17%) and are expected to improve in June, offering hope for a reduction in dealer inventories and a more robust LV market following the summer vacation season. And China still offers big potential in the longer term, with vehicle density well below that of mature markets.

As for European carmakers, premium brands BMW and Mercedes-Benz continue to buck the current negative trend despite increasing competition from Chinese carmakers, unlike mainstream manufacturers like Volkswagen and PSA Peugeot Citroen. “VW is also suffering from high inventories,” says Kang, “but still has a very strong brand in China.”

* Refers to domestically made passenger cars

For more information, please contact Arron Quinton at:

+44 1865 797 650

or

aquinton@lmc-auto.com

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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