

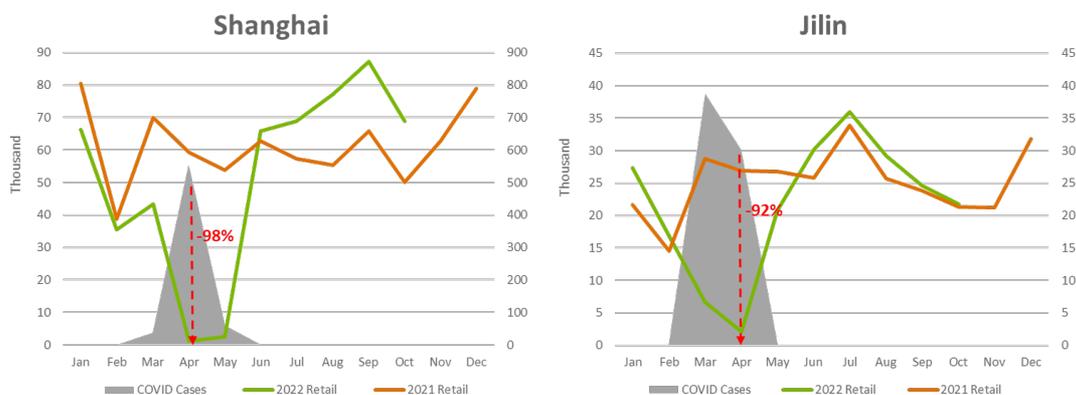
 NAN ZHANG, PASSENGER CAR MARKET ANALYST

 12 DECEMBER 2022

COVID-19 will be the biggest factor affecting the Chinese market this year

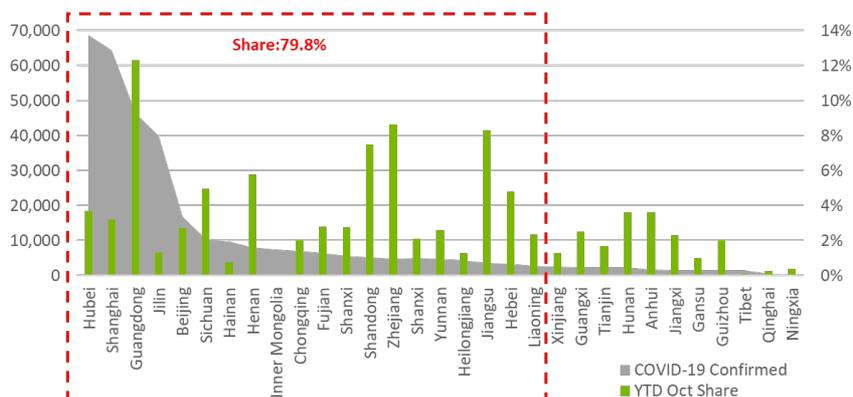
Since the outbreak of COVID-19 in 2020, China has implemented strict epidemic prevention and containment measures. Local lockdowns have had a serious impact on production and sales activities. In addition, the latest macroeconomic data show that it will be a tough end to the year. China's export growth in October dropped by 0.3% year-on-year, down 6% compared to the previous month, as weaker external demand caused exports to turn negative. Following renewed pressure on economic growth, retail sales decreased by 0.5% year-on-year in October. This result is much lower than expected, with COVID-19 being the biggest factor affecting this year's performance following the long lockdowns earlier in the year and sporadic ones since then.

As can be seen from the situation in Shanghai in the first half of this year, the impact of epidemic factors on vehicle retailing was very serious with a fall of 98% in April. The lockdown of the whole city caused production and sales activities to be almost entirely halted. The same situation happened in Jilin province where retail sales decreased by 92%. The charts also show that when Shanghai was reopened, June's retail sales were boosted by 2430%, month-on-month and even increased by 5% compared with the same time in 2021. The market demand which had been suppressed by the pandemic was suddenly released in June.



Note: COVID cases include confirmed and asymptomatic.

According to the country's statistical ranking of the number of infections in 2022, the top 20 cities with the highest number of infections account for nearly 80% of retail sales. That is to say, national automobile retail sales have been seriously affected by the epidemic outbreak.



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Since October 2022, the epidemic has raged in Guangdong, Chongqing and other provinces and cities, with local governments taking corresponding containment measures resulting in relatively static local production and sales outcomes. Retail sales are down sharply, and statistics agencies have reported that nearly 40% of dealers across the country have been unable to operate since the outbreak began. Retail vehicle sales have been falling again since August and October year-to-date retail sales decreased by 5.5% year-on-year with the total at 16.2 million units. This shows that market demand is certainly being suppressed by the containment of the epidemic.



In November, due to the rapid development of the epidemic and the continuous expansion of its scope, the market sales performance fell short of expectations. Affected by the epidemic control, auto shows and marketing activities around the country could not be carried out smoothly, and the auto market endured a rather subdued state, which led to buyer activity dropping off a cliff with the resulting sales volume being lower than expected.

China's central government released several specific prevention and control measures recently, aimed at preventing and controlling the epidemic in a more targeted and scientific way. During the week of December 1, many local governments announced a series of local measures, and that the zero-Covid policy is being phased out. As of December 5, at least three provinces and 13 cities in China's most economically developed regions have announced the relaxation of local COVID-19 control policies. Many local governments have removed the requirement for PCR tests. People will no longer be asked to show a negative PCR test result to enter public places.

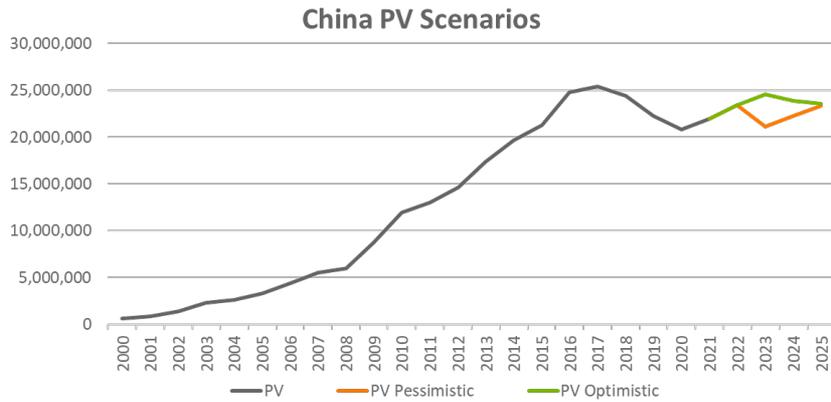
Abandoning the zero-Covid policy is risky, as the number of infected cases and deaths will grow, and China's healthcare system will be severely tested. Some researchers say the first wave of infections could kill between one and two million people. According to the former director of China's Centre for Disease Control (CDC), about 60% of the population will catch COVID-19 in the first 2 months (the first wave impact), and 80-90% of the population will be affected within a year. It can be predicted that the first wave impact will last from December 2022 to Q1 2023. Additionally, after two years of strict containment, the sudden 'opening' could cause public panic. Most citizens are stockpiling medicines to deal with possible infections.

The auto market is likely to enter a wait-and-see period due to repeated outbreaks of COVID-19 and the drastic adjustment of quarantine policies. We believe that these uncertainty factors will adversely affect the market in the short term, and it will be difficult for the car market to return to the typical jump in activity at the end of the year. Under the influence of various adverse factors, the latest full-year 2022 sales forecast has been reduced by about 5% compared with the previous version. With the future of the purchase tax cut policy unknown at this time, we assume two possible sales curves over the next few years. If the policy is continued for another year, the resulting payback could happen in 2024 and 2025. If the incentive is withdrawn at the end of 2022, payback will take place in 2023.



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If you have any questions, please contact us at media@lmc-auto.com