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Not quite the “Happy Chinese New Year” for vehicle sales so far

The Chinese vehicle market got off to a sluggish start in the New Year. Light Vehicle wholesales were 1.65 mn units, which was a sharp contraction of 34% year-on-year. Passenger Vehicle wholesales dropped to 1.51 mn units, a decrease of 33% year-on-year while Light Commercial Vehicle wholesales plunged by 50% year-on-year.

While there were some weak months in the Chinese market last year, the reasons for January 2023's decline were quite different, with the impact of the pandemic playing only a small part. The decline in sales in the first month of this year was caused by a combination of factors.

Firstly, this year's Spring Festival (Chinese New Year), one of the most important holidays in China, fell in January. The 7–9-day long holiday had a significant impact on car sales and production. In addition, this was the first Spring Festival since the end of China's "Zero COVID" policy, and the willingness of people to return to their home towns and to travel in general was much higher than in previous years.

Secondly, the temporary purchase tax cut on ICE passenger vehicle models and the decade-old new energy vehicle (NEV) subsidy programme both expired at the end of 2022. This led to considerable consumption being pulled forward. Also, the government has not announced any new preferential policies so far, hence there is a strong 'wait-and-see' atmosphere in the market. Tesla's sudden announcement of price cuts in early January kicked off a price war between major new NEV manufacturers. This price war has continued until the present and has even spread from NEV focused OEMs to traditional ICE OEMs. And, it has further fuelled the wait-and-see mood of consumers.



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In response to the falling sales in January, Hubei province teamed up with Dongfeng Auto and started to offer significant subsidies for vehicle purchases (across seven brands and fifty-six models). For example, the price of Dongfeng's Citroën C6 model has plummeted. Dongfeng's discount of CNY45k is matched 1:1 by the Hubei government, resulting in the C6 price falling from CNY210K (US\$30,400) to CNY120K (US\$17,400). This news instantly disrupted the car market, as the subsidies were only available in Hubei, causing residents from all over the country to rush to the province to buy cars. Although many provinces have introduced local subsidy policies after the New Year, the hot car market in Hubei has caused several provincial governments to follow, and they are actively preparing to introduce similar subsidy policies. At the same time, OEMs also feel threatened because Dongfeng's drastic price reduction broke the relationship between brands and segments. Because of this, multiple OEMs have begun to offer huge cut prices one after another. In the past few days, rumours have surfaced that BMW dealers are offering massive subsidies for certain models and that, for example, a BMW 1 Series will only cost CNY120K (US\$17,400) compared with a normal price of more than CNY200K (US\$28,900). This will undoubtedly squeeze the market for lower-end auto brands, leading to further price wars.

Although the provincial level subsidies are on their way, many organisations like local dealers and CAAM are calling for a national level subsidy to stimulate the whole auto market.

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