

Overview of the Automobile Industry in China

Colloquium Session CS3 Eleventh International
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Tohoku University

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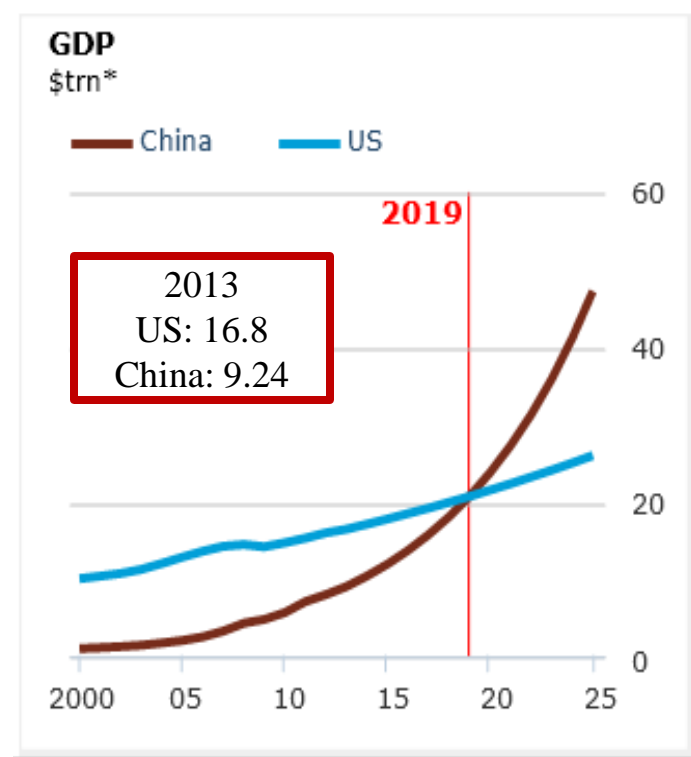
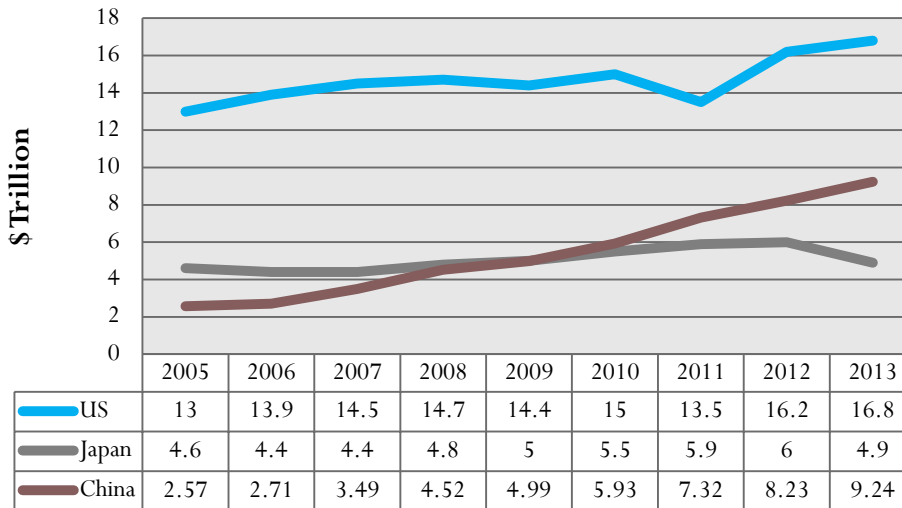
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China's Economy

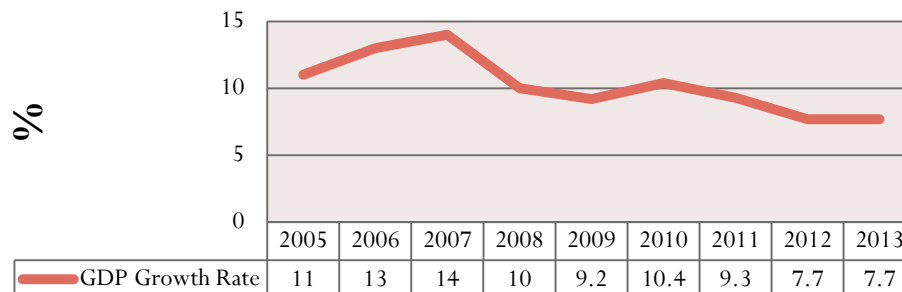
GDP: US, China, Forecast

GDP: US, Japan, and China, 2004-2013



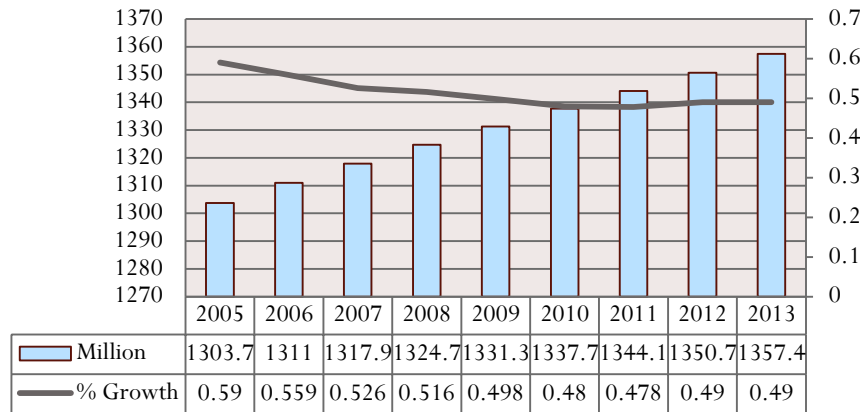
IMF; The Economist

China GDP Growth Rate

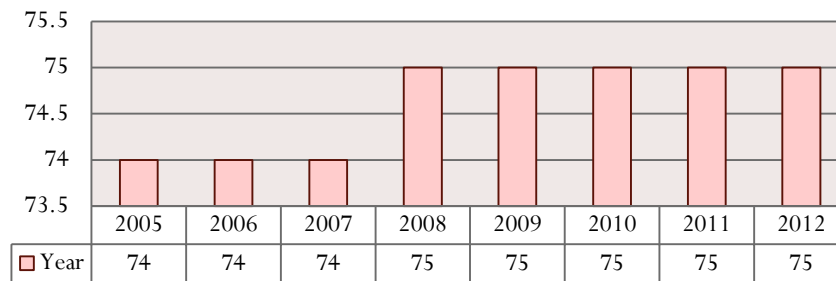


China's Population

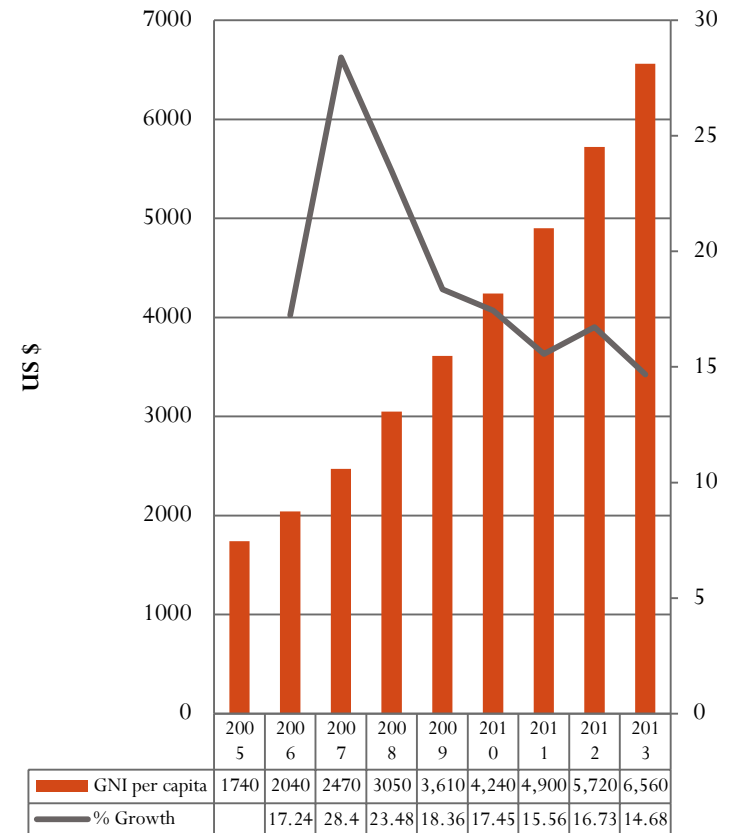
Population
1.36 billion people in 2013; Birth rate of 0.5 percent



Life Expectancy



China's Gross National Income (GNI) Per Capita
Atlas Method; \$6,500 in 2013

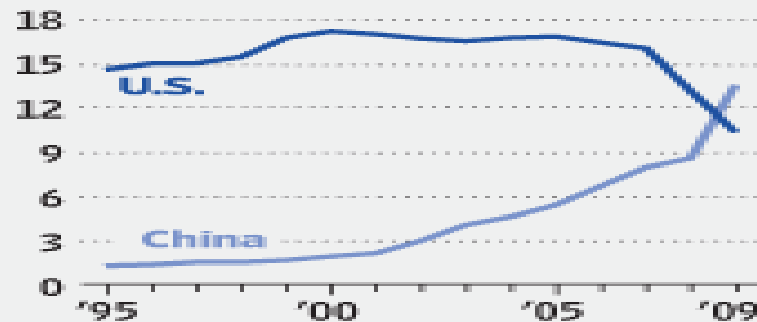


China's Automobile Industry

- ❖ In January 2009, the Chinese government implemented stimulus measures that cut sales taxes by half on small cars with engines smaller than 1.6 liters and offered rebates for rural residents buying new cars.

Taking the Lead

Vehicle sales for China and the U.S., in millions



Sources: IHS Global Insight (1995-08); Autodata, China Association of Automobile Manufacturers (2009 data)

WSJ, January 12, 2010

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Do you agree that Chinese economy would be getting better in 12 months?
(Asked on a 5-point scale)

Asked of Chinese adults in 16 Chinese cities

■ % Who responded "agree" (4) or "strongly agree" (5)



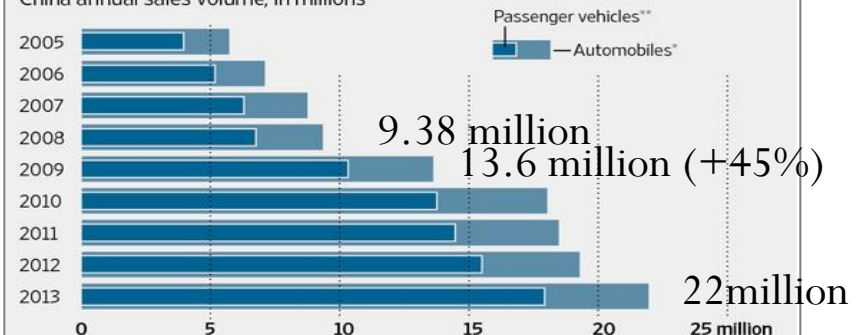
Data collected in June 2009 in Beijing, Cengxi, Changsha, Chengdu, Guangzhou, Guilin, Fuzhou, Jinzhong, Lanzhou, Liaochez. Nantong, Shenvanz. Shenzhen. Shanghai. Yuevang, and Zunyi

Gallup, August 13, 2009

GALLUP POLL

China's Car-Market Boom

China annual sales volume, in millions



*Automobile refers to both passenger and commercial vehicles

**Passenger vehicles include sedans, SUVs, MPVs and minivans

Source: China Association of Automobile Manufacturers

The Wall Street Journal

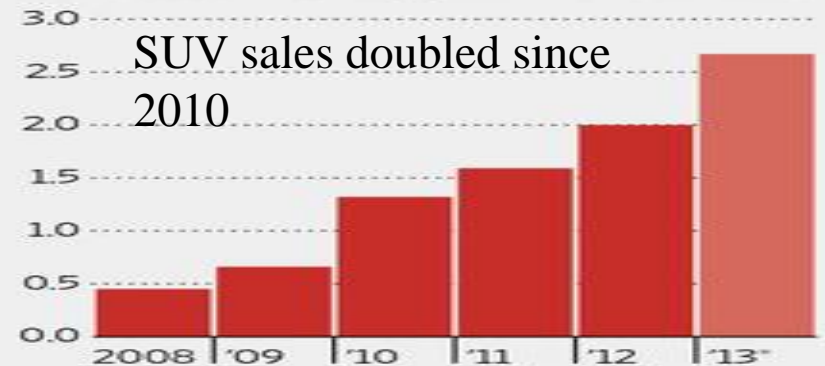
WSJ, April 18, 2014

China's Automobile Industry (2)

- ❖ In January 2011, Beijing started to limit the number of new vehicle license plates and started a vehicle license lottery for new car buyers. Many cities followed this example.
- ❖ Hangzhou will only issue new license plates via an auction and lottery.
- ❖ Shanghai, Guangzhou, Guiyang, and Tianjin also limit the number of new vehicles registered each year.

The Bigger the Better

SUV sales in China, in millions of units



*Through November

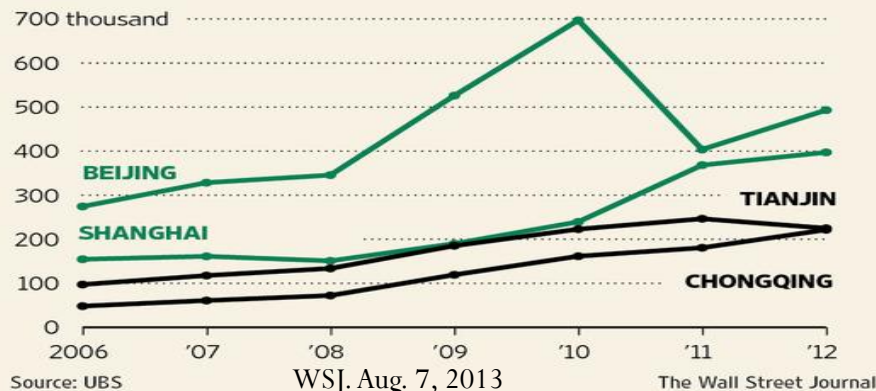
Source: China Association of Automobile Manufacturers

The Wall Street Journal

Chinese Cities Limit Cars

Number of cars sold in these municipalities

■ HAVE RESTRICTIONS ■ CONSIDERING RESTRICTIONS



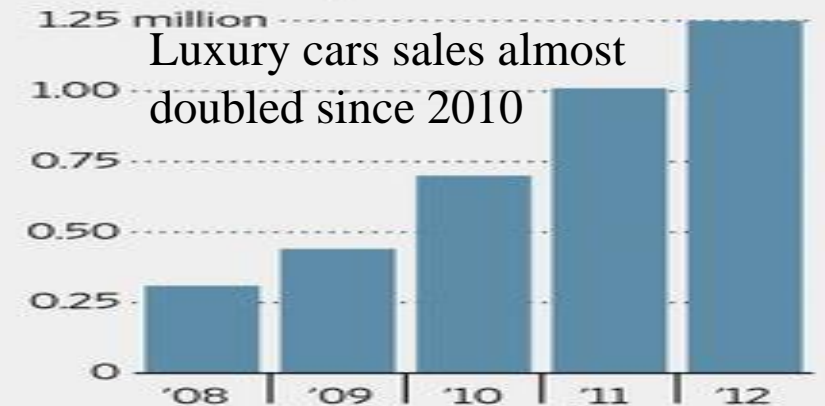
Source: UBS

WSJ. Aug. 7, 2013

The Wall Street Journal

Making Tracks

China's appetite for luxury cars continues to grow. Vehicle sales



Source: IHS

The Wall Street Journal

China's Automobile Industry (3)

- ❖ In October 2013, China implemented a policy to limit driving age of a vehicle and scrap up to 6 million vehicles that don't meet emission standards. Hebei province, where seven of China's smoggiest cities, has been ordered to scrap 660,000 cars that do not meet emission standards.
- ❖ Up to 333,000 will be taken off the roads in Beijing and 160,000 in Shanghai. Up to 5 million are being removed in highly developed regions including the Yangtze River Delta, the Pearl River Delta and the smog-choked region of Beijing-Tianjin-Hebei.
- ❖ Elimination of old cars has prompted less affluent to buy more Minivans in 2014.

Minivans Bloom in China

Top 10 selling passenger vehicles for the first four months of 2014

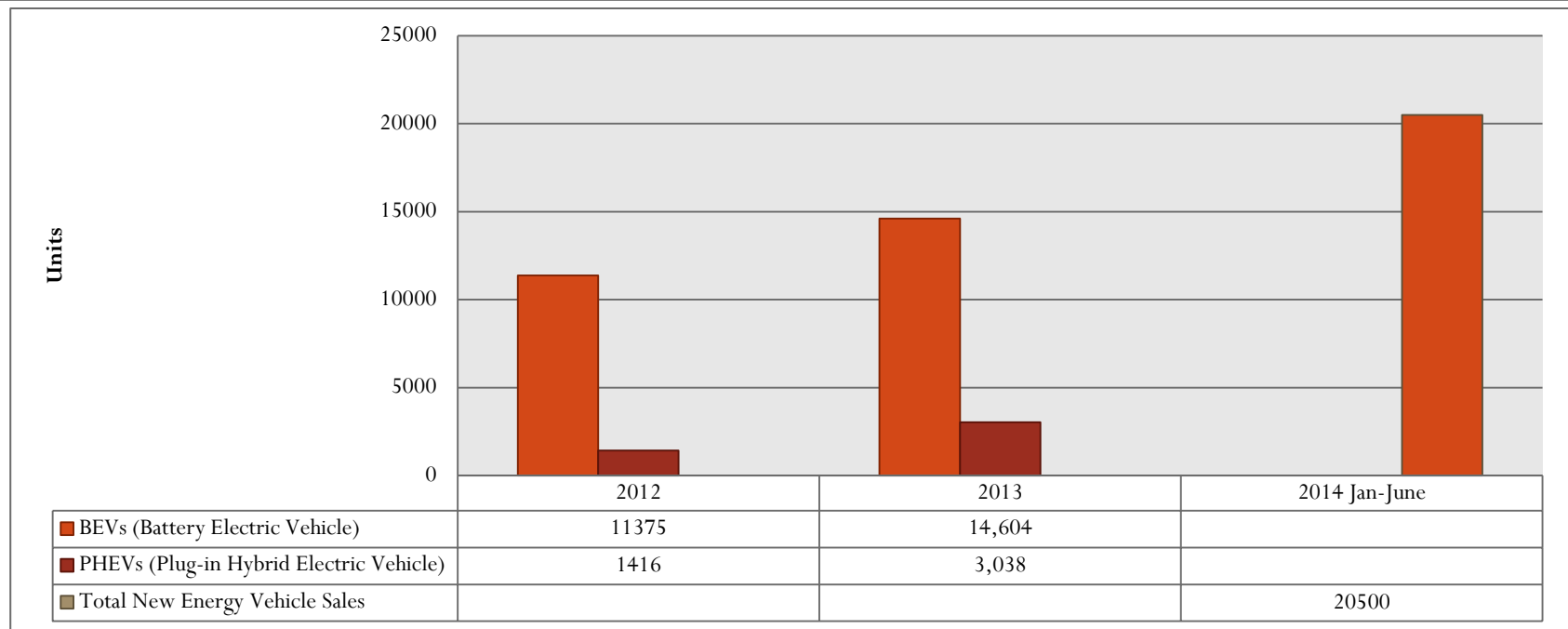
Wuling Hongguang	Minivan	270,100
Volkswagen Lavida	Sedan	150,000
Wuling Rongguang	Minivan	142,500
Ford Focus	Sedan	134,500
Volkswagen Santana	Sedan	127,200
Wuling Sunshine	Minivan	116,100
Great Wall Haval	SUV	112,900
Volkswagen Sagitar	Sedan	102,000
Changan Star	Minivan	101,600
Volkswagen Jetta	Sedan	101,000

Note: Wuling-branded vehicles are made by a joint venture among General Motors, SAIC and Liuzhou Wuling

Sources: China Association of Automobile Manufacturers; IHS Automotive; car makers The Wall Street Journal

China's Automobile Industry (4)

- ❖ September 2013: China implemented a program to promote new energy vehicle, targeting at 5 million new energy vehicles by 2020.
- ❖ Buyers of electric cars can receive subsidies up to \$9,800.
- ❖ It has an immediate impact. During the Jan-June 2014, 20,500 new energy vehicles (including hybrid and electric cars and buses) were sold.



Total	12,791	17,642	20,500
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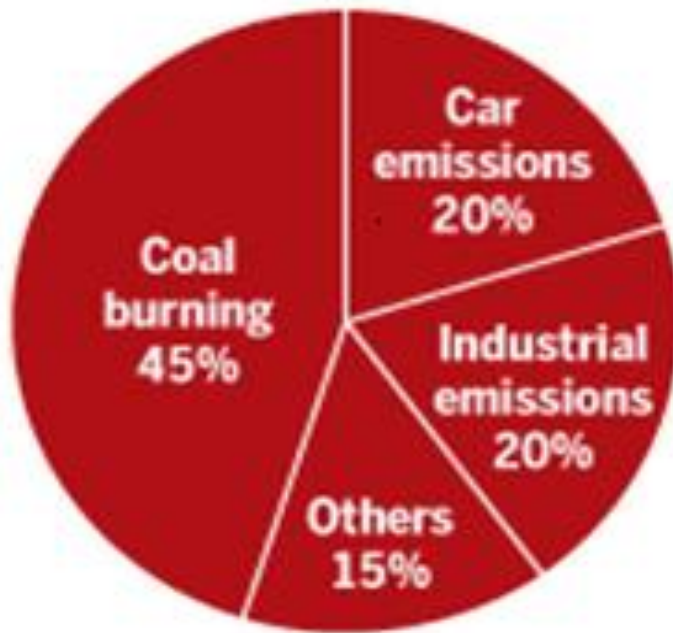
Air Pollution in China: A Critical Problem



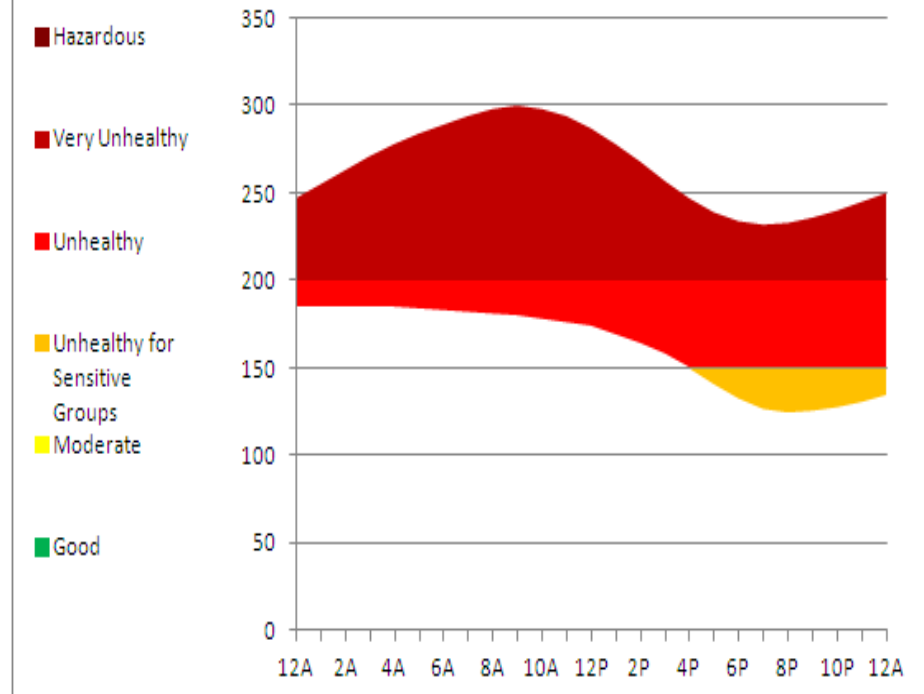
A photo of the skyline of Shanghai's Lujiazui Financial District covered with heavy smog, Associated Press, 9 December 2013

Air Pollution in China (2)

Composition of fine particulate air pollution (PM2.5) in China, 2013 (%)



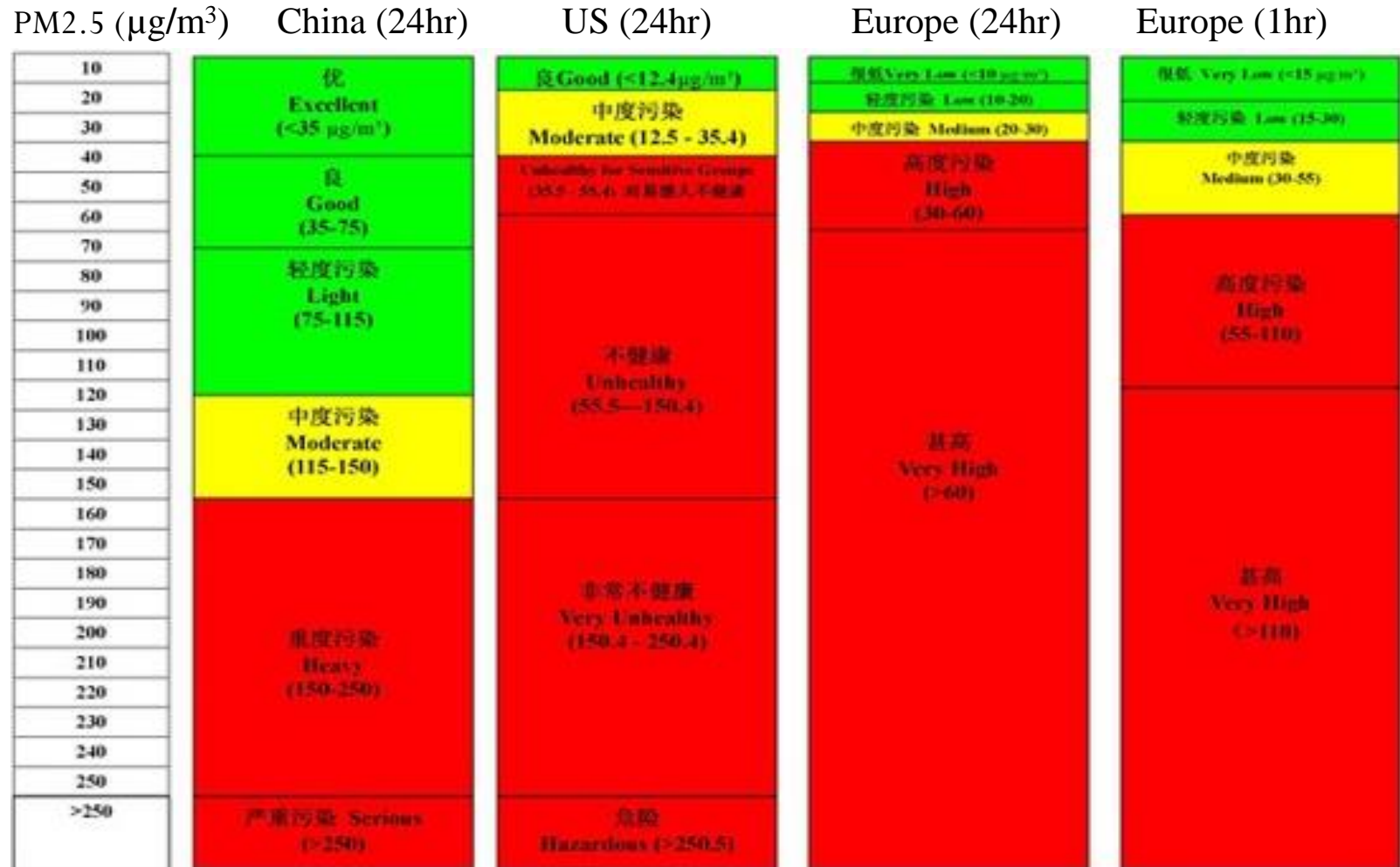
PM2.5 Forecast for Thursday



PM2.5 Forecast for Beijing - Thursday, June 6, 2013, Beijing Air Quality Forecast, PM2.5 ($\mu\text{g}/\text{m}^3$)

Air Pollution in China (3)

**Air Quality Assessment Standards in China are Less Stringent:
based on PM2.5 ($\mu\text{g}/\text{m}^3$)**

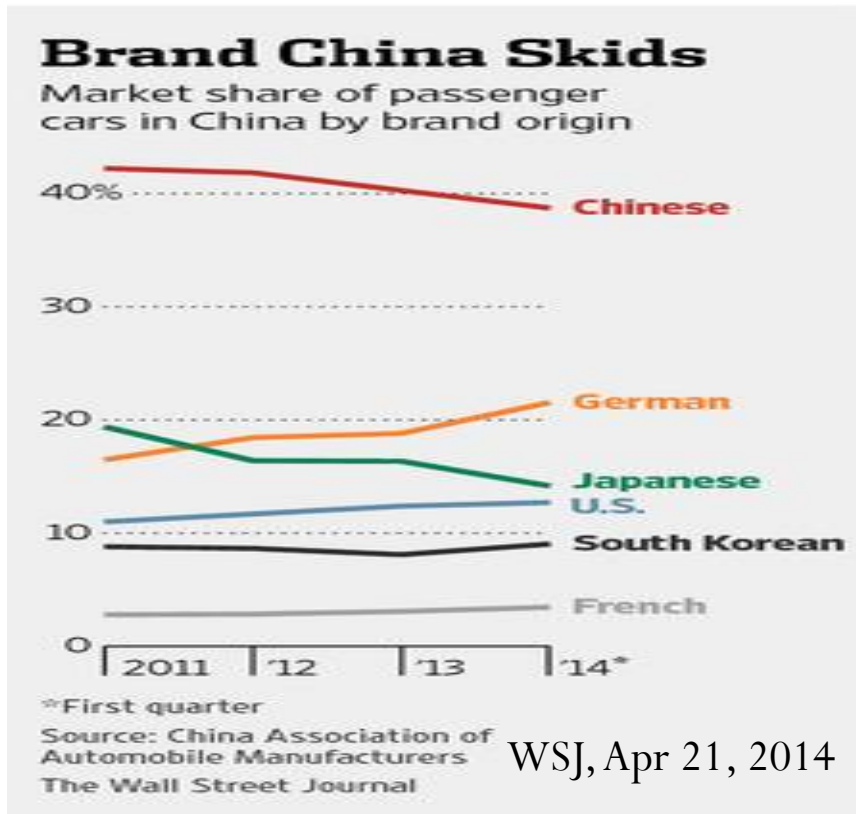


Challenges and Opportunities

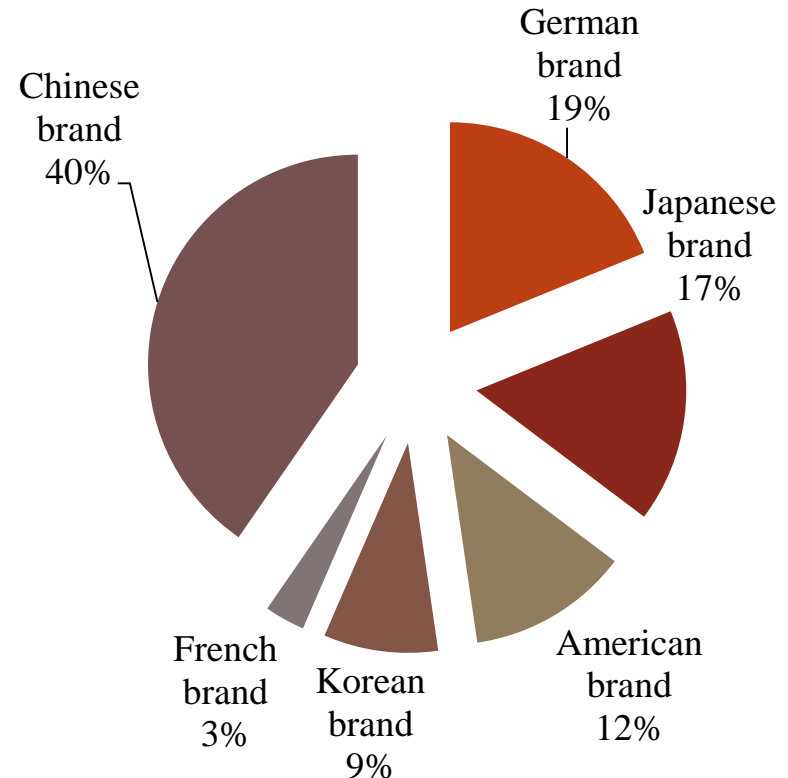
- ❖ Declining Ratio of China Domestic Car Sales; Poor Quality, Uninspiring Marketing and Inefficient Industry Structure
- ❖ Increasing Foreign Market Shares

2013 Total Vehicle Sales = 22 Million;
Passenger Car Sales = 18 Million

Passenger Sales Share Breakdown



WSJ, Apr 21, 2014



Challenges and Opportunities (2)

❖ Island dispute had severe impact on Japanese auto sales in China

Political Penalty

Japanese auto makers' September vehicle sales in China, and change from a year earlier



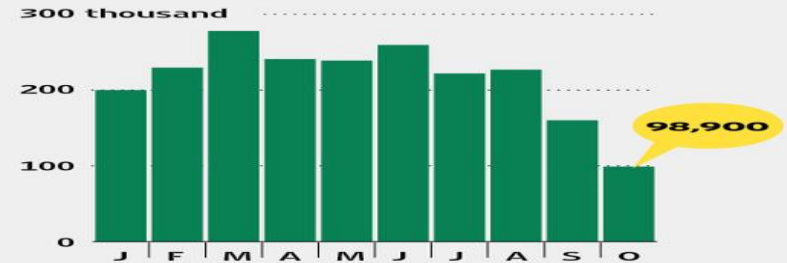
WSJ, Oct 9, 2012

Source: the companies
The Wall Street Journal

Out of Favor

Chinese shun Japanese-brand vehicles

Monthly sales of Japanese-brand cars in China



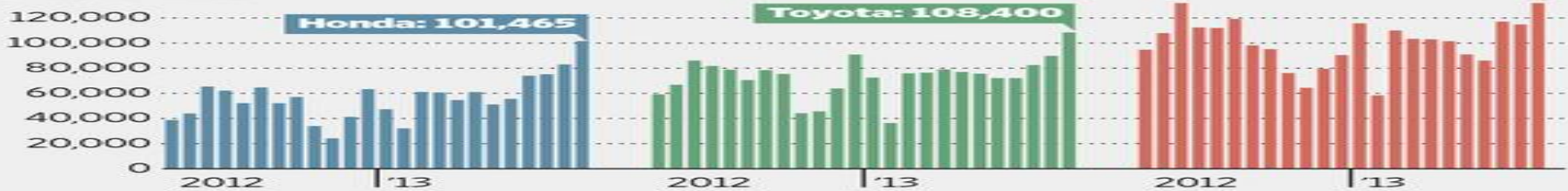
Source: China Association of Automobile Manufacturers
The Wall Street Journal

WSJ, Nov 9, 2012

Picking Up Speed

Japanese car sales rebound in China

140,000 units



Note: Nissan's latest figure is from November.

Source: the companies

The Wall Street Journal

WSJ, 6 January 2014



▶ Japanese brands' share in China's total sedan sales

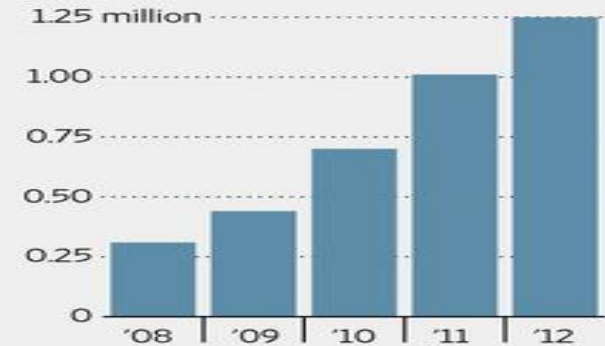
Source: CAAM
Graphics: GT

Outlook

- ❖ **Luxury Cars.** Consulting firm McKinsey in 2013 estimated that by 2022 China's urban population will grow by an additional 100 million to 357 million. Upper middle class, households with disposable income between 106,000 and 229,000 yuan will expand to 54% of all households from 14% in 2012. These consumers would be prime targets for luxury car marketers, especially if they embraced monthly payments. (WSJ, April 28, 2014)
- ❖ **SUVs.** According to the Market China SUV Industry Report, 2014, the SUV market is expected to grow rapidly over the next five years, and sales volume will reach 7.9 million in 2018. (PRWEB, February 12, 2014). Many foreign automakers are planning to produce SUVs in China. GM China introduced the Cadillac SRX, which melds the characteristics of a car and a sport-utility vehicle, in 2009. Sales of the car rose 23% in China to 14,496 vehicles in the first half of 2014 from the year before, accounting for more than 40% of Cadillac sales in the country.

Making Tracks

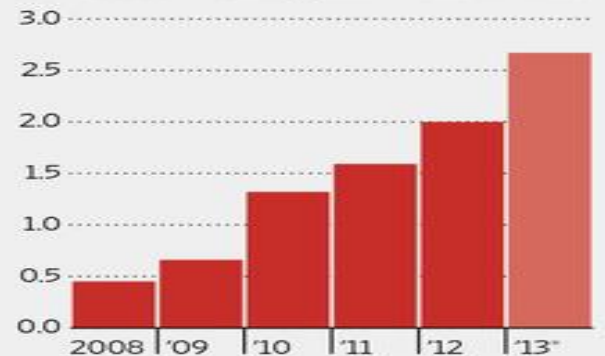
China's appetite for luxury cars continues to grow. Vehicle sales



Source: IHS
The Wall Street Journal

The Bigger the Better

SUV sales in China, in millions of units



*Through November
Source: China Association of Automobile Manufacturers
The Wall Street Journal

Outlook (2)

Lower-Tier Buyers are Next Frontier in China

❖ Compact Cars, including Minivans, and Low Cost Cars.

Consumers living in smaller cities, known as tier-three and tier-four cities, will drive future demand for cars in China, as the world's largest market for new autos undergoes structural shifts, according to a survey by the semiofficial China Association of Automobile Manufacturers and market-research firm Nielsen Holdings. These cities are less affluent but faster-growing. About 60% of would-be buyers in these cities are looking at cars priced at below 120,000 yuan (around \$19,400), according to the survey. (WSJ, July 10, 2013)

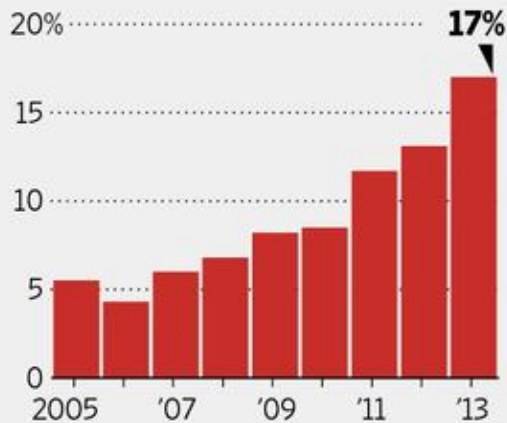
Outlook (3)

- ❖ Huge Potential in China's Auto Loan Business
- ❖ Auto makers introduce China to the car loan, where young car buyers are open to financing where cash has traditionally ruled

Revvng Up

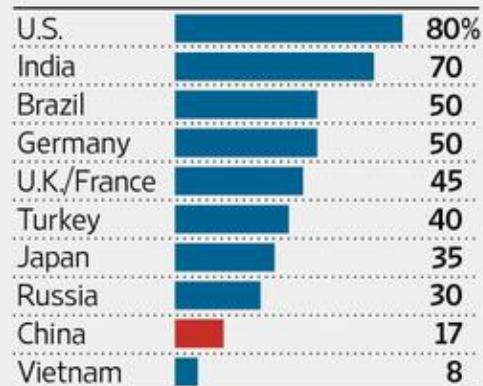
Car makers see huge potential in China's auto financing sector.

China's loan-financed car sales, as a percentage of total



Source: Ford Motor

Global loan-financed car sales in 2013



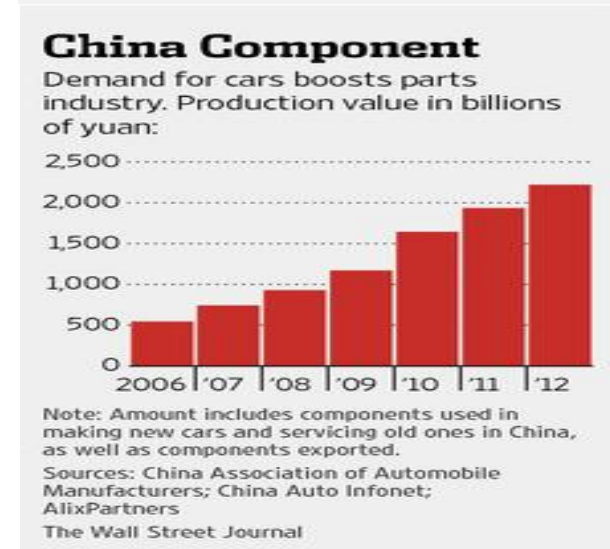
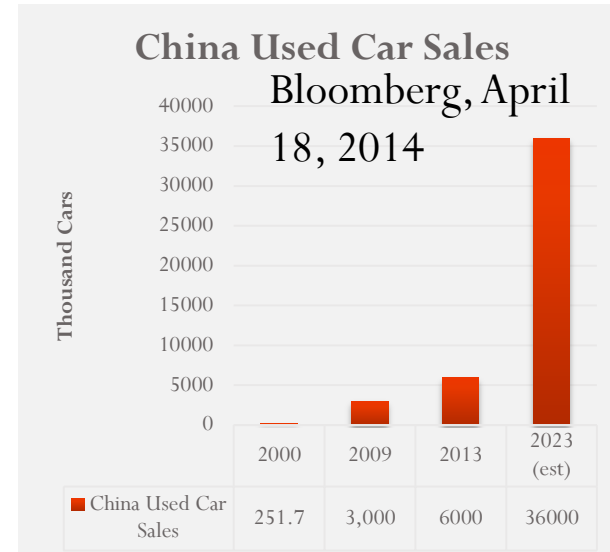
The Wall Street Journal



WSJ, July 9, 2014

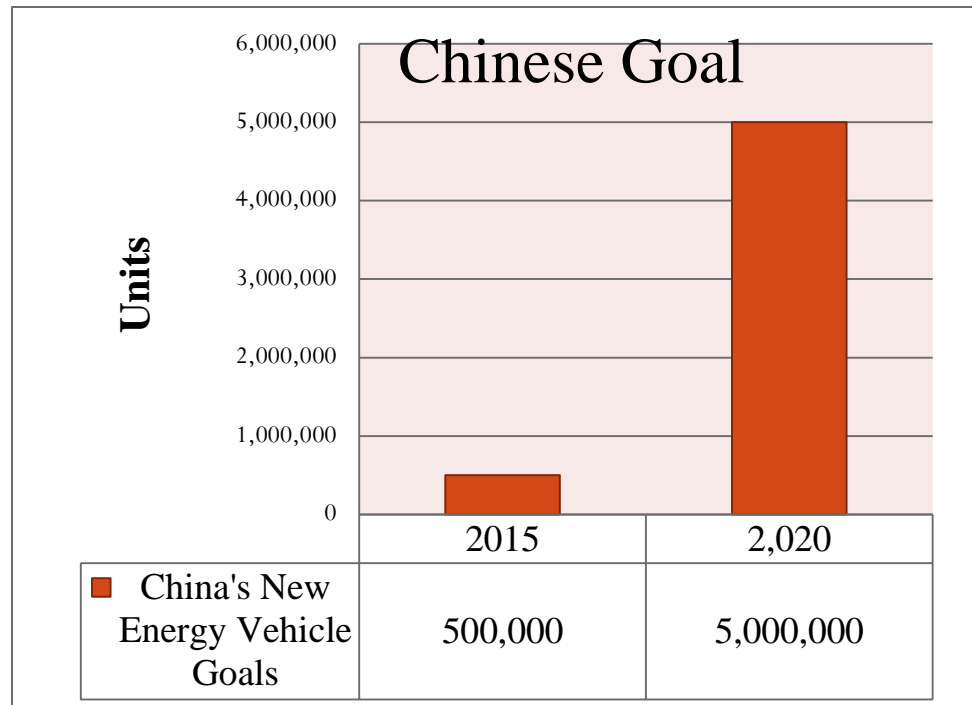
Outlook (4)

- ❖ **Used Cars.** In the last five years, 60 million new cars were sold in China. Now, some are starting to come back on the market as used vehicles. In addition, many cities are reducing the number of new car registrations. Through trade-ins, used car dealers get the license plates. The city isn't retiring old license plates, so they can continue to use them. Last year, the number of used cars in China increased by 8.6% to 5.2 million units, while the turnover grew 10.6% to yuan 291 billion, according to the China Automotive Distribution Industry and Aftermarket Report.
- ❖ **Leased Cars.** Tesla said it created a new finance arm and is offering a business leasing program for small and medium-size businesses, providing another financing option for its electric cars.
- ❖ **Automobile Parts.** Delphi, an auto parts maker, expect its China revenue to double to nearly \$5.5 billion by 2016 as Chinese car makers boost quality for discerning local customers. Delphi China President said Chinese brands could become global players if the government relaxed joint-venture restrictions on foreign auto companies.



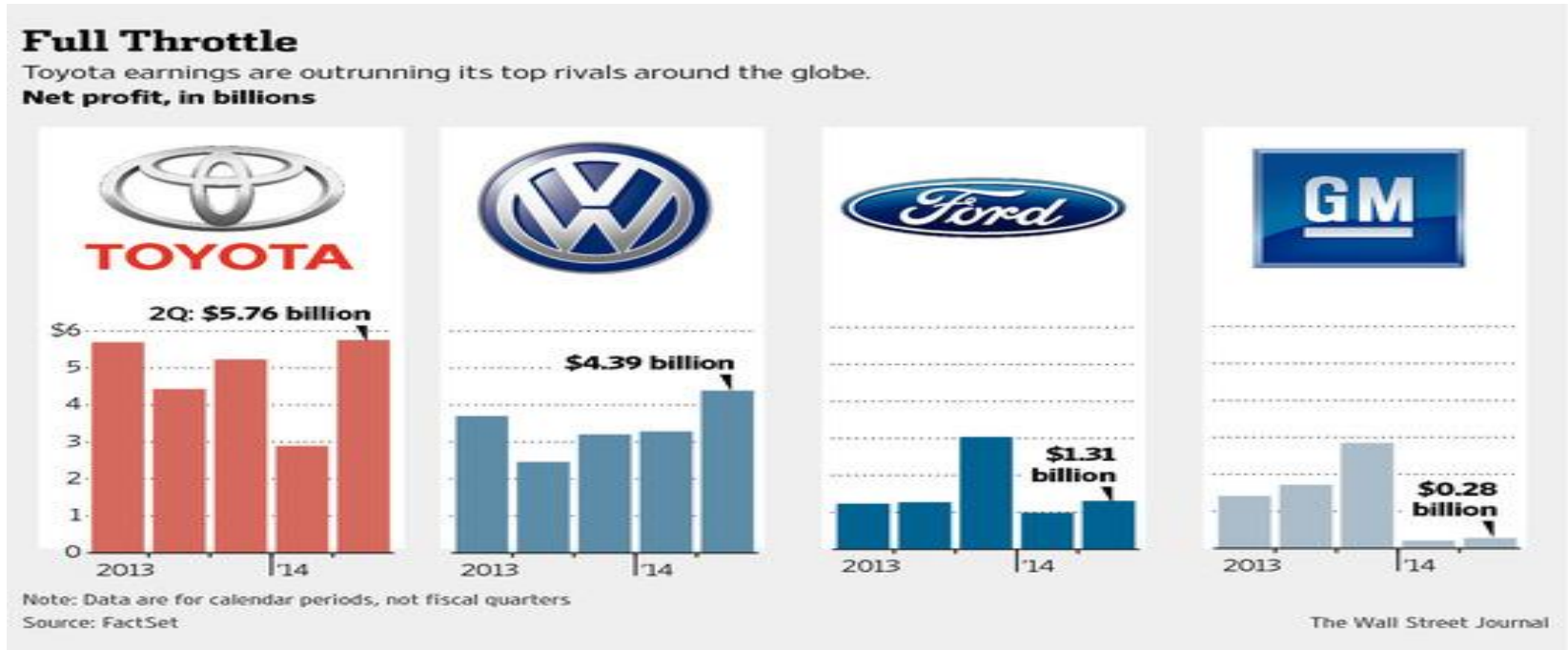
Outlook (5)

- ❖ **New Energy Vehicles.** China implemented a subsidy program in September 2013. China reportedly is contemplating on a new gasoline tax to subsidize new energy cars and electric charging infrastructure. In July 2014, China announced individual car buyers will be exempt from a 10% vehicle tax when they purchase new energy vehicles or fuel-efficient automobiles.



Conclusion

- ❖ The Chinese market is changing rapidly, and Chinese car buyers are increasingly disloyal. Despite the prospects the Chinese market is presenting at various times, automakers should stick to their core values you believe in and develop consumer loyalty over the longer term
- ❖ This strategy has served Toyo well.



Thank You Very Much for Your Attention

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