



## GLOBAL AUTOMOTIVE CONFERENCE

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# Can the Government Stimulus Really Prevent an Auto Market Slump in China?

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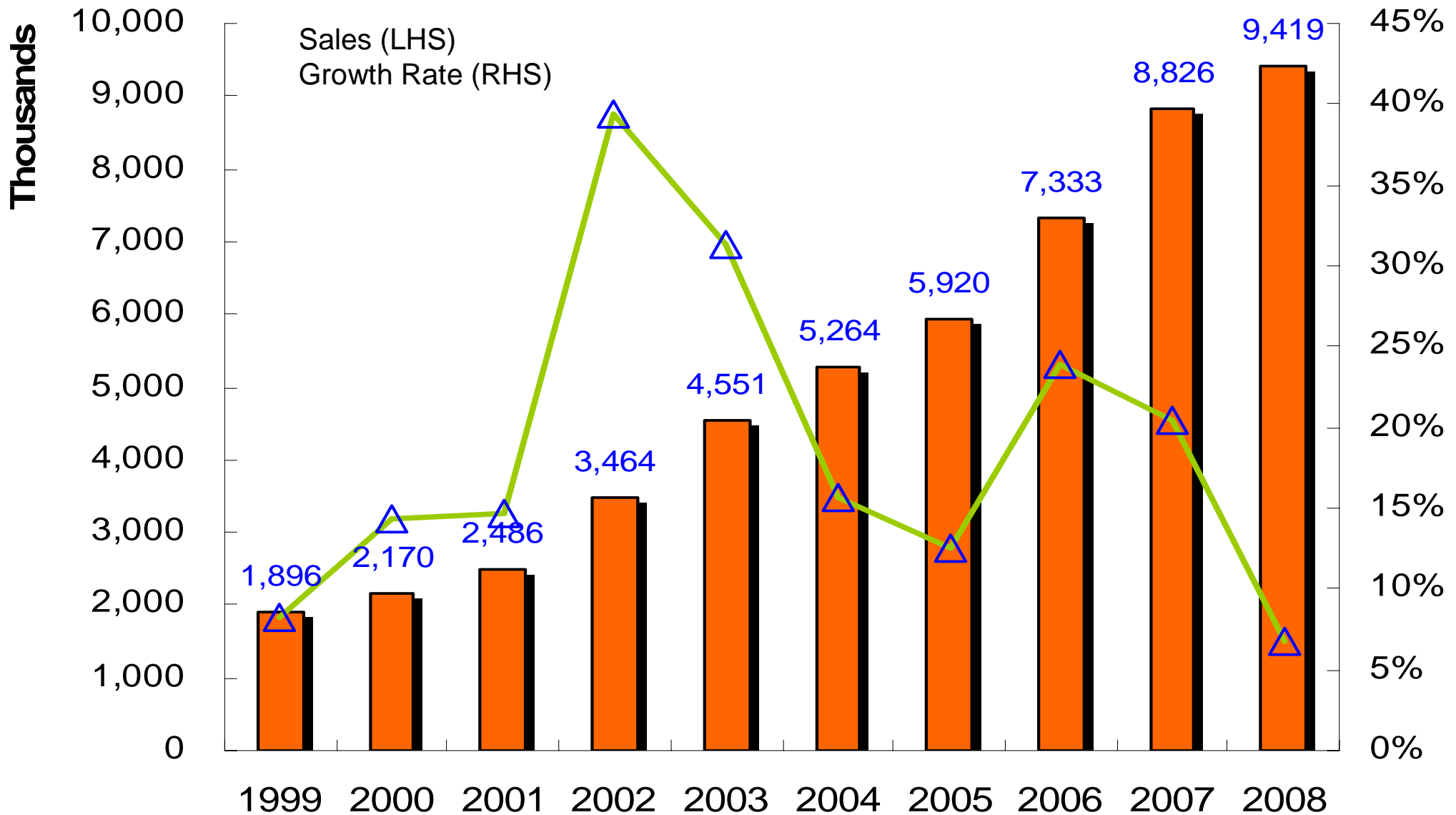
# Presentation Outline

- China Automotive Market and Policy
- Regional Development
- Summary



# China: 2008 Auto Sales Growth Hits 10-Year Low

Domestic Sales (After adjustment of exports and imports)





# China Issued Series of Policies to Support Auto Industry from End of 2008

## Reducing Vehicle Ownership Cost

- Cutting fuel price on Dec 19, 2008 by as much as 18% (current retail price of 93 gasoline: US\$0.76/L).
- Cancellation of road maintenance fee (RMB 120 or US\$17.5 per month for passenger car, RMB 200 or US\$29.3 per month per ton for truck).
- Implementation of fuel tax on Jan 2009 while keeping the retail fuel price unchanged.

## Incentives to Encourage Small Vehicles

- Vehicle purchase tax for all passenger vehicles of 1.6 litre or below cut from 10% to 5% during the period of Jan 20 – Dec 31, 2009.
- Provide RMB 5 billion (\$732 million) from Mar 1 until Dec 31 on one-time subsidies to farmers opting to replace their high-emission vehicles, three-wheeled vehicles or outdated trucks with mini truck/bus under 1.3-litre.

## Subsidize for Clean Auto

- Allocate RMB 10bn (\$1.46bn) in the next 3 years to support technical innovation and reform, development of new energy vehicles and auto parts.
- Arrange subsidies to support the demonstration and popularization of energy efficient and new energy vehicles in public sectors in major cities.

## Encourage Auto Industry Consolidation

- Promote the restructuring of the auto industry and support large auto groups in merger and restructuring. Target to cut the number of major auto groups from 14 to 10.
- Support the major auto groups to develop their own auto brands.



# New Consumption Tax Aims to “Prohibit” Large Cars

## Situation Post-September 2008

## Situation Pre-September 2008

Passenger Cars	Consumption Tax Rate
<1.5 litre	3%
1.5–2.0 litre	5%
2.0–2.5 litres	9%
2.5–3.0 litres	12%
3.0–4.0 litres	15%
>4.0 litres	20%



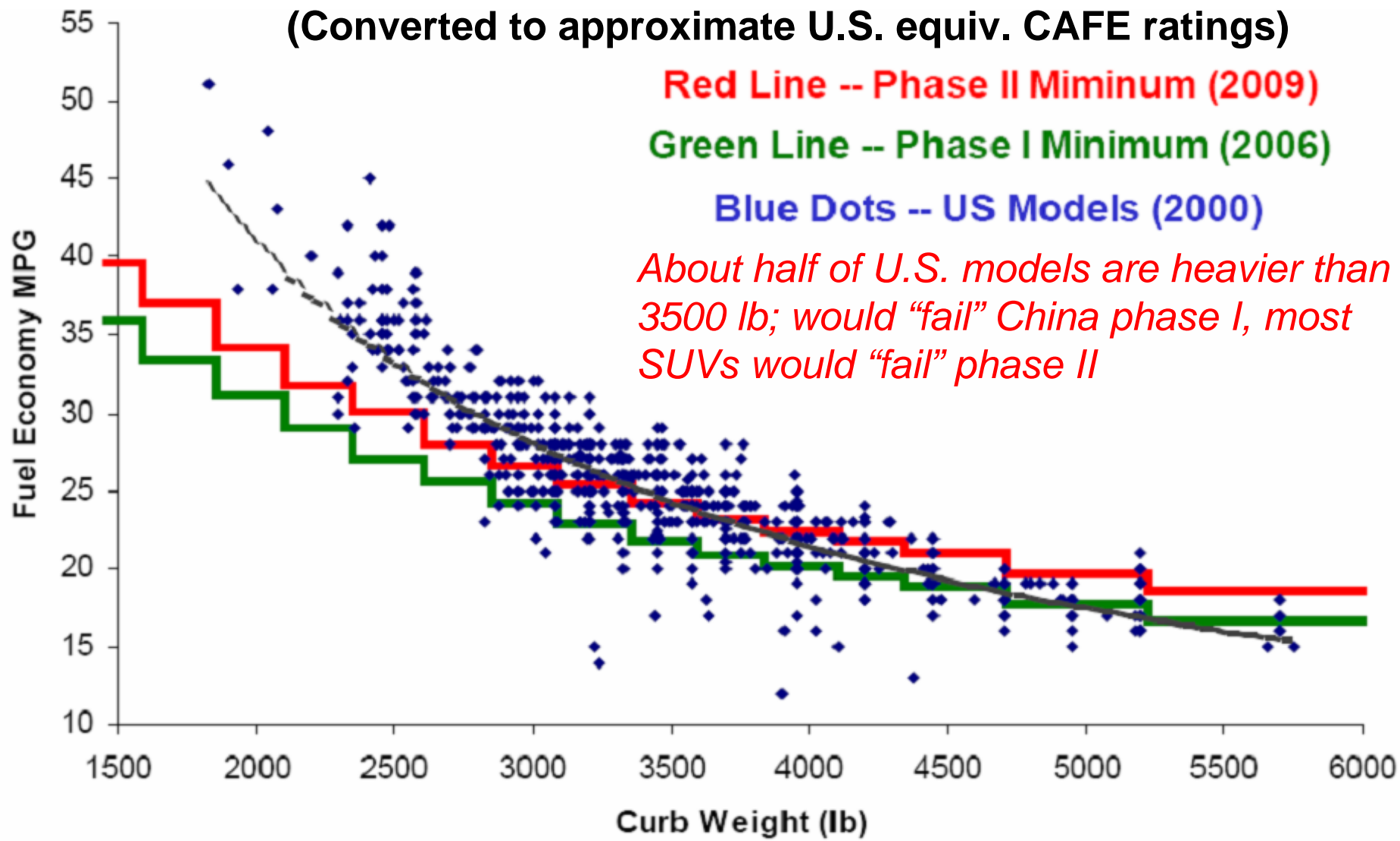
Passenger Cars	Consumption Tax Rate
=<1.0 litre	1%
1.0–1.5 litres	3%
1.5–2.0 litres	5%
2.0–2.5 litres	9%
2.5–3.0 litres	12%
3.0–4.0 litres	25%
>4.0 litres	40%

- **There will be some negative effects on models with engines rated between 3.0 litres and 4.0 litres.** Luxury car buyers are less price-sensitive and so increases of 10% should not have a huge effect on the market where there is still a downward trend in prices.
- **The most significant increases are on sedans/SUVs with large engine displacements (over 4.0 litres).** Imported SUVs with large-displacement engines will be more affected. Retail price of models such as Porsche CAYENNE has increased by as much as 450K yuan (US\$65,885) after Oct 2008.





# “Converted” Chinese Fuel Consumption Standards vs U.S.: Loose on Light, Tight on Heavy Models



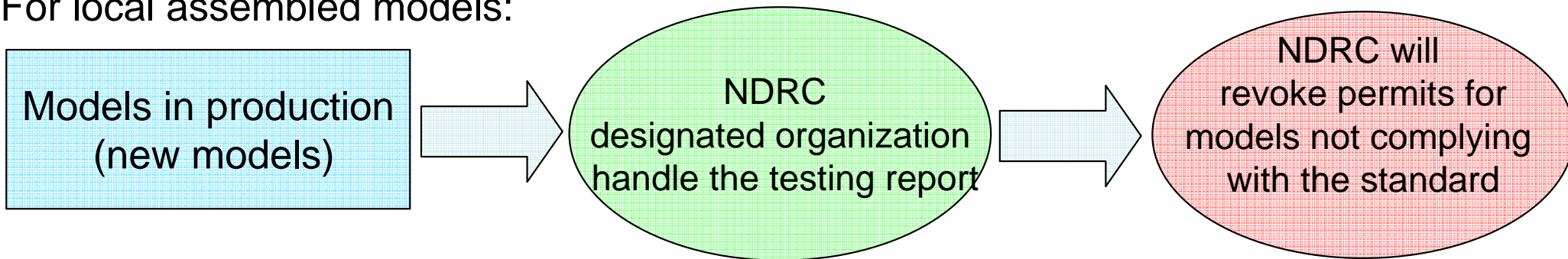
Source: Feng An/China Experience with Fuel Efficiency



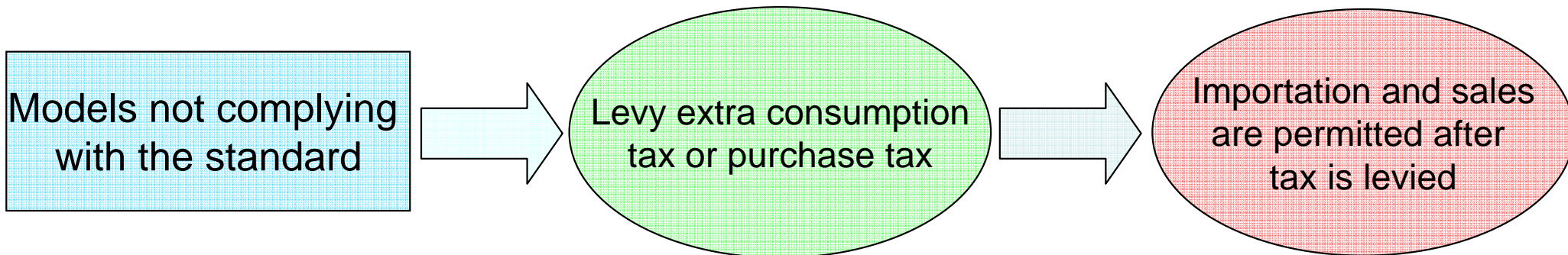


# Extra Taxes and Penalties Are Being Planned...Tighten Regulation Ahead

For local assembled models:



For imported models: no applicable policies. The planning next step:



- Although required by regulators, import passenger vehicles are not penalized due to impracticalities for premium models.
- Applicable policies for taxes are still being formulated by the Ministry of Finance, the State Administration of Taxation and NDRC is likely to make the announcement in **October 2009**.
- Phase III is being discussed. A new evaluation standard is likely to replace current fuel efficiency standards.





# Motorcycles Are Now Banned in More and More Cities... Bike Owners' Upgrades Also Drive Compact Cars Sales

● Cities with motorcycle ban



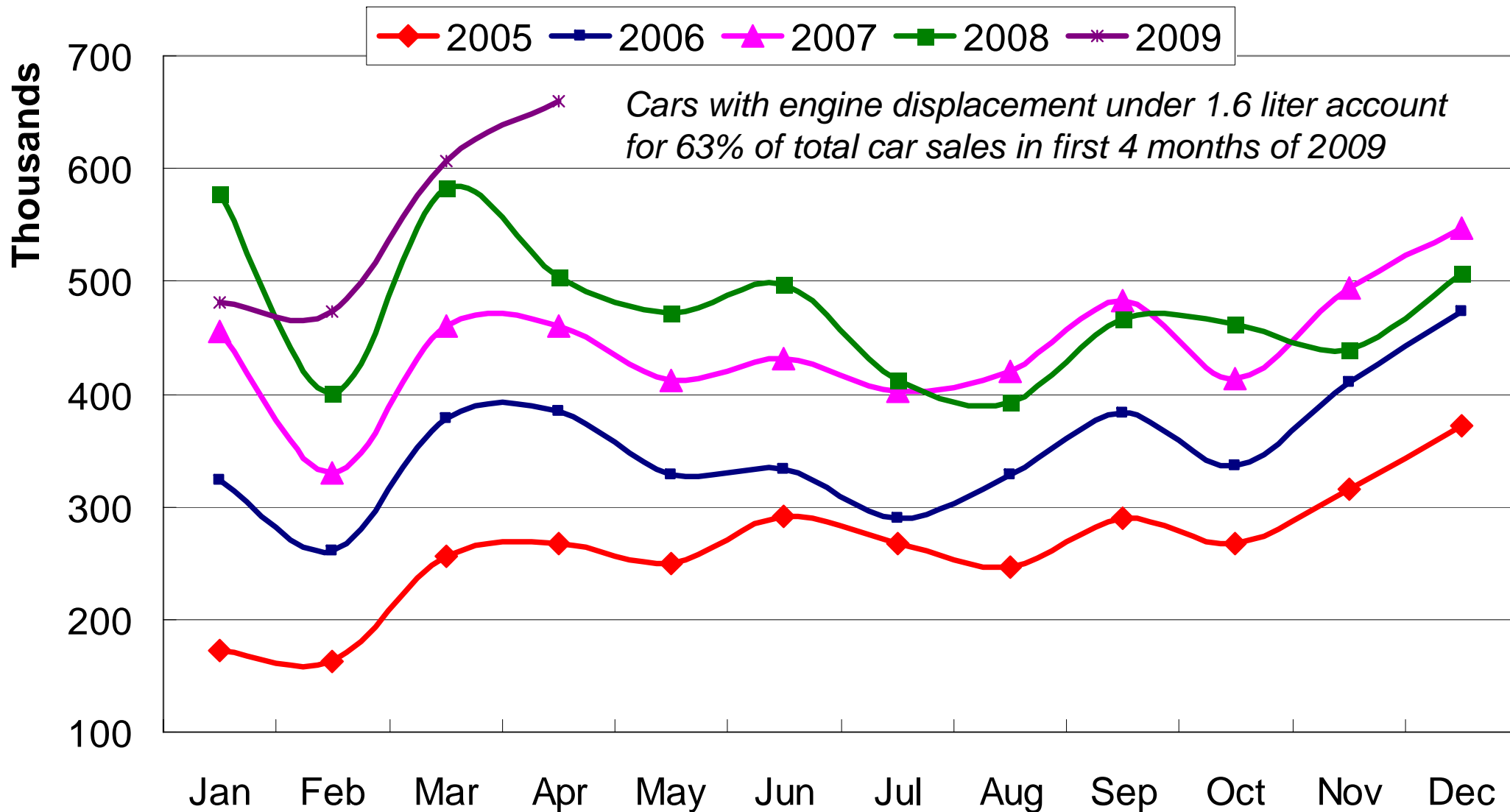
- Guangzhou completely banned motorcycle from Jan 2007. Over 790,000 bikes owners were affected. 140,000 (17.7%) of them chose to upgrade to compact cars.
- Recent examples include Dongguan (Guangdong) from Jan 2009, Changsha (Hunan) and Taiyuan (Shanxi) from May 2009.
- As of end of 2008, over 168 large- or medium-sized cities in China have banned motorcycles and this means 4~5 million units lost in motorcycle sales.\*
- A simple estimation of extra car demands based on Guangzhou experience:
  - 5 million X 17.7% = 885,000 units
- The lower car ownerships and purchase tax cut also help shift the demand from motorcycles to compact cars
- \* Estimation by Motorcycle Industry Association under CAAM







# A Weak Start in 2009... Signs of Recovery Under Government Stimulus Plan



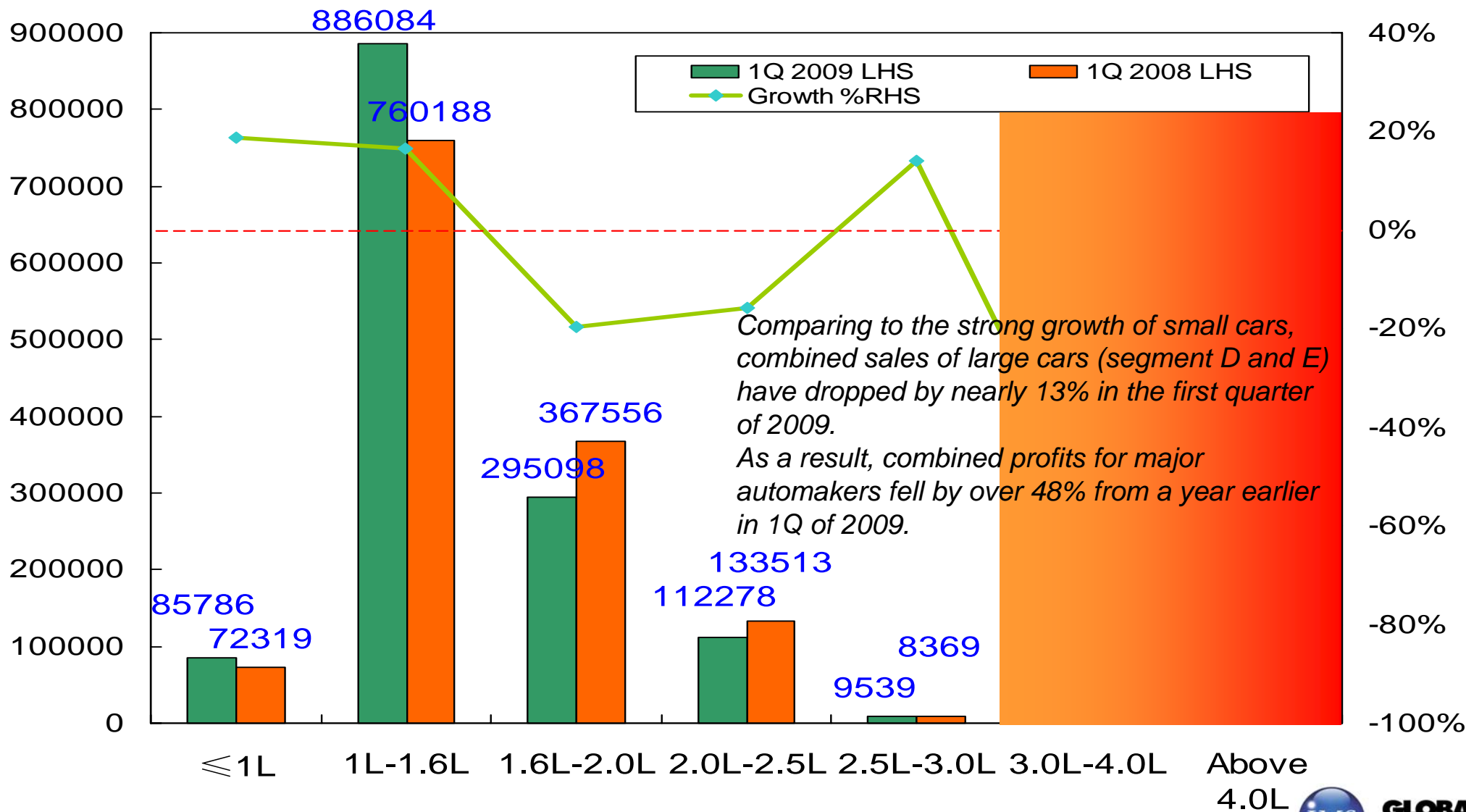
Monthly Sales Trend (Passenger Cars, SUVs, MPVs)





# New Incentive Schemes Driving Segment Towards Smaller Cars

## Car/Mini Bus Sales By Engine Displacement



(Source: China National Statistics Bureau)



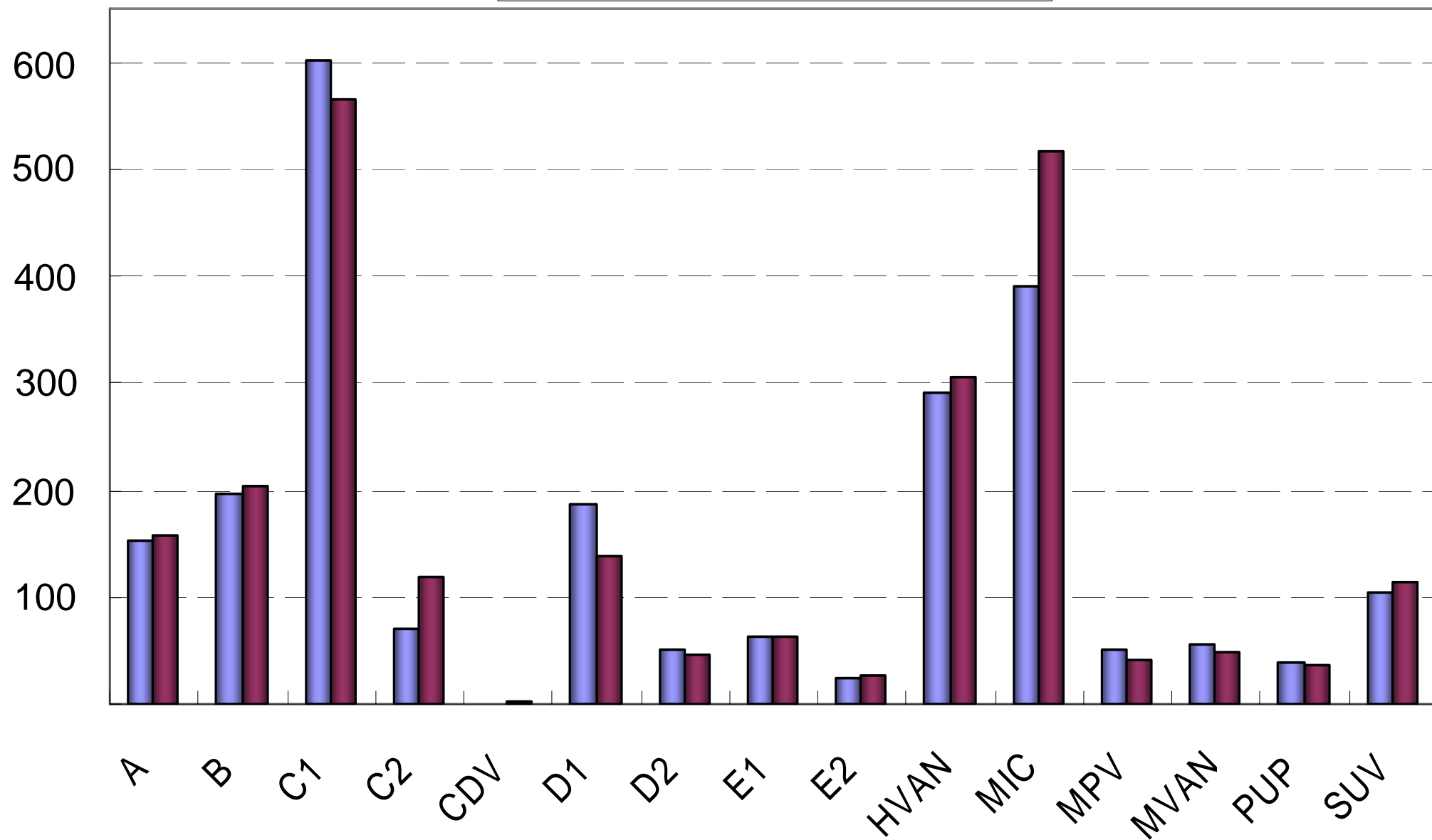


# Production Growth by Segment

Thousands

■ Q1 2008

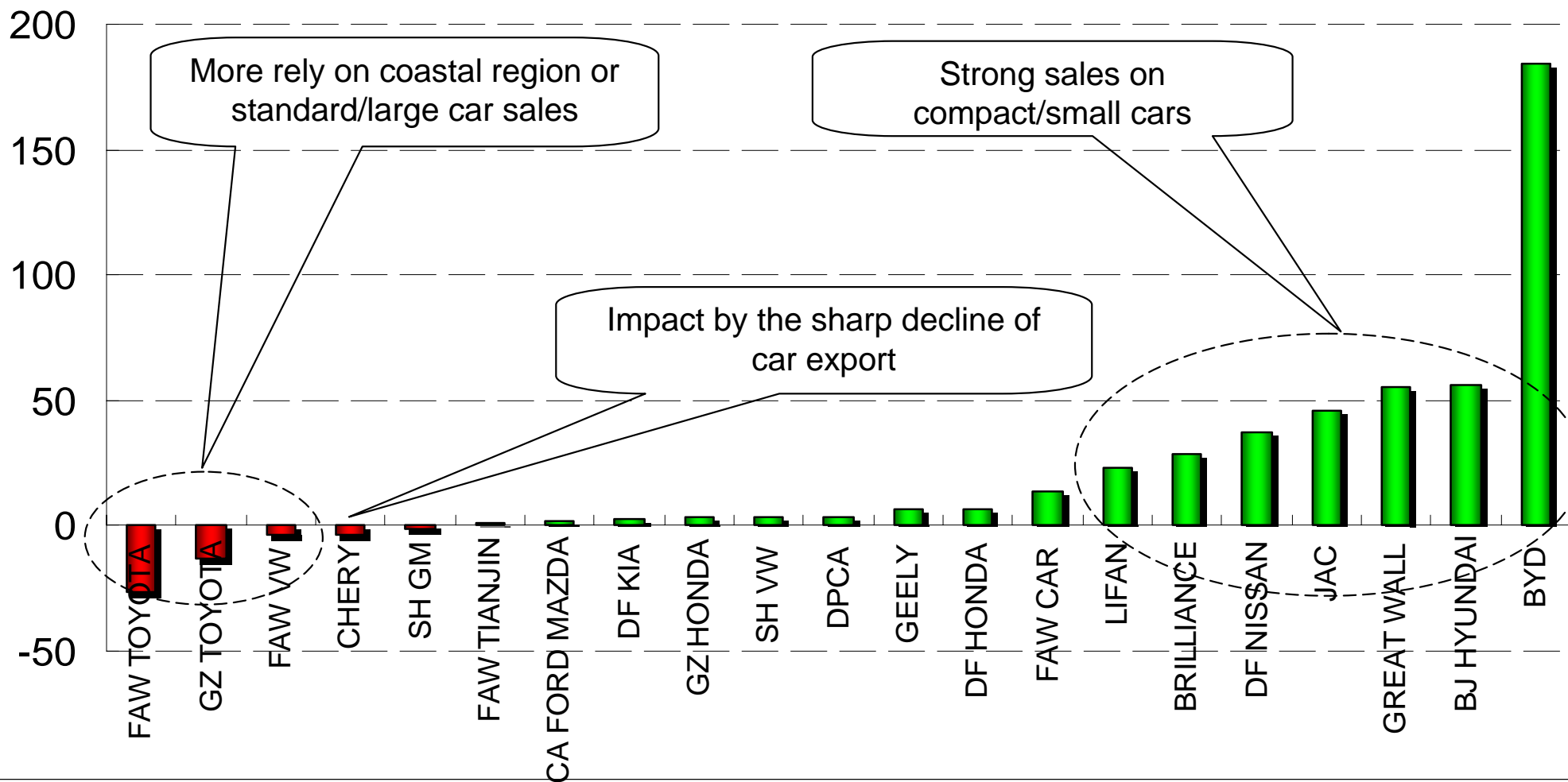
■ Q1 2009





# Passenger Car Wholesales Growths By OEMs... Local OEMs The Main Beneficiaries

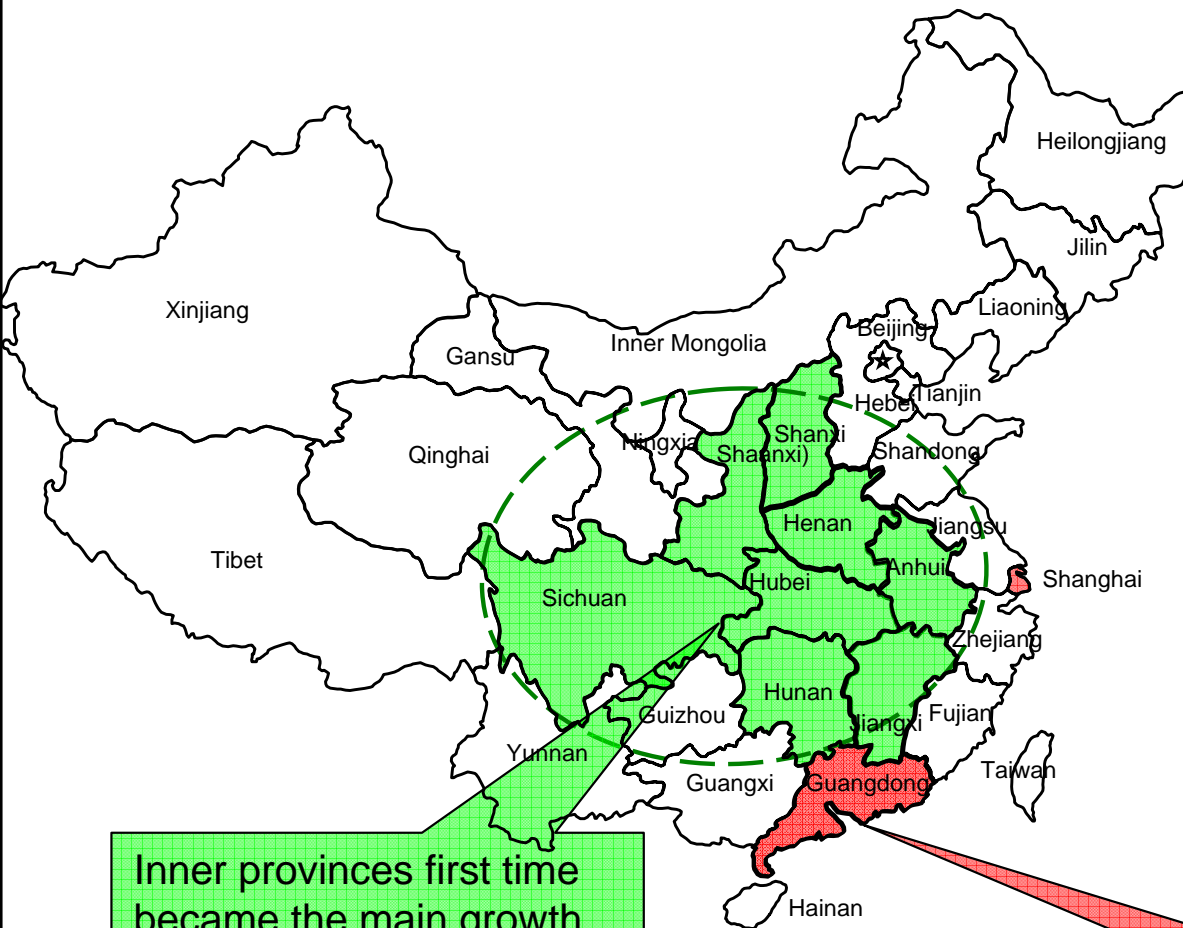
Sales Growth%, Jan-April







# Inner Provinces Now Providing More Support to Auto Demand



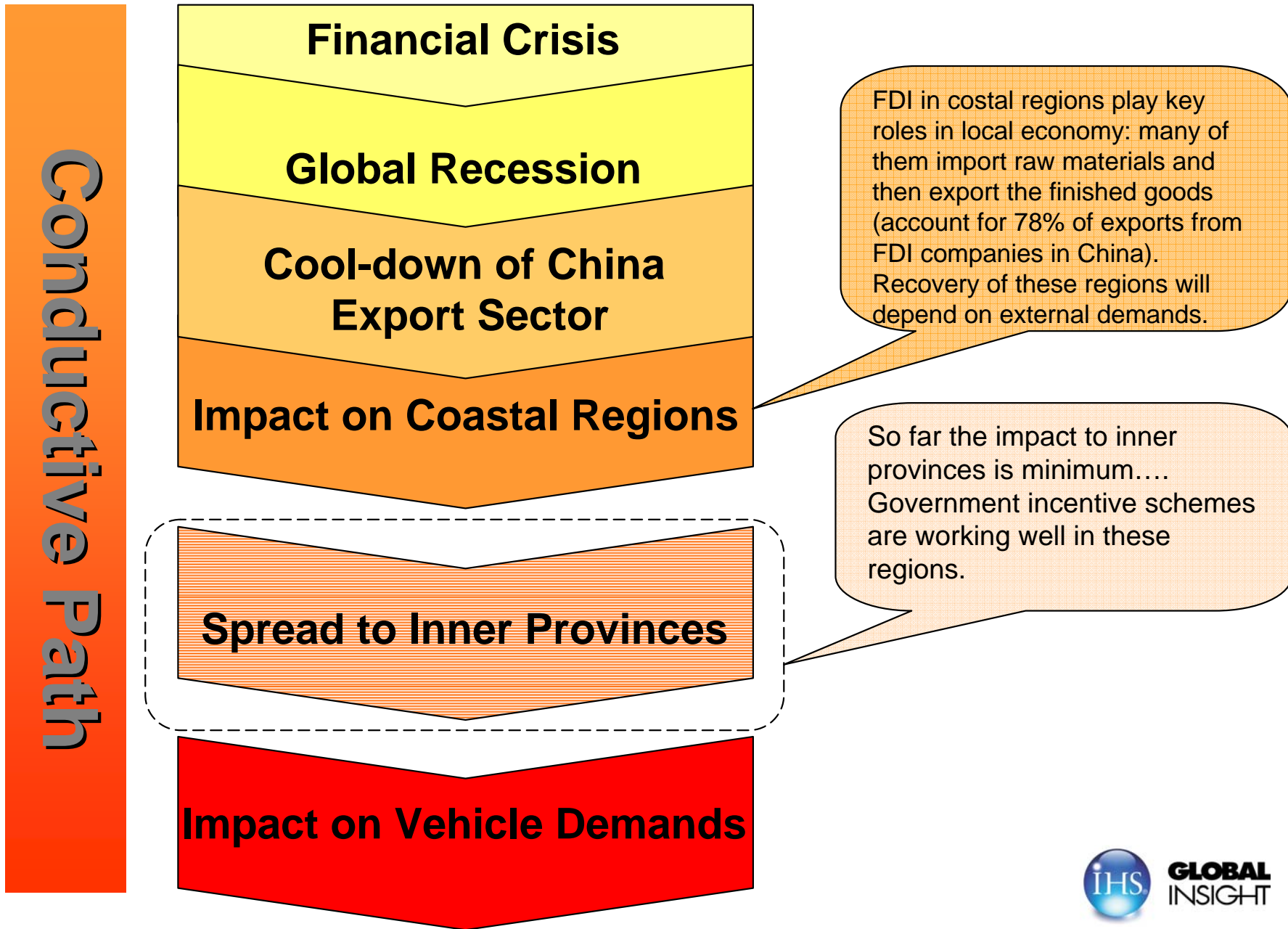
- Henan, Shanxi, Hubei, Hunan, Anhui, Jiangxi, Sichuan and Shaanxi already accounted for over 50% of the passenger car sales growth in 1Q 2009.
- 10 provinces from Central/Western recorded over 40% growth in passenger car sales.
- Demands in coastal regions remain weak. 1Q sales in Guangdong declined by 20%. Sales in Shanghai in the first 4 months also dropped by over 6%.

Inner provinces first time became the main growth engine for passenger car market

Demands in coastal regions still remain weak. Some even recorded negative growth



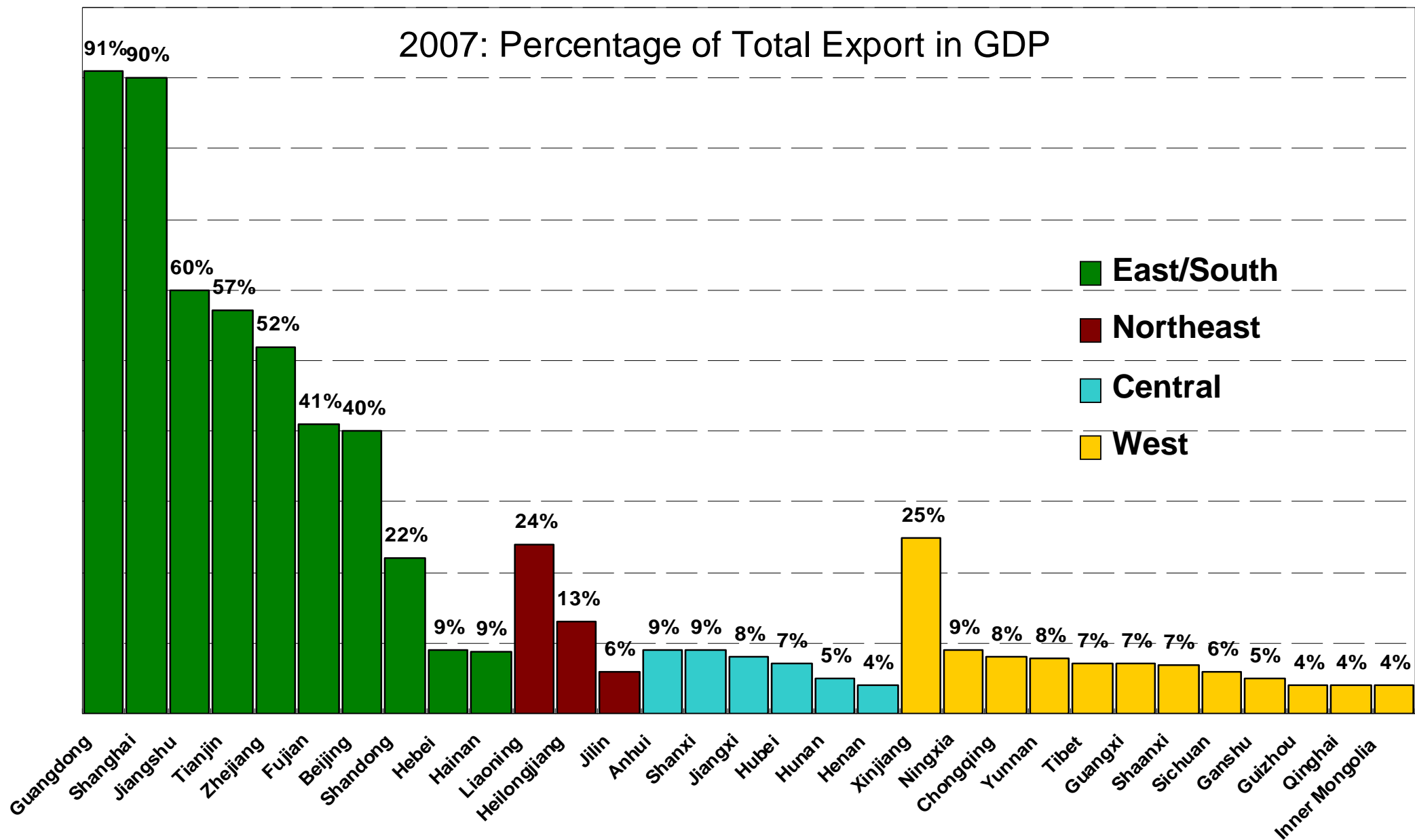
# The Financial Crisis Is Hurting China's Economy... But Impact to Inner Provinces is Minimum





# More Impacts on Eastern/Southern China as Higher Dependence on Export

2007: Percentage of Total Export in GDP



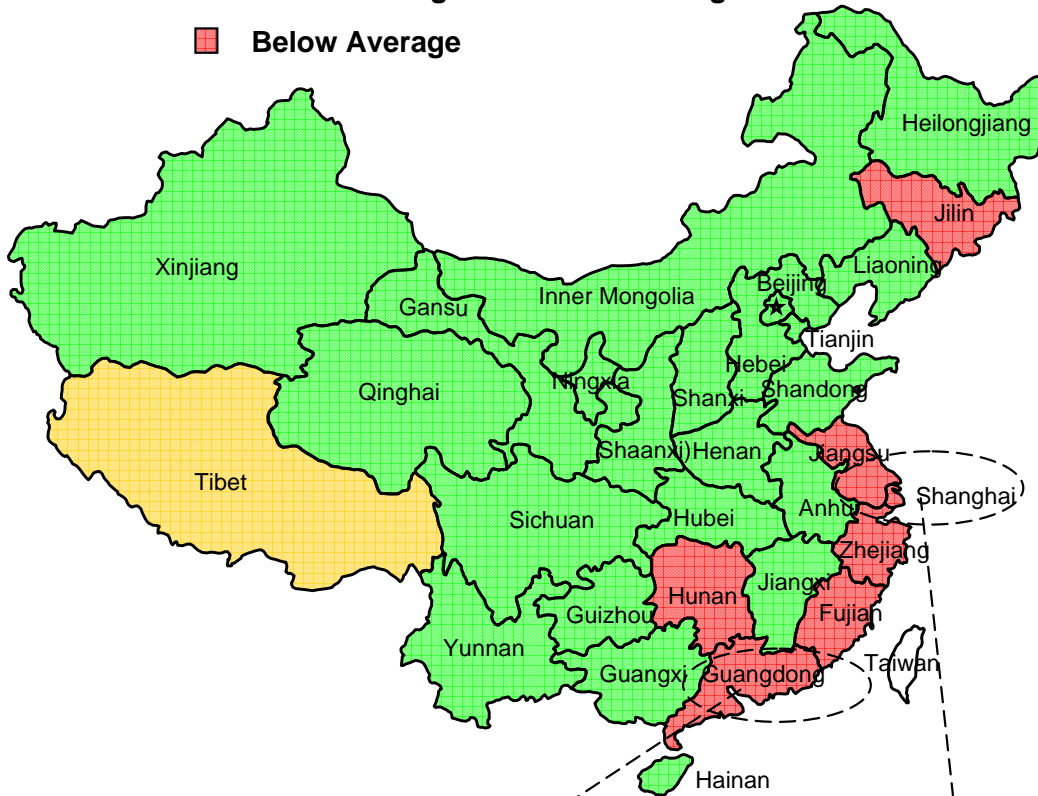
(Source: China State Information Center)



# Sales Growth Diffusing Away from Mega-Cities

## Passenger Car (Incl. Mini Bus) Sales Growth Rate by Province (2008)

■ Above Average    ■ National Average 6.5%  
■ Below Average

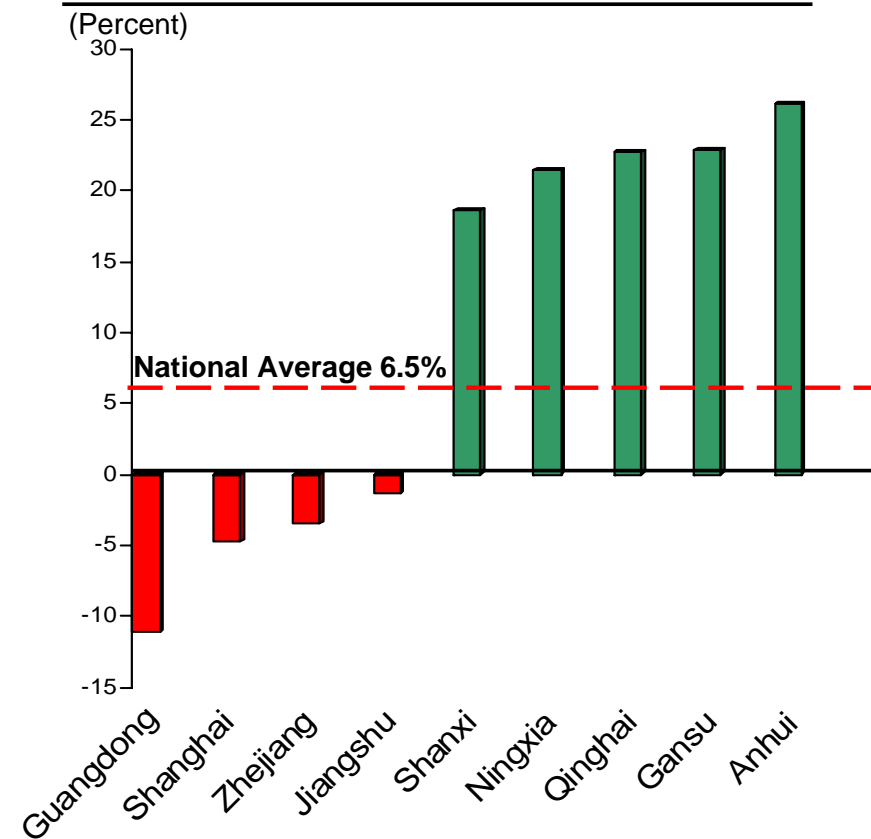


Car sales growth shows regional discrepancy:

- In 2008, markets in Guangdong, Zhejiang, and Jiangsu (top 3 provinces for car sales in China) declined by 11.1%, 1.3% and 3.5% respectively.
- The two major engines for economic growth “Yangtze River Delta” and “Pearl River Delta” lost momentum.

- ▶ Demand in south-eastern provinces are now slowing down, and the growth in car sales are being sustained mainly by the development of motorisation in central provinces.
- ▶ Combined market shares of Guangdong, Zhejiang, and Jiangsu dropped from 35% in 2007 to 25% in 2008.

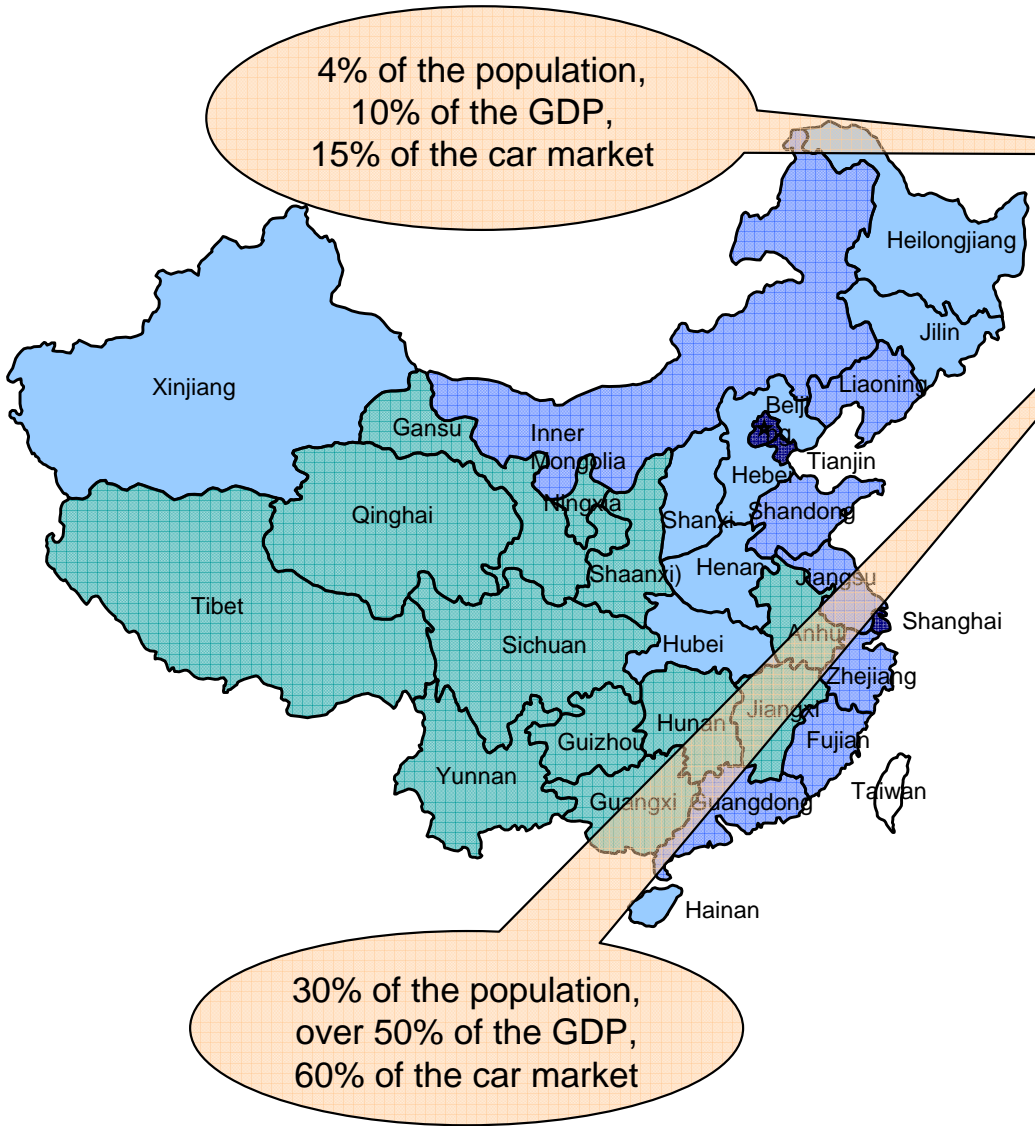
## Passenger Car/ Mini Bus Sales Growth Rate (2008)



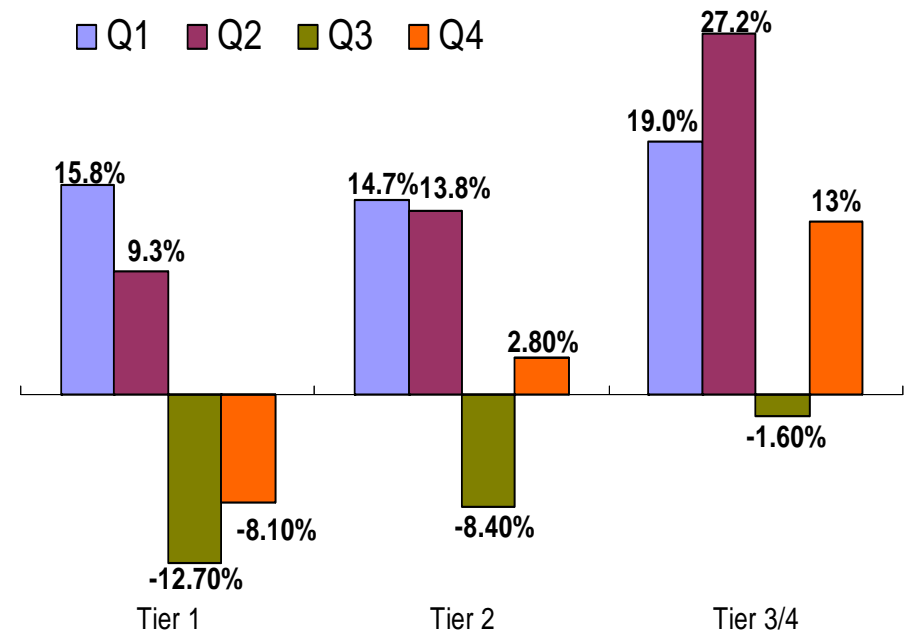




# Sales Growth Diffusing Away From Mega-Cities



	Per Capita GDP in US\$(2006)	Car Ownership Per '000 people
<b>Tier 1</b>	>5000	50
<b>Tier 2</b>	2500 - 5000	18
<b>Tier 3</b>	1500 - 2500	5
<b>Tier 4</b>	<1500	<5



2008 Quarterly Sales Growth by Region

(Source: IHS Global Insight/Vehicle Registration, Ministry of Public Security)

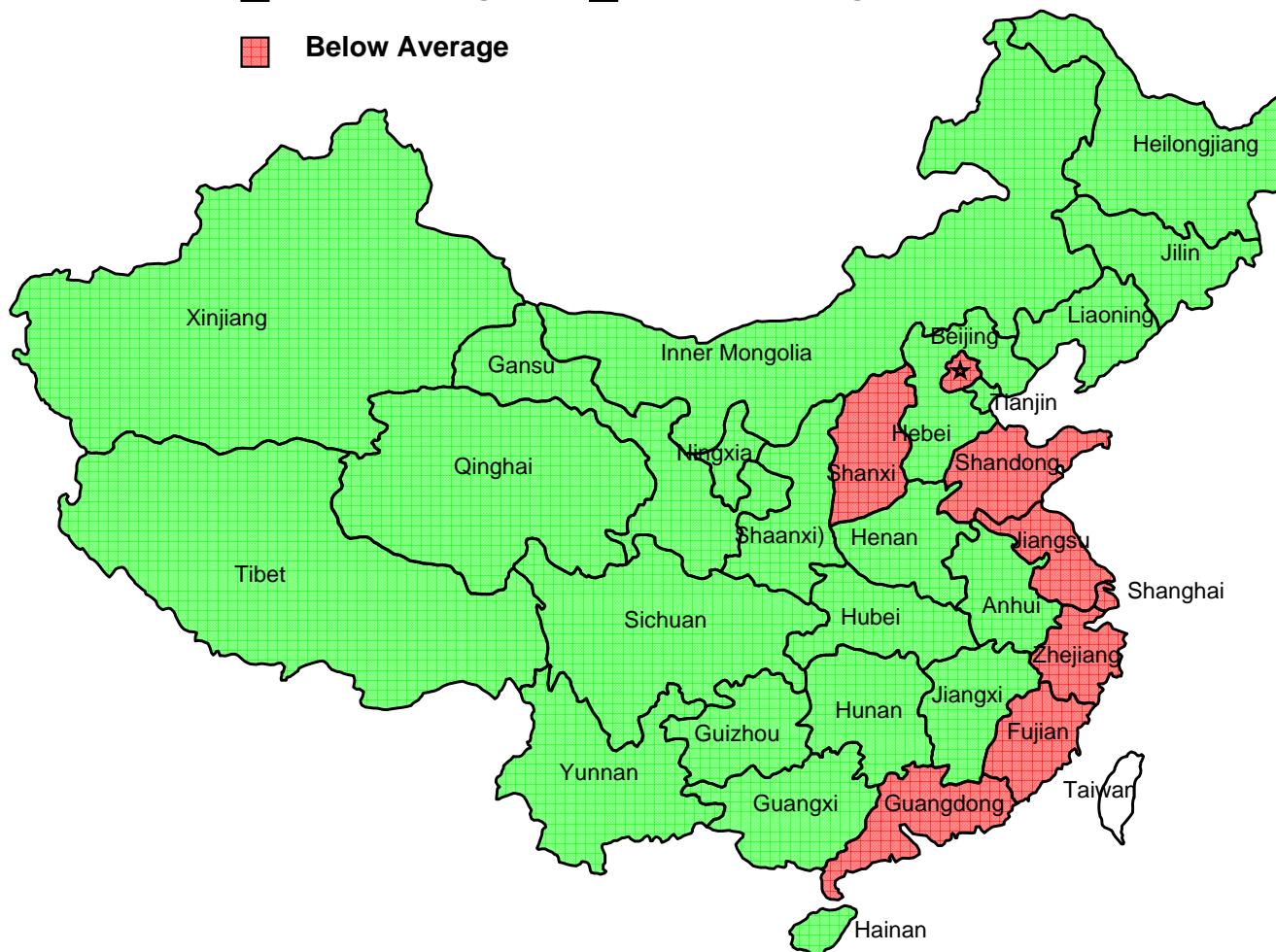




# The Massive Investment Plans More Focus on Inner Provinces

Fixed Asset Investment Growth Rate By Region  
(1~3, 2009)

- Above Average
- National Average 28.6%
- Below Average

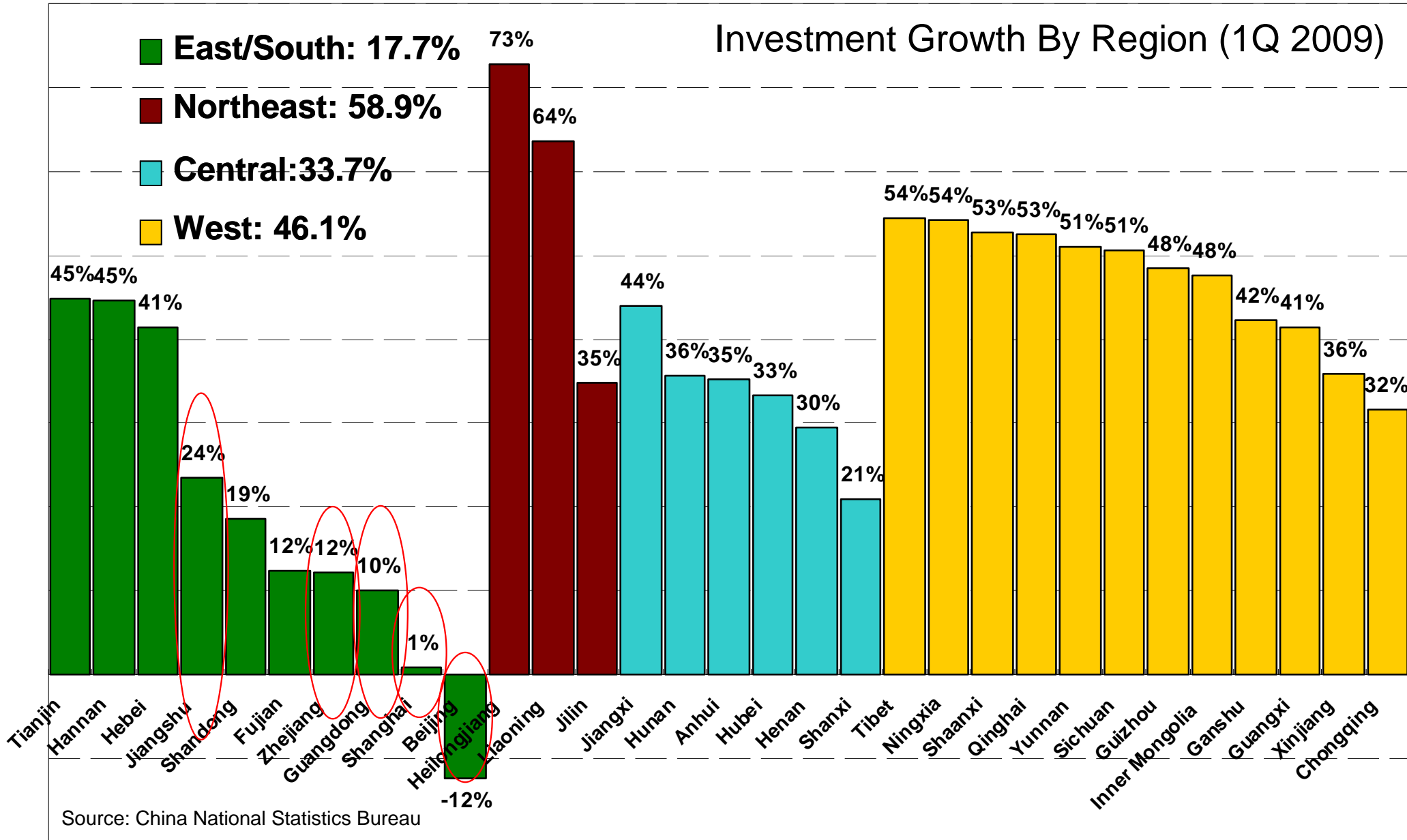




# Strong Investment Growth in 1Q 2009... More Growth from Northeast and Inner Provinces

■ East/South: 17.7%  
■ Northeast: 58.9%  
■ Central: 33.7%  
■ West: 46.1%

Investment Growth By Region (1Q 2009)

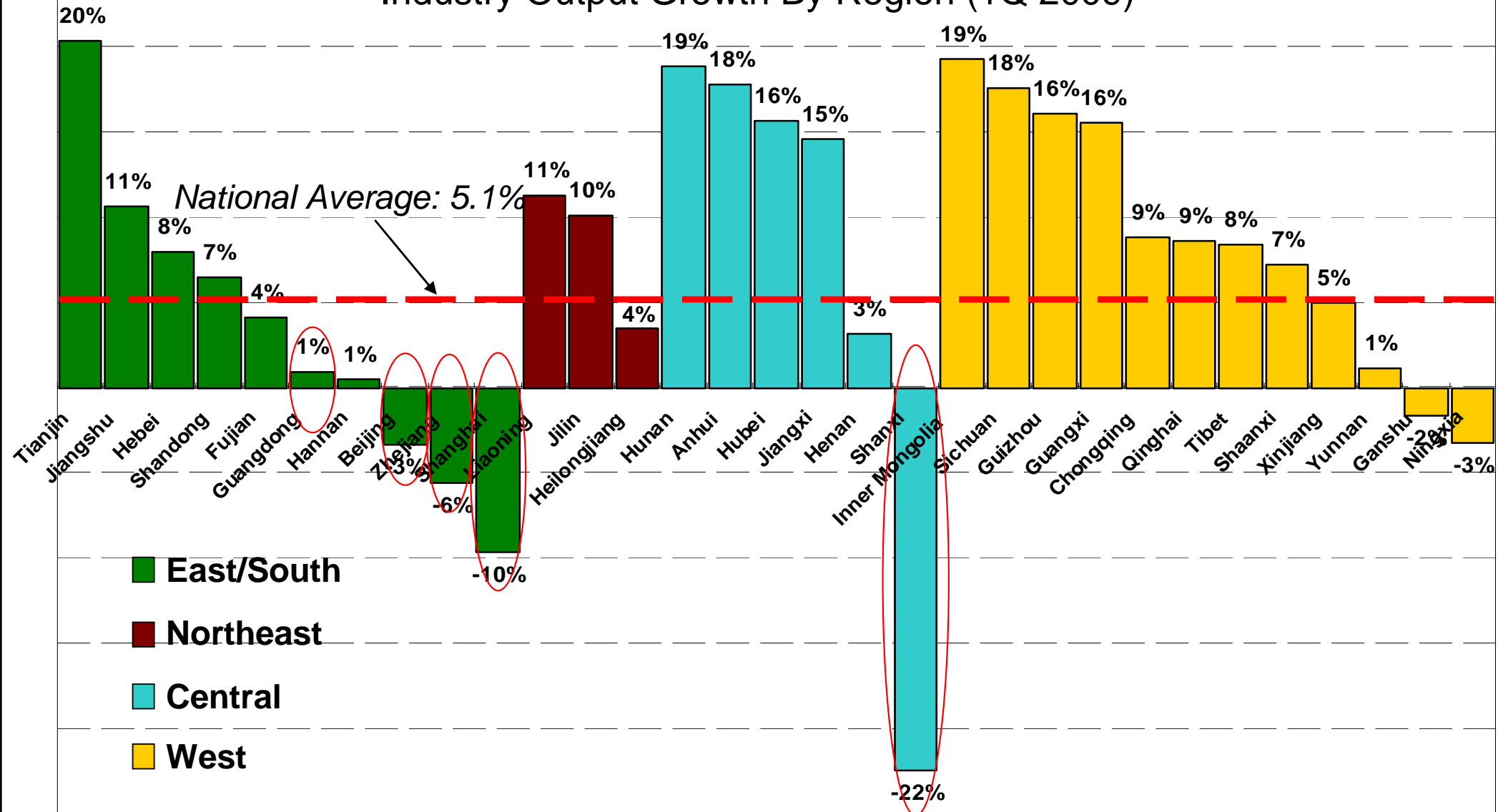


Source: China National Statistics Bureau



# Industry Output Growth Still Weak in Coastal Regions

## Industry Output Growth By Region (1Q 2009)



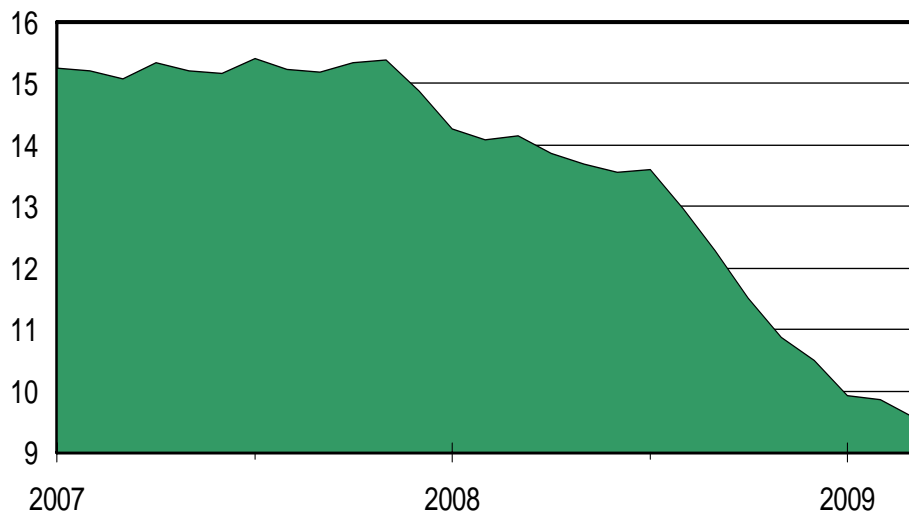
Source: China National Statistics Bureau



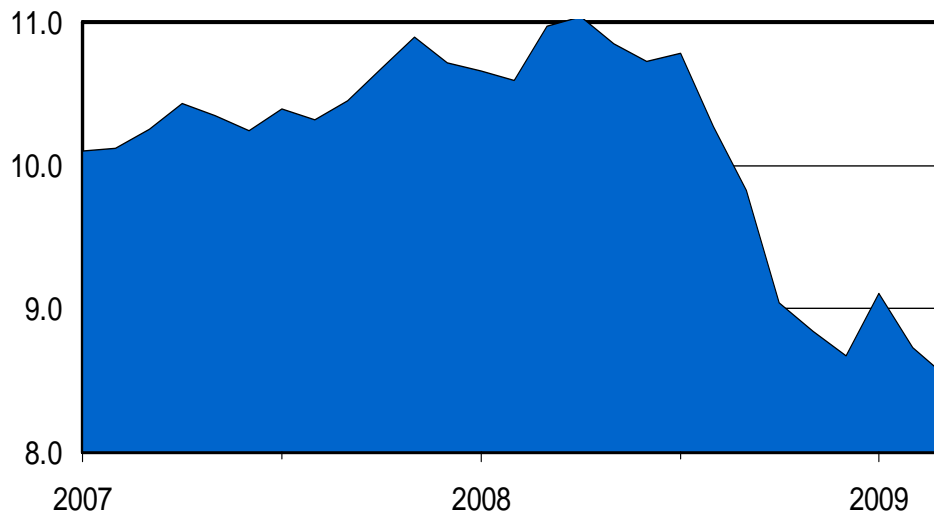


# RMB Appreciation Quick Against Major Currencies

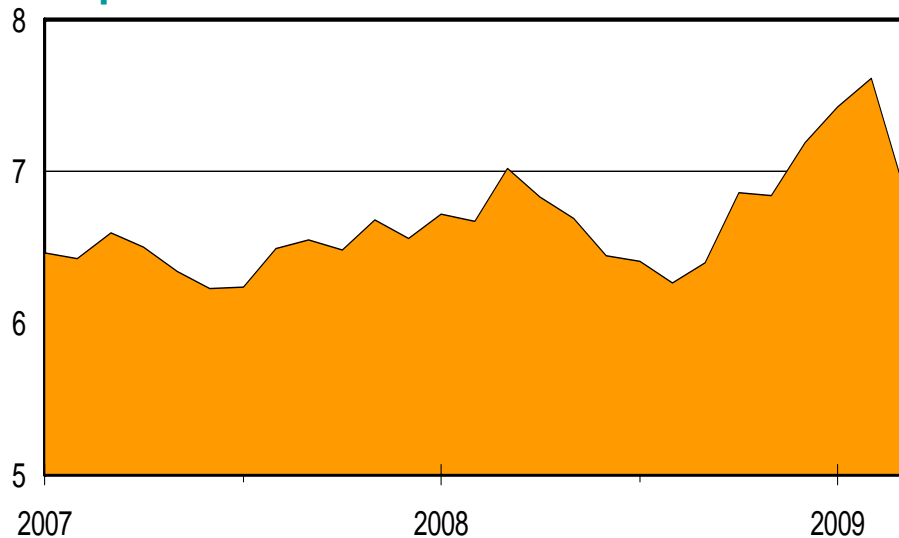
## British Pound



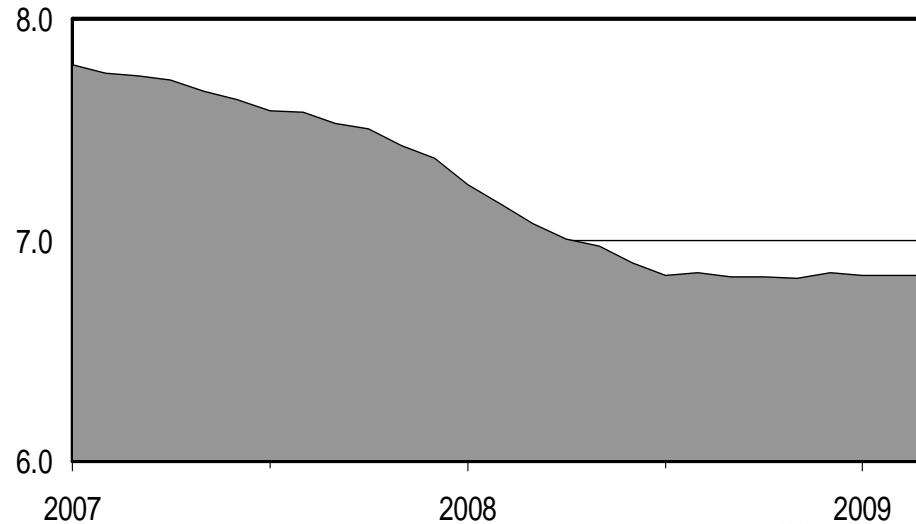
## Euro



## Japanese Yen



## U.S. Dollar

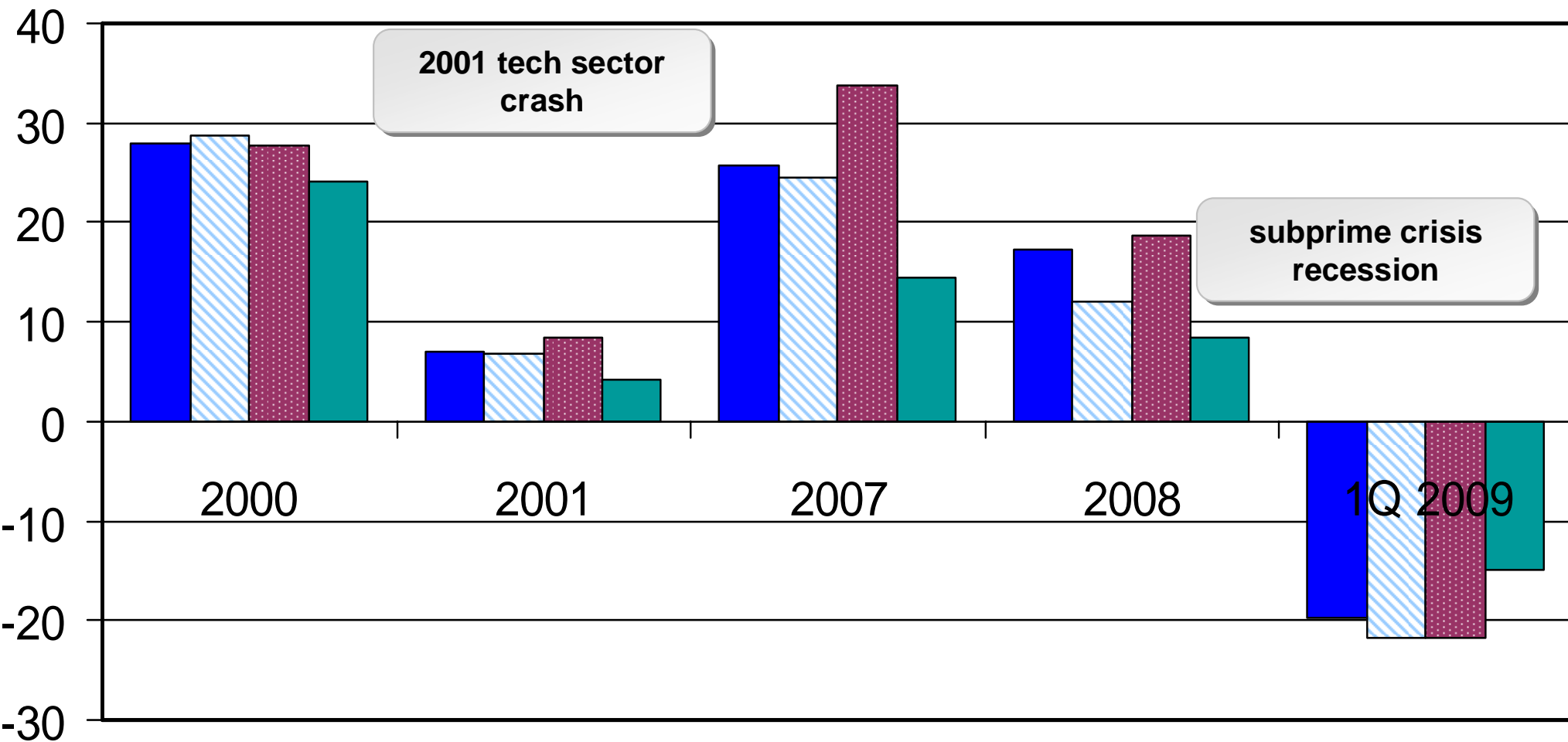


(Source: People's Bank of China)



# Chinese Export Has Been Dragged Down By the Global Recession

(Chinese export growth by major markets, percent)



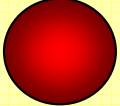

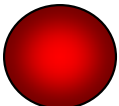
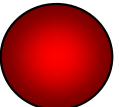
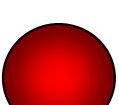
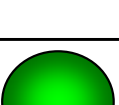
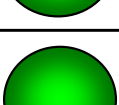
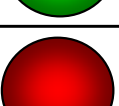
■ Total ■ Asia ■ Europe ■ U.S.

Source: China Custom





# China Macro-Eco Indicator Still Running in Red Light

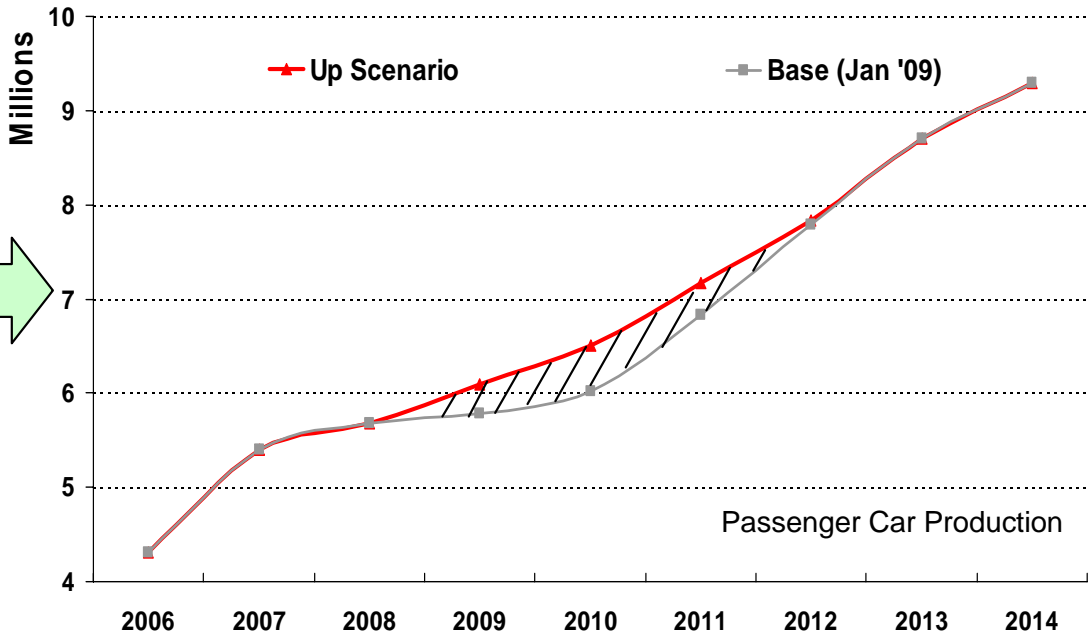
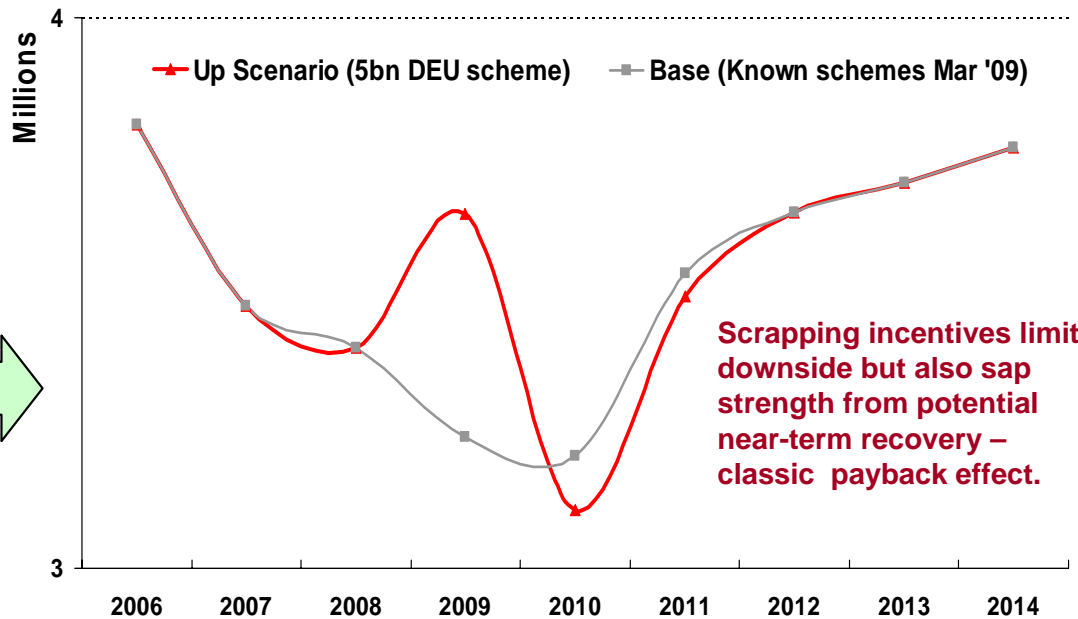
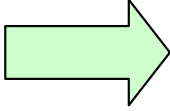
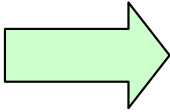
China Mac-Eco Leading Indicator	Q1 Change	Indicator: 
Pig Iron/Crude Steel Production	4.3%/2.8%	
New Floor Space Started in Commercial House	-16.2%	
Throughput in Major Costal Ports	-7.2%	
Finished Goods Inventory of the Industrial Enterprise	↑	
Government Expenditure	34.8%	
Bank Loans	4.58 trillion RMB in Q1	
OECD CLI	-0.7 (Jan-Feb 2009)	

Source: China National Statistics Bureau/OECD/ State Information Center



# Incentive Schemes: Governments to the Rescue?

Country	Summary Details
Germany	<p>1 or 2 year exemption from annual road tax for cars registered until July '09. Scrapping incentive scheme worth €2,500 for 2009 (boosted to €5bn).</p> <p><i>Result: Nearly 40% Y-O-Y sales growth for passenger car in March 2009.</i></p>
China	<p>Reduction of purchase tax on smaller cars plus cash incentives for rural vehicles (estimated around RMB 23bn). Cancellation of road maintenance fee, fuel consumption tax implemented while retail fuel price unchanged (estimated around RMB 50bn per year for passenger car).</p> <p><i>Result: 31% Y-O-Y sales growth for passenger car in April and 8.7% growth in the first 4 months of 2009.</i></p>





# Passenger Car Demand Outlook



- Incentive scheme has helped the car market to bottom out . Total passenger car sales is expected to grow by over 9% to 5.95 million in 2009
- Some pack back effects expected in 2010 but the car market is likely to hold up given that China is still a first-time buyer dominated market and the government has committed to support the auto industry in its industry reviving plan.





## To Summarize...

- **Government stimulus policies have successfully prevented the market slump** and the major beneficiaries are those small car manufacturers, particular for many local Chinese OEMs.
- The new incentive schemes, together with the new consumption tax plan and the possible penalty for those vehicles that can't meet Phase II fuel consumption standard, will help to **drive the segment development away from the “gas guzzlers”**.
- **Auto sector's profits will continue under pressure**. Cost control ability will therefore be crucial for success in the Chinese market for both car makers and suppliers.
- **Motorization in inner provinces will accelerate faster and it has become the main growth engine in recent strong recovery**, but it remains to be seen how much benefit the stimulus plan will have on the overall market for the rest of the year. As worldwide recession has not hit bottom yet, coastal regions' export-driven economy could be further damaged and therefore bring **some risks for vehicle market on down side**.
- Gearing up dealer networks and increasing after sales service capabilities in inner provinces, should be a priority for car makers in the coming years.



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Thank You!

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