Press Release

3 August 2015

Double-Hit Leads to Escalating Market Adjustment

In June, sales of Passenger Vehicles in China declined in year-on-year (YoY) terms for the first time since the global financial crisis in 2008 (excluding the months of January and February in each year, during which the YoY comparisons are distorted by the timing of the Lunar New Year holiday). Sales of locally-made Passenger Vehicles in the month fell by 1.4% on last year, bringing YoY growth down to 2.8% in Q2 and to 7.2% for H1 as a whole.

A closer look at the SAAR paints an equally dismal picture, with the selling rate of Passenger Vehicles dropping to 19.0 mn units in June, marking the lowest level in the last 11 months since July 2014. The average SAAR in Q2 for Passenger Vehicles reached just 19.6 mn units, falling from the 21.0 mn units seen in Q1 2015 and 20.8 mn in Q4 2014.

CADA's dealer-level inventory index stood at 1.68 months at the end of June, virtually unchanged from 1.70 months in May and 1.67 months in April. Typically, wholesales strengthen at the end of each quarter, but the current high inventory levels at dealerships are undermining any potential momentum, hence the decline in Passenger Vehicle sales in June. The overall inventory picture further suggests a slowdown in retail sales of Passenger Vehicles as dealers have made very little progress in their efforts to clear built-up stock, in spite of considerably lower wholesales.

This raises a fundamental question: is it really the case, as is commonly supposed, that the economic slowdown is the main culprit for the drop in actual demand for Passenger Vehicles? We think not.

The recent market volatility can be better understood by a closer analysis of vehicle registrations across China, which have followed highly diverse trends, depending on the city's tier. In the first five months of 2015, Passenger Vehicle registrations in Tier 1 and 2 cities declined by 4% on 2014, versus the 21% YoY growth seen during the same timeframe last year. In contrast, the comparison in tier 3, 4 and 5 cities was decidedly consistent, with YoY growth of 14% achieved in both years. Given that Tier 1 and 2 cities were responsible for almost half of the market growth in the first five months of last year, the recent slowdown in sales in the overall market is a natural consequence of the growth decline in registrations so far in 2015. Delving a little deeper into recent developments in China's largest cities will help to unravel the reasons behind these disparities

As the larger cities began to implement restrictions on car purchases, consumers grew increasingly concerned that other cities would follow suit. These fears triggered a buying frenzy in China's major cities, which, in turn, created a payback effect and a high base, which we feel are key factors behind the current decline in sales. Taking Nanjing, the capital city of Eastern Jiangsu province, as an example, registrations of Passenger Vehicles in the first five months of last year surged by 60% YoY, to then slump by 16% YoY in the same period of 2015. Not to be overlooked is the volatile stock market, which, in our opinion, has caused consumers to postpone car purchases to a considerable extent, particularly in the country's main urban areas.

Looking ahead, we expect to see dealerships make tangible strides in their efforts to shift built-up stocks during Q3 and Q4 in the wake of the production volume adjustments that automakers will inevitably make this summer. In the months to come, these corrections will lead to significantly lower production levels in comparison to the level of wholesales. Furthermore, once actual demand levels out in China's largest cities, we expect the payback effect to dissipate gradually throughout the second half of the year, while previously postponed purchases are likely to be revived by next year's Spring Festival at the latest.

In short, the outlook for Q3 2015 is a fairly pessimistic one given the double-hit from both high inventory levels and the deceleration in actual demand. That being said, we have good reason to be relatively optimistic for China's Passenger Vehicle sales in the final quarter of 2015 and in the year to come.

In light of the assumptions outlined above, our forecast for Passenger Vehicle sales in 2015 has been revised down by around 400,000 units. Nevertheless, we envisage a brighter future as we project an upswing in the annual sales growth of Passenger Vehicles to 8.9% in 2016 from a rate of 6.7% this year.

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Market Top Lines

	JUN	Δ	YTD	Δ	2015f	Δ
Sales	**1,909,185**	**-2%**	**12,501,038**	**1%**		
PV	1,525,494	-1%	10,110,550	6%	20,966,200	7%
LCV	305,247	1%	1,937,497	-12%	3,647,288	-8%
M&H CV	78,444	-18%	452,991	-28%		
Production	**1,858,849**	**0%**	**12,138,059**	**3%**		
PV	1,513,589	2%	9,731,428	9%	19,916,615	7%
LCV	277,725	-5%	1,949,939	-12%	3,655,921	-8%
M&H CV	67,535	-19%	456,692	-29%		

Best Selling Models

	JUN	Δ	Share	YTD	Δ	Share
PV						
Wuling Wuling Hongguang	36,310	-29%	2.4%	313,336	-16%	3.1%
Volkswagen Volkswagen Lavida	26,938	-17%	1.8%	233,211	-11%	2.3%
Haval Haval H6	23,458	-4%	1.5%	172,006	20%	1.7%
LCV						
Foton Foton Light Truck	18,753	41%	6.1%	135,041	-15%	7.0%
Wuling Wuling Sunshine	16,940	-40%	5.5%	132,205	-29%	6.8%
Wuling Wuling Hongguang V	15,999	N/A	5.2%	119,538	N/A	6.2%

Top Brands *(Sales)*

	#	Brand	JUN	Δ	YTD	Δ	YTD Share
Passenger Vehicle	1	Volkswagen	190,690	-15%	1,395,451	-7%	13.8%
	2	Changan	67,690	21%	522,366	46%	5.2%
	3	Hyundai	61,097	-30%	515,545	-8%	5.1%
	4	Toyota	100,793	33%	504,846	9%	5.0%
	5	Buick	85,203	20%	448,575	-1%	4.4%
	6	Ford	78,349	12%	444,632	7%	4.4%
	7	Honda	84,364	20%	417,245	20%	4.1%
	8	Nissan	73,215	-8%	379,986	-12%	3.8%
	9	Wuling	37,412	-27%	329,268	-11%	3.3%
	10	Chevrolet	48,229	-19%	316,861	-12%	3.1%
	11	Kia	39,898	-25%	316,058	-3%	3.1%
	12	Haval	41,289	41%	311,212	81%	3.1%
	13	Audi	41,074	-20%	275,136	-6%	2.7%
	14	Dongfeng	26,387	-9%	270,030	31%	2.7%
	15	Geely	34,021	4%	255,146	35%	2.5%
	16	BYD	35,704	1%	227,399	10%	2.2%
	17	BMW	37,870	6%	222,869	-1%	2.2%
	18	Beijing	29,829	-3%	213,074	94%	2.1%
	19	Chery	27,179	-12%	205,830	8%	2.0%
	20	Peugeot	27,439	-13%	205,090	10%	2.0%
	Passenger Vehicle Total		**1,525,494**	**-1%**	**10,110,550**	**6%**	**83.3%**
Commercial Vehicle	1	Wuling	84,510	24%	473,835	-1%	24.5%
	2	Foton	31,080	24%	219,659	-12%	11.3%
	3	Changan	26,563	-37%	203,409	-21%	10.5%
	4	Jinbei	28,636	43%	159,541	3%	8.2%
	5	Dongfeng	18,480	-37%	121,609	-35%	6.3%
	6	JAC	14,866	-7%	103,378	-17%	5.3%
	7	JMC	13,271	6%	95,186	8%	4.9%
	8	Lifan	12,319	12%	62,793	19%	3.2%
	9	Great Wall	6,189	-39%	52,716	-19%	2.7%
	10	Isuzu	7,769	13%	39,500	18%	2.0%
	Commercial Vehicle Total		**305,247**	**1%**	**1,937,497**	**-12%**	**16.7%**

Top Manufacturers *(Production)*

	#	Manufacturer	JUN	Δ	YTD	Δ	YTD Share
Passenger Vehicle	1	Shanghai Volkswagen	133,796	-8%	991,087	6%	10.2%
	2	FAW Volkswagen	144,751	-4%	869,604	-1%	8.9%
	3	Shanghai GM	130,182	-7%	811,580	-2%	8.3%
	4	SAIC GM Wuling	70,792	10%	539,547	22%	5.5%
	5	Beijing Hyundai	72,000	-19%	518,900	-5%	5.3%
	6	Changan Automobile Grc	59,958	26%	474,920	49%	4.9%
	7	Changan Ford	81,488	24%	454,622	11%	4.7%
	8	Dongfeng Nissan	90,901	8%	445,206	-4%	4.6%
	9	Great Wall Motor	45,639	26%	368,767	33%	3.8%
	10	Dongfeng Peugeot Citroe	46,257	-29%	340,458	-1%	3.5%
	11	Dongfeng Yueda Kia	41,746	-17%	309,177	0%	3.2%
	12	FAW Toyota	55,342	23%	269,168	6%	2.8%
	13	Geely Group	37,250	15%	251,540	31%	2.6%
	14	GAC Honda	52,425	5%	245,049	-1%	2.5%
	15	BYD	35,588	2%	232,640	12%	2.4%
	16	Chery	28,506	-2%	228,455	26%	2.3%
	17	BAIC Yinxiang	32,523	154%	187,612	253%	1.9%
	18	GAC Toyota	36,950	22%	187,399	4%	1.9%
	19	Dongfeng Honda	36,377	19%	160,934	-10%	1.7%
	20	Jianghuai Automotive	22,945	129%	160,899	82%	1.7%
	Passenger Vehicle Total		**1,513,589**	**2%**	**9,731,428**	**9%**	**84.5%**
Commercial Vehicle	1	SAIC GM Wuling	69,224	0%	487,538	2%	25.0%
	2	Beiqi Foton	27,738	5%	224,558	-9%	11.5%
	3	Changan Automobile Grc	23,503	-40%	184,853	-29%	9.5%
	4	Brilliance Auto	31,003	58%	159,779	4%	8.2%
	5	Jiangling Motors	19,448	11%	124,522	7%	6.4%
	6	Jianghuai Automotive	11,010	-20%	107,126	-17%	5.5%
	7	Dongfeng Automobile	12,534	-9%	93,417	-20%	4.8%
	8	Lifan Group	13,045	27%	65,041	23%	3.3%
	9	Great Wall Motor	6,342	-32%	54,626	-18%	2.8%
	10	Nanjing Iveco	6,228	14%	40,799	-31%	2.1%
	Commercial Vehicle Total		**277,725**	**-5%**	**1,949,939**	**-12%**	**15.5%**

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