A forecast of the automotive market in China

China Automobile Dealers Association CADA
July 2020
The impacts of COVID-19 on China’s auto market

The Policies issued by the government to promote automobile consumption

Epidemic accelerates the digitalisation in auto dealership
The passenger car market in the first half of 2020

- From January to May 2020, passenger car sales were 6.238 million, a year-on-year decrease by 26%, of which Q1 fell by 37% y-o-y, and Q2 is expected to narrow down to 17%.
- The impact mainly concentrated in February-March, and the passenger car sale in April was close to the level before the epidemic.
- Due to the implementation of China 6 emission standards in some provinces from July 1, 2019, the year-on-year growth rate of Q2 has been lowered.

Source: Auto DS

2019 - 2020 Passenger car sales
Auto dealers' inventory has been improved, but the China Inventory Alert Index keeping at high level

- With the gradual recovery of car consumption after the epidemic, the Inventory Index of authorised car dealers has decreased from March to May, dropped to 1.55 in May.
- Inventory Alert Index slowly declined from March to May and began to climb up in June

2019 - 2020 Inventory Index of car dealerships

2018 - 2020 Inventory Alert Index of car dealerships

Source: China Automobile Dealers Association CADA
In summary, there are 8 aspects of the central and local government policies to promote automobile consumption:

1. Restrict the purchase of automobiles
2. Support the purchase and use of new-energy vehicles
3. Further promote the circulation of used cars, lift barriers on cross-provincial vehicle sales
4. Proactively promote new car purchase by replacement or trade-in
5. Promote the car consumption and upgrade in rural areas
6. The replacement of urban public vehicles with new energy vehicles
7. Push forward removing of restrictions on light commercial vehicle entering the city
8. Strengthen the construction of urban parking lots and new energy vehicle charging stations etc.
The main policies issued after epidemic

- Lift the vehicle purchase restrictions, expand the support on new energy vehicles, promote the development of the used-car market, and postpone the full implementation of “China 6”

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<th>Increase the car licenses in purchase-restricted cities</th>
<th>The rate of reduction of subsidy of NEV slow down</th>
<th>Used car value-added tax reduction</th>
<th>Postpone the full implementation of China 6 emission standards</th>
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<td>• 6 cities with purchase restrictions: Beijing, Shanghai, Hangzhou, Tianjin, Guangzhou, Shenzhen</td>
<td>• The NEV financial subsidy policy will be extended to the end of 2022</td>
<td>• China’s car ownership in 2019 was 260 million units, close to that of the United States</td>
<td>• From 1 July, 2019, some provinces and cities implemented “China 6”</td>
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<td>• The total number of licenses in 6 cities in 2018 was approximately 680,000, increasing to 1,000,000 in 2020</td>
<td>• The subsidy standards for 2020-2022 will be reduced by 10%, 20%, and 30% respectively from the previous year</td>
<td>• In 2019, China’s used-car transaction volume was 14.92 million units, much lower than the sales volume of new vehicles which is 25.78 million units</td>
<td>• Originally scheduled from 1 July, 2020, the remaining provinces will all implement “China 6”, including the transition period of PN emission limits. Due to the epidemic, the implementation will be delayed until 1 January, 2021</td>
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<td>• Due to the higher affordability in the purchase-restricted cities, new licenses will drive the sales of luxury cars</td>
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<td>• For used-car dealers, from May 1 to the end of 2023, the value-added tax will be reduced to 0.5% of sales. The growth of the used-car market will promote the new car consumption.</td>
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Prospects for 2020 auto market

- Affected by multiple factors such as the periodic adjustment of the automobile market and the impact of the epidemic, China's automobile production and sales are expected to be 22 million units in 2020, a year-on-year decrease by 15%.

- However, the fundamentals of the long-term improvement of the China's auto market are unchanged, especially the implementation of a series of policies to stimulate auto consumption, such as tax reduction for used car dealership, which provide policy guarantee for the continued growth of the China's auto market.

- China's auto market is expected to achieve a growth in 2021, and the auto sales is expected to exceed 30 million in 2025.

### 1991-2020 China vehicle sales and the development stages

- **Early stage**
  - CAGR=12.6%

- **High growth period**
  - CAGR=23.3%

- **Early stage of popularisation**
  - CAGR=9.8%

- **Later stage of popularisation**
  - CAGR<5%

*Source: China Association of Automobile Manufacturers, Auto DS*
The opportunities from the epidemic

Live-streaming will be the popular marketing method under the “New Normal”

The digitalisation of the auto industry is accelerated

New opportunities for used-car industry
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