China's Auto Industry: Alive And Well

By: Jack Perkowski | March 3, 2016

2015 was a watershed year for China autos, marking an end to 15 years of fast growth that saw vehicle sales increase tenfold, but also bringing to the fore some interesting new opportunities in New Energy Vehicles ("NEVs"), the aftermarket and connectivity.

A total of 24.6 million cars, trucks and buses were sold for the full year in China, a 4.7 percent increase over 2014. While passenger car sales grew by a respectable 7.3 percent for the year, a 9 percent decline in the sales of trucks and buses brought down the overall growth rate. In terms of the number of vehicles sold, passenger cars accounted for 21.2 million, or 86 percent of the total, a far cry from the late 1990s when trucks and buses accounted for the lion's share of the market. A genuine car culture has now been firmly established in China.

In 2015, price consciousness was a major theme as Chinese consumers forced the international and local car companies alike to cut prices. By mid-year, average car prices had fallen by 2.7 percent. Despite widespread price cutting, though, growth sputtered in the first nine months of the year, only to be rescued by a September tax cut which caused passenger car sales to spurt in the final quarter. One silver lining to the increased price sensitivity is that it spawned the rapid growth of budget SUVs, a relatively new category dominated by the local car companies, which enabled total SUV sales to surge by 53 percent for the full year. While everyone has expected China to be a "small car" country, larger cars now account for over 40 percent of the market.

The strength in auto sales in last year's final quarter has carried over into 2016. With sales of SUVs still leading the way, total vehicle sales increased by 7.7 percent, and passenger cars 9 percent, in January. Over the next five years, China's auto industry is likely to grow by six to seven percent annually, bringing the total production and sales of vehicles to well over 30 million vehicles annually by 2020.

An interesting sub-story is the recent upsurge in the growth of NEVs. In order to promote sales of NEVs, China has introduced various measures, such as tax exemptions, subsidies for car purchases and a requirement for government departments to buy more new energy cars, as a way to save energy and combat pollution. Of all of the measures, it appears as though government purchases of NEVs has been particularly effective and is now driving strong NEV sales.

Although admittedly growing from a small base, China's production and sales of NEVs grew by 343 percent to 331,000 vehicles in 2015. These numbers do not even count the 650,000 low-speed electric vehicles that are popular in China's Tier 2 and Tier 3 cities, and that grew by 52 percent last year. Of the total number of NEVs sold, approximately two-thirds are used as passenger cars and one-third as commercial vehicles. Strength in NEV sales has carried over into 2016, with unit sales surging by 144 percent in January to 16,100 units.

Another interesting story to watch is the growth and development of China's aftermarket for car parts and services — everything needed by the consumer once the car rolls off the showroom floor. China already has 172 million vehicles on its roads, compared to 265 million in the United States. However, sales of at least 25 million vehicles annually over the next five years will push China's vehicle population to approximately 300 million by 2020. At the same time, the age of China's vehicle population will increase from its current five years to a number that approaches the 11-year age of vehicles in the U.S. With both the size of China's vehicle population and the age of the country's vehicle fleet increasing, demand for aftermarket parts and services can be expected to grow significantly over the next five years.

In order to meet growing demand, China's 440,000 repair shops and 250,000 parts retailers will need to consolidate and become more efficient. With only a handful of 100 store aftermarket chains in China, compared to over 200 in the U.S., China is ripe for the type of consolidation that gave American consumers access to national chains such as NAPA and AutoZone. In addition, non-traditional online to offline ("O2O") companies are popping up all over the country. In 2015 alone, almost one thousand new O2O companies, providing services ranging from door to door maintenance, used car trading, parking assistance and car sharing, were formed, raising $8.0 billion in the process.

Finally, the entrance of China's internet heavyweights into the auto industry will be an interesting trend to watch in 2016 as they combine their strengths in internet technology with new energy to create interesting new connected car models. Letv and its Faraday Future car venture made a big splash at the Consumer Electronics Show in Las Vegas in January and appears to be gaining the most traction among the new players. The upcoming 2016 Beijing Auto Show in late April should be an interesting venue for all car companies — old and new — to showcase their latest innovations.

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