Press Release

19th October 2012

Despite the Rising Short Term Risks, China Passenger Car Market Long Term Outlook Remains Optimistic

On 17th October, John Zeng, Managing Director of LMC Automotive Consulting (Shanghai) Co.,ltd, presented the company's latest passenger car market outlook of China at LMC-Nomura Asia Pacific Automotive Outlook Conference in Shanghai.

One of the key messages during the presentation was that China has a unique economy structure, shaped and tightly linked with China's political business cycle. Investment has been the primary driver for Chinese economy growth in last two decades, and the rotation of central government has had significant impact on the investment cycle. "2012 is the year of leadership transition, therefore government eyes are on stable growth. Investment has slowed down and consumption will overtake investment this year to be the primary driver for growth, for the first time since 2001. However, investment level has been gradually picking up since Q3 and is likely to ramp up toward the next peak from 2013 under the political business cycle, and this will provide a strong tail wind for the Chinese economy."

Therefore despite the rising concerns on the short term economic slowdown and the anti-Japanese sentiment brought by the Diaoyu Island dispute, our long term forecast remains unchanged. "Chinese passenger car market is in its early stage -- Car density per thousand populations only stood at 50 in 2010, and the percentage of first time buyers in 2011 is as high as 82%. Many Chinese people are still eager to get their first car in their life, and the passenger car market could reach 25 million units by end of 2019." said Mr Zeng.

However the short term impact from the anti-Japanese sentiment cannot be underestimated. Only 1.14 million units of domestic made cars sold in September, up slightly by 2% year-on-year. The sluggish sales of Japanese cars are the main reason to cause the slowdown.

Total Japanese brand car sales plummeted by 41% to around 160,000 units, far lower than the original estimation – this is equivalent to sales volume loss of 110,000, or revenue loss of US$2 billion. All major Japanese brands were badly hurt: sales of Nissan, Toyota and Honda declined by 47%, 40% and 39% respectively. As a result, Japanese car makers are now cutting shifts or even halting the production. The recent tough actions from Japanese government and right-wing politicians are likely to make situation even worse in the coming months.

Most of the non-Japanese automakers are benefiting from the sales slump of Japanese cars. For instance, sales from Great Wall, Geely and JAC surged by 77%, 25% and 22% respectively. Sales of Ford also reached a record high with over 43,000 units' cars sold, a 51% increase YoY.

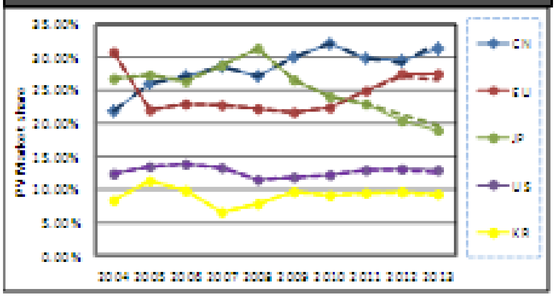
Although the immediate damage is being felt by the Japanese, the worsening relations between China and Japan is likely to drive away investment from Japan, the third largest single FDI source for China. Moreover, as the Chinese auto sector still heavily rely on Japanese auto component suppliers (for instance, Japan supplied 58% of the imported auto transmissions for the first eight months of this year), if the trade is hurt by the flare-up of tension over the islands, it may disrupt the supply chain of the Chinese auto sector. Therefore the dispute between China and Japan will unavoidably hurt Chinese economy if it lasts longer than expected.

"Taking into account these factors, we have cut sales volume for about 150,000 units for 2012 and 190,000 units for 2013. Our forecast for 2012 PV sales has now been revised down from 9.4% to 8.2%, but our long term forecast remains unchanged".

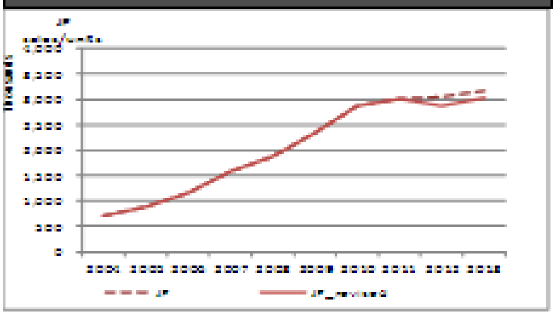
"However, as the relationship with Japan is now a rising risk on downside, we may further cut our PV forecast for 2013 if the situation is aggravated in the next few months, such as a breakout of military conflicts. "Zeng stressed.

Outlook for 2012 and 2013: Relationship with Japan now a rising risks on downside

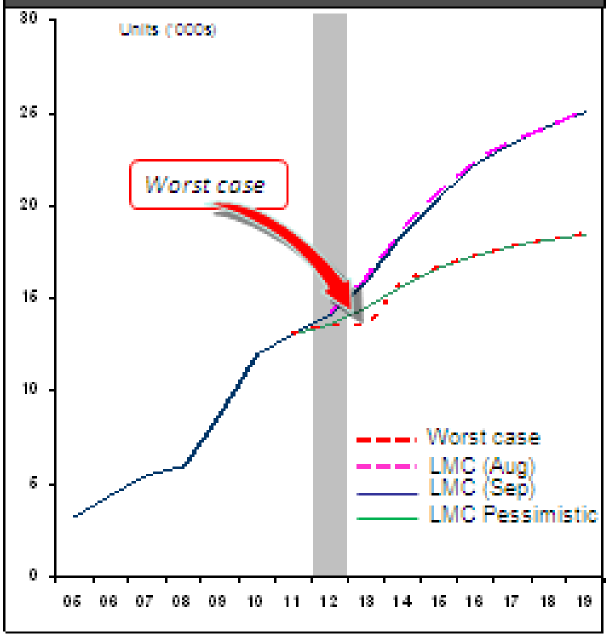
Market share by brand origin 2004 -2013



Japanese car sales volume VS Global PV sales 2004-2013



China PV sales history data and forecast 2005-2019



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LMC Automotive is a market leader in the provision of automotive intelligence and forecasts to an extensive client base of car and truck makers, component manufacturers and suppliers, financial, logistics and government institutions around the world and is widely respected for its extremely responsive customer support.

It offers forecasting services covering global sales and production for light vehicles and heavy trucks, as well as forecasts of engine and transmission supply and demand. In addition, LMC Automotive publishes special studies on subjects of topical interest to the automotive industry.

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