

China Passenger-Vehicle Sales Top Estimates on Ford, Hyundai

China's passenger-vehicle market had its strongest start since 2010, indicating auto demand is thriving relative to other industries at a time when broader indicators are slowing in the world's second-largest economy.

Wholesale deliveries of cars, multipurpose and sport-utility vehicles, rose 20 percent to 2.84 million units in January and February, from 2.37 million units a year ago, according to the China Association of Automobile Manufacturers. While sales in the world's biggest car market fell last month because of the Lunar New Year holidays, they beat the average estimate of five analysts surveyed by Bloomberg by 11 percent.

Ford Motor Co. (F) and Hyundai Motor Co. (005380) both reported deliveries surged more than 40 percent during the first two months, helping the car market buck the slowing growth seen in overall Chinese retail sales and industrial production. The auto association forecasts total vehicle sales this year will surpass 20 million units for the first time, driven by urbanization and rising incomes.

"Retail sales were affected by the government's campaign to cut back on public consumption, but auto was not part of that," said Qu Hongbin, Hong Kong-based co-head of Asian economic research at HSBC Holdings Plc. "Government policy's also quite supportive of the auto industry. For instance, they waived the highway charge during the New Year holiday."

Holiday Distortion

Total sales of vehicles, including buses and trucks, rose 15 percent to 3.39 million units during the first two months, the association said.

Automakers in China usually release two-month data when the week-long Lunar New Year holiday falls on a different month from a year earlier and distorts figures, as was the case this year.

Sales of SUVs, the fastest-growing segment last year, continued their gains last month, rising 14 percent to 157,800 units. Sedan deliveries fell 9.4 percent.

Volkswagen AG (VOW)'s Lavida was the best-selling sedan for a second straight month, while Great Wall Motor Co.'s Haval was the most popular SUV.

Among those seeing the highest increases, Seoul-based Hyundai's sales jumped to more than 177,000 vehicles during the first two months and Ford delivered more than 105,000 units, based on monthly company figures.

Japanese Slump

General Motors Co. (GM)'s China sales rose 7.9 percent to 525,835 vehicles during January and February, widening its lead over Toyota Motor Corp. (7203) in the country.

Toyota, Nissan Motor Co. (7201) and Honda Motor Co. reported declines in January-to-February sales, as Japanese auto brands continued to struggle with a consumer backlash sparked by a territorial dispute over a group of disputed islands.

Volkswagen's Audi, the top-selling luxury brand in China, said its China sales rose 16 percent in the first two months. Daimler AG (DAI)'s Mercedes-Benz said its January-February sales in China and Hong Kong fell 39 percent from a year earlier to 26,829 vehicles.

German brands gained market share in February, accounting for 20 percent of passenger-vehicle sales last month, followed by American, Japanese and South Korean nameplates, according to Chen Shihua, head of statistics at the auto association.

Local brands remain weak and cars sold by these companies are mainly low-priced, FAW Group Chairman Xu Jianyi said at a meeting of the National People's Congress in Beijing on Mar. 6.

Worsening Pollution

Li Weidou, head of export and import business at state-owned China FAW Group Corp. (000800), said last week that the government should order foreign automakers to contribute more to develop local brands and limit those whose sole aim is to win more sales in the country.

The auto industry may face increasing restrictions as the central and provincial governments step up efforts to deal with air pollution and traffic congestion.

Pollution has become a focus of the two-week session of the National People's Congress now under way in Beijing, with Premier Wen Jiabao saying March 5 the country must balance economic development with environmental protection. State media have criticized the government this year for failing to sufficiently address the problem of tainted soil, air and water.

Demand for vehicle license plates in Shanghai still exceeds supply despite auction prices exceeding 80,000 yuan (\$12,865), which are "too expensive," Shanghai Party Chief Han Zheng said at the People's Congress.

Government Subsidies

To combat pollution, the government should impose a new tax on cars and issue fewer license plates, according to Fang Fang, the chief executive for China investment banking at JPMorgan Chase & Co. Fang said in an interview with Bloomberg Television last week he'll submit the proposals to the Chinese People's Political Consultative Conference, where he's also a delegate.

The government is considering widening state subsidies for gasoline-electric automobiles and other fuel-efficient vehicles, after failing to convince motorists to buy electric vehicles, according to Miao Wei, the industry minister.

"The government should especially encourage companies with breakthrough technology in new energy vehicle products," Great Wall Motor (2333)'s general manager Wang Fengying told reporters at the People's Congress in Beijing on March 7.