China Slowing Auto Sales Still Eclipse U.S.-Japan-Germany

Three years ago, China passed the U.S. as the world's biggest car market. By 2015, it will likely exceed the U.S., Japan and Germany combined — and that takes into account the current economic slowdown. While sales growth has stalled the past two years, high savings rates and pent-up demand mean Chinese consumers are expected to buy 25.5 million vehicles three years from now, according to the average forecast of IHS Automotive, Macquarie Equities Research and the Economist Intelligence Unit. Most of the new growth will come from less-developed central and western areas, such as the city of Chengdu, where global auto executives are gathering for an industry forum tomorrow. The top 10 automakers have announced at least $38.4 billion of investments in the past two years to expand in China, banking on the world's biggest pool of first-time buyers to counter slowing markets in Europe and Japan. General Motors Co. (GM), Ford Motor Co. (F), and Volkswagen AG are adding capacity and introducing a wider range of models in the country, tailored to cater to the next wave of consumers. "It's right at the take-off stage," Ford Chief Executive Officer Alan Mulally said on Aug. 28 in Beijing, where the second-biggest U.S. automaker announced it would begin delivering the Lincoln luxury marque to China by the end of 2014. "People really do value the mobility" a car brings. Economy Falters The pace at which new cars are leaving China's showrooms has dropped in tandem with the nation's economy. Gross domestic product growth has slowed for the past six quarters to 7.6 percent in the three months through June. China's manufacturing unexpectedly shrank for the first time in nine months, the National Bureau of Statistics said last week. After economic stimulus measures increased sales 32 percent in 2010 and 46 percent in 2009, overall vehicle deliveries slowed to 2.5 percent last year, and will expand between 5 percent and 8 percent this year, the China Association of Automotive Manufacturers forecast on July 11. Even so, China's passenger vehicle market, which tracks sales of sedans, sport-utility vehicles, multi-purpose vehicles and small dual-use light trucks, is expected to grow 11 percent this year to 16.09 million units, CAAM said. Deliveries of light vehicles in the U.S. — the world's biggest auto market until 2009 — are on pace to exceed 14 million units, the industry's best year since 2007 and , according to Autodata Corp. Sales in Europe will probably fall 7 percent to a 17-year-low, the Brussels-based European Automobile Manufacturers' Association said in June. IMF Estimates The International Monetary Fund estimates the U.S. economy will expand 2 percent this year, Japan's by 2.4 percent, and that the euro area will contract by 0.3 percent. Vehicle sales in the U.S., Japan and Germany — the three biggest auto markets after China — will total 24.9 million units in 2015, according to IHS estimates. "China is indispensable," said Klaus Paur, Shanghai-based global head of automotive at researcher Ipsos. Even though the market is slowing, "it is probably the only place with stable and substantial growth in the long term." Chinese deliveries will still reach 22.9 million units even in the event of a significant drop in exports or a debt crisis at the nation's banks, according to a bear-case estimate by Sydney-based Macquarie. Helping to insulate China's car market from the economic downturn is a car-ownership rate that stood at 44 per 1,000 people in 2011, versus a global average of 135, EIU data show. In the U.S., six in 10 people own a car, the researcher said. 'China's Turn' "For us Chinese, owning a car is like fulfilling a lifelong dream," said Zhang Yeming, 30, as he stepped out of a Kia Motors Corp. (000270) K2 sedan he'd been inspecting at an auto show inShanghai last month. "I've wanted a car since I was young, and now I have the chance to own one. Developed nations have already gone through that stage of car ownership, and now its China's turn." Ford will spend $4.9 billion to build eight factories and debut 15 new models in China by 2015, as part of what the company said was its biggest expansion push in half a century. GM, which assembles Buick and Chevrolet sedans in China with partner SAIC Motor Corp. (600104), said last April it would invest as much as $7 billion in the nation till 2015. Detroit-based GM credits success in China for making it the "best positioned global automaker," CEO Dan Akerson said on Aug. 2. "We're taking a longer view of the market and preparing for an industry that should grow to more than 30 million units by the end of the decade," said Akerson, whose Chinese joint venture is the largest foreign automaker in the nation. Look West Top of carmakers' expansion lists are the less developed cities, where the government is promoting investment and salaries are playing catch-up with the richer coastal provinces. Consumers in Beijing, Shanghai, and coastal provinces of Guangdong, Jiangsu, and Zhejiang accounted for almost half of China's light vehicle sales in 2005, according to data by industry researcher LMC Automotive. In 2011, their share had fallen to a third, the automotive research arm of Oxford-based LMC Group said.

Less developed markets are expected to account for almost 80 percent of vehicle sales growth, according to Autofacts, a research division of PricewaterhouseCoopers LLC. Volkswagen AG (VOW), Europe's largest carmaker, said in June it would build a 170 million euro ($214 million) assembly plant in Xinjiang province, western China. The Wolfsburg, Germany-based automaker plans to invest 14 billion euros on Chinese production and models by 2016. Still Behind While incomes are rising rapidly, they're lagging behind those in coastal cities in absolute terms. Per capita disposable income for urban residents in Wuhan, for example, rose 15.3 percent in the first half, versus 12.5 percent in Shanghai, according to local government data. At 14,585yuan ($2,297), that's still 30 percent lower than than the 20,689 income for urban residents in China's financial capital. Automakers such as GM, Honda Motor Co. (7267) and Nissan Motor Co. (7201) are launching their own low-priced, China-only brands to compete against domestic rivals in this market. GM started selling the 62,800 yuan Baojun 630 sedan a year ago through its SAIC-GM-Wuling Automotive Co. joint venture. The 1.5-liter engine sedan, whose brand name means "Treasured Horse," competes with China's best-selling sedan in 2010, the 52,900 yuan F3 sedan made by Shenzhen-based BYD Co. Companies have to design products for the Chinese consumer, instead of merely taking a successful model from overseas and selling it there, said Janet Lewis, a Hong Kong-based analyst at Macquarie Research. "If you look at who's been most successful recently, it's carmakers like VW, GM, who have all been aggressive at launching products designed for the Chinese market," Lewis said in an interview on Aug. 31. "That will be the key to success.”