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Chinese Auto Market Cooling Down, Not Cooling Off

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While China's vehicle sales have slowed from the unsustainably torrid rate of a few years ago, they nevertheless are growing, and should grow at a healthy rate for another decade, government and private analysts say.

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SHANGHAI – This year's Shanghai Auto Show seemed quiet and much less crowded than in years past. Some might surmise that was because vehicle sales are slowing in China, and there's less excitement about the market. They would be wrong.

The government forced China's local automakers to tone down their usually very loud press conferences, and imposed tight controls on attendance. It also was less crowded because the new venue is simply enormous.

While China's vehicle sales have slowed from the unsustainably torrid rate of a few years ago, they nevertheless are growing, and should grow at a healthy rate for another decade. Indeed, some segments still are growing very quickly, and overall sales in some parts of

China resemble the go-go days of old.

"High growth is over. The market will continue to have medium to high growth for the next 10 years," Xu Changming, director of information resources at China's State



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Information Center, told the CBU/CCPIT conference in Shanghai in late April.

Xu forecasts China's light-vehicle market will grow at least 1.5 times faster than GDP over the next 10 years, which should equal annual growth of 12% or more. In the first three months of 2015, China's GDP rose 7% while LV sales climbed 9%.

Supporting that growth, says Xu, will be steadily rising incomes. China's per-capita GDP will hit \$12,000 by 2020, he says. Rising incomes will mean more demand for larger, fancier cars, Xu reckons: "Chinese people always say we pay attention to face. What gives more face than a big, expensive vehicle?"

To see what is influencing Chinese buying trends, look to the U.S., says Xu. America's influence on Chinese tastes far outweighs that of Europe, he says, noting one need only look at all the SUVs on the road in the U.S. to see what that means for the Chinese market.

Sedans are losing favor in China. Sales declined an annual 0.36% in the first quarter of 2015, according to Auto Foresight, a Shanghai consultancy. SUV sales rose nearly 49% in Q1 after accounting for 26% of light-vehicle deliveries in 2014, and should finish the year at 28%, says LMC Automotive.

Multipurpose vehicles, which range from large executive vans to the traditional minivan, also are growing in popularity. Sales in the first quarter rose 19.3%, Auto Foresight says.

"In terms of segment growth, the hottest prospects are the SUV and MPV categories," says Bill Russo, managing director-Gaofeng Advisory, a Shanghai-based consultancy. "It's clear why all the manufacturers are clamoring to serve those segments."

The growing popularity of SUVs and MPVs has helped local brands regain traction against foreign brands, and Chinese automakers showed dozens of new SUV and MPV models at the Shanghai show.

Domestic automakers accounted for 56% of all SUV sales in the first three months of 2015, and nearly a quarter of all light-vehicle sales were SUVs. Great Wall, China's largest SUV maker, saw deliveries surge 17% in the first three months of 2015 thanks mainly to demand for its Haval brand.

In the MPV segment, the Baojun 730, a medium-sized MPV produced at SGMW, a joint venture between SAIC, General Motors and Wuling, was the best-selling model in the first two months of this year, according to JATO Dynamics. It was followed by the Lingzhi MPV, produced by Dongfeng Liuzhou.

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