Can the Government Stimulus Really Prevent an Auto Market Slump in China?

Lin Huaibin
Senior Market Analyst
Presentation Outline

• 2008 Market Performance Review
• Auto Industry Stimulus Package
• Q1 2009 Regional Sales Performance
• 2009 Macro Economic and Vehicle Market Outlook
• Summary
China: 2008 Auto Sales Growth Rate Hits 10-Year Low

Domestic Sales (After adjustment of exports and imports)

Thousands

Sales (LHS)
Growth Rate (RHS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Sales</th>
<th>Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>1,896</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>2,170</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>2,486</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>3,464</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>4,551</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>5,264</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>5,920</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>7,333</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>8,826</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>9,419</td>
<td></td>
</tr>
</tbody>
</table>
Chinese Economy More Exposed to External Shocks

(Goods exports, percent of GDP)

Pre 1998 Asian crisis
Pre 2001 tech sector crash
Pre 2008 subprime crisis

Source: China State Administration of Foreign Exchange, IMF
Chinese Exports Have Been Dragged Down with the Global Recession

(Chinese export growth by major markets, percent)

Source: China Custom
China’s Coastal Region Heavily Relies on Exports

For China’s Interior Region, Export accounted for 4%-9% of GDP
Coastal Region: Traditional Powerhouses of China’s Auto Market

Triad Region (Guangdong, Zhejiang, and Jiangsu) accounted for 26% of PV market in 2008.
Coastal Region accounted for 50% of PV market in 2008.

Coastal Region’s PV/Mini Bus market share in 2008:

- Liaoning: 4%
- Shandong: 9%
- Zhejiang: 8%
- Jiangsu: 7%
- Tianjin: 3%
- Hebei: 6%
- Guangdong (11%)
- Hainan: 11%
Sales in Shandong (second largest provincial market) and Tianjin remained solid.
2008 PV/Mini Bus Sales in Central and Western China Bucked Against the Trend
China’s 4 Trillion Yuan Stimulus Package

Breakdown of 4-Trillion Yuan Stimulus Package

- Sustainable Development, 5%
- Technology Advancement, 9%
- Post-Qquake Reconstruction, 25%
- Educational and Cultural Projects, 4%
- Rural Development, 9%
- Social Welfare, 10%
- Public Infrastructure, 38%
- Post-Quake Reconstruction, 25%
Besides Fiscal Pump-Priming, Beijing Unleashed Similarly Massive Monetary Stimulus

In just 4 months (Dec-08 & Mar-09), bank loans soared by 5.4 trillion RMB!

Source: People’s Bank of China
### Reducing Vehicle Ownership Cost

- Cutting fuel price on Dec 19, 2008 by as much as 18% (current retail price of 93 gasoline: US$0.76/L).
- Cancellation of road maintenance fee (RMB 120 or US$17.5 per month for passenger car, RMB 200 or US$29.3 per month per ton for truck).
- Implementation of fuel tax on Jan 2009 while keeping the retail fuel price unchanged.

### Incentives to Encourage Small Vehicles

- Vehicle purchase tax for all passenger vehicles of 1.6 litre or below cut from 10% to 5% during the period of Jan 20 – Dec 31, 2009.
- Provide RMB 5 billion ($732 million) from Mar 1 until Dec 31 on one-time subsidies to farmers opting to replace their high-emission vehicles, three-wheeled vehicles or outdated trucks with mini truck/bus under 1.3-litre.
- RMB 5 billion earmarked for LCV scrappage

### Subsidize for Clean Auto

- Allocate RMB 10bn ($1.46bn) in the next 3 years to support technical innovation and reform, development of new energy vehicles and auto parts.
- Arrange subsidies to support the demonstration and popularization of energy efficient and new energy vehicles in public sectors in major cities.

### Encourage Auto Industry Consolidation

- Promote the restructuring of the auto industry and support large auto groups in merger and restructuring. Target to cut the number of major auto groups from 14 to 10.
- Support the major auto groups to develop their own auto brands.
New Consumption Tax Aims to Constraint Growth of Large Cars

<table>
<thead>
<tr>
<th>Situation Pre-September 2008</th>
<th>Situation Post-September 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger Cars</td>
<td>Consumption Tax Rate</td>
</tr>
<tr>
<td>&lt;=1.0 litre</td>
<td>1%</td>
</tr>
<tr>
<td>1.0–1.5 litres</td>
<td>3%</td>
</tr>
<tr>
<td>1.5–2.0 litres</td>
<td>3%</td>
</tr>
<tr>
<td>2.0–2.5 litres</td>
<td>9%</td>
</tr>
<tr>
<td>2.5–3.0 litres</td>
<td>12%</td>
</tr>
<tr>
<td>3.0–4.0 litres</td>
<td>15%</td>
</tr>
<tr>
<td>&gt;4.0 litres</td>
<td>20%</td>
</tr>
<tr>
<td>&lt;=1.0 litre</td>
<td>1%</td>
</tr>
<tr>
<td>1.0–1.5 litres</td>
<td>3%</td>
</tr>
<tr>
<td>1.5–2.0 litres</td>
<td>5%</td>
</tr>
<tr>
<td>2.0–2.5 litres</td>
<td>9%</td>
</tr>
<tr>
<td>2.5–3.0 litres</td>
<td>12%</td>
</tr>
<tr>
<td>3.0–4.0 litres</td>
<td>25%</td>
</tr>
<tr>
<td>&gt;4.0 litres</td>
<td>40%</td>
</tr>
</tbody>
</table>

- There will be some negative effects on models with engines between 3.0 litres and 4.0 litres. Luxury car buyers are less price-sensitive and so increases of 10% should not have a huge effect on the market where there is still a downward trend in prices.
- The most significant increases are on sedans/SUVs with large engine displacements (over 4.0 litres). Imported SUVs with large-displacement engines will be more affected. Retail price of models such as Porsche CAYENNE has increased by as much as 450K yuan (US$65,885) after Oct 2008.
Example of Cut in Purchase Tax and Subsidy

Assuming Car Price of 100,000 RMB (Incl. VAT)

Before Purchase Tax Cut, one needs to pay purchase tax of 8,540 RMB

After Purchase Tax Cut, one needs to pay purchase tax of 4,270 RMB

Subsidy of couple of thousands RMB for Purchase of Minibus/Minitruck
Recovery Under Government Stimulus Plan

Cars with engine displacement under 1.6 liter account for 63% of total car sales in the first 4 months of 2009

Monthly Sales Trend (Passenger Cars, SUVs, MPVs)
Auto Sales in Coastal Region (Except Guangdong) Holding Up Better than Expected in Q1 2009

PV/Mini Bus Sales Growth Rate in Q1 2009

- Beijing: 17.2%
- Liaoning: 16.1%
- Tianjin: 2.1%
- Shandong: 19.9%
- Jiangsu: 17.7%
- Shanghai: 5.1%
- Zhejiang: 17.1%
- Fujian: 4.3%
- Guangdong: 4.3%
- Hainan: -20.5%
Signs of Recovery Started Appearing in GuangDong Province

Note: PV/Mini Bus Sales
Galloping Sales in Central and Western China in Q1 2009

Note: PV/Mini Bus Sales
New Incentive Schemes Driving Segment Towards Smaller Cars

Car/Mini Bus Sales By Engine Displacement

<table>
<thead>
<tr>
<th>Engine Displacement</th>
<th>Thousands 2009 LHS</th>
<th>Thousands 2008 LHS</th>
<th>Growth % RHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤1L</td>
<td>415</td>
<td>298</td>
<td></td>
</tr>
<tr>
<td>1L-1.6L</td>
<td>1589</td>
<td>1259</td>
<td></td>
</tr>
<tr>
<td>1.6L-2.0L</td>
<td>526</td>
<td>567</td>
<td></td>
</tr>
<tr>
<td>2.0L-2.5L</td>
<td>567</td>
<td>264</td>
<td></td>
</tr>
<tr>
<td>2.5L-3.0L</td>
<td>567</td>
<td>264</td>
<td></td>
</tr>
<tr>
<td>3.0L-4.0L</td>
<td>415</td>
<td>298</td>
<td></td>
</tr>
<tr>
<td>Above 4.0L</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

Note: The chart shows the sales data for different engine displacement categories along with the growth percentage.
Some Preliminary Signs that Government Stimuli Providing a Floor to the Downturn

(Diffusion index)

(Percent change y/y)

Source: NBS, China Federation of Logistics and Purchasing
We expect sales in 2009 to increase by 520,000 units due to Government’s economic and automotive stimulus package. Government Automotive Incentives Program helps release the pent-up demand from H2 2008. After strong growth in 2009, we expect growth rate in 2010 to be moderate compared to 2009 assuming that Government Auto Stimulus Program will not continue into 2010.
Summary

- Due to the government stimulus package, auto market underwent strong rally not only in the China’s interior but also in many parts of China’s coastal region in Q1 2009

- China interior market demonstrates huge potential of purchasing power for automobiles. For carmakers, expanding dealer networks and increasing after sales service capabilities in inner provinces should become a priority in the coming years

- Major beneficiaries of Automotive Stimulus Package are those small car manufacturers, particularly the local Chinese OEMs

- The new incentive schemes, together with the new consumption tax plan will help drive the segment development away from the “gas guzzlers”

- Due to more favourable macroeconomic outlook and automotive stimulus package, Our draft forecast for 2009 growth rate has been revised up from 2.6% to 9.6%
Thank You!

Lin Huaibin
Senior Market Analyst
lin.huaibin@ihsglobalinsight.com