Japanese auto sales in China fall sharply in September
- IHS Automotive analysis

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Summary data from the Chinese Association of Automobile Manufacturers (CAAM) confirm that Japanese brands suffered a significant drop in sales in China during September, and this was one of the main reasons behind an overall decline in vehicle sales in the country last month.

Vehicle sales drop y/y, production rises

The Chinese market registered total sales of 1.6 million vehicles in September. This represented an increase of 8.2% month-on-month (m/m) but a decrease in comparison with September last year. On a year-on-year (y/y) basis sales fell 1.8% in September, summary data from the CAAM show. Production, however, increased both on a m/m and a y/y basis. Total vehicle production in September stood at 1.66 million units, up 10.6% m/m and 3.7% y/y. On a year-to-date (YTD) basis both production and sales have risen. Total vehicle sales in the first nine months of the year came in at just over 14 million units, an increase of 3.4% y/y, while production stood at just over 14.1 million units, up 5% y/y.

Japanese brands' sales down 29% y/y

The CAAM has stated that there were three main reasons for the y/y sales decline in September. First, the escalating tensions between Japan and China regarding ownership of the uninhabited but mineral-rich Diaoyu Islands in the East China Seas have led to rising nationalist sentiment in China. This resulted in riots in September and led to a sudden drop in demand for Japanese-brand vehicles, which dampened overall sales during the month. Japanese brands’ sales dropped 29% y/y in September, the CAAM states. Second, September 2011 saw high sales and therefore there was a high base of comparison last month. Third, weak commercial vehicle (CV) sales continued to pull down market growth.

Passenger vehicle, CV sales decline y/y

Passenger vehicle production in China rose by 10% m/m and by more than 6% y/y in September to 1.35 million units. However, passenger vehicle sales, although up m/m, declined in y/y terms. Passenger vehicle sales during the month totalled 1.31 million units, up 7.9% m/m but down 0.3% y/y, the CAAM says. On a YTD basis production and sales in the passenger vehicle segment are positive. A total of 11.36 million units were produced in the nine-month period between January and September, up 8.4% y/y. The passenger vehicle market, as defined by the CAAM, registered 11.27 million units in the period, up 6.9% y/y.

According to the summary data, a total of 308,100 CVs were produced in September, up 12.9% m/m but down 5.8% y/y. Meanwhile, sales of CVs rose 9.2% m/m to 301,800 units, but this equated to a decline of 7.6% y/y. Thus, although on a m/m basis CV sales seem to be picking up, y/y growth has not materialised and the segment continues to pull down the overall vehicle market. In the first nine months of the year a total of 2.7 million CVs were produced, down 7.1% y/y. Sales in the January-September period were down 8.8% y/y to 2.8 million units, the CAAM says.

Chinese brands push exports

The CAAM summary data show that vehicle exports are rising. The report states that September set a new record with vehicle exports of 109,800 units, up 15.1% m/m and 48.4% y/y. In the first nine months of the year a total of 785,300 vehicles were exported from China, an annual increase of 27.9%. The top exporters from China remain the local passenger car producers, with Chery leading the way followed by SAIC, Great Wall, Geely, and Dongfeng.

Outlook and implications

The sudden decline in Japanese brands’ sales in the Chinese passenger vehicle market has seriously dented overall market growth this year. The political tension between Japan and China regarding ownership of the Diaoyu Islands resulted in riots in China last month targeting Japanese-brand goods and in particular Japanese-brand vehicles. The result was that Japanese automakers suddenly stopped production and closed their plants in late September, resulting in a dramatic drop in production and darkening the outlook for the months to come. Japanese OEMs have now reopened their plants following the week-long National Day holiday in China that lasted from 1 to 7 October, but all are running limited operations as inventories at dealerships pile up. Dealerships are now offering substantial discounts to attract Chinese consumers to buy Japanese-brand models.

IHS Automotive forecasts that Japanese automakers will lose around 20% of their annual sales in China this year, but it is difficult to predict how fast other automakers will be able to steal their lost market share. Hyundai, for example, has already ramped up its production capacity in China and has expanded production of its best-selling Elantra model to 20,000 units per month from 15,000. However, German
and US brands are most likely to benefit from the woes of the Japanese brands thanks to their better positioning in China in terms of brand awareness. Thus the passenger vehicle segment is still forecast to see sales growth this year of around 7% as the market share lost by the Japanese OEMs is likely to be taken up by the likes of Volkswagen (VW) and General Motors (GM), says Lin Huaibin, IHS Automotive’s China light-vehicle sales forecast manager. Ford and South Korean automakers Hyundai and Kia are also strengthening their brand images and product line-ups in China and they too will take some of the sales lost by the Japanese OEMs.

It is less easy for production levels at plants to suddenly be increased and this may result in some lost output in China in the coming months. In order to produce models OEMs need to finalise their component volumes well in advance so that their tier-one suppliers and the entire supply chain can adjust accordingly. The tensions between Japan and China have only recently escalated and the sudden reduction in production by Japanese cannot necessarily be offset by increased volume production at other OEMs. Dealerships with inventory of German and other brands’ vehicles may see an increase in sales, but at the production plants it is unlikely that new shifts and additional production can be implemented immediately for those OEMs already running at high capacity levels. Lost production across the passenger vehicle segment in China this year amounting to around 40,000 units is a strong possibility, says Boni Sa, IHS Automotive’s China light-vehicle production forecast manager.

In 2011 automakers ramped up production in China, specifically Japanese automakers, which had seen dramatic parts shortages hampering production levels in China as a result of the tsunami and earthquake that hit Japan in March last year, causing damage to a long list of suppliers and therefore disrupting Japanese OEMs’ supply chain. This high base of comparison is one reason why production and sales in September suffered a y/y decline. All Japanese OEMs reported lower sales in September and suppliers to these automakers are now looking at their production levels and adjusting them in line with the reduced demand. The detailed official CAAM data will be available next week, which will shed further light on the situation.

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