

Autofacts®

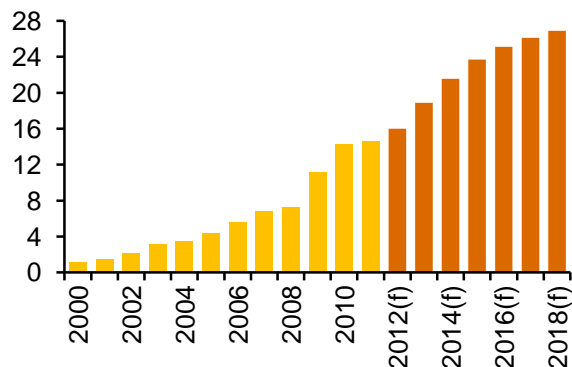
March 2012

China

2012: accelerating out of the pit lane

China's light vehicle sales growth slowed considerably in 2011 with an uncharacteristic 2.2% annual increase compared with 2009 and 2010's 54.2% and 27.8% advances. However, 2011 will prove to be more exception than rule, as the country's long-term demand potential remains strong.

China: Light Vehicle Sales Outlook
2000 – 2018(f) (millions)



2011 in review

Following two years of historic industry growth aided by government support measures, China's automotive market entered 2011 with multiple challenges – scrappage withdrawal, vehicle registration limits in urban areas, rising inflation, and higher interest rates. But these hurdles represented interim impediments to the realisation of China's true potential. Hence, 2011 was not indicative of China's future sales trajectory, but rather a result of the abnormal growth experienced during 2009 and 2010.

A promising horizon

Recent downward revisions to China's 2012 GDP forecast notwithstanding, light vehicle sales are expected to grow by nearly 10% in 2012, before accelerating further in 2013 and 2014. This upward trend is largely predicated on demand expectations from China's burgeoning interior markets. Historically, most automotive consumers have been concentrated in the large

metro areas along coastal China. Yet, vehicle buyer demographics are likely to change as China's economic growth and development spreads inland. Over the next several years, as Beijing shifts its mandate toward increasing domestic consumption, a new wave of consumers from interior China and from smaller tier 2 and tier 3 cities will begin representing a growing share of the auto market.

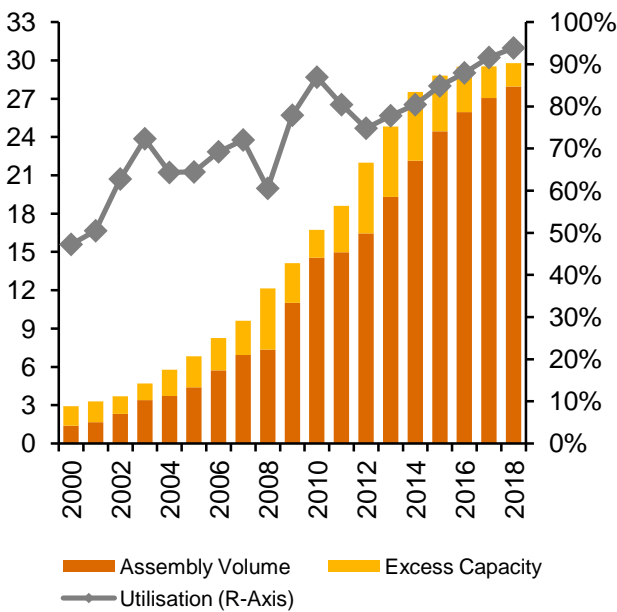
Autofacts projects that tier 2 and 3 cities, along with less developed regions, will drive nearly 80% of China's growth over the forecast window. This trend will catalyse a significant change in consumption patterns, requiring automakers to adapt their strategies to serve the unique needs of inland Chinese consumers. A significant expansion in distribution and service networks across interior China would also play a key role going forward. If China's economic evolution continues as expected, Autofacts anticipates the vehicle market to reach 27 million units of annual sales by 2018.

A fragmented future likely

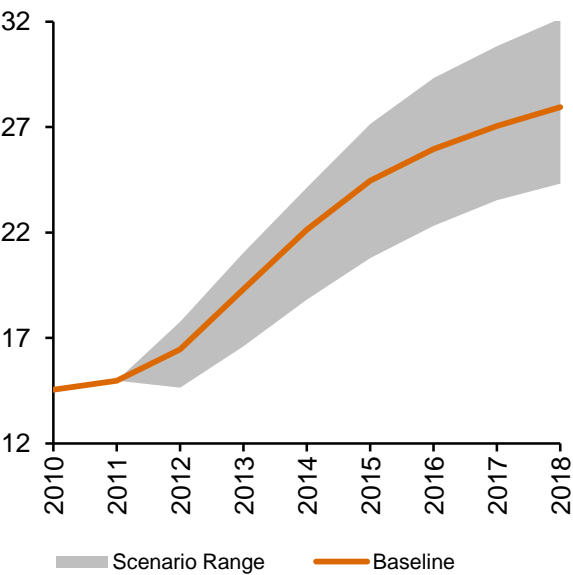
Even with strong topline growth, high levels of fragmentation continue to plague China's auto industry despite Beijing's continued efforts to drive consolidation. At the same time, a new type of fragmentation is emerging at the brand and nameplate level. Foreign automakers, Chinese domestics, and the joint ventures are concurrently launching brands/products into a severely crowded marketplace. The US industry's recent restructuring represents a clear example of the how an oversupply of product lines lacking differentiation not only lowers the profitability of the entire market, but represent long-term risk.

China’s growth and total market potential pose a significant challenge for capacity planning and installation. Auto industry fragmentation has also created a dichotomy in terms of capacity utilisation. Mainstream Chinese automakers and their foreign JV partners are struggling to meet demand, while many smaller domestics are currently saddled with excess capacity.

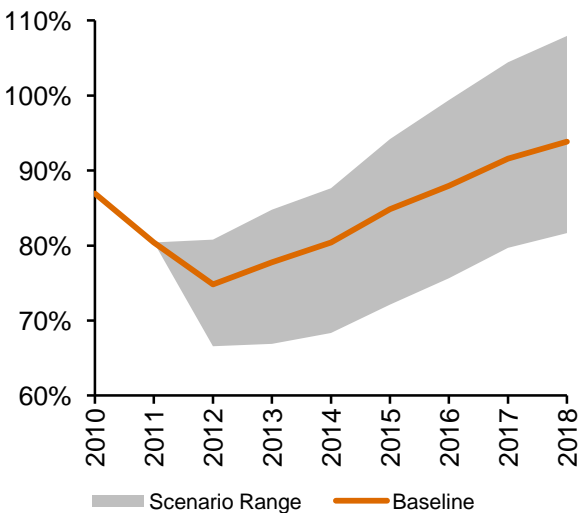
China: Light Vehicle Assembly Outlook
2000 – 2018(f) (millions)



China: Light Vehicle Assembly Scenario Forecast
2010 – 2018(f) (millions)



China: Capacity Utilisation Scenario Forecast
2010 – 2018(f)



Planning for China’s Light Vehicle Capacity
2011 – 2018(f) (millions)

11.2 m Incremental capacity increase between 2011 – 2018

China’s baseline light vehicle capacity utilisation rate **94%**

15.6 m Incremental capacity needed to support upside scenario

Incremental capacity needed to support downside scenario **7.3 m**

Source: Autofacts 2012 Q1 Data Release, China Statistical Yearbook 2010, CAAM
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