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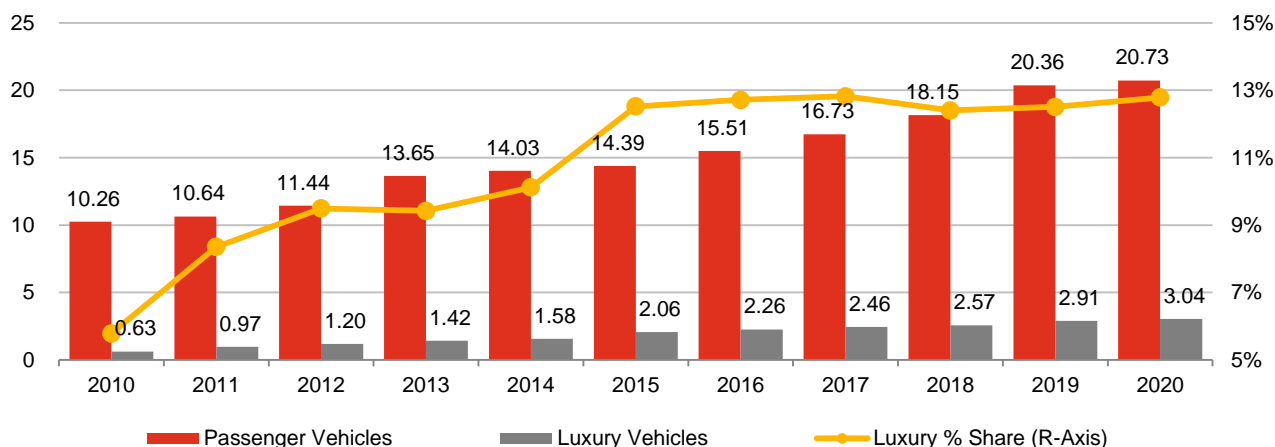
May 2014

China: Moving upscale Surging sales of premium brands

The population of affluent consumers in China is quickly expanding, both in volume and in age range. Younger first time buyers have increasing buying power within the market, and the result has been growing sales within the luxury segment.

China: Luxury vs. Passenger Vehicle* Sales

2010 – 2020 (millions)



Source: Autofacts 2014 Q2 Data Release, Autofacts Analysis

*Excludes minivans, mini-trucks, and light commercial vehicles

Golden years

The past ten years in China have often been described as a "golden decade" for the automotive industry. During this time, the market expanded nearly five-fold, increasing from 4.3 million vehicles to 19.9 million. This surge continued through the global downturn, when other automotive markets were experiencing severe declines.

Within the industry, luxury vehicles have seen a particularly impressive growth in the last several years. Even as the Chinese market grew only marginally in 2011, the luxury segment still grew 54.5 percent. By the end of 2013, the segment was still enjoying double-digit growth of 18.4 percent, reaching sales of 1.4 million units, second only to the

US. China is expected to surpass the US in luxury sales by 2016.

Youth and wealth

So what's behind this impressive growth within the luxury segment? There are several underlying factors. Perhaps the most obvious is that premium brands appeal to those amassing greater wealth — a demographic that is rapidly expanding in China to younger generations who are hungry for consumer goods that show their attained higher status.

Luxury vehicles have an expected compounded annual growth rate of 11.5 percent from 2013 to 2020, which is almost double the rate of standard, non-premium light vehicles. Luxury SUVs will

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see even higher growth of 19.8 percent in the same period. Mass-market consumer preferences are clearly shifting toward the SUV body style, which provides more space, better road positioning, heightened sense of safety, and perhaps above all, enhanced image and status. Autofacts is forecasting that the Chinese market will surpass the average luxury penetration rate of 10% of mature markets like the US, to reach just over 3 million units by 2020.

Along with luxury SUVs, small luxury models are also seeing increased popularity, due in part to increasingly stringent emission standards. Growing focus on traffic congestion and auto-related pollution has made small, entry-level models increasingly popular. These vehicles can serve as efficient vehicles as well as price-effective entry points into luxury ownership for younger first-time buyers. Like luxury SUVs, small luxury cars are forecasted to grow exponentially, from current sales of 110 thousand to an anticipated 680 thousand by 2020.

Local buyers, local production

As the segment proliferates, global premium brands are scrambling to localize production, and almost all major luxury brands are expected to have domestic assembly by 2016. Assembly localization has obvious cost advantage on several levels. Local sourcing, market research and development, and creation of a streamlined value chain within the country are all

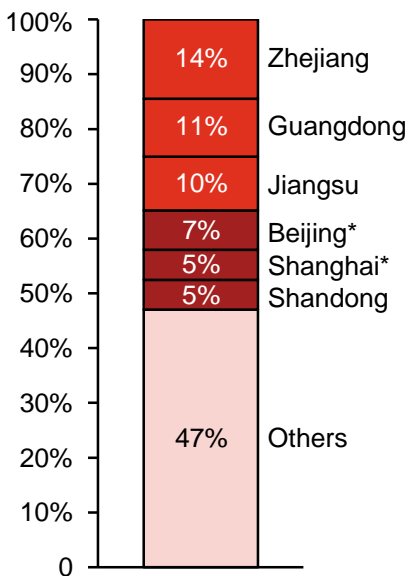
cost-effective measures that luxury automakers are chasing. Localization can also reap benefits long-term, both with government and legislative incentives as well as minimizing additional import duties. Establishing a local base not only demonstrates a commitment to the market, but allows for cost savings and the ability to remain agile to dynamic market where consumer preferences can shift quickly.

Where to from here?

As the luxury segment – and the Chinese automotive market as a whole – continues to grow in the long term, automakers will need to juggle multiple considerations. Maintaining a product mix that aligns with ever-shifting consumer preferences along with a cost-effective production strategy that combines local assembly and imports are high priority. Ongoing speculation regarding a proposed graduated tax structure on luxury consumption has gained momentum in recent months. Such a change would directly impact the entire luxury spectrum, requiring pricing considerations and overall strategy adjustments across all luxury producers.

The emergence of luxury vehicles continues to shape and reshape the market dynamics in China. Global automakers, both luxury and mainstream, can capitalize on this opportunity to strengthen their position within the world's foremost automotive market. To learn more about how PwC can help, please visit pwc.com/auto.

Luxury Share by Province
2011 (percentage share)



*Municipalities

Source: Autofacts 2014 Q2 Data Release, Autofacts Analysis

Luxury Vehicle Assembly : China and Global
2013 – 2020 (millions)

