Contacts:

Kristin M Ritter
PwC
+1 (313) 394-6349
kristin.m.ritter@us.pwc.com

Amy Gnadinger
PwC US
+1 646 471 5546
amy.r.gnadinger@us.pwc.com

FOR IMMEDIATE RELEASE

Majority Rules – Most Chinese Car Buyers Prefer Cash Purchases, but PwC Study Shows Trend is Toward Increased Financing

Millennial Attitudes and Government Intervention Help Improve Financing Landscape and Opportunity for OEMs

DETROIT, Dec. 8, 2014 – While China continues to dominate as the world's largest automotive market, a PwC AutoFacts survey shows the country still lags far behind in new vehicle financing, although signs are emerging that the trend is changing. Currently, 76 percent of car buyers purchase vehicles with cash, forcing the auto financing industry into a niche role in this vast marketplace.

But with the help of the millennial generation and the Chinese government, this trend is expected to shift in coming years. It's estimated that over the next five years, leasing could grow at an annual rate of 25 percent, potentially creating significant growth opportunities for OEMs' captive finance arms and investors in auto asset-backed securities alike.

"The emergence of captive lending in this huge marketplace is extremely valuable from an OEM perspective, since it presents an opportunity to foster a relationship with the customer for the vehicle's lifecycle," said Rick Hanna, Global Automotive Leader. "There are many things to consider as companies navigate this changing space, and a strategic outlook is vital to fully capitalize on lending relationships, which can result in other sales and service opportunities."

China's status as the leader in new vehicle sales are not expected to change anytime soon and has continued to grow with a 17 percent compounded annual growth rate (CAGR) between 2003 and 2014. However, the country's decade-old auto financing market is still not recognized as an accepted method for purchasing a new vehicle among Chinese consumers with only 21 percent using credit to finance their vehicle purchases. In mature markets such as the U.S., France and Germany, between 50 and 85 percent of sales are financed. Leasing as an option is even more scarce in China, where consumers prefer outright ownership, in contrast to countries such as Germany where leasing makes up 35 percent of new vehicle sales.

But with the emergence of the millennial generation, which is more open to convenient, affordable and relatively low-risk financing offerings, this landscape is changing. In addition to being more willing to experiment with vehicle purchase options, the millennial generation has enjoyed a sustained period of economic prosperity for much of their lifetimes, loosening their attitudes toward financing.

Also, with a growingeconomy, the other trend developing among Chinese consumers is the increasing preference for bigger, premium vehicles. Luxury and SUV sales are up, which means higher average transactions, making financing a more reasonable option.

Additionally, the Chinese government is doing its part to spur lending by promoting awareness of financial leasing options. More important,, it is also considering relaxing regulatory requirements to obtain auto financing licenses through the China Banking Regulatory Commission. The softening environment will likely result in growth opportunities for and an increase in OEM captive finance arms and more auto financing beyond traditional loans, as evidenced by the expected 25 percent growth rate in leasing.

All this bodes well for OEMs as the model of financing acting as the catalyst for customer touch points and revenue opportunities through aftermarket sales, warranties and service across ownership cycle, begins to develop in China.

For more information about PwC's Autofacts Analyst Note, download the December issue at www.autofacts.com or download the Autofacts app.

About PwC's Automotive Practice

PwC's global automotive practice leverages its extensive experience in the industry to help companies solve complex business challenges with efficiency and quality. One of PwC's global automotive practice's key competitive advantages is Autofacts®, a team of automotive industry specialists dedicated to ongoing analysis of sector trends. Autofacts provides our team of more than 4,800 automotive professionals and our clients with data and analysis to assess implications make recommendations, and support decisions to compete in the global marketplace.

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