

US-China Trade Dispute and its Impact on the Chinese Auto Market

August 2018

Key Statistics (YTD June 2018)	% Change (YoY)
China vehicle sales	+10.2%
China vehicle production	+3.9%
China vehicle import	-13.0%
China vehicle export	+24.1%

China light vehicle sales volume increased YOY 10.1% to 14.5 million in June 2018; the increase came from robust growth of SUVs, the rebound of sedans and the continuous booming of NEV. The rapid advancement of electrification technologies, battery cost reduction, business model innovation, and regulatory push will all drive the development and adoption of NEV in China in future.

The recent US-China trade tensions has caught the attention of many global business communities, and the uncertainty of the relationship has resulted in mostly negative outlooks. There is a concern that the increased auto tariffs will result in higher purchasing cost for Chinese consumers. For example, the Tesla model S will be ranging from USD 140,000 to USD250,000, 15% higher with the new tariff increase, whereas the same model is only sold at USD68,000 to USD134,000 in US market.

However, US imported cars accounted for less than 1% of all vehicles sold in China, and locally produced vehicles comprise 96% of Chinese vehicle consumption. Thus, the impact of trade dispute to the overall sales topline will be relatively limited in short term for Chinese consumers. For the US Big 3, the total number of imported vehicles is 28,200 in 2017. Only one US brand - Lincoln - ranked in the top 10 imported brands.

Despite the relative small market share of US imports and US OEMs in Chinese markets, all Big 3 US auto makers still have significant manufacturing footprint and sales dependence on the China market. Auto exports to China is the third largest export category (\$10B) for US, after Aerospace (\$16B) and Oilseeds & Grains (\$14B) in 2017 by US Census Bureau.

For the foreseeable future, we think the US-China trade dispute could impact the US-China auto relations directly in the following ways (but are not limited to):

- Decreased auto imports from the US to China market.
- Increased production cost for China and US-based manufacturers.
- Chinese and US consumers will bear higher cost for imported cars which will damage consumer confidence.

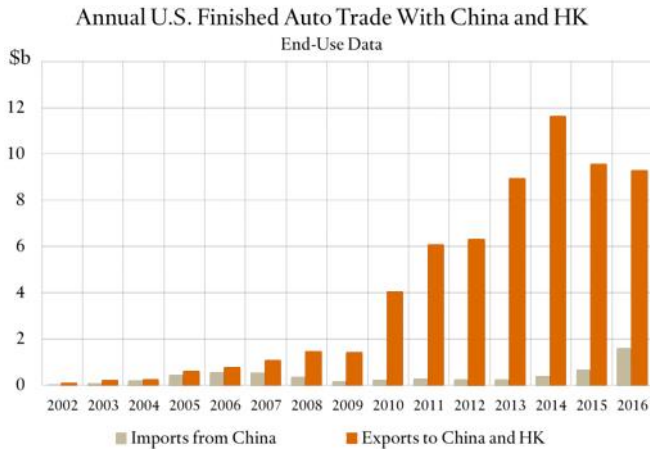
Due to the high complexity of automobile value chain, the industry is now more globalised than ever. The impact of increased auto tariffs will be felt by most participants in the supply chain, and eventually be passed onto end-users. For example, Daimler cut its 2018 profit forecast citing trade tensions as a key driver; it estimates that reduced sales in China of SUVs manufactured in the MB plant in Alabama will have a 250 million euro impact. Big 3 US auto makers have also recently lowered their profit forecasts citing the US-China trade tension as a factor. Other impacts includes (but are not limited to):

- A cooling business relation between US and China will have a negative impact on the confidence levels of businesses over future trade and investment activities.
- The dispute could put some US-based global OEMs' in a weaker position in the Chinese market. Given the importance of the Chinese market, these brands might feel greater pressure going forward.
- Global OEMs will likely revisit global strategies and localize a greater portion of their operation in China.

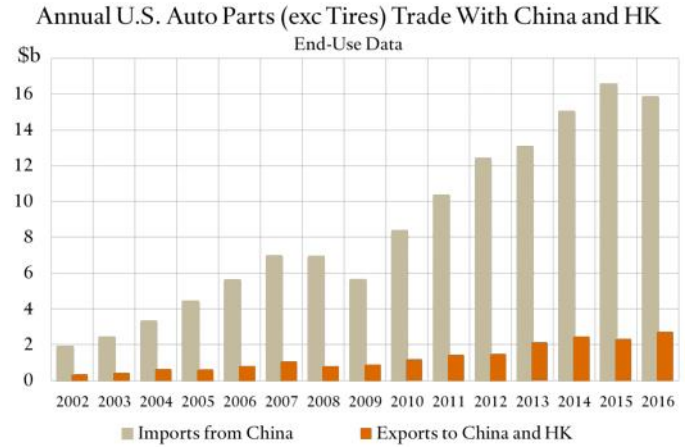
It is estimated that 2million vehicle sales will be lost in US market due to a possible tariff hike (WSJ, "Price of Imported Cars Are Set to Increase"). Though many of the tariff increases are yet to come into effect, many industry participants, including dealers, OEMs and consumers are expressing concern and feeling pressure over the possible change. In the China market, the negative impact of the increased tariffs will trickle down through the entire supply chain, which will still be reflected in the retail prices of many autos in the Chinese consumer market even though US brands and import cars constitute a relatively small market share.

Baseline US-Sino Auto Trade Data

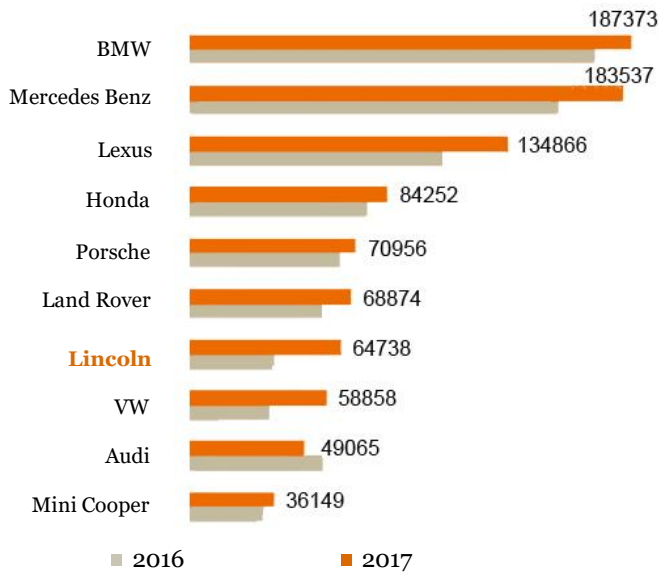
China: US vehicle trade with China 2002 - 2016



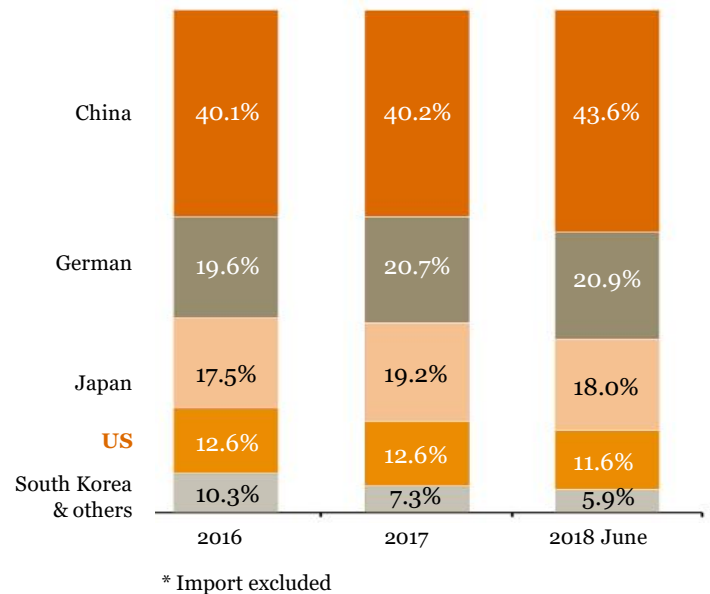
China: US auto parts trade with China 2002 - 2016



Top 10 import car brands sales in China 2017 — # of cars imported



OEMs in China — Market Share * 2018 June



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