

Beijing auto show showcases China's SUV love affair

April 21 2016, by By Joe Mcdonald



Female workers walk past an ad for an SUV at the site of the upcoming Auto Show in Beijing, China, Wednesday, April 20, 2016. China's love affair with SUVs is helping to cushion the blow of an unexpectedly painful slump in the rest of its crowded auto market. Scrambling for a piece of that action, automakers from General Motors Co. and Volkswagen AG to local players Great Wall and BYD are making SUVs the star of this month's Beijing auto show, the biggest of the year in the biggest auto market.(AP Photo/Ng Han Guan)

China's love affair with SUVs is helping to cushion the blow of an

unexpectedly painful slump in the rest of its crowded auto market.

Sales of SUVs, seen as the safest option on China's rough, chaotic roads, soared 52 percent last year. That helped the overall market grow 7.3 percent—a sliver of its 45 percent peak in 2009—even though car and minivan sales sagged.

"Ten years ago, no one wanted an SUV because it was considered to be a bulky truck for peasants," said Michael Dunne, a consultant on Chinese [auto market](#) strategy. "Now the cool factor has kicked in and SUVs are super-hot in the China market."

Scrambling for a piece of that action, automakers from General Motors Co. and Volkswagen AG to local players Great Wall and BYD are making SUVs the star of this month's Beijing auto show, the biggest of the year in the biggest auto market.

The show "will highlight the growing tension between international and local brands as they fight to outshine each other with new products," said Namrita Chow of IHS Automotive in a report.

Overall sales growth is likely to fall further this year to 6 percent after economic growth fell last year to a 25-year low, though total volume might reach 25 million vehicles, according to Chow.

An industry group for Chinese auto dealers has warned against stocking up on inventory that might not sell. A few years ago customers waited months for delivery of popular models.



Workers setup for the upcoming Auto Show in Beijing, China, Wednesday, April 20, 2016. China's love affair with SUVs is helping to cushion the blow of an unexpectedly painful slump in the rest of its crowded auto market. Sales of SUVs, seen as the safest option on China's rough, chaotic roads, soared 52 percent last year. That helped the overall market grow 7.3 percent - a sliver of its 45 percent peak in 2009 - even though car and minivan sales fell. (AP Photo/Ng Han Guan)

The speed of the decline surprised U.S., European and Asian automakers that are counting on China to drive revenue growth. They have poured billions of dollars into new factories and models designed for Chinese tastes.

"Nobody foresaw how quickly demand would slow," said Dunne. "Prices will fall. Profitability will suffer."

Communist leaders have encouraged auto manufacturing as an economic

development tool, though creating globally competitive Chinese brands turned out to be harder than they hoped.

Foreign automakers that want to produce cars in China have been required since the 1980s to work through state-owned partners that Beijing hoped would learn enough to launch their own brands.

When that failed to work fast enough, communist leaders extended support to independents such as BYD Auto, an electric vehicle maker, and Geely Holding Group, which bought Sweden's Volvo Cars in 2010 with support from state banks.

Global automakers were required to help state-owned partners create Chinese brands such as GM's Baojun and Nissan's Venucia in exchange for being allowed to expand their own production.

Meanwhile, major cities pay a price in throat-searing smog so severe that half of Beijing's cars were ordered off the road in December.



A worker rests in a van near the site of the upcoming Auto Show in Beijing, China, Wednesday, April 20, 2016. China's love affair with SUVs is helping to cushion the blow of an unexpectedly painful slump in the rest of its crowded auto market. Scrambling for a piece of that action, automakers from General Motors Co. and Volkswagen AG to local players Great Wall and BYD are making SUVs the star of this month's Beijing auto show, the biggest of the year in the biggest auto market. (AP Photo/Ng Han Guan)

The SUV boom has helped to rescue domestic Chinese automakers that had steadily lost market share to bigger, richer foreign brands.

Total profit for Chinese brands fell last year despite 10 percent sales growth, according to Robin Zhu of Bernstein Research. Zhu said that squeeze will worsen as more SUVs flood the market.

Chinese brands account for 65 percent of SUVs sold, dominating the market's lowest tiers, where profits are slim.

Most Chinese automakers have left behind the days of quirky and bargain-priced but poor-quality vehicles. They have invested heavily in technology and brought in Western designers to create sleek models that could be mistaken for Japanese or Korean brands.

"The foreign car makers are going to face more challenges," said analyst John Zeng of LMC Automotive. "The quality and competitiveness of local car makers are getting stronger and stronger."

This month, BYD Auto unveiled the Yuan compact SUV, starting at 59,000 yuan (\$9,100) for the gasoline version and 209,900 yuan (\$33,000) for a gas-electric hybrid. Also ahead of the Beijing show, Geely debuted the Boyue SUV, starting at 98,800 yuan (\$15,200).

At the show, automakers plan an avalanche of new SUVs ranging from 45,000 yuan (\$6,900) compacts to luxurious land yachts with heated seats and video players.



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The original off-road brand, Fiat Chrysler Automobiles' Jeep, is due to debut its China-manufactured Renegade. Honda Motor Co. plans to unveil two SUVs designed for China.

Local brands Great Wall Motor Co., China's best-selling SUV brand, and Chery Automobile Co. plan to show at least one new model.

Also this year, state-owned automakers Shanghai Automotive Industries Corp., Guangzhou Auto Co. and Dongfeng Motor Co. are expected to launch as many as three new SUVs.

That should raise annual SUV production in China above 7.2 million units, with possible sales reaching 7.7 million, Chow says.

Automakers also are working on futuristic technologies including electric and self-driving cars, shared vehicles summoned by smartphone and Internet-linked onboard services.

GM plans to launch at least 10 electric or hybrid vehicles in China over the next five years, according to Matt Tsien, the Detroit automaker's president for China. That is part of 60 new or refreshed GM vehicles planned over the next five years.

Joining the fray, technology companies including search engine Baidu Inc. and e-commerce giant Alibaba Group have announced plans to develop self-driving cars, navigation and other advances.

On Wednesday, a Chinese company, LeEco, which started out as video website LeTV, unveiled what it said is a self-driving all-electric car. The company said it would announce details at the Beijing auto show.

Automakers are encouraged by the fact that China's overall vehicle ownership rates still are low compared with developed countries.

China has 172 million cars and 280 million licensed drivers, according to government data. That is the equivalent of 13 cars for every 100 people, well below the U.S. level of 80 per 100 people.

But efforts by Beijing and other big cities to curb smog by limiting new car registrations are forcing [automakers](#) to look for buyers in smaller towns, where profits are thinner.

SUV sales are so strong that some Chinese brands are gambling their futures on the boom by putting all their resources into that segment, said Zeng.

"That strategy is effective in the short-term but in the longer term quite risky," he said.

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