S&P Global
Mobility

AutoTechInsight News
OEM Strategy
August 2015

# EDITORIAL – As China's Stock Market suffers, demand for light-vehicles also sees a slowdown

31-Aug-2015 12:00 GMT

**S&P Global**
Supply Chain and Technology, Automotive

**Coverage of the 'Black Monday' event on China's stock market seemed to suggest the start of the crisis, but does the automotive sector reflect that?**

After soaring 150% over the course of a year, the benchmark Shanghai Stock Exchange (SSE) Composite Index fell by more than 30% last week in an event dubbed 'Black Monday'. The day's trading saw billions wiped off the Shanghai Composite and other markets around the globe, with stocks rallying towards the end of the week.

The volatility in the stock market begs the question of how much of an impact this will have on the industrial sector and consumer demand in the region, especially with OEMs and suppliers banking on strong returns from China for at least the next few years. Although the downturn will have some negative impact on consumer spending and growth in the second half of 2015, it is unlikely to cause any lasting disruptions to non-financial sectors. China's stock market's links to the real economy are low by most statistical measures – and much lower than they were in 2008, with the majority of enterprise investment financed by bank loans.

However, though the Stock Market may not have that large of an impact in other developed nations, there are signs that the Chinese economy in general is starting its inevitable slowdown. David Yang, Principal Analyst, Asia-Pacific, IHS Country Risk said that, "One likely economic concern was the relatively fragile state of the economy. According to IHS projections, China's economic growth is expected to slow to 6.5% in 2015 and 6.3% in 2016, the lowest level since 1990. Measures of Chinese industrial activity (freight traffic, copper imports, and the production of electricity, steel, aluminium, ethylene, automobiles, and appliances) showed little if any growth over the first half of 2015."

Auto sales in China declined 7.1% y/y in July, with YTD sales flat according to China Association of Automobile Manufacturers (CAAM) data. Smaller domestic automakers in China continue to close the sales gap with their bigger peers, but it's the increasing unsold inventories that will be a concern for those involved in production. The association said vehicle production stood at 1.52m units last month, down 11.8% y/y. The decline in July's production brought down the year-to-date (YTD) output growth to 0.8% y/y to 13.61 million units. In July, IHS Automotive downgraded the mainland China production outlook for 2015 to 23.7 million units, from 24.0 million units in the June forecast, owing to seasonal adjustment and working-day correction. Major OEMs are expected to extend the coming summer breaks as a means of reducing inventories.

This slowdown is also affecting suppliers. Earlier in August, Faurecia and Valeo reported higher sales in China in the first half of the year. But though sales may be up, sales growth has taken the hit; Faurecia's sales growth, however, declined during the first half considering the company recorded 20% increase in sales during the same period in 2014. Valeo's sales in China increased by 10% y/y to EUR849 million (USD934 million), down from 28% growth reported a year earlier.

Despite the concerns though, many suppliers are still bullish on China. The last two months has seen plant openings in China from Continental, Cooper-Standard, IAC, Leoni, Johnson Controls-Yanfeng Automotive, and Nexteer. Lear's president of Asia Pacific seat and electronics, Jay Kunkel, in an *Automotive News* interview that took place before 'Black Monday', said that the company will stick to its plans for expansion in China, despite recent sales declines and a devaluation of the yuan. "We've had no draw-down on our investment plans at all. We're still looking at significant sales growth. Our numbers will beat the industry numbers," Kunkel said. He also said that the recent downturn in the country's stock market hurt only a fraction of the country's car-buying customer base. Kunkel did say, however, that many automakers have overcapacity in China and have to work with the country's moderating economic growth, while international makes are trying to adjust to radical swings in customer taste that have come to typify China, citing a current rapid rise of domestic Chinese automakers offering hot-selling compact SUVs. Lear plans to open a new electronics plant and a new seating plant in China through the end of 2016, and reported a 2% gain on sales in Asia with its second quarter results.

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