China is the world's largest car market followed by, its rival and partner, the United States. In 2019, the entire industry consisting of both manufacturing and export of parts and vehicles, contributed about 10 percent of the country’s overall domestic production.

After decades of speedy growth, China's car market has slowed down since 2018. The destructive impact of weak economic growth, the trade war with the U.S., and implementing tougher vehicle emission standards which was introduced last summer, pressed China’s car sales in 2019 lower than 2018.

The car market in the country has declined every single month in 2019 and it has continued driving on a road of losses for the second year in a row, after decades of rapid expansion. There was only little hope late last year when the speed of market shrinkage reduced slightly, but the recent Covid-19 pandemic made things worse than ever. The country's car market sales as reported by the national auto industry body dropped by 8.2% to about 25.769 million units in 2019 while the vehicle production fell by 7.5% to 25.721 million units. Car’s production and sales both experienced year-over-year (YOY) drops for months in 2019, while the first half of the year indicated higher YOY rates of declines and the second half indicated lower rates.

The slow growth of car sales in China with no doubt has a direct impact on production. In 2019, based on the reports by China Association of Automobile Manufacturers (CAAM), passenger car production in China, reached 21.360 million units, which is about 9.2% less than total passenger car production in 2018. Last year, China's passenger car sales was about 21.444 million units with about 9.6% YOY drop. The production and sales proportions of passenger cars to the total car production and sales reached 83.0% and 83.2%, which means, 3.4% and 1.2% less respectively than the proportions in 2018.

In spite of passenger cars, commercial vehicles with a total production of 4.36 million units have registered a 1.9% growth last year compared with the production in 2018. However, the sales figures for commercial vehicles declined last year. In 2019, commercial vehicle sales were about 4.324 million units with a 1.1% YOY decline. Interestingly, the export of this type of vehicles, increased by 5.7% in 2019, as Chinese commercial vehicle manufacturers exported about three hundred thousand units last year, while the total vehicle exports reduced by 1.6% to 1.024 million units. 725,000 units of exports recorded by passenger cars with a 4.3 YOY decline.

Slow growth in car production and sales is not limited only to the conventional but also New Energy Vehicles (NEV). In 2019, total NEV production declined by 2.3% to 1.242 million units and its sales decreased by 4% to 1.02 million units. When Tesla announced the opening of its Shanghai factory in 2018, Chinese electric vehicle sales were growing rapidly and of course supported by government subsidies. In 2019, the production of Battery Electric Vehicles (BEV) was about 1.02 million units with a 3.4% YOY growth, while sales were still lower than 2018, at 972,000 units, recorded a 1.2% YOY decrease. Production of other NEVs, like Plug-in Hybrid Vehicle (PHV) and Fuel Cell Vehicle (FCV) were 220,000 and 2,833 units while their sales figures were 232,000 units and 2,737 units. PHV production and sales both declined in 2019 by 22.5% and 14.5% respectively, but maybe the only silver line to the recession, was FCV market growth, of which both the production and sales increased by 85.5% and 79.2% respectively last year.

Overall, we have to admit that the low speed growth turns into the new norm in China while the car market has already said goodbye to its decades of blazing growth. When the wheels are coming off the world’s biggest car market, industry players in this country are preparing themselves to enter a new phase of development. This is what all car manufacturers in China need to get used to in this low speed growth situation and the entire industry steps into the process of transformation and upgrade.

While major sales declines were mainly caused by changing policies, trade tensions with the US and slowing economy are expected to continue in 2020. The recent deadly outbreak closed the borders, shut down thousands of dealerships and factories and stopped almost the whole market.

This crisis happened, when the market was trying to accept the reality of low-speed development. Consequently, car sales have collapsed and production has also been severely disrupted. Not only in China, but many of the world's biggest car makers have warned of delays. At the time of this writing, it has been about four months since the first case of COVID-19. Many car companies had expected to restart their operations in China, but even those firms that have re-opened some locations have announced it will take longer to go back to expected full capacity.

Subsequently, within the first two months of this year, car sales and production dropped drastically in China. Car dealerships have remained closed while buyers have stayed away to prevent the spread of the deadly virus. Only in the first half of February car sales dropped by 92%. Nationwide car sales fell by 96% in the first week of February to a daily average of just 811 units. Sales started negatively in January with a 20% decline and continued its falling in February by another 76% due to the total shutdown in China.

Despite the situation, in the long run, the market will find its way, supported by years of strong sales growth for almost two decades and perhaps government incentives and supports. Undoubtedly, total sales and production will be less than last year and in the worst case it can be a more than 20% decrease compared with last year. If there is no reappearance of the pandemic in China, demand shocks will still remain as the biggest managerial challenge for the sector. This is where, business and operation transformation play crucial roles. Main concerns of carmakers should be around steadily improving operational efficiency, redefining pricing strategy and grasping online sales.

Sources: MarkLines, Automotive Industry Portal, China - Flash report, Sales volume, 2019 Coronavirus: Car sales in China fall 92% in February, The BBC