China's Voracious Demand For Cars Falls Dramatically

Elaine Kurtenbach, AP Business Writer

SHANGHAI (AP) — China's voracious demand for cars eased in February, as surging gasoline prices, the end of government subsidies and a major holiday took a toll on the world's biggest auto market.

The China Association of Automobile Manufacturers reported Wednesday that total sales including buses and trucks fell 33 percent in February from the month before to 1.27 million vehicles. Sales of passenger cars dropped 37 percent to 967,200 vehicles.

The 5 percent increase from a year earlier for all vehicles and 2.6 percent rise for passenger car sales represented the slowest pace of growth in more than two years.

The quasi-official automobile industry group attributed the deceleration in sales to the weeklong Lunar New Year holiday. Auto sales in China often hit a lull before picking up later in the spring.

But the market has been showing signs of cooling after the government ended subsidies for purchases of small cars and Beijing, the capital, enacted quotas for car purchases in the city.

China's vehicle sales in January-February rose about 10 percent year-on-year to 3.15 million, while output climbed 9.6 percent to 3.1 million vehicles, the report said. But that compared with an 84 percent jump in sales in the same period of last year.

Figures from the Shanghai-based China Passenger Car Association showed similar trends for sales in February.

"The impact from the policy changes was big. We estimate that sales may be reduced by at least 3 million in 2011 due to those changes," said Rao Da, secretary-general of the independent research association.

Fluctuations in demand over the past few years have sparked a debate over whether automakers — local and foreign — are overinvesting in capacity to meet overblown expectations for future demand.

But many analysts believe the market needed to settle into a more sustainable pace of expansion after years of torrid growth, and that demand will continue to expand at a relatively rapid rate.

"Auto purchasing power was overdrawn in the past two years and now it needs to accumulate again," Rao said. "The incentive policies should have been withdrawn a long time ago."

While demand for small cars and vans has cooled, sales of higher-end vehicles have remained strong as current car owners upgrade to sport-utility vehicles and imports. While sales of SUVs fell nearly 30 percent in February compared with January, they were still up nearly 50 percent from the year before.

Those trends are helping blunt the impact of cooling demand on global automakers that are looking to China to provide growth they can't find elsewhere.

General Motors Co. reported that its sales in China surged 34 percent from a year earlier in February to 184,498 vehicles. However, that was far below the 268,071 sold in January.

GM, which sold 2.35 million vehicles in China last year, saw sales rise just 15 percent in January-February, to 452,570. While sales of its Buick and Chevrolet sedans have remained robust, minivan sales by its joint venture SAIC-GM-Wuling have cooled since the government ended special subsidies for rural buyers of the vehicles.

GM's biggest local partner, Shanghai Automotive Industrial Corp., reported its sales climbed 14.3 percent in February from the year before, to 283,382 vehicles.

Ford Motor Co. says its China sales rose 11 percent year-on-year in February, to 31,934 vehicles. Sales for the year have risen 16 percent, helped by strong demand for the Ford Focus mid-size sedan.

Honda Motor Corp.'s sales in China fell 6.5 percent in February from the year before, to 41,348 vehicles, although sales so far this year are up 4.4 percent to 107,028.

Su Hui, an executive with the China Automobile Dealers Association, says that apart from the usual slump in sales due to extreme winter weather in some areas, automakers were not quick to offer discounts during the Lunar New Year holiday.

"Some customers are waiting to see what happens. Sales in March will be much better, for sure," Su said. "I see more and more customers in the showrooms everyday."

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Associated Press researcher Fu Ting contributed to this report.

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