Active is: Conducting proprietary research

Consumers in China drive domestic-brand car sales to the detriment of JVs

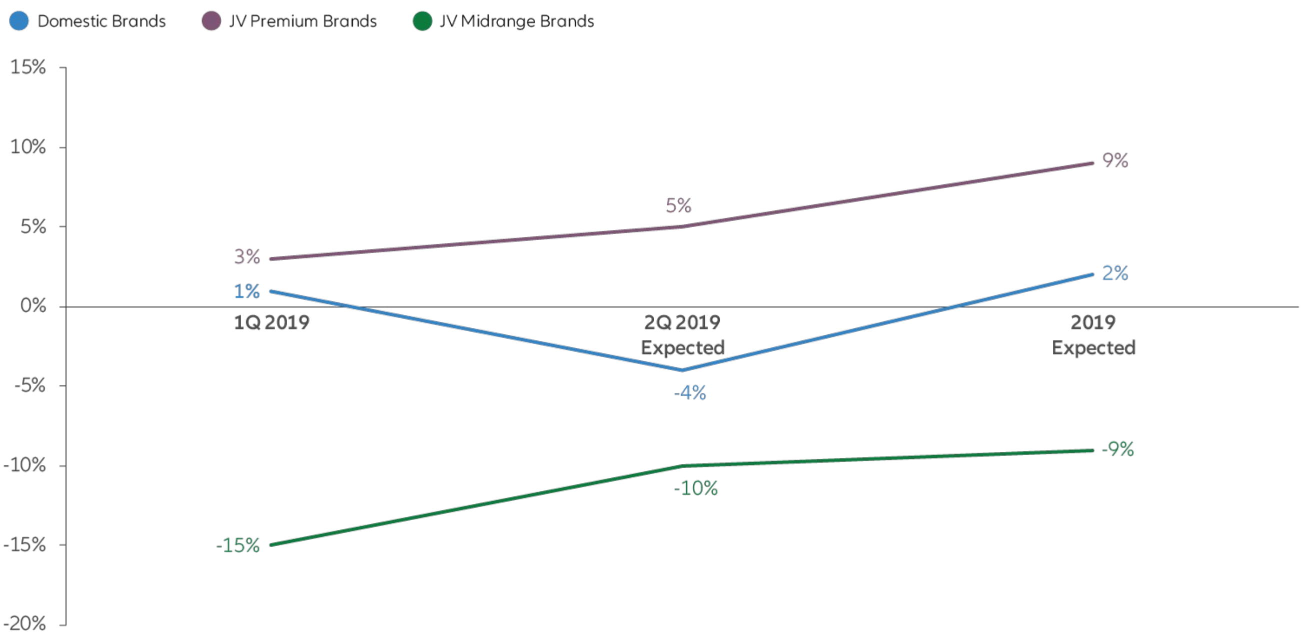
12/07/2019

Summary

Sales of domestic-brand sedans and SUVs rose in 3Q 2018 year-to-year, while those of joint-venture (JV) premium brands fell by the same percentage. Domestic-brand dealers generally reported flat levels of discounts/promotions vs. last year, while JV premium–brand dealers cited higher levels of discounts/promotions.

Interviews with sources at automobile dealerships in China revealed that, on average, sedan sales are up 6% for domestic brands, while they are down 6% for JV premium brands in 3Q 2018 vs. 3Q 2017; SUV sales are up 7% for domestic brands, while they are down 10% for JV premium brands. Sales generally were in line with expectations for domestic-brand dealer sources, while they were below for JV premium-brand dealers. Looking ahead, almost all domestic-brand dealers expect overall automobile sales to increase in 4Q 2018 vs. 4Q 2017, while two-thirds of JV premium-brand dealers expect sales to decrease.

Chinese automobile sales trend expectations by segment



Source: Grassroots® Research

Regarding average current inventory, it is 64 days for domestic-brand dealer sources and 50 days for JV premium-brand dealers. Looking ahead, through the rest of 2018, slightly more than half of domestic-brand dealers expect inventory to remain flat, while slightly less than half expect it to decrease; three-fifths of JV premium-brand dealers expect inventory to remain flat, while one-third expect it to increase.

Meanwhile, the current level of discounts/promotions is flat vs. the same time last year for slightly less than three-fourths of domestic-brand dealer sources, with slightly more than half reporting that it is driven by car dealers and slightly more than one-third reporting that it is driven by automakers. Among JV premium–brand dealer sources, the current level of discounts/promotions is up for slightly less than three-fourths, with slightly more than two-thirds reporting that it is driven by car dealers. As to current auto finance penetration, it reportedly is an average 52% for domestic brands and 26% for JV premium-brands. Looking ahead, slightly more than three-fourths of sources expect auto finance penetration to increase in the next 12 months.

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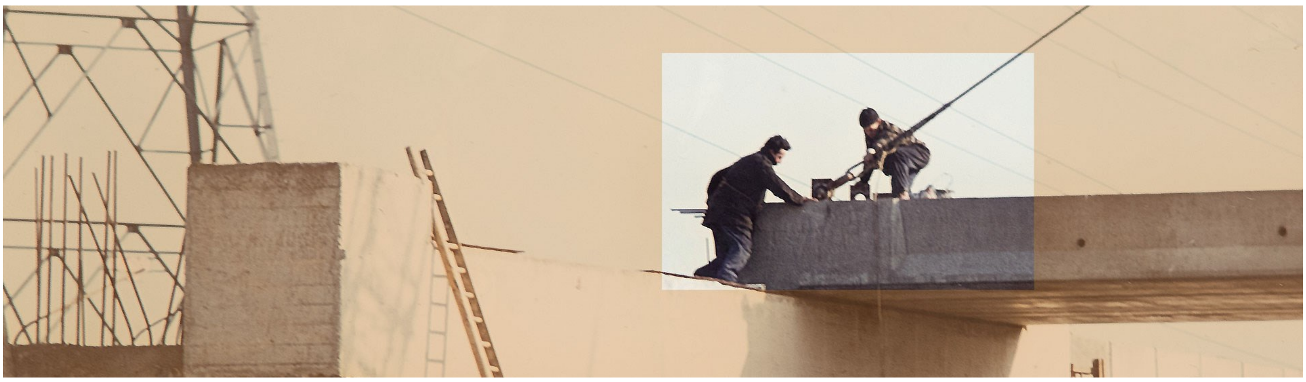

Summary

Changes to the nature of workforces in the developed world have seen the proportion of Gross Domestic

Product (GDP) accounted for by wages fall for several decades, boosting investment returns. However, these trends could be set to reverse, with negative consequences for investors in the years to come.

Key takeaways

- The past 50 years have been a golden age for equity investors, and bonds have also provided attractive returns
- One of the reasons for the strong investment returns over recent decades has been a fall in the labour share of GDP
- The labour share of GDP now looks to be rising, with likely negative consequences for investment returns over the years to come
- In the expected lower-return environment, we believe shorter-maturity corporate bonds, dividend-yielding equities, and stocks exposed to disruptive technology are best placed to prosper

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