



Home | Top News
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China's Round-The-Clock Auto Factories Still Cannot Meet Demand

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Jan. 15 (Bloomberg) -- Nissan Motor Co.'s factory in central China is making cars almost 24 hours a day, yet Pan Xiaowei still waited three months for her new Tiida compact to arrive at the dealership.

"It wasn't like this a couple of years ago," said Pan, 34, whose husband runs a property development company in Shandong province. "We used to buy and get a car straight away, and now you have to pre-order and wait."

China overtook the U.S. last year as the world's largest automobile market with sales surging 46 percent to 13.6 million, according to the China Association of Automobile Manufacturers. Nissan, Ford Motor Co. and Honda Motor Co. are running their Chinese factories at full capacity, with overtime and weekend shifts, and still can't deliver enough cars.

"Based on our current growth rate and planning assumptions, the capacity of our two facilities will not be able to accommodate the expected future demand for our products," Nigel Harris, general manager of Ford's venture with Chongqing Changan Automobile Co., said in an e-mail.

About 99.7 percent of cars made in China through November last year were sold, the association said. Foreign automakers are expanding assembly lines as buyers in secondary cities beyond Beijing and Shanghai benefit from government subsidies of at least 5 billion yuan (\$732.5 million), a sales tax cut and 8.9 percent economic growth.

Rural Consumption

Car sales have been fueled by demand in rural areas where the growth rate exceeded that of urban regions last year for the first time, Trade Minister Chen Deming said in a Jan. 13 interview with state broadcaster CCTV.

"Spending power in the medium and small cities is rising, and demand there has surpassed those in bigger cities," said Wei Tuo, a Henan province dealer for Nissan's joint venture with Wuhan-based Dongfeng Motor Group Co. "Cars are no longer considered a luxury item but a standard consumer product."

Wei's company has about 40 outlets in the central region selling several brands. About 55-60 percent of sales come from middle- and small-sized cities, he said.

Nissan is the No. 1 Japanese automaker in China, with last year's sales rising 39 percent to 756,000, outselling Toyota Motor Corp. and Honda, according to the three companies. Nissan's top seller is the Teana.

Running Almost 24 Hours

Nissan is spending 5 billion yuan to expand its Hubei province plant to build up to 600,000 vehicles annually from the current 430,000, spokeswoman Kana Minamidate said. That central China factory makes the Tiida compact and Livina series popular in secondary markets, she said.

"The plant was originally operating with two shifts but now we have three shifts to build cars almost 24 hours a day," Minamidate said, adding that customers still wait for deliveries.

Nissan also is spending 1 billion yuan on a light-commercial vehicle factory in the eastern city of Zhengzhou that will open this year and build up to 120,000 vehicles annually.

China requires overseas carmakers to work with local partners, who must own at least 50 percent of joint ventures. These ventures produced eight of the 10 best-selling cars last year, according to automobile association data.

Changan Ford Mazda Automobile Co. has plants in Chongqing and Nanjing building cars "at maximum allowable overtime and weekends," Harris said. The company will open a \$490 million factory in Chongqing in 2012 making up to 150,000 vehicles a year, boosting overall capacity to 600,000.

'More Traffic Jams'

Near-term growth will be concentrated in eastern and central regions, and cities outside Beijing, Guangzhou, Shanghai and Shenzhen, Harris said. The venture opened more than 65 percent of its new dealerships last year in smaller cities, and that proportion is expected to reach 75 percent in the next few years.

"There are more traffic jams in Chengdu than in Beijing," said Zheng Minda, vice general manager of a Ford dealership in the Sichuan province city. "Demand

is greater than supply.”

Customers wait at least a month for delivery, he said.

The government unveiled stimulus packages and new bank lending to spur domestic consumption after GDP growth slumped for eight straight quarters and exports declined for 14 months as the global recession took hold.

Still, automakers face possible overcapacity in China, according to Chen Bin, who oversees regulation of the country's auto industry at the National Development and Reform Commission.

China has more than 100 automakers and they should “keep their heads cool” to prevent expanding production beyond demand, Chen said in September.

Income Gap

Urban residents earn about three times more than rural, who comprise more than half of China's 1.3 billion people, according to government statistics.

Rural Chinese buying a new minivan or light truck can get a subsidy of 10 percent of the purchase price, up to 5,000 yuan. Those replacing light trucks can get another 5,000-18,000 yuan.

The government also reduced the sales tax on new vehicles with engines of 1.6 liters or smaller to 5 percent from 10 percent. It said Dec. 10 it was raising the rate to 7.5 percent.

Honda, which opened 55 dealerships mostly in small cities last year, is focusing expansion in suburbs and exurbs of major cities, said Masayuki Igarashi, general manager of its China operations office in Tokyo. Its best-selling model is the Accord.

Chief Financial Officer Yoichi Hojo said in November that the company, which makes about 550,000 cars a year in China, doesn't have enough capacity. The Yokohama, Japan-based automaker plans to increase production at its Hubei province plant to 240,000 cars this year from 200,000.

The Wuhan factory runs at full capacity and built 210,000 units last year with overtime and weekend shifts, Honda spokesman Yoshiyuki Kuroda said. It makes CR-Vs, Civics and Accords, and wait times are at least a month, he said.

Pan, who lives between Beijing and Shanghai, said a lot of Chinese households now own two cars.

“It used to be that only company bosses could afford a car, but now teachers and office workers can also buy one,” she said.

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