

China National Bureau of Statistics and Sinotrust Jointly Release'2009 Q2 China Automotive Industry Climate Index'

July 22, 2009, Beijing ---- China National Bureau of Statistics and Sinotrust jointly released the "2009 Q2 China Automotive Industry Climate Index".

1. Comprehensive China Automotive Industry Climate Index registers at 96.9

The China Automotive Industry Climate Index records 96.9 in the second quarter of 2009 (2001=100), down 1.6 points over the first quarter, which indicates the true recovery of the auto market is not yet in sight, and the industry is still experiencing a downturn. However, with the influence of random factors (Policy factors) taken into consideration, the index witnesses a sharp increase in Q2, showing the industry recovering with the support of the auto industry rejuvenating policies.

The facts and figures demonstrate that policies are playing a significant influence on the auto industry. However, if the industry fails to improve their risk resistance capacity with the help of the policies, the recovery would become difficult.

2. Pre-warning Index of China Automobile Industry records 86.7

The Pre-warning Index is an important indicator reflecting the climate of the auto industry. In Q2 of 2009, the indicator reaches 86.7, 3.4 points higher than in Q1.

On the color chart, the index has moved up from between "Light Blue Zone" and "Green Zone" in Q1 to "Green Zone" in Q2, indicating the industry climate has taken a turn for the better.

3. Entrepreneur Expectation Index of China Automobile Industry registers at 125.2

The Auto Industry Entrepreneur Expectation Index reflects automakers' perception on current market as well as their anticipation on the future market. The index registers 125.2 in Q2 of 2009, slightly higher than in Q1 (125.0), showing that entrepreneurs have strong faith in the market and become more optimistic than they were in Q1.

4. Dealer Manager Index of China Automobile Industry registers at 103.5

The Dealer Manager Index demonstrates dealers' perception on current market as well as their anticipation on the future market. Registering 103.5, the index is 2.3 points lower than in Q1, though still above 100. This figure shows that dealers are still optimistic about the market, but they are less optimistic than in Q1.

In summary, the declining index shows the auto industry itself is still within a downturn market. The current seemingly prosperous market is largely a result of policy stimulation.

The following features are observed during the survey: First, without considering the random factors (In

Q2, policies are the main random factors), the index of Q2 continues to slide. However, when taking into consideration the random factors, the index witnesses a sharp upward momentum. Therefore, it can be concluded that auto industry rejuvenating policies are the key driving factors behind the recovery of the industry. Secondly, the Pre-warning Index regains uptrend. The business status of the industry stabilizes. Production, sales, profit and tax all improve by large margin over previous quarter. Thirdly, entrepreneurs and dealers are optimistic about the future market.

It is worth of notice that the prosperity of auto market is mainly driven by the stimulation of policies. The risks of downturn are still there, but they are overlooked to a certain extent.

Forecast of the Climate Index of China Automobile in the Third Quarter of 2009

The auto industry is still on a downward path. Its development in Quarter 3 will still rely on the support of policies. Due to the stimulation of policies, the auto production and sales both registered high records in Q2. Meanwhile, the business status of automakers improves, demonstrated by reduced number of companies running in the red and decreased deficit. Moreover, the year-on-year profit growth rate of the industry has turned positive. However, if leaving the policy factors behind and examining the status of the industry itself, we may find that the industry is still on a downward path, and the Business Index of the Automobile Industry will remain low in the short run. The industry still needs continuous strong policy support from the government.

Under the premise of a continuous policy support, it is estimated that the automotive industry will continue the momentum of the previous quarter in the third quarter, and the index is expected to rise further, though only by a limited margin. And the business status of automakers will keep improving. However, we shall be cautious when predicting the real improvement on index of export, accounts receivable, etc.

The entrepreneur and dealer confidence indicators stay over 100. However entrepreneurs and dealers' anticipation on the auto market in Q3 is lesser than Q2, as Q3 is traditionally a slack season. According to our experience with the industry climate index, when random factors play a huge influence, the leading indicators, which partly compose the index, will be out of order to some extent, and fail to provide accurate early warning. The current policy's influence on the auto market is exactly the case. Therefore, demonstrated by the confidence indicators, entrepreneurs and dealers are overly optimistic about the market as a result of the influence of the stimulus policies.

Entrepreneur Expectation Index shows that 6.2% of the respondents believe the sales volume of their company will "Increase drastically" in Q3, 43.8% anticipate that the sales volume will "Increase slightly", and those who perceive that the volume will "Remain the same" and "Decrease slightly" both account for 25.0%. In terms of stock, 53.8% of them believe the stock will increase, while the remaining 46.2% anticipate the opposite. Moreover, in terms of fluidity and finance, over 90% of the interviewed entrepreneurs anticipate that they will have ample current capital and satisfactory financial conditions. And most respondents are optimistic about their business operations in the next quarter.

Dealer Manager Index shows that in general, auto dealers hold gloomier anticipation towards Q3 than

Q2. Only 3.3% of the respondents anticipate the business in Q3 will be "Very good", 29.9% believe their business will be "Good", 49.9% state "So-so", while "Not very good" and "Very bad" are anticipated by 14.9% and 1.9% respectively. In terms of profit, only 19.6% of the respondents believe the profit will increase over Q2, down 23.4 percentage points over previous quarter.

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