Analysis of the Development Prospect of China's Used Automobile Market

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Abstract. The development of automobile industry shows that the growth of automobile sales in a country will inevitably lead to the growth of used car market transactions. "With the further development of China's automobile market, the number of new cars is increasing, and consumers' demand for car replacement is increasing significantly. In the future, the gap between used car transaction and new car sales will be further narrowed." Although, since the outbreak of COVID-19 in early 2020, the growth rate of China's domestic automobile consumption market has slowed down, consumer consumption expectations have declined, and the market has cooled significantly. Despite this, China's used car trading has achieved impressive results in the face of the overall car trading market. This article through to the development of China's used-car market present situation, used car trading, such as consumer preference for the data analysis, the rapid development of the used-car market in China in the future. The prospect of making a forecast and judgment, it is concluded that in the future China's used-car market size will continue to expand, huge market potential in the future; The used car trading system will be improved, and the market will become more standardized and transparent. The service quality of used car trading platform will continue to improve.

Keywords: China; Used car market; Development.

1. Overall Analysis

Statistics show that China now has more than 300 million cars, ranking first in the world. In terms of second-hand car circulation, in 2021, although China's second-hand car transaction volume reached 17.59 million [1-3], it accounted for less than 6% of the total car ownership, which is far lower than the mature international car market. Therefore, in the long run, China's used car market still has a lot of room for development.

Since 2021, with the outbreak of COVID-19 worldwide, the advantages of strong resilience of China's automobile industry chain have been fully reflected. However, due to the insufficient production of automobiles in other countries, the inventory of finished cars is severely out of stock, leading to the skyrocketing price of used cars. In particular, from the data of the United States, the inventory of American dealers at the end of 2020 was 2.74 million units, while the total inventory of authorized dealers in the United States in 2021 was 1.12 million units, down 59.1% from 2.74 million units at the end of December 2020.

Since March 2020, China has introduced a series of policies conducive to used car trading, which have solved problems such as ownership transfer difficulties in used car trading from the institutional level and objectively promoted the development of used car trading market.

1.1 Transaction Volume

According to the statistics of China Automobile Dealers Association, China's used car transaction volume showed a continuous growth trend from 2014 to 2019. During the seven years from 2015 to 2021, the compound growth rate of used car transaction volume was about 9.3%, which was more than 5 times higher than the new car market. Due to the COVID-19 pandemic, the total volume of used car transactions declined for the first time in 2020. The total volume of used car transactions nationwide dropped by 3.90 percent year-on-year to 14,341,400 units in 2020. In 2021, the impact of the COVID-19 pandemic, coupled with the chip problem and the decrease in the supply of new cars in foreign markets, the used car market transaction maintained a steady growth. "In 2021, the number of used cars traded in China was 17.5851 million, up 22.62 percent year on year," [1] reaching 67 percent of the scale of new car sales. In the same period of 2020, due to the impact of the epidemic, the volume of used car cars traded in China was 14.34 million. "Referring to the data of the same period in 2019, the volume of used car cars traded increased by 17.84% compared with the same period in 2019" [3], which was 40% higher than that of 2012. Affected by the pandemic and the international market in 2022, from January to June, the volume of used cars traded was 7,585,200, down 10.07 percent year-on-year and 849,000 units less than the same period. Since March this year, the used car market transaction volume has been three consecutive months of sharp year-on-year decline. Transactions were down nearly 30 per cent year on year in April and nearly 20 per cent year on year in May. (See Figure 1 & 2)

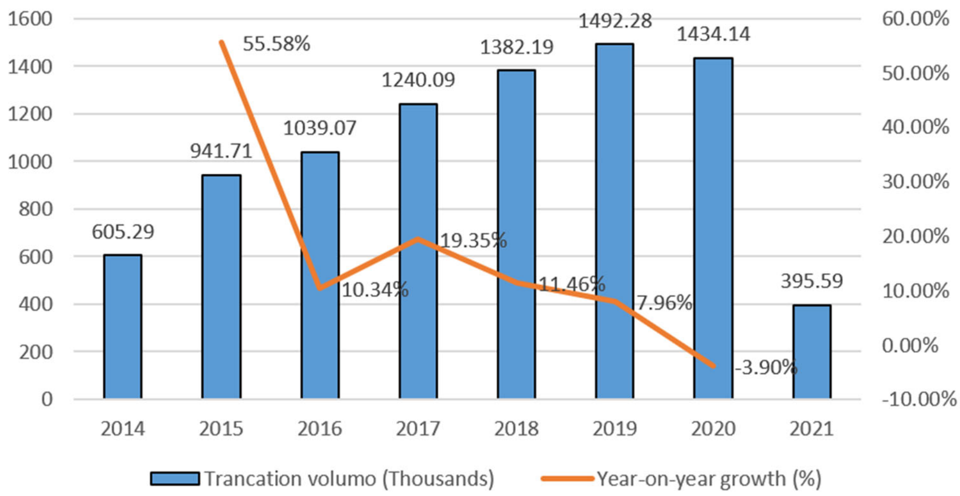


Fig. 1 Chang in the number of transactions in China's used car market from 2014 to 2021 (Unit: Thousand, %)

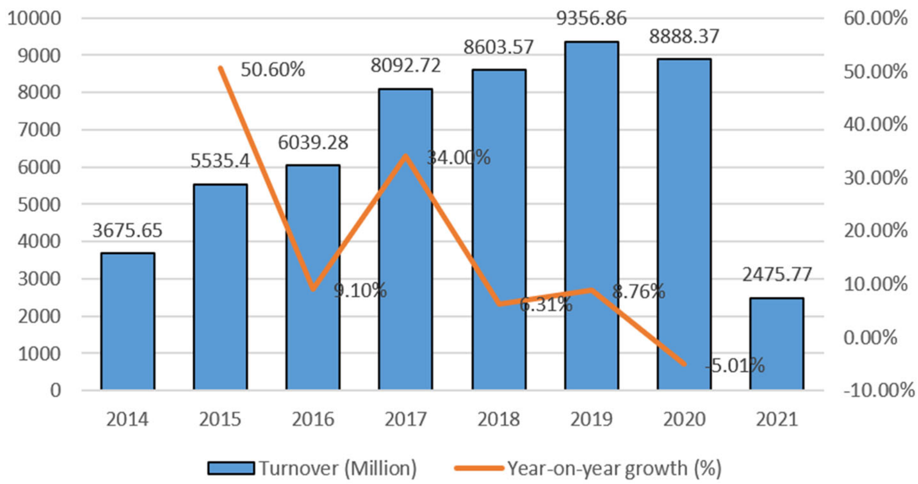


Fig. 2. Total transaction trend of China's used car market from 2015 to 2020 (Million, %)

1.2 Vehicle Type

"A total of 10.5911 million basic passenger cars were traded in 2021, up 23.34 percent year-on-year; 1,320,300 passenger cars, up 7.02% year on year; 1,453,800 trucks, up 9.63% year on year; The most obvious growth was seen in the number of SUVs (1.9763 million), up 44.18 percent year-on-year. The transaction value was 1,131.692 billion yuan, a year-on-year increase of 27.3 [4]. And medium - sized SUV due to emissions issues, fuel consumption issues and other restrictions on its market space. (See Figure 3)

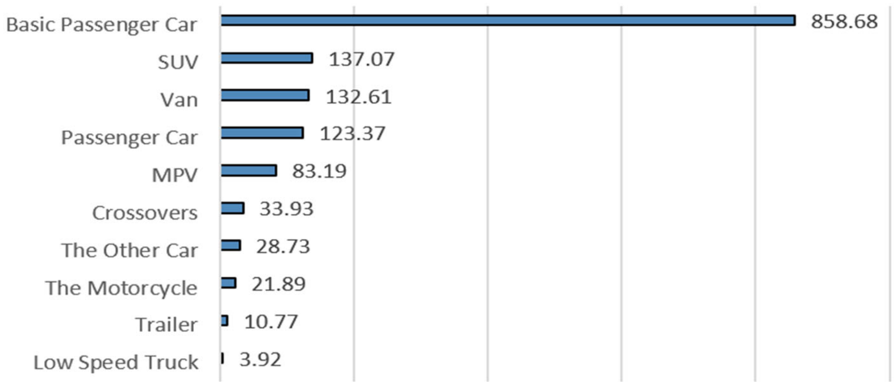
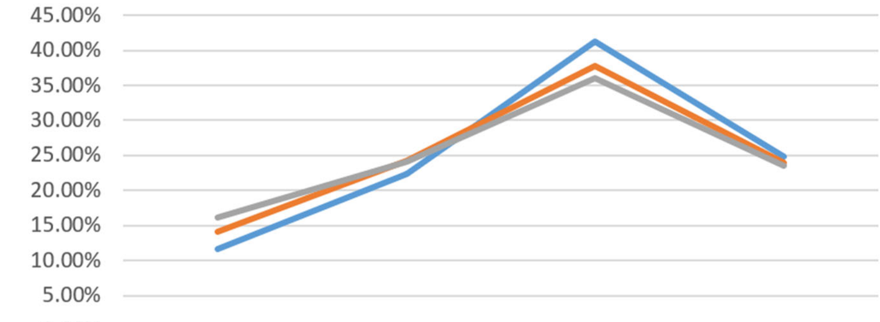


Fig. 3 Transaction Volume Statistics of China's Used Car Segments in 2020 (Thousands)

The relevant data in the above chart also fully show that China's used car market has a good development prospect, and the used car market is more dynamic than the new car market.

1.3 Service Life Analysis

In 2021, the number of used cars with a useful age of 3-6 years was the most, accounting for 36.14%; Models with service life within 3 years accounted for 23.59%; Models aged 7-10 years accounted for 24.06%; With the growth of ownership, second-hand cars with long age also increased year by year. In 2021, the proportion of cars with more than 10 years of age increased by 2.11 percentage points compared with the same period last year, and a total of 2,805,500 cars were traded, with a year-on-year growth of 29.1%. Models older than 10 years accounted for 16.11% [5-7]. Consumers are more inclined to buy used cars with a younger age of 3 to 6 years. (See Figure 4)



	10 years or more	7-10 years	3-6 years	Within 3 years
2019	11.60%	22.40%	41.20%	24.80%
2020	14.10%	24.20%	37.80%	23.90%
2021	16.20%	24.10%	36.10%	23.60%

Fig. 4. Age Ratio of Used Cars in China from 2019 to 2021

1.4 Price

In terms of price, in the distribution of used car price range in 2021, the main trading body is the vehicle with a price range of 0-200,000-yuan, accounting for about 81% of the total transaction volume, down 2% from last year. Among them, 50,000-100,000-yuan models accounted for the highest proportion of the total, 31.1%, down 2% compared with last year; The 0-50,000-yuan price range accounted for the second most trading volume, 25.6%, accounting for an increase of 1.1% compared with last year. Compared with last year, the proportion of trading volume in the range of more than 20--1 million yuan is higher overall. In general, the consumption of used cars has a significant trend of upgrading.

1.5 Proportion of Used Car

According to statistics, there are obvious regional differences in the trading of used cars. From regional distribution, "the used car market in our country is mainly distributed in the eastern region, the more developed economic region, the bigger the trading volume of used car cars"[2]. In 2020, the top 10 provinces accounted for 65.88% of the total transaction volume. From January to November 2020, a total of 1.807 million vehicles were traded in Guangdong used car market, accounting for 14.3% of the national transaction volume. Zhejiang and Shandong provinces traded 1.1854 million and 1.053 million used cars, respectively, accounting for 9.38 percent and 8.33 percent of all transactions nationwide. The top 10 regions for used car transaction volume in China in 2020 are Guangdong, Zhejiang, Shandong, Sichuan, Henan, Jiangsu, Beijing, Shanghai, Hebei, and Liaoning. The top 10 regions in terms of transaction volume in 2021 were Guangdong, Zhejiang, Jiangsu, Sichuan, Fujian, Shandong, Hubei, Henan, Liaoning, and Shanghai. In terms of the proportion of urban sales, used car sales in China's first-tier cities accounted for 13.14% of the total used car sales in 2020, an increase of 0.24% compared with 2019. Used car sales in second-tier cities accounted for 42.75% of the total used car sales, an increase of 0.90% compared with 2019. Used car sales in third-tier cities accounted for 17.77% of the total used car sales, which decreased by 0.52% compared with 2019. Used car sales in fourth-tier cities accounted for 15.71% of the total used car sales, which decreased by 0.69% compared with 2019. Used car sales in fifth-tier cities accounted for 10.64% of the total used car sales, up 0.08% from 2019. (See graph 5 & 6)

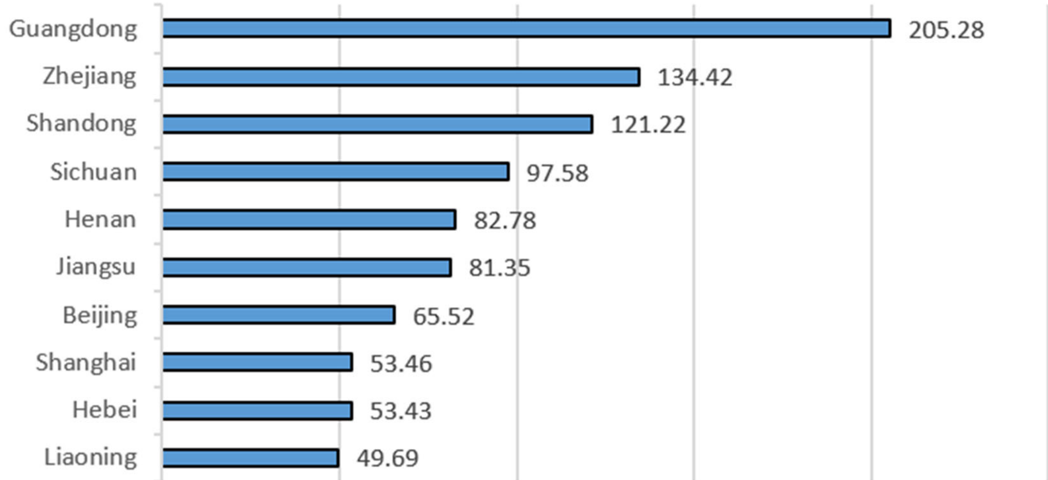


Fig. 5. Top 10 provinces in China for used car transaction volume in 2020 (Thousand)

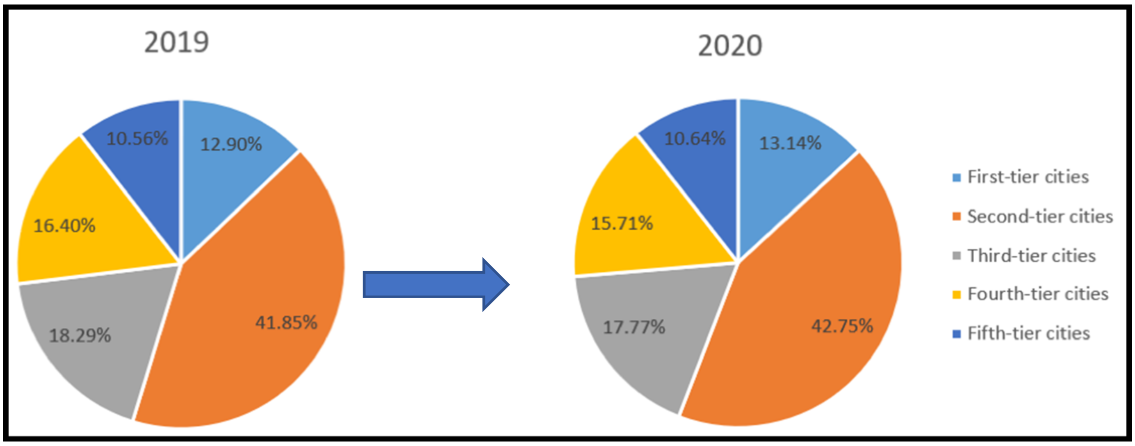


Fig. 6 Proportion of Used Car Sales in China's Cities in 2019 and 2020

In 2021, "all six regions in the country experienced significant growth in used car car transaction volume compared to the same period of the previous year. The central and southern region saw the most significant increase " [3], which increased by 26.26% compared with the same period in 2020, with 4.970,300 used car cars traded; The second is the southwest region, with a year-on-year growth of 25.94%, with 2.5035 million used cars traded; Northwest China saw a year-on-year growth of 24.19 percent, with 914,100 used cars traded; East China saw a year-on-year growth of 22.59 percent, with 5.8737 million used cars traded; The Northeast and North China regions traded 1.159 million and 2.1645 million units, respectively, up 15.13 percent and 14.95 percent from the same period in 2020. According to the regional sales data of used cars, East China, and Central and southern China account for more than 60% of the market [3].

From the above analysis, China's domestic used car transaction has the following characteristics: the used car transaction volume grows faster than the new car transaction volume; Regional development features are prominent.1.6 Great room for improvement

From the world's perspective, there is still a large gap in the proportion of used car market in China compared with the United States, Germany, and other countries, indicating that China's used car market is in a period of rapid development. (See Figure 7, China, the United States, Germany used car trading proportion)

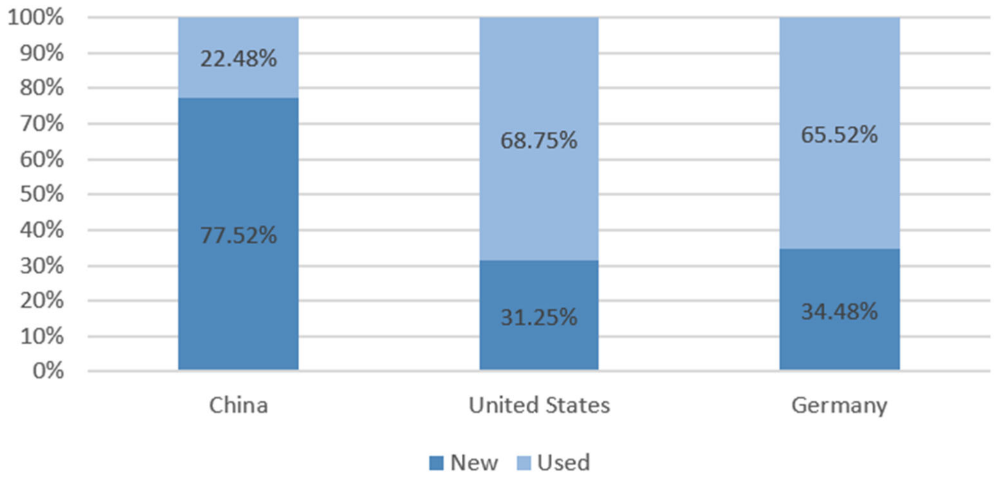


Fig. 7 China, The United States, Germany Used Car Trading Proportion

2. Consumer Preferences

2.1 Brand

In 2021, consumers mainly buy used cars from Volkswagen, BMW, Toyota, Honda and Audi, with the five major brands accounting for more than 50%, much higher than the sales of new cars in the same period. Volkswagen brand used car transaction volume reached 1.533 million [1], Year-on-year growth of more than 50%, ranking the top; BMW rose to the second place on the list, and the trading volume of BMW 5 Series and BMW 3 Series, the main forces, further increased; Toyota traded 826,000 vehicles for the year, up 64% from a year earlier, putting it in third place. Among them, male buyers are more inclined to Honda, Toyota, and Volkswagen, while female buyers are more inclined to Audi, BMW, and Mercedes. "From 2021, more luxury models will pour into the market" [8], becoming the first choice of consumers, which is also a new challenge for the new car market.

2.2 Body Color

According to the market performance in recent years, in general, "silver and white are the preferred colors for family cars, black is the main color for commercial vehicles, and red vehicles are the least traded" [9].

2.3 Model Selection

In 2021, all models showed different degrees of growth compared with 2020, among which SUV models showed the most obvious growth [9-12]. SUV models accounted for 28.6% of the total transaction volume, slightly increasing by 0.6% compared with last year. In the distribution of model level, sedan is still the model with the highest transaction volume, accounting for 62.4%, but it is down 1.6% compared with last year, and compact car transaction volume has fallen more. With the increasing demand for family cars, medium and large SUVs with spacious space and strong practicality are increasingly popular in the used car market and become a new growth point.

3. Conclusion

Based on the above data analysis, the rapid development of China's used car market in the future is the general trend.

3.1 Transaction Scale

According to the industry practice, a car owner takes about five years to replace a car. Based on this calculation, the annual transaction size of the domestic used car market will exceed 36 million units in the next ten years, a six-fold increase from 2013. According to the statistics of China Automobile Dealers Association, a total of 17.59 million used cars were traded in 2021, and the transaction amount was up to 100 million yuan. In the next two to three years, the 300 billion scale market is likely to double again. It is certain that "the used car market will usher in a period of rapid development in the next few years" [2].

3.2 Institutional Level

In February 2021, the General Office of the Ministry of Commerce of China issued a Notice on the issuance of Guidelines on Promoting Automobile Consumption in the Commercial Field and some local experience and practices, requiring the comprehensive cancellation of the relocation restriction policy on used cars. Except in key areas for the prevention and control of air pollution, no used car that meets the emission standards for the vehicle in use shall be restricted from moving in. At the same time, it also gives specific suggestions on expanding the consumption of new cars, developing the consumption of used cars, promoting the consumption of renewed cars, and cultivating the aftermarket of automobiles, which provides key industrial policy operation guidelines for further activating the automobile industry and the used car market and ensuring the steady growth of China's automobile industry.

On June 22, 2022, Premier Li Keqiang presided over an executive meeting of The State Council, which pointed out that the potential of automobile consumption should be further released, among which the first is to activate the used car market and promote the consumption of automobile renewal. For small non-operational used cars, "the restrictions on moving in will be completely abolished from August 1, and the transfer registration will be registered separately, and temporary license plates will be issued from October 1" [5]. The executive meeting of The State Council will accelerate the effective implementation of relevant policies and drive further growth of automobile consumption. From the comprehensive effect of the policy, the comprehensive cancellation of the migration restriction on used cars will bring a great boost to the mobility of used cars, accelerate the process of replacing used cars with new ones, and have a driving effect on the whole automobile market.

3.3 Unified National Market

Although there is a huge demand market for used car cars in China, the used car market is a typical "long-tail market", where all vehicles are in the hands of individual owners, and the development of the whole used car market is always small and scattered. According to the industry, the number of domestic used car dealers is more than 100,000, but most of them can only do about 100 cars a year, can do more than 1000 cars year dealers are rare. The formation of a national unified market for used car trading will greatly promote the automobile circulation system: it is conducive to the circulation of used car cars, to enhance the brand reputation of used car cars, and to accelerate the renewal of new cars, etc. Therefore, the establishment of a unified national market is imperative, so that consumers can rest assured to replace and buy used cars. A few days ago, the Ministry of Commerce and 17 other departments issued a Notice on Several Measures to invigorate automobile Circulation and Expand Automobile Consumption (hereinafter referred to as the Notice), which mentioned that the used car market will be accelerated and the restriction on used car relocation will be completely abolished [5]. The Notice makes it clear that it will be implemented from August 1, 2022, which means that used cars are expected to form a unified national market, and large-scale management and operation will surely become the trend of the industry.

3.4 Service Quality

Internet e-commerce has obvious advantages, but there are still many problems. In the future, as "the consumer group is younger, consumers pay more attention to marketing, experience and service [8]. It is urgent to upgrade the used car trading market smartly. Establish a national market database. With sufficient data support, the market can accurately carry out management and marketing, and launch corresponding services to meet the diversified consumer needs. At the same time, the creation of network transaction service platform promotes cross-regional sales and services will become the future trend.

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