

# China's red-hot EV market cools



[Yang Jian](#)

*Managing Editor of Automotive News China, based in Shanghai, and Reporter covering China for Automotive News – June 14, 2019*

**SHANGHAI -- History has repeatedly shown that a market bubble created by government incentives will burst sooner or later.**

That's what is happening with China's electrified vehicle market. After forging ahead, propelled by government subsidies for five years, the market is in for a hard landing.

In the first quarter, aggregate sales of electric vehicles and plug-in hybrids remained explosive, soaring 110 percent to nearly 300,000.

The market has suddenly lost some steam. In April, sales of EVs and plug-in hybrids rose 18 percent to about 97,000.

By May, monthly demand for electrified vehicles edged up only 1.8 percent from a year earlier to around 104,000 units.

In 2014, Beijing started subsidizing private purchases of EVs and plug-in hybrids, in a bid to control vehicle emissions, ease China's dependence on oil imports and help domestic automakers gain a leg up on global competition.

The subsidies quickly inflated market demand. After skyrocketing more than 300 percent in 2014 and 2015, annual sales growth of EVs and plug-in hybrids stayed above 50 percent over the next three years.

**So why is the market for green vehicles sputtering now?**

On March 26, the Chinese government slashed subsidies for EVs and plug-in hybrids by 50 percent and barred provincial governments from subsidizing local purchases of the vehicles.

It has produced an immediate, chilling effect on the domestic market for electrified vehicles, especially EVs.

More than 80 percent of the electrified vehicles sold in China are EVs, which qualify for higher government subsidies than plug-in hybrids.

Before the adjustment in incentives, consumers could use the subsidy to cover up to half of the vehicle price if they chose to buy EVs from mass-market brands.

But after the change, government subsidies they qualify for have been cut by more than 70 percent, according to estimates by the China Automobile Dealers Association.

### **Will the Chinese electrified vehicle market rebound any time soon?**

The chances are slim, given the slowing domestic economy and Beijing's determination to phase out the subsidy program for EVs and plug-in hybrids by the end of 2020 to ease fiscal burdens.

While electrified vehicle sales have plateaued, output is still rapidly increasing. In May, production of EVs and plug-in hybrids advanced 17 percent to approximately 112,000.

Slowing demand and rising output has created another problem for the green market -- surplus supplies.

The problem will become even worse going forward now that Beijing has enacted a carbon credit program to push automakers to ramp up EV production.

The sharp slowdown in the growth of the electrified vehicle market has laid bare **the fact that consumer demand for such vehicles is limited without government subsidies.**

Unless government officials conduct a reality check and move quickly to adjust current policy, a hard landing is almost assured for the market.