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S&P Global
China Ratings

Five Key Trends for the Auto Industry in 2026: Prolonged Competition, Diverging Credit Profiles

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Key Takeaways

- S&P Global (China) Ratings expects that the positive effects from product upgrades on new energy vehicles (NEVs) and policies to further drive growth in consumption will offset the negative impact of front-loaded demand. Coupled with the advantages of China's NEV industry chain in technology and scale, domestic retail sales of passenger vehicles will remain flat with 2025 levels in 2026, while exports will register a growth of 5%-10%.
- We expect that the market share of small NEVs will rise further in 2026, primarily driven by their low price, high proportion of subsidy coverage and continuously enhanced configurations, which cater to the demand of young buyers for their first car and consumers in lower-tier cities.
- Fierce competition in the passenger vehicle market will persist. Capacity consolidation within the industry is the primary pathway to easing competition and restoring corporate profitability. In the short term, such consolidation will be reflected in the phase-out of backward capacity, including factory closures and production line upgrades. Over the long term, automakers unable to build sustainable competitive advantages will exit the market.
- Amid the short-term persistence of intense competition in the domestic market, automakers will continue to face pressure on profit margins and cash flows. The market structure is undergoing a major reshuffle, with a marked divergence in credit quality across the sector.

Trend 1: Domestic Passenger Vehicle Retail Sales to Remain Flat in 2026 vs 2025

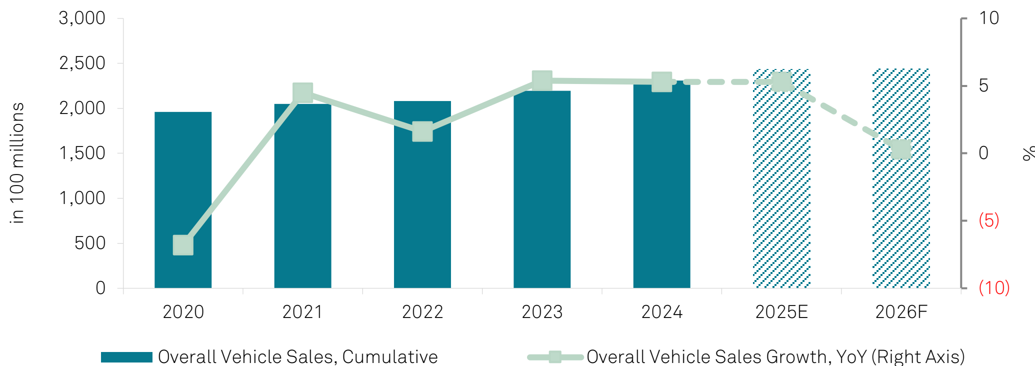
We expect that domestic retail sales of passenger vehicles will register a year-on-year growth of 3%-8% in 2025. In 2025, consumer promotion policies such as trade-in programs and consumption subsidies have exerted a notable driving effect on passenger vehicle consumption; from January to November, the nation's retail sales of broad passenger vehicles reached 21.75 million units, representing a year-on-year increase of 6.3%. We expect the robust growth momentum of NEVs to drive the full-year domestic retail sales of passenger vehicles to achieve a 3%-8% rise.

We anticipate that the positive effects from product upgrades on NEVs and consumer promotion policies will offset the negative impact of front-loaded demand, with domestic retail sales of passenger vehicles in 2026 remaining flat with 2025 levels. In 2026, although the advance release of demand and the phase-out of preferential purchase tax policies for NEVs will exert a certain negative impact on the demand for NEVs, policy support for NEV consumption and

the continuous launch of new models will still drive the sales of NEVs to achieve single-digit growth, with the NEV penetration rate expected to exceed 55%. We expect that retail sales of Internal Combustion Engine (ICE) vehicles will continue their downward trend in 2026.

Chart 1

Domestic Passenger Vehicle Sales: Domestic Demand to Face Headwinds in 2026



Note: E for Estimate, F for Foecast.
Source: China Automobile Dealers Association, S&P Global (China) Ratings.
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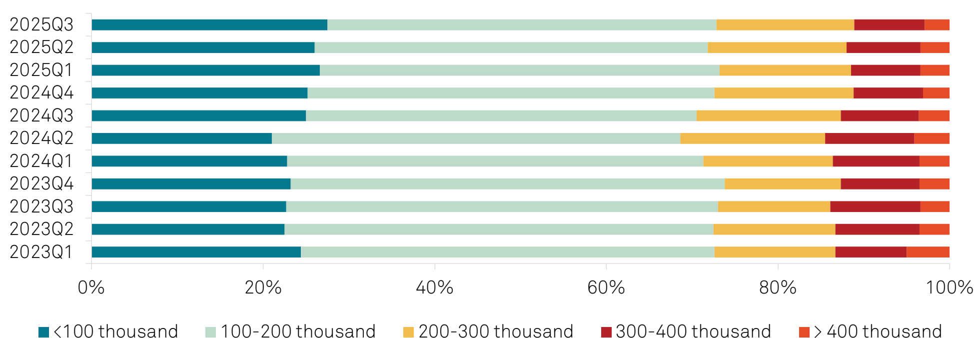
Trend 2: Market Share of Small NEVs Poised for Further Growth in 2026

We observe that in 2025, the retail market share of passenger vehicles priced above RMB 300,000 slightly declined compared with the same periods in 2023 and 2024, while the retail market share of models below RMB 100,000 registered a more notable increase. This trend is even more pronounced when focusing on the NEV retail market. In the third quarter of 2025, the retail share of NEVs priced below RMB 100,000 stood at 34.1%, compared with 30.4% and 32.4% in the same quarters of 2023 and 2024, respectively.

We view that the market share of small NEVs is poised for sustained growth in 2026, primarily driven by their higher cost-effectiveness. On one hand, small NEVs feature low price and a high proportion of subsidy coverage. Against the backdrop of slowing economic growth, they cater to the demand of young buyers for their first car and consumers in lower-tier cities. On the other hand, amid intensifying market competition, the configurations of pure electric small cars have been enhanced, with improved quality, and continuous advancements in multiple dimensions such as space utilization, comfort and intelligence. We expect that the share of mid-range models will be squeezed.

Chart 2

The retail market share of passenger vehicles by price



Source:China Automobile Dealers Association, S&P Global (China) Ratings.
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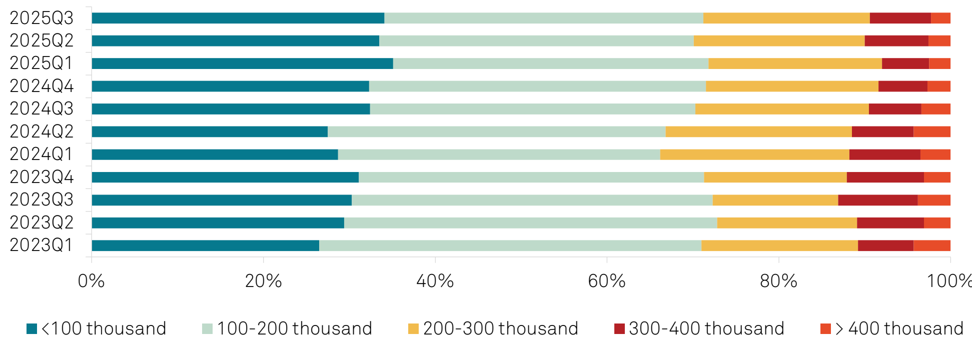
Chart 3



Source:China Automobile Dealers Association, S&P Global (China) Ratings.
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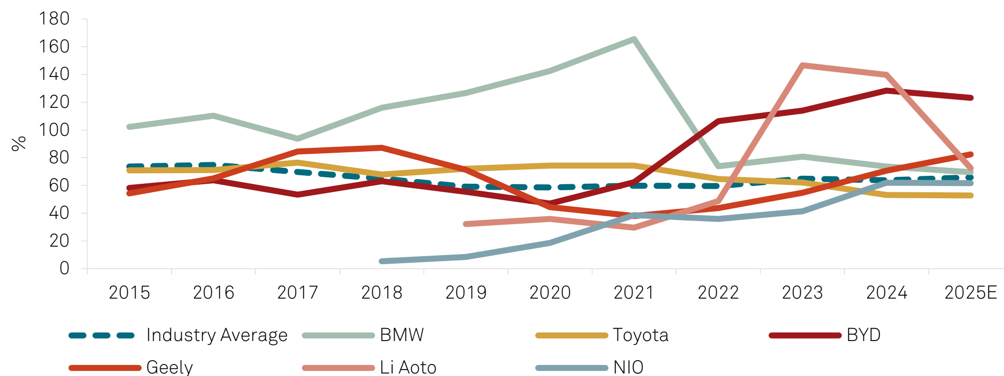
Trend 3: Intense Competition to Persist in the Domestic Market; A Recovery in Industry Profit Margins Awaits Capacity Consolidation

We expect that the likelihood of a sharp decline in vehicle prices has diminished, yet the intense competitive landscape among automakers will persist in 2026, keeping industry profit margins under pressure in the short term. Against the backdrop where government authorities and relevant institutions have explicitly opposed cut-throat competition in the sector, we expect no further sharp drop in vehicle prices. Nevertheless, all automakers have the objective of maintaining or boosting their market share and may adopt measures such as upgrading configurations without price adjustments or launching more favorable new models to enhance product appeal. As such, industry profit margins will remain under pressure in the short term.

We believe the root cause of the intense competition in the passenger vehicle market is structural overcapacity. On one hand, the sustained decline in ICE vehicle sales has led to lower capacity utilization of ICE vehicle production lines. On the other hand, both traditional automakers and new EV manufacturers have heavily bet on NEVs, with new brands and models emerging continuously. These players need to expand production capacity to achieve economies of scale and thus turn profitable, yet amid fierce competition. Some NEV brands have struggled to drive rapid sales growth after ramping up production capacity. We observe that the average capacity utilization rate of domestic manufacturing plants has fluctuated around 60% since 2018, and as market competition has intensified further, a divergence has emerged in the capacity utilization rates across different brands.

We note that capacity utilization at domestic plants of German premium brands, led by BMW, has seen a marked decline in recent years, yet BMW's rate has remained above 70%. Japanese brands have also experienced a drop in capacity utilization at their manufacturing facilities in China, weighed down by their slow transition to NEVs and the significant impact of NEV competition on their core price segments; Toyota's capacity utilization rate had fallen to 53% by 2024. Bolstered by its leading position in the NEV sector, BYD has seen its capacity utilization rate rise on the back of the NEV boom. Geely has made a rapid transition to NEVs and built a competitive edge in this space, with its capacity utilization rate emerging from a trough to exceed 70% in 2024. Among new EV manufacturers, Li Auto has witnessed a sharp rise in sales, driving a rapid climb in its capacity utilization rate, while NIO's capacity utilization has risen at a slower pace, edging up to just 62% in 2024.

Chart 4



Note: Capacity Utilization = Production/Standard Production Capicity. Standard Production Capacity Assumption: All manufacturing plants operate on a two-shift daily schedule, with each shift lasting eight hours and 235 working days in a calendar year. E for Estimate.
Source:S&P Global Mobility., S&P Global (China) Ratings.
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We believe the phase-out of backward capacity is the primary pathway to easing competition and restoring corporate profitability, with production line adjustments set to be the main channel for such capacity consolidation in the short term. Against a backdrop of little prospect for a sharp uptick in domestic demand and rising trade protectionism, the likelihood of addressing the industry's capacity overhang from the demand side is low. Amid fierce market competition and government guidance for the healthy development of the sector, the gradual market-driven exit of excess capacity will enable the entire industry to return to healthy competition, thereby driving a recovery in industry profit margins. We expect that in the short term, brands experiencing a sustained decline in market share and struggling to enhance their competitiveness through product iteration will phase out backward capacity via measures such as factory closures and production line upgrades.

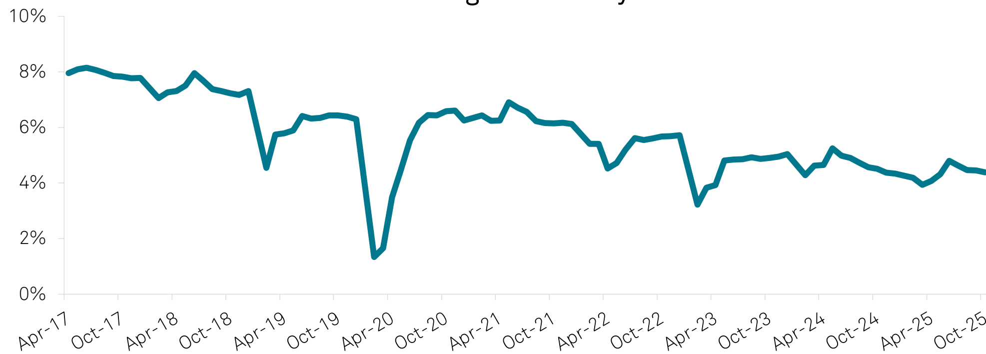
Table 1 Factory Closures at Some Brands' Domestic Plants Since H2 2024

Brand	Factory Location	Capacity（in 10 thousand）	Major Brand Produced
SAIC Volkswagen	Nanjing	36	Passat, Skoda Superb
SAIC-GM	Shenyang	50	Chevrolet, Buick
GAC Honda	Guangzhou	5	Accord
Dongfeng Honda	Wuhan	24	Civic、XR-V
Dongfeng Nissan	Wuhan	30	Sylphy

Source: Public information, S&P Global (China) Ratings.

We view that some automakers are currently operating with low profit margins, and in the long run, brands that fail to achieve economies of scale and sustain persistent losses may ultimately exit the market, leading to a complete clearance of excess capacity. The profit margin of China's automotive industry stood at 4.4% in the January-October of 2025, edging up from the first quarter of 2025 and remaining roughly flat with 2024 levels, yet it still lags behind the average profit margin of the manufacturing sector overall.

Chart 5



Note: Profit Margin = Total Profits of Large-scale Industrial Enterprises in the Automobile Manufacturing Industry / Operating Revenue of Large-scale Industrial Enterprises in the Automobile Manufacturing Industry.
Source: National Bureau of Statistics of China, S&P Global (China) Ratings.
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Trend 4: Passenger Vehicle Exports Face Mixed Opportunities and Challenges; Growth Rate to Slow from 2025 yet Remain at 5%-10% in 2026

We expect that supported by the technological and scale advantages of Chinese automakers and their upstream industrial chain counterparts, passenger vehicle exports will maintain a growth rate of 5%-10% in 2026, with the share of NEVs rising steadily. We believe passenger vehicle exports can not only expand automakers' sales scale, but also enhance their profitability and cash flow stability, mitigating the impact of market volatility in a single region on corporate operations and financial performance. For instance, Toyota Motor's sales in China dropped by more than 5% in fiscal year 2024 (April 2024 - March 2025), yet its overall sales only declined by 0.7% thanks to its stable performance in other markets. According to S&P Global Ratings, Toyota Motor's EBITDA margin remained in the range of 11%-16% from fiscal year 2021 to 2024.

We view that the rise of trade protectionism has increased uncertainties for automakers' overseas expansion in the short term, but such impacts will be alleviated as automakers boost their overseas local production capacity. A series of events, including the EU's imposition of countervailing duties on Chinese-exported NEVs in 2024, Russia's import tariff hikes in 2025, China-US tariff frictions in 2025, and Mexico's additional tariffs on Chinese goods, have all eroded the cost-performance of Chinese automobiles in overseas markets and exerted a direct negative impact on China's auto export volumes. Currently, the logic of automakers' overseas expansion has shifted from pure export to local production overseas. The localization of technologies, production capacity and supply chains in overseas markets has become the core pathway to sustaining the growth of overseas sales. Meanwhile, Chinese automakers also need to address multiple challenges in terms of geopolitics, legal compliance and overseas operations.

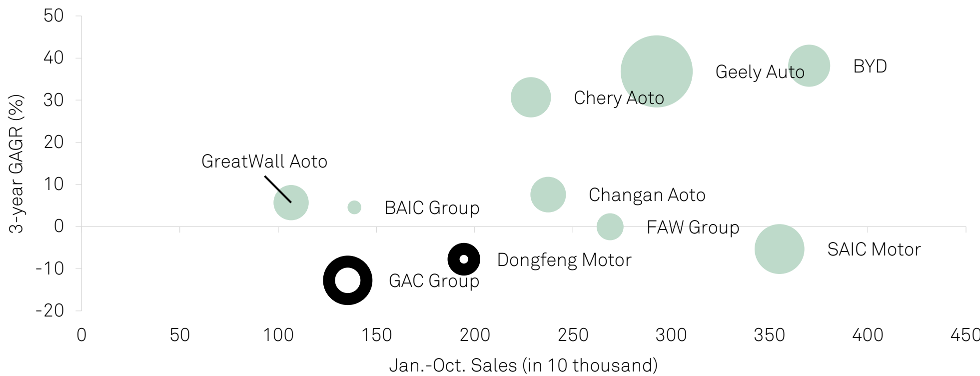
Trend 5: Automakers' Profit Margins and Cash Flows to Remain Under Pressure, with a Pronounced Divergence in Credit Quality

We observe that the competitive landscape of China's automotive market has undergone a significant shift in recent years. Driven by the robust development of NEVs, automakers with a high reliance on joint venture brands have seen a decline in sales volume and market share, while those that laid out an early NEV strategy or achieved a rapid transition have registered a substantial rise in both metrics. Specifically, SAIC Motor, FAW Group, GAC Group and Dongfeng Motor have all experienced a drop in market share. Among them, GAC Group and Dongfeng Motor, which have a high dependence on Japanese joint venture brands, posted a compound annual

growth rate (CAGR) of -12.8% and -7.7% in sales over the past three years respectively, with no signs of a turnaround yet. In contrast, SAIC Motor, bolstered by the synergistic efforts of its self-owned brands, NEV business and overseas markets, saw its sales surge by 19.8% year-on-year in January-October of 2025. BYD, leveraging its dominant position in the NEV sector, achieved a sales CAGR of 38.2% over three years and captured a 13.4% market share in January-October 2025, a 7-percentage-point increase from the same period in 2022. Geely Auto and Chery Auto have both recorded a notable rise in sales volume and market share, thanks to their fast-paced NEV transition.

Chart 6

Automobile group sales changes



Note: (1) Bubble size represents the year-on-year sales growth rate for January-October 2025; uncolored bubbles indicate negative growth.(2) Three-year compound sales growth rate refers to the compound annual growth rate (CAGR) of sales from January-October 2022 to January-October 2025.
Source:China Association of Automobile Manufacturers, S&P Global (China) Ratings.
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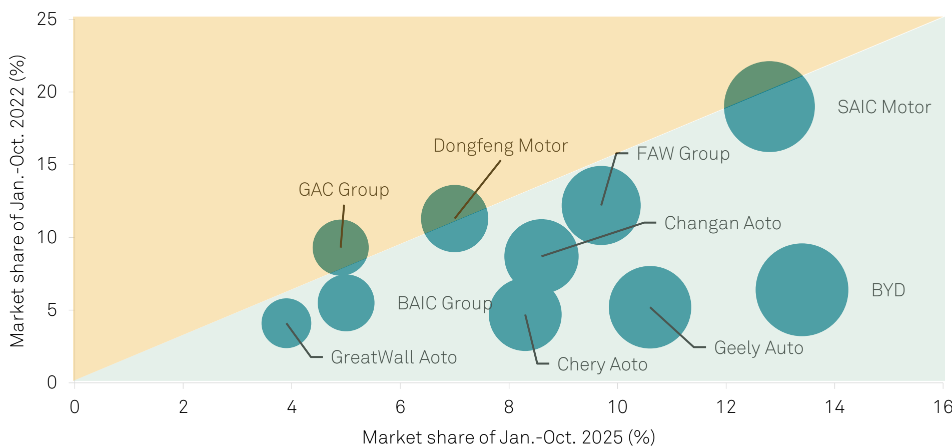
Chart 7

Automobile group market share changes



Note: (1) Bubble size represents sales volume for January–October 2025.(2) Enterprises in the green zone have seen an increase in market share; those in the yellow zone have experienced a decline in market share.
Source:China Association of Automobile Manufacturers, S&P Global (China) Ratings.
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We believe that amid sustained intense market competition, automakers will face significant pressure on profitability and cash flow, with a growing divergence in credit quality. To gain or maintain market share, automakers have no choice but to engage in fierce market competition, which weighs on their profit margins. Meanwhile, most of them need to sustain high R&D spending,

and some are also required to upgrade production lines, resulting in substantial pressure from capital expenditure. If their operating cash flow fails to cover capital expenditure, they will have to take on more debt. As such, we project that the overall financial risk for Chinese automakers will trend upward. At the same time, we believe industry leaders will be able to capture a higher market share by virtue of economies of scale, technological advantages and more accessible financing channels, while brands that struggle to build or sustain competitive edges and economies of scale will face an accelerated exit from the market.

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