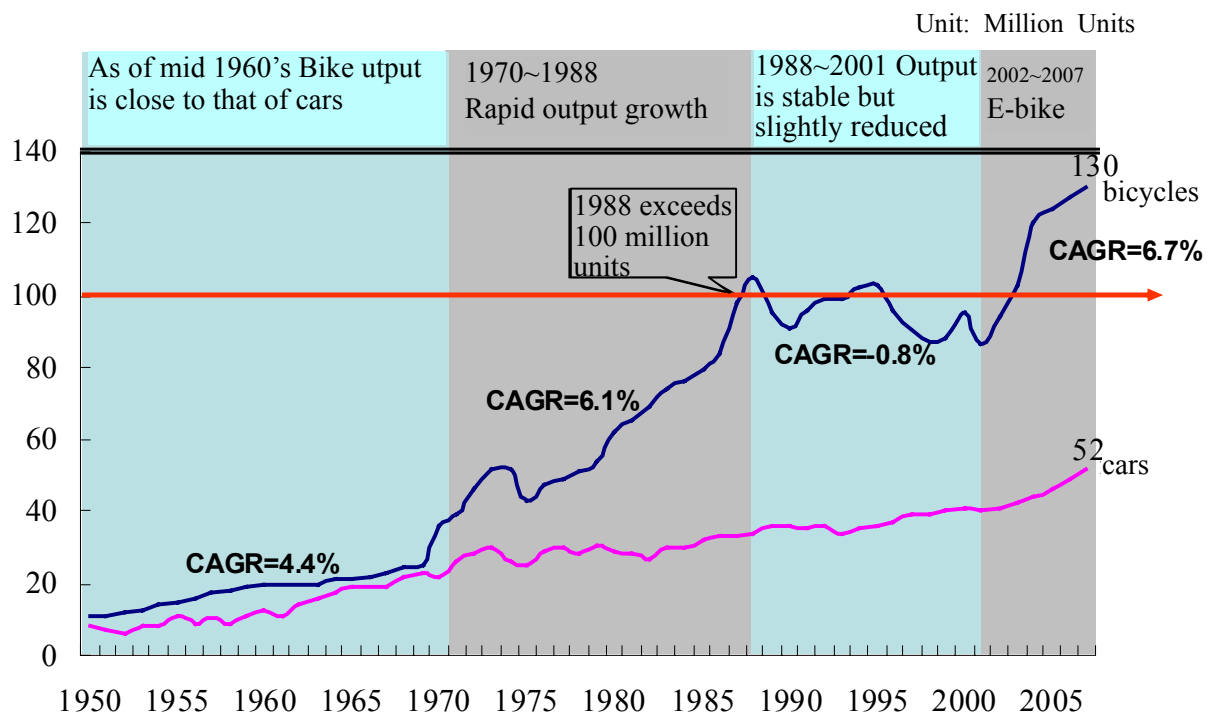


Review of the Global Bicycle Market Development in 2007

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I. 2007 Global Bicycle Production Reached 130 Million Units

Global bicycle production in 2007 reached 130 million units, and total output value (including parts and accessories) reached 20 billion USD. As a matter of fact, the tendencies of global bicycle development can be divided into four phrases: (1) 1950~mid 1960's. In this period, bicycle output was close to automobile output; both increased slowly. Compound annual growth rate (CAGR) during this period was around 4.4%. (2) 1970~1988. Bicycle output rose rapidly since 1970 (CAGR reached 6.1%) and was ahead of automobile output. In 1988, world bicycle output exceeded 100 million units. (3) 1988~2001. Due to the impact of the global economic downturn, bicycle production growth slowed down, finally incurring negative growth. (4) 2002~today. In the last six years, the rise of electric bicycles (E-bike) has induced a large scale growth of world bicycle output. As of 2007, CAGR reached 6.7%. Figure 1 shows the world bicycle output curve since 1950.



Note: Bicycle outputs include the data of E-bikes.

Figure 1: World Bicycle Output Curve

Source: Worldwatch, Bike Europe, Global Insight/ Industrial Research Division, Metal Industries Research & Development Centre, 2008

II. China Ranks No. 1 in Bicycle Production

Presently, E-bikes are mainly produced in China, Taiwan, Italy, Germany, French, Japan, and the United States. China ranks No. 1 with an annual production of more than 80 million units, far ahead of other manufacture countries. Taiwan ranks No. 2 with annual production in 2007 of close to 5 million units. Output scale of Italy and Germany is around 2.4~2.5 million units; France and Japan around 1 million; the United States within ten thousand units per year in the last three years.

In terms of market characteristics, each of the four major consumer markets (U.S., Japan, Europe, China) that account for 80% of global bicycle market takes on different consumer characteristics. In the United States, although the subprime mortgage crisis has had a great impact on many sectors, the bike market steams ahead against the wind to maintain positive growth. The recently prevailing leisure atmosphere is also a driving force which is increasing internal demand. In Japan, it is known that the strict market structure makes it more difficult for foreign brands to enter the internal market. However, facing the increasingly severe pressure of international competition, Japanese manufacturers have been transferring their manufacturing capacity to China and then importing the finished products to Japan as a way to reduce cost. In the European market, bike sales are closely related to climate. In 2006~2007, European countries commonly experienced record high temperatures that suspended many local winter sport events, but bicycling activities periods were conversely extended, so that sales increased. Among European countries, bike demand was highest in Germany, whose 2007 annual sales reached 4.58 million units. China has the greatest potential demand for bicycles among all emerging countries because they are one of people's main transportation tools, instead of merely being a leisure and recreation option in advanced countries. Besides, the great convenience of E-bikes also induces a huge internal demand and business opportunity in China.

III. Taiwan's Total Output Value of Bicycles in 2007 Exceeds NTD 7 Billion

In 2007, Taiwan's total output of bicycles was 5.12 million units, output value was NTD 39 billion, and annual growth was 23.8%. Taiwan's bicycle products are mainly exported to Britain, the U.S., and Germany. Regarding bicycle parts, output value of domestic parts reaches 32.6 billion NTD in 2007 with annual growth as high as 42%. Such explosive growth in the bicycle market is a result of increasing orders of assembly plants, current trends of energy saving and carbon reduction, and the atmosphere of environmentally-friendly recreation. On the whole, the total output value of assembled units and parts reached 71.6 billion in 2007.

As far as overseas market development is concerned, China is still Taiwan's main export object for low level products. In spite of serious price competition and counterfeit problems existing in the Chinese market, most manufacturers still think well of the huge internal demand and potential profits in China, so they will continue their investment in the area. Contrarily, high level products will be mainly exported to North America,

Japan, and Europe. In these markets, professional parts suppliers generally focus on unique and high-unit-price products. In this context, market segmentation is a major concern.

IV. Conclusion

In the future, the development of world bicycle industries will remain stable. There are three main driving forces. The first one is the rise of E-bikes. The second factor is the new concept of using bicycles as a clean and environmentally-protective transportation tool. This concept corresponds to carbon reduction and air-pollution prevention initiatives in many large cities. In particular, northern European governments, are encouraging the use of bicycles by administering interest rate subsidies. The third driving factor arises from the prevailing sports recreation atmosphere. For example, northern Europe, North America, and Japan have developed a bicycle culture, and these areas prefer advance level products with high average prices.

China has the largest consumption of bicycles and attracts the most manufacturers. Yet, rapid industry development and increasing labor costs in recent years have caused bicycle production costs to increase by 6~7%. In the future, because China will administer pension funds and new tax regulations of foreign companies, coupled with the price rise in raw materials and petroleum and the influence of RMB-USD exchange rate, it is expected that the price competition for bicycle and parts industries in China will become even more severe.