

## Luxury Sales Accelerate In China

- US drives global sales higher in March.
- Canadian sales remain on a stronger-than-expected trajectory.
- German brands are the luxury leaders in China, and will benefit most from “market opening” measures.

### GLOBAL SALES EDGE HIGHER IN MARCH

Global auto sales increased 1.2% y/y in March, as stronger US volumes and ongoing gains in most emerging markets more than offset a temporary decline in purchases across Western Europe. US volumes rose 6.5% y/y last month, the strongest increase in two years, as sales to the rental car industry and other businesses jumped 11.5% y/y and 10% y/y, respectively.

Sales to US households were also bolstered by strengthening income and wage gains, helping to lift the overall US sales pace to an annualized 17.5 mn units in March. Last month’s sales rate was in line with our above-consensus call for full-year 2018 sales, and well above the 17.1 mn average of the past 12 months. In fact, the US accounted for most of the increase in global sales last month, with purchases outside of the United States remaining in line with year-earlier levels.

Sales in Canada were also stronger than expected last month, totalling an annualized 2.08 mn, as light truck purchases (CUVs, SUVs, pickups and vans) jumped 5% y/y and garnered more than 71% of overall new vehicle sales, up from less than 55% as recently as 2012. During the first quarter, Canadian overall purchases rose 1.9% y/y, with most of the strength centred in Ontario, where sales climbed nearly 5% y/y alongside an 11% y/y jump in fleet volumes. The rebound in fleet activity in Ontario is consistent with strengthening business investment in the province, which accelerated in late-2017 at the fastest pace since mid-2015.

Sales gains in China picked up to 5.1% y/y last month, up from a 3% increase during the previous two months. This implies that the market is no longer being affected by the removal of the tax incentives offered on the purchase of small fuel-efficient vehicles. These incentives were introduced in late-2015 to stimulate demand, were partially phased-out in January 2017, and were fully removed on January 1<sup>st</sup> of this year.

Activity also remained solid in March across most emerging markets, even as the pace of sales gains moderated below 10% y/y in many countries. In contrast, Western Europe was the only region to report lower sales last month, with volumes temporarily falling 6% below a year earlier, partly due to fewer selling days as a result of the timing of Easter this year. The fall-off was broadly-based, with volumes edging lower in 10 of 18 countries. We expect activity to rebound in coming months, as most economic indicators remain solid across the region.

### LUXURY DRIVES SALES GAINS IN CHINA

Luxury automakers are the key drivers of sales gains in China this year, accounting for nearly half of the overall year-over-year sales improvement through March. In fact, the advance in China’s luxury auto market in 2018 is the fastest since the government’s launch of its anti-corruption drive in 2013.

### CONTACTS

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Chart 1

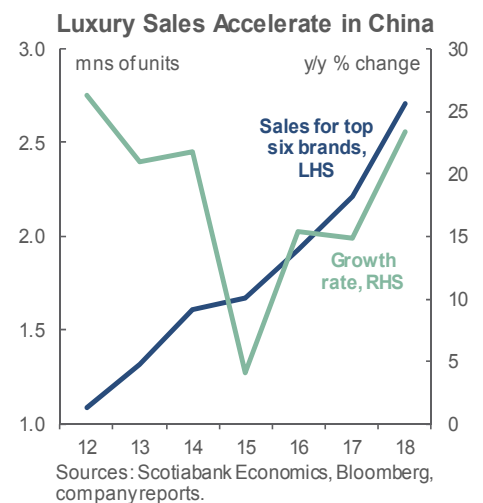
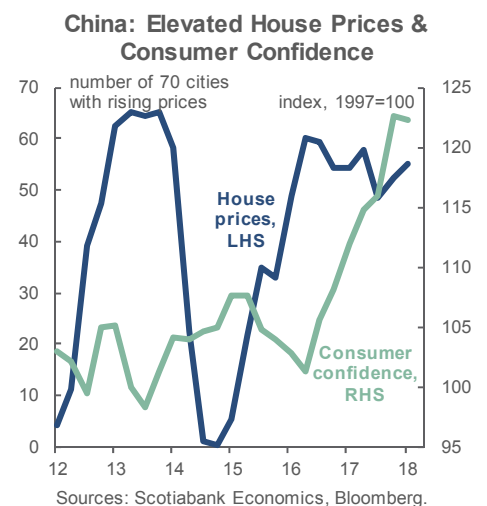


Chart 2



Volumes at the top six premium automotive brands in China have accelerated to nearly a 25% y/y increase through the end of March, a sharp improvement from the 15% average annual increase during 2016–2017. The out-sized surge in luxury volumes through March puts the largest premium automakers on target to surpass sales of 2.7 mn units in China this year, more than double the level that prevailed as recently as 2013 (chart 1). In fact, China now represents nearly 30% of global volumes for the top six premium brands, up from less than 20% in 2012.

**The rapid growth in luxury auto sales in China reflects ongoing strong gains in household wealth and rising consumer confidence.** According to data from the government of China, overall wealth in China increased 6.7% last year, led by an 11.6% jump in non-financial assets, mainly real estate. The upward trend in property prices remains in place in 2018, with house prices advancing in 55 of the largest 70 cities in China as of March (chart 2). Auto sales are highly correlated with changes in house prices and gains in overall wealth, and the current advances represent a sharp difference from the backdrop in 2014–15. At that time, slowing economic growth in China dampened house prices and limited the gain in luxury auto purchases to only 4% in 2015 (chart 1).

### CHINA MOVES TO OPEN ITS AUTO MARKET

The Chinese government made two major announcements this month, regarding its plans to ease restrictions on foreign automakers. The first announcement indicates that, beginning in 2022, automakers will be allowed to own more than 50% of their business units operating in China. For electric carmakers, the change is due to come into effect this year. The “50:50 rule” has been the cornerstone of China’s auto industry since 1994, and was designed to give local automakers time to acquire technology and build their brands before providing overseas companies with unrestricted access to the Chinese market. **At that time, the Chinese auto market had annual sales of less than 400,000 vehicles, and accounted for less than 1% of global volumes. In contrast, total auto sales in China totalled 24.2 mn in 2017, equivalent to nearly 30% of the global market.** The government also announced that it will move to reduce the 25% tariff on imported vehicles “as soon as possible”.

About 95% of all cars and light trucks sold in China are assembled locally, with only about 1.1 mn units imported last year. Western Europe dominates the shipment of foreign vehicles into China, accounting for more than 45% of all imported vehicles last year, up from 33% a decade ago. Other Asian countries are the next largest exporters of vehicles to China, accounting for nearly 30% of overall imports. North America exports nearly 300,000 vehicles, mostly European brands manufactured in the US, to China each year, and will also benefit from tariff reduction.

### INTERNATIONAL CAR SALES OUTLOOK

(millions of units)

	<u>1990–99</u>	<u>2000–14</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018f</u>
<b>TOTAL SALES</b>	<b>39.20</b>	<b>54.89</b>	<b>72.61</b>	<b>77.25</b>	<b>79.02</b>	<b>81.62</b>
<b>North America*</b>	<b>16.36</b>	<b>17.85</b>	<b>20.64</b>	<b>21.01</b>	<b>20.70</b>	<b>20.93</b>
Canada	1.27	1.62	1.90	1.95	2.04	2.00
United States	14.55	15.24	17.39	17.46	17.13	17.40
Mexico	0.54	0.99	1.35	1.60	1.53	1.53
<b>Western Europe</b>	<b>13.11</b>	<b>13.67</b>	<b>13.20</b>	<b>13.97</b>	<b>14.32</b>	<b>14.54</b>
Germany	3.57	3.23	3.21	3.35	3.44	3.49
<b>Eastern Europe</b>	<b>1.18</b>	<b>3.08</b>	<b>3.15</b>	<b>3.14</b>	<b>3.41</b>	<b>3.59</b>
Russia	0.78	1.87	1.60	1.43	1.60	1.72
<b>Asia</b>	<b>6.91</b>	<b>17.12</b>	<b>32.29</b>	<b>36.06</b>	<b>37.10</b>	<b>38.79</b>
China**	0.43	7.31	20.01	23.57	24.20	24.92
India	0.31	1.23	2.06	2.09	2.19	2.33
<b>South America</b>	<b>1.64</b>	<b>3.17</b>	<b>3.33</b>	<b>3.07</b>	<b>3.49</b>	<b>3.77</b>
Brazil	0.94	1.94	1.82	1.39	1.50	1.61

\*Includes light trucks. \*\*Includes crossover utility vehicles from 2005. Sources: Scotiabank Economics, Ward's Automotive Reports, Bloor

**CANADA/US MOTOR VEHICLE SALES OUTLOOK**

	<u>1991-05</u> Average	<u>2006-15</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	
					Jan-Feb**	Annual f
(thousands of units, annualized)						
<b>CANADA</b>	<b>1,398</b>	<b>1,668</b>	<b>1,949</b>	<b>2,041</b>	<b>2,085</b>	<b>2,000</b>
Cars	797	776	662	644	615	610
Domestic	583	490	439	438	415	415
Imports	214	286	223	206	200	195
Light Trucks	601	892	1,287	1,397	1,470	1,390
(millions of units, annualized)						
<b>UNITED STATES</b>	<b>15.5</b>	<b>14.4</b>	<b>17.5</b>	<b>17.1</b>	<b>17.2</b>	<b>17.4</b>
Cars	8.3	6.9	6.9	6.1	5.5	6.0
Light Trucks	7.2	7.5	10.6	11.0	11.7	11.4
(millions of units, annualized)						
<b>NORTH AMERICAN PRODUCTION*</b>	<b>15.58</b>	<b>14.63</b>	<b>18.15</b>	<b>17.48</b>	<b>17.43</b>	<b>17.76</b>
CANADA	2.50	2.24	2.37	2.19	2.12	2.10
UNITED STATES	11.67	9.80	12.18	11.23	11.40	11.45
MEXICO	1.41	2.59	3.60	4.06	3.91	4.21

\*Includes light, medium and heavy trucks. \*\*Canadian sales are Scotiabank estimates. Sources: Ward's Automotive Reports, Statistics Canada.

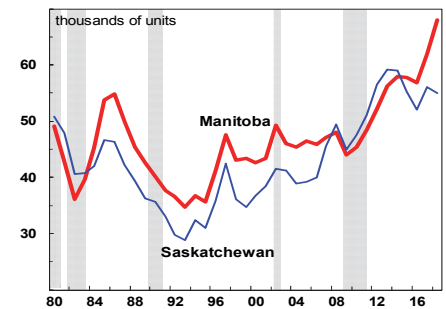
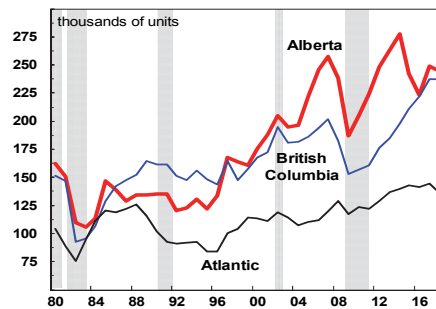
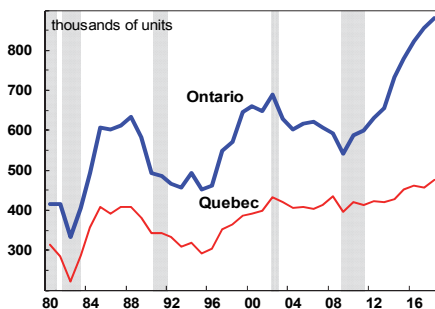
**VEHICLE SALES OUTLOOK BY PROVINCE\***

(thousands of units, annual rates)

	<u>1994-05</u> Average	<u>2006-15</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	
					Jan-Feb**	Annual f
<b>CANADA</b>	<b>1,446</b>	<b>1,668</b>	<b>1,949</b>	<b>2,041</b>	<b>2,085</b>	<b>2,000</b>
<b>ATLANTIC</b>	<b>102</b>	<b>125</b>	<b>140</b>	<b>143</b>	<b>136</b>	<b>138</b>
<b>CENTRAL</b>	<b>936</b>	<b>1,034</b>	<b>1,265</b>	<b>1,300</b>	<b>1,360</b>	<b>1,266</b>
Quebec	366	411	458	453	470	445
Ontario	570	623	807	847	890	821
<b>WEST</b>	<b>408</b>	<b>509</b>	<b>544</b>	<b>598</b>	<b>589</b>	<b>596</b>
Manitoba	42	49	55	62	72	61
Saskatchewan	36	49	51	56	50	56
Alberta	166	232	220	245	236	248
British Columbia	164	179	218	235	231	231

\*Includes cars and light trucks. \*\*Scotiabank estimates. Sources: Statistics Canada, Canadian Vehicle Manufacturers' Association.

**VEHICLE SALES BY PROVINCE**



Includes cars and trucks (light, medium and heavy). Shaded bars indicate U.S. recession periods. Source: Statistics Canada.

**AUTO MARKET SHARE BY MANUFACTURER — CANADA\***

(thousands of units, not seasonally adjusted)

	<u>2017</u>		<u>2018</u>		<u>2017</u>		<u>2018</u>	
	Jan to Mar		Jan to Mar		Mar		Mar	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
<b>TOTAL</b>	<b>131.5</b>	<b>100.0</b>	<b>120.5</b>	<b>100.0</b>	<b>61.3</b>	<b>100.0</b>	<b>53.6</b>	<b>100.0</b>
Big Three	26.0	19.8	23.3	19.3	12.2	19.9	10.0	18.6
General Motors	13.4	10.2	13.9	11.5	6.7	10.9	5.9	11.0
Ford	7.0	5.4	6.7	5.6	3.0	4.9	3.0	5.6
Chrysler	5.6	4.2	2.7	2.2	2.5	4.1	1.1	2.0
Japanese	62.1	47.2	56.8	47.2	30.2	49.3	25.6	47.8
Honda	20.0	15.2	19.7	16.4	10.4	17.0	8.5	15.8
Toyota	17.2	13.1	16.4	13.6	7.9	12.9	7.7	14.3
Nissan	11.7	8.9	10.1	8.4	5.7	9.3	4.7	8.8
Mazda	7.7	5.9	6.3	5.2	3.8	6.3	2.9	5.3
Mitsubishi	1.7	1.3	1.3	1.0	0.7	1.2	0.6	1.0
Subaru	3.7	2.8	3.1	2.6	1.6	2.6	1.4	2.5
Hyundai	13.2	10.0	11.4	9.4	5.9	9.7	5.2	9.8
Volkswagen	8.3	6.3	8.1	6.7	3.5	5.7	3.1	5.8
Kia	7.3	5.6	7.1	5.9	3.5	5.5	3.6	6.8
BMW	4.3	3.3	4.2	3.5	1.6	2.7	1.9	3.5
Mercedes-Benz	5.8	4.4	5.0	4.1	2.3	3.8	1.9	3.5
Other	4.5	3.4	4.6	3.9	2.1	3.4	2.3	4.2

\*Source: Dealer sales from the Global Automakers of Canada.

**TRUCK MARKET SHARE BY MANUFACTURER — CANADA\***

(thousands of units, not seasonally adjusted)

	<u>2017</u>		<u>2018</u>		<u>2017</u>		<u>2018</u>	
	Jan to Mar		Jan to Mar		Mar		Mar	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
<b>TOTAL</b>	<b>296.2</b>	<b>100.0</b>	<b>317.4</b>	<b>100.0</b>	<b>128.9</b>	<b>100.0</b>	<b>136.4</b>	<b>100.0</b>
Big Three	162.0	54.7	163.7	51.6	70.9	55.1	70.7	51.9
General Motors	47.8	16.1	51.0	16.1	23.4	18.2	24.3	17.8
Ford	55.7	18.8	54.3	17.1	23.5	18.3	23.0	16.9
Chrysler	58.5	19.8	58.4	18.4	24.0	18.6	23.4	17.2
Other Domestic	9.7	3.3	12.2	3.8	4.4	3.4	5.5	4.1
Japanese	85.1	28.7	94.9	29.9	36.5	28.3	40.6	29.7
Honda	20.9	7.1	22.7	7.2	8.8	6.8	9.1	6.6
Toyota	27.7	9.4	30.4	9.6	11.5	8.9	13.4	9.8
Nissan	21.9	7.4	23.8	7.5	10.1	7.8	10.5	7.7
Mazda	7.8	2.6	9.8	3.1	3.1	2.4	4.2	3.1
Mitsubishi	2.7	0.9	4.3	1.4	1.2	0.9	2.1	1.5
Subaru	6.7	2.3	8.2	2.6	3.0	2.4	3.5	2.6
Hyundai	11.0	3.7	10.1	3.2	5.2	4.0	4.6	3.3
Kia	6.5	2.2	6.8	2.1	3.0	2.3	3.2	2.3
Other Imports	21.9	7.4	29.7	9.4	8.9	6.9	11.8	8.7
<b>LIGHT TRUCKS</b>	<b>289.6</b>	<b>97.8</b>	<b>308.6</b>	<b>97.2</b>	<b>126.1</b>	<b>97.9</b>	<b>86.1</b>	<b>97.3</b>

\*Source: Dealer sales from the Global Automakers of Canada.

**AUTO SALES BY PROVINCE**

(thousands of units, not seasonally adjusted)

	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
	Jan to Feb	Jan to Feb	Feb	Feb
<b>CANADA</b>	<b>70.2</b>	<b>69.8</b>	<b>38.0</b>	<b>37.0</b>
<b>ATLANTIC</b>	<b>4.1</b>	<b>4.2</b>	<b>2.1</b>	<b>2.2</b>
Newfoundland	0.8	0.9	0.4	0.4
Nova Scotia	1.7	2.0	0.8	1.1
New Brunswick	1.4	1.1	0.8	0.6
Prince Edward Island	0.2	0.2	0.1	0.1
<b>CENTRAL</b>	<b>48.4</b>	<b>47.8</b>	<b>26.5</b>	<b>25.6</b>
Quebec	18.4	18.4	9.9	9.5
Ontario	30.0	29.4	16.6	16.1
<b>WEST</b>	<b>17.7</b>	<b>17.8</b>	<b>9.4</b>	<b>9.2</b>
Manitoba	1.5	2.2	0.9	1.3
Saskatchewan	1.1	1.1	0.6	0.5
Alberta	6.0	5.5	3.3	2.8
British Columbia	9.1	9.0	4.6	4.6

Source: Statistics Canada.

**TRUCK SALES BY PROVINCE\***

(thousands of units, not seasonally adjusted)

	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
	Jan to Feb	Jan to Feb	Feb	Feb
<b>CANADA</b>	<b>166.6</b>	<b>177.2</b>	<b>86.5</b>	<b>90.4</b>
<b>ATLANTIC</b>	<b>10.2</b>	<b>10.0</b>	<b>5.1</b>	<b>5.1</b>
Newfoundland	2.6	2.4	1.3	1.2
Nova Scotia	4.0	3.8	2.0	2.0
New Brunswick	3.1	3.3	1.6	1.7
Prince Edward Island	0.5	0.5	0.2	0.2
<b>CENTRAL</b>	<b>98.1</b>	<b>106.7</b>	<b>51.5</b>	<b>56.5</b>
Quebec	29.6	31.9	15.7	16.8
Ontario	68.5	74.8	35.8	39.7
<b>WEST</b>	<b>58.3</b>	<b>60.5</b>	<b>29.9</b>	<b>28.8</b>
Manitoba	6.0	8.3	3.2	3.7
Saskatchewan	6.2	5.3	3.2	2.5
Alberta	25.5	25.8	13.2	12.4
British Columbia	20.6	21.1	10.3	10.2

\*Light, medium and heavy trucks. Source: Statistics Canada.

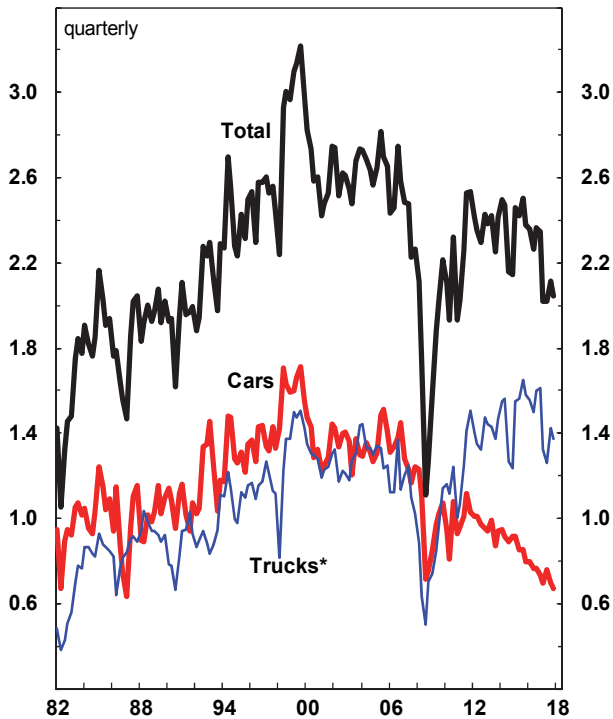
**CANADIAN MOTOR VEHICLE PRODUCTION**

(thousands of units, not seasonally adjusted)

	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
	Jan to Mar	Jan to Mar	Mar	Mar
<b>TOTAL</b>	<b>599.6</b>	<b>534.2</b>	<b>219.2</b>	<b>187.0</b>
<b>CAR</b>	<b>199.2</b>	<b>174.1</b>	<b>75.5</b>	<b>64.6</b>
Chrysler	55.7	54.6	21.4	22.2
GM	23.9	13.4	11.1	6.1
Honda	55.8	55.1	19.8	18.8
Toyota	63.8	51.0	23.2	17.5
<b>TRUCKS*</b>	<b>400.4</b>	<b>360.1</b>	<b>143.7</b>	<b>122.4</b>
Chrysler	76.8	85.1	28.8	28.8
Ford	66.4	69.8	23.5	23.4
GM	96.8	61.8	32.1	21.7
Honda	60.3	58.1	22.7	19.3
Toyota	96.3	80.8	35.1	27.6
Others	3.8	4.5	1.5	1.6

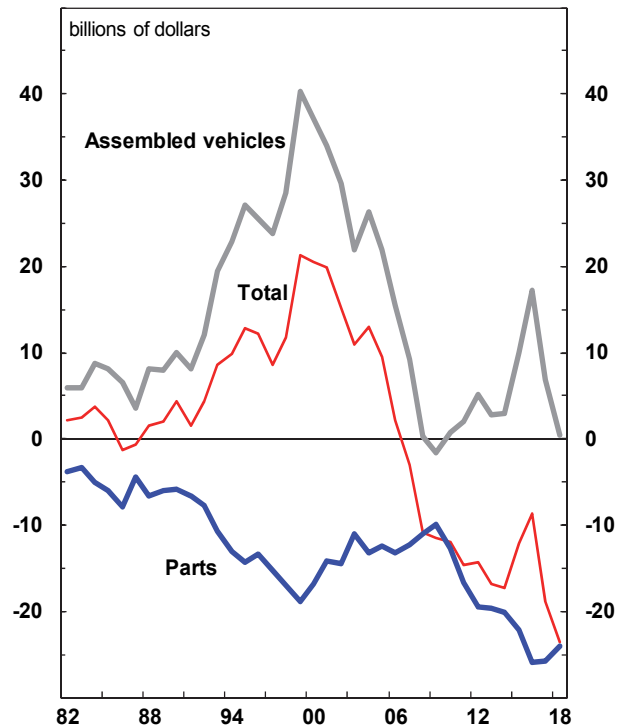
\*Light, medium and heavy trucks. Source: Ward's Automotive Reports.

Canada — Motor Vehicle Production



Millions of units, seasonally adjusted annual rates.  
\*Light, medium and heavy trucks.  
Source: Ward's Automotive Reports.

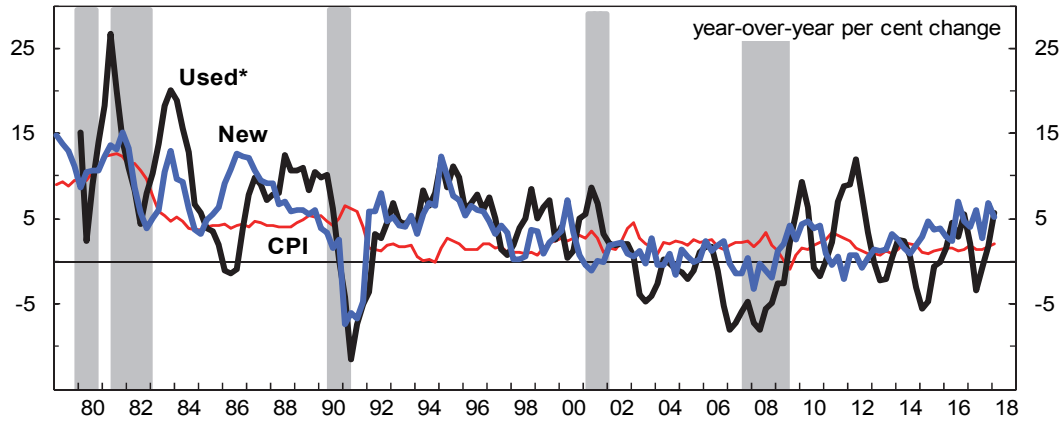
Canada — World Auto Trade Balances



2018 data are January-February annualized.  
Source: Statistics Canada.

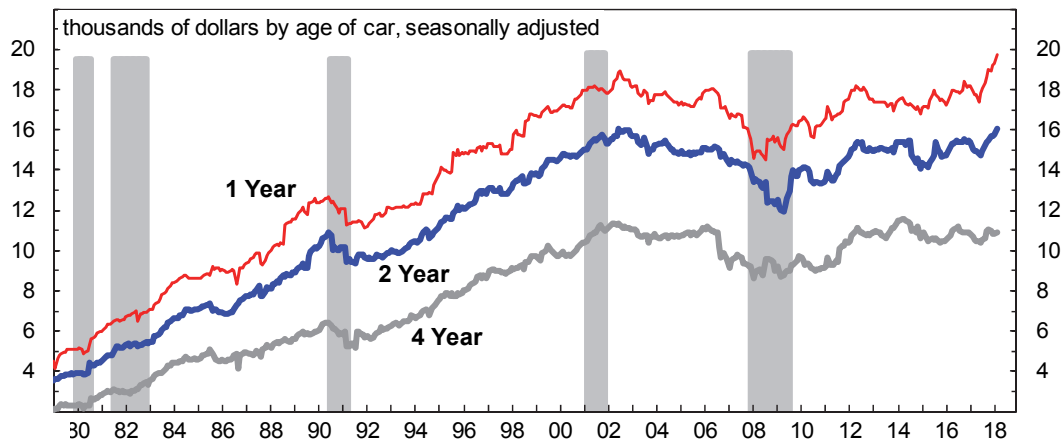
**New & Used Car Prices**

**Scotiabank Car Price Indicators — Canada**



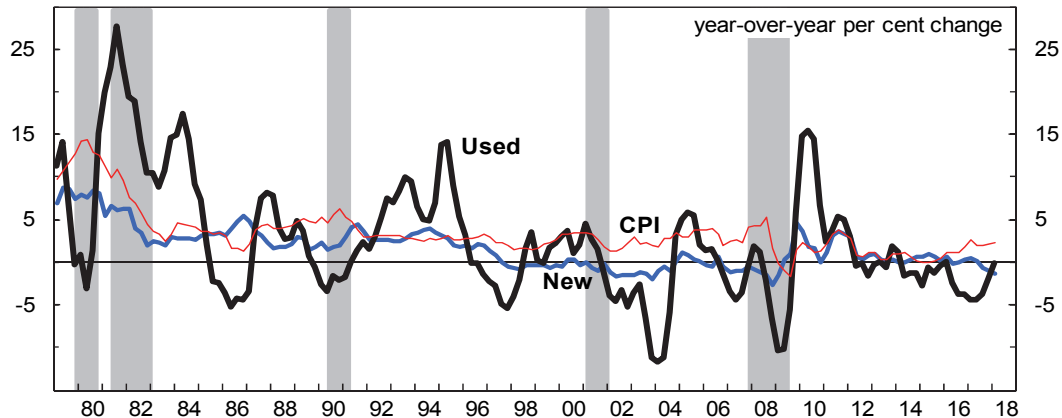
\*Scotiabank estimate from Canadian Black Book data.  
Sources: Canadian Black Book, Statistics Canada.

**Scotiabank Car Price Indicators — Canada**



Scotiabank estimate from Canadian Black Book data.

**Scotiabank Car Price Indicators — United States**



Consumer price indices for new and used cars.  
Shaded areas indicate recession periods. Source: U.S Bureau of Labor Statistics.

**CANADIAN CORPORATE FINANCIAL PERFORMANCE**
**MOTOR VEHICLE DEALERS AND REPAIR SHOPS**

		Net Income After Tax (\$ mil)	Pre-Tax Profit Margin (%)	Inventory Turnover Ratio	Interest Coverage Ratio	Debt/ Equity Ratio	Return on Shareholders Equity (%)
Annual	2005	799	0.93	5.35	2.55	2.74	12.90
	2006	942	1.20	5.16	2.64	2.75	14.37
	2007	1089	1.41	5.05	3.36	2.56	15.13
	2008	1142	1.43	5.04	3.51	2.44	14.66
	2009	1392	1.84	5.34	4.85	2.07	16.99
	2010	1649	2.06	4.91	5.34	2.11	18.09
	2011	1664	1.99	5.17	5.19	2.02	17.44
	2012	1748	1.97	4.86	5.32	2.03	16.71
	2013	2215	2.32	5.08	6.64	2.02	20.08
	2014	2714	2.60	5.09	7.41	1.90	21.03
	2015	2929	2.63	5.16	7.54	1.93	21.31
	2016	2963	2.40	5.03	7.70	1.96	20.02
	2017	3404	2.51	4.89	7.68	2.04	21.35
Quarterly at annual rates	2016Q4	2852	2.65	4.84	6.99	1.94	18.62
	2017Q1	2196	2.65	4.31	6.20	2.14	14.63
	Q2	3904	2.43	5.32	8.99	2.11	25.44
	Q3	3904	2.43	5.12	8.15	2.00	23.84
	Q4	3612	2.65	4.81	7.24	1.94	21.18
Average (89–17)		1086	1.40	5.96	3.67	2.31	12.68
Low (89–17)		-68	0.10	4.31	1.10	3.57	-1.20

## Definition of Ratios:

Pre-tax Profit Margin: pre-tax income/sales

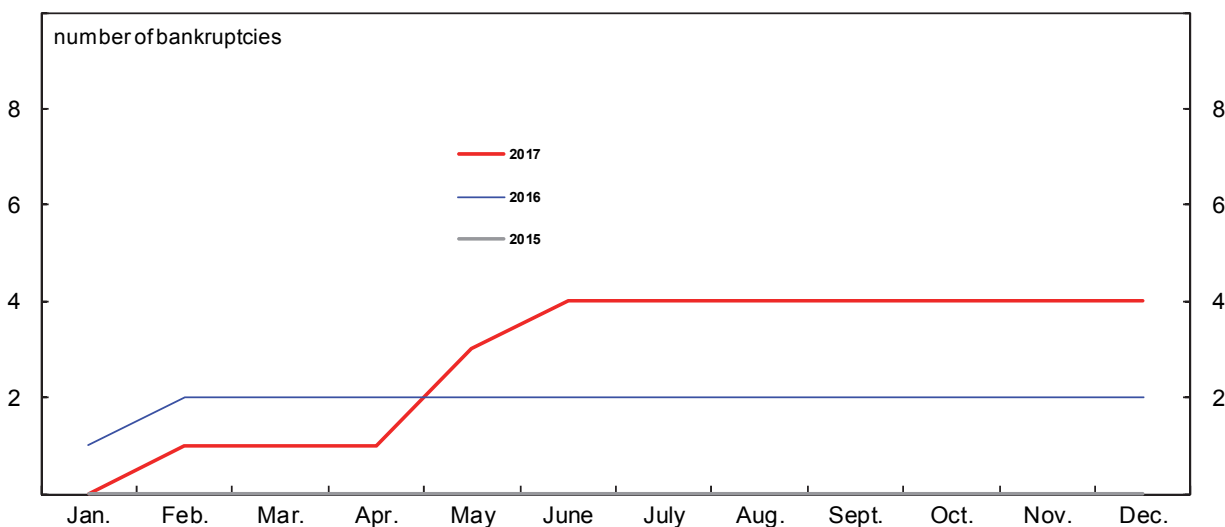
Inventory Turnover Ratio: sales/inventory

Source: Statistics Canada.

Interest Coverage Ratio: (pre-tax income and interest payments)/(interest payments)

Debt/Equity Ratio: (short-term and long-term debt)/total equity

Return of Shareholders' Equity: after-tax income/total equity

**Retail Auto Dealer Bankruptcies**


New car dealers only; cumulative total during the year.

Source: Office of the Superintendent of Bankruptcy.



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