

Weak Sales in China Drag Down Global Auto Market

Global auto sales fell by 9% y/y in January owing to a steep 18% y/y drop in the Chinese market—about a third of the global market—where sales figures were likely influenced by seasonal factors around the timing of New Year celebrations. Excluding China, vehicle purchases fell by 3% y/y worldwide.

January's seasonally-adjusted rise of 1% m/m—compared to drops of 2% m/m and 3% m/m in November and December, respectively—improves from the negative trend seen during the second half of 2018. An 11% m/m rise in purchases in Western Europe provided a strong boost during the month against declines in China and the US, down 3% m/m and 5% m/m respectively.

Purchases contracted year-on-year for the eleventh consecutive month in Canada, although from an all-time January-high and amid adverse weather in Central Canada. Month-on-month sales rose by a strong 4%.

CANADA: SHARP DROP FROM RECORD JANUARY

- Nationwide sales fell 7.2% y/y off an all-time January-high in 2018, but posted a solid increase of 4.4% m/m to 1.91 mn units delivered on a seasonally-adjusted annualised rate (saar) basis. We forecast that auto sales will post their fourth-highest year on record in 2019 at 1.93 mn units delivered compared to the all-time record of 2.04 mn, achieved in 2017 (see chart A2 at back).
- Car sales remained on a downward trajectory with a 14% y/y drop in January while truck purchases fell by a softer 5% y/y, though have now contracted in year-on-year terms for three consecutive months compared to a seventeen-month streak for cars.

CANADIAN PROVINCES: POOR WEATHER HITS CENTRAL CANADA

- Inclement weather in Ontario and Quebec in the latter half of the month may have dampened sales activity in Central Canada. Auto purchases dropped 6% y/y in both provinces (chart A5).
- In Atlantic Canada, sales fell slightly by 1.7% y/y following significant weakness in the final quarter of 2018, when sales declined by 14% y/y on average.
- Worsening economic conditions in Alberta continue to depress vehicle sales—which dropped by 14% y/y last month—while Saskatchewan saw an 8% y/y contraction. Vehicle deliveries plunged by 32% y/y in Manitoba compared to an atypical 57% y/y surge last January.

US: MARKET REBALANCING FROM STRONG END-OF-YEAR

- US auto purchases dropped by 2.1% y/y to record their steepest month-on-month contraction since 2011 at 5.1% m/m. However, the monthly decline follows strong sales in the final quarter of 2018 and may have been further exacerbated by especially adverse weather in the Midwest. We expect US sales to decline by around 2% in 2019 to 16.8 mn units.

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Motor Vehicle Sales			
	Dec '18	Jan '19	Jan-Jan '19
	(y/y % change)		
World	-8.2	-8.6	-8.6
North America			
Canada	-8.0	-7.2	-7.2
US	1.5	-2.1	-2.1
Mexico	-10.6	1.9	1.9
South America			
Argentina	-46.4	-53.4	-53.4
Brazil	9.8	8.7	8.7
Chile	0.6	3.5	3.5
Colombia	32.8	-3.5	-3.5
Peru	-30.1	3.8	3.8
Western Europe			
France	-14.5	-1.1	-1.1
Germany	-6.7	-1.4	-1.4
Italy	2.2	-7.6	-7.6
Spain	-3.5	-8.0	-8.0
UK	-5.5	-1.6	-1.6
Eastern Europe			
Russia	5.6	0.6	0.6
Turkey	-43.5	-59.5	-59.5
Asia Pacific			
Australia	-15.4	-7.8	-7.8
China	-15.8	-17.7	-17.7
India	0.3	-1.2	-1.2
Japan	-1.7	2.1	2.1
Korea	2.5	1.1	1.1

Sources: Scotiabank Economics, Wards Auto, national automotive associations.

MEXICO: ONE-OFF RISE, WEAKNESS PERSISTS

- Auto sales rose in year-on-year terms for the first time in twenty months in Mexico, but the 1.9% y/y increase is the result of a low base in January 2018, which in turn stems from an adjustment in sales-reporting methodology by General Motors. Excluding GM, vehicle purchases fell sharply again by 7.4% y/y in January after December's market-wide 10.6% y/y drop, reflecting our diminished macroeconomic projections for 2019.

ASIA-PACIFIC: CHINESE NEW YEAR MASKS MARKET SITUATION

- Chinese auto purchases dropped by 17.7% y/y in January, marking five months of back-to-back declines. However, sales fluctuate greatly around the Chinese New Year months and as such we advise to consider January's data in conjunction with February's. Notwithstanding the statistical variability, a government-led tightening of credit and the US-China trade war are having an adverse impact on the Chinese auto market. We forecast that sales will remain flat in 2019 as weakness in the first half of the year is offset by improved sales activity later in the year on the back of government stimulus.
- Vehicle sales rose by 1% y/y in Korea. Domestic automakers saw a 4.5% y/y rise in deliveries, with the total figure dragged down by a steep 25% y/y contraction in purchases of German-made vehicles, which account by around 10% of total sales.

EUROPE: DECLINES BECOME MORE MUTED

- Vehicle purchases in Western Europe fell again last month by 5% y/y. Sales figures improved across most countries in the region after December's decline of 8.6% y/y. Alongside a worsening economic outlook, sales in the European Union are currently in a period of adjustment to new emission testing standards introduced in September 2018 which led to a shortage of qualifying vehicles upon their introduction.
- In Eastern Europe, auto sales fell 12.1% y/y. Russian vehicle deliveries eked out a mere 0.6% y/y gain for their weakest year-on-year performance since February 2017, owing to a two percentage-point (ppts) increase in sales taxes to 20% on January 1. A severe contraction in economic activity in Turkey continues to depress sales as auto purchases plummeted by 60% y/y in January despite a fifteen ppts reduction on taxes applied on passenger cars, continuing on 2018's full-year drop of 39%.

SOUTH AMERICA: SALES ACTIVITY REMAINS STRONG IN BRAZIL, DIRE IN ARGENTINA

- Sales activity in South America—down 5.8% y/y—remains depressed by plummeting purchases in Argentina—down 53% y/y in January—while vehicle sales growth slows in Brazil though remains strong, growing by 8.7% y/y last month. Vehicle sales rose by 3.8% y/y in Peru. An increase in sales taxes on new autos in Peru last June has nevertheless led to a nearly-uninterrupted protraction in purchases since its introduction. In Colombia, auto sales fell by 3.5% y/y following extraordinary growth of 26% y/y and 33% y/y in November and December, respectively, with sales figures boosted by the international auto show in Bogotá.

Table 1 — International Motor Vehicle Sales Outlook (mns units)

	2000–15	2016	2017	2018	2019f
Total Sales	54.9	77.3	79.0	78.6	78.7
North America*	17.9	21.0	20.7	20.6	20.1
Canada	1.62	1.95	2.04	1.98	1.93
United States	15.24	17.46	17.13	17.21	16.80
Mexico	0.99	1.60	1.53	1.42	1.36
Western Europe	13.7	14.0	14.3	14.2	14.2
Germany	3.23	3.35	3.44	3.44	3.43
Eastern Europe	3.1	3.1	3.4	3.4	3.5
Russia	1.87	1.43	1.60	1.80	1.86
Asia	17.1	36.1	37.1	36.8	37.1
China**	7.31	23.57	24.20	23.44	23.50
India	1.23	2.09	2.19	2.37	2.49
South America	3.2	3.1	3.5	3.7	3.8
Brazil	1.94	1.39	1.50	1.71	1.84

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

Table 2 — Canada & US Motor Vehicle Sales and Production Outlook

	2000–15	2016	2017	2018	2019	
					Jan-Jan	fcst
	(thousands of units, annualised)					
Canada**	1,668	1,949	2,041	1,984	1,910	1,930
Cars	776	662	644	576	535	490
Domestic	490	439	438	378	352	325
Imports	286	223	206	197	183	165
Light trucks	892	1,287	1,397	1,408	1,376	1,440
	(millions of units, annualised)					
United States	14.40	17.50	17.10	17.21	16.60	16.80
Cars	6.90	6.90	6.10	5.30	5.24	4.50
Light trucks	7.50	10.60	11.00	11.91	11.36	12.30
	(millions of units, annualised)					
North American Production*	14.63	18.15	17.48	17.46	n/a	17.75
Canada	2.24	2.37	2.19	2.02	n/a	1.95
United States	9.80	12.18	11.23	11.32	n/a	11.60
Mexico	2.59	3.60	4.06	4.11	n/a	4.20

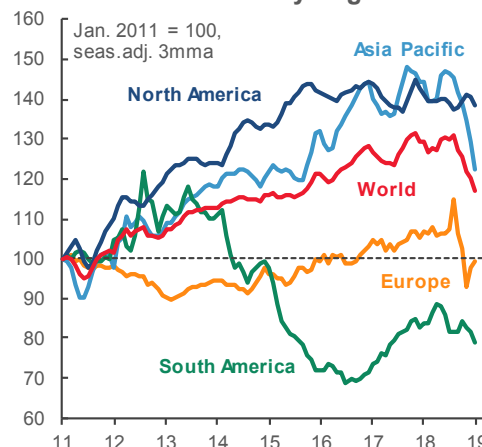
*Includes light, medium and heavy trucks. **Canadian sales are Scotiabank estimates.
Sources: Ward's Automotive Reports, Statistics Canada.

Table 3 — Provinces Motor Vehicle Sales Outlook (mns units ann.)* **

	2000–15	2016	2017	2018	2019f
Canada	1,668	1,948	2,040	1,984	1,930
Atlantic	125	140	143	130	126
Central	1,034	1,264	1,299	1,286	1,266
Quebec	411	458	462	451	440
Ontario	623	806	837	835	826
West	509	544	598	565	538
Manitoba	49	55	62	66	60
Saskatchewan	49	51	56	49	47
Alberta	232	220	245	230	210
British Columbia	179	218	235	220	221

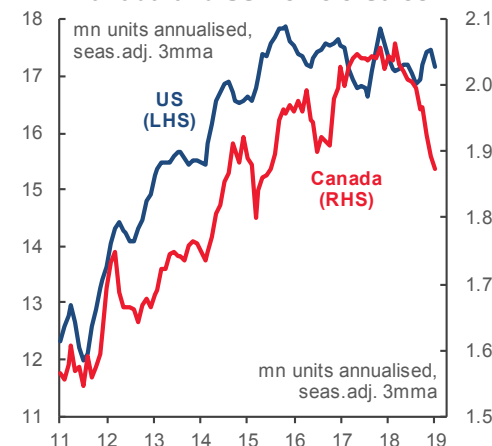
*Includes cars and light trucks. **Scotiabank estimates.
Sources: Statistics Canada, Canadian Vehicle Manufacturers' Association.

Chart A1 Vehicle Sales by Region



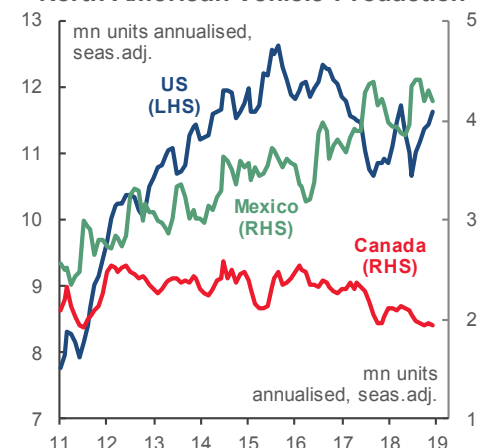
Sources: Scotiabank Economics, National Auto Associations.

Chart A2 Canada and US Vehicle Sales



Sources: Scotiabank Economics, GAC, WardsAuto.

Chart A3 North American Vehicle Production



Sources: Scotiabank Economics, WardsAuto.

Table 4 — Canadian Car Sales Share By Manufacturer (000s units)*

	2018		2019		2018		2019	
	Jan to Jan		Jan to Jan		Jan		Jan	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
Total Sales	32.2	100.0	31.1	100.0	31.1	100.0	26.8	100.0
Big Three	5.9	18.4	3.3	10.5	5.9	19.0	3.3	12.1
Fiat-Chrysler	3.9	12.1	1.8	5.9	3.9	12.5	1.8	6.9
Ford	1.6	5.1	0.9	3.0	1.6	5.2	0.9	3.5
General Motors	0.4	1.3	0.5	1.5	0.4	1.3	0.5	1.8
Japanese	15.2	47.2	13.9	44.7	15.2	48.8	13.9	51.8
Honda	6.0	18.6	5.0	15.9	6.0	19.3	5.0	18.5
Toyota	3.9	12.1	4.7	14.9	3.9	12.5	4.7	17.3
Nissan	2.5	7.7	1.9	6.2	2.5	8.0	1.9	7.2
Mazda	1.7	5.1	1.4	4.6	1.7	5.3	1.4	5.3
Mitsubishi	0.3	1.1	0.1	0.5	0.3	1.1	0.1	0.5
Subaru	0.8	2.6	0.8	2.5	0.8	2.7	0.8	2.9
European	5.9	18.2	5.2	16.8	5.9	18.8	5.2	19.4
BMW	1.0	3.2	0.7	2.4	1.0	3.3	0.7	2.7
Mercedes-Benz	1.3	4.2	1.1	3.7	1.3	4.3	1.1	4.2
Volkswagen Group	3.3	10.3	3.2	10.3	3.3	10.7	3.2	12.0
Volvo	0.1	0.2	0.1	0.4	0.1	0.3	0.1	0.4
Other	0.1	0.3	0.0	0.1	0.1	0.3	0.0	0.1
Rest of the world	5.2	16.1	8.7	28.1	4.1	13.3	4.5	16.6
Hyundai	2.6	8.2	2.7	8.6	2.6	8.4	2.7	10.0
KIA	1.5	4.7	1.8	5.7	1.5	4.8	1.8	6.6
All other	1.1	3.3	4.3	13.8	-	0.0	-	0.0

*Sources: Scotiabank Economics, Global Automakers of Canada.

Table 5 — Canadian Truck Sales Share By Manufacturer (000s units)*

	2018		2019		2018		2019	
	Jan to Jan		Jan to Jan		Jan		Jan	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
Total Truck Sales	88.6	100.0	85.5	100.0	88.6	100.0	85.5	100.0
Total Light Truck Sales	88.6	100.0	85.5	100.0	88.6	100.0	85.5	100.0
Big Three	47.6	53.7	45.0	52.6	47.6	53.7	45.0	52.6
Fiat-Chrysler	12.9	14.6	12.5	14.6	12.9	14.6	12.5	14.6
Ford	14.8	16.7	15.2	17.8	14.8	16.7	15.2	17.8
General Motors	17.3	19.6	13.7	16.0	17.3	19.6	13.7	16.0
Other Domestic	2.5	2.9	3.6	4.2	2.5	2.9	3.6	4.2
Japanese	28.1	31.7	27.4	32.1	28.1	31.7	27.4	32.1
Honda	7.1	8.0	5.8	6.8	7.1	8.0	5.8	6.8
Toyota	8.6	9.7	9.6	11.2	8.6	9.7	9.6	11.2
Nissan	6.4	7.2	6.0	7.0	6.4	7.2	6.0	7.0
Mazda	2.8	3.1	2.3	2.7	2.8	3.1	2.3	2.7
Mitsubishi	0.9	1.0	1.3	1.5	0.9	1.0	1.3	1.5
Subaru	2.4	2.7	2.4	2.8	2.4	2.7	2.4	2.8
European	8.5	9.6	7.6	8.8	8.5	9.6	7.6	8.8
BMW	1.7	1.9	1.6	1.9	1.7	1.9	1.6	1.9
Mercedes-Benz	2.2	2.5	1.8	2.1	2.2	2.5	1.8	2.1
Volkswagen Group	3.5	4.0	3.0	3.5	3.5	4.0	3.0	3.5
Volvo	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.5
Other	0.8	0.9	0.7	0.9	0.8	0.9	0.7	0.9
Rest of the world	4.4	4.9	5.5	6.5	4.4	4.9	5.5	6.5
Hyundai	2.6	2.9	3.7	4.4	2.6	2.9	3.7	4.4
KIA	1.7	2.0	1.8	2.1	1.7	2.0	1.8	2.1
All other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

*Sources: Scotiabank Economics, Global Automakers of Canada.

Table 6 — Car Sales By Province (000s units)

	2017 Jan to Dec	2018 Jan to Dec	2017 Dec	2018 Dec
CANADA	647.0	578.2	34.1	28.4
ATLANTIC	45.7	37.9	2.0	1.4
Newfoundland and Labrador	8.8	7.5	0.3	0.2
Prince Edward Island	2.8	2.4	0.1	0.1
Nova Scotia	20.8	17.2	1.0	0.6
New Brunswick	13.2	10.7	0.6	0.5
CENTRAL	461.3	418.9	24.0	20.8
Quebec	187.7	166.5	8.6	7.3
Ontario	273.6	252.3	15.4	13.5
WEST	140.0	121.5	8.1	6.2
Manitoba	13.6	14.7	0.7	0.5
Saskatchewan	8.7	7.1	0.5	0.4
Alberta	46.6	37.8	2.6	1.9
British Columbia	71.1	61.9	4.4	3.5

Source: Statistics Canada.

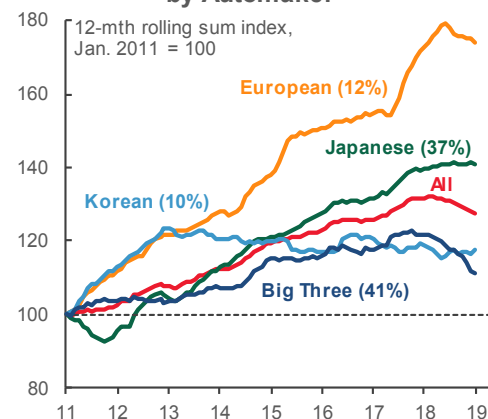
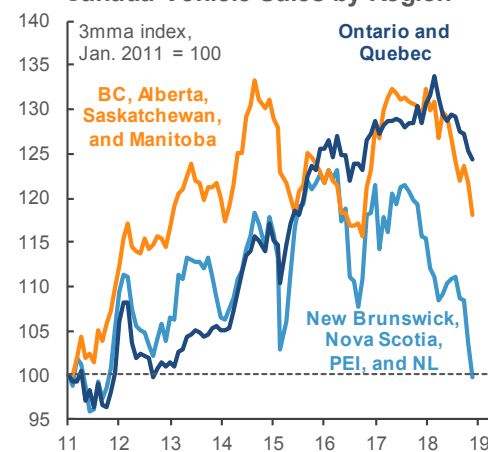
Chart A4
Canada Vehicle Sales by Automaker*

 Sources: Scotiabank Economics, GAC.
 *market share in parentheses.

Chart A5
Canada Vehicle Sales by Region


Sources: Scotiabank Economics, Statistics Canada.

Table 7 — Truck Sales By Province (000s units)*

	2017 Jan to Dec	2018 Jan to Dec	2017 Dec	2018 Dec
CANADA	1,430.0	1,457.5	90.0	89.8
ATLANTIC	99.9	94.3	2.0	4.9
Newfoundland and Labrador	24.4	22.8	0.3	1.0
Prince Edward Island	5.7	5.4	0.1	0.3
Nova Scotia	38.2	35.6	1.0	2.0
New Brunswick	31.6	30.6	0.6	1.7
CENTRAL	864.6	904.5	55.4	55.6
Quebec	281.1	294.5	16.6	17.0
Ontario	583.6	610.0	38.8	38.5
WEST	465.4	458.8	32.6	29.3
Manitoba	49.6	53.2	3.6	2.8
Saskatchewan	47.5	43.1	3.2	2.8
Alberta	202.2	199.0	13.9	12.6
British Columbia	166.0	163.5	11.8	11.0

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

Table 8 — Canadian Motor Vehicle Dealers and Repair Shops Corporate Financial

	Annual			Quarterly (annualised)		
	2015	2016	2017	2018Q1	2018Q2	2018Q3
Net Income after tax (CAD, mn)	2,930.0	2,940.0	3,660.0	2,260.0	3,644.0	3,724.0
Pre-tax corporate profit margin (%)	2.6	2.5	2.7	1.9	2.6	2.5
Inventory turnover ratio	5.2	5.1	4.9	4.7	4.7	4.8
Interest coverage ratio	7.5	7.5	8.0	5.7	7.4	6.8
Debt/equity ratio	1.9	1.9	1.9	1.9	1.9	1.8
Return on shareholders equity (%)	21.1	18.8	21.4	16.1	19.5	18.0

Definition of Ratios:

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

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

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

Inventory Turnover Ratio: sales/inventory

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

Source: Statistics Canada.

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