

Global Auto Sales Accelerate to Set Eighth Consecutive Annual Record in 2017

- Sales gains pick up in July, as the outlook for China is upgraded.
- South America rebounds from a three-year slump.
- Ongoing gains in mature markets, but US volumes edge lower temporarily.

Global car sales are on target to set an eighth consecutive annual record. This represents the longest auto industry up-cycle of recent decades and reflects a broad-based strengthening in economic activity across all regions over the past year. In fact, the global economy is currently expanding at the fastest pace in more than two years, and this is leading to a re-acceleration in global sales from the moderating trend that had been in place since the partial phase-out of a sales tax incentive in China late last year. During July, global volumes advanced 3% y/y, up from a flat performance in the second quarter (chart 1).

Record global sales stand in sharp contrast to ‘peak auto’ fears that have become popular with pessimists and appear regularly in media headlines. While the auto industry is cyclical, declines in global car sales have historically only occurred during economic downturns, such as in 2001, and 2008/09. Outside of those years, global auto sales have consistently moved higher.

DEVELOPING MARKETS DRIVE SALES ACCELERATION

Developing markets are leading the sales gains, with volumes (ex. China) jumping 14% y/y in July, the best performance in nearly five years. This represents a significant broadening out of the advance in global sales, as these markets had previously declined for three consecutive years (chart 2).

Stronger-than-expected economic growth in China is also a key contributor to the recent global sales acceleration, especially since it is being accompanied by firmer car prices and inventory normalization. These developments have prompted an upgrade of our 2017 sales forecast for China to a 3% annual gain, up from the small decline that we originally envisioned. New car sales in China are now projected to exceed 24 mn units and account for 30% of global volumes, up from 25% only three years ago (table on page 2).

LOWER RENTAL VOLUMES DAMPEN US SALES, BUT OTHER DEVELOPED MARKETS POWER AHEAD

Despite record global purchases, a temporary de-fleeting in the US rental car industry has led to an 8% drop in fleet volumes in the United States this year, and will reduce overall US purchases for the first time since 2009. However, strengthening consumer balance sheets and an aging vehicle fleet have enabled household volumes to remain resilient, keeping overall US sales above 17 mn units for the second consecutive year, and are expected to support higher sales in 2018. As we have pointed out in previous reports, the popularly perceived problem of rising subprime delinquencies is not having a material impact on US new vehicle demand. In fact, overall US household delinquency rates recently

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Chart 1

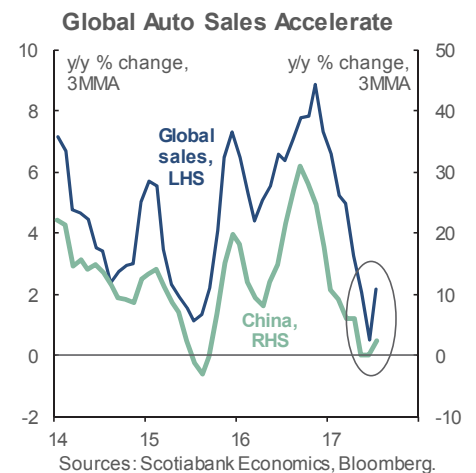
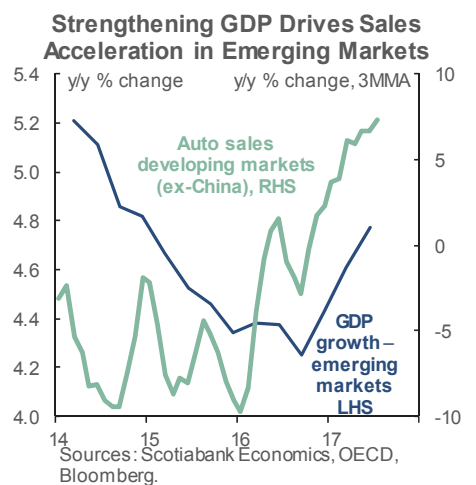


Chart 2



declined to a decade low. Meanwhile, new vehicle pricing is at record highs, and automotive credit quality has improved alongside fewer subprime auto loans.

Stronger-than-expected economic growth and healthy labour markets are lifting purchases in **Canada** and **Mexico** to record highs. Employment growth has more than doubled in Canada over the past year to nearly 2% y/y, the best performance in 10 years, and is buoying household incomes and purchasing power. Meanwhile, the labour market is even stronger in Mexico, advancing by more than 4% y/y, which is helping to boost sales to a fourth consecutive annual record (table below).

Car sales also remain in expansionary mode throughout continental Europe, supported by the acceleration in economic growth to a decade-high. The sales improvement is broadly-based, with volumes on target to climb to new highs in several EU nations this year, especially members in Central and Eastern Europe. The UK is the exception, with household car purchases declining 5% y/y through July, undercut by slowing economic growth, deteriorating income trends, and slumping consumer confidence. The UK economy initially withstood the impact of the decision to leave the EU, but spending power is now being pressured by a weakening currency and sluggish wage growth.

SOUTH AMERICA LEADS THE WAY

Car sales in South America have jumped 12% this year, the strongest gain since the global economic recovery was in its infancy. The improvement reflects the end of the economic downturn in Brazil, a market which normally accounts for nearly 60% of overall volumes in South America. However, sales are also reviving in most other countries, buoyed higher commodity prices and stronger economic activity. **South America is the continent most affected by commodity cycles: commodities and resource-based manufacturing account for nearly 70% of its exports, double the global average.** Outside of Brazil, sales gains are strongest in Argentina and Chile. However, purchases are being held back in Colombia by a recent increase in the new vehicle sales tax and volatile global oil prices.

SALES GAINS BROADEN ACROSS ASIA

While China has been the key driver of Asian volumes in recent years, purchases have also accelerated in most other countries during 2017 alongside strengthening economic activity, and will climb above 13 mn units this year (table below). In particular, export growth in Asia (ex. China) is now advancing at a double-digit pace year-over-year, reversing two consecutive years of decline. Employment growth has also picked up across the region, as economic activity across Asia is now advancing in excess of 5.5% y/y, two percentage points faster than the global average.

INTERNATIONAL CAR SALES OUTLOOK

(millions of units)

	<u>1990–99</u>	<u>2000–13</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017f</u>
TOTAL SALES	39.20	53.74	71.18	72.61	77.29	79.42
North America*	16.36	17.74	19.42	20.64	21.05	20.75
Canada	1.27	1.61	1.85	1.90	1.95	2.00
United States	14.55	15.15	16.44	17.39	17.50	17.10
Mexico	0.54	0.98	1.13	1.35	1.60	1.65
Western Europe	13.11	13.79	12.11	13.20	13.97	14.39
Germany	3.57	3.25	3.04	3.21	3.35	3.47
Eastern Europe	1.18	3.03	3.81	3.15	3.14	3.36
Russia	0.78	1.83	2.49	1.60	1.43	1.53
Asia	6.91	16.08	31.69	32.29	36.06	37.58
China**	0.43	6.52	18.37	20.01	23.57	24.28
India	0.31	1.18	1.87	2.06	2.09	2.23
South America	1.64	3.10	4.15	3.33	3.07	3.34
Brazil	0.94	1.90	2.50	1.82	1.39	1.46

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

CANADA/US MOTOR VEHICLE SALES OUTLOOK

	<u>1991-05</u> Average	<u>2006-14</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	
					Jan-June **	Annual f
(thousands of units, annualized)						
CANADA	1,398	1,643	1,898	1,949	2,044	2,000
Cars	797	783	714	662	657	650
Domestic	583	491	476	438	473	465
Imports	214	292	238	224	184	185
Light Trucks	601	860	1,184	1,287	1,387	1,350
(millions of units, annualized)						
UNITED STATES	15.5	14.1	17.4	17.5	16.9	17.1
Cars	8.3	6.9	7.5	6.9	6.1	6.1
Light Trucks	7.2	7.2	9.9	10.6	10.8	11.0
(millions of units, annualized)						
NORTH AMERICAN PRODUCTION*	15.58	14.25	17.95	18.17	17.65	17.80
CANADA	2.50	2.24	2.28	2.37	2.33	2.34
UNITED STATES	11.67	9.53	12.10	12.20	11.35	11.56
MEXICO	1.41	2.48	3.57	3.60	3.97	3.90

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

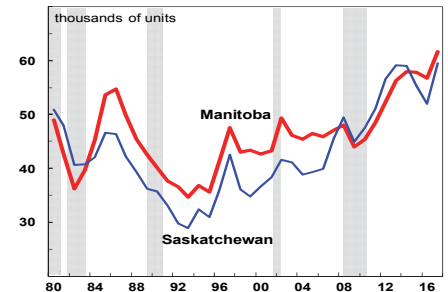
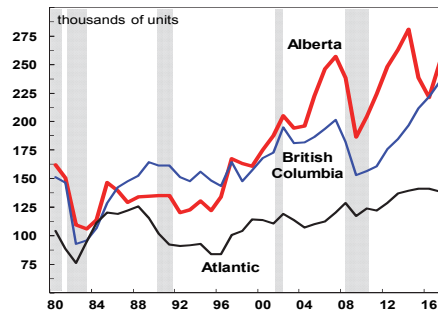
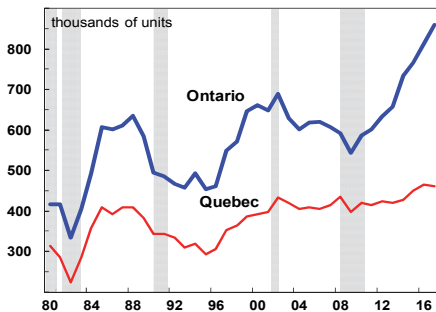
VEHICLE SALES OUTLOOK BY PROVINCE*

(thousands of units, annual rates)

	<u>1994-05</u> Average	<u>2006-14</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	
					Jan-June**	Annual f
CANADA	1,446	1,643	1,898	1,949	2,044	2,000
ATLANTIC	102	123	140	140	139	135
CENTRAL	936	1,017	1,205	1,265	1,307	1,278
Quebec	366	411	444	458	457	456
Ontario	570	606	761	807	850	822
WEST	408	503	553	544	598	587
Manitoba	42	48	56	55	59	59
Saskatchewan	36	49	54	51	59	59
Alberta	166	231	236	220	248	245
British Columbia	164	175	207	218	232	224

*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>2016</u>		<u>2017</u>		<u>2016</u>		<u>2017</u>	
	Jan to July		Jan to July		July		July	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	405.5	100.0	396.7	100.0	59.0	100.0	58.1	100.0
Big Three	84.1	20.7	79.9	20.1	12.6	21.4	9.7	16.7
General Motors	39.6	9.8	40.2	10.1	5.4	9.2	5.3	9.2
Ford	30.2	7.4	25.3	6.4	5.8	9.8	3.8	6.5
Chrysler	14.3	3.5	14.4	3.6	1.4	2.4	0.6	1.0
Japanese	177.5	43.8	179.4	45.2	23.7	40.1	25.9	44.5
Honda	55.5	13.7	58.7	14.8	7.7	13.1	9.0	15.5
Toyota	56.3	13.9	53.8	13.6	7.1	12.1	7.5	12.9
Nissan	31.0	7.7	29.6	7.5	4.2	7.0	3.6	6.2
Mazda	19.4	4.8	21.0	5.3	2.7	4.6	3.3	5.7
Mitsubishi	6.2	1.5	5.1	1.3	0.7	1.1	0.8	1.4
Subaru	9.1	2.2	11.2	2.8	1.3	2.2	1.7	2.9
Hyundai	51.4	12.7	43.9	11.1	9.0	15.2	6.9	11.8
Volkswagen	29.9	7.4	29.1	7.3	4.7	7.9	6.1	10.5
Kia	24.1	5.9	22.6	5.7	3.3	5.7	3.5	6.1
BMW	13.7	3.4	13.0	3.3	1.9	3.2	1.9	3.3
Mercedes-Benz	13.3	3.3	14.1	3.6	2.0	3.4	1.8	3.1
Other	11.5	2.8	14.7	3.7	1.8	3.1	2.3	4.0

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

TRUCK MARKET SHARE BY MANUFACTURER — CANADA*

(thousands of units, not seasonally adjusted)

	<u>2016</u>		<u>2017</u>		<u>2016</u>		<u>2017</u>	
	Jan to July		Jan to July		July		July	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	774.5	100.0	841.1	100.0	115.3	100.0	126.1	100.0
Big Three	426.0	55.0	459.4	54.6	63.1	54.7	67.2	53.3
General Motors	111.9	14.4	136.1	16.2	15.8	13.7	20.5	16.3
Ford	149.5	19.3	162.7	19.3	24.0	20.8	23.9	18.9
Chrysler	164.6	21.3	160.6	19.1	23.3	20.2	22.8	18.1
Other Domestic	21.7	2.8	25.2	3.0	2.0	1.7	3.4	2.7
Japanese	216.1	27.9	238.8	28.4	33.7	29.3	36.3	28.8
Honda	50.9	6.6	59.4	7.1	9.1	7.9	9.6	7.6
Toyota	75.4	9.7	79.5	9.4	11.1	9.7	11.5	9.1
Nissan	50.0	6.5	58.2	6.9	7.4	6.4	9.2	7.3
Mazda	20.8	2.7	22.1	2.6	3.2	2.7	3.3	2.6
Mitsubishi	6.9	0.9	8.2	1.0	1.0	0.8	1.3	1.0
Subaru	19.0	2.5	19.6	2.3	2.9	2.5	2.8	2.2
Hyundai	35.8	4.6	35.6	4.2	5.6	4.9	5.6	4.4
Kia	18.7	2.4	21.7	2.6	3.2	2.8	4.0	3.2
Other Imports	56.2	7.3	60.4	7.2	7.7	6.6	9.6	7.6
LIGHT TRUCKS	757.5	97.8	823.4	97.9	114.3	99.1	123.7	98.1

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

AUTO SALES BY PROVINCE

(thousands of units, not seasonally adjusted)

	<u>2016</u> Jan to June	<u>2017</u> Jan to June	<u>2016</u> June	<u>2017</u> June
CANADA	346.3	338.9	66.4	66.5
ATLANTIC	26.2	24.1	5.3	5.1
Newfoundland	5.5	4.9	1.2	1.1
Nova Scotia	10.9	10.7	2.0	2.2
New Brunswick	8.1	7.0	1.7	1.5
Prince Edward Island	1.7	1.5	0.4	0.3
CENTRAL	243.4	239.9	46.6	46.6
Quebec	104.8	97.0	19.1	18.6
Ontario	138.6	142.9	27.5	28.0
WEST	76.7	74.9	14.5	14.8
Manitoba	7.4	7.2	1.4	1.4
Saskatchewan	4.8	4.6	1.0	0.9
Alberta	25.4	25.2	4.8	4.8
British Columbia	39.1	37.9	7.3	7.7

Source: Statistics Canada.

TRUCK SALES BY PROVINCE*

(thousands of units, not seasonally adjusted)

	<u>2016</u> Jan to June	<u>2017</u> Jan to June	<u>2016</u> June	<u>2017</u> June
CANADA	660.4	715.0	127.4	140.5
ATLANTIC	48.5	50.0	10.3	10.5
Newfoundland	12.5	12.4	2.8	2.6
Nova Scotia	17.2	19.3	3.4	4.1
New Brunswick	16.1	15.6	3.6	3.2
Prince Edward Island	2.7	2.7	0.5	0.6
CENTRAL	410.2	434.4	78.4	85.3
Quebec	133.3	139.4	24.4	27.1
Ontario	276.9	295.0	54.0	58.2
WEST	201.7	230.6	38.7	44.7
Manitoba	20.9	23.5	4.1	4.4
Saskatchewan	20.7	23.7	4.4	4.6
Alberta	86.8	101.0	16.4	19.4
British Columbia	73.3	82.4	13.8	16.3

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

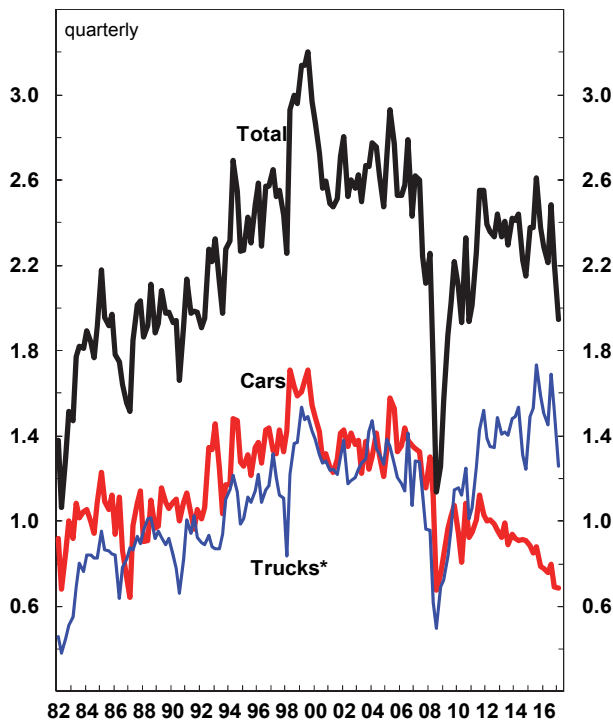
CANADIAN MOTOR VEHICLE PRODUCTION

(thousands of units, not seasonally adjusted)

	<u>2016</u> Jan to July	<u>2017</u> Jan to July	<u>2016</u> July	<u>2017</u> July
TOTAL	1,380.1	1,331.1	134.3	113.0
CAR	466.4	429.8	41.3	33.8
Chrysler	137.6	124.0	10.3	9.3
GM	69.7	51.2	4.7	0.4
Honda	119.1	122.3	11.6	13.0
Toyota	140.0	132.3	14.7	11.1
TRUCKS*	913.7	901.3	93.0	79.2
Chrysler	183.9	178.0	22.7	15.3
Ford	161.7	150.0	16.6	12.2
GM	226.2	220.2	18.1	14.6
Honda	123.5	131.3	12.2	13.7
Toyota	209.6	211.6	22.0	22.1
Others	8.8	10.2	1.4	1.3

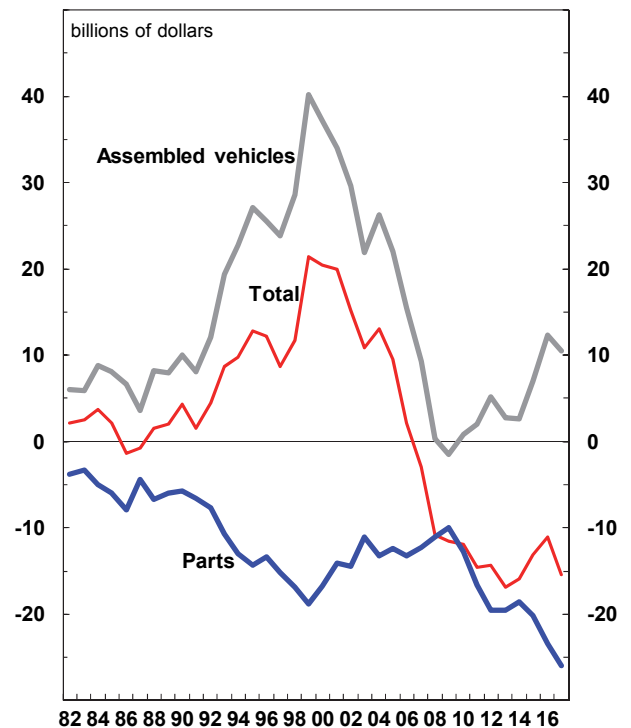
*Light, medium and heavy trucks. Source: Ward's Automotive Reports.

Canada — Motor Vehicle Production



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

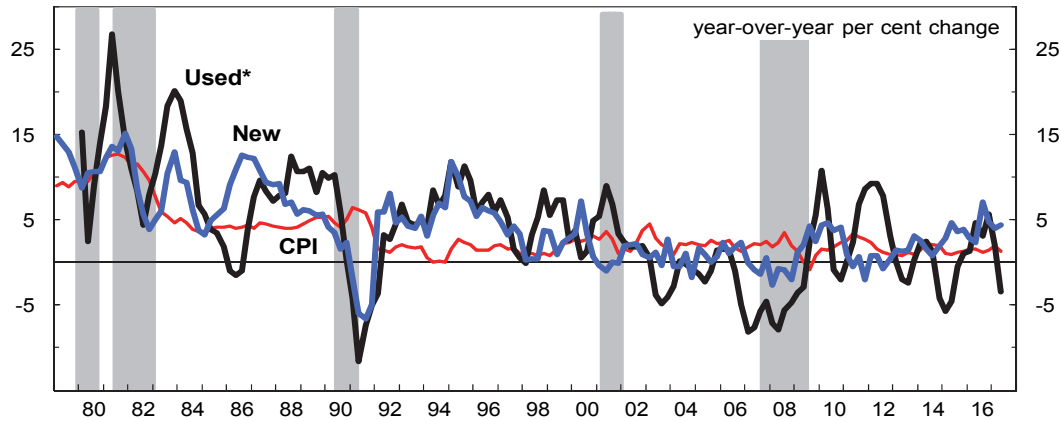
Canada — World Auto Trade Balances



2017 data are January-June annualized.
Source: Statistics Canada.

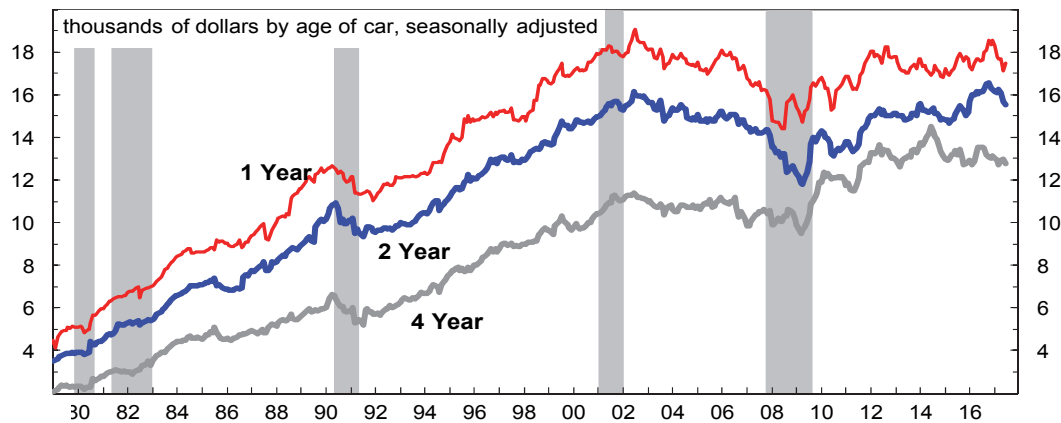
New & Used Car Prices

Scotiabank Car Price Indicators — Canada



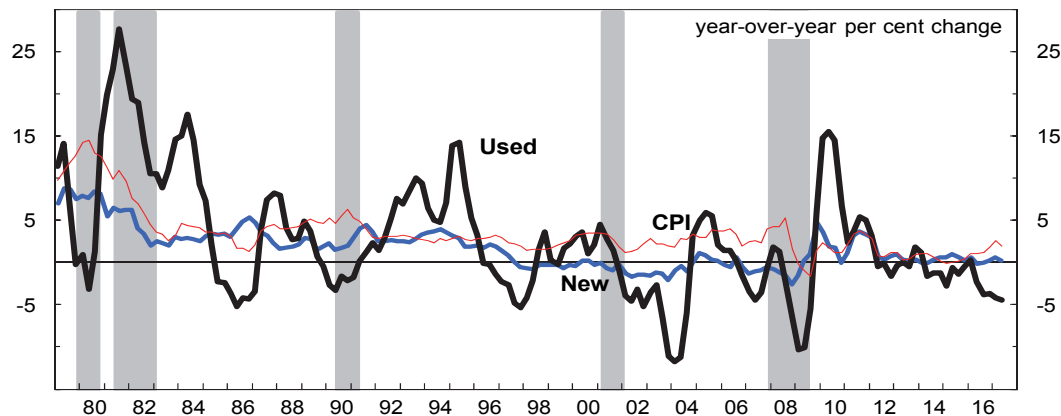
*Scotiabank estimate from Canadian Black Book data.
Sources: Canadian Black Book, Statistics Canada.

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	2004	571	0.69	4.98	2.25	3.17	10.49
	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
Quarterly at annual rates	2016Q2	3592	2.43	5.49	8.98	1.97	24.56
	Q3	3116	2.43	5.17	8.05	1.94	20.71
	Q4	2852	2.65	4.84	6.99	1.94	18.62
	2017Q1	2180	2.65	4.32	6.18	2.08	14.27
	Q2	3728	2.43	5.18	8.52	2.07	23.88
Average (89–16)		930	1.32	6.04	3.38	2.34	12.09
Low (89–16)		-68	0.10	4.38	1.10	3.57	-1.20

Definition of Ratios:

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

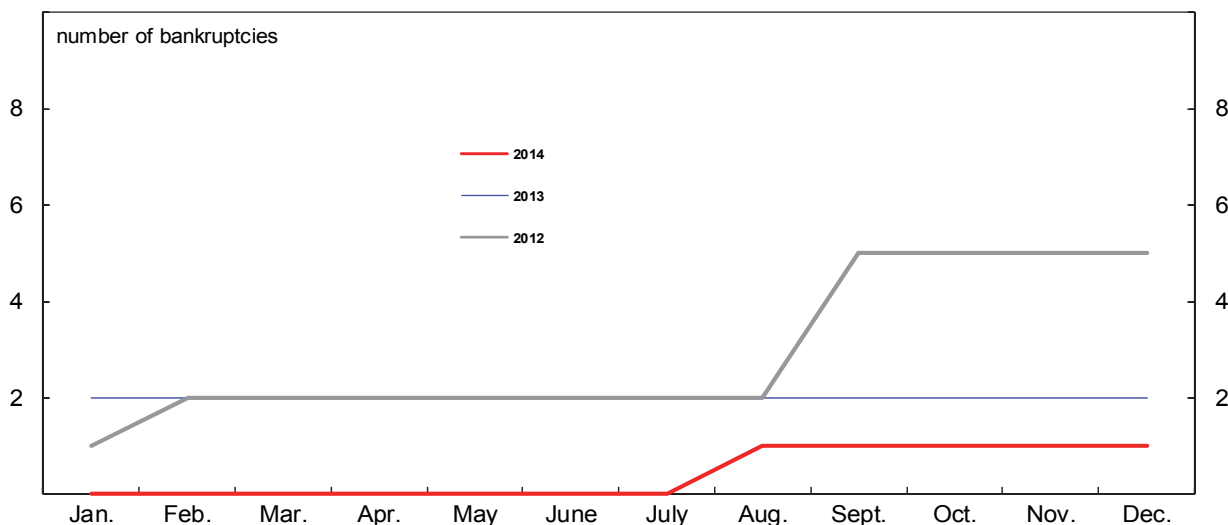
Inventory Turnover Ratio: sales/inventory

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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