

Contributors

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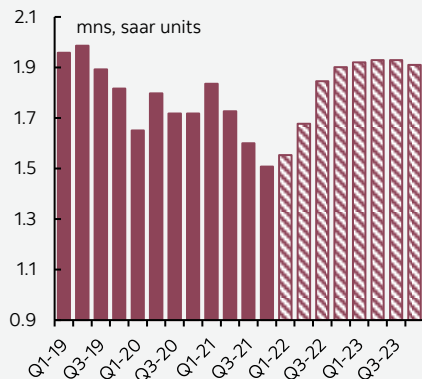
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Canada & US Vehicle Sales

	Nov '21	Dec '21
	(y/y % change, NSA)	
Canada	-13.9	-4.5
US	-16.5	-26.5
	(m/m % change, SA)	
Canada	-7.6	6.9
US	-0.8	-3.2

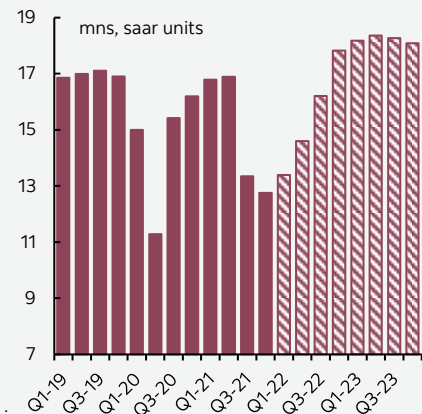
Sources: Scotiabank Economics, Wards Automotive Group, DesRosiers Automotive Consultants Inc.

Canadian Light Vehicle Sales



Sources: Scotiabank Economics, Wards Automotive Group.

US Light Vehicle Sales



Sources: Scotiabank Economics, Wards Automotive Group.

Canadian and US Vehicle Sales — December 2021

CANADA

Canadian auto sales ticked up in December in a highly volatile environment as the sector braces for yet more headwinds. DesRosiers Automotive Consultants Inc.

estimated 103 k vehicles (-4.5% y/y) were sold at a seasonally adjusted annualised rate of around 1.55 mn units. This works out to about a +7% m/m (sa) increase, following the -7.6% m/m (sa) retreat in November, according to the same source. Annual sales landed at 1.64 mn units—a 6.6% improvement relative to 2020 but almost -15% below 2019’s 1.92 mn auto sales. Looking through monthly volatility, inventory shortages continue to constrain sales. North American auto production had been improving through November (latest read), but from seriously low levels and at a pace not yet leading to material changes in vehicle inventory levels. The sudden surge in omicron cases threatens to stall the nascent recovery in auto production in the early months of 2022, which would, in turn, impact auto sales. Otherwise, demand-side factors remain strong: job and wage growth through November continued to surprise on the upside, while still-elevated household savings and hesitant consumer sentiment suggest pent-up demand is building. There is an upside demand risk that even more fiscal support could be added in early 2022 as provinces enact further lockdowns and income benefits are effectively re-opened. The acute supply-demand imbalance continues to drive new vehicle price inflation (6.1% y/y in November CPI; 0.3% m/m). There should be some softening in pricing as supply (and selection) pick up—with increased uncertainty as to when this will occur—but not likely in the first half of the year at least. For now, we anticipate soft-but-not-negative first quarter auto sales as a result of omicron impacts (mostly through supply chain and production channels), followed by strengthening sales alongside inventory improvements over the remainder of 2022. This would drive 1.75 mn in sales for 2022—still well-below fundamental demand—as capacity constraints in production would limit the pace of recovery. Clearly, there is considerable uncertainty to this outlook including the risk that first quarter sales retreat once again before a prolonged recovery begins. Recall, impacts of the delta-variant outbreak saw North American auto production decline by -10% q/q (sa) in the third quarter of 2021. It is premature to pencil in this magnitude of supply shock, but with auto production typically slower over the holiday periods anyway, it may only be in the early weeks of January that automakers begin revising down production plans owing to these latest setbacks.

UNITED STATES

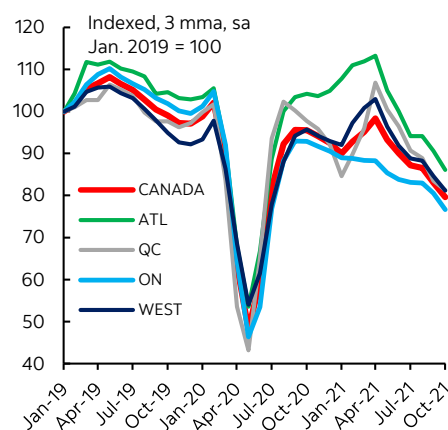
US auto sales ended the year on a low note as sales pulled back by -3.2% m/m (sa) in December for a second consecutive month of decline.

December’s selling rate of just 12.4 mn saar units dragged the annual sales volume down to 14.9 mn units—barely 3% above 2020’s sales—and almost -12% weaker than the 16.9 mn vehicles sold in 2019. Modestly improving auto production since October provided some assist to December purchases on an unadjusted basis (e.g., 1.2 mn vehicles sold in December versus 1.0 mn in November), but inventory gains were not sufficient to support the traditional post-holiday shopping spree. Importantly, escalating COVID-19 cases towards the end of the month also likely dampened consumer activity, while well-informed consumers were also aware that bargain prices would not be found this year. New vehicle price appreciation reached new heights in November (11.1% y/y, nsa; 1.1% m/m, sa), eclipsed by only a few other basket items including used vehicles. Though demand-side factors remain strong, we expect auto sales to continue to face headwinds through 2022 as supply recovers. This imbalance risks widening once again in the first quarter of 2022 if omicron outbreaks seriously dent production plans. We have lowered our auto sales forecast for 2022 to 15.5 mn units based on a softer-than-anticipated first quarter this year with accelerating activity thereafter. There is still considerable downside to this outlook owing largely to production plans.

Trends in Canadian Provincial Vehicle Sales

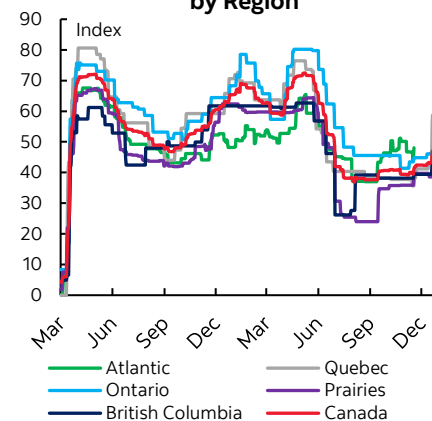
- Lagging provincial auto sales data confirm a volatile recovery in auto sales across the country—along with considerable variability across data sources.** With the move to quarterly reporting by the industry, caution is warranted in reading too much into one month's sales print. DesRosiers Automotive Consultants Inc. and Wards Automotive had both earlier reported national auto sales *increases* for October (+1.3% m/m, sa and +2.1% m/m, sa, respectively), whereas Statistics Canada has recently released provincial sales data showing a -2.2% m/m, sa *decline* for the same month. The difference in methodologies (i.e., StatsCan reporting on vehicle registrations versus the two other sources estimating OEM sales) could account for some of the variation as inventory shortages have increasingly led to pre-sales and longer vehicle delivery times (hence delayed registrations).
- Nevertheless, all data sources point to auto sales trending down since early Spring last year across the country as inventory shortages eclipsed the broader economic recovery (chart 1).** Towards the end of 2020 and early 2021, there had been some notable differentiation across markets: Atlantic Canada's auto sales recovery was less impacted by pandemic constraints via third and fourth waves; Quebec's shorter and less stringent lockdowns, along with robust economic fundamentals drove an earlier surge in auto sales; Ontario's weaker economic path—in large part owing to broader pandemic effects—weighed more heavily on its auto sales; while Western Canadian sales were fueled by rebounding commodity prices and stronger economic fundamentals in British Columbia. However, inventory shortages have universally pulled down sales across the regions since then. October auto sales data only reinforced this broad-based trend.
- With additional restrictions enacted towards the end of December to varying degrees across provinces (chart 2), pandemic factors are likely to continue to affect auto sales in the months ahead.** It will likely only be well into 2022 before we start to see differentiation across markets based on more traditional economic drivers as limited inventory continues to put a cap on auto sales in an environment of pent-up demand.

Chart 1
Auto Sales Across the Regions



Sources: Scotiabank Economics, Statistics Canada.

Chart 2
COVID-19 Stringency Index by Region



Sources: Scotiabank Economics, Bank of Canada.

Provincial Light Vehicle Sales Outlook (thousands of units ann.)

	2010-19	2019	2020	2021e	2022f	2023f	Oct-21, SA % m/m	Oct-21, NSA % y/y	2021 ytd nsa % y/y	2021 ytd saar	ZEV* (Q2-21) % of new LV sales
Canada	1,817	1,920	1,543	1,640	1,745	1,922					4.9
Atlantic	134	131	109	120	123	130	-3.0%	-17.5%	12.0%	121	--
Central	1,179	1,304	1,028	1,052	1,105	1,224	-2.7%	-17.4%	7.1%	1,083	5.4
Quebec	441	455	376	412	432	478	-2.4%	-14.7%	10.7%	409	9.0
Ontario	738	848	652	640	673	746	-2.9%	-19.1%	5.0%	674	2.8
West	548	545	451	493	516	568	-0.8%	-16.2%	11.6%	497	--
Manitoba	56	58	47	48	50	54	-2.1%	-22.8%	6.9%	50	1.2
Saskatchewan	54	49	42	43	45	49	5.4%	-22.2%	3.1%	43	0.8
Alberta	239	223	184	196	205	227	3.2%	-12.4%	8.4%	199	--
British Columbia**	199	216	178	206	216	239	-5.3%	-16.6%	18.3%	205	9.8

*ZEV includes battery electric and plug in hybrid electric vehicles (estimates for NL, NS, and AB unavailable due to limitations in data sharing with Statistics Canada, but are included in the Canadian aggregate). **British Columbia includes the territories.

Sources: Scotiabank Economics, Wards Automotive Group, Statistics Canada.

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