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GLOBAL ECONOMICS

GLOBAL AUTO REPORT

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Contributors

John Fanjoy
Economist
Scotiabank Economics
416.866.4735
john.fanjoy@scotiabank.com

December Auto Sales: A Year of Growth and Rebalancing

CANADA: AUTOMOTIVE SALES PICK UP IN Q4 AS CLOUDS LOOM OVER THE OUTLOOK

Canadian auto sales in December fell month-over-month in seasonally adjusted terms, down to 1.82 mn units (-4.0% m/m) at an annualized rate (SAAR), according to Wards Automotive (chart 1). December's contraction was the first decline in seasonally adjusted Canadian light vehicle sales since August 2024.

Demand for automotives picked back up in the fourth quarter after easing up in the preceding months. When adjusting for seasonality, fourth quarter sales averaged 1.86 mn (SAAR) units, up 3.4% quarter-over-quarter from Q3-2024. Meanwhile, non-seasonally adjusted sales in Q4-2024 were up 6.7% year-over-year from the same quarter in 2023, rebounding from the recent low of 5.2% y/y in Q3-2024.

Solid growth in automotive sales through both the first and fourth quarter helped offset softness through the middle of the year, as annual sales reached 1.82 mn in 2024, an 8% year-over-year rise relative to the 1.68 mn units sold in 2023, and the highest full-year sales total in five years when sales were 1.92 mn in 2019 (chart 2).

The Bank of Canada began cutting the policy rate in June 2024, from the peak of 5% overnight rate which had been held there since July 2023, down to 3.25% by December 2024. Borrowing costs for auto loans have also eased, where the average interest rate on auto loans fell to 6.9% by November 2024, down from the recent peak of 8.3% the year prior (chart 3).

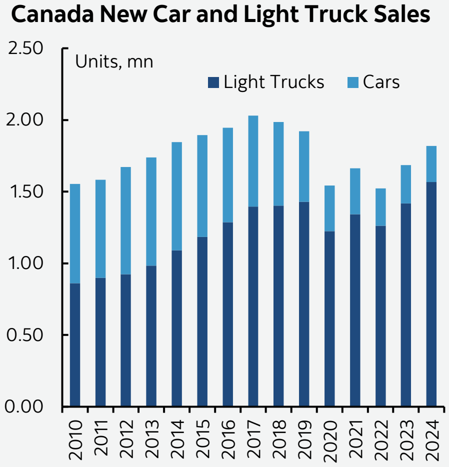
Canada's labour market remained relatively stable through the year. The unemployment rate rose to 6.7% by December, up from 5.7% in January, which was due to continued growth in the labour force outpacing job growth as employment levels increased by 434 k in 2024. And while year-over-year growth in the average hourly wage for permanent employees has come down from the average 5% y/y in 2024H2, it remained above inflation at 3.7% in December. Overall, the factors of borrowing costs that have eased from recent peaks, along with continued job and income growth should support further demand for vehicles in the near term.

Persistent threats from the incoming US administration to impose tariffs on a broad range of imports from major trading partners, as well as threats by the various counterparties to impose retaliatory tariffs create large uncertainty around the outlook. While the US imposing tariffs of any level on imports from Canada would have negative impacts on the economic **outlook**, whether or not Canada responds in-kind could lead to diverging responses from the Bank of Canada.

Chart 1

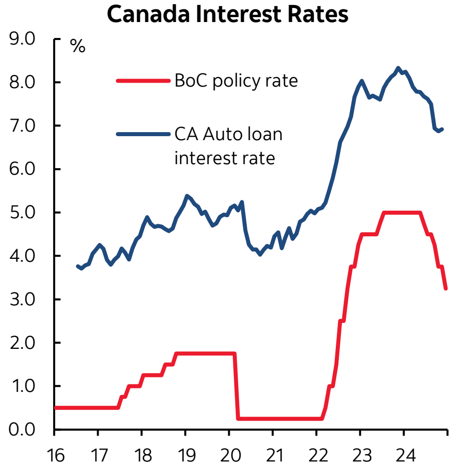
Sources: Scotiabank Economics, Wards Automotive.

Chart 2



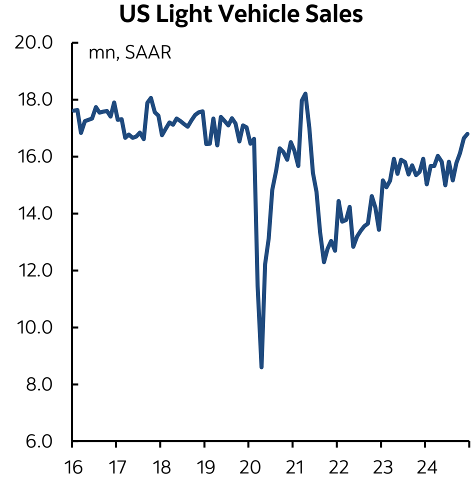
Sources: Scotiabank Economics, Wards Automotive.

Chart 3



Sources: Scotiabank Economics, Bank of Canada.

Chart 4



Sources: Scotiabank Economics, BEA.

Our outlook for Canadian light vehicle sales is 1.84 mn in 2025, as declines in interest rate costs support continued consumption, before easing slightly to 1.83 mn in 2026. As we enter a period of uncertainty relating to the outlook, we will be monitoring the implications for the automotive sector over time.

UNITED STATES: FOURTH QUARTER REBOUND IN VEHICLE SALES

US light vehicle sales increased 0.9% month-over-month in seasonally adjusted terms to 16.8 mn annualized units in December (chart 4). December was the fourth consecutive monthly increase in the seasonally adjusted sales rate, rising to the highest level since May 2021.

US automotive sales appear to have broken the more than year-long trend of generally fluctuating around 15.6 mn (SAAR) units, as sales averaged 16.5 mn (SAAR) in Q4, a 6.0% q/q increase from Q3-2024. Non-seasonally adjusted light vehicle sales at the final quarter of 2024 increased 7.7% y/y relative to Q4-2023, the highest quarterly year-over-year rate since the fourth quarter of 2023. The fourth quarter rise in automotive sales help pull the annual total up to 15.9 mn units in 2024, up 2.2% y/y and to the highest annual level since the 17 mn units sold in 2019 (chart 5).

The uptick in light vehicle sales towards the end of 2024 comes amid declines in borrowing costs and still strong labour markets. The US Federal Reserve, which had last hiked the policy rate to 5.5% in July 2023 and held it unchanged to help slow inflation, began to ease the monetary policy rate in the second half of 2024, starting with a 50 basis point (bps) cut in September followed by two 25 bps cuts thereafter, lowering the fed funds policy rate upper bound from a peak 5.5% to 4.5% by the end of December. While price pressures have eased relative to the previous year, recent measures of annual headline and core inflation remain around 2.9% and 3.2% respectively, above the Fed's 2% target, which are contributing factors to expecting fewer cuts to the policy rate over the year ahead. Our latest forecast expects the fed funds rate to decline to 4% by the end of Q2 and be held unchanged through the second half of 2025. Borrowing costs have also declined, with the US new car loan rate averaging 7.2% in Q4, down from the recent peak of 7.9% in Q2-2024 (chart 6).

Meanwhile, the US labour market added 2.2 mn jobs in 2024, with the unemployment rate remaining around 4.1% in the second half of 2024, up from 3.8% in December 2023. And while job openings continued to decline through the year, they showed signs of leveling out towards the end of the year, with the job opening per unemployed ratio hovering around 1:1 by November. When looking to the year ahead, still strong labour markets should support consumer spending.

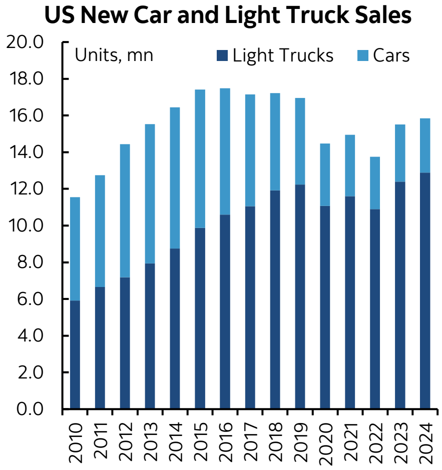
Our outlook for US light vehicle sales is 16.4 mn in 2025 and 16.7 mn in 2026. As we enter a period with greater uncertainty around the outlook, we will be monitoring the implications for the automotive sector.

GLOBAL AUTO SALES: MIXED GROWTH AMID REGIONAL SOFTNESS IN NOVEMBER

Global auto sales increased 1.3% m/m (SA) in November, driven higher by continued growth in China, while contracting in most other regions covered (chart 7). November was the third consecutive rise in global auto sales, extending growth that has picked up since the end of Q3-2024.

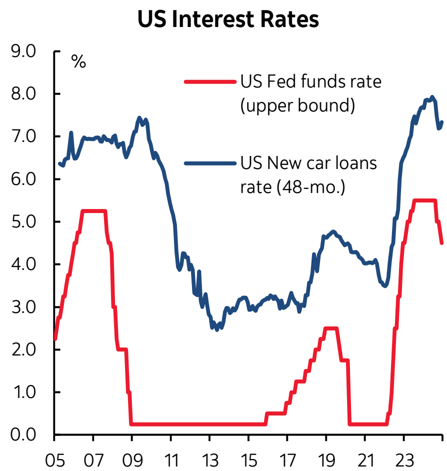
In the Asia Pacific region, auto sales increased 3.2% m/m (SA), which was entirely from the 6.9% m/m (SA) rise in Chinese vehicle sales, as the country accounts for around two-thirds of the market share in the region, while the sales rate declined in all of the other regional countries covered in November.

Chart 5



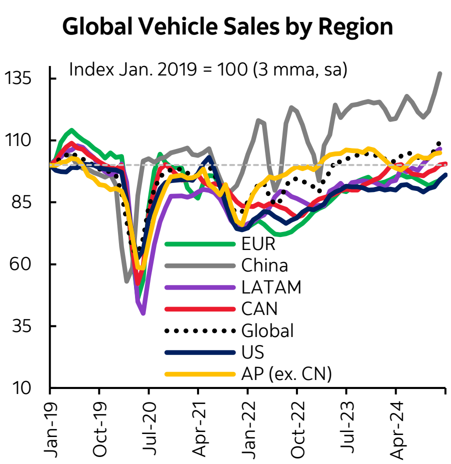
Sources: Scotiabank Economics, BEA.

Chart 6



Sources: Scotiabank Economics, Federal Reserve, WSJ.

Chart 7



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

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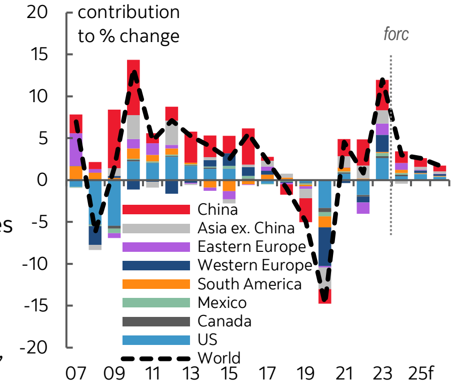
In western Europe, seasonally adjusted auto sales in November fell -3.6% m/m (SA), declining for the first time since August, with the sales rate slowing across major markets such as Italy (-2.2%), France (-3.1%), Spain (-3.3%), and Germany (-6.6%) whereas the sales rate in the UK increased 1.6%, as vehicle demand in the region has generally trended sideways through 2024 amid soft economic activity. In eastern Europe, automotive sales fell -10.6% m/m (SA) in November, largely offsetting the 13.9% gain the month prior.

Automotive sales in Latin America decreased -1.9% m/m (SA) in November although sales were mixed at the country level, declining in Brazil (-5.9%), Chile (-10.3%), and Peru (-4.6%) versus an increase in Colombia (2.9%) and Mexico (6.7%), with the regional seasonally adjusted regional sales rate remaining above the average in Q3-2024.

Our outlook for global vehicle sales is that annual sales growth for 2024 will come in around 3.0%, and automotive sales are expected to continue increasing at a slower rate over the next two years, at 2.6% in 2025 and 1.7% in 2026, though subject to large uncertainty around the international outlook (chart 8).

Chart 8



Sources: Scotiabank Economics, Bloomberg, Wards Automotive.

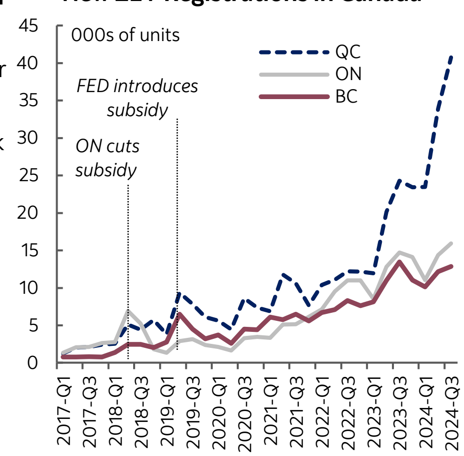
ELECTRIC VEHICLE SALES: ZEV REGISTRATIONS SURGE IN Q3-2024

New motor vehicle registrations for zero emission vehicles (ZEV), including battery electric (BEV) and plug-in hybrid (PHEV) vehicles, reached new highs in Q3-2024, rising to 75.6 k (15.7% of total new registrations) according to Statistics Canada. ZEV registrations through the first three quarters of the year was 189.8 k year-to-date (ytd), up 39.5% compared to the same period the year prior, and against the backdrop of a 9.5% ytd increase for total new motor vehicle registrations according to the same source. In the third quarter, battery electric vehicles (BEV) accounted for 56 k (74%) of ZEV registrations, while plug-in hybrid electric vehicles (PHEV) accounted for 19.6 k (26%) of ZEV registrations.

Quebec continued to be the primary market for zero-emission vehicles in Canada (chart 9). The nearly 40.8 k new ZEV registrations accounted for one-in-three (33%) of the province's total registrations, and more than half (53.9%) of national ZEV registrations for the second consecutive quarter. Of Quebec's ZEV registrations, 31.4 k (77%) were BEV and 9.4 k (23%) were PHEV.

In Ontario, the largest market by overall vehicle sales, Q3 ZEV registrations increased to 8.7% (15.9 k) of the province's total new vehicle registrations, and 21% of national ZEV registrations. The ZEV mix was relatively unchanged, with 74% (11.8 k) BEV and 26% (4.2 k) PHEV.

Chart 9



Sources: Scotiabank Economics, Statistics Canada.

BC ZEV registrations increased to 22.7% (12.9 k) of provincial registrations in Q3, which were entirely driven by an increase in PHEV registrations which rose to 3.5 k (27% of BC's ZEV sales) versus unchanged BEV registrations at 9.4 k (73% of BC's ZEV sales).

Statistics Canada also began reporting motor vehicle registrations by fuel type for Nova Scotia, though limited to Q2 and Q3 of 2024. The data shows Nova Scotia's ZEV sales were 5.8% (741) of new motor vehicle registrations in Q3, of which 398 were BEV and 353 were PHEV. Of the remaining provinces for which data is available, ZEV registrations' share was mostly unchanged in PEI (8.8%, 168) and New Brunswick (7.0%, 769), and increased in Manitoba (6.2%, 866) and Saskatchewan (3.1%, 414).

With recent pauses in consumer incentives for zero-emission vehicles at both the Federal and provincial level, there is large uncertainty around the near- and medium-term outlook for EV sales. On Friday, January 10th, Transport Canada announced that they would be pausing the Incentives for Zero-Emission Vehicles (iZEV) program, which offered rebates of up to $5,000 on the purchase of an eligible zero-emission vehicle. Meanwhile, Quebec has announced the plan to pause funding for the Roulez Vert financial assistance program from February 1, 2025 to March 31, 2025, which comes in the wake of their plan, announced in the 2024 spring fiscal budget, to gradually phase out the rebate, reducing the maximum eligible amount each year from $7,000 in 2024 eventually down to $0 in 2027. The recent surge in new ZEV sales in Quebec throughout 2024 was likely demand pulled forward in order to take advantage of the province's incentive before the rebate decreases. The indefinite pause in the federal iZEV program creates more uncertainty as to whether or not demand for battery electric and plug-in hybrid vehicles will be strong enough to meet the federal government's near-term ZEV sales, with the first interim target of ZEVs accounting for 20% of new vehicle sales by 2026 on the path to 100% ZEV sales by 2035.

Table 1—Global Auto Sales Outlook (mns units)

	2010-19	2021	2022	2023	2024e	2025f	2026f	Nov-24, SA % m/m	Nov-24, NSA % y/y	2024 ytd, NSA % y/y
Total Sales	**71.1**	**66.7**	**67.3**	**75.3**	**77.6**	**79.6**	**80.9**	**1.3**	**8.6**	**3.3**
North America	**18.7**	**17.6**	**16.4**	**18.5**	**19.2**	**19.7**	**20.1**	**3.4**	**11.1**	**3.5**
Canada	1.82	1.66	1.52	1.68	1.82	1.84	1.83	2.1	8.2	8.5
United States	15.7	14.9	13.8	15.5	15.9	16.4	16.7	3.3	11.1	2.3
Mexico	1.22	1.01	1.09	1.36	1.50	1.52	1.54	6.7	14.7	10.8
Western Europe	**13.0**	**10.5**	**10.0**	**11.4**	**11.4**	**11.6**	**11.8**	**-3.6**	**-3.7**	**-0.2**
Germany	3.2	2.6	2.7	2.8	2.9	2.9	3.0	-6.6	-0.5	-0.4
United Kingdom	2.3	1.6	1.6	1.9	2.0	2.0	2.0	1.6	-1.9	2.8
Eastern Europe	**3.3**	**2.8**	**1.9**	**2.8**	**3.4**	**3.4**	**3.5**	**-10.6**	**9.6**	**24.1**
Russia	2.1	1.5	0.6	1.1	1.6	1.7	1.7	-24.0	11.9	53.3
Asia	**31.9**	**32.7**	**35.9**	**39.4**	**40.1**	**41.2**	**41.9**	**3.2**	**9.8**	**2.3**
China	19.7	21.5	23.6	26.0	27.1	27.9	28.4	6.9	15.2	5.2
India	3.3	3.6	4.4	4.7	5.0	5.1	5.1	-2.9	7.2	3.5
Japan	5.1	4.4	4.2	4.8	4.5	4.6	4.6	-5.9	-5.2	-7.3
South America	**4.3**	**3.1**	**3.2**	**3.2**	**3.5**	**3.6**	**3.7**	**-5.3**	**18.5**	**9.1**
Brazil	2.91	1.98	1.96	2.18	2.50	2.55	2.59	-5.9	19.6	15.5
Chile	0.34	0.42	0.43	0.31	0.30	0.31	0.31	-10.3	-2.1	-4.3
Colombia	0.26	0.24	0.25	0.18	0.19	0.20	0.20	2.9	18.2	6.8
Peru	0.16	0.16	0.16	0.16	0.15	0.16	0.16	-4.6	3.5	-9.2

Sources: Scotiabank Economics, Wards Automotive, Bloomberg.

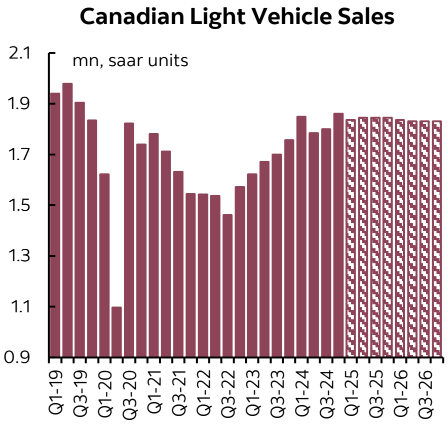
Table 2—Provincial Auto Sales Outlook (thousands of units ann.)

	2010–19	2021	2022	2023	2024e	2025f	2026f	Nov-24, SA % m/m	Nov-24, NSA % y/y	2024 ytd nsa % y/y	ZEV* (Q3-24) % of new LV sales
Canada	**1,817**	**1,663**	**1,523**	**1,684**	**1,819**	**1,843**	**1,833**				**15.7**
Atlantic	**134**	**119**	**105**	**115**	**123**	**125**	**124**	**0.3**	**9.3**	**18.3**	**--**
Central	**1,179**	**1,070**	**1,014**	**1,132**	**1,180**	**1,192**	**1,185**	**4.1**	**13.6**	**9.1**	**18.5**
Quebec	441	404	372	412	432	436	433	1.9	19.2	14.4	32.8
Ontario	738	665	642	720	749	756	752	5.6	10.3	6.1	8.7
West	**548**	**487**	**454**	**509**	**522**	**527**	**524**	**7.3**	**6.7**	**7.8**	**--**
Manitoba	56	49	46	50	53	53	53	8.3	8.0	16.8	6.2
Saskatchewan	54	43	42	45	47	47	47	5.1	0.3	14.3	3.1
Alberta	239	196	184	210	212	214	213	4.8	5.5	7.0	--
British Columbia**	199	199	182	205	210	212	210	10.2	9.3	4.9	22.7

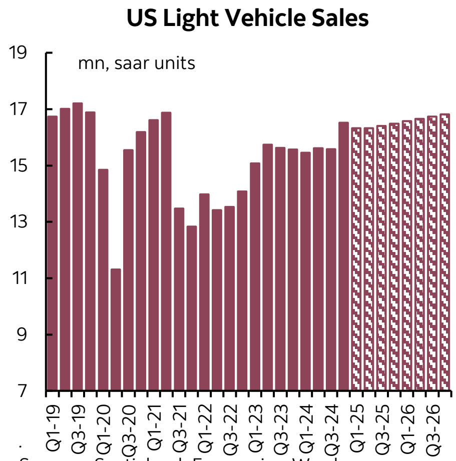
**ZEV includes battery electric and plug-in hybrid electric vehicles (estimates for NL, NS, and AB unavailable due to limitations in data sharing with Statistics Canada, but are included in the Canadian aggregate). **British Columbia includes the territories.*

Sources: Scotiabank Economics, Wards Automotive, Statistics Canada.

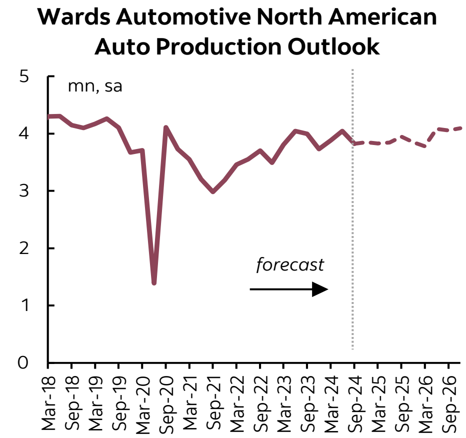
Quarterly Outlook for North American Auto Sector



Sources: Scotiabank Economics, Wards Automotive.



Sources: Scotiabank Economics, Wards Automotive.



Sources: Scotiabank Economics, Wards Automotive.

Table 3—North American Annual Production Outlook

	2010–19	2021	2022	2023	2024e	2025f	2026f
	(millions of units, annualised)						
North American Production	**15.9**	**12.9**	**14.2**	**15.6**	**15.5**	**15.5**	**16.0**
Canada	2.2	1.1	1.2	1.5	1.3	1.3	1.7
United States	10.4	8.9	9.7	10.3	10.2	10.1	10.3
Mexico	3.2	2.9	3.3	3.7	3.9	4.0	4.0

Sources: Scotiabank Economics, Wards Automotive.