

World Auto Sales Growth Stalls in 2018

- World vehicle sales in November declined for a third consecutive month in year-on-year terms owing to a steep contraction in auto sales in China, a weakening of economic conditions in Western Europe, and a slow, but steady, decline in purchases in the US. November's 7% y/y decline in global auto sales brings the year-to-date total sales on par with the figure recorded during the same period in 2017.
- Vehicle purchases in Canada in November fell below 1.9 mn annualised units for the first time since late-2016. Sales are, however, still on track for their second-highest year on record in 2018.

CANADA: ANNUALISED SALES FALL BELOW 1.9MN AS FCA DRIVES MARKET SLUMP

In November, Canadian vehicle purchases fell just below 1.9 mn annualised units for the first time since late-2016 owing to a decline of 4.5% m/m in seasonally-adjusted terms. Sales also posted their sharpest year-on-year drop since 2009, at 9.4% y/y, although this drop follows the third highest-ever monthly total last November. The new auto market's year-to-date (ytd) contraction of 2.3% y/y is driven by particularly poor sales of Fiat-Chrysler (FCA) automobiles, which have fallen by close to 15% y/y ytd compared to a rest-of-the-market decline of 0.5% y/y ytd. Furthermore, across the totality of the market, rising fleet vehicle sales have offset a bigger decline of 2.5% y/y ytd in retail purchases so far in 2018.

Over half of the decline in sales so far this year has been driven by steadily declining purchase levels in the Western provinces since early-2018—with each of Alberta and BC posting greater than 5% y/y ytd drops—while sales in the Atlantic provinces are edging close to a 10% y/y ytd decline in 2018. On the other hand, vehicle purchases in Central Canada are on a relatively slight downward trajectory from last-year's record-highs with Quebec deliveries down by 2.0%/y/y so far in 2018 compared to a small 0.3% y/y rise in Ontario.

Slowing employment growth and a continuation of the Bank of Canada's rate-hiking cycle may be curbing sales from their record highs toward a new normal of between 1.90 mn and 1.95 mn units sold per annum. We still forecast auto purchases to total 2.0 mn deliveries in 2018 after last year's record of 2.04 mn, followed by 1.93 mn units in 2019 and 1.90 mn units in 2020.

US: 3-MONTH STREAK OF STRONG SALES TO CLOSE THE YEAR FLAT

Despite a 0.5% m/m fall in auto sales in the US, November's sales of 17.4 mn annualised units prolonged a strong three-month string of 17.4+ mn deliveries on the back of robust fleet demand and end-of-year offers. However, last month marked the first November year-on-year decline since 2009 in the US, at 0.7% y/y. We expect sales to fall below 17 mn annualised units in the last month of 2018 for an annual average of 17.1 mn tied with 2017's second-highest-ever total.

While headline figures on auto delinquency rates show a relatively steady rise in 90+ days delinquencies to levels not seen since early-2012, the bulk of this increase is concentrated among subprime borrowers. In comparison, delinquency rates across more creditworthy borrowers have remain steady at around 0.4% since 2015 compared to a rise from 12.4% to above 16% in the case

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Motor Vehicle Sales		
	Nov '18	Jan-Nov '18
	(y/y % change)	
World	-7.0	0.0
North America		
Canada	-9.4	-2.3
US	-0.7	0.3
Mexico	-5.4	-6.7
South America		
Argentina	-57.9	-20.2
Brazil	12.2	14.2
Chile	-2.7	17.1
Colombia	25.9	6.4
Peru	-9.6	-6.4
Western Europe		
France	-4.7	4.7
Germany	-9.9	0.4
Italy	-6.2	-3.5
Spain	-12.6	6.7
UK	-3.0	-6.9
Eastern Europe		
Russia	10.0	13.7
Turkey	-24.3	-31.6
Asia Pacific		
Australia	-7.8	-2.4
China	-13.9	-1.8
India	-0.7	8.9
Japan	8.6	0.9
Korea	-0.2	1.1

Sources: Scotiabank Economics, Wards Auto National Automotive Associations.

of subprime borrowers. Moreover, lenders have taken a more cautious approach as new loans to subprime borrowers have steadily fallen as a share of total originations.

We forecast US vehicle sales to fall from 17.1 mn in 2018 to 16.8 mn in 2019 owing to moderating employment gains and rising borrowing costs. Although we project the US economy to continue to expand at a solid, above-potential, rate of 2.4% in 2019—aided by late-cycle fiscal stimulus by the Trump administration—labour markets have approached full employment with the jobless rate at its lowest point since the late 1960s. Bank lending rates on new autos have also edged up to a seven-year-high near the 5% mark.

MEXICO: MARKET WEAKNESS PERSISTS AMID HIGH INTEREST RATES

Double-digit auto lending rates and, to a lesser degree, broader policy uncertainty in Mexico continue to discourage auto sales in 2018 with purchases down 5.4% y/y in November for a ytd decline of 6.7% y/y. Although slowing from 2017's rate of 6%, headline inflation has sat close to the 5% mark in the second half of 2018, leading to an erosion in Mexican households' discretionary spending power as wages growth fails to gain steam ahead of consumer prices increases. Banco de Mexico increased its policy rate once again, by 25 bps points in December to 8.25%, its highest level in a decade. We expect new auto sales to decline further in 2019, as interest rates and still-high inflation price would-be buyers out of auto dealerships and toward the used car market.

ASIA PACIFIC: CHINA LENDING CRACKDOWN AND TRADE WAR HITS VEHICLE PURCHASES

The economic slowdown in China brought on by a government-led crackdown on excessive lending and, more recently, the economic uncertainty boiling from US trade tensions has led to a severe slump in auto sales in the country. Vehicle purchases fell by 13.9% y/y in November for a total year-to-date decline of 1.8% y/y ytd. We forecast auto deliveries in China to contract by close to 2% in 2018 for their first annual decrease since 1999, before posting only a mild expansion next year on the back of stimulative economic policies by the Chinese government and still relatively-low vehicle penetration in smaller non-coastal urban centres.

Japanese auto sales have posted two consecutive months of strong year-on-year increases and are on track to record a third consecutive year of rising sales in 2018, the first such a streak since the mid-90s. Although new vehicle sales still remain well below those seen in the 1990s amid an ageing population and subdued economic growth, the Japanese auto market has remained steady with between 3.2 mn and 3.4 mn units sold annually across the post-financial crisis period.

EUROPE: SLOWING ECONOMIC GROWTH DAMPS DOWN AUTO PURCHASES

Sluggish economic growth across the Euro Area core and the UK has begun to show in softer-than-anticipated sales figures. The weakness is nevertheless difficult to disentangle from a rebalancing of the market which followed from a hasty clear-out of dealers' lots ahead of new emission standards which entered into force in September. Business and household sentiment has soured owing to a combination of factors: US-China trade war uncertainty, fiscal troubles in Italy, and the rising possibility of a 'hard' Brexit. In Germany, the largest auto market in the region, GDP contracted in q/q terms in Q3-2018 for the first time since 2014 due to falling household consumption and the country's sharpest fall in exports since late-2012. Sales in Western Europe excluding the UK are forecast to eke out a slight gain of around 1% this year, compared to a drop exceeding 7% in Britain. This is expected to combine for a decline of around 0.2% across all of the UK and Western Europe compared to 2017's levels, while vehicle purchases look set to remain flat in 2019 at current levels of close to 14.30 mn units delivered.

LATIN AMERICA: STRENGTH IN BRAZIL CONTINUES, BUT CHILE POSTS FIRST DIP SINCE SPRING 2016

Brazilian vehicle purchases recorded their seventh double-digit year-on-year increase for the year in November at 12.2% y/y—following a cumulative ytd surge of 14.2% ytd—following the country's strongest quarterly economic expansion in the third quarter since early-2017. Household consumption has been aided by rising real wages and relatively accommodative policy by the Central Bank of Brazil (BCB), whose policy rate target currently sits at less than half of its level through 2015–16. Auto sales are forecast to expand by 14% in 2018 and rise by an additional 6.0% in 2019 as the BCB switches to a tightening stance and household consumption growth stabilises.

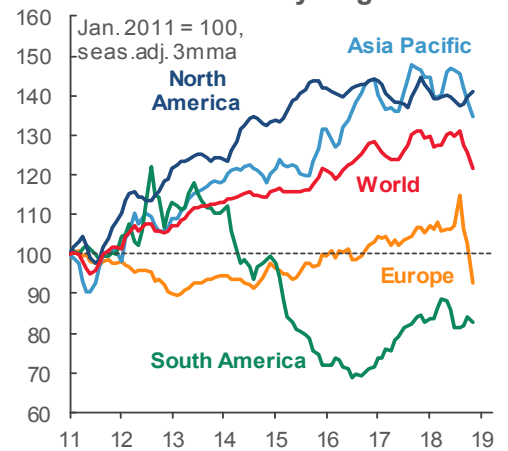
Auto sales in Chile recorded their first year-on-year dip since April 2016 in November at -2.7% y/y, though this followed the highest-ever October sales numbers on record. With one month left in 2018, vehicle purchases in Chile have already exceeded last year's twelve-month total with a ytd expansion in sales of 17.1% y/y. At 3.9% in 2018, the Chilean economy is forecast to post its highest pace of growth since 2013—which would represent the strongest economic expansion among the major South American countries this year. We expect annual vehicle sales growth to slow to around 8% in 2019 as the pace of economic expansion in Chile ticks down to 3.2% next year.

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

	2000–15	2016	2017	2018f	2019f
Total Sales	54.89	77.25	79.02	79.00	79.23
North America*	17.85	21.01	20.70	20.50	20.18
Canada	1.62	1.95	2.04	2.00	1.93
United States	15.24	17.46	17.13	17.00	16.80
Mexico	0.99	1.60	1.53	1.50	1.45
Western Europe	13.67	13.97	14.32	14.29	14.28
Germany	3.23	3.35	3.44	3.46	3.45
Eastern Europe	3.08	3.14	3.41	3.51	3.58
Russia	1.87	1.43	1.60	1.76	1.84
Asia	17.12	36.06	37.10	37.00	37.35
China**	7.31	23.57	24.20	23.75	23.80
India	1.23	2.09	2.19	2.40	2.51
South America	3.17	3.07	3.49	3.70	3.84
Brazil	1.94	1.39	1.50	1.71	1.82

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

Vehicle Sales by Region



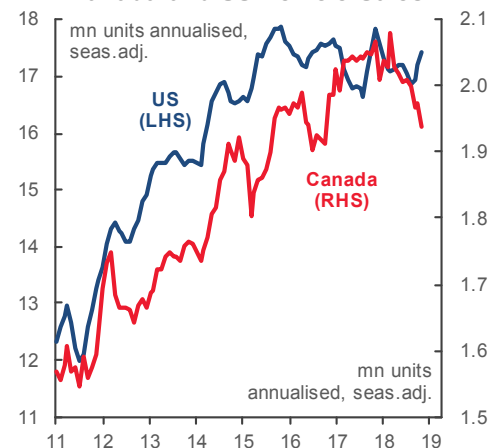
Sources: Scotiabank Economics, National Auto Associations.

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

	2000–15	2016	2017	2018		2019f
				Jan-Oct**	Annual f	
(thousands of units, annualised)						
Canada	1,668	1,949	2,041	2,015	2,000	1,930
Cars	776	662	644	588	550	450
Domestic	490	439	438	384	370	300
Imports	286	223	206	204	180	150
Light trucks	892	1,287	1,397	1,427	1,450	1,480
(millions of units, annualised)						
United States	14.40	17.50	17.10	17.12	17.05	16.80
Cars	6.90	6.90	6.10	5.32	5.05	4.85
Light trucks	7.50	10.60	11.00	11.81	12.00	11.95
(millions of units, annualised)						
North American Production*	14.63	18.15	17.48	17.33	17.45	17.75
Canada	2.24	2.37	2.19	2.02	2.03	1.95
United States	9.80	12.18	11.23	11.21	11.32	11.60
Mexico	2.59	3.60	4.06	4.10	4.10	4.20

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

Canada and US Vehicle Sales



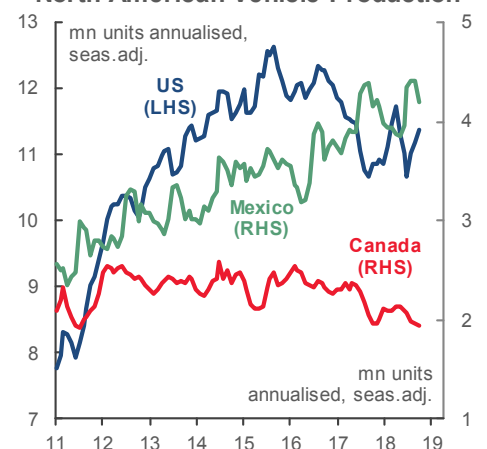
Sources: Scotiabank Economics, GAC, WardsAuto.

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

	2000–15	2016	2017	2018		2019f
				Jan-Oct**	Annual f	
Canada	1,668.0	1,949.0	2,041.0	2,032.5	2,000.0	1,930.0
Atlantic	125.0	140.0	143.0	132.7	130.0	121.0
Central	1,034.0	1,265.0	1,300.0	1,303.5	1,305.0	1,256.0
Quebec	411.0	458.0	453.0	455.3	450.0	430.0
Ontario	623.0	807.0	847.0	848.2	855.0	826.0
West	509.0	544.0	598.0	575.9	565.0	553.0
Manitoba	49.0	55.0	62.0	69.1	68.0	60.0
Saskatchewan	49.0	51.0	56.0	50.0	48.0	48.0
Alberta	232.0	220.0	245.0	233.7	230.0	220.0
British Columbia	179.0	218.0	235.0	223.1	219.0	225.0

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

North American Vehicle Production



Sources: Scotiabank Economics, WardsAuto.

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

	2017 Jan to Nov		2018 Jan to Nov		2017 Nov		2018 Nov	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
Total Sales	604.9	100.0	546.7	100.0	43.7	100.0	38.8	100.0
Big Three	113.1	18.7	97.0	17.7	7.3	16.6	4.9	12.6
Fiat-Chrysler	60.1	9.9	56.0	10.2	4.7	10.8	3.3	8.4
Ford	36.0	6.0	29.2	5.3	2.1	4.9	1.2	3.2
General Motors	16.9	2.8	11.7	2.1	0.4	0.9	0.4	1.0
Japanese	274.4	45.4	257.9	47.2	19.5	44.6	18.9	48.6
Honda	90.5	15.0	89.1	16.3	6.1	13.9	6.4	16.4
Toyota	83.9	13.9	81.4	14.9	6.1	13.9	6.6	17.1
Nissan	43.0	7.1	38.9	7.1	2.9	6.7	2.5	6.3
Mazda	31.9	5.3	28.9	5.3	2.4	5.4	2.0	5.2
Mitsubishi	7.9	1.3	4.2	0.8	0.7	1.5	0.2	0.4
Subaru	17.4	2.9	15.4	2.8	1.4	3.1	1.2	3.1
European	111.9	18.5	98.2	18.0	9.1	20.9	7.4	19.1
BMW	20.9	3.4	18.9	3.5	1.9	4.4	1.4	3.5
Mercedes-Benz	21.7	3.6	18.8	3.4	1.8	4.2	1.5	3.8
Volkswagen Group	65.5	10.8	57.4	10.5	5.1	11.7	4.4	11.3
Volvo	2.0	0.3	1.9	0.3	0.1	0.3	0.2	0.4
Other	1.8	0.3	1.2	0.2	0.1	0.3	0.1	0.1
Rest of the world	105.5	17.4	93.7	17.1	7.8	18.0	7.6	19.7
Hyundai	67.4	11.1	58.8	10.8	4.7	10.7	4.9	12.7
KIA	38.1	6.3	34.8	6.4	3.2	7.3	2.7	6.9
All other	-	0.0	-	0.0	-	0.0	-	0.0

*Sources: Scotiabank Economics, Global Automakers of Canada.

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

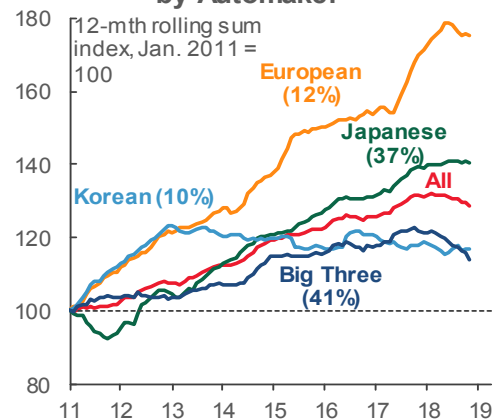
	2017 Jan to Nov		2018 Jan to Nov		2017 Nov		2018 Nov	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
Total Truck Sales	1,339.6	100.0	1,366.1	100.0	118.4	100.0	109.7	100.0
Total Light Truck Sales	1,339.6	100.0	1,366.1	100.0	118.4	100.0	109.7	100.0
Big Three	740.8	55.3	714.6	52.3	62.0	52.4	52.2	47.6
Fiat-Chrysler	223.1	16.7	218.7	16.0	18.9	16.0	16.0	14.6
Ford	255.1	19.0	252.3	18.5	21.7	18.3	20.0	18.2
General Motors	232.5	17.4	201.3	14.7	18.7	15.8	12.0	10.9
Other Domestic	30.1	2.2	42.4	3.1	2.8	2.4	4.1	3.8
Japanese	403.8	30.1	429.8	31.5	36.9	31.2	36.7	33.4
Honda	97.1	7.2	95.5	7.0	9.3	7.9	7.2	6.5
Toyota	128.1	9.6	134.4	9.8	10.9	9.2	12.1	11.0
Nissan	94.3	7.0	100.8	7.4	8.5	7.1	9.0	8.2
Mazda	37.5	2.8	40.9	3.0	3.6	3.1	3.1	2.8
Mitsubishi	13.5	1.0	19.4	1.4	1.3	1.1	1.5	1.4
Subaru	33.3	2.5	38.7	2.8	3.4	2.9	3.8	3.4
European	104.9	7.8	123.8	9.1	11.0	9.3	12.3	11.2
BMW	21.2	1.6	24.3	1.8	2.2	1.9	2.9	2.6
Mercedes-Benz	27.0	2.0	27.2	2.0	2.7	2.3	2.3	2.1
Volkswagen Group	41.5	3.1	53.4	3.9	4.5	3.8	5.6	5.1
Volvo	4.4	0.3	6.6	0.5	0.4	0.4	0.4	0.4
Other	10.8	0.8	12.2	0.9	1.1	0.9	1.1	1.0
Rest of the world	90.2	6.7	97.9	7.2	8.4	7.1	8.6	7.8
Hyundai	55.6	4.1	63.4	4.6	4.6	3.8	5.3	4.8
KIA	33.9	2.5	33.9	2.5	3.2	2.7	2.6	2.4
All other	0.7	0.1	0.7	0.0	0.7	0.6	0.7	0.6

*Sources: Scotiabank Economics, Global Automakers of Canada.

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

	2017 Jan to Oct	2018 Jan to Oct	2017 Oct	2018 Oct
CANADA	567.3	511.1	50.1	45.1
ATLANTIC	41.0	34.4	3.3	2.7
Newfoundland and Labrador	8.0	6.9	0.6	0.5
Prince Edward Island	2.6	2.1	0.2	0.2
Nova Scotia	18.6	15.7	1.5	1.2
New Brunswick	11.7	9.7	1.0	0.8
CENTRAL	403.8	369.1	36.3	33.5
Quebec	165.6	147.7	15.6	14.6
Ontario	238.2	221.4	20.6	18.9
WEST	122.5	107.6	10.5	9.0
Manitoba	12.0	13.4	1.2	1.1
Saskatchewan	7.7	6.3	0.6	0.6
Alberta	40.8	33.6	3.5	2.8
British Columbia	62.0	54.3	5.2	4.5

Source: Statistics Canada.

Canada Vehicle Sales by Automaker*


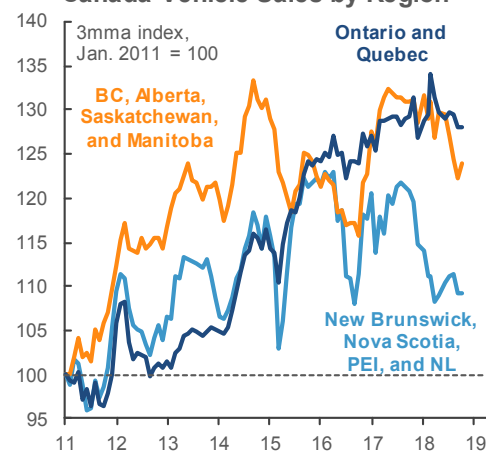
Sources: Scotiabank Economics, GAC.

*market share in parentheses.

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

	2017 Jan to Oct	2018 Jan to Oct	2017 Oct	2018 Oct
CANADA	1,220.0	1,257.3	112.9	120.5
ATLANTIC	86.8	83.0	3.3	7.9
Newfoundland and Labrador	21.4	20.2	0.6	2.0
Prince Edward Island	5.0	4.8	0.2	0.5
Nova Scotia	33.2	31.2	1.5	2.9
New Brunswick	27.3	26.8	1.0	2.6
CENTRAL	737.9	779.8	71.0	74.4
Quebec	241.5	254.8	23.6	24.7
Ontario	496.4	525.0	47.4	49.7
WEST	395.3	394.4	38.6	38.2
Manitoba	41.9	46.8	4.7	3.9
Saskatchewan	40.5	37.0	3.9	3.7
Alberta	172.5	171.3	16.6	16.7
British Columbia	140.5	139.3	13.4	13.8

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

Canada Vehicle Sales by Region


Sources: Scotiabank Economics, Statistics Canada.

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

	Annual			Quarterly (annualised)		
	2015	2016	2017	2017Q2	2018Q1	2018Q2
Net Income after tax (CAD, mn)	2,930.0	2,940.0	3,660.0	4,232.0	2,260.0	3,644.0
Pre-tax corporate profit margin (%)	2.6	2.5	2.7	2.5	2.2	2.2
Inventory turnover ratio	5.2	5.1	4.9	5.0	4.7	4.7
Interest coverage ratio	7.5	7.5	8.0	9.4	5.8	6.9
Debt/equity ratio	1.9	1.9	1.9	1.9	1.9	1.9
Return on shareholders equity (%)	21.1	18.8	21.4	23.5	15.9	17.4

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 & interest payments)/(interest payments)

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

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

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