

## Weakest Early-Year Sales Growth in China on Record While Europe Rebounds

Global auto sales fell again in February by 6.2% y/y—following January’s 8.6% y/y decline—though improving sales in the European Union helped to soften the blow of a dismal start to 2019 in the Chinese market and falling purchases in the US off strong year-end sales activity.

Canadian auto deliveries continue to fall from same-month all-time highs in 2018 and may have been depressed by colder than usual weather in Ontario and Quebec. A jump in fleet sales provided a solid offset to weak retail figures.

### CANADA: SALES DROP Y/Y AGAIN, BUT MAY BE PAST MONTHLY TROUGH

- Sales in Canada declined by 3.7% y/y in February, marking the twelfth year-on-year decline in a row off record February sales a year prior. Nevertheless, last month strung the first back-to-back month-on-month rise in purchases since October 2017 with a 2.6% m/m rise to 1.96 mn units sold on a seasonally-adjusted annualised rate (saar) basis. We forecast that vehicle sales in Canada will fall to 1.93 mn units this year from 2018’s sales total of 1.98 mn units and 2017’s all-time high of 2.04 mn units sold.
- Compared to Q4-2018’s average—when sales stumbled by 3.6% q/q—purchases for the first quarter of 2019 are tracking a 3.2% q/q increase. However, **the month-on-month pick-up in sales in February was driven by an estimated 20% m/m seasonally-adjusted surge in fleet vehicle deliveries**—after especially weak sales figures for the segment in late-2018—compared to a m/m decline of around 2% in retail auto sales.
- Truck sales edged higher by 1.2% y/y in February after three straight months of y/y losses, while car deliveries posted their steepest drop since the financial crisis at 15.9% y/y. Light trucks are a stone’s throw away from reaching a three-quarter share of the Canadian auto market, garnering 74% of total sales currently, up from 71% last February, after adjusting for seasonal buying patterns.

### CANADIAN PROVINCES: POOR WEATHER HITS CENTRAL CANADA

- Vehicle sales in Ontario and Quebec fell by 7% y/y and 5% y/y, respectively, from all-time February highs in 2018. Abnormally rough weather in Ontario appears to have had a strong impact on vehicle sales to households as retail deliveries in the province fell by about 10% y/y while a strong increase in fleet sales of about 20% y/y cushioned the overall drop in unit sales.
- Year-on-year sales declines in Alberta returned to single digits with a 5% y/y drop in February, after contracting by an average of 12% y/y during the final trimester of 2018. **Monthly sales levels fell to their lowest point**

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Motor Vehicle Sales			
	Jan '19	Feb '19	Jan-Feb '19
	(y/y % change)		
<b>World</b>	-8.6	-6.2	-7.5
<b>North America</b>			
Canada	-7.2	-3.7	-5.4
US	-1.6	-2.8	-2.2
Mexico	1.9	-5.3	-1.7
<b>South America</b>			
Argentina	-53.4	-58.8	-56.3
Brazil	8.7	25.2	16.4
Chile	3.5	-5.1	-0.5
Colombia	-3.5	0.6	-1.3
Peru	3.8	-0.2	2.0
<b>Western Europe</b>			
France	-1.1	2.1	0.5
Germany	-1.4	2.7	0.6
Italy	-7.4	-2.4	-4.8
Spain	-8.0	-8.8	-8.4
UK	-1.6	1.4	-0.6
<b>Eastern Europe</b>			
Russia	0.6	-3.6	-1.8
Turkey	-59.5	-46.5	-53.1
<b>Asia Pacific</b>			
Australia	-7.8	-9.4	-8.6
China	-17.7	-17.4	-17.6
India	-1.2	0.0	-0.6
Japan	2.1	1.2	1.6
Korea	0.2	-5.8	-2.7

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

since January 2015 in BC with a 7% y/y drop last month, following a marked slowdown in consumer spending in 2018 when retail sales rose by 2.0% compared to 2017's expansion of 9.3%, the highest on record since 1994.

- **Sales in Manitoba and Saskatchewan also bounced back from a very weak year-end** with respective y/y jumps of 27% and 6% last month. Manitoba's gains, however, were supported by a massive surge in fleet deliveries—which also led to large gyrations in sales figures in the province last year—while retail sales remained practically flat year-on-year.
- **Auto purchases rose year-on-year in Newfoundland and Labrador, PEI, and New Brunswick in February by 5%, 17%, and 1%, in that order, while sales in Nova Scotia dropped by 5% y/y.**

#### US: MARKET REBALANCING FROM STRONG END-OF-YEAR

- **US auto sales fell for a second consecutive US month in both year-on-year (-2.8%) and month-on-month (-0.9%) terms to a saar of 16.53 mn units delivered in February.** Last month's decline follows weak figures in January as sales readjust from Q4-2018's strong close to the year when purchases averaged 17.5 mn units compared to the January–February average of 16.6 mn units sold. Harsh weather in the Midwest and East Coast regions and the partial federal government shutdown may also have impacted sales in early-2019. We forecast that sales will make up lost ground through the remainder of the year to total 16.8 mn units delivered in 2019, down from last year's 17.2 mn units.

#### MEXICO: DECLINES RESUME

- **Year-on-year declines in vehicle purchases in Mexico resumed in February with a 5.3% y/y drop** following a rise of 1.9% y/y in January owing to a one-off change in reporting of sales by General Motors. Outside of January's increase, Mexican year-on-year auto sales growth has been in the red since June 2017 amid high interest rates and sluggish economic growth, which we anticipate will continue to depress sales through 2019.

#### ASIA-PACIFIC: FIRST BACK-TO-BACK CHINESE NEW YEAR DROP

- **Chinese auto sales sharply contracted again in year-on-year terms in February with a 17.4% drop following January's 17.7% decline.** While the timing of the Chinese New Year leads to a great degree of volatility in sales figures for either January or February—with sales typically recording a large y/y increase in January alongside a y/y decrease in February, or vice versa—2019 marked the first two-month year-on-year decline since monthly data became available in 1999. The two-month sales total of 324k units delivered marks the worst start to the year since 2014's 312k purchases, and sits well below 2018's January-February all-time high of 393k passenger vehicles sold. The lingering impact of a credit tightening effort launched by the Chinese government last year and the country's continued trade tussle with the US have depressed sales figures in China since last summer.

#### EUROPE: SALES REBOUND IN FRANCE, GERMANY AND THE UK

- **Vehicle purchases in Western Europe appear to be on an improving trajectory following a spike and crash in auto sales prior to, and following, the introduction of new emissions testing standards in the European Union in September 2018.** Purchases in France, Germany, and the UK recorded their first year-on-year increase since last August, at 2.1%, 2.7%, and 1.7% respectively. Although the aforementioned gains were unable to support sales contractions in Spain, Portugal, and Italy, the decline in sales in Western Europe softened to 1.7% y/y last month from a 5% y/y drop in January.

#### SOUTH AMERICA: SALES REMAIN STRONG IN BRAZIL, DIRE IN ARGENTINA

- **Sales activity in South America continues to be supported by strong gains in Brazil—where purchases rose by 25% y/y in February—while another steep drop in Argentina (-59% y/y) and a weak start to the year in Chile, Peru, and Colombia—down 5.1% y/y and 0.2% y/y, and up 0.6% y/y, in that order—contributed to a region-wide fall in sales of 2.3% y/y in February.**

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

	2000–15	2016	2017	2018	2019f
<b>Total Sales</b>	<b>54.9</b>	<b>77.3</b>	<b>79.0</b>	<b>78.6</b>	<b>78.7</b>
<b>North America*</b>	<b>17.9</b>	<b>21.0</b>	<b>20.7</b>	<b>20.6</b>	<b>20.1</b>
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
<b>Western Europe</b>	<b>13.7</b>	<b>14.0</b>	<b>14.3</b>	<b>14.2</b>	<b>14.2</b>
Germany	3.23	3.35	3.44	3.44	3.43
<b>Eastern Europe</b>	<b>3.1</b>	<b>3.1</b>	<b>3.4</b>	<b>3.4</b>	<b>3.5</b>
Russia	1.87	1.43	1.60	1.80	1.86
<b>Asia</b>	<b>17.1</b>	<b>36.1</b>	<b>37.1</b>	<b>36.8</b>	<b>37.1</b>
China**	7.31	23.57	24.20	23.44	23.50
India	1.23	2.09	2.19	2.37	2.49
<b>South America</b>	<b>3.2</b>	<b>3.1</b>	<b>3.5</b>	<b>3.7</b>	<b>3.8</b>
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-Feb	fcst
(thousands of units, annualised)						
<b>Canada**</b>	<b>1,668</b>	<b>1,949</b>	<b>2,041</b>	<b>1,984</b>	<b>1,938</b>	<b>1,930</b>
Cars	776	662	644	576	524	490
Domestic	490	439	438	378	357	325
Imports	286	223	206	197	168	165
Light trucks	892	1,287	1,397	1,408	1,413	1,440
(millions of units, annualised)						
<b>United States</b>	<b>14.40</b>	<b>17.50</b>	<b>17.10</b>	<b>17.21</b>	<b>16.60</b>	<b>16.80</b>
Cars	6.90	6.90	6.10	5.30	5.09	4.50
Light trucks	7.50	10.60	11.00	11.91	11.51	12.30
(millions of units, annualised)						
<b>North American Production*</b>	<b>14.63</b>	<b>18.15</b>	<b>17.48</b>	<b>17.46</b>	<b>16.84</b>	<b>17.75</b>
Canada	2.24	2.37	2.19	2.02	1.89	1.95
United States	9.80	12.18	11.23	11.32	11.00	11.60
Mexico	2.59	3.60	4.06	4.11	3.95	4.20

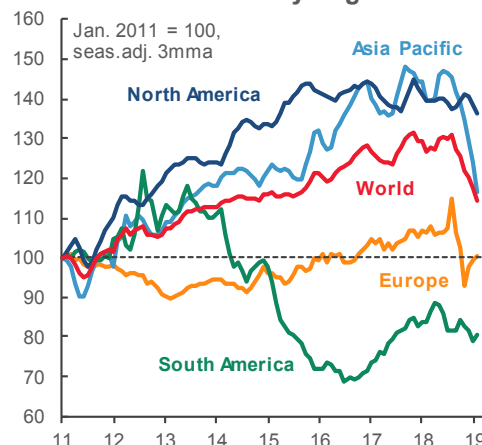
\*Includes light, medium and heavy trucks. \*\*Canadian sales are Scotiabank estimates.  
Sources: Ward's Automotive Reports, Statistics Canada.

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

	2000–15	2016	2017	2018	2019f
<b>Canada</b>	<b>1,668</b>	<b>1,948</b>	<b>2,040</b>	<b>1,984</b>	<b>1,930</b>
<b>Atlantic</b>	<b>125</b>	<b>140</b>	<b>143</b>	<b>130</b>	<b>126</b>
<b>Central</b>	<b>1,034</b>	<b>1,264</b>	<b>1,299</b>	<b>1,286</b>	<b>1,266</b>
Quebec	411	458	462	451	440
Ontario	623	806	837	835	826
<b>West</b>	<b>509</b>	<b>544</b>	<b>598</b>	<b>565</b>	<b>538</b>
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

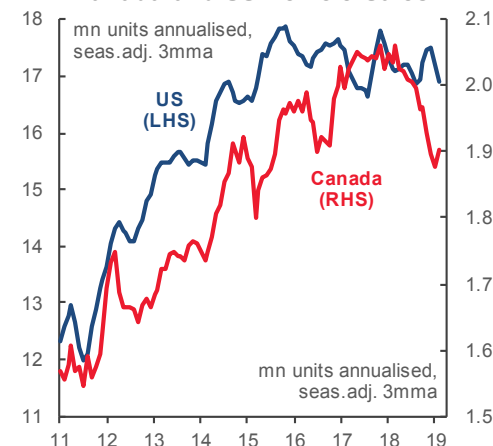
\*Includes cars and light trucks. \*\*Scotiabank estimates.  
Sources: Statistics Canada, Canadian Vehicle Manufacturers' Association.

**Chart A1 Vehicle Sales by Region**



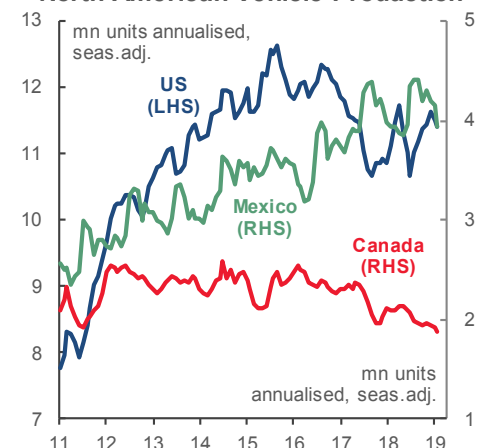
Sources: Scotiabank Economics, national automotive associations.

**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 Jan to Feb		2019 Jan to Feb		2018 Feb		2019 Feb	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
<b>Total Sales</b>	<b>35.1</b>	<b>100.0</b>	<b>33.4</b>	<b>100.0</b>	<b>35.7</b>	<b>100.0</b>	<b>30.0</b>	<b>100.0</b>
<b>Big Three</b>	<b>6.7</b>	<b>18.9</b>	<b>4.5</b>	<b>13.4</b>	<b>7.4</b>	<b>20.7</b>	<b>5.7</b>	<b>19.0</b>
Fiat-Chrysler	4.0	11.4	2.1	6.2	4.1	11.5	2.3	7.6
Ford	1.9	5.3	1.5	4.5	2.1	5.8	2.1	6.9
General Motors	0.8	2.3	0.9	2.8	1.2	3.3	1.4	4.6
<b>Japanese</b>	<b>15.6</b>	<b>44.4</b>	<b>14.1</b>	<b>42.3</b>	<b>16.0</b>	<b>44.8</b>	<b>14.3</b>	<b>47.8</b>
Honda	5.6	16.0	5.1	15.2	5.3	14.8	5.2	17.3
Toyota	4.3	12.4	4.6	13.6	4.8	13.4	4.5	14.8
Nissan	2.7	7.6	2.0	6.1	2.9	8.0	2.2	7.2
Mazda	1.7	4.9	1.4	4.3	1.8	5.0	1.4	4.8
Mitsubishi	0.3	1.0	0.2	0.5	0.4	1.0	0.2	0.6
Subaru	0.9	2.5	0.9	2.6	0.9	2.5	0.9	3.1
<b>European</b>	<b>6.4</b>	<b>18.1</b>	<b>5.3</b>	<b>15.8</b>	<b>6.9</b>	<b>19.2</b>	<b>5.4</b>	<b>17.9</b>
BMW	1.1	3.2	0.8	2.4	1.3	3.5	0.9	3.0
Mercedes-Benz	1.5	4.4	1.1	3.3	1.7	4.9	1.1	3.6
Volkswagen Group	3.5	9.9	3.2	9.6	3.6	10.2	3.2	10.6
Volvo	0.1	0.2	0.1	0.4	0.1	0.3	0.2	0.5
Other	0.1	0.3	0.0	0.1	0.1	0.4	0.0	0.1
<b>Rest of the world</b>	<b>6.5</b>	<b>18.6</b>	<b>9.5</b>	<b>28.5</b>	<b>5.5</b>	<b>15.3</b>	<b>4.6</b>	<b>15.3</b>
Hyundai	3.1	8.7	2.8	8.2	3.5	9.8	2.8	9.4
KIA	1.7	4.9	1.8	5.3	2.0	5.5	1.8	5.9
All other	1.7	4.9	5.0	14.9	-	0.0	-	0.0

\*Sources: Scotiabank Economics, Global Automakers of Canada.

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

	2018 Jan to Feb		2019 Jan to Feb		2018 Feb		2019 Feb	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
<b>Total Truck Sales</b>	<b>90.1</b>	<b>100.0</b>	<b>88.8</b>	<b>100.0</b>	<b>91.9</b>	<b>100.0</b>	<b>93.3</b>	<b>100.0</b>
<b>Total Light Truck Sales</b>	<b>90.1</b>	<b>100.0</b>	<b>88.8</b>	<b>100.0</b>	<b>91.9</b>	<b>100.0</b>	<b>93.3</b>	<b>100.0</b>
<b>Big Three</b>	<b>49.1</b>	<b>54.5</b>	<b>47.2</b>	<b>53.2</b>	<b>50.5</b>	<b>54.9</b>	<b>50.2</b>	<b>53.8</b>
Fiat-Chrysler	13.4	14.9	13.3	15.0	13.9	15.1	14.1	15.1
Ford	15.6	17.4	15.7	17.7	16.4	17.9	16.2	17.4
General Motors	17.5	19.4	15.4	17.4	17.7	19.2	17.1	18.3
Other Domestic	2.5	2.8	2.8	3.2	2.6	2.8	2.8	3.0
<b>Japanese</b>	<b>28.3</b>	<b>31.4</b>	<b>27.8</b>	<b>31.4</b>	<b>28.4</b>	<b>30.9</b>	<b>28.3</b>	<b>30.3</b>
Honda	6.8	7.6	6.3	7.1	6.5	7.1	6.7	7.2
Toyota	8.5	9.5	9.3	10.5	8.4	9.2	9.0	9.6
Nissan	6.7	7.4	6.2	7.0	6.9	7.6	6.4	6.9
Mazda	2.8	3.1	2.4	2.6	2.8	3.1	2.4	2.6
Mitsubishi	1.1	1.2	1.4	1.6	1.3	1.4	1.6	1.7
Subaru	2.4	2.6	2.2	2.5	2.4	2.6	2.1	2.3
<b>European</b>	<b>8.6</b>	<b>9.6</b>	<b>7.9</b>	<b>8.9</b>	<b>8.7</b>	<b>9.4</b>	<b>8.2</b>	<b>8.8</b>
BMW	1.8	2.0	1.7	1.9	1.9	2.1	1.8	1.9
Mercedes-Benz	2.2	2.5	1.9	2.1	2.2	2.4	2.0	2.1
Volkswagen Group	3.4	3.8	3.1	3.5	3.3	3.6	3.2	3.4
Volvo	0.4	0.4	0.4	0.5	0.4	0.5	0.4	0.4
Other	0.8	0.9	0.8	0.9	0.8	0.9	0.8	0.9
<b>Rest of the world</b>	<b>4.1</b>	<b>4.6</b>	<b>5.9</b>	<b>6.6</b>	<b>4.4</b>	<b>4.7</b>	<b>6.6</b>	<b>7.1</b>
Hyundai	2.8	3.1	4.2	4.7	2.9	3.2	4.6	4.9
KIA	1.8	2.0	2.1	2.4	1.9	2.0	2.5	2.6
All other	-	0.4	-	0.5	-	0.4	-	0.4

\*Sources: Scotiabank Economics, Global Automakers of Canada.

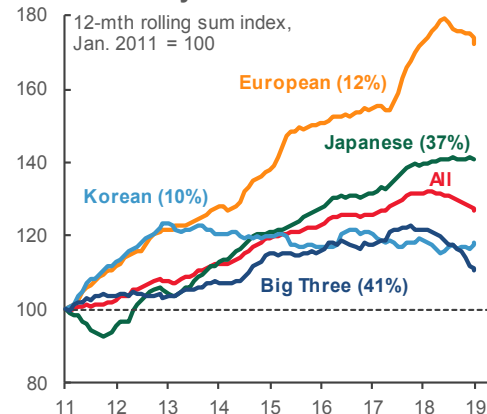
**Table 6 — Car Sales By Province (000s units)**

	2017 Jan to Jan	2018 Jan to Jan	2017 Jan	2018 Jan
<b>CANADA</b>	<b>32.76</b>	<b>26.81</b>	<b>32.76</b>	<b>26.81</b>
<b>ATLANTIC</b>	<b>1.92</b>	<b>1.62</b>	<b>1.92</b>	<b>1.62</b>
Newfoundland and Labrador	0.44	0.26	0.44	0.26
Prince Edward Island	0.10	0.10	0.10	0.10
Nova Scotia	0.86	0.75	0.86	0.75
New Brunswick	0.53	0.50	0.53	0.50
<b>CENTRAL</b>	<b>22.26</b>	<b>18.49</b>	<b>22.26</b>	<b>18.49</b>
Quebec	8.88	7.09	8.88	7.09
Ontario	13.38	11.40	13.38	11.40
<b>WEST</b>	<b>8.58</b>	<b>6.70</b>	<b>8.58</b>	<b>6.70</b>
Manitoba	0.85	0.59	0.85	0.59
Saskatchewan	0.60	0.36	0.60	0.36
Alberta	2.72	1.85	2.72	1.85
British Columbia	4.42	3.91	4.42	3.91

Source: Statistics Canada.

Chart A4

**Canada Vehicle Sales by Automaker\***



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

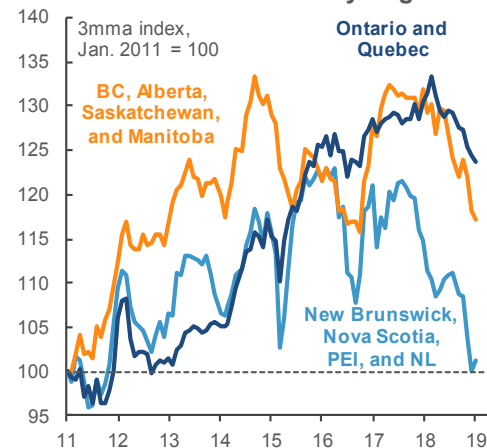
**Table 7 — Truck Sales By Province (000s units)\***

	2017 Jan to Jan	2018 Jan to Jan	2017 Jan	2018 Jan
<b>CANADA</b>	<b>87.42</b>	<b>85.11</b>	<b>84.40</b>	<b>85.11</b>
<b>ATLANTIC</b>	<b>4.94</b>	<b>5.18</b>	<b>1.92</b>	<b>5.18</b>
Newfoundland and Labrador	1.17	1.34	0.44	1.34
Prince Edward Island	0.28	0.30	0.10	0.30
Nova Scotia	1.82	1.94	0.86	1.94
New Brunswick	1.68	1.60	0.53	1.60
<b>CENTRAL</b>	<b>50.79</b>	<b>50.85</b>	<b>50.79</b>	<b>50.85</b>
Quebec	15.68	16.46	15.68	16.46
Ontario	35.11	34.39	35.11	34.39
<b>WEST</b>	<b>31.69</b>	<b>29.08</b>	<b>31.69</b>	<b>29.08</b>
Manitoba	4.55	3.22	4.55	3.22
Saskatchewan	2.83	2.83	2.83	2.83
Alberta	13.45	12.20	13.45	12.20
British Columbia	10.86	10.83	10.86	10.83

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

Chart A5

**Canada Vehicle Sales by Region**



Sources: Scotiabank Economics, 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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