

## A Slow Climb Back Begins for Global Auto Sales

- The pace of the decline in global auto sales moderated in May as purchases posted a 'mere' 35% y/y\* drop. On a month-over-month basis, global sales accelerated by 40% (sa) following April's record 46% y/y decline.
- Parts of the world are benefiting from post-pandemic pent-up demand as their economies (and dealerships) re-open. This notably includes China where sales exceptionally sit in positive territory (7% y/y), while other parts of Asia, Europe, and the US and Canada are seeing surges in sales activities, albeit still below pre-crisis levels.
- There remains considerable uncertainty around the strength and duration of this near-term post-pandemic rebound before fundamental economic drivers take over. For most countries, this suggests a multi-year recovery as elevated unemployment dampens consumption.
- While aggregate auto sales have reversed direction in May, some countries continue to face pandemic outbreaks to the continued detriment of auto sales. Notably, Latin America has yet to enjoy a rebound, along with other frontier economies such as India.

### A LONG ROAD AHEAD

**May heralds the first month of an anticipated multi-year recovery for global auto sales.** Global annualised sales were 51 mn units in May. This still represents a decline of -35% y/y but a +22% pick-up on a month-over-month basis. Year-to-date sales sit at -31%.

**Pandemic curves are flattening for the most part around the world,** but with a host of caveats: some countries are still plagued by the pandemic (including most in Latin America, as well as India and Russia), some jurisdictions within otherwise-contained countries are still seeing rising cases, and many scientists expect some resurgence in the Fall. Nevertheless, with governments fine-tuning their ability to test, trace, and isolate new cases, and as physical-distancing measures become engrained, further broad-based shutdowns are not anticipated (at least in baseline scenarios).

**The road to recovery will be protracted.** The Bank of Canada recently [set out](#) three distinct phases of this crisis: containment, re-opening, and recuperation. Global auto sales in March through April clearly illustrated the impact of the containment phase as many dealerships were closed, except for online sales. A rebound, beginning in May, should continue over the next several months as economies gradually re-open. But activity is likely to slow thereafter as economies enter a recuperation phase, working through excess capacity amidst dampened consumer demand.

**We anticipate global auto sales will sit 20% below 2019 levels by the end of 2020.** There will be tremendous variability across countries with China expected to

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Chart 1

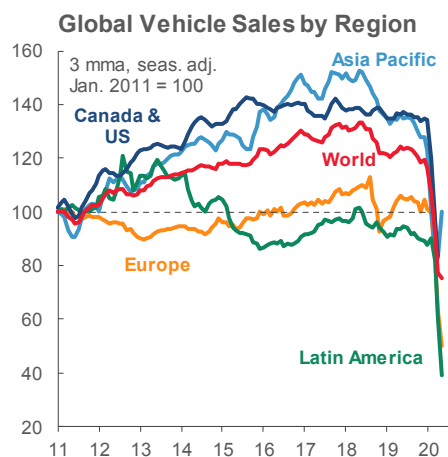
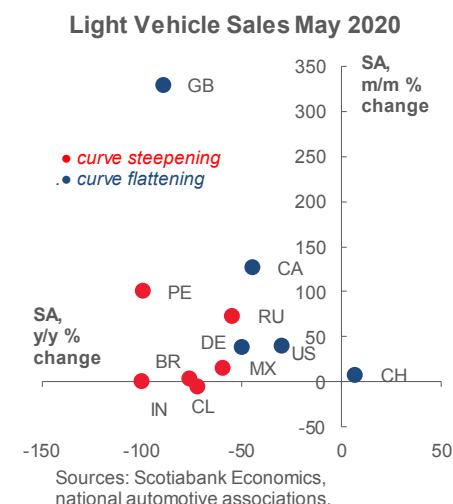


Chart 2



\*All numbers reported are not seasonally adjusted (nsa), unless otherwise indicated (sa).

narrow its gap, many advanced economies to witness annual losses in the order 20–30% y/y, while the hardest hit economies facing prolonged pandemic could see declines closer to 35–40% y/y. The latter category—identified in chart 2 as red dots—are still very much in the containment phase with declines in auto sales in the order of –80–100% y/y.

## A POST-CONTAINMENT REBOUND

**The resurgence in economic activity in May offers a degree of optimism.** At least in the sense that it could have been worse. Forecasters in the US and Canada, for example, had expected further job attrition in May before a turn-around would begin in June. In fact, net job creation took place in [Canada](#) and the [US](#), albeit with a host of cautions around millions that are still not working but not technically counted as unemployed.

**Other traditional economic indicators also reversed course in many countries.** For example, while still short of expansionary-territory, Purchasing Managers' Indices showed strong rebounds in May across major economies (chart 3). Improvements in consumer confidence also accelerated as reported by multiple survey-based institutions. US retail sales also surprised on the upside with a 17% m/m improvement in May.

**Non-traditional data sources are corroborating the rebound.** Google Mobility, for example, is showing increased activity including shopping excursions in Canada (chart 4), while similar patterns are observed in other countries with flattened curves. Proprietary Scotiabank [data](#) on debt and credit card purchases (chart 5) underscore these signs of activity in Canada, where retail purchases through mid-June sit above last year's levels (with a caveat that increased card usage may account for some of the gains).

**Auto purchases are benefiting from the resurgence.** Pent-up demand for autos may explain some of the stronger-than-anticipated gains in May in some countries following several months of deferred purchases. Reportedly historic incentive spending, particularly around Memorial Day in the US, also likely pulled forward some demand. In Canada, Scotiabank proprietary data shows that whereas auto sales had been a relative drag on retail activity at the onset of the crisis, they have shifted to a more neutral position (chart 6).

**There was likely also some new demand creation as a result of pandemic-related fears.** An April survey by CarGurus, for example, reported that 16% of Canadian respondents intending to purchase a vehicle in 2020 had not planned to do so prior to the pandemic. The Conference Board reported that car purchase intentions in the US leapt by almost 40% m/m in May to a level only about 10% off pre-crisis intentions (chart 7). Meanwhile, Google searches for terms related to 'new car purchase' continue to gain momentum (chart 8).

## WITH A LITTLE HELP FROM THE FED

**Other factors may also be underpinning this rebound in many countries.** The declines in policy rates around the world are increasingly feeding through to the real economy as a host of other central bank market interventions are restoring market liquidity, bringing down the cost of consumer loans. Extraordinary fiscal support is also supporting consumption in most countries. The Bank of Canada, for example,

Chart 3

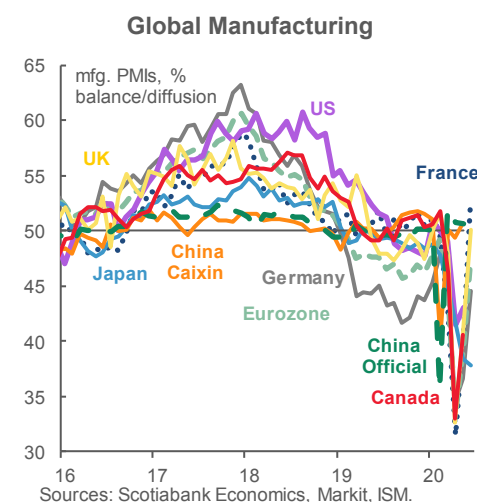


Chart 4

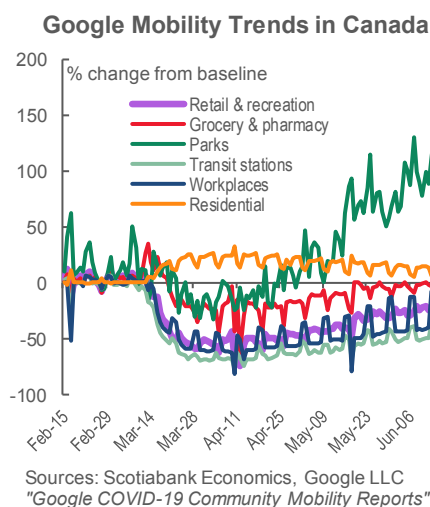
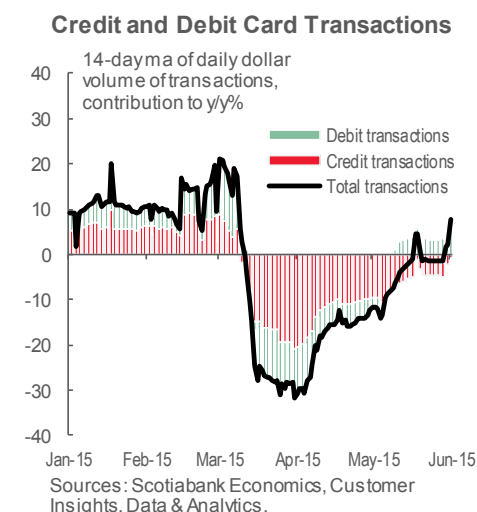


Chart 5



calculates that most Canadian households are covered for essentials with the Canada Emergency Response Benefit (CERB) should they suffer income loss, while Statistics Canada reported that about one in five households reported difficulties meeting immediate financial obligations, consistent with pre-pandemic levels.

**Government responses are also helping dealers cope with impacts from the downturn.** A recent [survey](#) conducted in early June by the Ontario Motor Vehicle Industry Council suggests that more than half of dealers have accessed the Canada Emergency Wage Subsidy, while close to 60% of their workforces have tapped into the Canada Emergency Response Benefit. Nevertheless, consumer confidence will ultimately drive the recovery according to more than 80% of respondents, well above lower costs of financing or increased incentive spending.

**Policy supports directly targeting the auto industry have been relatively modest.** Whereas the North American auto industry received a bail-out of USD 80 bn following the Global Financial Crisis (GFC), so far at least, governments have opted for broader corporate financing programs in both Canada and the US. Echoing policy response measures in North America, the UK has so far avoided introducing direct stimulus for the auto sector and instead unveiled a general business support package of GBP 40 bn which auto firms can draw upon. In contrast, France and Spain have approved direct stimulus packages for the auto sector totaling EUR 8 bn and EUR 3.75 bn respectively.

**There is modest demand support in some countries particularly through cash-for-clunker programs.** Recall, the US introduced such a program following the GFC that provided USD 3 bn in incentives that removed about 700 k old vehicles from the road. Germany and the UK are reportedly developing similar programs currently, while pressure on this side of the Atlantic is arguably growing. Tighter emissions regulations in Europe are likely providing additional impetus for such programs.

**China is an exception where targeted government support is likely fueling a strong rebound in auto sales.** While it has not announced broad-based excise tax cuts—a tool it has frequently deployed in the past—multiple reports suggest that many local jurisdictions are introducing a range of demand incentives to spur sales that sat above last year's May levels with a 7% y/y gain. Notably, China has extended manufacturer subsidies and consumer tax incentives for electric vehicles through 2022. Car ownership penetration is still low compared to advanced countries with ownership levels in China around 180 per 1,000 people versus the US at 800 per 1,000 people.

## EXPECT SOME MODERATION AS RECOVERY PHASE SETS IN

**The strength of recovery should temper as rebound effects fade.** Auto sales during the containment phase were largely a function of the stringency of lockdown measures which were linked to COVID-19 case levels for the most part, while the rebound has been a function of re-opening. The recovery phase should increasingly be driven by fundamental economic factors over time.

**Differences in auto sales across Canadian provinces illustrate these drivers.** So far, the auto sales retrenchment had been most severe in central Canada where the lockdowns were most stringent among the largest provinces. Meanwhile, Quebec enjoyed an earlier rebound with its economy opening weeks ahead of Ontario. The immediate toll in Alberta has been smaller where dealerships were not ordered to

Chart 6

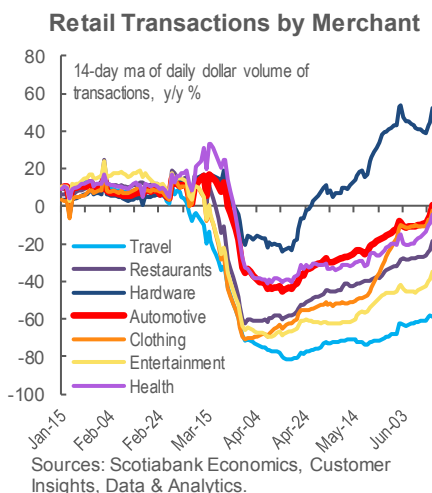


Chart 7

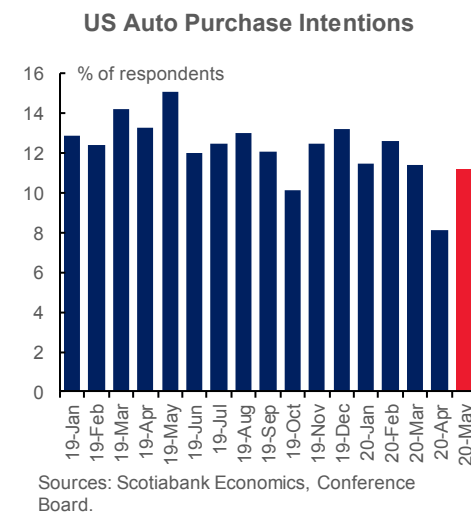
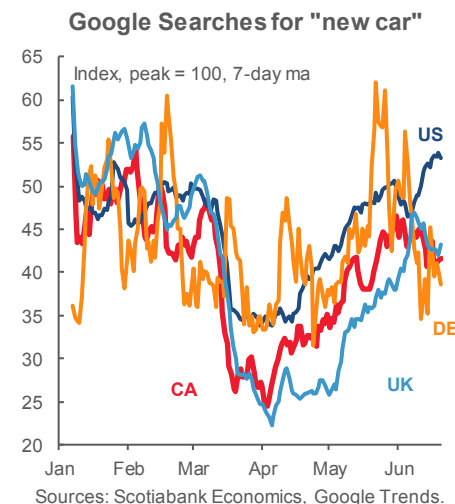


Chart 8



close, however the oil price collapse will likely weigh on sales in the longer term (chart 9).

**Employment will be a key factor in the recovery.** While job growth should continue to pick up as economies gradually re-open, unemployment rates are expected to remain elevated through the recovery. Scotiabank Economics [forecasts](#) unemployment rates of 9.8% and 10.3% for the US and Canada, respectively, in 2020, which would be a big improvement over April's historic highs (13.3% and 13.7%, respectively), but still well-above 2018 unemployment rates of 3.7% and 5.7%. This will weigh on household income, consumer confidence, and ultimately consumption.

**Fleet sales will also likely dampen new vehicle demand in a post-pandemic environment.** As discussed last [month](#), fleet sales comprise over 20% of total vehicle sales in the US and Canada. Preliminary data for Canada suggests fleet sales have been down in the order of 75–80% y/y for April and May. (In fact, preliminary reporting on Canadian auto sales for May at -45% y/y likely only captured retail sales, whereas total vehicle sales were likely closer to -55% y/y once the impact of fleet sales is incorporated. There will hopefully be more clarity next month with quarterly reporting by manufacturers.) With rental car business closely linked to air travel, a quick turnaround is not anticipated.

**Nevertheless, economic activity should continue to pick up over the next eighteen months, boding well for a continued recovery in auto sales.** Our forecasts project output gaps closing by late 2021 in the US and early 2022 in Canada. Our auto sales forecasts mirror this trajectory (chart 11). There is some upside to these projections, notably continued strength in the rebound experienced in May (and evident in early-June readings), as well as an underestimation of new demand creation from pandemic fears. On the other hand, there is considerable downside particularly related to the trajectory of the virus.

## DIFFERENT REGIONS, DIFFERENT SPEEDS

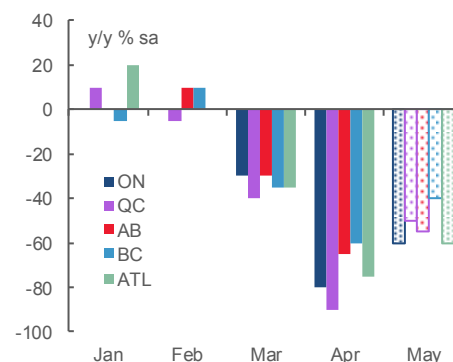
**Latin America remains in the throes of the pandemic.** Virus counts are still accelerating in all major markets. This is reflected in another dire month of auto sales for the most part for countries in the region. Only Colombia showed signs of rebound in May auto sales with a -62% y/y decline (a 5,000% m/m increase!), following a complete-stop in April sales. Argentina technically displayed year-over-year improvements (-28% y/y for May versus -74% y/y for April), but auto sales were plummeting this time last year with multi-month declines above 60% y/y as a result of severe domestic vulnerabilities. Mexico showed only modest improvements (-59% y/y in May versus -65% y/y in April for a 15% m/m improvement). Otherwise, Brazil and Chile posted a second straight month of declines in the mid-70% range, while Peruvian auto sales stalled again with a reported decline of -97% y/y.

**Other frontier markets also continue to be pummelled by the pandemic.** Notably, Indian and Indonesian auto sales remained near-nil in May for a second consecutive month. Russia is arguably an exception with 'only' a -54% y/y decline in May following April's -74% y/y drop despite mounting cases and weak pandemic management.

**Japanese May auto sales were another regional outlier.** It was the only Asia Pacific economy to show a deterioration on a month-over-month basis in auto sales (excluding India and Indonesia) in May. Sales were down by almost 45% y/y, relative

Chart 9

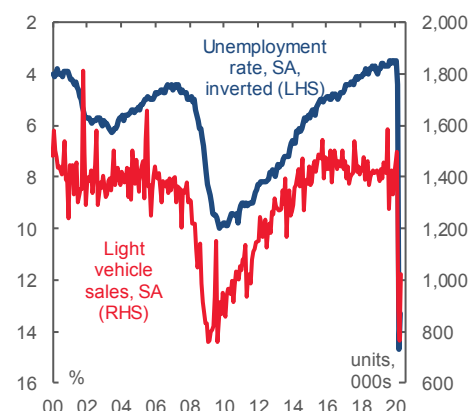
### Light Vehicle Sales To-Date in 2020



Sources: Scotiabank Economics, Desrosiers Consultants Inc., Statistics Canada.  
Note: May data is SB estimates given provincial data lag.

Chart 10

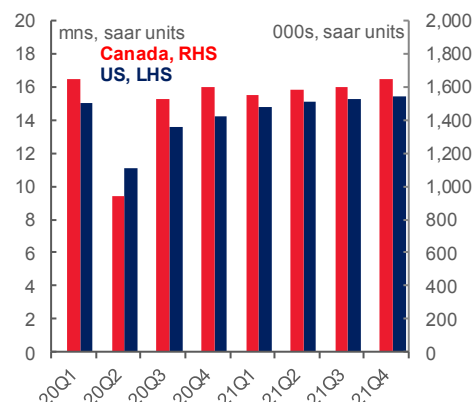
### US Vehicle Sales & Unemployment



Sources: Scotiabank Economics, Wards.

Chart 11

### Light Vehicle Sales Outlook



Sources: Scotiabank Economics, Ward's Automotive Group, Desrosiers Consultants Inc..

to a more muted 29% y/y decline in April. A statewide emergency order had been in place until the end of May that would have continued weighing on sales.

**European auto sales mask a host of differences across countries.** The region as a whole is displaying a modest rebound: Western European sales for May were down by about -57% y/y relative to -80% y/y declines in April (for a 115% m/m sa rebound). Major economies such as Germany, France, and Italy hovered about the -50% y/y mark, while Spain and Portugal remained above -70% y/y, and UK remained largely shut for business with auto sales down by -97% y/y in May. Swedish auto sales will be closely monitored as they displayed the largest month-over-month deterioration for the region in May (-49% y/y versus -37% y/y in April for a -22% m/m sa deceleration). As widely reported, Sweden's government has taken a laxer approach to the shutdown so its auto sales performance may shed light on confidence effects on consumption.

**Table 1 provides more details on global auto sales while Canada and the US are also summarized [here](#).**



**Table 1 — Global Auto Sales Outlook (mns units)**

	2010-18	2018	2019	2020f	May-20, SA % m/m	May-20, NSA % y/y	2020 YTD, NSA % y/y	2020 YTD, SAAR
<b>Total Sales</b>	<b>70.6</b>	<b>78.9</b>	<b>75.0</b>	<b>59.0</b>	<b>36.9</b>	<b>-34.4</b>	<b>-31.0</b>	<b>52.4</b>
<b>North America</b>	<b>18.6</b>	<b>20.6</b>	<b>20.2</b>	<b>15.8</b>	<b>44.4</b>	<b>-32.7</b>	<b>-24.9</b>	<b>15.5</b>
Canada	1.81	1.98	1.92	1.43	126.6	-44.6	-39.0	1.30
United States	15.5	17.2	17.0	13.5	40.0	-29.5	-22.9	13.2
Mexico	1.20	1.43	1.32	0.90	15.5	-59.0	-30.0	0.95
<b>Western Europe</b>	<b>12.9</b>	<b>14.1</b>	<b>14.1</b>	<b>10.0</b>	<b>116.1</b>	<b>-57.1</b>	<b>-43.4</b>	<b>8.2</b>
Germany	3.2	3.4	3.6	2.7	38.6	-49.5	-35.0	2.4
United Kingdom	2.3	2.4	2.3	1.6	329.2	-89.0	-51.4	1.2
<b>Eastern Europe</b>	<b>3.4</b>	<b>3.2</b>	<b>3.0</b>	<b>2.4</b>	<b>45.9</b>	<b>-49.5</b>	<b>-27.6</b>	<b>2.2</b>
Russia	2.1	1.8	1.8	1.3	73.3	-54.2	-28.4	1.3
<b>Asia</b>	<b>31.6</b>	<b>37.0</b>	<b>33.8</b>	<b>28.3</b>	<b>3.7</b>	<b>-18.2</b>	<b>-28.6</b>	<b>24.1</b>
China	19.5	23.7	21.4	19.0	7.6	7.2	-27.5	15.2
India	3.3	4.0	3.6	2.2	202	-100	-52.5	1.8
Japan	5.1	5.3	5.2	4.2	-21.4	-44.9	-19.2	4.2
<b>South America</b>	<b>4.3</b>	<b>4.0</b>	<b>3.8</b>	<b>2.6</b>	<b>28.7</b>	<b>-71.4</b>	<b>-38.5</b>	<b>2.4</b>
Brazil	2.94	2.48	2.67	1.70	3.0	-75.8	-38.1	1.70
Chile	0.34	0.42	0.37	0.28	-5.2	-72.2	-40.9	0.23
Colombia	0.26	0.25	0.26	0.20	5041.7	-61.5	-38.6	0.16
Peru	0.16	0.15	0.15	0.10	100.0	-97.4	-48.3	0.08

Sources: Scotiabank Economics, Ward's Automotive Reports, Bloomberg.

**Table 2 — North American Production Outlook**

	2010-18	2019	2020 May.	2020f	2021f
	(millions of units, annualised)				
<b>North American Production*</b>	<b>16.3</b>	<b>16.8</b>	<b>10.0</b>	<b>12.7</b>	<b>14.8</b>
Canada	2.3	1.9	1.0	1.3	1.5
United States	10.7	10.9	6.6	8.5	10.1
Mexico	3.3	4.0	2.4	2.9	3.2

\*Includes light, medium and heavy trucks.

Sources: Ward's Automotive Reports, Statistics Canada, DesRosiers Automotive Consultants

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

	2010-18	2018	2019	2020f	2021f	May-20, SA % m/m	May-20, NSA % y/y	2020 YTD, NSA % y/y	2020 YTD, SAAR
<b>Canada</b>	<b>1,809</b>	<b>1,984</b>	<b>1,922</b>	<b>1,426</b>	<b>1,593</b>	<b>126.6</b>	<b>-44.6</b>	<b>-39.0</b>	<b>1,303</b>
<b>Atlantic</b>	<b>133</b>	<b>130</b>	<b>136</b>	<b>105</b>	<b>116</b>	<b>85.2</b>	<b>-57.7</b>	<b>-39.6</b>	<b>98</b>
<b>Central</b>	<b>1,141</b>	<b>1,285</b>	<b>1,244</b>	<b>925</b>	<b>1,043</b>	<b>173.2</b>	<b>-56.0</b>	<b>-42.1</b>	<b>808</b>
Quebec	432	450	454	335	378	356.8	-51.1	-44.3	293
Ontario	709	835	789	590	665	107.9	-59.3	-40.9	515
<b>West</b>	<b>535</b>	<b>565</b>	<b>540</b>	<b>396</b>	<b>434</b>	<b>35.9</b>	<b>-48.2</b>	<b>-32.5</b>	<b>397</b>
Manitoba	54	66	53	44	46	60.4	-43.7	-29.2	39
Saskatchewan	53	49	46	32	35	40.7	-36.8	-28.0	35
Alberta	235	230	227	150	163	34.6	-56.3	-34.7	165
British Columbia	193	220	214	170	190	30.9	-41.9	-32.0	157

\*Includes cars and light trucks. \*\*Scotiabank estimates.

Sources: Statistics Canada, Canadian Vehicle Manufacturers'

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