

Global Auto Sales Normalizing in September

- September numbers confirmed an anticipated normalization in global auto sales following robust rebounds in late spring and early summer around the world. Global sales picked up by 5% m/m (sa) in September following a slight deceleration in August.
- Chinese auto sales continue to lead the recovery with a healthy 8% y/y increase in sales in September (but flat on a month-over-month basis), while the US and Canada both saw September sales surge into positive territory for the first time on a year-over-year basis (accelerating by around 7% m/m in both markets).
- Meanwhile, Western European auto sales are narrowing the gap substantially with steady improvement in sales after more serious retrenchments in the spring (0% y/y, 6% m/m in September), while Latin American auto sales have finally started picking up in September after a challenging summer amidst ongoing COVID-19 outbreaks (-8.5% y/y, 30% m/m).
- Global sales sit at -21% year-to-date with final quarter sales expected to face headwinds as COVID-19 second waves surge in many parts of the world.
- Sales were already expected to slow heading into the fourth quarter as pent-up demand has largely been exhausted. Persistent supply challenges have also contributed to a more challenging sales environment.
- We do not anticipate massive retrenchments in auto sales under second waves as restrictions are expected to be more targeted. However, consumer confidence may modestly dampen sales activity in the near term, possibly pushing out some purchases into the new year.
- In this issue, we provide forecasts for global auto sales in 2021. With an expectation that the worst of second waves will be behind us by early next year, we forecast a rebound in the order of 10% next year that would bring sales to within 9% of pre-pandemic levels.

BUSINESS AS (UN)USUAL

Global auto sales so far this year have challenged traditional forecasting capacities with exceptionally strong rebounds (chart 1). On the one hand, GDP performance has been a good (but lagging) indicator of the general depth and direction of auto sales (chart 2). But GDP in turn has been heavily influenced by the stringency and duration of government-imposed lockdowns as opposed to pure economic fundamentals (chart 3). Furthermore, severe shutdowns were often coupled with substantial government transfers that otherwise offset the contractionary impacts of traditional indicators such as unemployment that would normally curb purchases such as automobiles. Supportive financial conditions and loan and tax deferrals also played a role in this regard.

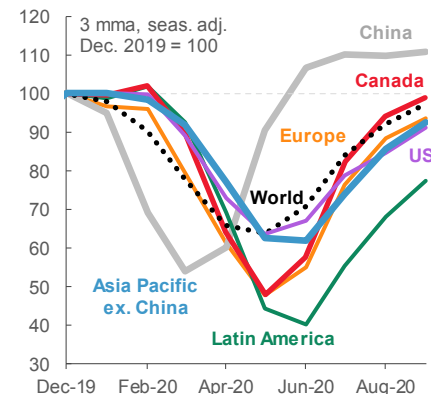
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Chart 1

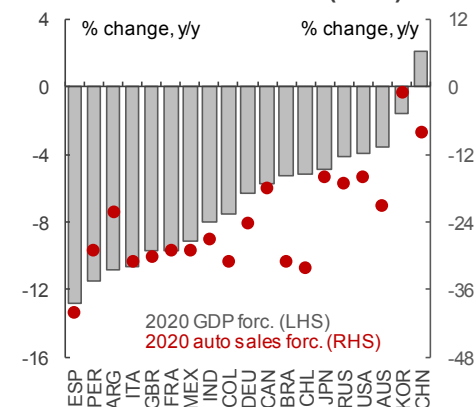
Global Vehicle Sales by Region



Sources: Scotiabank Economics, national automotive associations.

Chart 2

GDP & Auto Sales (2020)



Sources: Scotiabank Economics, IMF.

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

Auto sales are typically discretionary purchases that can be timed to economic circumstances and confidence levels. Following the Global Financial Crisis, the auto sales recovery was multi-year in most advanced economies. Canada returned to pre-crisis sales levels only 5 years later and 7 years in the US. Monthly sales activity only turned modestly positive on a year-over-year basis after the first anniversary of the crisis when base effects came into play. Today, auto sales in both of these markets turned positive on a year-over-year basis in September only five short months after the peak of shutdowns. This speaks to both the non-economic nature of the downturn and the fact that governments have taken the brunt of the impacts so far on their own balance sheets.

As markets grapple with second waves, experience from the spring can inform activity over the next few months. Notably, sales will likely face headwinds as confidence wanes in light of rising health risks *even if* governments do not mandate shutdowns. In a cross-country analysis, the [IMF](#) recently concluded that almost half of reduced mobility trends stemmed from voluntary behaviours as opposed to imposed constraints, and this effect was even more pronounced in countries where there was a higher virus prevalence (chart 4). This is consistent with auto sales performance in countries such as Sweden where sales are down -21% year-to-date even though dealerships were never closed.

Within Canada, preliminary September sales data suggests auto sales dipped in Ontario despite a positive national print in auto sales as COVID-19 cases had started to pick up in that province. Otherwise, Ontario posted a healthy uptick in jobs that month. Clearly, one data point does not establish a trend but it signals something to watch. Overall, across provinces, Ontario auto sales are posting the sharpest declines at the end of the third quarter (chart 5) that are more a reflection of the more stringent and longer lockdowns, particularly for its largest cities, whereas declines in oil-producing provinces have been more muted so far despite a more serious economic impact from oil shocks. Stalled immigration inflows may also be weighing on Ontario sales—as by far the largest recipient of new Canadians.

On the positive, consumer concerns emanating from health risks versus economic uncertainty are more likely to shift out demand as opposed to destroying it. The continuation of fiscal supports may play an important role in ensuring that the former holds under second waves. This will also likely be a differentiating factor in sales across countries as some have exhausted fiscal space or have reached political impasses to providing additional supports. As discussed in last month's [issue](#), the pandemic may have also created new demand out of fears related to public transit and ride-sharing which could still linger at least through the early part of 2021.

There could also be more upside next year from used auto sales which tend to operate counter-cyclically. In addition to affordability concerns in a downturn, price drops typically fuel this pattern. Exceptionally in this downturn, used vehicle prices in Canada (and other markets) have rebounded substantially after an initial drop in the spring, likely owing to supply constraints given lease extensions and loan deferrals, as well as a weak Canadian dollar that has diverted limited supply to the US. Government policy supports have also likely underpinned strong demand for both new and used vehicles, which has supported stronger prices. Consequently, retail sales volumes (in dollar terms) of used vehicle sales modestly outpaced those for new vehicle sales through August (chart 6). With used vehicle prices anticipated to soften over the next few quarters as supply increases, unit sales of used vehicles should accelerate at a faster pace through the recovery.

Chart 3

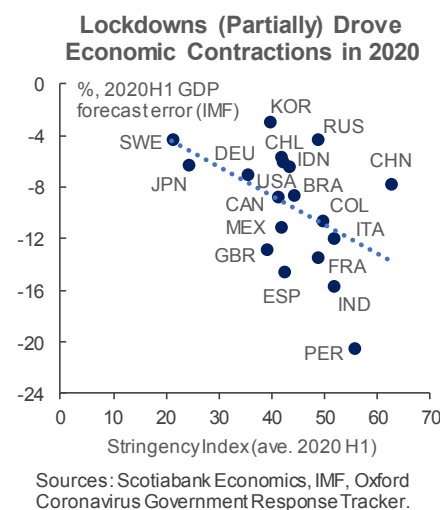


Chart 4

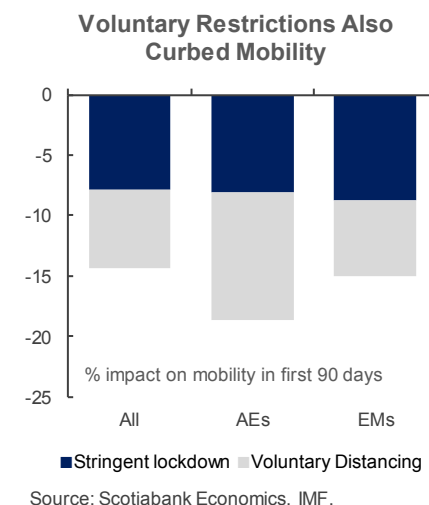
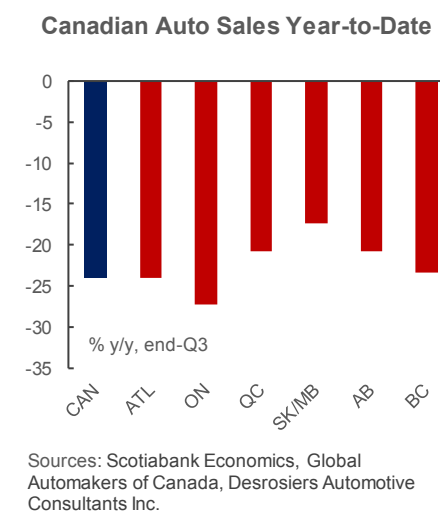


Chart 5



Broadly speaking, the global policy environment is expected to be highly supportive over the next couple of years. While 2021 should herald solid economic rebounds for most markets, spare capacity will likely still persist in all major economies through 2021 and into 2022—including elevated unemployment—that would warrant continued accommodation through monetary and fiscal policy. Auto sales should continue to strengthen as economies advance through this recovery, benefiting from low financing costs and an improving employment outlook. As travel slowly resumes in the latter part of 2021, a pick-up in fleet demand should also underpin a stronger auto sales environment. A more balanced supply environment should also alleviate some sales constraints.

We expect global auto sales could rebound by around 10% in 2021 though sales would still sit 9% below 2019 pre-pandemic levels (charts 7 & 8). Differentiators across countries and regions include the depth of the sales decline in 2020, as well as the expected path of economic recovery in 2021. For example, we anticipate a rebound in Chinese auto sales of about 7% in 2021 in light of a shallower retrenchment in 2020 (currently estimated at -8% y/y). This will bring sales just 2% shy of pre-pandemic levels. Japan is similarly expected to post a relatively smaller sales decline in 2020 (-15%), with an anticipated rebound of about 9% in 2021, but would leave sales still down by 8% relative to 2019 given its more mature market and fewer targeted supports for auto purchases.

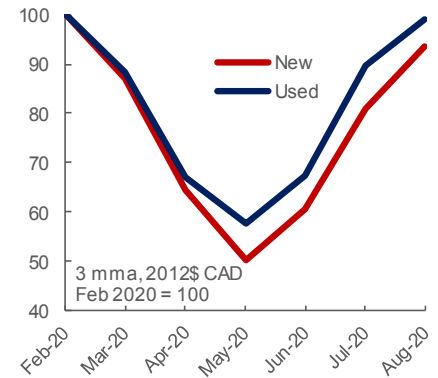
Western European countries are expected to suffer far worse declines in 2020 (-28% y/y). This should support a mathematically stronger rebound in 2021 in the order of 12%, however, given a slower economic recovery path (as well as regulatory headwinds), auto sales will still likely be about 20% below 2019 levels. Differences are expected within the region; for example, Germany's auto sales recovery in 2021 should bring it to about 88% of pre-pandemic levels, whereas UK sales are expected to recover to only about 78% as a weaker economic outlook is expected to dampen its auto sales rebound.

South America broadly faces dynamics similar to those in Europe, namely, steep declines in 2020 auto sales (-31%) that should support technical rebounds in 2021 (12%). However, Brazil as the largest auto market dominates these headline numbers. Its more mature market and protracted recovery suggests a slower auto sales rebound in 2021 (9%) to about 75% of pre-pandemic levels, where smaller markets including Chile, Colombia, and Peru could see rebounds in the range of 15–20% in 2021 after facing declines well-above 30% in 2020 for the most part.

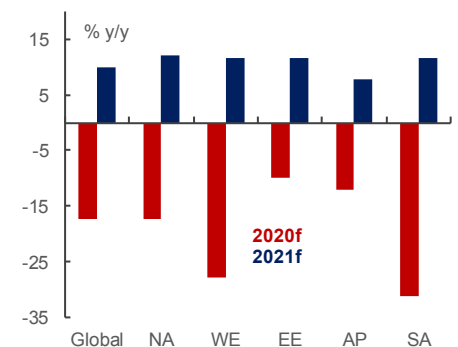
North American headline forecasts mask differences within the region. Canada faces a potentially stronger auto sales rebound in 2021 (15%) versus the US rebound forecast (12%) owing to steeper declines in 2020. Relatively similar economic recovery paths would bring auto sales to within 7% of pre-pandemic levels in 2021 in both countries. Mexican auto sales, on the other hand, expect to see far steeper declines in 2020 (-29%), but a longer recovery in auto sales mirroring its economic recovery. A forecasted 13% rebound in 2021 auto sales would only bring sales to within 80% of pre-pandemic purchases.

Needless to say, the confidence levels around these forecasts are unusually wide given the unprecedented nature of the crisis, the uncertainty around the course of the virus, and importantly, the policy responses and consumer behaviours. Stronger policy supports—for example, substantial new stimulus spending in the US or targeted tax breaks for auto purchases in China—could drive stronger recoveries. On the other hand, persistent pandemic effects that linger beyond early-year could erode sales activity if governments are unable to bridge broad-based and prolonged slowdowns.

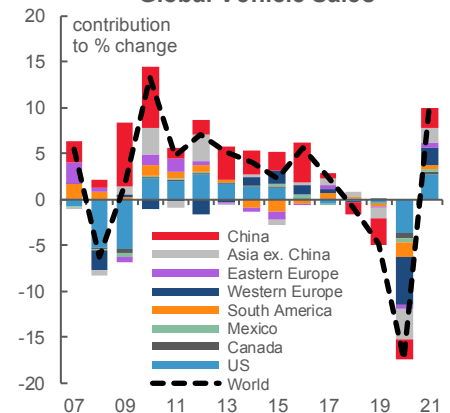
Details on forecasts for 2020 and 2021 are included in Table 1 (back).

Chart 6
Used Vehicle Volumes Outpace New Vehicle Sales in Canada


Sources: Scotiabank Economics, Statistics Canada.

Chart 7
Global Auto Sales Outlook


Sources: Scotiabank Economics.

Chart 8
Global Vehicle Sales


Sources: Scotiabank Economics, Bloomberg, Wards Auto, DesRosiers Automotive Consultants Inc., GAC.

Table 1 — Global Auto Sales Outlook (mns units)

	2010-19	2019	2020f	2021f	Sep-20, SA % m/m	Sep-20, NSA % y/y	2020 YTD, NSA % y/y	2020 YTD, SAAR
Total Sales	70.1	74.9	61.9	68.1	5.5	0.2	-20.6	60.1
North America	18.7	20.2	16.7	18.7	7.5	3.8	-20.1	16.3
Canada	1.82	1.92	1.57	1.80	6.5	2.1	-24.1	1.52
United States	15.7	17.0	14.2	15.8	7.6	6.1	-18.8	13.9
Mexico	1.22	1.32	0.94	1.06	4.1	-22.8	-30.5	0.93
Western Europe	13.0	14.1	10.2	11.4	5.7	0.2	-29.4	10.2
Germany	3.2	3.6	2.8	3.2	2.3	8.4	-25.5	2.7
United Kingdom	2.3	2.3	1.6	1.8	-7.3	-4.4	-33.2	1.6
Eastern Europe	3.3	3.0	2.7	3.0	12.5	19.1	-12.2	2.7
Russia	2.1	1.7	1.5	1.6	4.3	3.4	-17.1	1.5
Asia	31.8	33.8	29.7	32.1	4.3	3.8	-16.2	28.4
China	19.7	21.4	19.8	21.1	0.2	8.2	-12.3	18.7
India	3.3	3.6	2.6	2.9	14	26	-31.9	2.4
Japan	5.1	5.2	4.4	4.8	6.0	-14.3	-18.1	4.4
South America	4.3	3.8	2.6	2.9	27.9	-8.5	-33.9	2.6
Brazil	2.91	2.67	1.82	2.00	24.3	-11.1	-32.9	1.80
Chile	0.34	0.37	0.23	0.28	58.9	-15.9	-43.0	0.22
Colombia	0.26	0.26	0.18	0.21	33.4	-19.0	-36.8	0.17
Peru	0.16	0.15	0.11	0.13	17.6	-5.8	-37.3	0.10

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

Table 2 — North American Production Outlook

	2010-19	2019	2020 Sep.	2020f	2021f
	(millions of units, annualised)				
North American Production*	16.3	16.8	12.5	13.1	15.3
Canada	2.2	1.9	1.3	1.3	1.5
United States	10.7	10.9	8.3	8.9	10.6
Mexico	3.4	4.0	2.9	2.9	3.2

*Includes light, medium and heavy trucks.

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

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

	2010-19	2019	2020f	2021f	Sep-20, SA % m/m	Sep-20, NSA % y/y	2020 YTD, NSA % y/y	2020 YTD, SAAR
Canada	1,820	1,922	1,568	1,800	6.5	2.1	-24.1	1,516
Atlantic	133	136	113	130	5.5	5.5	-25.8	108
Central	1,152	1,243	1,006	1,148	6.8	-1.8	-24.7	971
Quebec	434	454	381	434	10.7	9.0	-21.6	371
Ontario	717	789	625	714	4.4	-7.6	-26.4	600
West	536	540	449	522	5.0	0.3	-21.7	441
Manitoba	54	53	46	54	3.1	-4.1	-18.1	45
Saskatchewan	52	46	40	47	3.7	8.7	-15.1	39
Alberta	234	227	186	218	2.4	-0.8	-22.2	186
British Columbia	195	214	177	204	8.7	0.7	-23.4	171

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

Sources: Statistics Canada, Canadian Vehicle Manufacturers' Association.

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