

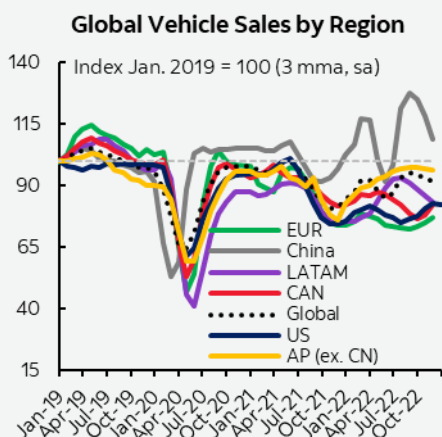
GLOBAL AUTO REPORT

January 18, 2023

Contributors

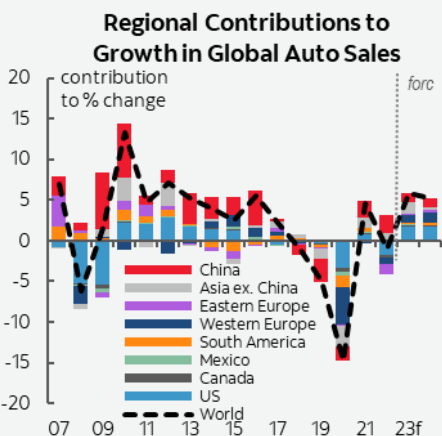
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Chart 1



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

Chart 2



Sources: Scotiabank Economics, Bloomberg, Wards Automotive.

Global Auto Sales to Wrap Up 2022 With Another Setback

- Auto sales in the US and Canada ended the year on a weak note, posting declines of -8.1% and -8.4% in 2022, respectively. The annual sales rate stood at around 20% below pre-pandemic levels in both markets.
- Sales should improve in 2023 as supply-demand conditions ease. Although rising interest rates, broader cost of living pressures along with elevated vehicle prices will continue to weigh on sentiment in the near term, an aging vehicle stock should support sales recovery down the line, with a caveat that deteriorating vehicle affordability could permanently remove some demand compared to pre-pandemic.
- We continue to expect the sales rate in Canada and the US to improve and reach 1.65 mn and 14.8 mn units in 2023, respectively—still well below pre-pandemic levels.
- Global auto sales pulled back again in November with a -4.3% m/m (sa) decline (chart 1). The sales rate slid to 65.4 mn saar units, well below the 75 mn units sold in 2019, but still improved from the 62 mn saar units that were trending in the second half of 2021.
- Given November's weak sales activity, we now expect global auto sales to wrap up 2022 at 66.1 mn units, a slight -1% contraction from the sales rate in 2021. As vehicle availability improves, global auto sales should expand in 2023 and 2024—we pencilled in global auto sales growth of around 6% in 2023 and 5% in 2024, with a high degree of uncertainty around this outlook (chart 2).

GLOBAL AUTO SALES: A MIXED BAG

Global auto sales posted another month-over-month decline in November following three consecutive pull-backs, largely driven by losses from the Chinese market, which makes up around 35% of global auto sales. Auto sales in China decelerated sharply since August and plunged again in November by -11.6% m/m (sa) as a result of covid lockdowns that lasted until early December 2022 when the country relaxed its zero-COVID policy. Regional performances have been a mixed bag in a highly volatile environment as the sector braces for a global slowdown. Sales regained some ground in Western Europe with large improvements in Germany, France and Italy driving the headline sales rate to 10.9 mn saar units—the highest since July 2021. Global auto purchases are nevertheless still depressed with annualized sales in November at around 65.4 mn units—over 12% below 2019's 75 mn units.

We expect global auto sales to gradually improve in 2023 to around 70 mn units—+6% higher than 2022 sales. The recovery is expected to be led by North America and Western Europe—the two regions that dragged down growth in 2022. We have pencilled in Chinese auto sales growth of around +3% in 2023 after the eye-popping gain of +7% in 2022 despite the pandemic lockdowns. There is heightened uncertainty around this outlook as rising cost of living continues to dampen growth around the world, layered on top of geo-political risks that also cloud the outlook.

CANADA AND THE US: WHEELS SHOULD START TO TURN IN 2023

Canadian auto sales pulled off a 10% improvement in Q4, but the latest sales rate remained depressed. Purchases dropped slightly in December by -0.4% m/m (sa) after the +5.4% m/m (sa) rebound in November. The 1.58 mn saar units sales rate is better than the 1.4 mn saar units trending in Q3, but still below the meagre 1.66 mn saar units sold in 2021.

January 18, 2023

Auto sales in the US faced two consecutive m/m setbacks at the end of 2022 despite improving inventory, offsetting some recovery between June and October. Sales dipped by -6.6% m/m (sa) in November, followed by another -6.4% m/m (sa) drop in December, bringing the sales rate down to 13.3 mn saar units, well below the 15 mn saar units sold in 2021.

The recent softness in purchases could be the result of consumers opting to stay on the sideline amidst a weakening economic outlook.

Despite solid balance sheets and wage gains, gloomy consumer sentiment could continue to weigh on major purchases in the near term (chart 3). With rising interest rates, broader cost of living pressures along with still-elevated vehicle pricing in a tight supply environment, it seems very rational to wait at this point in the cycle if a car is not immediately needed. On a more positive note, delayed purchases could turn into a tailwind down the line as economic conditions normalize, especially when central banks eventually pivot and start cutting rates, bringing some weary buyers back on the market with cheaper financing costs.

The 2023 sales outlook will largely hinge on supply recovery and affordability. Supply-demand conditions are easing, which should underpin higher sales in 2023. In the US, the chronic inventory shortages seem to be turning the corner as inventory picks up by an average of 5% m/m (sa) since February. Inventory-to-sales ratio is trending up as a result, but still remains well below pre-pandemic levels and continues to constrain sales. Auto production in North America rebounded from depressed levels in mid-2021, but softened in the last quarter of 2022 and remains around 15% below 2019's levels. Wards Automotive Group estimates 2022 production ended the year with an improvement of close to 10% relative to the sub-13 mn units produced in 2020 and 2021, and continue to grow by another 7% in 2023 to 15.2 mn units, but still well below the 16.2 mn units in 2019.

Improved vehicle availability should remove some pricing pressure on new vehicles, but high prices could persist well into 2023, eroding some fundamental demand and start to weigh on sales once production catches up. Vehicle affordability has been declining sharply in Canada and the US. According to Cox Automotive, consumers need to spend 43.3 weeks of median income to purchase the average new vehicle, 30% more than the weeks of income needed in 2019. In Canada, the average selling price of a new passenger vehicle is currently \$45.5k, over 30% higher than the average price of vehicles sold in 2019, outpacing the 17% increase in household disposable income since the pandemic. The deterioration of affordability compared to 2019 indicates a potential reduction of demand compared to pre-pandemic, especially in the lower end of the market—currently masked by supply constraints. However, the rebalancing of the supply-demand dynamic should remove some upward pressure on new vehicle prices, and the anticipated improvement in the supply of more affordable models should also help slow down further deterioration of affordability in 2023.

Elevated financing costs are likely to persist into 2023 as monetary policy remains restrictive. Rates on newly-issued auto loans reached 7.2% in Canada as of October—over two percentage points higher than the same month a year prior (chart 4). In the US, the average new auto loan rate stood at 6.5% in December, up almost three percentage points since the beginning of 2022 (chart 5). Even with aggressive overnight rate hikes since the beginning of 2022 that take interest rates well into restrictive territory, inflation will take time to come back to target. Headline inflation has shown durable signs of moderating on both sides of the border, but it is still high on a y/y basis and only started to decline on a m/m basis in December. Core CPI seems to be cooling with m/m increases on a downtrend—more evident in Canada than in the US—but it is running at an annualized m/m growth rate of 3.4% in Canada and 3.7% in the US. As monetary policy gradually works through the system, central banks should be approaching the end of their hiking cycles, and given the anticipated slowing in growth and inflation, they could begin rate cuts in the back half of 2023 and into 2024.

Chart 3

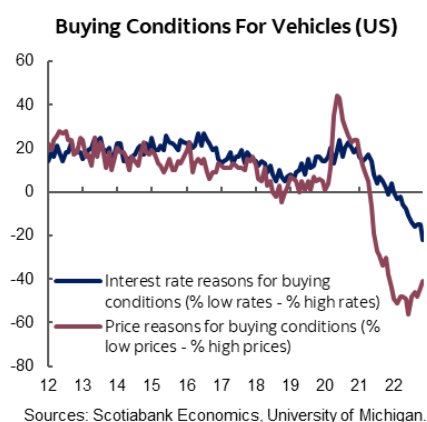


Chart 4

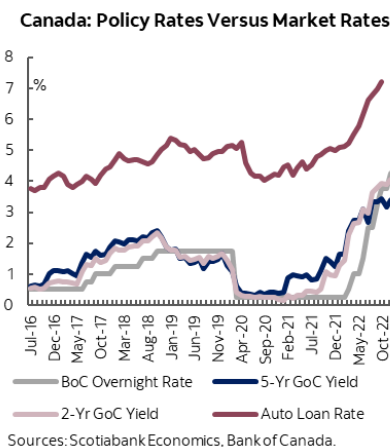
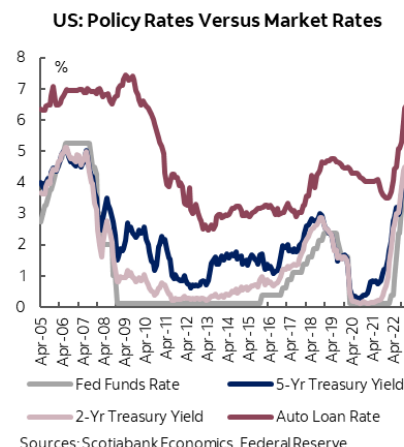


Chart 5



Looking past strong near-term headwinds, demand fundamentals remain relatively solid entering 2023, supported by structural factors and resilient labour markets. As supply recovery stretches out, production shortfalls in the past three years should support higher replacement purchases. Despite depressed sales rates, registered vehicles in Canada still increased by 1.3% and 1.5% in 2020 and 2021, respectively, and vehicle ownership continued to rise on a per capita basis, indicating still-solid demand fundamentals (Canadians still need more cars to get around). A rapidly declining replacement rate and aging vehicle stocks support demand for new vehicles in the coming years, underpinned by explosive population growth as record-number of new immigrants arrive.

The labour markets remain resilient as the central banks walk the inflation-recession tightrope.

Despite the fact that monetary policy has been in restrictive territory for a few months, unemployment rates remained at all-time lows in December in both Canada and the US—favourable for auto demand. However, this could spur further wage growth and create upward pressure on inflation, forcing the hand of central banks. Labour market tightness has shown some early signs of easing, but with strong caution. In the US, wage growth decelerated m/m in December, and job openings declined by -9% relative to levels in early 2022. Wage growth is also on a m/m downtrend in Canada, and the Bank of Canada is hoping to cool the economy by [reducing job vacancies](#) without causing a spike in unemployment. Nevertheless, the labour market takes time to rebalance and we might still see the lagged effect of wage growth on inflation, which could potentially drive tighter monetary policy, and push up unemployment rates further.

LUXURY CAR SALES FARED BETTER THAN OTHER SEGMENTS

As vehicle sales decline on limited inventory, expensive models make up a larger share of purchases. Luxury cars as a share of total car sales have been rising since 2014 and the speed accelerated during the pandemic—due to supply disruption, automakers have been prioritizing more expensive models. Since 2019, total car sales have been suppressed by supply shortages, and are still struggling to recover. Luxury car sales have also been affected by inventory constraints, but were relatively resilient compared to other segments. The sports luxury car segment performed even better—sales dropped slightly by less than -10% in 2020 (compared to -29% for luxury cars and -36% for all cars), and picked up again in 2021 (chart 6).

As the auto industry recovers from the supply shortage that has been holding back sales for close to two years, luxury car sales should have some steam left, but with heightened uncertainty ahead due to strong economic and policy headwinds.

Luxury auto sales have historically been relatively shielded from economic slowdowns (chart 7). But headwinds have been mounting, notably escalating financing costs as the Bank of Canada raised policy rate to the restrictive territory in an effort to tamp down inflation. Falling household wealth as a result of the housing market downturn also suggests a bit more pain yet for the segment. In addition to these economic headwinds, the federal government's new tax on luxury vehicles that came into effect in September could dampen demand for vehicles over \$100k, but we have not yet seen any material impact from the new tax.

Chart 6

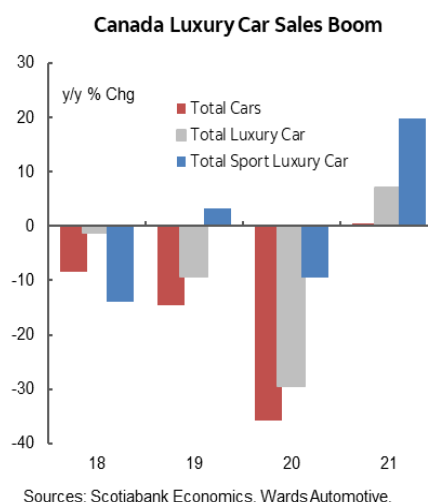
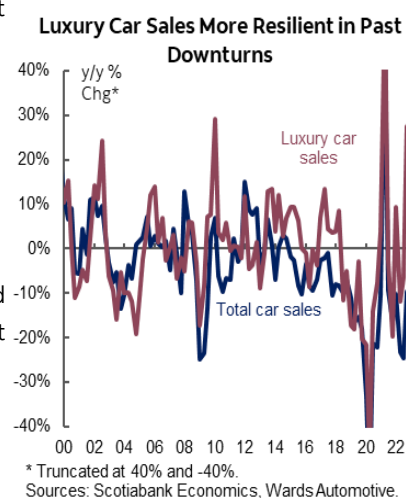


Chart 7



January 18, 2023

Table 1—Global Auto Sales Outlook (mns units)

	2010-19	2019	2020	2021	2022e	2023f	2024f	Nov-22, SA % m/m	Nov-22, NSA % y/y	2022 ytd, NSA % y/y
Total Sales	71.1	74.8	63.8	66.7	66.1	69.9	73.6	-4.3	4.5	0.2
North America	18.7	20.2	17.0	17.6	16.3	17.6	19.0	-5.3	10.7	-8.4
Canada	1.82	1.92	1.54	1.66	1.52	1.65	1.77	5.4	9.5	-8.2
United States	15.7	17.0	14.5	14.9	13.7	14.8	16.0	-6.5	4.9	-8.1
Mexico	1.22	1.32	0.95	1.01	1.08	1.16	1.23	-4.8	15.4	5.2
Western Europe	13.0	14.1	10.7	10.5	9.9	10.5	11.4	8.6	18.7	-6.1
Germany	3.2	3.6	2.9	2.6	2.6	2.7	2.9	11.5	31.4	-2.4
United Kingdom	2.3	2.3	1.6	1.6	1.6	1.7	1.9	7.2	23.5	-3.4
Eastern Europe	3.3	2.9	2.8	2.8	1.9	2.0	2.3	6.2	-25.9	-35.9
Russia	2.1	1.7	1.5	1.5	0.7	0.7	0.8	-0.4	-61.6	-60.6
Asia	31.9	33.8	30.6	32.7	34.8	36.5	37.4	-8.6	0.2	9.9
China	19.7	21.4	20.1	21.5	23.0	23.7	24.5	-11.6	-5.3	11.8
India	3.3	3.6	2.8	3.6	4.2	4.4	4.4	2.9	26.3	25.7
Japan	5.1	5.2	4.6	4.4	4.3	4.6	4.7	-8.1	7.0	-6.2
South America	4.3	3.8	2.8	3.1	3.1	3.3	3.4	4.5	10.4	1.9
Brazil	2.91	2.67	1.95	1.98	1.92	2.00	2.10	5.9	19.0	-1.4
Chile	0.34	0.37	0.26	0.42	0.43	0.45	0.47	0.2	-18.7	4.8
Colombia	0.26	0.26	0.19	0.24	0.26	0.27	0.29	-3.1	-4.8	6.2
Peru	0.16	0.15	0.11	0.16	0.16	0.17	0.18	4.4	-11.3	3.3

Sources: Scotiabank Economics, Wards Automotive, Bloomberg.

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

	2010-19	2019	2020	2021	2022f	2023f	2024f	Oct-22, SA % m/m	Oct-22, NSA % y/y	2022 ytd nsa % y/y	ZEV* (Q2-22) % of new LV sales
Canada	1,817	1,920	1,543	1,663	1,523	1,650	1,771				6.9
Atlantic	134	131	109	119	100	111	121	12.4	-0.1	-14.8	--
Central	1,179	1,304	1,030	1,070	994	1,099	1,209	1.1	1.1	-6.8	7.5
Quebec	441	455	378	404	366	404	443	-1.2	-2.4	-10.1	10.5
Ontario	738	848	653	665	628	696	765	2.5	3.3	-4.8	5.6
West	548	545	453	487	441	489	537	3.4	0.3	-8.4	--
Manitoba	56	58	47	49	42	46	51	4.0	0.2	-11.6	2.0
Saskatchewan	54	49	42	43	40	44	48	-0.4	2.6	-2.8	1.4
Alberta	239	223	184	196	182	204	222	0.4	-5.3	-7.3	--
British Columbia**	199	216	179	199	178	195	215	7.3	6.3	-9.8	13.8

*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

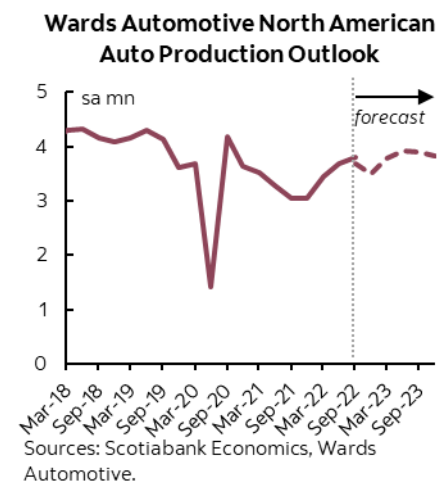
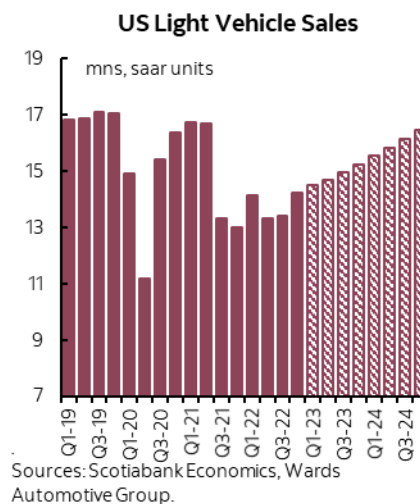
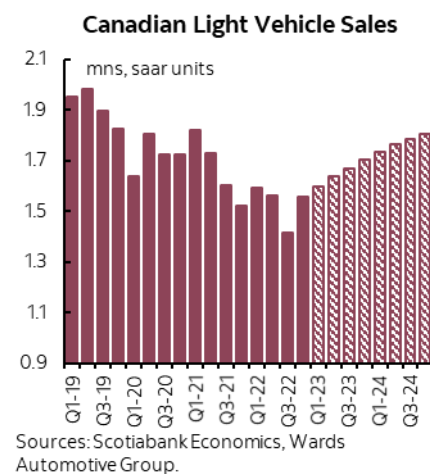


Table 3—North American Annual Production Outlook

	2010–19	2019	2020	2021	2022f	2023f	2024f
	(millions of units, annualised)						
North American Production	15.9	16.2	13.0	12.9	14.2	15.4	16.0
Canada	2.2	1.9	1.4	1.1	1.2	1.4	1.3
United States	10.4	10.5	8.6	8.9	9.7	10.4	10.9
Mexico	3.2	3.8	3.0	2.9	3.3	3.6	3.8

Sources: Scotiabank Economics, Wards Automotive.

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