

Contributors

John Fanjoy
Economist
Scotiabank Economics
416.866.4735
john.fanjoy@scotiabank.com

Chart 1

Global Vehicle Sales by Region

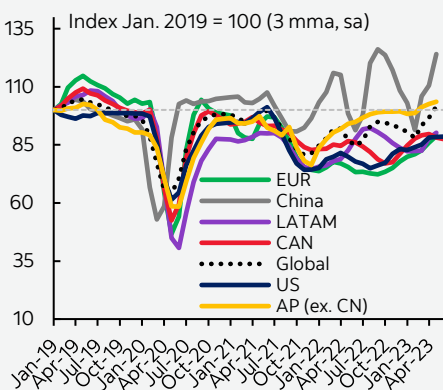
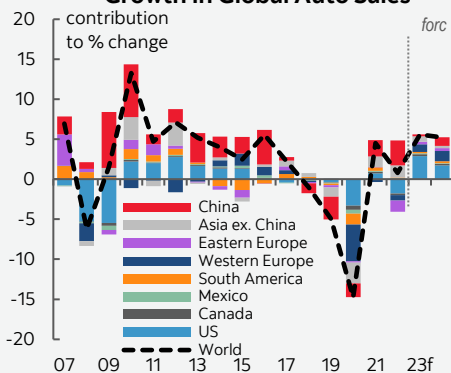


Chart 2

Regional Contributions to Growth in Global Auto Sales



May Auto Sales: Slow (But Not Steady) Recovery in Sales

CANADA: MAY BRINGS SMALL IMPROVEMENT TO RECOVERING AUTO SALES

Canadian auto sales improve in May after three consecutive months of flat-to-negative seasonally adjusted sales growth. Wards Automotive estimates that sales increased 2.8% (sa) to the pace of 1.64 mn (saar) units in May 2023. While auto sales are up 3.7% year-to-date (nsa) compared to 2022, they are falling behind the pre-pandemic pace, now -18.5% ytd (nsa) relative to 2019. Sticky core inflation, along with still-tight labour markets, and activity in the housing market picking up pose headwinds to the Bank of Canada easing their monetary policy stance in the short-term. The upward trend in North American light vehicle production is helping alleviate supply-side pressures to auto sales. NA light vehicle production rate reached 16.2 mn (saar) units in April, the fastest seasonally adjusted pace since July 2020, when production picked up after the first wave of lockdowns. While April's seasonally adjusted pace matches the annual production in 2019, it would need to be held steady for an extended period to further alleviate supply-side pressures to auto sales. Our outlook for Canadian auto sales is unchanged, forecasting 1.7 mn sales in 2023 and picking up to 1.83 mn in 2024 as inflation comes down and rates pressures ease.

UNITED STATES: SALES SLOW TO RECOVER IN ELEVATED RATE ENVIRONMENT

The recovery in US vehicle sales remains a long and bumpy road, as sales slowed (-6.5% m/m, sa) to 15.0 mn (saar) units in May, marking the third seasonally adjusted decrease in the past four months. Auto sales have averaged 15.4 mn (saar) units through the first five months of 2023, up 11.4% year-to-date (nsa) relative to 2022 but are -8.9% ytd compared to 2019. The labour market remains tight with the US unemployment rate ticking up to 3.7% (sa) in May, reaching its highest point since October 2022. Nonfarm payrolls added 339 k (sa) jobs in May and revisions added 93 k to the prior two months. The average hourly wage increased 4.0% m/m (saar) in May and JOLTS job openings picked up to 9.14 mn in April, which have been slowly easing over the past year but demonstrate tightness that remains in the labour market. Meanwhile, the 48-month new car loan rate reached 7.0% in May, the highest rate since October 2009. Rising delinquency rates in an elevated interest-rate environment will reinforce credit tightening in the near-term, as the Federal Reserve hiked the upper bound of the fed funds rate by 25 bps to 5.25% in their FOMC meeting May 2-3. US light vehicle inventory levels are gradually improving, up 7.5% m/m (sa) to 1.87 mn (sa) units in May, increasing in 14 of the past 15 months but are still well below the 3.35 mn (sa) units of February 2020. Our outlook for US auto sales is 15.7 mn units in 2023 against signs of improving vehicle availability but faces uncertainty owing to tightened financial conditions. Auto sales are then expected to pick up to 16.9 mn units in 2024 as inflation and rates pressures ease.

GLOBAL AUTO SALES: SOFT SALES IN APRIL

Global auto sales improved marginally by 0.6% m/m (sa) to the pace of 73.9 mn (saar) units in April, as vehicle sales fared better in some regions than others (chart 1). April's seasonally adjusted pace of auto sales fell in 14 of the 15 countries covered in western Europe, -6.4% m/m (sa) for the region to 11.3 mn (saar) units, offsetting the broad gains from March, for the third highest pace both this year and since mid 2021. Sales slowed in the major markets of France (-2.3% m/m sa), Germany (-7.1%), Italy (-5.3%), Spain (-17.5%), and the UK (-1.3%), while Finland's sales were up 8.8% m/m (sa) for the third consecutive increase. Asia Pacific auto sales were up slightly at the regional level in April, increasing 0.9% m/m (sa) to

June 7, 2023

38.1 mn (saar) units. The higher vehicle sales in India (9.1% m/m sa) and Japan (6.1%), along with an increase in Australia (4.6%) compensated for the stall in China (-0.3%) and declines in both Indonesia (-21.6%) and South Korea (-6.9%). After a strong handoff from March, LATAM auto sales slowed in April (-9.2% m/m sa) to the pace of 4.5 mn (saar) units, slightly above the average sales rate of 4.4 mn (saar) in Q1. The decreased sales were varied across the board, down in Argentina (-2.7%), Brazil (-10.0%), Chile (-35.0%), Colombia (-7.5%), Mexico (-1.6%), and Peru (-9.6%). Our forecast for global auto sales remains unchanged with vehicle sales increasing 5.6% in 2023 and 5.2% in 2024 (chart 2).

Table 1—Global Auto Sales Outlook (mns units)

	2010-19	2019	2020	2021	2022	2023f	2024f	Apr-23, SA % m/m	Apr-23, NSA % y/y	2023 ytd, NSA % y/y
Total Sales	71.1	74.8	63.8	66.7	67.2	71.0	74.7	0.6	28.0	9.6
North America	18.7	20.2	17.0	17.6	16.4	18.6	20.0	6.4	9.5	8.8
Canada	1.82	1.92	1.54	1.66	1.52	1.70	1.83	-1.0	-1.0	3.8
United States	15.7	17.0	14.5	14.9	13.8	15.7	16.9	7.9	10.1	8.6
Mexico	1.22	1.32	0.95	1.01	1.09	1.16	1.23	-1.6	17.0	22.5
Western Europe	13.0	14.1	10.7	10.5	10.0	10.7	11.6	-6.4	16.8	17.0
Germany	3.2	3.6	2.9	2.6	2.7	2.8	3.0	-7.1	12.6	7.9
United Kingdom	2.3	2.3	1.6	1.6	1.6	1.7	1.9	-1.3	11.6	16.9
Eastern Europe	3.3	2.9	2.8	2.8	1.8	2.0	2.3	6.6	46.2	2.7
Russia	2.1	1.7	1.5	1.5	0.6	0.7	0.8	10.4	70.6	-37.8
Asia	31.9	33.8	30.6	32.7	35.9	36.5	37.4	0.9	49.2	8.5
China	19.7	21.4	20.1	21.5	23.6	23.7	24.5	-0.3	87.7	6.9
India	3.3	3.6	2.8	3.6	4.4	4.4	4.4	9.1	15.6	11.1
Japan	5.1	5.2	4.6	4.4	4.2	4.6	4.7	6.1	16.7	15.7
South America	4.3	3.8	2.8	3.1	3.2	3.3	3.4	-11.9	-2.9	4.5
Brazil	2.91	2.67	1.95	1.98	1.96	2.00	2.10	-10.0	10.8	14.9
Chile	0.34	0.37	0.26	0.42	0.43	0.45	0.47	-35.0	-48.4	-25.2
Colombia	0.26	0.26	0.19	0.24	0.25	0.27	0.29	-7.5	-33.0	-23.0
Peru	0.16	0.15	0.11	0.16	0.16	0.17	0.18	-9.6	3.5	9.5

Sources: Scotiabank Economics, Wards Automotive, Bloomberg.

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

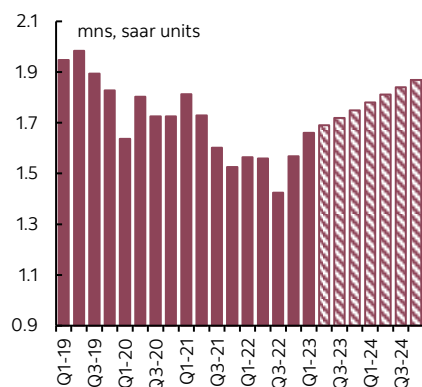
	2010-19	2019	2020	2021	2022	2023f	2024f	Mar-23, SA % m/m	Mar-23, NSA % y/y	2023 ytd nsa % y/y	ZEV* (Q4-22) % of new LV sales
Canada	1,817	1,920	1,543	1,663	1,523	1,703	1,829				9.6
Atlantic	134	131	109	119	104	112	120	-2.3	2.9	2.6	--
Central	1,179	1,304	1,030	1,070	1,019	1,088	1,171	-3.7	3.6	5.5	10.3
Quebec	441	455	378	404	374	397	424	-5.8	0.2	-0.5	13.9
Ontario	738	848	653	665	645	691	747	-2.5	5.5	9.2	8.1
West	548	545	453	487	453	482	516	-3.8	0.7	1.8	--
Manitoba	56	58	47	49	45	48	51	-10.5	-8.7	7.4	3.0
Saskatchewan	54	49	42	43	42	45	48	-7.1	-7.5	-1.3	1.8
Alberta	239	223	184	196	184	196	210	-1.9	2.6	2.9	--
British Columbia**	199	216	179	199	183	193	207	-3.4	3.1	0.1	18.6

*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.

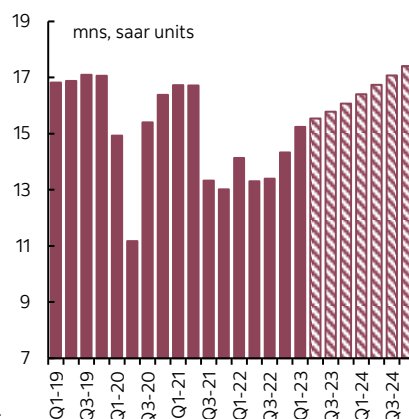
Quarterly Outlook for North American Auto Sector

Canadian Light Vehicle Sales



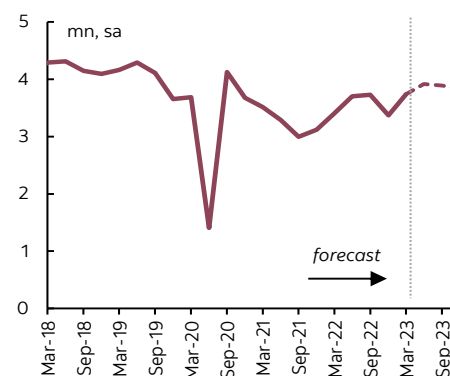
Sources: Scotiabank Economics, Wards Automotive Group.

US Light Vehicle Sales



Sources: Scotiabank Economics, Wards Automotive Group.

Wards Automotive North American Auto Production Outlook



Sources: Scotiabank Economics, Wards Automotive.

Table 3—North American Annual Production Outlook

	2010-19	2019	2020	2021	2022	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.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.