

Canadian Auto Sales Forecast Increased to 2 Million Units in 2017

- Global car sales declined below a year earlier in April, but signs point to a rebound in May.
- We have raised our 2017 Canadian sales forecast to 2 mn units, up from 1.94 mn owing to a stronger-than-expected recovery on the Prairies.
- Improved oil patch outlook powers new vehicle purchases by Canadian businesses to decade high.

RECENT GLOBAL NEW VEHICLE SALES DEVELOPMENTS

Global car sales fell 2.5% below a year earlier in April, the first monthly year-over-year decline in nearly two years. Nevertheless, year-to-date volumes remain 3% above last year's record-setting pace. The April fall-off was broad-based and largely reflects temporary distortions, such as a late Easter which undercut sales in both North America and Western Europe. Despite the decline in new car sales, most economic indicators continued to strengthen in April, pointing to ongoing improvement in global economic activity and rising new vehicle demand. For example, merchandise exports from Asia to the world posted a double-digit year-over-year increase for the third consecutive month, the best performance since late 2011. Leading economic indicators for the United States and Western Europe also continue to accelerate, and business investment—the weak link in global economic activity in recent years—is gaining momentum across both developed and emerging markets (see chart 1). As a result, US capital goods exports climbed above a year earlier in April, rebounding from a 4% slide during all of 2016.

More recent sales data for May point to a reversal of the April slowdown across many countries. For example, purchases surged to record highs in both Canada and Mexico last month. Meanwhile, sales to households improved in the United States and accelerated sharply in the largest markets of Western Europe.

Car and light truck sales surged 11% y/y in Canada last month—the largest gain since late 2014. This robust performance lifted the monthly sales pace back above an annualized 2.0 mn units and prompted us to increase our full-year 2017 forecast. The forecast upgrade reflects a broad-based strengthening in economic activity across Canada this year, especially in Alberta. Our full-year 2017 real GDP forecast for Canada has been upgraded to 2.6%, more than a percentage point higher than the 1.5% growth reported last year.

New vehicle purchases by **US** households bounced back in May, lifting industry transactions prices 2% above a year earlier. However, weak fleet activity kept the overall US sales pace below an annualized 17 mn units for the third consecutive month. In contrast, vehicle sales in **Mexico** have fully recovered from the April decline, setting a record for the month of May. The improvement lifted year-to-date sales 5%, and reflects solid job creation—currently advancing in excess of 4% y/y, the best performance among OECD countries—and strengthening consumer confidence.

FOCUS ON CANADA: PRAIRIES DRIVE CANADIAN SALES TO RECORD HIGH

Canadian auto sales have exceeded expectations this year, as strengthening economic growth has led to a sharp rebound in purchases in the resource-rich Prairie Provinces, including a recovery in fleet volumes.

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Chart 1

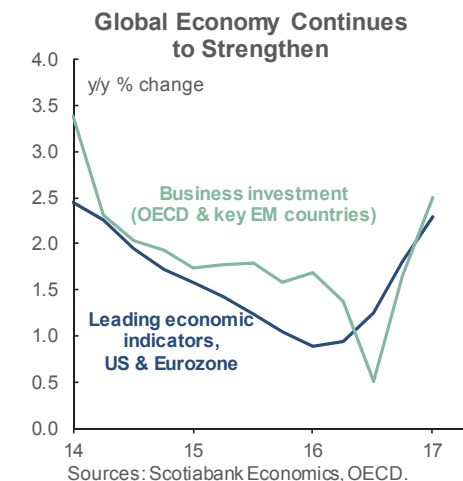
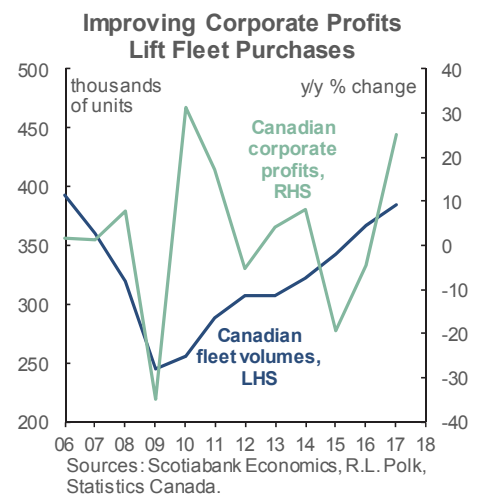


Chart 2



The car and light truck sales acceleration on the Prairies this year includes an 18% y/y surge in May—the largest increase in more than four years. This represents a significant reversal from a 15% slump during the past two years, and is a much stronger rebound than we were originally expecting. In fact, **the Prairies are the only region to post double-digit sales gains so far this year, enabling the region to account for 37% of the overall increase in Canadian new vehicle sales through May, more than double its historical share of the Canadian new vehicle market.**

An improving oil patch outlook has more than doubled the number of active drilling rigs in Alberta this year, enabling Calgary to move to the forefront of growth among Canadian cities. Job gains in Calgary accelerated to 3.5% y/y in May, the fastest job creation in two years and double the growth rate across all of Canada. This represents an impressive reversal for a city that was still shedding jobs last October. In fact, Calgary has accounted for more than 70% of all job growth in Alberta this year, double its share of both the provincial and national labour markets.

The rebound in the Calgary economy has lifted auto sales in the city 12% y/y through April and accounted for 40% of all car and light truck sales in Alberta this year, up from a low of only 32% during the final months of 2015. The city's economic prospects are also being supported by a 37% y/y surge in housing starts through May, as well as a double-digit gain in resale housing activity. In fact, Calgary and Ottawa are the only major centres among Canada's largest cities to report double-digit sales gains across the MLS system during 2017.

A double-digit increase in capital spending by the oil patch in 2017 has also led to additional business purchases of new cars and light trucks. Fleet volumes at Calgary dealerships have surged 20% y/y through April, and accounted for nearly 70% of all new fleet activity across Alberta. **In fact, the surge in Calgary's fleet volumes represents half of the nationwide increase through the first four months of the year. Business purchases of car and light trucks are also rebounding in the rest of the province, helping Alberta to account for nearly 75% of the increase in business volumes across Canada. This represents nearly five times the province's share of overall Canadian fleet purchases in 2016.**

While Alberta is the key driver behind improved fleet volumes in Canada in 2017, sales to businesses have also picked up in several other provinces alongside a strengthening corporate profit outlook. In fact, corporate earnings surged nearly 30% y/y across Canada in the opening months of 2017, the best performance since the first half of 2010 when the global economy was in its first year of recovery. Historically, rising profitability has always been associated with rising fleet purchases (see chart 2). We expect the improving corporate profit outlook to lift Canadian fleet volumes to a decade-high of 385,000 units this year, thereby supporting our raised new vehicle sales projection for 2017.

INTERNATIONAL CAR SALES OUTLOOK

(millions of units)

	<u>1990–99</u>	<u>2000–13</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017f</u>
TOTAL SALES	39.20	53.74	71.18	72.61	77.29	78.59
North America*	16.36	17.74	19.42	20.64	21.05	21.06
Canada	1.27	1.61	1.85	1.90	1.95	2.00
United States	14.55	15.15	16.44	17.39	17.50	17.40
Mexico	0.54	0.98	1.13	1.35	1.60	1.66
Western Europe	13.11	13.79	12.11	13.20	13.97	14.39
Germany	3.57	3.25	3.04	3.21	3.35	3.47
Eastern Europe	1.18	3.03	3.81	3.15	3.14	3.30
Russia	0.78	1.83	2.49	1.60	1.43	1.50
Asia	6.91	16.08	31.69	32.29	36.06	36.64
China**	0.43	6.52	18.37	20.01	23.57	23.34
India	0.31	1.18	1.87	2.06	2.09	2.23
South America	1.64	3.10	4.15	3.33	3.07	3.20
Brazil	0.94	1.90	2.50	1.82	1.39	1.39

*Includes light trucks. **Includes crossover utility vehicles from 2005. Sources: Ward's Automotive Reports, Bloomberg.

CANADA/US MOTOR VEHICLE SALES OUTLOOK

	<u>1991-05</u>	<u>2006-14</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	
	Average				Jan-Apr**	Annual f
(thousands of units, annualized)						
CANADA	1,398	1,643	1,898	1,949	2,055	2,000
Cars	797	783	714	662	665	650
Domestic	583	491	476	438	477	465
Imports	214	292	238	224	188	185
Light Trucks	601	860	1,184	1,287	1,390	1,350
(millions of units, annualized)						
UNITED STATES	15.5	14.1	17.4	17.5	17.0	17.4
Cars	8.3	6.9	7.5	6.9	6.2	6.3
Light Trucks	7.2	7.2	9.9	10.6	10.8	11.1
(millions of units, annualized)						
NORTH AMERICAN PRODUCTION*	15.58	14.25	17.95	18.17	17.79	18.00
CANADA	2.50	2.24	2.28	2.37	2.40	2.30
UNITED STATES	11.67	9.53	12.10	12.20	11.58	11.90
MEXICO	1.41	2.48	3.57	3.60	3.81	3.80

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

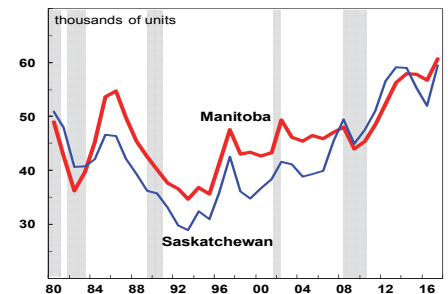
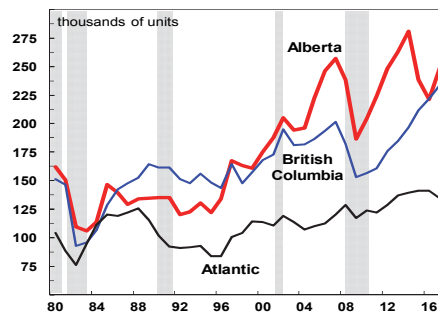
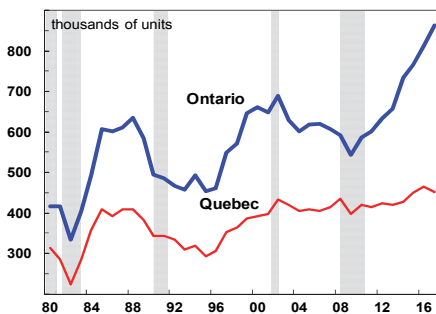
VEHICLE SALES OUTLOOK BY PROVINCE*

(thousands of units, annual rates)

	<u>1994-05</u>	<u>2006-14</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	
	Average				Jan-Apr**	Annual f
CANADA	1,446	1,643	1,898	1,949	2,055	2,000
ATLANTIC	102	123	140	140	139	135
CENTRAL	936	1,017	1,205	1,265	1,313	1,278
Quebec	366	411	444	458	451	456
Ontario	570	606	761	807	862	822
WEST	408	503	553	544	603	587
Manitoba	42	48	56	55	61	59
Saskatchewan	36	49	54	51	59	59
Alberta	166	231	236	220	249	245
British Columbia	164	175	207	218	234	224

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

VEHICLE SALES BY PROVINCE



Includes cars and trucks (light, medium and heavy). Shaded bars indicate U.S. recession periods. Source: Statistics Canada.

AUTO MARKET SHARE BY MANUFACTURER — CANADA*

(thousands of units, not seasonally adjusted)

	<u>2016</u>		<u>2017</u>		<u>2016</u>		<u>2017</u>	
	Jan to May		Jan to May		May		May	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	280.1	100.0	272.4	100.0	73.1	100.0	75.1	100.0
Big Three	58.0	20.7	57.9	21.3	15.1	20.7	16.9	22.5
General Motors	28.5	10.2	29.6	10.9	6.3	8.6	8.1	10.7
Ford	18.7	6.7	16.4	6.0	5.2	7.2	5.6	7.5
Chrysler	10.8	3.8	11.9	4.4	3.6	4.9	3.2	4.3
Japanese	123.9	44.2	123.1	45.2	32.9	45.0	32.4	43.2
Honda	39.0	13.9	40.2	14.8	11.2	15.3	11.2	14.9
Toyota	39.3	14.0	36.6	13.4	10.2	14.0	9.8	13.1
Nissan	21.2	7.6	20.8	7.6	5.4	7.4	5.1	6.8
Mazda	13.4	4.8	14.1	5.2	3.4	4.6	3.4	4.6
Mitsubishi	4.7	1.7	3.5	1.3	1.2	1.6	0.9	1.2
Subaru	6.3	2.3	7.9	2.9	1.5	2.1	2.0	2.6
Hyundai	34.2	12.2	29.9	11.0	9.4	12.9	9.2	12.3
Volkswagen	21.3	7.6	17.8	6.5	5.2	7.1	5.0	6.6
Kia	16.1	5.8	15.2	5.6	3.6	4.9	4.0	5.4
BMW	9.6	3.4	8.8	3.2	2.5	3.4	2.4	3.1
Mercedes-Benz	9.3	3.3	10.2	3.7	2.2	3.0	2.2	2.9
Other	7.7	2.8	9.5	3.5	2.2	3.0	3.0	4.0

*Source: Dealer sales from the Global Automakers of Canada.

TRUCK MARKET SHARE BY MANUFACTURER — CANADA*

(thousands of units, not seasonally adjusted)

	<u>2016</u>		<u>2017</u>		<u>2016</u>		<u>2017</u>	
	Jan to May		Jan to May		May		May	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	530.8	100.0	574.7	100.0	124.8	100.0	144.7	100.0
Big Three	292.6	55.1	317.7	55.3	68.9	55.2	82.0	56.7
General Motors	75.7	14.3	93.8	16.3	16.6	13.3	23.1	16.0
Ford	102.5	19.3	111.2	19.4	24.2	19.4	28.9	20.0
Chrysler	114.4	21.5	112.7	19.6	28.1	22.5	30.0	20.7
Other Domestic	16.2	3.0	17.6	3.1	3.7	3.0	3.8	2.6
Japanese	146.9	27.7	161.4	28.1	33.7	27.0	40.0	27.6
Honda	33.7	6.3	40.0	7.0	7.6	6.1	9.8	6.8
Toyota	52.1	9.8	54.2	9.4	11.9	9.6	14.1	9.7
Nissan	34.1	6.4	38.2	6.6	7.8	6.2	8.8	6.1
Mazda	14.1	2.7	15.4	2.7	3.3	2.7	3.8	2.6
Mitsubishi	5.0	0.9	5.7	1.0	1.0	0.8	1.4	1.0
Subaru	12.8	2.4	13.5	2.3	3.1	2.5	3.4	2.4
Hyundai	23.2	4.4	24.2	4.2	5.6	4.5	6.1	4.2
Kia	12.7	2.4	13.3	2.3	3.5	2.8	3.5	2.5
Other Imports	39.2	7.4	40.5	7.0	9.4	7.5	9.3	6.4
LIGHT TRUCKS	518.0	97.6	562.5	97.9	121.9	97.6	141.8	98.0

*Source: Dealer sales from the Global Automakers of Canada.

AUTO SALES BY PROVINCE

(thousands of units, not seasonally adjusted)

	<u>2016</u> Jan to Apr	<u>2017</u> Jan to Apr	<u>2016</u> Apr	<u>2017</u> Apr
CANADA	206.9	197.3	72.6	65.9
ATLANTIC	15.3	13.1	5.9	5.3
Newfoundland	2.9	2.8	1.3	1.3
Nova Scotia	6.7	5.6	2.5	2.3
New Brunswick	4.8	3.9	1.8	1.4
Prince Edward Island	0.9	0.8	0.3	0.3
CENTRAL	145.1	138.9	52.1	46.2
Quebec	62.9	56.3	23.1	19.4
Ontario	82.2	82.6	29.0	26.8
WEST	46.5	45.3	14.6	14.4
Manitoba	4.4	4.3	1.5	1.5
Saskatchewan	2.9	2.8	1.0	0.9
Alberta	15.3	15.4	4.6	5.0
British Columbia	23.9	22.8	7.5	7.0

Source: Statistics Canada.

TRUCK SALES BY PROVINCE*

(thousands of units, not seasonally adjusted)

	<u>2016</u> Jan to Apr	<u>2017</u> Jan to Apr	<u>2016</u> Apr	<u>2017</u> Apr
CANADA	407.5	429.2	131.0	134.2
ATLANTIC	28.6	28.4	10.0	9.2
Newfoundland	7.2	7.0	2.6	2.3
Nova Scotia	10.3	11.0	3.6	3.5
New Brunswick	9.5	8.9	3.2	2.9
Prince Edward Island	1.6	1.5	0.6	0.5
CENTRAL	251.9	259.1	83.9	83.4
Quebec	83.6	82.9	28.1	27.7
Ontario	168.3	176.2	55.8	55.7
WEST	127.0	141.7	37.1	41.6
Manitoba	13.0	14.4	3.8	4.2
Saskatchewan	12.8	15.0	3.7	4.0
Alberta	55.0	62.2	15.9	18.5
British Columbia	46.2	50.1	13.7	14.9

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

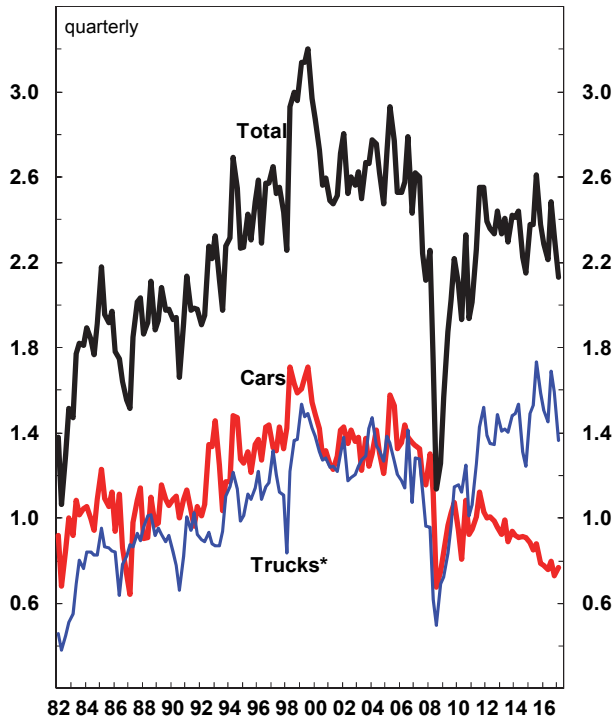
CANADIAN MOTOR VEHICLE PRODUCTION

(thousands of units, not seasonally adjusted)

	<u>2016</u> Jan to May	<u>2017</u> Jan to May	<u>2016</u> May	<u>2017</u> May
TOTAL	1,025.8	991.5	196.2	210.8
CAR	353.1	322.3	67.2	66.9
Chrysler	103.7	87.2	20.3	18.3
GM	57.6	42.1	8.1	9.9
Honda	88.8	89.2	18.4	17.1
Toyota	103.0	103.8	20.4	21.6
TRUCKS*	672.7	669.2	129.0	143.9
Chrysler	129.8	128.7	21.7	28.6
Ford	118.9	112.9	24.6	26.2
GM	170.3	167.4	32.3	36.7
Honda	92.5	96.5	18.3	18.4
Toyota	155.0	157.1	30.8	32.7
Others	6.2	6.6	1.3	1.3

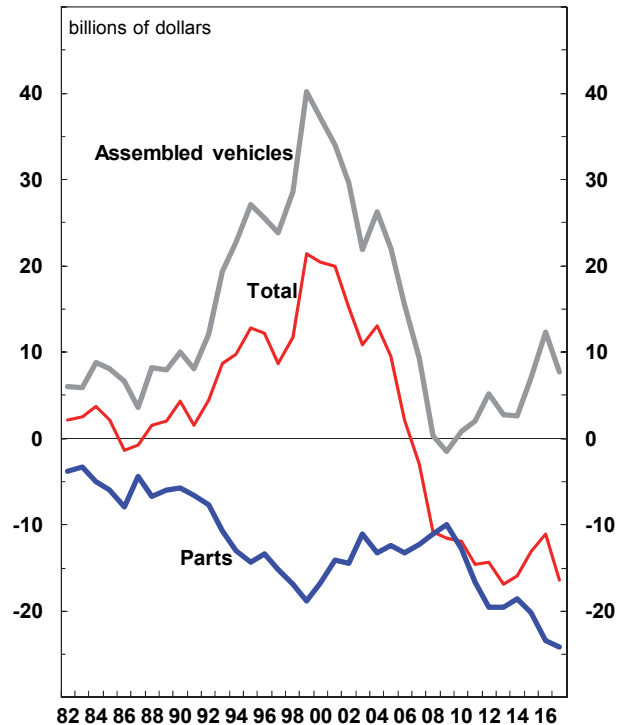
*Light, medium and heavy trucks. Source: Ward's Automotive Reports.

Canada — Motor Vehicle Production



Millions of units, seasonally adjusted annual rates.
*Light, medium and heavy trucks.
Source: Ward's Automotive Reports.

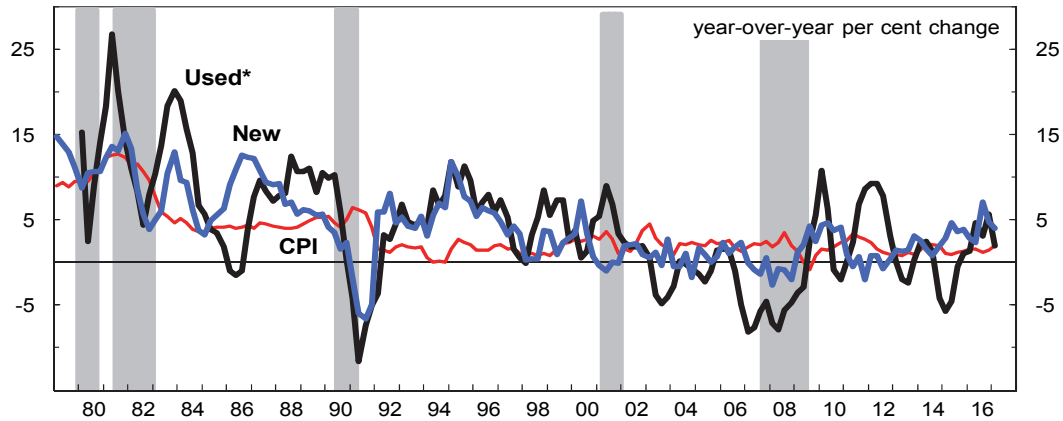
Canada — World Auto Trade Balances



2017 data are January-April annualized.
Source: Statistics Canada.

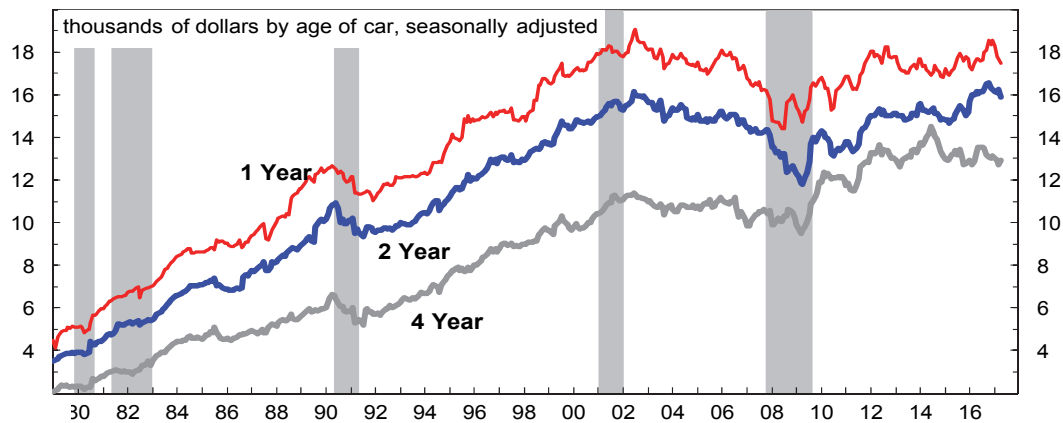
New & Used Car Prices

Scotiabank Car Price Indicators — Canada



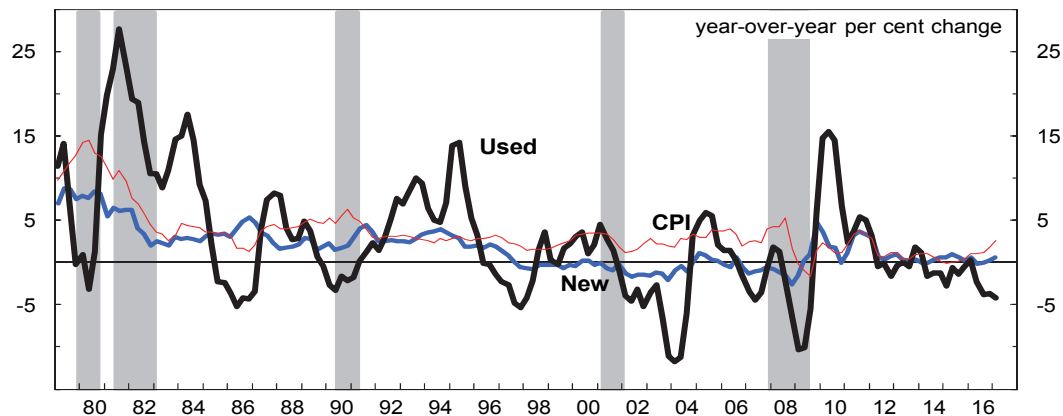
*Scotiabank estimate from Canadian Black Book data.
Sources: Canadian Black Book, Statistics Canada.

Scotiabank Car Price Indicators — Canada



Scotiabank estimate from Canadian Black Book data.

Scotiabank Car Price Indicators — United States



Consumer price indices for new and used cars.
Shaded areas indicate recession periods. Source: U.S Bureau of Labor Statistics.

CANADIAN CORPORATE FINANCIAL PERFORMANCE
MOTOR VEHICLE DEALERS AND REPAIR SHOPS

		Net Income After Tax (\$ mil)	Pre-Tax Profit Margin (%)	Inventory Turnover Ratio	Interest Coverage Ratio	Debt/ Equity Ratio	Return on Shareholders Equity (%)
Annual	2004	571	0.69	4.98	2.25	3.17	10.49
	2005	799	0.93	5.35	2.55	2.74	12.90
	2006	942	1.20	5.16	2.64	2.75	14.37
	2007	1089	1.41	5.05	3.36	2.56	15.13
	2008	1142	1.43	5.04	3.51	2.44	14.66
	2009	1392	1.84	5.34	4.85	2.07	16.99
	2010	1649	2.06	4.91	5.34	2.11	18.09
	2011	1664	1.99	5.17	5.19	2.02	17.44
	2012	1748	1.97	4.86	5.32	2.03	16.71
	2013	2215	2.32	5.08	6.64	2.02	20.08
	2014	2714	2.60	5.09	7.41	1.90	21.03
	2015	2929	2.63	5.16	7.54	1.93	21.31
	2016	2963	2.40	5.03	7.70	1.96	20.02
Quarterly at annual rates							
	2016Q1	2292	1.93	4.62	6.80	2.00	16.13
	Q2	3592	2.43	5.49	8.98	1.97	24.56
	Q3	3116	2.43	5.17	8.05	1.94	20.71
	Q4	2852	2.65	4.84	6.99	1.94	18.62
	2017Q1	2396	2.65	4.40	6.74	2.02	15.58
Average (89–16)		930	1.32	6.04	3.38	2.34	12.09
Low (89–16)		-68	0.10	4.38	1.10	3.57	-1.20

Definition of Ratios:

Pre-tax Profit Margin: pre-tax income/sales

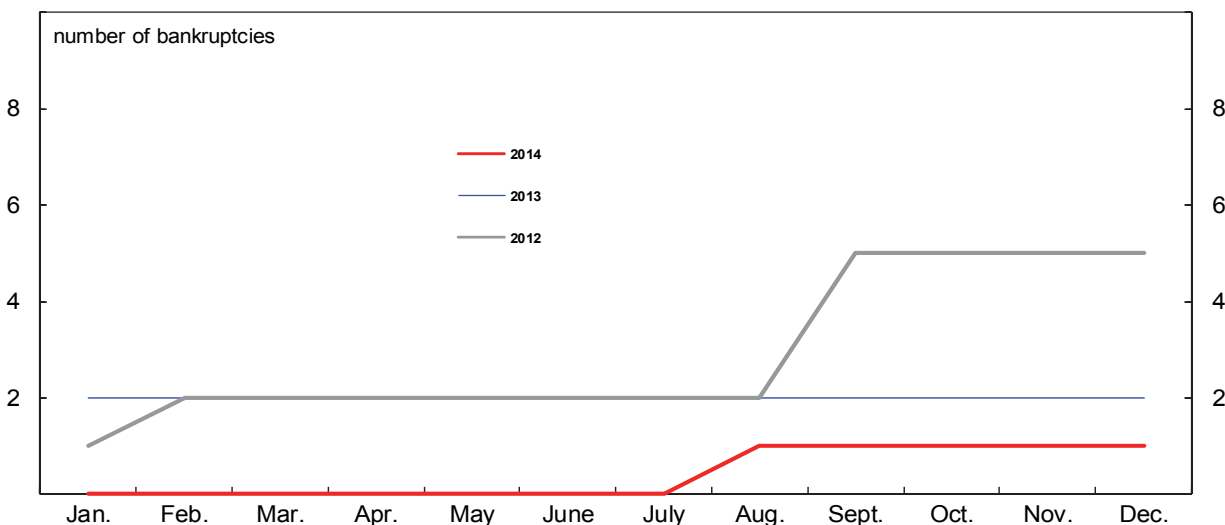
Inventory Turnover Ratio: sales/inventory

Source: Statistics Canada.

Interest Coverage Ratio: (pre-tax income and interest payments)/(interest payments)

Debt/Equity Ratio: (short-term and long-term debt)/total equity

Return of Shareholders' Equity: after-tax income/total equity

Retail Auto Dealer Bankruptcies


New car dealers only; cumulative total during the year.

Source: Office of the Superintendent of Bankruptcy.

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