February 23, 2018

Canadian Auto Sales Expected to Total 2 Million Units in 2018

BEST BACK-TO-BACK ANNUAL TOTAL ON RECORD, EVEN AS SALES IN ONTARIO DECLINE 3%

Canadian passenger vehicle sales exceeded 2 mn units for the first time ever last year, climbing to an annual record of 2.04 mn units. Purchases accelerated further last month, surpassing an annualized 2.1 mn units and setting an all-time high for January. However, an expected moderation in economic growth driven by slower job creation and weaker gains in household wealth, are likely to reduce full-year 2018 sales to 2 mn units, putting an end to five consecutive annual records.

Accelerating price increases for new cars and light trucks have reduced new vehicle affordability to the lowest level of the past decade and will likely also weigh on purchases, especially as real income gains soften from last year's robust performance (chart 1).

ONTARIO TO LEAD SALES LOWER

Ontario is expected to account for most of the decline in purchases this year, undercut by a slowing housing market and a record low saving rate. Car and light truck sales in the province climbed to a record 847,000 units in 2017, but are expected to decline to 821,000 units this year, pressured by nearly an 80% drop in household savings over the past year. The savings rate in Ontario has plunged to only 0.6%, nearly 80% lower than the national average of 2.6%.

Sharp gains in home prices across Southern Ontario helped boost auto sales in recent years, as many Ontario households tapped into home equity loans, to boost their purchasing power. Data from the five largest Canadian banks indicate that **Ontario households accounted for nearly 80% of the increase in home equity loans in Canada over the past five years.** In fact, **home equity loan growth accelerated in Ontario to 11% y/y in late 2017 nearly five times the pace of the previous three years, and roughly quadruple the advance in the rest of Canada**, as home price appreciation accelerated in the Golden Horseshoe through last year (chart 2). Slower employment growth will also contribute to an expected 26,000-unit decline in auto sales across the province this year, accounting for two-thirds of the overall Canadian decline.

YOUNG VEHICLE FLEET IN QUEBEC

Sales in Quebec edged down 1% last year to 453,000 units, despite the fastest job creation since 2010. We expect purchases to ease to 445,000 in 2018, as employment growth moderates and demographic headwinds continue. Despite a pickup in international immigration, retaining these new arrivals has been challenging. **Population growth in Quebec remains below the national average, with the number of potential vehicle buyers expected to be flat over the coming year, compared with a projected gain of 0.5% for the rest of Canada.** Quebec also has one of the youngest vehicle fleets in the country, due to heavy reliance on leasing. Leases account for nearly 40% of household volumes in Quebec, compared with only 23% in the rest of Canada. As a result, **more than 52% of all cars and trucks on the road in Quebec are less than eight years old, compared with less than 44% in the rest of Canada.**

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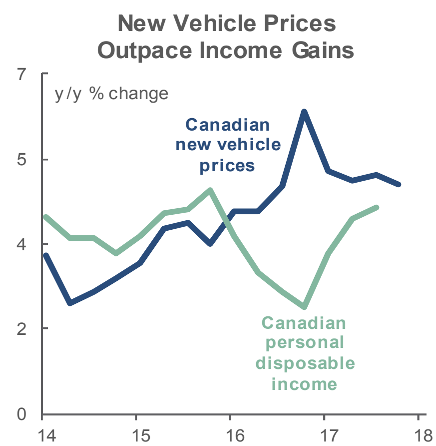
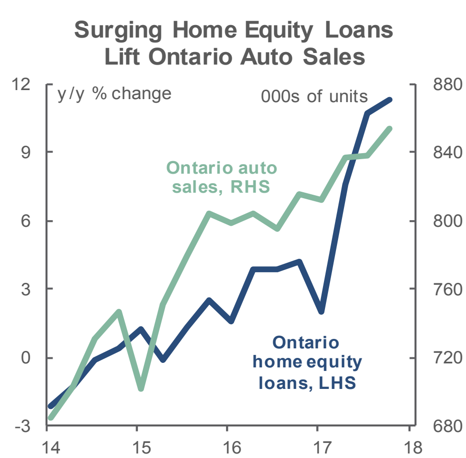
Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada, Company Reports.

SALES TO EDGE DOWN IN B.C.

Vehicle sales in B.C. jumped 7.5% last year to a record 235,000 units, buoyed by the strongest job growth since 1994. Payrolls are expected to continue to outperform in 2018, but service sector employment, which accounts for 80% of the provincial total, has started to soften and is likely to dampen new vehicle sales to 231,000 units in 2018. Meanwhile, **the percentage of B.C. households that purchased a new car or light truck last year was the highest in nearly three decades.** Slowing export growth will also hold back economic activity and auto sales in 2018, as exports account for nearly 40% of overall economic activity in the province compared with 31% for the rest of Canada. While B.C. is the gateway to Asia, more of the province's merchandise exports are destined to the rest of Canada than to Asia.

SALES GAINS TO MODERATE IN ALBERTA

Alberta led the sales gains last year, with full-year volumes jumping 12% to 245,000 units, the fourth-highest level on record and only 9% below the 2014 peak. The rebound was driven by a 66% surge in drilling activity from the depressed level of the previous two years. We expect a further small advance in purchases to 248,000 in 2018, as employment growth has picked up to 2% y/y and has fully recovered all the job losses from the recent oil shock. Business purchases of new vehicles are also on the upswing in Alberta, accounting for more than half of the increase in overall sales last year. However, while companies will continue to renew their vehicle fleets, drilling activity has begun to flatten out, and will not provide much upside support in 2018.

FLAT VOLUMES LIKELY IN MANITOBA & SASKATCHEWAN

Vehicle sales posted a double-digit increase across the Prairies in 2017, as volumes strengthened in all three provinces, alongside a rebound in commodity prices and the strongest labour market in Manitoba in fifteen years. We expect sales to be largely flat in Saskatchewan and Manitoba in 2018, as job growth slows. Construction and services were the main growth drivers in Manitoba last year, with residential construction jumping to a thirty-year high. However, building permits have started to soften and employment growth has lost some momentum.

NOVA SCOTIA LIFTS ATLANTIC CANADA

Record auto sales in Nova Scotia last year more than offset declining purchases in the rest of Atlantic Canada, lifting sales in the region to a record 143,000 units. Most gains were in Halifax, where shipbuilding lifted manufacturing employment 9% last year, the fastest job creation in six years. However, we expect sales to edge down to 138,000 in 2018.

INTERNATIONAL CAR SALES OUTLOOK

(millions of units)

	1990–99	2000–14	2015	2016	2017e	2018f
TOTAL SALES	**39.20**	**54.89**	**72.61**	**77.25**	**79.02**	**81.60**
North America*	**16.36**	**17.85**	**20.64**	**21.01**	**20.70**	**20.96**
Canada	1.27	1.62	1.90	1.95	2.04	2.00
United States	14.55	15.24	17.39	17.46	17.13	17.40
Mexico	0.54	0.99	1.35	1.60	1.53	1.56
Western Europe	**13.11**	**13.67**	**13.20**	**13.97**	**14.32**	**14.54**
Germany	3.57	3.23	3.21	3.35	3.44	3.49
Eastern Europe	**1.18**	**3.08**	**3.15**	**3.14**	**3.41**	**3.54**
Russia	0.78	1.87	1.60	1.43	1.60	1.68
Asia	**6.91**	**17.12**	**32.29**	**36.06**	**37.10**	**38.79**
China**	0.43	7.31	20.01	23.57	24.20	24.93
India	0.31	1.23	2.06	2.09	2.20	2.33
South America	**1.64**	**3.17**	**3.33**	**3.07**	**3.49**	**3.77**
Brazil	0.94	1.94	1.82	1.39	1.50	1.61

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

CANADA/US MOTOR VEHICLE SALES OUTLOOK

	1991–05 Average	2006–14	2015	2016	2017	2018f
			(thousands of units, annualized)			
CANADA	**1,398**	**1,643**	**1,898**	**1,949**	**2,041**	**2,000**
Cars	797	783	714	662	644	610
Domestic	583	491	476	439	438	415
Imports	214	292	238	223	206	195
Light Trucks	601	860	1,184	1,287	1,397	1,390
			(millions of units, annualized)			
UNITED STATES	**15.5**	**14.1**	**17.4**	**17.5**	**17.1**	**17.4**
Cars	8.3	6.9	7.5	6.9	6.1	6.0
Light Trucks	7.2	7.2	9.9	10.6	11.0	11.4
NORTH AMERICAN			(millions of units, annualized)			
PRODUCTION*	**15.58**	**14.26**	**17.95**	**18.15**	**17.48**	**17.76**
CANADA	2.50	2.24	2.28	2.37	2.19	2.10
UNITED STATES	11.67	9.54	12.10	12.18	11.23	11.45
MEXICO	1.41	2.48	3.57	3.60	4.06	4.21

*Includes light, medium and heavy trucks. Sources: Ward's Automotive Reports, Statistics Canada.

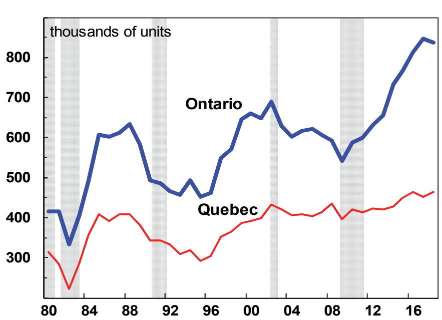
VEHICLE SALES OUTLOOK BY PROVINCE*

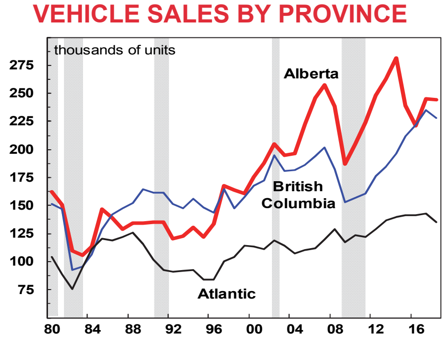
(thousands of units, annual rates)

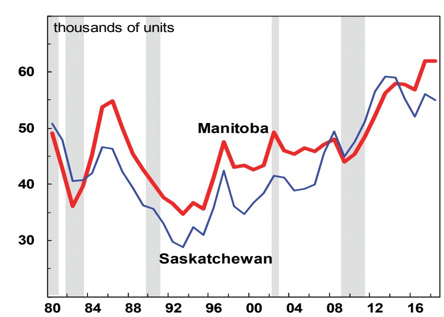
	1994–05 Average	2006–14	2015	2016	2017	2018f
CANADA	**1,446**	**1,643**	**1,898**	**1,949**	**2,041**	**2,000**
ATLANTIC	**102**	**123**	**140**	**140**	**143**	**138**
CENTRAL	**936**	**1,017**	**1,205**	**1,265**	**1,300**	**1,266**
Quebec	366	411	444	458	453	445
Ontario	570	606	761	807	847	821
WEST	**408**	**503**	**553**	**544**	**598**	**596**
Manitoba	42	48	56	55	62	61
Saskatchewan	36	49	54	51	56	56
Alberta	166	231	236	220	245	248
British Columbia	164	175	207	218	235	231

*Includes cars and light trucks. 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)

	2016 Jan to Dec		2017 Jan to Dec		2017 Jan		2018 Jan	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	**661.5**	**100.0**	**640.6**	**100.0**	**32.2**	**100.0**	**31.0**	**100.0**
Big Three	137.8	20.8	122.8	19.2	6.7	20.7	5.9	19.0
General Motors	70.3	10.6	67.0	10.5	3.1	9.6	3.9	12.5
Ford	47.0	7.1	37.6	5.9	1.9	5.8	1.6	5.2
Chrysler	20.5	3.1	18.2	2.8	1.7	5.3	0.4	1.3
Japanese	288.1	43.6	287.5	44.9	14.5	45.0	15.2	48.8
Honda	93.8	14.2	94.0	14.7	4.4	13.7	6.0	19.3
Toyota	89.1	13.5	88.0	13.7	4.1	12.9	3.9	12.5
Nissan	47.7	7.2	45.0	7.0	2.7	8.5	2.5	8.0
Mazda	32.3	4.9	33.8	5.3	1.8	5.5	1.7	5.3
Mitsubishi	9.8	1.5	8.3	1.3	0.5	1.5	0.3	1.1
Subaru	15.4	2.3	18.5	2.9	0.9	2.9	0.8	2.7
Hyundai	82.1	12.4	71.2	11.1	3.1	9.6	2.6	8.5
Volkswagen	47.4	7.2	49.1	7.7	2.3	7.3	2.5	8.0
Kia	40.0	6.0	40.4	6.3	1.8	5.6	1.5	4.9
BMW	23.9	3.6	22.6	3.5	1.1	3.3	1.0	3.3
Mercedes-Benz	23.1	3.5	23.1	3.6	1.6	4.9	1.3	4.3
Other	19.1	2.9	23.9	3.7	1.1	3.6	1.0	3.2

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

TRUCK MARKET SHARE BY MANUFACTURER — CANADA*

(thousands of units, not seasonally adjusted)

	2016 Jan to Dec		2017 Jan to Dec		2017 Jan		2018 Jan	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	**1,317.5**	**100.0**	**1,429.6**	**100.0**	**80.4**	**100.0**	**88.0**	**100.0**
Big Three	713.6	54.2	755.6	52.9	43.6	54.2	45.0	51.3
General Motors	197.1	15.0	235.8	16.5	11.5	14.3	12.9	14.7
Ford	257.7	19.6	271.0	19.0	15.4	19.1	14.8	16.9
Chrysler	258.8	19.6	248.8	17.4	16.7	20.8	17.3	19.7
Other Domestic	38.8	2.9	44.9	3.2	2.5	3.1	2.7	3.1
Japanese	379.9	28.8	417.9	29.2	23.5	29.2	27.2	30.9
Honda	92.9	7.0	103.3	7.2	5.8	7.2	7.1	8.1
Toyota	128.7	9.8	136.6	9.6	8.0	10.0	8.6	9.8
Nissan	86.5	6.6	101.6	7.1	5.6	6.9	6.4	7.2
Mazda	36.9	2.8	40.3	2.8	2.3	2.8	2.8	3.1
Mitsubishi	12.5	1.0	14.4	1.0	0.7	0.9	0.9	1.0
Subaru	34.8	2.6	36.1	2.5	1.9	2.3	2.4	2.7
Hyundai	56.1	4.3	58.9	4.1	2.8	3.5	2.6	2.9
Kia	31.7	2.4	36.2	2.5	1.6	2.0	1.8	2.0
Other Imports	97.4	7.4	116.1	8.1	6.4	8.0	8.7	9.8
LIGHT TRUCKS	1,287.4	97.7	1,397.0	97.7	78.6	97.8	86.1	97.8

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

AUTO SALES BY PROVINCE

(thousands of units, not seasonally adjusted)

	2016 Jan to Dec	2017 Jan to Dec	2016 Dec	2017 Dec
CANADA	**661.1**	**646.9**	**37.2**	**34.1**
ATLANTIC	**47.1**	**45.6**	**2.2**	**2.0**
Newfoundland	9.5	8.8	0.4	0.3
Nova Scotia	20.2	20.8	1.0	1.0
New Brunswick	14.3	13.2	0.7	0.6
Prince Edward Island	3.1	2.8	0.1	0.1
CENTRAL	**467.6**	**461.3**	**25.3**	**24.0**
Quebec	198.5	187.7	9.1	8.6
Ontario	269.1	273.6	16.2	15.4
WEST	**146.4**	**140.0**	**9.7**	**8.1**
Manitoba	14.4	13.6	0.8	0.7
Saskatchewan	9.3	8.7	0.6	0.5
Alberta	47.7	46.6	3.0	2.5
British Columbia	75.0	71.1	5.3	4.4

Source: Statistics Canada.

TRUCK SALES BY PROVINCE*

(thousands of units, not seasonally adjusted)

	2016 Jan to Dec	2017 Jan to Dec	2016 Dec	2017 Dec
CANADA	**1,317.5**	**1,417.4**	**89.9**	**92.8**
ATLANTIC	**94.4**	**98.4**	**5.8**	**5.4**
Newfoundland	24.2	24.4	1.4	1.1
Nova Scotia	34.2	38.2	2.3	2.1
New Brunswick	30.3	30.1	1.7	1.9
Prince Edward Island	5.7	5.7	0.4	0.3
CENTRAL	**814.5**	**853.6**	**53.2**	**54.8**
Quebec	261.8	270.0	16.3	15.9
Ontario	552.7	583.6	36.9	38.9
WEST	**408.6**	**465.4**	**30.9**	**32.6**
Manitoba	43.1	49.7	3.2	3.7
Saskatchewan	42.8	47.5	3.0	3.2
Alberta	175.9	202.2	13.4	13.9
British Columbia	146.8	166.0	11.3	11.8

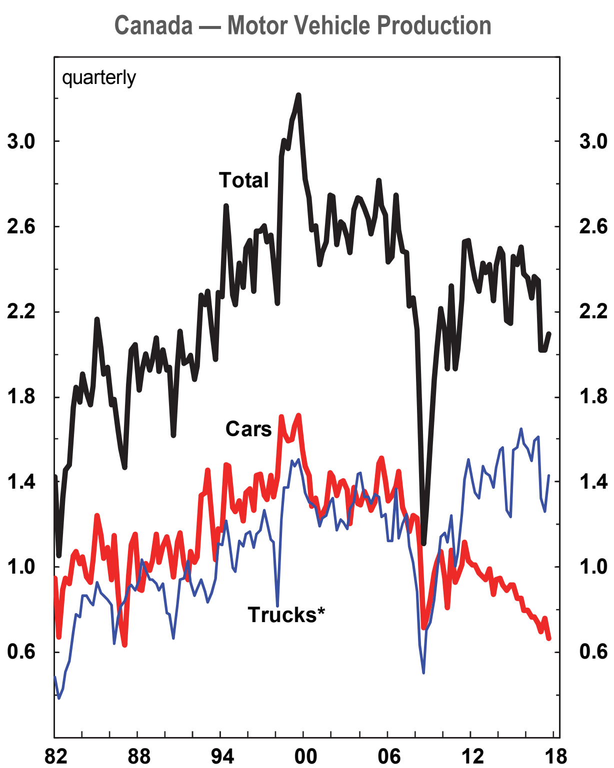
*Light, medium and heavy trucks. Source: Statistics Canada.

CANADIAN MOTOR VEHICLE PRODUCTION

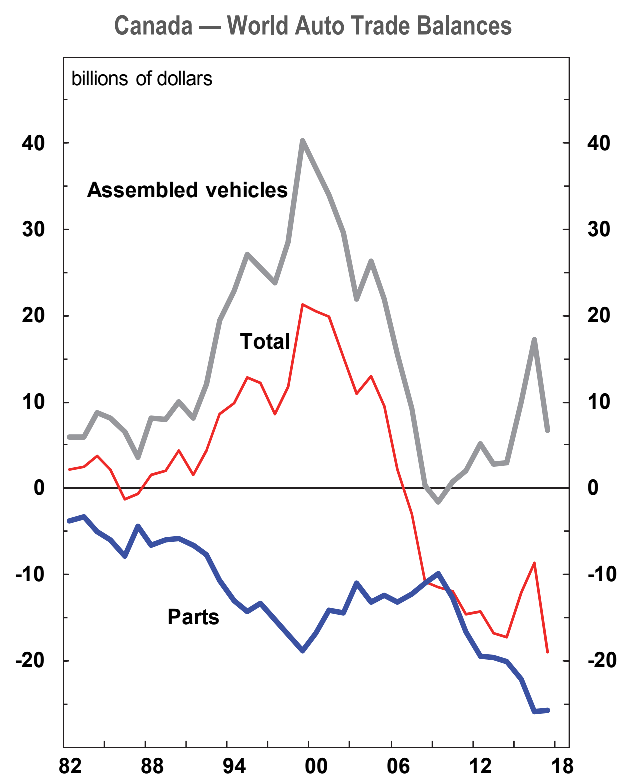
(thousands of units, not seasonally adjusted)

	2016 Jan to Dec	2017 Jan to Dec	2017 Jan	2018 Jan
TOTAL	**2,370.7**	**2,199.8**	**192.5**	**173.7**
CAR	**803.2**	**749.4**	**62.1**	**55.8**
Chrysler	237.5	231.7	15.6	18.7
GM	122.4	98.1	5.8	2.6
Honda	205.8	209.5	19.2	16.4
Toyota	237.5	210.1	21.5	18.1
TRUCKS*	**1,567.5**	**1,450.4**	**130.4**	**117.9**
Chrysler	309.3	296.0	22.0	24.3
Ford	271.5	254.0	22.0	24.3
GM	402.0	298.9	33.6	20.5
Honda	205.4	219.9	19.6	18.2
Toyota	364.2	361.5	32.3	28.4
Others	15.1	20.1	0.9	2.2

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



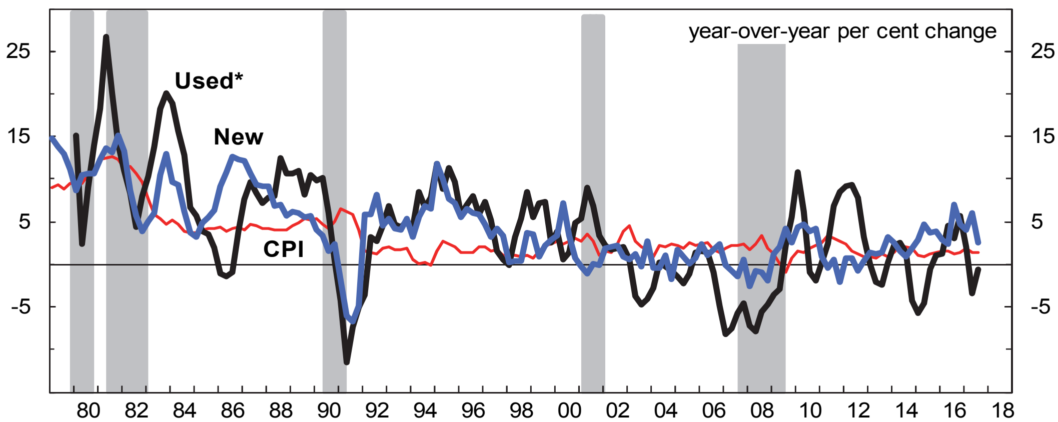
Millions of units, seasonally adjusted annual rates.
*Light, medium and heavy trucks.
Source: Ward's Automotive Reports.



Source: Statistics Canada.

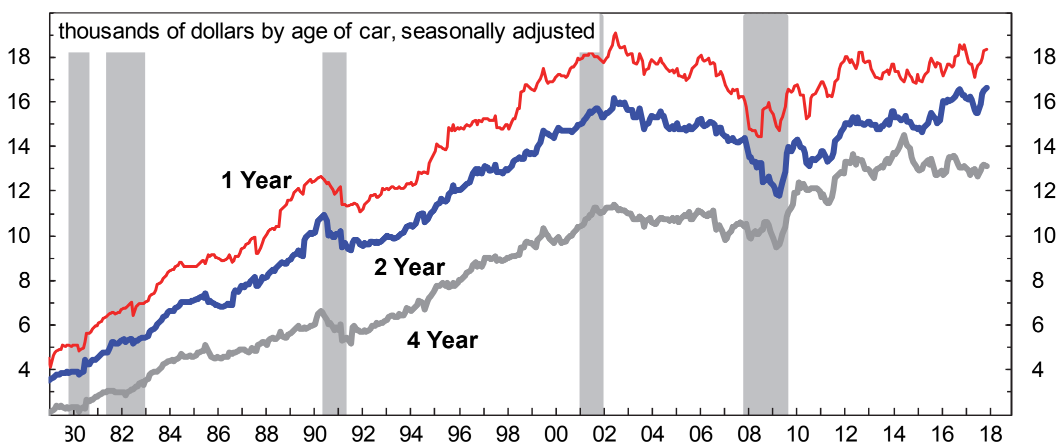
New & Used Car Prices

Scotiabank Car Price Indicators — Canada



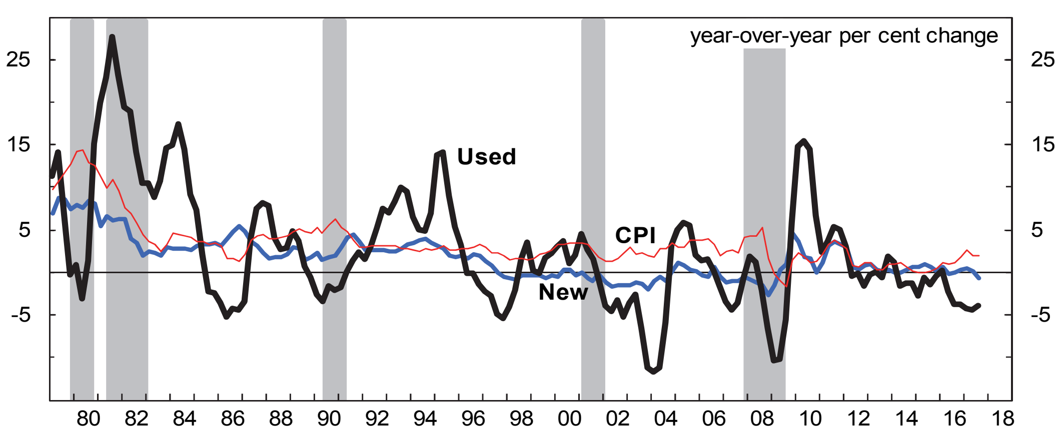
*Scotiabank estimate from Canadian Black Book data.
Sources: Canadian Black Book, Statistics Canada.

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.

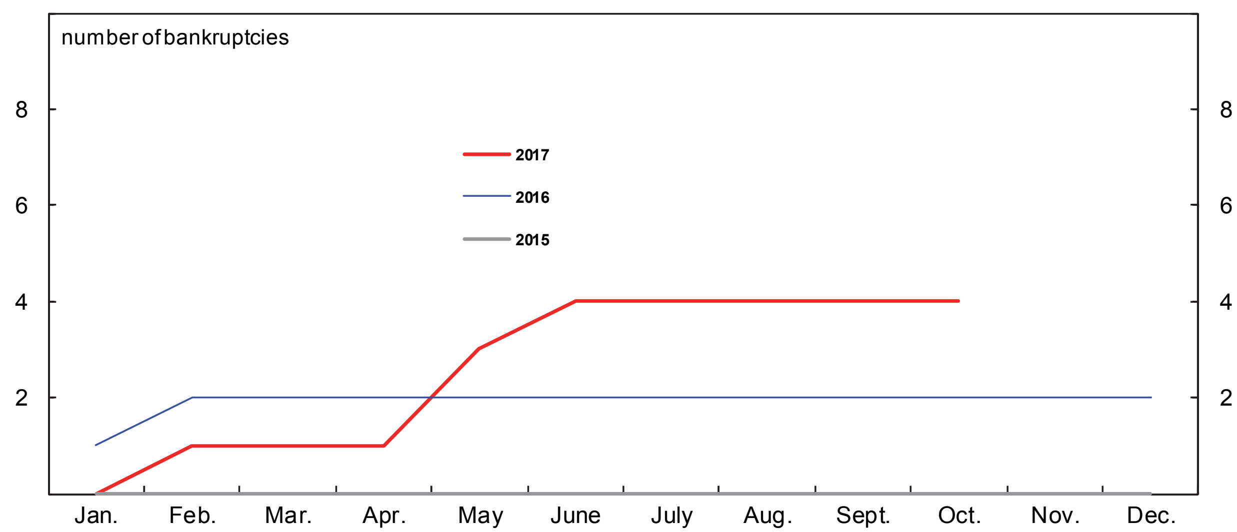
CANADIAN CORPORATE FINANCIAL PERFORMANCE

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	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
	2017	3404	2.51	4.89	7.68	2.04	21.35
Quarterly at annual rates							
	2016Q4	2852	2.65	4.84	6.99	1.94	18.62
	2017Q1	2196	2.65	4.31	6.20	2.14	14.63
	Q2	3904	2.43	5.32	8.99	2.11	25.44
	Q3	3904	2.43	5.12	8.15	2.00	23.84
	Q4	3612	2.65	4.81	7.24	1.94	21.18
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
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
Source: Statistics Canada.

Retail Auto Dealer Bankruptcies



New car dealers only; cumulative total during the year.
Source: Office of the Superintendent of Bankruptcy.