

## Ninth Consecutive Global Sales Record Expected in 2018

- Stronger economic growth and replacement demand are expected to drive sales higher in North America and Western Europe.
- Developing markets account for roughly 80% of global sales growth.

### ANOTHER YEAR, ANOTHER RECORD

Car sales increased 2.5% last year, as stronger-than-expected global economic activity lifted purchases to an eighth consecutive annual record, the longest upturn of recent decades. **A further acceleration in economic growth across all regions and healthy financial conditions are expected to boost sales 3% in 2018, extending the sales cycle further. Robust sales gains over the past decade have lifted per capita global new vehicle penetration to the fastest pace since the 1950s.** Record volumes are occurring at a time when the industry is undergoing significant technological disruption, which is leading many to suggest the internal combustion engine is about to be replaced as the industry benchmark. However, **traditional-engine models still account for 99% of overall global sales, and are expected to continue to garner more than 90% of the global market in a decade.**

### MATURE MARKETS BUOYED BY REPLACEMENT DEMAND

The mature G7 nations represent nearly half of global auto purchases, but with their sales projected to advance only 1.5% in 2018, these markets are likely to constitute roughly 20% of the increase in global volumes this year (chart 1).

We expect sales in the key US market to climb to 17.4 mn units this year, bolstered by strengthening economic growth, accelerating income gains and the best vehicle affordability of the past decade. Our view differs from the consensus, which believes that US passenger vehicle sales peaked in 2016 and is set to decline to less than 17 mn units this year. However, this perspective neglects the fact that last year's decline in US sales were driven by a fall-off in business purchases, as daily rental companies bought fewer vehicles due to excessive inventories and falling demand, a development unlikely to be repeated in 2018. Meanwhile, Americans continue to drive their vehicles more than ever, at a time when the age of the vehicle fleet is at record highs. **Roughly 40% of the US fleet is at least 13 years old.** This means that there are more than 100 mn cars and light trucks on the road in the US that will have to be scrapped over the next several years.

Canadian purchases climbed to a record 2.04 mn units last year alongside stronger-than-expected economic growth and job creation. In fact, employment growth more than doubled in Canada last year to nearly 2% y/y, the best performance in ten years. However, **some moderation in employment and income growth combined with deteriorating affordability are likely to reduce Canadian car and light truck purchases to 2 mn units in 2018, the second-highest level on record.**

Sales in Western Europe are projected to increase to 14.5 mn units in 2018, bolstered by the strongest economic growth of the past decade. Employment, household income and wealth are all accelerating, while car sales

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Chart 1

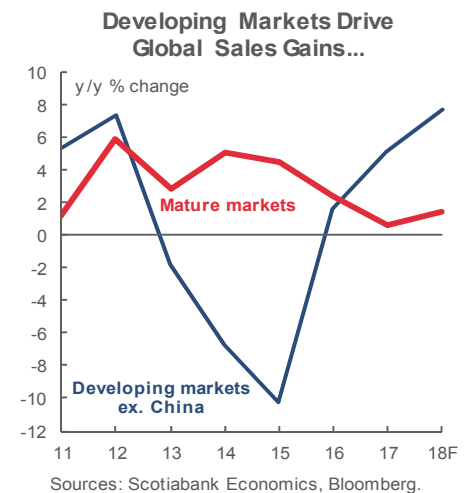
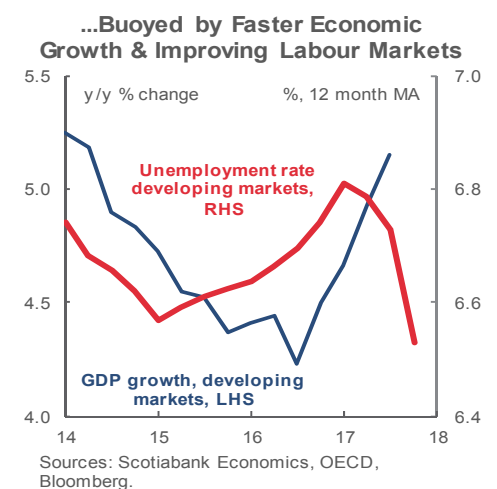


Chart 2



still remain 3% below the previous annual peak. Meanwhile, the average age of the vehicle fleet has jumped to nearly 11 years across Western Europe, up from less than 8.5 years a decade ago. We expect car sales in the region to continue to move higher, even as purchases decline for a second consecutive year in the UK. Sales gains are expected to be even stronger in Eastern Europe, as rising exports continue to buoy labour markets and the economic recovery gains momentum in Russia.

### DEVELOPING MARKETS DRIVE SALES GAINS

**Developing markets accounted for more than 85% of the increase in global sales last year and will continue to lead growth going forward.** China remained a key driver of global sales gains, but its share of the advance moderated to less than 40% last year, from roughly 60% since the beginning of the current global economic expansion through 2016. China's share of global sales gains will likely decline to less than 30% in 2018, as other developing markets shift to the forefront of growth and account for more than half of the increase in global sales.

**Developing markets in Asia (ex-China) are projected to lead the gain this year, with volumes likely to jump 10% y/y, the best performance since 2010.** Several Asian countries, including Thailand and the Philippines reported double-digit sales gains last year and are expected to remain on this pace in 2018. The advance is expected to broaden across Asia, as stronger economic growth and increased export momentum boost labour markets and incomes. Asia is the major supplier of electronics and machinery to the world, accounting for more than 70% of global semiconductor shipments and more than 40% of machinery exports. Both industries are experiencing sharp accelerations in new orders, which will buoy production and employment going forward. Unemployment in Asia and other emerging nations is already at multi-decade lows and will continue to move lower (chart 2).

**Car sales in South America jumped 14% last year, reversing three consecutive annual declines. Strengthening economic activity and rising commodity prices will likely keep the region among the growth leaders in 2018.** In particular, the Brazilian economy is back in growth mode following its deepest recession on record, which included three consecutive annual contractions. Rising exports have led the improvement in the Brazilian economy, but employment and incomes are also on the upswing, supported by a sharp reduction in interest rates since late-2016. The Brazilian central bank has slashed short-term interest rates from a peak of 14.25% in late-2016 to only 7%, the lowest level in modern history, due to moderating inflation pressures.

Other Latin countries are also benefiting from higher commodity prices and improving labour markets. **South America is the continent most affected by commodity cycles, as commodities and resource-based manufacturing account for more than 60% of its exports, double the global average.** In particular, car sales in Chile jumped 18% last year as strengthening copper prices lifted consumer confidence and the labour market. Employment growth in Chile is currently the strongest since 2013 and will benefit from the development of new mining projects. Chile accounts for 25% of global copper production, and resources represent a similar share of its overall economy.

### INTERNATIONAL CAR SALES OUTLOOK

(millions of units)

	<u>1990–99</u>	<u>2000–14</u>	<u>2015</u>	<u>2016</u>	<u>2017e</u>	<u>2018f</u>
<b>TOTAL SALES</b>	<b>39.20</b>	<b>54.89</b>	<b>72.61</b>	<b>77.25</b>	<b>79.02</b>	<b>81.60</b>
<b>North America*</b>	<b>16.36</b>	<b>17.85</b>	<b>20.64</b>	<b>21.01</b>	<b>20.70</b>	<b>20.96</b>
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
<b>Western Europe</b>	<b>13.11</b>	<b>13.67</b>	<b>13.20</b>	<b>13.97</b>	<b>14.32</b>	<b>14.54</b>
Germany	3.57	3.23	3.21	3.35	3.44	3.49
<b>Eastern Europe</b>	<b>1.18</b>	<b>3.08</b>	<b>3.15</b>	<b>3.14</b>	<b>3.41</b>	<b>3.54</b>
Russia	0.78	1.87	1.60	1.43	1.60	1.68
<b>Asia</b>	<b>6.91</b>	<b>17.12</b>	<b>32.29</b>	<b>36.06</b>	<b>37.10</b>	<b>38.79</b>
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
<b>South America</b>	<b>1.64</b>	<b>3.17</b>	<b>3.33</b>	<b>3.07</b>	<b>3.49</b>	<b>3.77</b>
Brazil	0.94	1.94	1.82	1.39	1.56	1.67

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

**CANADA/US MOTOR VEHICLE SALES OUTLOOK**

	<u>1991-05</u> Average	<u>2006-14</u>	<u>2015</u>	<u>2016</u>	<u>2017e</u>	<u>2018f</u>
	(thousands of units, annualized)					
<b>CANADA</b>	<b>1,398</b>	<b>1,643</b>	<b>1,898</b>	<b>1,949</b>	<b>2,038</b>	<b>2,000</b>
Cars	797	783	714	662	641	610
Domestic	583	491	476	439	441	415
Imports	214	292	238	223	200	195
Light Trucks	601	860	1,184	1,287	1,397	1,390
	(millions of units, annualized)					
<b>UNITED STATES</b>	<b>15.5</b>	<b>14.1</b>	<b>17.4</b>	<b>17.5</b>	<b>17.1</b>	<b>17.4</b>
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
	(millions of units, annualized)					
<b>NORTH AMERICAN PRODUCTION*</b>	<b>15.58</b>	<b>14.26</b>	<b>17.95</b>	<b>18.15</b>	<b>17.47</b>	<b>17.76</b>
CANADA	2.50	2.24	2.28	2.37	2.19	2.10
UNITED STATES	11.67	9.54	12.10	12.18	11.22	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.

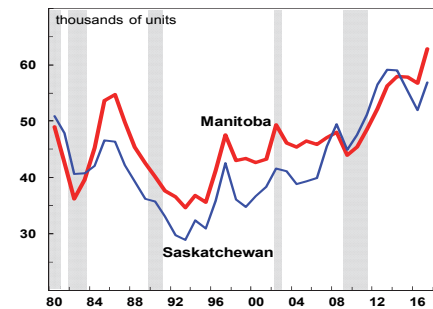
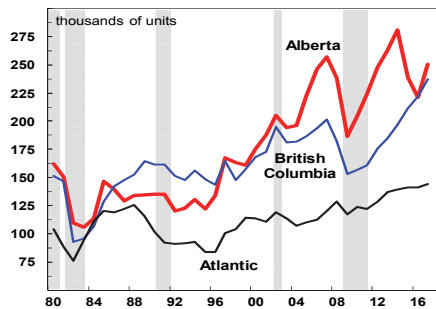
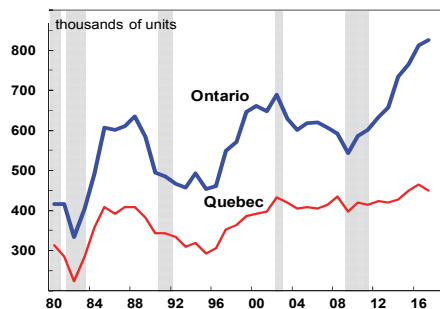
**VEHICLE SALES OUTLOOK BY PROVINCE\***

(thousands of units, annual rates)

	<u>1994-05</u> Average	<u>2006-14</u>	<u>2015</u>	<u>2016</u>	<u>2017e</u>	<u>2018f</u>
<b>CANADA</b>	<b>1,446</b>	<b>1,643</b>	<b>1,898</b>	<b>1,949</b>	<b>2,038</b>	<b>2,000</b>
<b>ATLANTIC</b>	<b>102</b>	<b>123</b>	<b>140</b>	<b>140</b>	<b>143</b>	<b>139</b>
<b>CENTRAL</b>	<b>936</b>	<b>1,017</b>	<b>1,205</b>	<b>1,265</b>	<b>1,295</b>	<b>1,262</b>
Quebec	366	411	444	458	450	442
Ontario	570	606	761	807	845	820
<b>WEST</b>	<b>408</b>	<b>503</b>	<b>553</b>	<b>544</b>	<b>600</b>	<b>599</b>
Manitoba	42	48	56	55	62	61
Saskatchewan	36	49	54	51	56	56
Alberta	166	231	236	220	248	251
British Columbia	164	175	207	218	234	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)

	<u>2016</u>		<u>2017</u>		<u>2016</u>		<u>2017</u>	
	Jan to Dec		Jan to Dec		Dec		Dec	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
<b>TOTAL</b>	<b>661.5</b>	<b>100.0</b>	<b>640.6</b>	<b>100.0</b>	<b>37.3</b>	<b>100.0</b>	<b>32.5</b>	<b>100.0</b>
Big Three	137.8	20.8	122.8	19.2	9.2	24.5	6.5	20.1
General Motors	70.3	10.6	67.0	10.5	5.5	14.6	3.6	11.2
Ford	47.0	7.1	37.6	5.9	2.6	7.1	1.6	4.9
Chrysler	20.5	3.1	18.2	2.8	1.1	2.8	1.3	4.0
Japanese	288.1	43.6	287.5	44.9	16.3	43.6	13.1	40.2
Honda	93.8	14.2	94.0	14.7	5.8	15.5	3.5	10.7
Toyota	89.1	13.5	88.0	13.7	4.5	12.2	4.1	12.6
Nissan	47.7	7.2	45.0	7.0	2.2	6.0	2.1	6.4
Mazda	32.3	4.9	33.8	5.3	2.1	5.7	1.9	5.8
Mitsubishi	9.8	1.5	8.3	1.3	0.6	1.7	0.4	1.3
Subaru	15.4	2.3	18.5	2.9	1.0	2.6	1.1	3.4
Hyundai	82.1	12.4	71.2	11.1	3.2	8.4	3.9	12.1
Volkswagen	47.4	7.2	49.1	7.7	2.0	5.4	2.3	7.1
Kia	40.0	6.0	40.4	6.3	2.3	6.3	2.2	6.8
BMW	23.9	3.6	22.6	3.5	1.4	3.9	1.7	5.2
Mercedes-Benz	23.1	3.5	23.1	3.6	1.7	4.6	1.5	4.5
Other	19.1	2.9	23.9	3.7	1.2	3.3	1.3	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 Dec		Jan to Dec		Dec		Dec	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
<b>TOTAL</b>	<b>1,317.5</b>	<b>100.0</b>	<b>1,429.6</b>	<b>100.0</b>	<b>90.5</b>	<b>100.0</b>	<b>94.2</b>	<b>100.0</b>
Big Three	713.6	54.2	755.6	52.9	47.6	52.6	48.5	51.6
General Motors	197.1	15.0	235.8	16.5	12.7	14.0	16.2	17.2
Ford	257.7	19.6	271.0	19.0	17.1	18.9	16.0	17.0
Chrysler	258.8	19.6	248.8	17.4	17.8	19.7	16.3	17.4
Other Domestic	38.8	2.9	44.9	3.2	3.3	3.6	3.4	3.6
Japanese	379.9	28.8	417.9	29.2	27.6	30.6	27.6	29.3
Honda	92.9	7.0	103.3	7.2	6.8	7.5	6.2	6.6
Toyota	128.7	9.8	136.6	9.6	9.2	10.1	8.5	9.0
Nissan	86.5	6.6	101.6	7.1	6.4	7.0	7.3	7.8
Mazda	36.9	2.8	40.3	2.8	2.6	2.9	3.0	3.0
Mitsubishi	12.5	1.0	14.4	1.0	1.0	1.1	0.9	0.9
Subaru	34.8	2.6	36.1	2.5	2.7	3.0	2.8	3.0
Hyundai	56.1	4.3	58.9	4.1	2.7	3.0	3.3	3.5
Kia	31.7	2.4	36.2	2.5	1.9	2.1	2.3	2.4
Other Imports	97.4	7.4	116.1	8.1	7.4	8.1	9.1	9.6
LIGHT TRUCKS	1,287.4	97.7	1,397.0	97.7	88.2	97.5	91.7	97.4

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

**AUTO SALES BY PROVINCE**

(thousands of units, not seasonally adjusted)

	<u>2016</u> Jan to Nov	<u>2017</u> Jan to Nov	<u>2016</u> Nov	<u>2017</u> Nov
<b>CANADA</b>	<b>624.0</b>	<b>612.9</b>	<b>48.8</b>	<b>45.6</b>
<b>ATLANTIC</b>	<b>45.0</b>	<b>43.7</b>	<b>3.3</b>	<b>2.7</b>
Newfoundland	9.1	8.6	0.6	0.5
Nova Scotia	19.3	19.8	1.6	1.2
New Brunswick	13.6	12.6	0.9	0.8
Prince Edward Island	3.0	2.7	0.2	0.2
<b>CENTRAL</b>	<b>442.3</b>	<b>437.3</b>	<b>34.7</b>	<b>33.4</b>
Quebec	189.4	179.1	14.0	13.5
Ontario	252.9	258.2	20.7	19.9
<b>WEST</b>	<b>136.7</b>	<b>131.9</b>	<b>10.8</b>	<b>9.5</b>
Manitoba	13.6	12.9	1.0	0.9
Saskatchewan	8.7	8.2	0.6	0.6
Alberta	44.7	44.1	3.2	3.2
British Columbia	69.7	66.7	6.0	4.8

Source: Statistics Canada.

**TRUCK SALES BY PROVINCE\***

(thousands of units, not seasonally adjusted)

	<u>2016</u> Jan to Nov	<u>2017</u> Jan to Nov	<u>2016</u> Nov	<u>2017</u> Nov
<b>CANADA</b>	<b>1,227.7</b>	<b>1,324.8</b>	<b>113.1</b>	<b>115.4</b>
<b>ATLANTIC</b>	<b>88.6</b>	<b>93.1</b>	<b>7.6</b>	<b>7.5</b>
Newfoundland	22.8	23.4	2.0	2.0
Nova Scotia	31.9	36.0	2.8	2.9
New Brunswick	28.6	28.3	2.3	2.2
Prince Edward Island	5.3	5.4	0.5	0.4
<b>CENTRAL</b>	<b>761.3</b>	<b>799.0</b>	<b>69.1</b>	<b>70.5</b>
Quebec	245.5	254.0	21.9	22.2
Ontario	515.8	545.0	47.2	48.3
<b>WEST</b>	<b>377.8</b>	<b>432.7</b>	<b>36.4</b>	<b>37.4</b>
Manitoba	39.8	46.0	4.0	4.1
Saskatchewan	39.9	44.3	4.2	3.8
Alberta	162.6	188.2	15.9	15.8
British Columbia	135.5	154.2	12.3	13.7

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

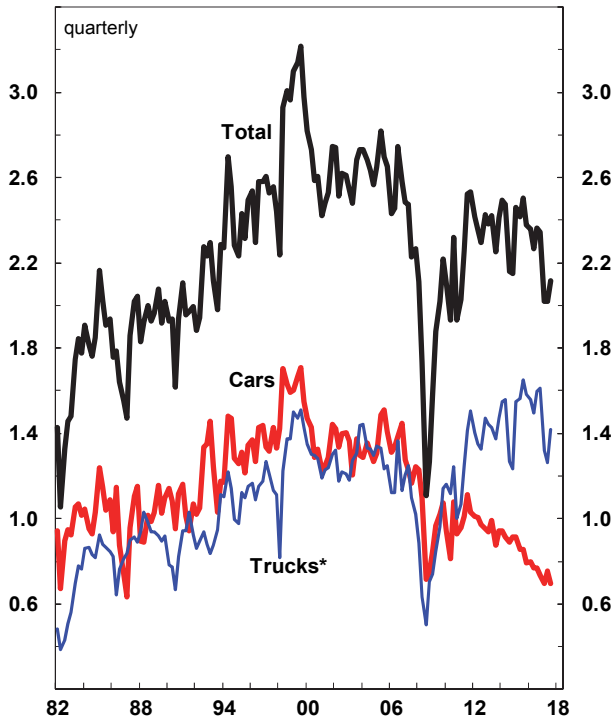
**CANADIAN MOTOR VEHICLE PRODUCTION**

(thousands of units, not seasonally adjusted)

	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
	Jan to Dec	Jan to Dec	Dec	Dec
<b>TOTAL</b>	<b>2,370.7</b>	<b>2,199.8</b>	<b>163.7</b>	<b>150.6</b>
<b>CAR</b>	<b>803.2</b>	<b>749.4</b>	<b>55.9</b>	<b>51.2</b>
Chrysler	237.5	231.7	18.3	17.5
GM	122.4	98.1	8.4	8.0
Honda	205.8	209.5	14.1	13.9
Toyota	237.5	210.1	15.1	11.8
<b>TRUCKS*</b>	<b>1,567.5</b>	<b>1,450.4</b>	<b>107.8</b>	<b>99.4</b>
Chrysler	309.3	296.0	22.6	25.3
Ford	271.5	254.0	18.8	16.8
GM	402.0	298.9	29.5	16.3
Honda	205.4	219.9	11.6	14.6
Toyota	364.2	361.5	24.3	23.5
Others	15.1	20.1	1.0	2.9

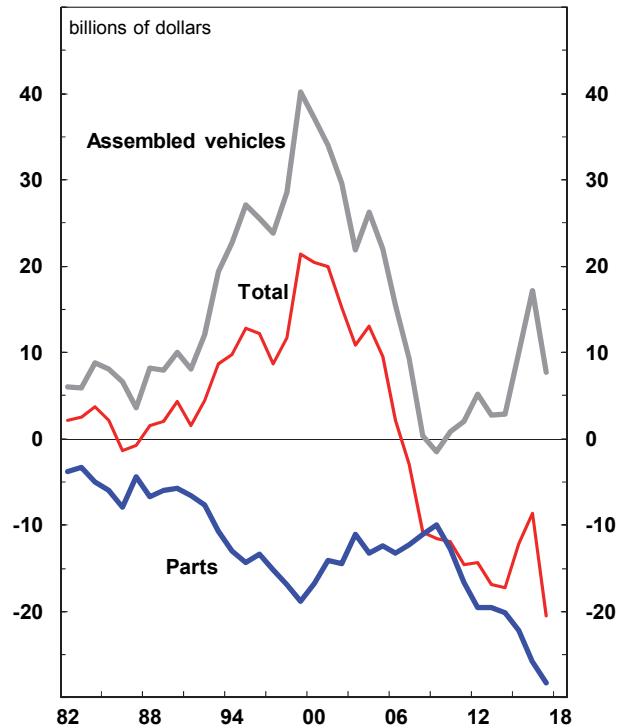
\*Light, medium and heavy trucks. Source: Ward's Automotive Reports.

Canada — Motor Vehicle Production



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

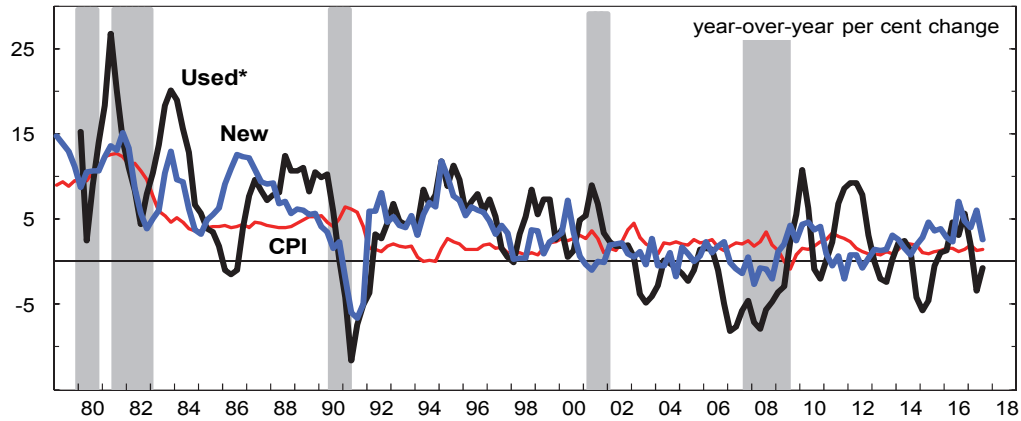
Canada — World Auto Trade Balances



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

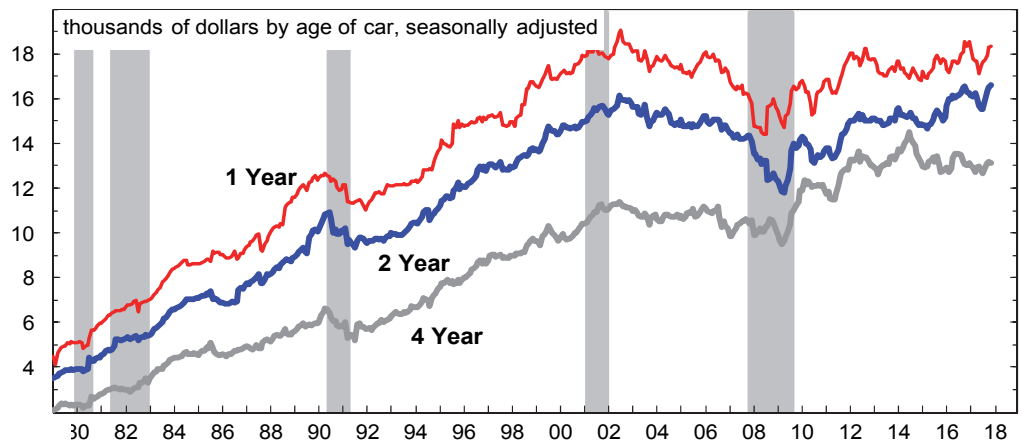
**New & Used Car Prices**

**Scotiabank Car Price Indicators — Canada**



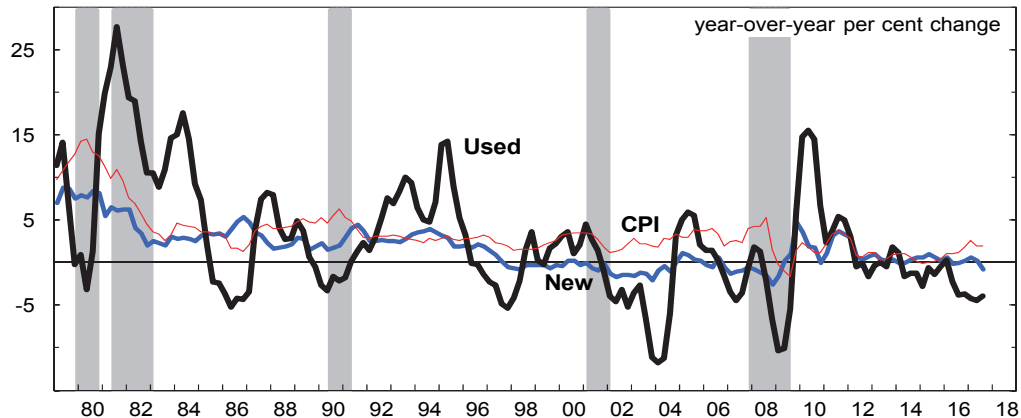
\*Scotiabank estimate from Canadian Black Book data.  
Sources: Canadian Black Book, Statistics Canada.

**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							
	2016Q3	3116	2.43	5.17	8.05	1.94	20.71
	Q4	2852	2.65	4.84	6.99	1.94	18.62
	2017Q1	2128	2.65	4.31	6.09	2.09	13.97
	Q2	3904	2.43	5.29	8.84	2.06	25.05
	Q3	3820	2.43	5.10	8.29	1.97	23.13
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

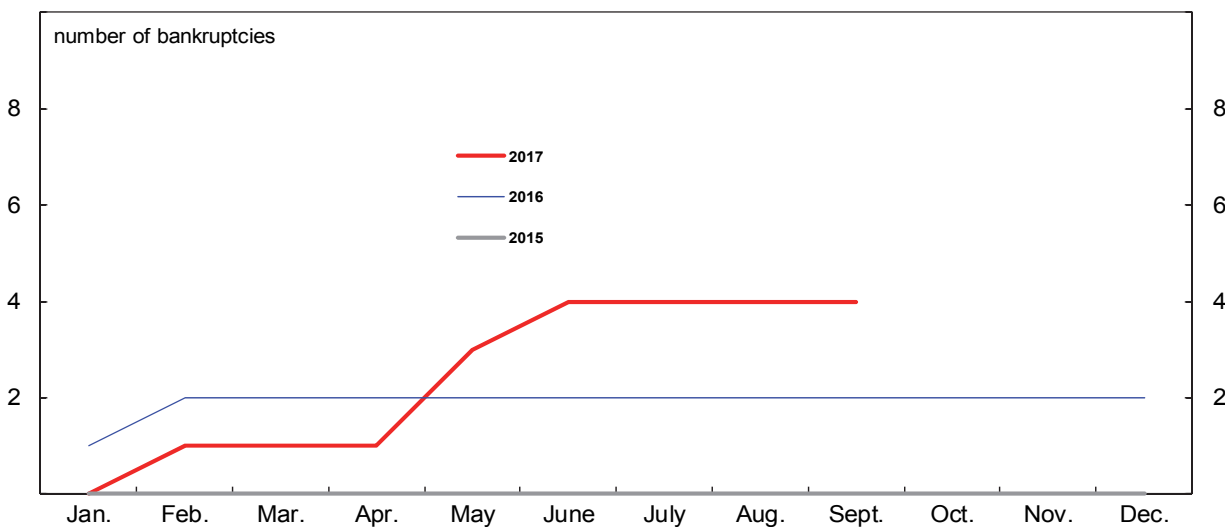
Inventory Turnover Ratio: sales/inventory

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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