

Global Auto Sales Continue To Strengthen

- Purchases accelerate in developing markets (ex-China), buoyed by strengthening global economic growth.
- Hot luxury auto market in BC and Ontario.
- North American auto production to climb to record high in the second quarter.

RECENT GLOBAL NEW VEHICLE SALES DEVELOPMENTS

Global car sales continued to move higher in the opening month of 2017, even as most automakers reported lower sales in China owing to an increase in the sales tax applicable on small vehicles with 1.6 litre or smaller engines. Global purchases advanced 3% above a year earlier in January, led by a 9.5% y/y surge in Western Europe and gains in all regions. In fact, volumes in developing markets (ex-China) began 2017 with the strongest gain in nearly four years.

More recent data for February point to ongoing strength across North America. Purchases in **Canada** remained above an annualized 2 million units for the second consecutive month, climbing to a record high for February. The improvement was led by a 16% y/y surge in luxury volumes, as purchases of both luxury cars and trucks posted double-digit advances. **The Canadian luxury auto market has been heating up in recent months and has accounted for nearly 60% of the year-to-date increase in overall volumes in Canada this year, five times its normal share.** The strength of the luxury market is concentrated in British Columbia and Ontario, the fastest-growing provincial economies. Luxury volumes have surged nearly 25% in British Columbia this year, and have advanced 15% in Ontario. We expect these growth rates to moderate, as BC and ON provincial activity softens (see [Scotiabank's Forecast Tables](#)), but the luxury market will continue to be buoyed by robust gains in household wealth.

In the **United States**, car and light truck sales totalled an annualized 17.5 million units in February, in line with the previous month's performance and the full-year 2016 total. Activity has remained solid even as fleet volumes have weakened. Data from the Detroit automakers indicate that their fleet volumes slumped 11% below a year earlier in February and have dropped a cumulative 14% y/y in the opening months of 2017. In contrast, retail activity continues to move higher. In fact, while many analysts have become overly cautious on the outlook, **favourable industry fundamentals are prompting automakers to ramp up North American output. The latest industry production schedule points to a record output of an annualized 18.7 million vehicles in the second quarter**, up from 17.3 million in January when the industry was reducing bloated sedan inventories. **We estimate rising vehicle assemblies will add an annualized 0.6 percentage points to economic growth in the April-June period, helping to lift overall US growth to 2.3% in 2017, up from 1.6% in 2016.**

CAR SALES ACCELERATE IN DEVELOPING MARKETS

Continued gains in global car sales in early 2017 highlight the improving economic backdrop around the world, and solidify the positive sales outlook, even as purchases in China moderate from last year's record-setting gain. During January, sales in developing markets of Asia, Eastern Europe, and South America accelerated to 6% y/y, the best performance since May

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Chart 1

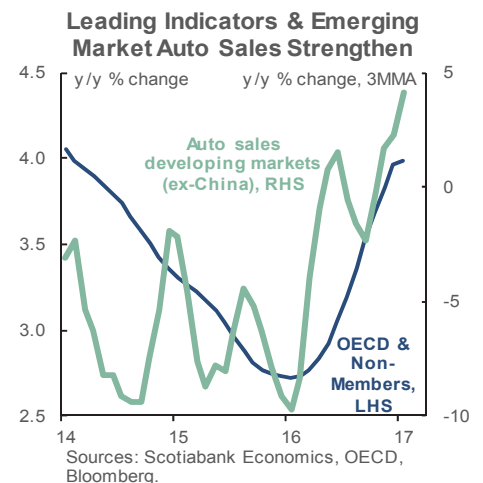
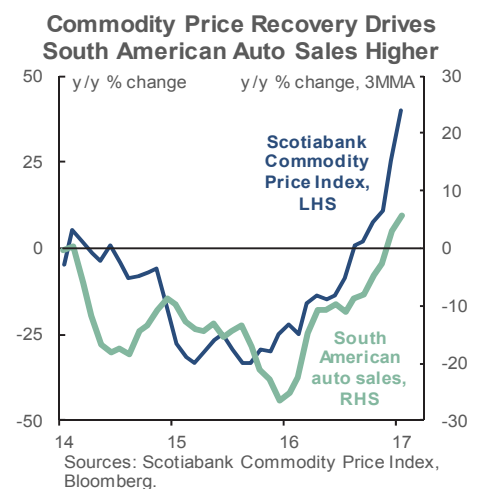


Chart 2



2013. This improvement is consistent with the upturn in many indicators, including the OECD's Leading Indicator for Member and Non-Member Economies (see chart 1). If these trends persist, full-year 2017 global sales may come in even stronger than we expect.

Eastern Europe led the emerging market rebound in January alongside double-digit sales gains among many new EU members and an end to the downturn in Russia. The solid performance among the new EU members reflects strengthening labour and export markets due to the high level of economic integration with Western Europe, especially Germany. For example, exports account for roughly 70% of overall economic activity in the Czech Republic, with a third of their cross-border shipments destined for Germany. The Czech Republic has the lowest unemployment rate in the EU at only 3.4%, payrolls are advancing at the fastest pace in nine years and will continue to boost vehicle purchases.

Russia's auto and labour markets have also started to recover from the deep recession of recent years. While car sales in Russia were still 5% below a year earlier in January, this represents a significant improvement from three consecutive years of double-digit declines, when purchases were undercut by weakening economic activity. In contrast, activity is now improving faster than expected, which prompted the Central Bank of Russia to recently upgrade its 2017 economic forecast. The Russian labour market has also turned the corner and is now pointing to brighter prospects for vehicle sales, especially with oil prices forecast to average US\$58/bbl in 2017.

ASIA DRIVES GLOBAL AUTO MARKET

Asia has become the key driver of the global auto market in recent years, and the sales acceleration outside of China in early 2017 bodes well for the outlook, especially since labour markets are strengthening alongside an improving economic backdrop. Excluding China, car sales in developing Asia rose 4% y/y in January, more than double the advance in all of 2016. These countries account for about half of overall car sales across all developing markets, and purchases will continue to move higher as global exports and industrial activity gain momentum. For example, global exports are now advancing at the fastest pace since late 2014, with Asia the major beneficiary, as the region represents 40% of overall exports.

COMMODITIES BEGIN TO REVIVE SALES IN SOUTH AMERICA

The South American auto market is also on more solid footing, with sales climbing 4% y/y in January, led by a double-digit advance in Peru. Higher commodity prices—[The Scotiabank Commodity Price Index](#) has jumped 40% over the past year—currency stabilization and some improvement in labour markets across the region are supporting the first annual sales increase since 2013 (see chart 2). **South America is the continent most impacted by commodity cycles, with commodities and resource-based manufacturing accounting for nearly 70% of its exports, double the global average.**

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	78.18
North America*	16.36	17.74	19.42	20.64	21.05	21.31
Canada	1.27	1.61	1.85	1.90	1.95	1.94
United States	14.55	15.15	16.44	17.39	17.50	17.80
Mexico	0.54	0.98	1.13	1.35	1.60	1.57
Western Europe	13.11	13.79	12.11	13.20	13.97	14.25
Germany	3.57	3.25	3.04	3.21	3.35	3.42
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	36.19
China**	0.43	6.52	18.37	20.01	23.57	23.34
India	0.31	1.18	1.87	2.06	2.09	2.14
South America	1.64	3.10	4.15	3.33	3.07	3.13
Brazil	0.94	1.90	2.50	1.82	1.39	1.32

*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> Average	<u>2006-13</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017f</u>
(thousands of units, annualized)						
CANADA	1,398	1,618	1,851	1,898	1,949	1,940
Cars	797	786	759	714	662	650
Domestic	583	488	512	476	438	435
Imports	214	298	247	238	224	215
Light Trucks	601	832	1,092	1,184	1,287	1,290
(millions of units, annualized)						
UNITED STATES	15.5	13.8	16.4	17.4	17.5	17.8
Cars	8.3	6.7	7.7	7.5	6.9	6.4
Light Trucks	7.2	7.1	8.7	9.9	10.6	11.4
(millions of units, annualized)						
NORTH AMERICAN PRODUCTION*	15.58	13.86	17.43	17.95	18.17	18.50
CANADA	2.50	2.22	2.39	2.28	2.37	2.35
UNITED STATES	11.67	9.27	11.67	12.10	12.20	12.40
MEXICO	1.41	2.37	3.37	3.57	3.60	3.75

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

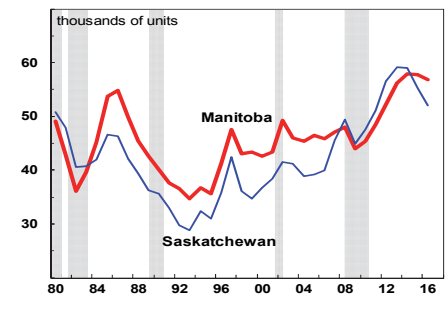
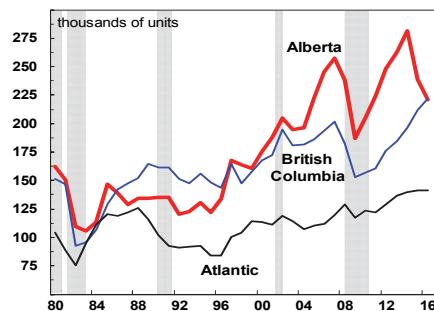
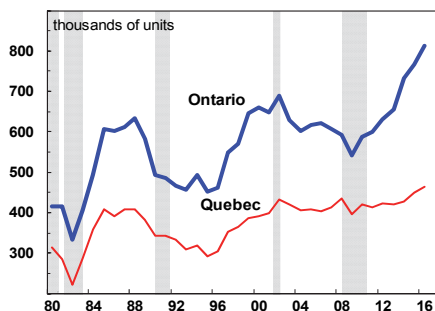
VEHICLE SALES OUTLOOK BY PROVINCE*

(thousands of units, annual rates)

	<u>1994-05</u> Average	<u>2006-13</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017f</u>
CANADA	1,446	1,618	1,851	1,898	1,949	1,940
ATLANTIC	102	121	137	140	140	135
CENTRAL	936	1,002	1,139	1,205	1,265	1,256
Quebec	366	410	420	444	458	456
Ontario	570	592	719	761	807	800
WEST	408	495	575	553	544	549
Manitoba	42	47	56	56	55	56
Saskatchewan	36	48	56	54	51	52
Alberta	166	227	269	236	220	223
British Columbia	164	173	194	207	218	218

*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 Feb		Jan to Feb		Feb		Feb	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	72.9	100.0	70.2	100.0	39.0	100.0	38.1	100.0
Big Three	14.2	19.5	13.8	19.8	7.8	19.7	7.2	18.8
General Motors	7.6	10.4	6.7	9.6	4.2	10.7	3.6	9.5
Ford	4.6	6.3	4.0	5.8	2.5	6.3	2.2	5.7
Chrysler	2.0	2.8	3.1	4.4	1.1	2.7	1.4	3.6
Japanese	32.8	45.0	31.9	45.4	17.0	43.7	17.4	45.8
Honda	10.0	13.8	9.6	13.7	4.5	11.6	5.2	13.7
Toyota	9.8	13.4	9.3	13.3	5.5	14.0	5.2	13.6
Nissan	6.7	9.2	6.0	8.5	3.8	9.7	3.3	8.6
Mazda	3.3	4.5	3.9	5.6	1.8	4.6	2.1	5.6
Mitsubishi	1.3	1.8	1.0	1.4	0.7	1.8	0.5	1.3
Subaru	1.7	2.3	2.1	2.9	0.8	2.0	1.1	2.9
Hyundai	8.7	11.9	7.2	10.3	5.0	12.9	4.1	10.9
Volkswagen	5.2	7.2	4.8	6.8	2.6	6.8	2.4	6.4
Kia	4.6	6.3	3.9	5.6	2.5	6.3	2.2	5.7
BMW	2.8	3.9	2.7	3.8	1.5	3.8	1.6	4.2
Mercedes-Benz	2.9	3.9	3.5	4.9	1.7	4.5	1.9	5.0
Other	1.7	2.3	2.4	3.4	0.9	2.3	1.3	3.2

*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 Feb		Jan to Feb		Feb		Feb	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	158.8	100.0	167.4	100.0	82.7	100.0	87.0	100.0
Big Three	87.8	55.3	91.1	54.4	45.3	54.8	47.5	54.5
General Motors	22.5	14.2	24.4	14.6	11.6	14.0	12.9	14.8
Ford	30.4	19.2	32.2	19.2	16.0	19.3	16.8	19.3
Chrysler	34.9	21.9	34.5	20.6	17.7	21.5	17.8	20.4
Other Domestic	5.3	3.3	5.4	3.2	3.1	3.8	3.0	3.4
Japanese	44.5	28.0	48.6	29.0	23.0	27.9	25.1	28.9
Honda	9.6	6.0	12.2	7.3	5.0	6.1	6.4	7.4
Toyota	16.6	10.4	16.3	9.7	8.8	10.7	8.2	9.4
Nissan	10.7	6.7	11.8	7.1	5.2	6.3	6.2	7.2
Mazda	4.0	2.5	4.6	2.8	2.2	2.6	2.4	2.7
Mitsubishi	1.5	1.0	1.6	0.9	0.8	1.0	0.8	0.9
Subaru	3.6	2.2	3.7	2.2	1.8	2.1	1.8	2.1
Hyundai	6.1	3.9	5.8	3.5	3.2	3.8	3.0	3.5
Kia	3.4	2.1	3.5	2.1	1.9	2.3	1.8	2.1
Other Imports	11.7	7.4	13.0	7.8	6.2	7.4	6.6	7.6
LIGHT TRUCKS	155.0	97.5	163.5	97.7	80.2	97.0	84.9	97.5

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

AUTO SALES BY PROVINCE

(thousands of units, not seasonally adjusted)

	<u>2015</u> Jan to Dec	<u>2016</u> Jan to Dec	<u>2015</u> Dec	<u>2016</u> Dec
CANADA	712.2	661.1	40.7	37.2
ATLANTIC	54.7	47.2	2.4	2.1
Newfoundland	11.5	9.5	0.5	0.4
Nova Scotia	23.3	20.3	1.1	1.0
New Brunswick	16.5	14.3	0.6	0.6
Prince Edward Island	3.4	3.1	0.2	0.1
CENTRAL	502.3	467.6	28.4	25.3
Quebec	218.5	198.5	10.9	9.1
Ontario	283.8	269.1	17.5	16.2
WEST	155.2	146.3	9.9	9.8
Manitoba	16.0	14.4	0.9	0.8
Saskatchewan	10.6	9.3	0.5	0.6
Alberta	51.8	47.7	3.1	3.1
British Columbia	76.8	74.9	5.4	5.3

Source: Statistics Canada.

TRUCK SALES BY PROVINCE*

(thousands of units, not seasonally adjusted)

	<u>2015</u> Jan to Dec	<u>2016</u> Jan to Dec	<u>2015</u> Dec	<u>2016</u> Dec
CANADA	1,226.1	1,316.9	91.4	90.0
ATLANTIC	87.9	94.5	6.1	5.8
Newfoundland	23.4	24.2	1.4	1.4
Nova Scotia	31.8	34.2	2.3	2.3
New Brunswick	28.2	30.4	2.1	1.7
Prince Edward Island	4.5	5.7	0.3	0.4
CENTRAL	727.4	814.1	54.9	53.2
Quebec	232.9	261.4	15.5	16.3
Ontario	494.5	552.7	39.4	36.9
WEST	410.8	408.3	30.4	31.0
Manitoba	42.0	43.0	3.3	3.3
Saskatchewan	44.5	42.8	3.3	3.0
Alberta	190.1	175.9	12.8	13.4
British Columbia	134.2	146.6	11.0	11.3

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

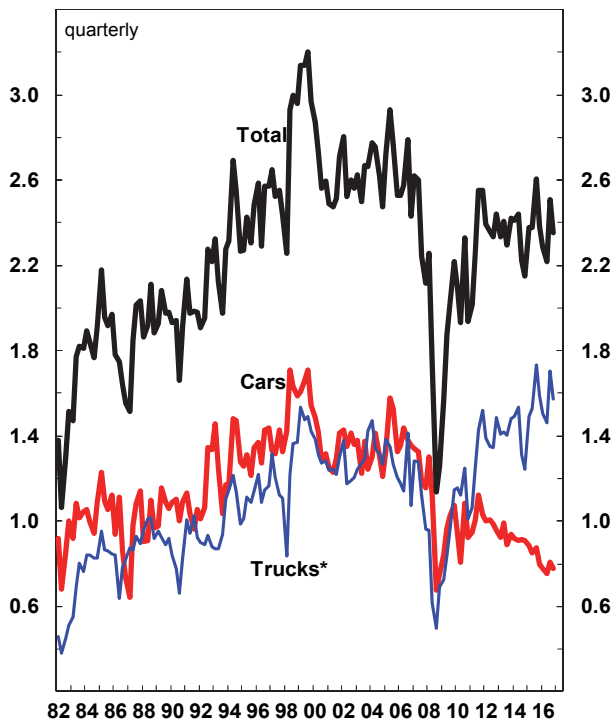
CANADIAN MOTOR VEHICLE PRODUCTION

(thousands of units, not seasonally adjusted)

	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	Jan to Dec	Jan to Dec	Jan	Jan
TOTAL	2,283.3	2,370.3	203.4	191.6
CAR	888.6	802.1	72.0	62.0
Chrysler	254.2	237.5	21.9	15.6
GM	203.2	122.3	12.4	5.7
Honda	178.8	204.7	17.4	19.2
Toyota	252.4	237.6	20.3	21.5
TRUCKS*	1,394.7	1,568.2	131.4	129.6
Chrysler	260.8	309.3	31.8	22.0
Ford	200.7	271.5	19.9	22.0
GM	374.4	402.7	31.5	32.8
Honda	206.1	208.1	17.6	19.6
Toyota	338.4	364.2	29.6	32.3
Others	14.3	12.4	1.0	0.9

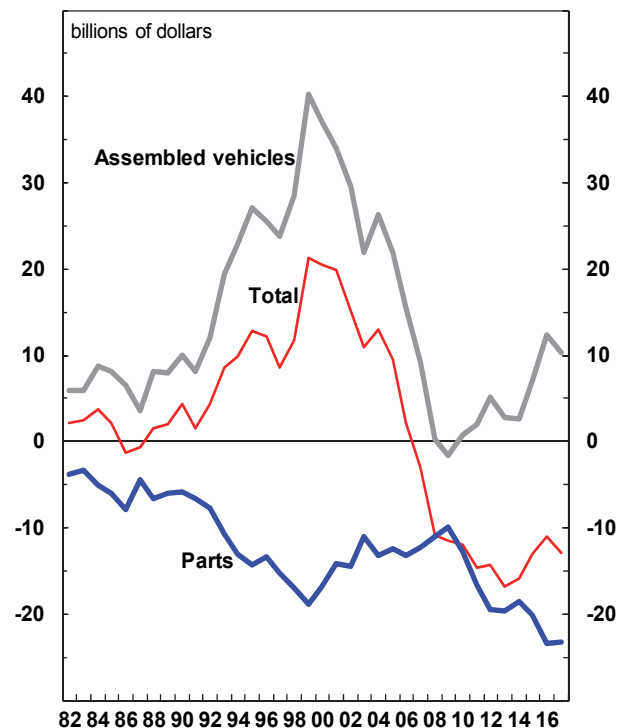
*Light, medium and heavy trucks. Source: Ward's Automotive Reports.

Canada — Motor Vehicle Production



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

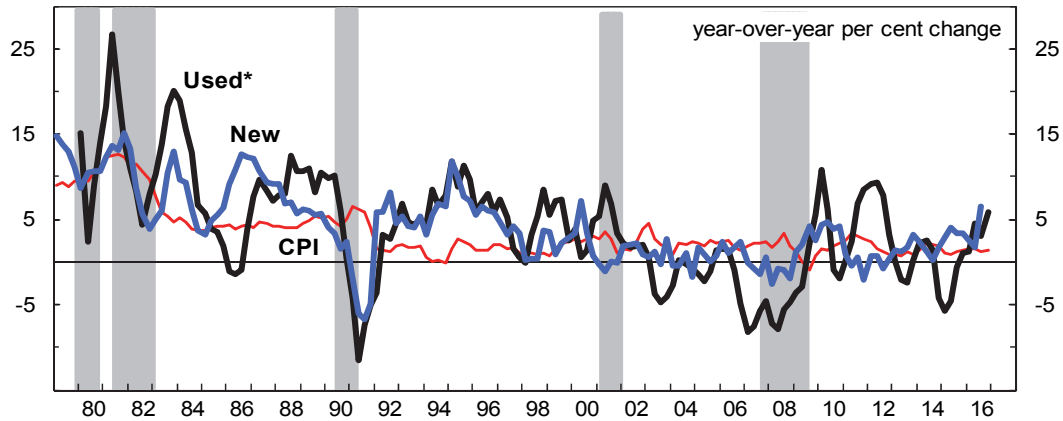
Canada — World Auto Trade Balances



2017 data are January annualized.
Source: Statistics Canada.

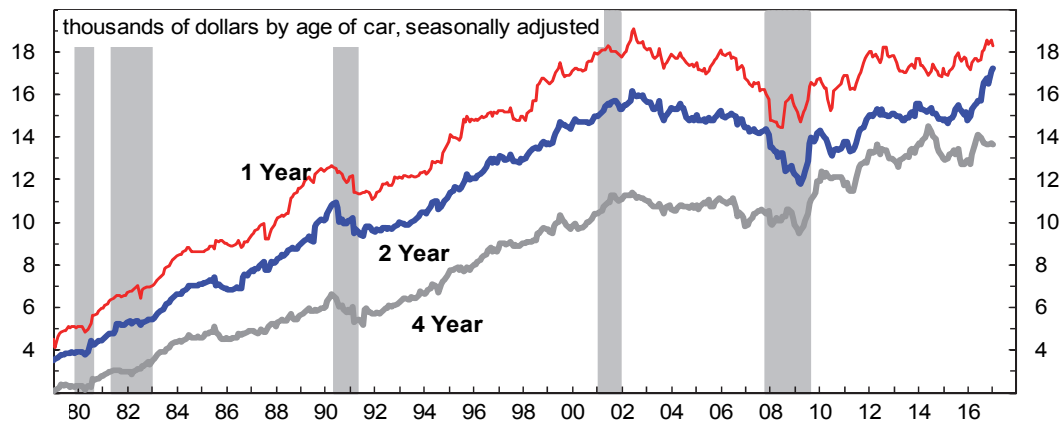
New & Used Car Prices

Scotiabank Car Price Indicators — Canada



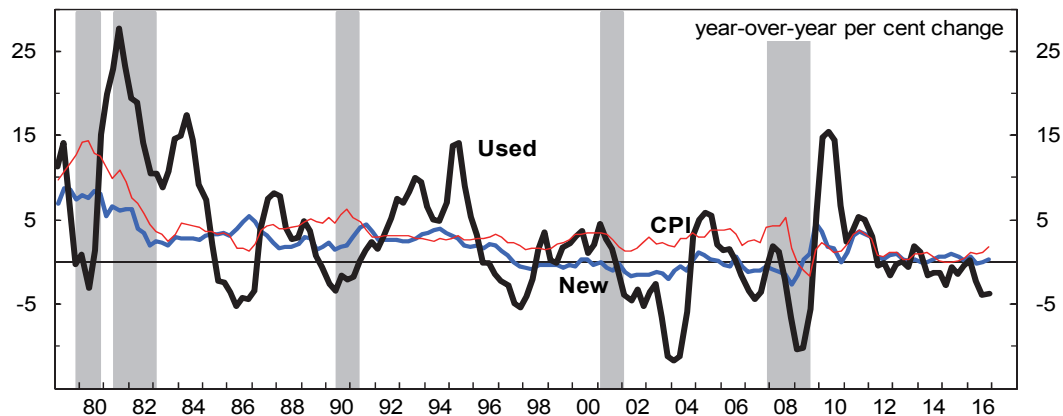
*Scotiabank estimate from Canadian Black Book data.
Sources: Canadian Black Book, Statistics Canada.

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	2003	594	0.91	5.30	2.65	2.91	10.14	
	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	2740	2.65	5.10	7.56	1.86	20.90	
	2015	2854	2.57	5.07	7.81	1.87	20.50	
	Quarterly at annual rates	2015Q3	3244	2.76	5.32	8.80	1.82	23.05
		Q4	2988	2.65	4.98	7.57	1.84	20.63
2016Q1		2000	1.93	4.56	6.54	1.96	13.96	
Q2		3260	2.43	5.40	8.77	1.94	22.16	
Q3		2732	2.43	5.10	7.83	1.91	18.03	
Average (89–15)		929	1.28	6.03	3.30	2.33	12.05	
Low (89–15)		-68	0.10	4.38	1.10	3.57	-1.20	

Definition of Ratios:

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

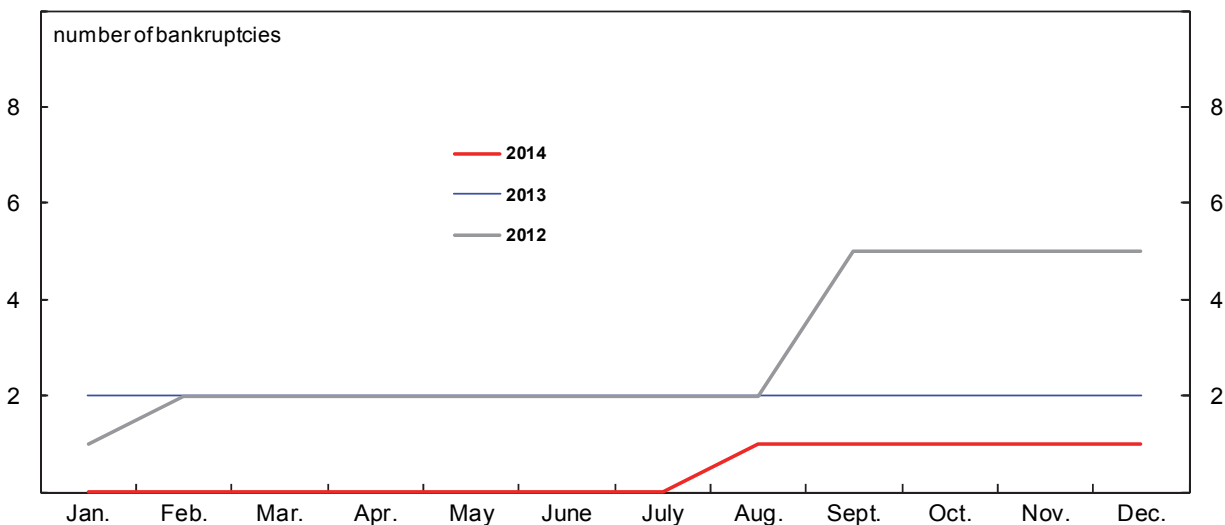
Inventory Turnover Ratio: sales/inventory

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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