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March Auto Sales: Volatile Start to 2023

CANADA: STRONGER THAN EXPECTED Q1 SUPPORTS TREND RECOVERY

The trend recovery in Canadian auto sales is still underway, reaching 1.62 mn (saar) units in March according to Wards Automotive. Strong upward revisions to sales numbers in January and February of 11% and 6% respectively imply that light vehicle sales were down by -1.8% m/m in March on a seasonally adjusted basis to cap off the first quarter of 2023. Nevertheless, auto sales in Canada continue to show a recovery as they averaged 1.64 mn (saar) units in Q1 2023, up 5.1% q/q (sa) from Q4 and 4.6% ytd (nsa) versus 2022 but are still -14.2% ytd (nsa) below 2019 sales levels. The labour market remains tight, adding over 200 k (sa) jobs in Q1 2023 and the unemployment rate held constant at 5.0% (sa) for the fourth consecutive month. Economic activity in Canada continues to grow above what is needed to create material disinflationary slack, with core inflation still well above the BoC's headline target of 2%. It is premature to look for overnight interest rate cuts just yet meaning cost of financing for new vehicles is likely to continue to add to headwinds for sales, compounding weak consumer sentiment. On the other hand, North American auto production increased 8.9% m/m (sa) to a pace of 15.7 mn (saar) units in February, the highest level on a seasonally adjusted basis since September 2020 and slightly below the 16.2 mn units produced in 2019 as inventory slowly recovers. Our outlook for Canadian auto sales is revised up to 1.7 mn in 2023 following the strong Q1 growth amid still-elevated cost pressures, before increasing to 1.83 mn in 2024 as inflation and rates pressures ease.

UNITED STATES: SALES RECOVERY STALLS AS PRODUCTION PICKS UP

US auto sales declined for the second consecutive month on a seasonally adjusted basis (-1.2% m/m, sa) to 14.8 mn (saar) in March, down from 16 mn (saar) in January. The volatile recovery in light weight vehicle sales averaged 15.3 mn (saar) units in Q1 2023, which is up 6.6% q/q (sa) from Q4 2022 and up 8.1% ytd (nsa) compared to the beginning of 2022, though is -10.6% ytd (nsa) below 2019 sales levels. The US labour market remains tight, with the unemployment rate sitting at 3.5% (sa) and employment levels increasing by 1.03 mn (sa) in Q1. The 48-month new car loan rate increased to 6.76% in March, still up 3 percentage points from the year prior. US auto sales continue to be supported by higher production and inventory levels. In addition to the increased NA auto production mentioned above, US light vehicle inventories increased for the eighth consecutive month to 1.84 mn (nsa) units in March 2023, up nearly 90% from the low levels of September 2021 and a 1.6% (sa) increase from the month prior. Our forecast for US auto sales is now at 15.7 mn in 2023 and 16.9 mn in 2024. Tightened financial conditions following developments in the banking sector during March continue to add uncertainty to the outlook.

Chart 1

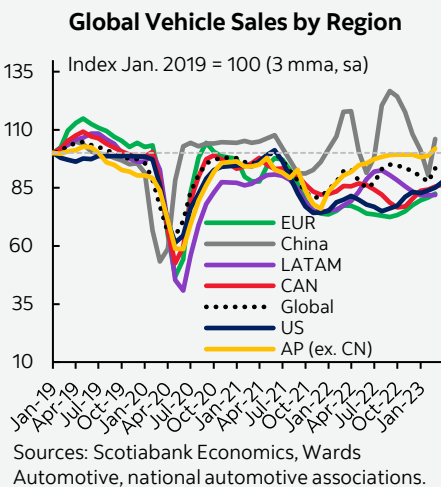
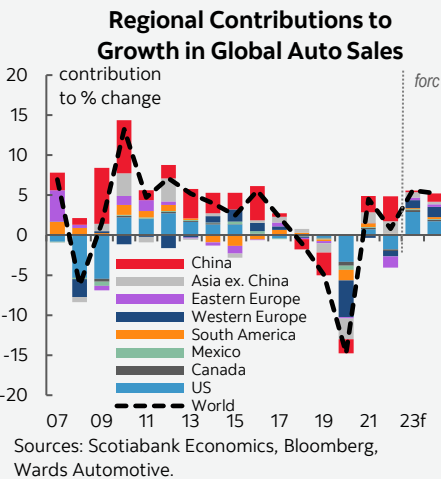


Chart 2



GLOBAL AUTO SALES: REBOUND IN CHINA DISTORTS RECOVERY

Global auto sales in February grew 24.7% on a seasonally adjusted basis, the first seasonal monthly increase since July 2022, but were substantially distorted by Chinese sales (chart 1). Regional level gains were broad, up in Asia Pacific (52.4% m/m, sa), Europe (10.3%), and Latin America (3.3%). Asia Pacific's gain is distorted due to Chinese auto sales rebounding 91.3% m/m (sa), with an early Lunar New Year compounding monthly volatility owing to re-opening effects. Monthly auto sales were also up in Indonesia (4.9% m/m, sa) and South Korea (35.2%), flat in India (0.6%), and fell in Australia (-3.8%). February auto sales were up broadly in western Europe on a seasonally adjusted basis, with strong gains in Germany and the UK of 16.2% m/m (sa) and 15.1% respectively, along with moderate increases in France (6.5%) and Spain (4.1%), meanwhile sales were up marginally in Italy (0.9%). Latam auto sales also increased in February, where gains in Chile (8.5% m/m, sa), Colombia (6.8%), Mexico (8.3%), and Peru (3.5%) were only partially offset from decreased auto sales in Brazil (-4.3%). Our outlook forecasts global auto sales increasing 5.6% in 2023 and 5.2% in 2024 with the recovery in North America and Europe expected to lead the recovery, but is subject to uncertainty as financial conditions remain tight with elevated rates in 2023 (chart 2).

Table 1—Global Auto Sales Outlook (mns units)

	2010-19	2019	2020	2021	2022	2023f	2024f	Feb-23, SA % m/m	Feb-23, NSA % y/y	2022 ytd, NSA % y/y
Total Sales	71.1	74.8	63.8	66.7	67.2	71.0	74.7	24.7	9.9	0.3
North America	18.7	20.2	17.0	17.6	16.4	18.6	20.0	-5.0	10.1	8.4
Canada	1.82	1.92	1.54	1.66	1.52	1.70	1.83	0.1	2.7	6.9
United States	15.7	17.0	14.5	14.9	13.8	15.7	16.9	-6.5	9.5	7.9
Mexico	1.22	1.32	0.95	1.01	1.09	1.16	1.23	8.3	28.0	24.1
Western Europe	13.0	14.1	10.7	10.5	10.0	10.7	11.6	10.0	11.6	10.6
Germany	3.2	3.6	2.9	2.6	2.7	2.8	3.0	16.2	2.8	0.2
United Kingdom	2.3	2.3	1.6	1.6	1.6	1.7	1.9	15.1	26.2	18.6
Eastern Europe	3.3	2.9	2.8	2.8	1.8	2.0	2.3	11.8	-20.3	-22.4
Russia	2.1	1.7	1.5	1.5	0.6	0.7	0.8	9.0	-62.1	-62.5
Asia	31.9	33.8	30.6	32.7	35.9	36.5	37.4	52.4	12.8	-4.6
China	19.7	21.4	20.1	21.5	23.6	23.7	24.5	91.3	11.1	-15.0
India	3.3	3.6	2.8	3.6	4.4	4.4	4.4	0.6	13.9	17.3
Japan	5.1	5.2	4.6	4.4	4.2	4.6	4.7	0.2	20.3	18.2
South America	4.3	3.8	2.8	3.1	3.2	3.3	3.4	1.2	-3.2	-0.7
Brazil	2.91	2.67	1.95	1.98	1.96	2.00	2.10	-4.3	-2.8	4.4
Chile	0.34	0.37	0.26	0.42	0.43	0.45	0.47	8.5	-17.4	-22.0
Colombia	0.26	0.26	0.19	0.24	0.25	0.27	0.29	6.8	-18.4	-20.6
Peru	0.16	0.15	0.11	0.16	0.16	0.17	0.18	3.5	7.5	8.8

Sources: Scotiabank Economics, Wards Automotive, Bloomberg.

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

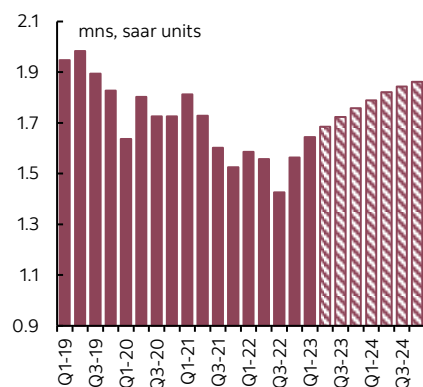
	2010-19	2019	2020	2021	2022	2023f	2024f	Jan-23, SA % m/m	Jan-23, NSA % y/y	2022 ytd nsa % y/y	ZEV* (Q3-22) % of new LV sales
Canada	1,817	1,920	1,543	1,663	1,523	1,703	1,829				8.7
Atlantic	134	131	109	119	104	112	120	0.6	3.7	3.7	--
Central	1,179	1,304	1,030	1,070	1,019	1,088	1,171	4.9	10.1	10.1	9.2
Quebec	441	455	378	404	374	397	424	-2.9	4.3	4.3	12.5
Ontario	738	848	653	665	645	691	747	10.0	13.6	13.6	7.2
West	548	545	453	487	453	482	516	6.4	7.2	7.2	--
Manitoba	56	58	47	49	45	48	51	5.6	24.0	24.0	3.0
Saskatchewan	54	49	42	43	42	45	48	1.1	7.8	7.8	1.8
Alberta	239	223	184	196	184	196	210	8.6	10.2	10.2	--
British Columbia**	199	216	179	199	183	193	207	5.5	1.0	1.0	17.6

*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.

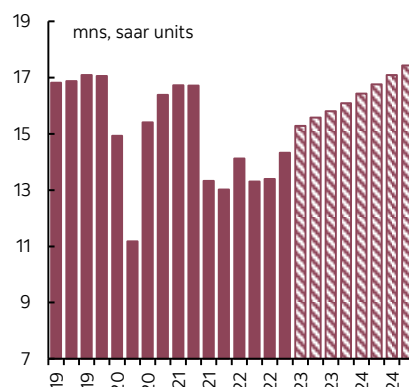
Quarterly Outlook for North American Auto Sector

Canadian Light Vehicle Sales



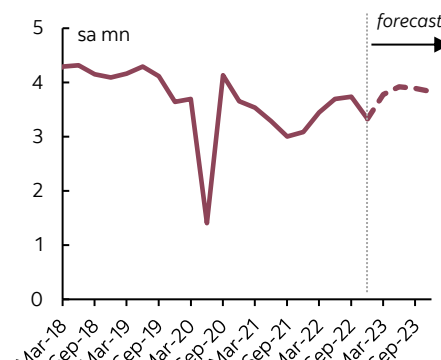
Sources: Scotiabank Economics, Wards Automotive Group.

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.

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