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GLOBAL ECONOMICS

GLOBAL AUTO REPORT

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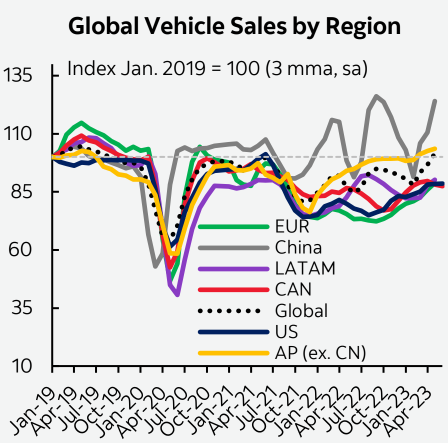
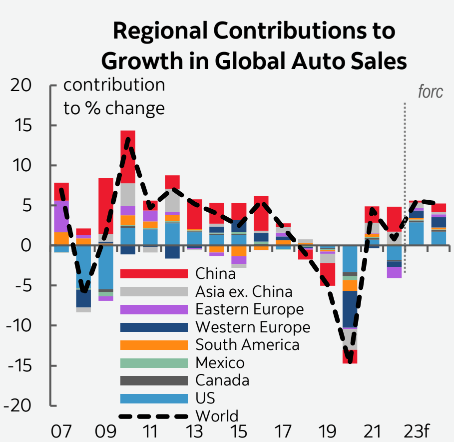
Chart 1



Sources: Scotiabank Economics, Wards Automotive, national automotive associations.

Chart 2



Sources: Scotiabank Economics, Bloomberg, Wards Automotive.

May Auto Sales: Slow (But Not Steady) Recovery in Sales

CANADA: MAY BRINGS SMALL IMPROVEMENT TO RECOVERING AUTO SALES

Canadian auto sales improve in May after three consecutive months of flat-to-negative seasonally adjusted sales growth. Wards Automotive estimates that sales increased 2.8% (sa) to the pace of 1.64 mn (saar) units in May 2023. While auto sales are up 3.7% year-to-date (nsa) compared to 2022, they are falling behind the pre-pandemic pace, now -18.5% ytd (nsa) relative to 2019. Sticky core inflation, along with still-tight labour markets, and activity in the housing market picking up pose headwinds to the Bank of Canada easing their monetary policy stance in the short-term. The upward trend in North American light vehicle production is helping alleviate supply-side pressures to auto sales. NA light vehicle production rate reached 16.2 mn (saar) units in April, the fastest seasonally adjusted pace since July 2020, when production picked up after the first wave of lockdowns. While April's seasonally adjusted pace matches the annual production in 2019, it would need to be held steady for an extended period to further alleviate supply-side pressures to auto sales. Our outlook for Canadian auto sales is unchanged, forecasting 1.7 mn sales in 2023 and picking up to 1.83 mn in 2024 as inflation comes down and rates pressures ease.

UNITED STATES: SALES SLOW TO RECOVER IN ELEVATED RATE ENVIRONMENT

The recovery in US vehicle sales remains a long and bumpy road, as sales slowed (-6.5% m/m, sa) to 15.0 mn (saar) units in May, marking the third seasonally adjusted decrease in the past four months. Auto sales have averaged 15.4 mn (saar) units through the first five months of 2023, up 11.4% year-to-date (nsa) relative to 2022 but are -8.9% ytd compared to 2019. The labour market remains tight with the US unemployment rate ticking up to 3.7% (sa) in May, reaching its highest point since October 2022. Nonfarm payrolls added 339 k (sa) jobs in May and revisions added 93 k to the prior two months. The average hourly wage increased 4.0% m/m (saar) in May and JOLTS job openings picked up to 9.14 mn in April, which have been slowly easing over the past year but demonstrate tightness that remains in the labour market. Meanwhile, the 48-month new car loan rate reached 7.0% in May, the highest rate since October 2009. Rising delinquency rates in an elevated interest-rate environment will reinforce credit tightening in the near-term, as the Federal Reserve hiked the upper bound of the fed funds rate by 25 bps to 5.25% in their FOMC meeting May 2–3. US light vehicle inventory levels are gradually improving, up 7.5% m/m (sa) to 1.87 mn (sa) units in May, increasing in 14 of the past 15 months but are still well below the 3.35 mn (sa) units of February 2020. Our outlook for US auto sales is 15.7 mn units in 2023 against signs of improving vehicle availability but faces uncertainty owing to tightened financial conditions. Auto sales are then expected to pick up to 16.9 mn units in 2024 as inflation and rates pressures ease.

GLOBAL AUTO SALES: SOFT SALES IN APRIL

Global auto sales improved marginally by 0.6% m/m (sa) to the pace of 73.9 mn (saar) units in April, as vehicle sales fared better in some regions than others (chart 1). April's seasonally adjusted pace of auto sales fell in 14 of the 15 countries covered in western Europe, -6.4% m/m (sa) for the region to 11.3 mn (saar) units, offsetting the broad gains from March, for the third highest pace both this year and since mid 2021. Sales slowed in the major markets of France (-2.3% m/m sa), Germany (-7.1%), Italy (-5.3%), Spain (-17.5%), and the UK (-1.3%), while Finland's sales were up 8.8% m/m (sa) for the third consecutive increase. Asia Pacific auto sales were up slightly at the regional level in April, increasing 0.9% m/m (sa) to

38.1 mn (saar) units. The higher vehicle sales in India (9.1% m/m sa) and Japan (6.1%), along with an increase in Australia (4.6%) compensated for the stall in China (-0.3%) and declines in both Indonesia (-21.6%) and South Korea (-6.9%). After a strong handoff from March, LATAM auto sales slowed in April (-9.2% m/m sa) to the pace of 4.5 mn (saar) units, slightly above the average sales rate of 4.4 mn (saar) in Q1. The decreased sales were varied across the board, down in Argentina (-2.7%), Brazil (-10.0%), Chile (-35.0%), Colombia (-7.5%), Mexico (-1.6%), and Peru (-9.6%). Our forecast for global auto sales remains unchanged with vehicle sales increasing 5.6% in 2023 and 5.2% in 2024 (chart 2).

Table 1—Global Auto Sales Outlook (mns units)

	2010-19	2019	2020	2021	2022	2023f	2024f	Apr-23, SA % m/m	Apr-23, NSA % y/y	2023 ytd, NSA % y/y
Total Sales	**71.1**	**74.8**	**63.8**	**66.7**	**67.2**	**71.0**	**74.7**	**0.6**	**28.0**	**9.6**
North America	**18.7**	**20.2**	**17.0**	**17.6**	**16.4**	**18.6**	**20.0**	**6.4**	**9.5**	**8.8**
Canada	1.82	1.92	1.54	1.66	1.52	1.70	1.83	-1.0	-1.0	3.8
United States	15.7	17.0	14.5	14.9	13.8	15.7	16.9	7.9	10.1	8.6
Mexico	1.22	1.32	0.95	1.01	1.09	1.16	1.23	-1.6	17.0	22.5
Western Europe	**13.0**	**14.1**	**10.7**	**10.5**	**10.0**	**10.7**	**11.6**	**-6.4**	**16.8**	**17.0**
Germany	3.2	3.6	2.9	2.6	2.7	2.8	3.0	-7.1	12.6	7.9
United Kingdom	2.3	2.3	1.6	1.6	1.6	1.7	1.9	-1.3	11.6	16.9
Eastern Europe	**3.3**	**2.9**	**2.8**	**2.8**	**1.8**	**2.0**	**2.3**	**6.6**	**46.2**	**2.7**
Russia	2.1	1.7	1.5	1.5	0.6	0.7	0.8	10.4	70.6	-37.8
Asia	**31.9**	**33.8**	**30.6**	**32.7**	**35.9**	**36.5**	**37.4**	**0.9**	**49.2**	**8.5**
China	19.7	21.4	20.1	21.5	23.6	23.7	24.5	-0.3	87.7	6.9
India	3.3	3.6	2.8	3.6	4.4	4.4	4.4	9.1	15.6	11.1
Japan	5.1	5.2	4.6	4.4	4.2	4.6	4.7	6.1	16.7	15.7
South America	**4.3**	**3.8**	**2.8**	**3.1**	**3.2**	**3.3**	**3.4**	**-11.9**	**-2.9**	**4.5**
Brazil	2.91	2.67	1.95	1.98	1.96	2.00	2.10	-10.0	10.8	14.9
Chile	0.34	0.37	0.26	0.42	0.43	0.45	0.47	-35.0	-48.4	-25.2
Colombia	0.26	0.26	0.19	0.24	0.25	0.27	0.29	-7.5	-33.0	-23.0
Peru	0.16	0.15	0.11	0.16	0.16	0.17	0.18	-9.6	3.5	9.5

Sources: Scotiabank Economics, Wards Automotive, Bloomberg.

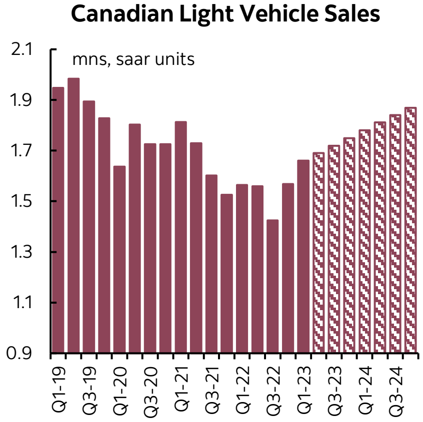
Table 2—Provincial Auto Sales Outlook (thousands of units ann.)

	2010–19	2019	2020	2021	2022	2023f	2024f	Mar-23, SA % m/m	Mar-23, NSA % y/y	2023 ytd nsa % y/y	ZEV* (Q4-22) % of new LV sales
Canada	**1,817**	**1,920**	**1,543**	**1,663**	**1,523**	**1,703**	**1,829**				**9.6**
Atlantic	**134**	**131**	**109**	**119**	**104**	**112**	**120**	**-2.3**	**2.9**	**2.6**	**--**
Central	**1,179**	**1,304**	**1,030**	**1,070**	**1,019**	**1,088**	**1,171**	**-3.7**	**3.6**	**5.5**	**10.3**
Quebec	441	455	378	404	374	397	424	-5.8	0.2	-0.5	13.9
Ontario	738	848	653	665	645	691	747	-2.5	5.5	9.2	8.1
West	**548**	**545**	**453**	**487**	**453**	**482**	**516**	**-3.8**	**0.7**	**1.8**	**--**
Manitoba	56	58	47	49	45	48	51	-10.5	-8.7	7.4	3.0
Saskatchewan	54	49	42	43	42	45	48	-7.1	-7.5	-1.3	1.8
Alberta	239	223	184	196	184	196	210	-1.9	2.6	2.9	--
British Columbia**	199	216	179	199	183	193	207	-3.4	3.1	0.1	18.6

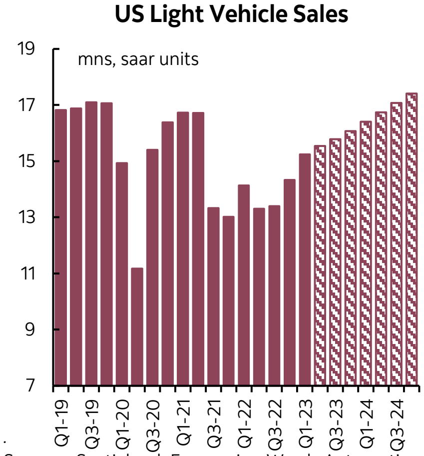
**ZEV includes battery electric and plug-in hybrid electric vehicles (estimates for NL, NS, and AB unavailable due to limitations in data sharing with Statistics Canada, but are included in the Canadian aggregate). **British Columbia includes the territories.*

Sources: Scotiabank Economics, Wards Automotive, Statistics Canada.

Quarterly Outlook for North American Auto Sector



Sources: Scotiabank Economics, Wards Automotive Group.



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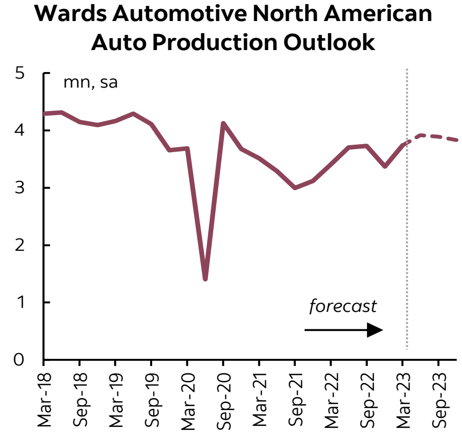

Sources: Scotiabank Economics, Wards Automotive.

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.