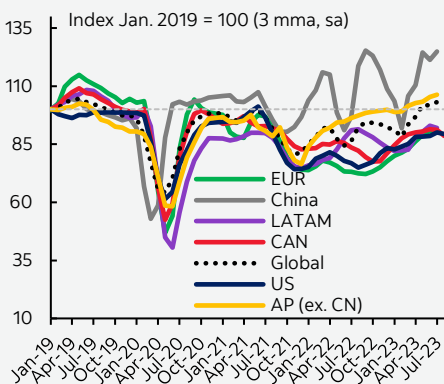


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Chart 1

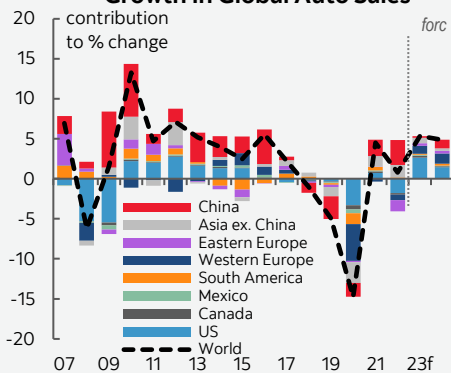
Global Vehicle Sales by Region



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

Chart 2

Regional Contributions to Growth in Global Auto Sales



Sources: Scotiabank Economics, Bloomberg, Wards Automotive.

July Auto Sales: Financing Rates Climb Higher

CANADA: MULTIPLE HEADWINDS CONTINUE TO WEIGH ON SALES

Canadian auto sales fell 2.2% (sa) in July to the pace of 1.57 mn seasonally adjusted annualized units according to Wards Automotive. This second consecutive seasonally adjusted monthly decline brought the annualized sales rate below 1.6 mn SAAR units for the first time this year and to the slowest pace since October 2022 of 1.52 mn SAAR sales. The average price for a new vehicle in Canada rose above \$66 k in June according to AutoTrader’s price index, up more than 20% and 40% from the same period in 2022 and 2021 respectively. This large percentage increase in vehicle prices greatly outpaces the average hourly wage gains for permanent employees over the same period even as labour markets prove remarkably resilient. In addition to these elevated prices, the average new car loan rate has been above 7% since October 2022 through May 2023, which is further weighing on consumers buying power and sentiment. With the Bank of Canada forecasted to hold the Overnight rate unchanged at 5.00% through the remainder of this year, and not begin cutting rates until Q2 2024, financing costs are likely to remain elevated in the near term. High prices and financing costs, along with still limited supply continue to weigh on new vehicle sales in the near term. Our outlook for Canadian vehicle sales is 1.67 mn units in 2023 and expect sales to pick up to 1.75 mn in 2024 as inventory and rate pressures ease, underpinned by growing pent up demand against an aging vehicle stock and rapid population growth.

UNITED STATES: IMPROVING SUPPLY MITIGATED BY ELEVATED FINANCING RATES

US auto sales held steady in July at 15.7 mn SAAR units, up 0.5% (sa) from the month prior. New vehicle sales are continuing their general trend recovery but year-to-date sales remain -8.7% (nsa) compared to the first seven months of 2019. Supply-side factors are improving as North American light vehicle production averaged 17.1 mn SAAR units in Q2 2023, the highest quarterly pace since Q2 2019. However, even with production back at a pre-pandemic pace it will take time for inventories to build back up from their currently low levels to fully ease supply-side pressures. Meanwhile, the US Federal Reserve hiked the upper bound of the Fed Funds rate to 5.50% at their monetary policy rate meeting in July. As these policy rates get priced into market rates, the average new car loan rate increased for the 11th consecutive month, reaching 7.47% in July, the highest level since May 2009 in the aftermath of the Global Financial Crisis. We do not forecast policy rate cuts to begin until Q2 2024, which is likely to keep financing costs elevated in the near term. A resilient labour market is supporting employment and wage gains, with nearly 8.5 mn job openings from the June JOLTS data implying there are 1.4 job openings per unemployed, above the average ratio of 1.1 in 2019. We forecast that US vehicle sales will be 15.5 mn units in 2023 amid supply and inventory constraints and improve to 16.6 mn units in 2024.

GLOBAL AUTO SALES: UNEVEN GROWTH THROUGH 2023H1

Global auto sales have wrapped up Q2 2023, registering positive seasonally adjusted sales growth across Latin America, Asia Pacific, and Europe at the regional level (chart 1). Sales through the first half of 2023 have been the strongest in Europe in percentage terms, increasing 18% ytd (nsa) compared to the first half of 2022. Though this is largely attributable to the fact that sales are still nearly 25% below 2019 levels and have the most ground to make up amongst the four regions covered. Asia Pacific auto sales are up 9.6% ytd (nsa) compared to 2022 and exceed 2019 sales by 7.9% ytd (nsa). A large portion of the recovery in vehicle sales is attributable to both China and India, the largest AP markets not including Japan, which are up 11% and 21% ytd (nsa)

compared to 2019 sales respectively. Meanwhile, Japanese auto sales are -11% ytd (nsa) below 2019 levels. The recovery in Latin American auto sales has been uneven, up 1.3% ytd (nsa) compared to 2022 but nearly 20% below 2019 sales at the regional level. While sales have reached pre-pandemic numbers in Argentina and Peru, and are -2% in Mexico, sales in remain 25% below 2019 levels for Brazil and Colombia, and 15% below 2019 levels for Chile. Our global auto sales outlook forecasts vehicle sales increasing 5.3% in 2023 and 4.9% in 2024 (chart 2).

ELECTRIC VEHICLE SALES IN CANADA: LOWER BEV SALES PARTIALLY OFFSET BY PHEV SALES IN 2023Q1

Momentum in Canadian electric vehicle (EV) sales slowed in the first quarter of 2023, accounting for 8.6% of all vehicles sales. With EV sales down from 9.6% the previous quarter and slightly above the 8.2% of all new motor vehicle registrations in 2022, there is still a long road ahead to meet Canada’s interim ZEV sales target of 20% by 2026 and 100% target by 2035. The lower share of EV sales in Q1 was the result of a 14.3% q/q decline in battery EVs which was partially offset by a 19.7% q/q increase in plug-in hybrid EV sales. Ontario, the largest province by vehicle sales, saw a nearly 30% decline in battery EVs which resulted in ZEV sales accounting for only 5.9% of all new motor vehicle sales in Q1 2023, down from 8.1% in Q4 2022. In Quebec, a 19.8% q/q increase in plug-in hybrid EVs along with a 7.8% q/q decline in total vehicles resulted in the share of ZEVs increasing to 14.5% in Q1 2023, up from 13.9% the previous quarter. BC’s new vehicle registrations for battery electric and plug-in hybrid electric were up 2.6% q/q and 23.4% respectively, though were offset by higher total sales resulting in the share of new ZEVs falling to 17.9% from 18.6% in Q4 (chart 3). Canada’s iZEV Incentive Program caps incentive eligibility for passenger cars with an MSRP up to \$65 k, and up to \$70 k MSRP for light trucks and similar sized vehicles. As the average price of a new vehicle surpassed \$66 k in June based on AutoTrader’s price index, rising vehicle prices will limit which vehicles are eligible for the incentives and likely poses medium term headwind towards meeting Canada’s 100% ZEV sales target by 2035. Meanwhile, still limited inventory and high costs of financing pose as short-term headwinds in an environment of pent-up demand.

Chart 3

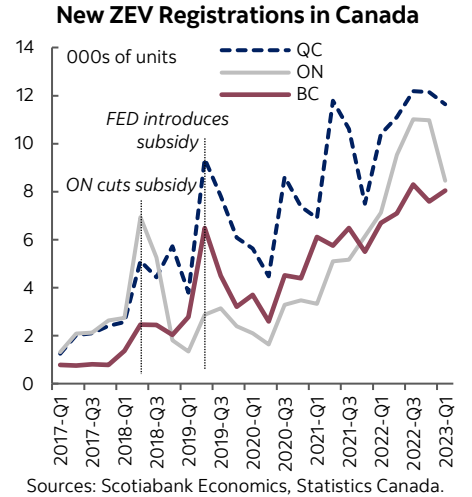


Table 1—Global Auto Sales Outlook (mns units)

	2010-19	2019	2020	2021	2022	2023f	2024f	Jun-23, SA % m/m	Jun-23, NSA % y/y	2023 ytd, NSA % y/y
Total Sales	71.1	74.8	63.8	66.7	67.2	70.8	74.3	-1.8	10.7	11.6
North America	18.7	20.2	17.0	17.6	16.4	18.4	19.5	2.9	18.8	10.7
Canada	1.82	1.92	1.54	1.66	1.52	1.67	1.75	-7.4	8.1	7.6
United States	15.7	17.0	14.5	14.9	13.8	15.5	16.6	4.0	19.7	12.8
Mexico	1.22	1.32	0.95	1.01	1.09	1.16	1.23	4.3	25.7	21.3
Western Europe	13.0	14.1	10.7	10.5	10.0	10.7	11.6	-3.0	19.5	17.8
Germany	3.2	3.6	2.9	2.6	2.7	2.8	3.0	-0.7	24.8	12.8
United Kingdom	2.3	2.3	1.6	1.6	1.6	1.7	1.9	0.0	25.8	18.4
Eastern Europe	3.3	2.9	2.8	2.8	1.8	2.0	2.3	0.7	59.3	18.8
Russia	2.1	1.7	1.5	1.5	0.6	0.7	0.8	28.2	214.7	-6.1
Asia	31.9	33.8	30.6	32.7	35.9	36.5	37.4	-4.1	3.3	9.6
China	19.7	21.4	20.1	21.5	23.6	23.7	24.5	-2.4	2.1	8.9
India	3.3	3.6	2.8	3.6	4.4	4.4	4.4	-15.2	-13.1	6.2
Japan	5.1	5.2	4.6	4.4	4.2	4.6	4.7	0.1	19.8	17.5
South America	4.3	3.8	2.8	3.1	3.2	3.3	3.4	3.5	0.0	1.3
Brazil	2.91	2.67	1.95	1.98	1.96	2.00	2.10	6.7	8.6	9.6
Chile	0.34	0.37	0.26	0.42	0.43	0.45	0.47	-8.4	-37.4	-28.4
Colombia	0.26	0.26	0.19	0.24	0.25	0.27	0.29	-9.9	-37.3	-26.8
Peru	0.16	0.15	0.11	0.16	0.16	0.17	0.18	-1.7	6.7	8.3

Sources: Scotiabank Economics, Wards Automotive, Bloomberg.

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

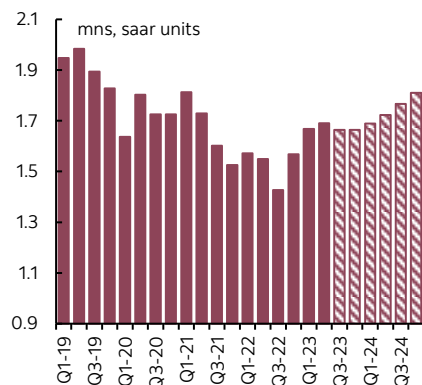
	2010-19	2019	2020	2021	2022	2023f	2024f	May-23, SA % m/m	May-23, NSA % y/y	2023 ytd nsa % y/y	ZEV* (Q1-23) % of new LV sales
Canada	1,817	1,920	1,543	1,663	1,523	1,672	1,748				8.6
Atlantic	134	131	109	119	105	111	119	3.8	15.6	5.1	--
Central	1,179	1,304	1,030	1,070	1,004	1,095	1,132	9.0	24.1	8.9	9.0
Quebec	441	455	378	404	369	395	410	10.5	22.9	4.4	14.5
Ontario	738	848	653	665	635	700	722	8.2	24.8	11.6	5.9
West	548	545	453	487	449	468	497	14.7	20.6	7.1	--
Manitoba	56	58	47	49	45	47	50	7.6	-9.0	3.9	2.7
Saskatchewan	54	49	42	43	41	42	45	10.5	20.1	2.7	1.7
Alberta	239	223	184	196	182	192	202	18.9	30.6	10.0	--
British Columbia**	199	216	179	199	181	187	200	13.0	20.5	5.9	17.9

*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.

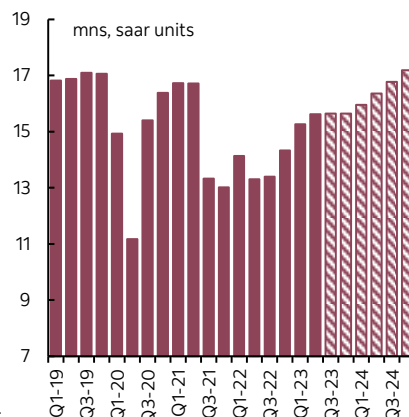
Quarterly Outlook for North American Auto Sector

Canadian Light Vehicle Sales



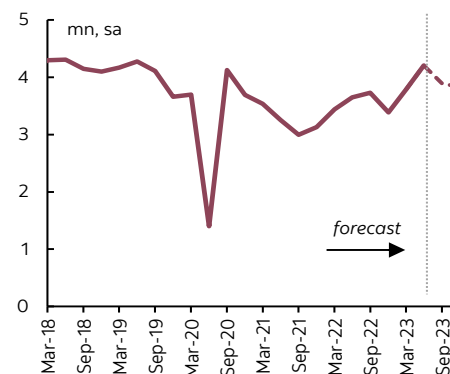
Sources: Scotiabank Economics, Wards Automotive Group.

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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