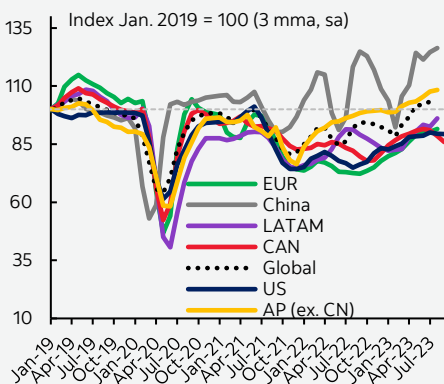


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Chart 1

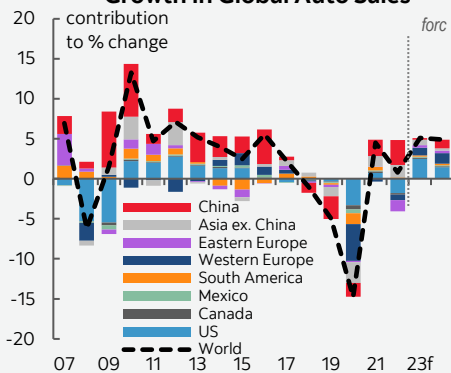
Global Vehicle Sales by Region



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

Chart 2

Regional Contributions to Growth in Global Auto Sales



Sources: Scotiabank Economics, Bloomberg, Wards Automotive.

August Auto Sales: Recovery Slowing Through Midyear

CANADA: MOMENTUM FALTERING THROUGH THE SUMMER

Canadian auto sales were up marginally by 0.9% m/m (sa) in August, to 1.59 mn (saar) units, below 1.6 mn for the second consecutive month this year. Momentum in vehicle sales has slowed throughout the summer, with the three month moving average (3mma) falling to 1.59 mn (saar), down from the recent peak of 1.69 mn reached in May, though remains above the low of 1.44 mn from fall 2022. Rising vehicle prices, elevated financing rates, and still low inventory levels are likely weighing on pent-up demand. Labour market data has shown the pace of new jobs added has slowed in recent months relative to late 2022. Nevertheless, average hourly wage gains in July and August were above 10% m/m (saar) for permanent employees 15 years & over, outpacing monthly core inflation which was 4.2% m/m (saar) in July. Strong wage gains along with increased total hours worked provides support to domestic demand. At the Bank of Canada’s policy rate meeting September 6th, the BoC held the Overnight rate unchanged at 5.00%, though stated that they are prepared to increase the policy rate further if needed to achieve their 2% inflation target. With the BoC unlikely to cut the policy rate until some time in 2024, financing rates are expected to remain elevated in the near term. Our outlook for Canadian vehicle sales is revised down to 1.64 mn in 2023 owing to slowing momentum in vehicle sales amid rising prices, elevated financing rates, and weak sentiment. We are then forecasting auto sales to pick up to 1.72 mn in 2024 as headwinds ease, underpinned by pent-up demand against an aging vehicle stock and population growth.

UNITED STATES: OUTLOOK CLOUDED BY UNCERTAINTY TOWARDS SUPPLY

US auto sales fell 4.5% m/m (sa) in July, to 15.0 mn (saar) units, but held steady on a three month moving average (3mma) basis at 15.5 mn (saar). Auto sales have improved from the recent troughs of late-2021 and mid-2022, when sales were as low as 12.9 mn and 13.0 mn (saar, 3mma) which was the result of production and supply constraints, however progress returning towards the pre-pandemic pace of 17 mn (saar) light vehicle sales has stalled this summer. The average 48-month new car loan rate was 7.31% in August, posting the first month-over-month decline since January 2022, up nearly 4 percentage points over that time frame. Throughout the past year and a half, the Federal Reserve has raised the upper bound of their policy rate to 5.50% in effort to bring inflation back down towards their 2% target. As cuts to the Fed’s policy rate are not expected until some time in 2024, on top of facing upside risk to inflation, financing rates will likely remain elevated for some time. Supply-side pressures continue to ease as North American light vehicle production was 16.4 mn (saar) in July, the fourth consecutive month at or above the 2019 average of 16.2 mn vehicles manufactured. While inventories are being built up from their low levels, new vehicles continue to be absorbed by pent-up demand. Ongoing negotiations between the United Auto Workers (UAW) union and the Detroit Three (GM, Ford, and Stellantis) pose a risk to production disruptions, as UAW members have voted to strike if no new deal is reached before the existing one expires on September 14th. A halt to production while inventory levels are still low will further exacerbate the supply-demand imbalance and will likely add upward pressure to vehicle prices. In an environment of elevated financing rates, additional inflation to vehicle prices poses further headwinds to vehicle affordability and therefore vehicle sales. Our outlook for US vehicle sales is 15.4 mn in 2023, underpinned by improving vehicle availability which faces uncertainty, and picks up to 16.5 mn in 2024 as inflation and rates pressures ease.

GLOBAL AUTO SALES: AP AND EURO SALES SLOW, LATAM CONTINUES TO GROW

The pace of global auto sales continued to slow into the second half of the year, down 0.9% m/m (sa) in July, for a second consecutive seasonally adjusted monthly contraction (chart 1). Global figures were largely weighed down by lower sales in the Asia Pacific region which contracted for a second month, down 2.8% (sa). July's lower sales were broad, contracting in 4 of the 6 countries covered. In China, the region's largest market, sales fell continued to slow (-3.2%, sa). The People's Bank of China (PBoC) cut their policy rates along with local regulators easing lending requirements in efforts to stimulate economic activity. Slowing auto sales in Indonesia (-2.9%, sa), Japan (-7.2%), and South Korea (-8.5%) were partially offset by further growth in Australia (3.3%) and volatile improve in India's auto sales (4.2%). Auto sales also continued to slow in Western Europe (-1.4%, sa), only increasing in France (4.5%, sa), Italy (1.0%), and the UK (6.9%), and contracting in Germany (-4.3%) among other European countries. The European Central Bank (ECB) and Bank of England both hiked their policy rates another 25bps in their July and August meetings respectively amid further efforts to tame inflation. Latam auto sales grew for the third consecutive month at the regional level (4.3%, sa), albeit with improving sales from Brazil (12.4%), Mexico (2.4%), and Peru (0.9%) being weighed down by sales in Argentina (-12.8%), Chile (-6.7%), and Colombia (-14.8%). With inflation coming down from recent highs in the region, Latam central banks have begun to consider how much longer to hold the policy rates, with both Chile and Brazil's central banks starting to cut their policy rates. Our outlook for global auto sales forecast vehicle sales increasing 5.1% in 2023 and 4.9% in 2024 (chart 2).

Table 1—Global Auto Sales Outlook (mns units)

	2010-19	2019	2020	2021	2022	2023f	2024f	Jul-23, SA % m/m	Jul-23, NSA % y/y	2023 ytd, NSA % y/y
Total Sales	71.1	74.8	63.8	66.7	67.2	70.6	74.1	-0.9	8.3	11.2
North America	18.7	20.2	17.0	17.6	16.4	18.2	19.4	0.5	15.4	11.3
Canada	1.82	1.92	1.54	1.66	1.52	1.64	1.72	-2.1	4.1	7.1
United States	15.7	17.0	14.5	14.9	13.8	15.4	16.5	0.6	15.4	13.2
Mexico	1.22	1.32	0.95	1.01	1.09	1.16	1.23	2.4	33.3	23.0
Western Europe	13.0	14.1	10.7	10.5	10.0	10.7	11.6	-1.4	17.8	17.8
Germany	3.2	3.6	2.9	2.6	2.7	2.8	3.0	-4.3	18.1	13.6
United Kingdom	2.3	2.3	1.6	1.6	1.6	1.7	1.9	6.9	28.3	19.6
Eastern Europe	3.3	2.9	2.8	2.8	1.8	2.0	2.3	14.1	96.3	27.8
Russia	2.1	1.7	1.5	1.5	0.6	0.7	0.8	14.9	209.6	12.8
Asia	31.9	33.8	30.6	32.7	35.9	36.5	37.4	-2.8	-0.3	8.2
China	19.7	21.4	20.1	21.5	23.6	23.7	24.5	-3.2	-3.4	6.8
India	3.3	3.6	2.8	3.6	4.4	4.4	4.4	4.2	8.4	8.4
Japan	5.1	5.2	4.6	4.4	4.2	4.6	4.7	-7.2	8.5	16.2
South America	4.3	3.8	2.8	3.1	3.2	3.3	3.4	5.1	8.9	2.5
Brazil	2.91	2.67	1.95	1.98	1.96	2.00	2.10	12.4	27.5	12.5
Chile	0.34	0.37	0.26	0.42	0.43	0.45	0.47	-6.7	-39.8	-30.1
Colombia	0.26	0.26	0.19	0.24	0.25	0.27	0.29	-14.8	-43.1	-29.4
Peru	0.16	0.15	0.11	0.16	0.16	0.17	0.18	0.9	10.3	8.6

Sources: Scotiabank Economics, Wards Automotive, Bloomberg.

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

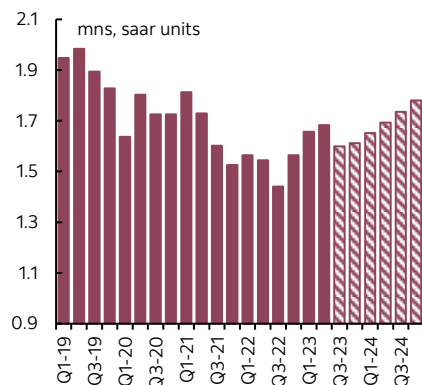
	2010-19	2019	2020	2021	2022	2023f	2024f	Jun-23, SA % m/m	Jun-23, NSA % y/y	2023 ytd nsa % y/y	ZEV* (Q1-23) % of new LV sales
Canada	1,817	1,920	1,543	1,663	1,523	1,638	1,715				8.6
Atlantic	134	131	109	119	105	108	116	-1.5	6.5	5.4	--
Central	1,179	1,304	1,030	1,070	1,004	1,075	1,110	-6.9	10.8	9.3	9.0
Quebec	441	455	378	404	369	385	400	-3.0	12.9	6.0	14.5
Ontario	738	848	653	665	635	690	710	-9.1	9.6	11.2	5.9
West	548	545	453	487	449	460	489	-12.4	3.8	6.5	--
Manitoba	56	58	47	49	45	47	50	-15.9	-4.1	2.4	2.7
Saskatchewan	54	49	42	43	41	42	44	-12.6	-8.7	0.3	1.7
Alberta	239	223	184	196	182	186	200	-14.9	6.8	9.4	--
British Columbia**	199	216	179	199	181	185	195	-8.9	5.5	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.

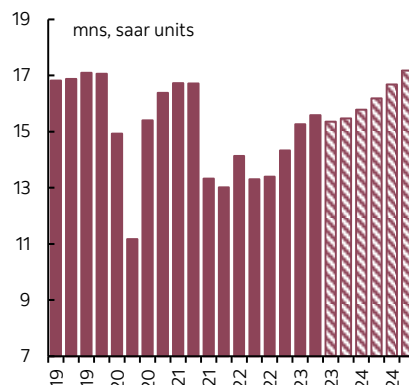
Quarterly Outlook for North American Auto Sector

Canadian Light Vehicle Sales



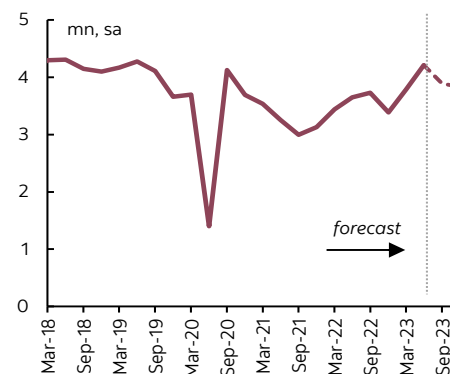
Sources: Scotiabank Economics, Wards Automotive Group.

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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