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October Auto Sales: Slowing Growth in 2023H2

CANADA: UPWARD REVISIONS REVEAL LESS OF A SUMMER SLOWDOWN

Canadian auto sales fell -1.2% m/m (SA) to 1.67 mn (SAAR) units in October following three consecutive months of increasing sales according to Wards Automotive (chart 1). Light vehicle sales have averaged 1.67 mn (SAAR) and are up 10.1%

year-to-date (ytd, NSA) through the first ten months of the year though remain -14.0% (ytd, NSA) compared to the same period in 2019. Strong upward revisions to data for July through September have revealed that there has been less of a slowdown through the summer than previously expected despite rising vehicle prices, wildfires, and strikes. The labour market continues to provide support to Canadian consumers, averaging 40 k (SA) jobs added and average annualized wages gains of 7.3% (SAAR) for the three months ending in October. While the unemployment rate has increased to 5.7% (SA), up from 5.0% (SA) early in the year to the highest rate since the beginning of 2022 but in line with February 2020, this is mostly due to the labour force growing faster than jobs added. Rising vehicle prices continue to weigh on affordability, with the average price of a new vehicle reaching \$67.8 k in September according to the latest AutoTrader.ca price index. Our outlook for Canadian auto sales is 1.63 mn in 2023 owing to weak sentiment and high cost of vehicle ownership, improving to 1.71 mn in 2024 and 1.79 mn in 2025 as headwinds ease, underpinned by pent up demand against an aging vehicle stock.

UNITED STATES: RISING FINANCING RATES ADD TO AFFORDABILITY CONSTRAINTS

Momentum in the recovery of US auto sales continues to stall as sales decreased -1.2% m/m (SA) to 15.5 mn (SAAR) units in October (chart 2). Elevated financing rates continue to weigh on vehicle affordability as the average 48-month new car loan rate reached 7.56% in October, now above the peak average rate in mid-2009. Since early 2022, the average auto loan rate has increased 4 percentage points, while the US Federal Reserve has hiked the upper bound of their policy rate to 5.50% from 0.25% over the same period. Financing rates are likely to remain elevated in the near term while the Federal Reserve maintains a restrictive policy rate stance as both headline and core inflation return towards their 2% target. North American light vehicle production slowed to 16.0 mn (SAAR) units in Q3, down from the recent peak of 16.9 mn (SAAR) in Q2 (-5.3% q/q). In late October, the United Auto Workers (UAW) union reached tentative agreements regarding new contracts with Ford, General Motors, and Stellantis ending a more than month-long strike against the Detroit Three automakers that began on September 15th. Our outlook for US light vehicle sales is 15.5 mn in 2023 amid low inventories, elevated financing rates and weak sentiment, and picks up to 16.4 mn in 2024 and 17.0 mn in 2025 as headwinds ease.

GLOBAL AUTO SALES: SLOWDOWN IN Q3 AT THE REGIONAL LEVEL

The trend recovery in global auto sales slowed in the third quarter, marginally increasing 0.7% q/q (SA) as some regions fared better than others (chart 3). Vehicle sales continue to be volatile on a monthly basis, contracting -1.7% m/m (SA) in September, down in three of the past four months. As economic activity growth has slowed in Western Europe, so too have vehicle sales which fell in eleven of the fifteen countries covered during the third quarter, with increases in France (2.1% q/q, SA), Germany (2.4%), and the UK (6.3%) partially offset by decreases in Italy (-1.3%) and Spain (-4.0%), resulting in flat (0.4%) sales growth at the regional level. Asia-Pacific auto sales held relatively steady in the third quarter (0.4% q/q, SA), with a noticeable variance at the country-level. A faster pace of auto sales in China (1.8% q/q, SA) and Australia (11.3%) were weighed down by weaker than seasonal trend sales in India (-2.3%), Indonesia

Chart 1

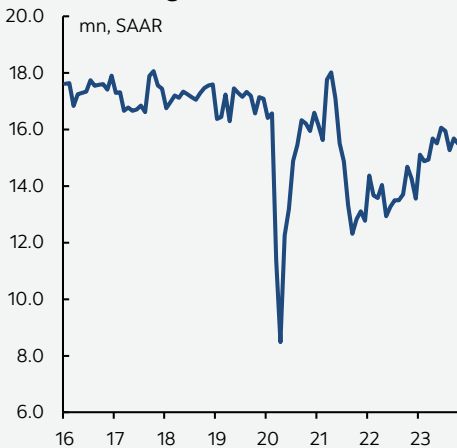
Canada Light Vehicle Sales



Sources: Scotiabank Economics, Wards Automotive.

Chart 2

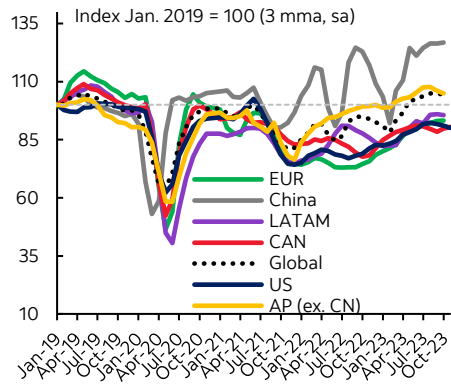
US Light Vehicle Sales



Sources: Scotiabank Economics, BEA.

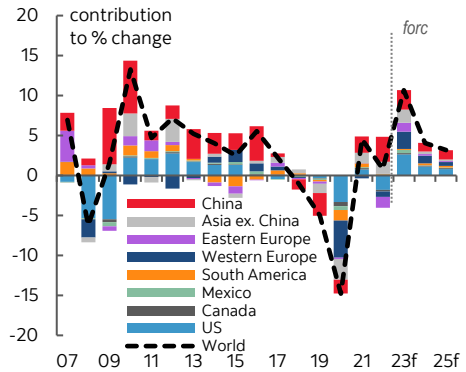
(-11.8%), Japan (-1.2%) and slowing sales in South Korea (-1.2%). In similar fashion, higher third quarter vehicle sales in Latin America (3.9% q/q, SA) saw gains concentrated in Mexico (8.5%) and Brazil (6.9%), while contracting in Argentina (-6.0%), Chile (-3.7%), Colombia (-14.7%), and Peru (-7.5%). Our outlook for global auto sales in 2023 has been revised up to 10.7% owing to stronger than expected sales to date, and forecast 4.1% in 2024 and 3.2% in 2025 (chart 4).

Chart 3
Global Vehicle Sales by Region



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

Chart 4
Regional Contributions to Growth in Global Auto Sales



Sources: Scotiabank Economics, Bloomberg, Wards Automotive.

Table 1—Global Auto Sales Outlook (mns units)

| | 2010-19 | 2020 | 2021 | 2022 | 2023f | 2024f | 2025f | Sep-23, SA % m/m | Sep-23, NSA % y/y | 2023 ytd, NSA % y/y |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------|----------------------|------------------------|
| Total Sales | 71.1 | 63.8 | 66.7 | 67.3 | 74.4 | 77.5 | 79.9 | -1.7 | 10.8 | 11.4 |
| North America | 18.7 | 17.0 | 17.6 | 16.4 | 18.5 | 19.5 | 20.2 | 2.8 | 20.1 | 12.4 |
| Canada | 1.82 | 1.54 | 1.66 | 1.52 | 1.63 | 1.71 | 1.79 | 1.9 | 21.4 | 10.3 |
| United States | 15.7 | 14.5 | 14.9 | 13.8 | 15.5 | 16.4 | 17.0 | 2.7 | 18.6 | 14.1 |
| Mexico | 1.22 | 0.95 | 1.01 | 1.09 | 1.35 | 1.39 | 1.43 | 5.5 | 37.5 | 24.8 |
| Western Europe | 13.0 | 10.7 | 10.5 | 10.0 | 11.5 | 12.2 | 12.5 | -6.5 | 11.2 | 17.4 |
| Germany | 3.2 | 2.9 | 2.6 | 2.7 | 2.9 | 3.1 | 3.1 | -17.2 | -0.1 | 14.5 |
| United Kingdom | 2.3 | 1.6 | 1.6 | 1.6 | 1.9 | 2.0 | 2.1 | -2.7 | 21.0 | 20.2 |
| Eastern Europe | 3.3 | 2.8 | 2.8 | 1.9 | 2.6 | 2.8 | 2.9 | -3.0 | 69.8 | 40.8 |
| Russia | 2.1 | 1.5 | 1.5 | 0.6 | 1.0 | 1.1 | 1.1 | -2.2 | 120.5 | 47.3 |
| Asia | 31.9 | 30.6 | 32.7 | 35.9 | 38.6 | 39.6 | 40.7 | -2.2 | 5.7 | 7.7 |
| China | 19.7 | 20.1 | 21.5 | 23.6 | 25.2 | 26.0 | 26.9 | -1.9 | 6.7 | 6.8 |
| India | 3.3 | 2.8 | 3.6 | 4.4 | 4.8 | 4.9 | 4.9 | -4.7 | 1.1 | 6.9 |
| Japan | 5.1 | 4.6 | 4.4 | 4.2 | 4.7 | 4.8 | 4.8 | -1.2 | 10.7 | 15.6 |
| South America | 4.3 | 2.8 | 3.1 | 3.2 | 3.3 | 3.4 | 3.6 | -0.8 | -1.8 | 1.2 |
| Brazil | 2.91 | 1.95 | 1.98 | 1.96 | 2.15 | 2.27 | 2.38 | -0.7 | 3.7 | 9.8 |
| Chile | 0.34 | 0.26 | 0.42 | 0.43 | 0.32 | 0.33 | 0.35 | -17.0 | -30.5 | -29.0 |
| Colombia | 0.26 | 0.19 | 0.24 | 0.25 | 0.19 | 0.20 | 0.21 | -4.4 | -33.9 | -31.0 |
| Peru | 0.16 | 0.11 | 0.16 | 0.16 | 0.18 | 0.18 | 0.19 | -17.4 | -11.2 | 6.6 |

Sources: Scotiabank Economics, Wards Automotive, Bloomberg.

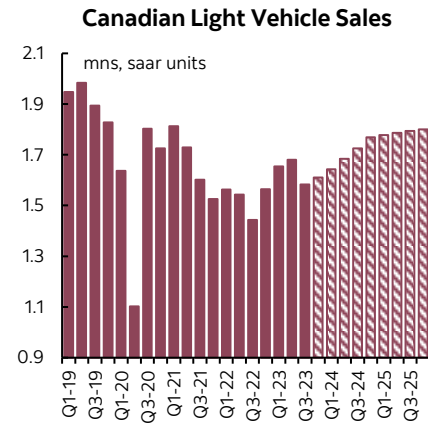
Table 2—Provincial Auto Sales Outlook (thousands of units ann.)

| | 2010-19 | 2020 | 2021 | 2022 | 2023f | 2024f | 2025f | Aug-23, SA % m/m | Aug-23, NSA % y/y | 2023 ytd nsa % y/y | ZEV* (Q2-23) % of new LV sales |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------------|----------------------|-----------------------|-----------------------------------|
| Canada | 1,817 | 1,543 | 1,663 | 1,523 | 1,632 | 1,705 | 1,790 | | | | 8.6 |
| Atlantic | 134 | 109 | 119 | 105 | 108 | 115 | 121 | 8.5 | 5.9 | 4.5 | -- |
| Central | 1,179 | 1,030 | 1,070 | 1,004 | 1,075 | 1,105 | 1,159 | 3.4 | 16.9 | 11.0 | 9.5 |
| Quebec | 441 | 378 | 404 | 369 | 385 | 400 | 420 | 7.3 | 17.6 | 8.6 | 14.7 |
| Ontario | 738 | 653 | 665 | 635 | 690 | 705 | 739 | 1.1 | 16.5 | 12.3 | 6.2 |
| West | 548 | 453 | 487 | 449 | 460 | 484 | 510 | 4.6 | 16.0 | 8.0 | -- |
| Manitoba | 56 | 47 | 49 | 45 | 47 | 50 | 54 | -5.4 | 6.3 | 4.3 | 3.1 |
| Saskatchewan | 54 | 42 | 43 | 41 | 42 | 43 | 46 | 1.5 | -1.5 | -0.2 | 2.1 |
| Alberta | 239 | 184 | 196 | 182 | 186 | 197 | 207 | 8.3 | 18.0 | 9.8 | -- |
| British Columbia** | 199 | 179 | 199 | 181 | 185 | 194 | 204 | 4.0 | 20.5 | 8.9 | 15.2 |

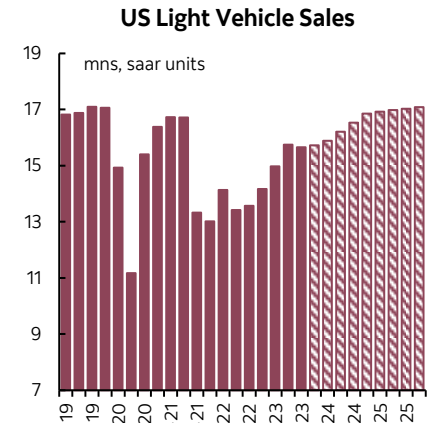
*ZEV includes battery electric and plug-in hybrid electric vehicles (estimates for NL, NS, and AB unavailable due to limitations in data sharing with Statistics Canada, but are included in the Canadian aggregate). **British Columbia includes the territories.

Sources: Scotiabank Economics, Wards Automotive, Statistics Canada.

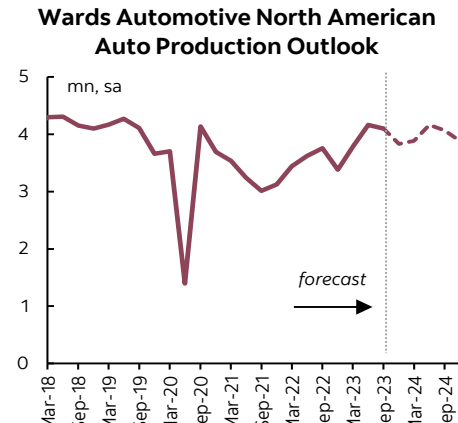
Quarterly Outlook for North American Auto Sector



Sources: Scotiabank Economics, Wards Automotive Group.



Sources: Scotiabank Economics, Wards Automotive Group.



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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