

Global Auto Report

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Auto Industry Drives Canada's Industrial Revival — Auto Parts Employment Outpaces Growth In The United States

Recent Global Sales Development

Global car sales continued to strengthen in February, climbing 3% above a year earlier alongside ongoing solid job creation across developed markets. The gain was broad-based, with only Brazil and Russia continuing to exhibit sharply lower volumes. Western Europe led the advance, as an improving job performance reduced unemployment in the euro zone to the lowest level in nearly seven years. February car sales in Western Europe rose 14% above a year earlier, the third double-digit advance in the past four months.

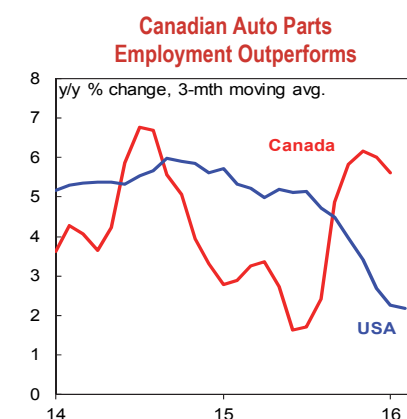
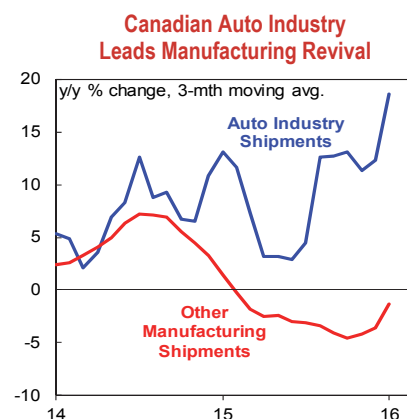
More recent data for March point to further solid advance across North America. Mexico led the way, with a double-digit year-over-year increase. Canada reported record volumes and the key U.S. market posted a 3% y/y advance. Car sales in Mexico have surged 13% so far this year, one of the best performances among the world's major auto markets, with gains supported by formal employment growth in excess of 5% y/y. In Canada, car & light truck purchases surpassed an annualized 2 million units last month, exceeding the previous peak set last September. This year's record-setting pace has been much stronger than we originally anticipated. Five provinces have reported double-digit year-over-year sales increases so far this year, prompting us to raise our full-year forecast to 1.955 million, up from our previous estimate of 1.90 million. Fleet volumes have been especially robust, due to increased availability of a key model and strengthening economic activity outside of the resource sector. Pickup truck volumes have surged by nearly 20% this year, garnering a record share of the Canadian auto market.

Auto Industry Leads Manufacturing And Export Rebound

Record North American auto sales and production, combined with the end of extensive retooling at several assembly plants and a more competitive currency, are reviving the Canadian auto industry and laying the foundation for a much-improved industrial outlook in 2016.

The auto industry is single-handedly lifting Canadian manufacturing activity and non-resource exports out of the doldrums experienced during much of 2015. The auto sector has also reclaimed its title as Canada's largest exporter, overtaking the oil & gas industry. In fact, the auto sector's share of overall manufacturing activity is now at the highest level since 2003, and exports have been so strong that the sector has swung to trade surplus in early 2016. This is a sharp reversal from the large deficits the industry faced since 2007, including shortfalls in excess of \$16 bn in 2013 and 2014.

Auto industry shipments surged 29% year-over-year in the opening month of 2016, accounting for nearly 80% of the year-over-year gain across all of Canada's manufacturing activity. Much of the increase reflects rising production at the Windsor minivan plant following an extended period of retooling in the first half of



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2015. However, other automakers have also boosted output alongside the introduction of several new Canadian-made models. Canadian vehicle assemblies jumped 8% sequentially in the first quarter, climbing to the highest level since mid-2012. The rebound was driven by a 25% y/y surge in light truck production, with further growth on the way. Automakers recently lifted their North American production plans an additional 3% for the second quarter, mostly due to the surging popularity of crossover utility vehicles (CUVs). Canada is well positioned to take advantage of this trend, as CUVs account for nearly two-thirds of overall production at Canadian assembly plants. As a result, Canadian vehicle output is scheduled to jump 12% year-over-year in the April-June period — nearly ten times the increase projected for facilities in the rest of North America.

Surging CUV demand and the launch of all-new Canadian-made models have led to hiring of nearly 2,000 new workers at assembly plants in Canada in recent months, especially across South Western Ontario. In fact, auto plants located between Windsor and Cambridge now produce 55% of all vehicles built in Canada, with output in the region expected to approach a record 1.3 million units this year. Solid growth at these facilities has helped lift employment at Canadian assembly plants to the highest level in eight years, more than offsetting ongoing job losses at facilities in the rest of the province.

Auto Parts Sector Outperforms

Employment growth is much stronger among Canada's automotive parts suppliers. Payrolls are advancing 5% y/y through early 2016, buoyed by double-digit gains in industry output. Canadian auto parts shipments have posted back-to-back double-digit gains in the past two years — a development that had not occurred since the late 1990s. Shipments climbed last year to the highest level since 2006, and if the current pace of gains is maintained, volumes could climb to all-time highs, surpassing the 2004 peak.

Record North American vehicle demand, combined with the hefty 28% decline in the Canadian dollar since 2011, has enabled Canadian suppliers to recapture market share across North America. Each vehicle built in Canada, the United States and Mexico now contains nearly US\$1600 of Canadian-made parts — a significant improvement from the recent low of only US\$1437 in 2013.

Canadian suppliers are also outperforming their global peers. Canadian auto parts exports advanced by roughly 16% last year, a further acceleration from a 14% jump in 2014. This highlights the improved competitiveness of the Canadian auto parts industry and lifted its share of global exports to 3.1%, the second consecutive annual increase and the highest level since 2008. This solid performance has enabled Canada to retain its position as a global 'top 10' auto parts exporter.

Auto parts employment in Canada has advanced by 5% over the past year, the sharpest gain since 2000, and double the advance in the United States. While auto parts employment growth in Canada had lagged gains in the United States for most of the current cycle, Canadian suppliers have been outperforming since mid-2015. In fact, the auto parts sector is the main driver of the recent stabilization in manufacturing employment throughout Canada. Overall Canadian manufacturing employment edged up 0.4% last year. However, if the auto parts sector is excluded, manufacturing payrolls were largely flat.

International Car Sales Outlook (millions of units)

	<u>1990-99</u>	<u>2000-12</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016f</u>
TOTAL SALES	39.20	52.57	68.65	71.18	72.37	74.39
North America*	16.36	17.68	18.33	19.42	20.64	21.13
Canada	1.27	1.59	1.74	1.85	1.90	1.96
United States	14.55	15.12	15.53	16.44	17.39	17.70
Mexico	0.54	0.97	1.06	1.13	1.35	1.47
Western Europe	13.11	13.96	11.55	12.11	13.20	13.73
Germany	3.57	3.27	2.95	3.04	3.21	3.30
Eastern Europe	1.18	2.95	4.04	3.81	2.91	2.80
Russia	0.78	1.75	2.78	2.49	1.60	1.44
Asia	6.91	15.01	29.98	31.69	32.29	33.60
China**	0.43	5.77	16.30	18.37	20.01	21.41
India	0.31	1.13	1.83	1.87	2.06	2.11
South America	1.64	2.97	4.75	4.15	3.33	3.13
Brazil	0.94	1.84	2.76	2.50	1.82	1.56

*Includes light trucks. **Includes crossover utility vehicles from 2005.

Canada/U.S. Motor Vehicle Sales Outlook

	<u>1991-05</u> Average	<u>2006-13</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	
					Jan-Feb**	Annual f
(thousands of units, annualized)						
CANADA	1,398	1,618	1,851	1,898	1,989	1,955
Cars	797	786	759	714	693	700
Domestic	583	488	512	476	457	455
Transplants	178	270	329	327	325	325
Imports	214	298	247	238	236	245
Light Trucks	601	832	1,092	1,184	1,296	1,255
(millions of units, annualized)						
UNITED STATES	15.5	13.8	16.4	17.4	17.1	17.7
Cars	8.3	6.7	7.7	7.5	7.0	7.6
Light Trucks	7.2	7.1	8.7	9.9	10.1	10.1
(millions of units, annualized)						
NORTH AMERICAN PRODUCTION*	15.58	13.86	17.43	17.95	17.65	18.31
CANADA	2.50	2.22	2.39	2.28	2.63	2.33
UNITED STATES	11.67	9.27	11.67	12.10	11.61	12.30
MEXICO	1.41	2.37	3.37	3.57	3.41	3.68

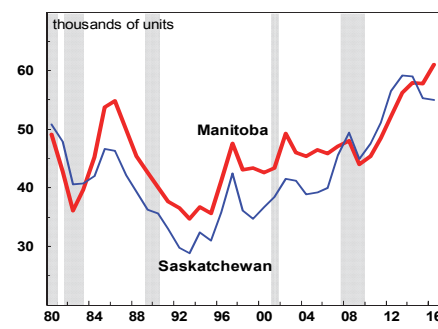
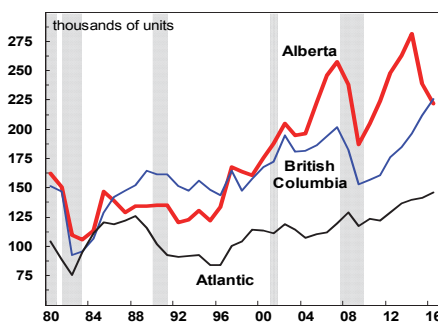
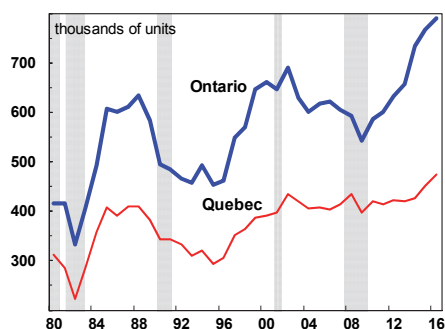
*Includes transplants; light, medium and heavy trucks. **Canadian sales are Scotiabank estimates.

Vehicle Sales Outlook By Province*

(thousands of units, annual rates)

	<u>1994-05</u> Average	<u>2006-13</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	
					Jan-Feb**	Annual f
CANADA	1,446	1,618	1,851	1,898	1,989	1,955
ATLANTIC	102	121	137	140	146	140
CENTRAL	936	1,002	1,139	1,205	1,295	1,271
Quebec	366	410	420	444	475	470
Ontario	570	592	719	761	820	801
WEST	408	495	575	553	548	544
Manitoba	42	47	56	56	60	56
Saskatchewan	36	48	56	54	55	53
Alberta	166	227	269	236	220	220
British Columbia	164	173	194	207	213	215

*Includes cars and light trucks. **Scotiabank estimates.



Includes cars and trucks (light, medium and heavy). Shaded bars indicate U.S. recession periods.

Auto Market Share By Manufacturer — Canada*

(thousands of units, not seasonally adjusted)

	<u>2015</u>		<u>2016</u>		<u>2015</u>		<u>2016</u>	
	Jan to Mar		Jan to Mar		Mar		Mar	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	140.1	100.0	134.5	100.0	64.1	100.0	61.8	100.0
Big Three	26.9	19.2	27.1	20.1	13.1	20.4	13.0	21.0
General Motors	11.3	8.1	14.5	10.8	5.4	8.4	7.0	11.2
Ford	8.7	6.2	8.4	6.2	4.4	6.9	3.7	6.1
Chrysler	6.9	4.9	4.2	3.1	3.3	5.1	2.3	3.7
Japanese	60.9	43.5	59.8	44.4	27.6	43.1	27.0	43.8
Honda	16.8	12.0	18.5	13.8	8.4	13.1	8.5	13.8
Toyota	18.7	13.4	18.0	13.4	7.4	11.6	8.3	13.4
Nissan	11.0	7.9	11.7	8.7	4.7	7.3	5.0	8.0
Mazda	9.4	6.7	6.2	4.6	4.9	7.6	2.9	4.7
Mitsubishi	1.9	1.4	2.4	1.8	0.8	1.3	1.1	1.8
Subaru	3.1	2.2	3.0	2.2	1.4	2.2	1.3	2.1
Hyundai	17.7	12.6	16.5	12.3	8.0	12.5	7.9	12.8
Volkswagen	12.8	9.2	9.7	7.2	5.8	9.0	4.4	7.2
Kia	9.0	6.4	8.1	6.0	4.1	6.5	3.5	5.6
BMW	4.6	3.3	4.7	3.5	1.7	2.7	1.9	3.0
Mercedes-Benz	4.8	3.4	5.2	3.9	2.2	3.4	2.4	3.8
Other	3.4	2.4	3.4	2.6	1.6	2.4	1.7	2.8

*Source: Dealer sales from the Global Automakers of Canada.

Truck Market Share By Manufacturer — Canada*

(thousands of units, not seasonally adjusted)

	<u>2015</u>		<u>2016</u>		<u>2015</u>		<u>2016</u>	
	Jan to Mar		Jan to Mar		Mar		Mar	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	237.0	100.0	275.3	100.0	100.3	100.0	116.4	100.0
Big Three	132.4	55.8	151.8	55.2	54.4	54.2	63.8	54.9
General Motors	35.1	14.8	40.1	14.6	15.6	15.6	17.5	15.1
Ford	42.3	17.8	53.1	19.3	17.0	16.9	22.7	19.5
Chrysler	55.0	23.2	58.6	21.3	21.8	21.7	23.6	20.3
Other Domestic	10.1	4.3	9.1	3.3	4.8	4.8	4.4	3.7
Japanese	62.4	26.4	76.8	27.9	27.0	27.0	32.4	27.8
Honda	13.8	5.8	17.4	6.3	6.4	6.3	7.8	6.7
Toyota	22.6	9.5	27.4	10.0	9.4	9.4	10.8	9.3
Nissan	15.2	6.4	18.3	6.7	6.5	6.5	7.6	6.6
Mazda	4.7	2.0	7.2	2.6	2.2	2.2	3.2	2.7
Mitsubishi	2.1	0.9	2.6	0.9	0.9	0.9	1.0	0.9
Subaru	6.1	2.6	6.5	2.4	2.6	2.6	2.9	2.5
Hyundai	10.3	4.3	11.3	4.1	4.7	4.7	5.1	4.4
Kia	5.6	2.4	5.9	2.1	2.5	2.5	2.5	2.1
Other Imports	16.2	6.8	20.4	7.4	6.9	6.8	8.2	7.1
LIGHT TRUCKS	228.7	96.5	269.0	97.7	96.6	96.3	114.0	97.9

*Source: Dealer sales from the Global Automakers of Canada.

Auto Sales By Province

(thousands of units, not seasonally adjusted)

	<u>2014</u> Jan to Dec	<u>2015</u> Jan to Dec	<u>2015</u> Jan	<u>2016</u> Jan
CANADA	760.4	713.0	35.1	33.8
ATLANTIC	62.2	54.6	2.2	2.1
Newfoundland	13.3	11.5	0.4	0.4
Nova Scotia	26.5	23.2	1.0	0.9
New Brunswick	18.6	16.5	0.7	0.7
Prince Edward Island	3.8	3.4	0.1	0.1
CENTRAL	531.2	502.7	23.8	23.1
Quebec	229.1	218.5	10.0	9.3
Ontario	302.1	284.2	13.8	13.8
WEST	167.0	155.7	9.1	8.6
Manitoba	17.5	15.9	0.9	0.8
Saskatchewan	12.3	10.6	0.6	0.5
Alberta	59.9	52.0	3.2	2.8
British Columbia	77.3	77.2	4.4	4.5

Truck Sales By Province*

(thousands of units, not seasonally adjusted)

	<u>2014</u> Jan to Dec	<u>2015</u> Jan to Dec	<u>2015</u> Jan	<u>2016</u> Jan
CANADA	1,129.9	1,226.9	66.4	77.7
ATLANTIC	77.3	87.9	4.3	5.7
Newfoundland	22.1	23.4	1.2	1.6
Nova Scotia	27.4	31.8	1.6	1.9
New Brunswick	24.1	28.2	1.3	1.8
Prince Edward Island	3.7	4.5	0.2	0.4
CENTRAL	628.3	727.8	35.5	45.2
Quebec	197.7	233.3	11.5	14.3
Ontario	430.6	494.5	24.0	30.9
WEST	424.3	411.2	26.6	26.8
Manitoba	40.3	42.0	2.3	2.7
Saskatchewan	46.1	44.6	2.9	2.8
Alberta	217.3	190.3	13.2	11.8
British Columbia	120.6	134.3	8.2	9.5

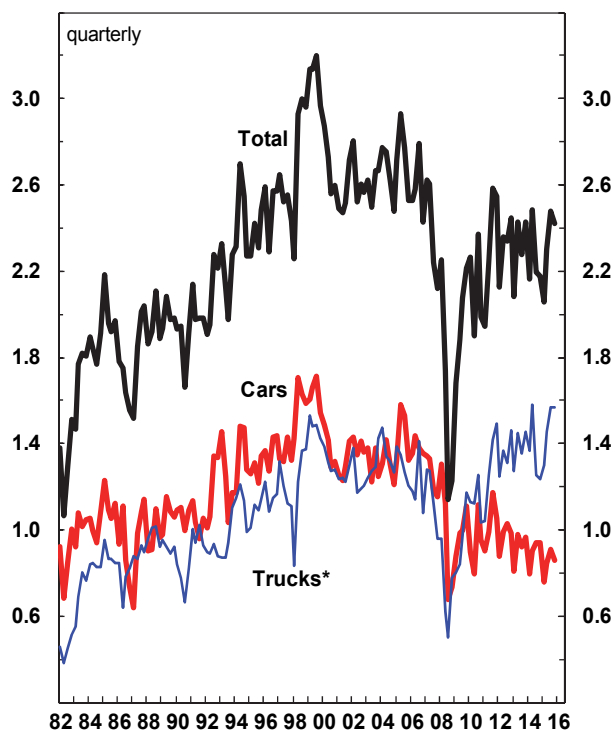
*Light, medium and heavy trucks.

Canadian Motor Vehicle Production*
(thousands of units, not seasonally adjusted)

	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
	Jan to Feb	Jan to Feb	Feb	Feb
TOTAL	350.0	402.3	166.7	200.1
CAR	140.4	143.2	71.0	71.9
Chrysler	42.3	42.5	20.7	20.6
GM	34.2	25.1	22.2	13.2
Honda	26.5	35.0	10.5	17.7
Toyota	37.4	40.6	17.6	20.4
TRUCKS**	209.6	259.1	95.7	128.2
Chrysler	51.1	51.0	15.4	19.2
Ford	8.7	44.5	8.1	24.5
GM	63.2	66.7	32.3	35.7
Honda	29.7	35.6	12.8	18.0
Toyota	54.7	59.3	26.0	29.7
Others	2.2	2.0	1.1	1.1

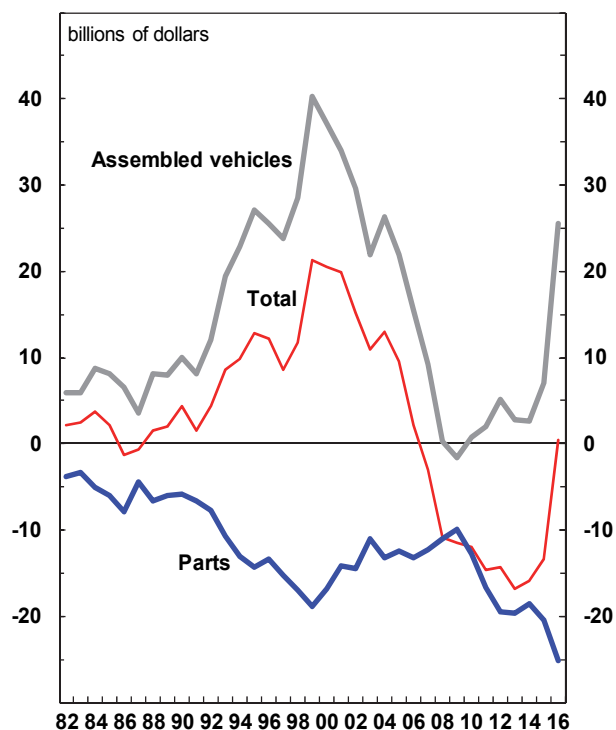
*Production data from Ward's Automotive Reports. **Light, medium and heavy trucks.

Canada — Motor Vehicle Production



Millions of units, seasonally adjusted annual rates.
*Light, medium and heavy trucks.

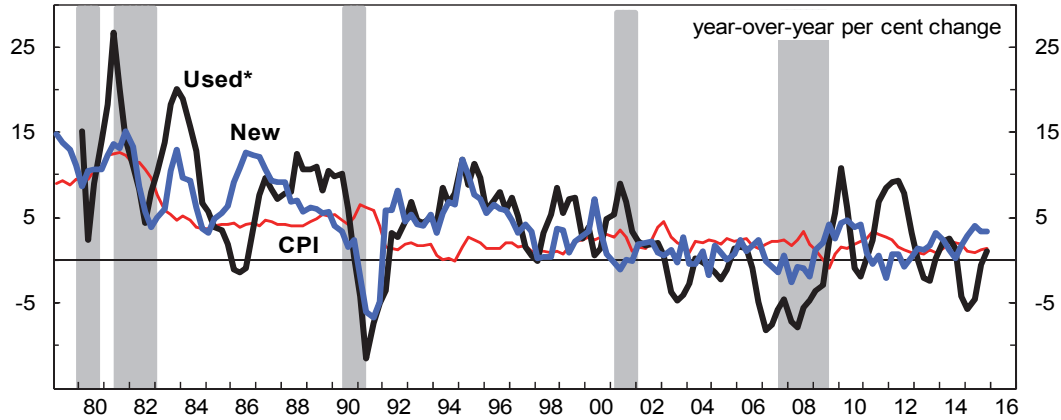
Canada — World Auto Trade Balances



2016 data are January-February annualized.

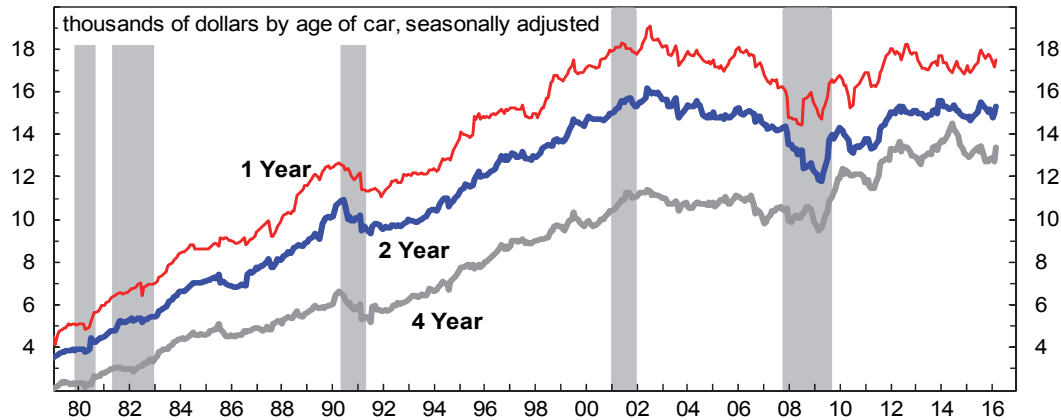
New & Used Car Prices

Scotiabank Car Price Indicators — Canada



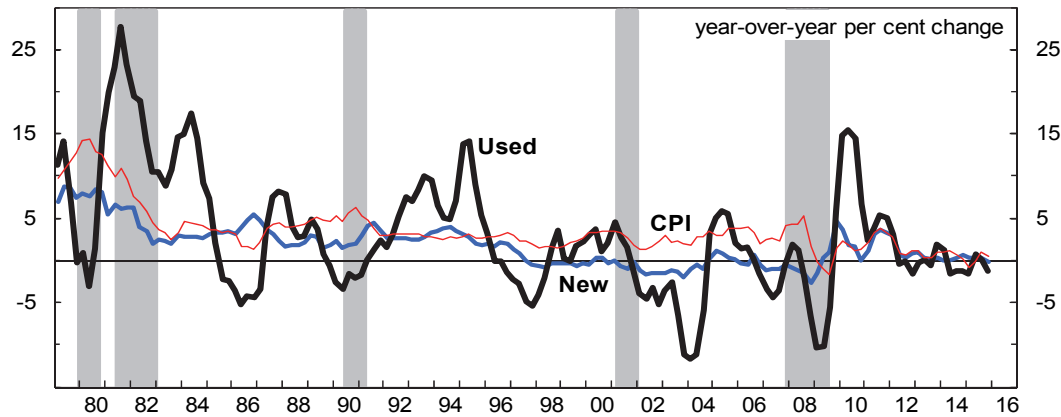
*Scotiabank estimate from Canadian Black Book data.

Scotiabank Car Price Indicators — Canada



Scotiabank estimate from Canadian Black Book data.

Scotiabank Car Price Indicators — United States



Consumer price indices for new and used cars.
Shaded areas indicate recession periods.

Canadian Corporate Financial Performance

Motor Vehicle Dealers and Repair Shops

		Net Income After Tax (\$ mil)	Pre-Tax Profit Margin (%)	Inventory Turnover Ratio	Interest Coverage Ratio	Debt/ Equity Ratio	Return on Shareholders Equity (%)
Annual	2003	594	0.91	5.30	2.65	2.91	10.14
	2004	571	0.69	4.98	2.25	3.17	10.49
	2005	799	0.93	5.35	2.55	2.74	12.90
	2006	942	1.20	5.16	2.64	2.75	14.37
	2007	1089	1.41	5.05	3.36	2.56	15.13
	2008	1142	1.43	5.04	3.51	2.44	14.66
	2009	1392	1.84	5.34	4.85	2.07	16.99
	2010	1649	2.06	4.91	5.34	2.11	18.09
	2011	1664	1.99	5.17	5.19	2.02	17.44
	2012	1748	1.97	4.86	5.32	2.03	16.71
	2013	1708	1.88	5.07	5.45	2.00	15.36
	2014	2312	2.20	5.12	6.05	1.98	18.75
	2015	2514	2.19	5.11	5.11	6.47	18.86
Quarterly at annual rates							
	2014Q4	2480	2.34	5.07	6.12	1.90	19.38
	2015Q1	1668	1.75	4.62	5.22	1.98	12.92
	Q2	2748	2.21	5.45	6.70	2.00	21.17
	Q3	2940	2.41	5.34	7.29	1.90	21.72
	Q4	2700	2.34	5.04	6.54	1.90	19.45
Average (89-15)		881	1.27	6.03	3.24	2.34	11.73
Low (89-15)		-68	0.10	4.38	1.10	3.57	-1.20

Definition of Ratios:

Pre-tax Profit Margin: pre-tax income/sales

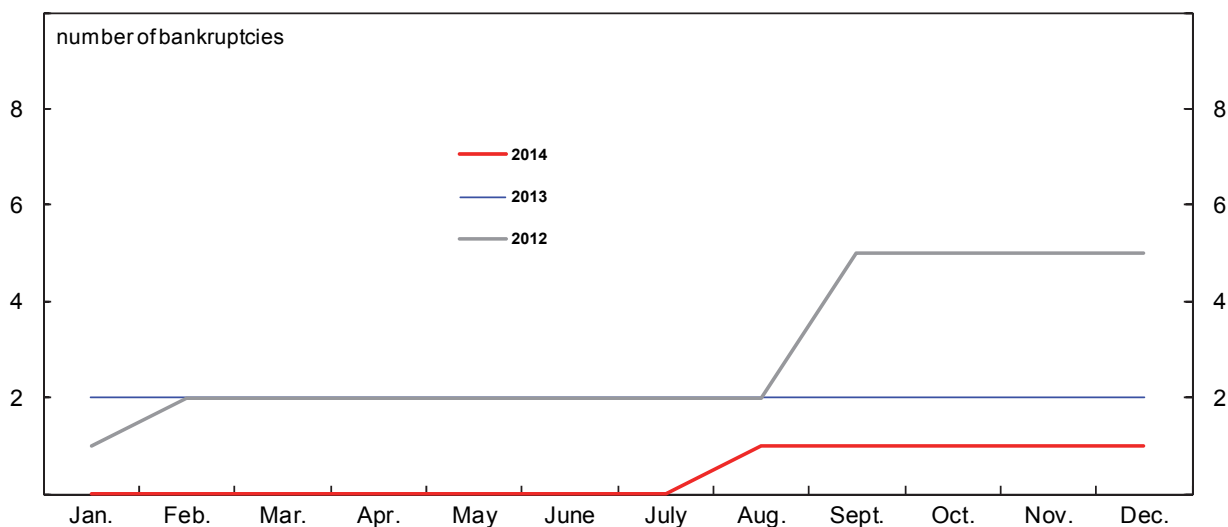
Inventory Turnover Ratio: sales/inventory

Interest Coverage Ratio: (pre-tax income and interest payments)/(interest payments)

Debt/Equity Ratio: (short-term and long-term debt)/total equity

Return of Shareholders' Equity: after-tax income/total equity

Retail Auto Dealer Bankruptcies



New car dealers only; cumulative total during the year.