



# Global Auto Report

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## Diverging Paths

### — Auto Sales Rev Higher In Canada, But Lower In The United States

**V**ehicle sales in North America weakened further in April, slumping to the lowest level in a decade. The United States accounted for virtually all of the weakness, with passenger vehicle sales dropping to an annualized 14.4 million units — the lowest level since the height of the Asian currency crisis in the late 1990s, and down from a full-year 2007 total of 16.1 million units. Volumes were undercut by falling house prices, rising unemployment, record gasoline prices and deteriorating consumer confidence — currently at multi-year lows.

Light trucks led the decline, with record gasoline prices prompting consumers to abandon gas-guzzling vehicles — mainly offered by North American automakers — and shift to more fuel-efficient cars and crossover utility vehicles. In particular, General Motors, Ford and Chrysler reported that their SUV volumes tumbled more than 30% below a year earlier. While the shift towards small fuel-efficient vehicle favours foreign manufacturers, the gas-price spike combined with deteriorating economic conditions also cut into sales at Toyota — a bellwether for the health of the U.S. car-buying consumer.

In contrast, vehicle purchases rebounded in Canada last month, climbing 4% y/y to a record for April. We estimate that sales totalled an annualized sales pace of 1.80 million units, up from 1.72 million in March. Foreign brands accounted for the strength, with record volumes at several automakers — including Toyota and Honda — lifting sales 15% above a year earlier. In particular, Toyota jumped into second place in Canada ahead of Chrysler.

Sales at the 'traditional' Big Three declined 6%, keeping their market share below 50% for the second straight month. General Motors and Ford accounted for the weakness, while strong CUV sales lifted volumes at Chrysler.

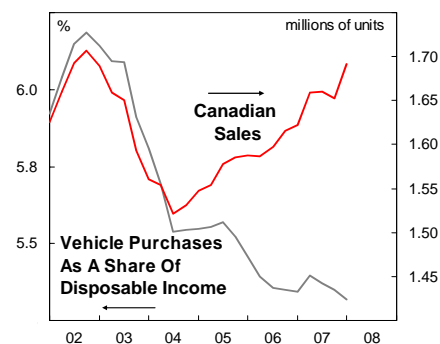
#### REVISING THE 2008 CANADIAN FORECAST HIGHER

Canadian vehicle sales have been stronger-than-expected in 2008, with sales advancing 6% y/y to a record-setting pace of an annualized 1.78 million units through April — 4% above the record set in 2002. The strength reflects improved vehicle affordability, as automakers have lowered new vehicle prices to bring them more in line with U.S. prices, as well as ongoing employment gains. As a result, we have raised our full-year 2008 forecast to 1.69 million units — the second-highest level on record — from our previous estimate of 1.61 million.

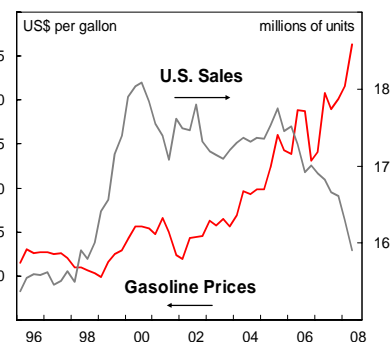
According to Statistics Canada, new vehicle prices have declined by nearly 7% over the past year, reflecting lower prices by automakers as well as this year's one percentage point reduction in the GST. The average price for a new car in Canada is now roughly \$25,000 — down from an average of \$26,000 in late 2007 and the lowest level since early 2005.

In May, Chrysler reduced prices for thirteen models below \$20,000, providing significant additional savings — double-digit declines on several models. Even prior to this latest reduction, lower car & light truck prices combined with continued income gains have improved vehicle affordability in Canada to the best level since the early 1990s. We estimate that a new car now absorbs 19.1 weeks of disposable income for Canadian households — the lowest level since 1991 and down from a peak 25 weeks a decade ago. This means that while passenger vehicle sales are on a

Lower Car Prices Lift Canadian Vehicle Sales



Gasoline Undermines U.S. Sales



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record-setting pace, the level of disposable income required for these purchases is at the lowest level since the mid-1990s.

Price reductions have been particularly effective in boosting vehicle sales in Central and Atlantic Canada. In particular, purchases in Ontario have advanced by 3.5% so far this year, at a time when a sputtering economy has reduced real household disposable income growth to the lowest level in six years. Sales gains have been even stronger in Quebec and Atlantic Canada, with purchases in both regions defying expectations and posting double-digit gains — a better performance than in Western Canada, where fundamentals are stronger.

Despite the record-setting pace so far this year, we expect sales to moderate in the second half of 2008 and early next year, as economic conditions continue to soften alongside a deteriorating U.S. economy and rising gasoline prices — now approaching the \$1.30 per litre peak set in the aftermath of hurricane Katrina in September 2005. At that time, Canadian vehicle sales fell roughly 15% in response to high gasoline prices, before improving as gasoline prices began to soften.

While we do not expect such a dramatic fall-off, some moderation is likely in coming months. However, the decline in Canadian vehicle sales is going to be more subdued than in the United States, as Canadians have healthier balance sheets than their U.S. counterparts. In addition, the Canadian economy — especially Western Canada and Newfoundland & Labrador — benefits from rising energy prices.

#### U.S. PURCHASES WILL WEAKEN THROUGH EARLY 2009

With U.S. new vehicle sales slumping in recent months in response to a deepening contraction in the housing market, a

weakening economy and surging gasoline prices — now at a record US\$3.90 per gallon — we have trimmed our 2008 forecast to 14.7 million units and our 2009 forecast to 14.3 million, down from our previous estimate of 15.0 million and a full-year 2007 total of 16.1 million.

The doubling in oil prices to more than \$90 per barrel through March has already slashed U.S. household disposable income by more than US\$90 billion. We estimate that U.S. household purchasing power will be reduced by an additional \$80 billion if prices continue to hover around the current US\$130 per barrel. **Furthermore, at current oil prices, gasoline costs absorb a record 4.5% of U.S. disposable income — a level matching the peak in 1980/1981.**

U.S. vehicle sales have already dropped by 8% so far this year, led by a 28% plunge in SUV purchases, a 22% slump in large cars and an 18% drop in pickup trucks. These models normally account for more than one-third of overall U.S. vehicle purchases. The weakness is now extending beyond these gas-guzzling vehicles, with CUV volumes declining in April after several years of double-digit gains.

Highlighting the headwinds facing U.S. households, the Federal Highway Administration indicates that in March, U.S. motorists posted the first drop in miles traveled since 1979. Faced with a deteriorating sales environment, especially over the past six weeks, Ford also recently revised down its production and profit outlook. **The company will slash its second and third-quarter North American production at least 15% below a year earlier — a significant slowdown from a 5% decline in the first quarter.** While other automakers have yet to announce their third-quarter production schedules, slumping sales and rising inventories suggest that output will fall to the lowest level since the downturn of the early 1990s.

#### International Car Sales Outlook

	<u>1990-99</u>	<u>Peak 2000</u>	<u>2001-04</u> <i>(millions of units)</i>	<u>2005-06</u>	<u>2007</u>	<u>2008f</u>
<b>TOTAL SALES</b>	<b>39.20</b>	<b>46.64</b>	<b>47.02</b>	<b>51.75</b>	<b>54.76</b>	<b>55.29</b>
<b>North America*</b>	<b>16.36</b>	<b>19.77</b>	<b>19.44</b>	<b>19.45</b>	<b>18.83</b>	<b>17.49</b>
Canada	1.27	1.55	1.60	1.60	1.65	1.69
United States	14.55	17.35	16.85	16.72	16.09	14.70
Mexico	0.54	0.87	0.99	1.13	1.09	1.10
<b>Western Europe</b>	<b>13.11</b>	<b>14.75</b>	<b>14.49</b>	<b>14.65</b>	<b>14.75</b>	<b>14.60</b>
Germany	3.57	3.38	3.27	3.41	3.15	3.18
<b>Eastern Europe</b>	<b>1.18</b>	<b>2.38</b>	<b>2.13</b>	<b>2.80</b>	<b>3.58</b>	<b>4.01</b>
Russia	0.78	1.03	1.09	1.42	2.31	2.66
<b>Asia</b>	<b>6.91</b>	<b>7.85</b>	<b>9.14</b>	<b>12.33</b>	<b>14.29</b>	<b>15.22</b>
China	0.33	0.61	1.55	3.68	5.15	5.92
India	0.31	0.60	0.66	0.94	1.18	1.30
<b>South America</b>	<b>1.64</b>	<b>1.89</b>	<b>1.82</b>	<b>2.52</b>	<b>3.31</b>	<b>3.97</b>
Brazil	0.94	1.17	1.22	1.46	1.98	2.37

\*Includes light trucks.

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