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Auto Sales Rev Higher in Canada, but Lower in the United States, According to Scotia Economics

TORONTO, May 28 /CNW/ - Vehicle sales in North America weakened in April, slumping to the lowest level in a decade, according to the latest Global Auto Report released by Scotia Economics. 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.

Light trucks led the decline, with record gasoline prices prompting consumers to abandon gas-guzzling vehicles and shift to more fuel-efficient cars and crossover utility vehicles.

"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," said Carlos Gomes, Scotiabank Senior Economist and Auto Industry Specialist. "In contrast, vehicle purchases rebounded in Canada last month, climbing to a record for April."

Revising the 2008 Canadian forecast higher

According to the report, Canadian vehicle sales have been stronger-than-expected in 2008, with sales advancing six per cent year-over-year, a record-setting pace of an annualized 1.78 million units through April and four per cent 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," said Mr. Gomes. "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 seven per cent 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.

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 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 per cent 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," added Mr. Gomes. "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.

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, Scotia Economics has trimmed its 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," said Mr.Gomes. "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 per cent of U.S. disposable income, a level matching the peak in 1980/1981."

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, a major automaker recently revised down its production and profit outlook. The company will slash its second and third-quarter North American production at least 15 per cent below a year earlier, a significant slowdown from a five per cent decline in the first quarter.

While other automakers have yet to announce their third-quarter schedules, slumping sales and rising inventories suggest that output will fall to the lowest level since the downturn of the early 1990s.

Scotia Economics provides clients with in-depth research into the factors shaping the outlook for Canada and the global economy, including macroeconomic developments, currency and capital market trends, commodity and industry performance, as well as monetary, fiscal and public policy issues.

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