

Global Auto Report

Carlos Gomes 416.866.4735
carlos.gomes@scotiabank.com

Global Auto Production Gains Momentum In The Second Half Of 2016 — Broad-Based Increase Will Buoy Economic Activity

Recent Global Sales Developments

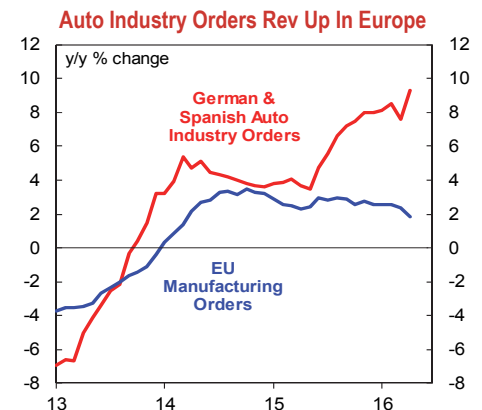
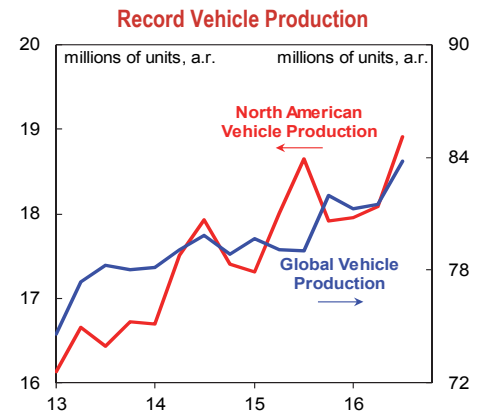
Global car sales posted another solid advance last month, climbing 4% y/y and continuing the string of strong gains since last September. Western Europe and China led the way, with both regions posting double-digit advances. While the economic and sales outlook has become more uncertain in the aftermath of the recent U.K. referendum, volumes across Western Europe have advanced a stronger-than-expected 9% y/y through May — the largest increase in nearly two decades. The improvement reflects increased replacement demand and a strengthening labour market, which will continue to buoy sales even as activity begins to falter in the U.K. Purchases have also recently turned more positive across Eastern Europe, with car sales rising year-over-year in May for the third consecutive month, led by surging volumes among the new EU members. In May, eleven out of the twelve new EU members reported double-digit gains.

Passenger vehicle sales in Canada eased 2% below a year earlier in May, with activity moderating across most provinces. The Prairies reported a double-digit decline for the first time since January, but activity softened in eight provinces due to fewer selling days. There were only 24 selling days last month, down from 26 days a year earlier. The slowdown was concentrated in sedans. Light trucks continued to power ahead, led by double-digit gains in Ontario and Quebec. Despite last month's moderation, purchases remain on target to climb to annual records in Canada and seven provinces.

Record North American Output

Global vehicle production is expected to move higher across most of the world in the second half of 2016, providing a welcome boost to industrial activity at a time when heightened economic and political uncertainty is dampening overall economic growth. North America is leading the way, with assemblies in the July-September period scheduled to post the largest quarter-to-quarter increase in more than two years. However, assemblies are also moving higher across Asia and Europe, supporting manufacturing activity which has staggered into the summer.

While North American vehicle production and overall industrial activity has been sluggish in recent months, we expect factory floors to become busier during the summer. Automakers have successfully reduced inventories on dealer lots in the United States to 61 days' at the end of May, down from a bloated 79 days' earlier this year, and below the 65 days' that is the industry norm. As a result, the North American auto industry is scheduled to build a record number of vehicles in the July-September period. We estimate that the annualized production rate in Canada, the United States and Mexico will climb to 18.9 million units during the summer, up from 17.9 million between January and May.



Scotiabank Economics

Scotia Plaza 40 King Street West, 63rd Floor
 Toronto, Ontario Canada M5H 1H1
 Tel: 416.866.6253 Fax: 416.866.2829
 Email: scotia.economics@scotiabank.com

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor its affiliates accepts any liability whatsoever for any loss arising from any use of this report or its contents.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Two of the Detroit Three are shortening their summer shutdowns across North America. Eight assembly plants in Canada, the United States and Mexico will have their traditional summer downtime reduced to one week. Meanwhile, five other facilities plan to produce non-stop throughout the summer.

Assemblies in the United States are scheduled to climb to an annualized 12.8 million units between July and September, the highest since the start of the millennium and 4% above the 2015 full-year production of 12.3 million. The ramp up is entirely driven by light trucks and highlights the impact that the sharp decline in oil prices has had on household vehicle-buying patterns, especially the dramatic shift in preference towards crossover utility vehicles. Through May, sales of light trucks have surged 9% y/y in Canada and the United States, while car purchases have slumped 8% y/y.

Rising vehicle output is expected to add half of a percentage point to economic growth in the United States in the third quarter — the largest increase in more than a year. This represents a sharp reversal from an estimated 0.4 percentage point subtraction in recent quarters. The impact will be even greater in Mexico. Third-quarter assemblies are scheduled to jump 5% y/y due to the inauguration of a new facility in Nuevo Leon and the restart of an assembly plant in Toluca, following extensive retooling.

Rising vehicle output is not limited to only North America. New orders for vehicles from assembly plants in Germany and Spain recently jumped to the highest level in more than five years, and will buoy overall economic activity across Western Europe in coming months. However, there is some concern about the sustainability of the rebound, as it is occurring at a time when several other industries appear to have moderated.

Vehicle production is even outperforming in the U.K., with assemblies jumping 16% y/y in April, roughly ten times the advance in overall manufacturing output. Overseas demand for British-made cars is driving the improvement, and accounts for roughly 80% of overall production. Car output geared for export has jumped 14% this year, compared with only a 1% increase in assemblies for the domestic market. Nearly 60% of the U.K.'s vehicle exports are destined to the European Union.

Output is also set to move higher across Asia. Passenger vehicle sales in China have outpaced production gains this year, enabling automakers to reduce inventories to only 1.4 months' at the end of May, down from 1.7 months' a year ago and a peak of nearly 2 months' in early 2015. Vehicle pricing has also been stable since the beginning of the year, allowing automakers to lift production in the second half of 2016, while continuing to extend their dealer network across Western and Northern China.

Vehicle output is also rebounding in Thailand, with assemblies jumping 25% y/y in May — the largest increase in more than two years. The improvement reflects strengthening demand in its key exports markets, especially Indonesia and Australia. Car sales in Indonesia rose 12% y/y in May, and further solid gains are likely, as Indonesia's central bank has lowered its benchmark interest rate four times this year to spur domestic consumption. Sales have also gained momentum in the rest of Asia, with volumes excluding China, advancing in May at the fastest pace since late 2015.

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	74.55
North America*	16.36	17.68	18.33	19.42	20.64	21.15
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	1.49
Western Europe	13.11	13.96	11.55	12.11	13.20	13.86
Germany	3.57	3.27	2.95	3.04	3.21	3.33
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	33.74
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	3.00
Brazil	0.94	1.84	2.76	2.50	1.82	1.50

*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-Apr **	Annual f
(thousands of units, annualized)						
CANADA	1,398	1,618	1,851	1,898	1,998	1,955
Cars	797	786	759	714	694	700
Domestic	583	488	512	476	464	460
Transplants	178	270	329	327	315	325
Imports	214	298	247	238	230	240
Light Trucks	601	832	1,092	1,184	1,304	1,255
(millions of units, annualized)						
UNITED STATES	15.5	13.8	16.4	17.4	17.2	17.7
Cars	8.3	6.7	7.7	7.5	7.0	7.5
Light Trucks	7.2	7.1	8.7	9.9	10.2	10.2
(millions of units, annualized)						
NORTH AMERICAN PRODUCTION*	15.58	13.86	17.43	17.95	18.03	18.30
CANADA	2.50	2.22	2.39	2.28	2.58	2.45
UNITED STATES	11.67	9.27	11.67	12.10	12.15	12.30
MEXICO	1.41	2.37	3.37	3.57	3.30	3.55

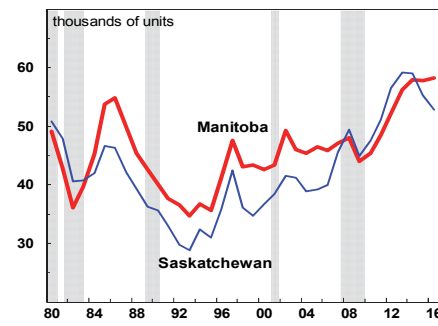
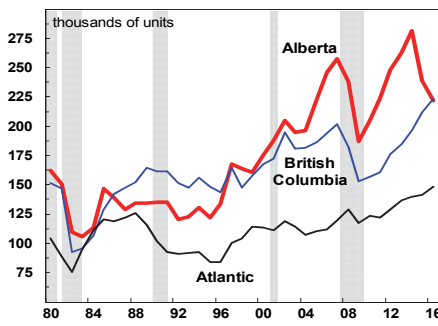
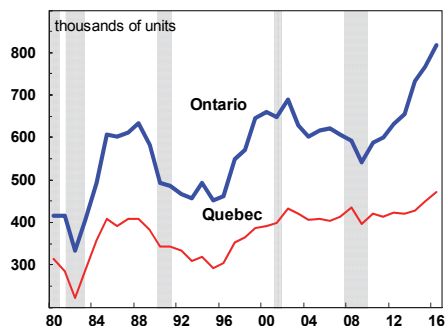
*Includes transplants; light, medium and heavy trucks. **Canadian sales are Scotiabank estimates.

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-Apr **	Annual f
CANADA	1,446	1,618	1,851	1,898	1,998	1,955
ATLANTIC	102	121	137	140	148	140
CENTRAL	936	1,002	1,139	1,205	1,292	1,271
Quebec	366	410	420	444	473	470
Ontario	570	592	719	761	819	801
WEST	408	495	575	553	558	544
Manitoba	42	47	56	56	57	56
Saskatchewan	36	48	56	54	52	53
Alberta	166	227	269	236	227	220
British Columbia	164	173	194	207	222	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 May		Jan to May		May		May	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	302.0	100.0	280.0	100.0	82.9	100.0	73.0	100.0
Big Three	67.9	22.5	57.9	20.7	20.9	25.2	15.1	20.7
General Motors	29.8	9.9	28.5	10.2	8.8	10.6	6.3	8.6
Ford	22.0	7.3	18.8	6.7	7.4	8.9	5.2	7.2
Chrysler	16.1	5.3	10.6	3.8	4.7	5.7	3.6	4.9
Japanese	127.4	42.2	123.9	44.2	34.2	41.3	32.8	45.0
Honda	37.1	12.3	39.0	13.9	11.0	13.3	11.2	15.3
Toyota	39.9	13.2	39.3	14.0	11.1	13.4	10.2	14.0
Nissan	21.3	7.0	21.2	7.6	5.2	6.3	5.4	7.4
Mazda	18.3	6.1	13.4	4.8	4.0	4.8	3.4	4.6
Mitsubishi	4.0	1.3	4.7	1.7	1.1	1.3	1.2	1.6
Subaru	6.8	2.2	6.3	2.3	1.8	2.2	1.5	2.1
Hyundai	36.2	12.0	34.2	12.2	9.3	11.3	9.4	12.9
Volkswagen	25.0	8.3	21.3	7.6	6.0	7.3	5.2	7.1
Kia	18.7	6.2	16.1	5.8	5.2	6.2	3.6	4.9
BMW	9.6	3.2	9.6	3.4	2.7	3.2	2.5	3.4
Mercedes-Benz	9.3	3.1	9.3	3.3	2.4	2.9	2.2	3.0
Other	7.9	2.5	7.7	2.8	2.2	2.6	2.2	3.0

*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 May		Jan to May		May		May	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	468.8	100.0	529.7	100.0	118.5	100.0	124.5	100.0
Big Three	263.4	56.2	292.3	55.1	67.3	56.8	69.0	55.4
General Motors	73.2	15.6	75.7	14.3	18.7	15.8	16.6	13.4
Ford	85.4	18.2	102.5	19.3	21.7	18.3	24.2	19.4
Chrysler	104.8	22.4	114.1	21.5	26.9	22.7	28.2	22.6
Other Domestic	17.9	3.8	15.1	2.9	4.0	3.4	3.3	2.7
Japanese	123.9	26.4	146.8	27.7	31.8	26.8	33.7	27.1
Honda	28.2	6.0	33.7	6.4	7.0	5.9	7.6	6.1
Toyota	44.4	9.5	52.1	9.8	11.2	9.4	11.9	9.6
Nissan	29.3	6.2	34.1	6.4	7.8	6.6	7.8	6.3
Mazda	9.7	2.1	14.1	2.7	2.7	2.3	3.3	2.7
Mitsubishi	3.9	0.8	5.0	0.9	0.9	0.8	1.0	0.8
Subaru	12.4	2.6	12.8	2.4	3.2	2.7	3.1	2.5
Hyundai	20.5	4.4	23.2	4.4	4.9	4.1	5.6	4.5
Kia	10.5	2.2	12.7	2.4	2.3	1.9	3.5	2.8
Other Imports	32.6	7.0	39.6	7.5	8.2	7.0	9.4	7.5
LIGHT TRUCKS	453.8	96.8	518.1	97.8	115.0	97.1	121.9	97.8

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

Auto Sales By Province

(thousands of units, not seasonally adjusted)

	<u>2015</u> Jan to Apr	<u>2016</u> Jan to Apr	<u>2015</u> Apr	<u>2016</u> Apr
CANADA	218.6	206.9	79.0	72.6
ATLANTIC	15.5	15.3	6.8	5.9
Newfoundland	3.2	2.9	1.5	1.3
Nova Scotia	6.7	6.6	2.9	2.5
New Brunswick	4.7	4.9	2.0	1.8
Prince Edward Island	0.9	0.9	0.4	0.3
CENTRAL	153.7	145.1	56.7	52.1
Quebec	66.6	62.9	24.9	23.1
Ontario	87.1	82.2	31.8	29.0
WEST	49.4	46.5	15.5	14.6
Manitoba	4.6	4.4	1.5	1.5
Saskatchewan	3.3	2.9	1.0	1.0
Alberta	17.2	15.3	5.4	4.6
British Columbia	24.3	23.9	7.6	7.5

Truck Sales By Province*

(thousands of units, not seasonally adjusted)

	<u>2015</u> Jan to Apr	<u>2016</u> Jan to Apr	<u>2015</u> Apr	<u>2016</u> Apr
CANADA	351.6	407.3	113.5	130.7
ATLANTIC	23.4	28.9	8.5	10.1
Newfoundland	6.3	7.2	2.3	2.6
Nova Scotia	8.1	10.4	3.0	3.6
New Brunswick	7.8	9.7	2.7	3.3
Prince Edward Island	1.2	1.6	0.5	0.6
CENTRAL	203.9	251.4	69.4	83.5
Quebec	67.5	83.1	23.2	27.8
Ontario	136.4	168.3	46.2	55.7
WEST	124.3	127.0	35.6	37.1
Manitoba	11.9	13.0	3.3	3.8
Saskatchewan	13.2	12.8	3.9	3.8
Alberta	59.6	55.1	17.1	15.9
British Columbia	39.6	46.1	11.3	13.6

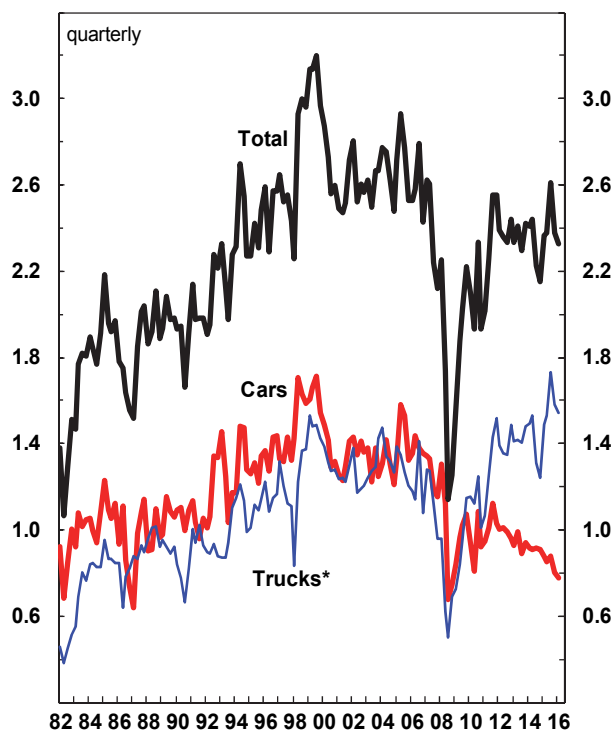
*Light, medium and heavy trucks.

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

	<u>2015</u> Jan to May	<u>2016</u> Jan to May	<u>2015</u> May	<u>2016</u> May
TOTAL	900.2	1,030.0	179.9	199.7
CAR	386.2	354.4	81.1	67.2
Chrysler	109.3	103.9	21.7	20.4
GM	97.7	58.7	21.4	8.0
Honda	75.4	88.8	16.0	18.4
Toyota	103.8	103.0	22.0	20.4
TRUCKS**	514.0	675.6	98.8	132.5
Chrysler	53.1	132.9	2.0	24.9
Ford	62.3	118.9	18.3	24.6
GM	161.8	171.1	31.1	32.8
Honda	85.3	92.5	17.9	18.3
Toyota	145.2	155.0	28.2	30.8
Others	6.3	5.2	1.3	1.1

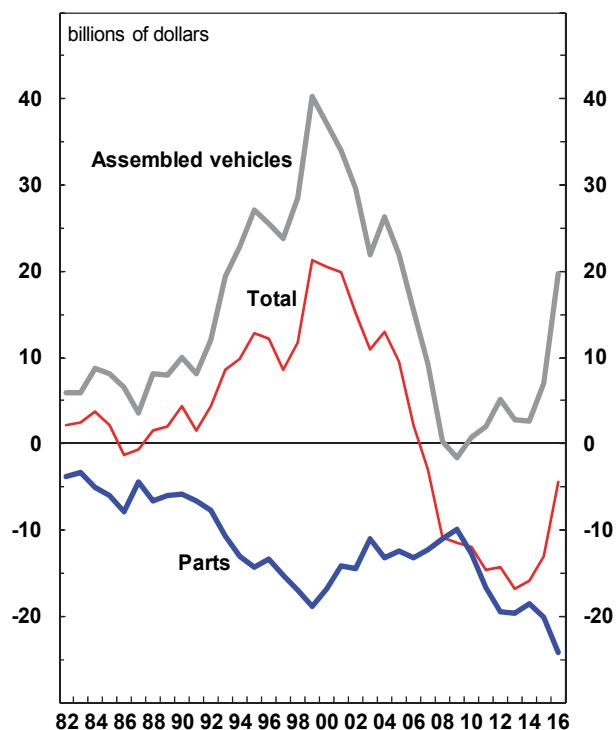
*Production data from Ward's Automotive Reports. **Light, medium and heavy trucks.

Canada — Motor Vehicle Production



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

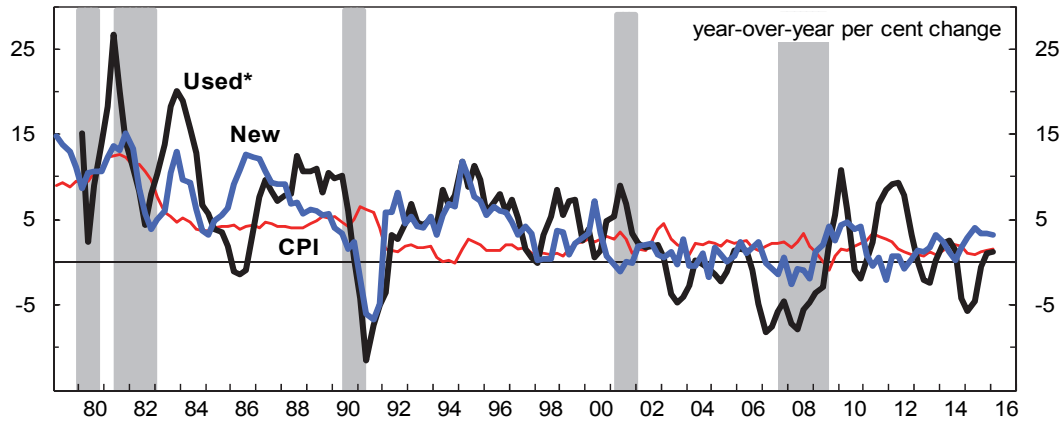
Canada — World Auto Trade Balances



2016 data are January-April annualized.

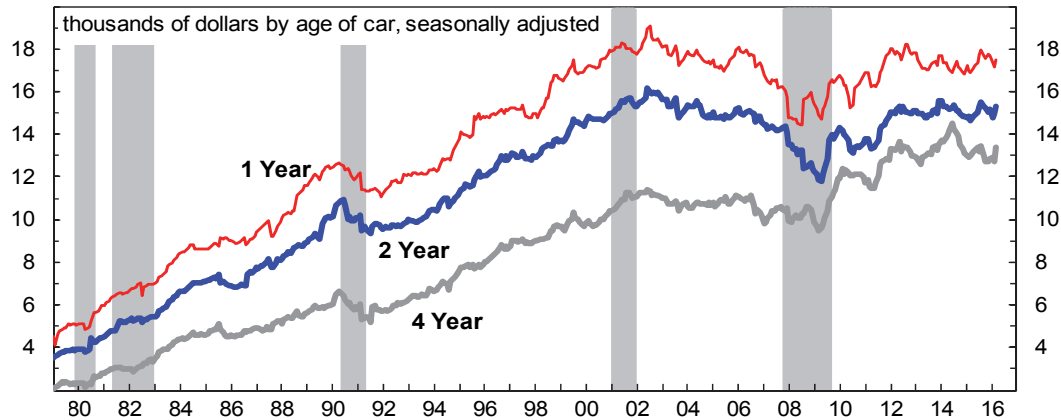
New & Used Car Prices

Scotiabank Car Price Indicators — Canada



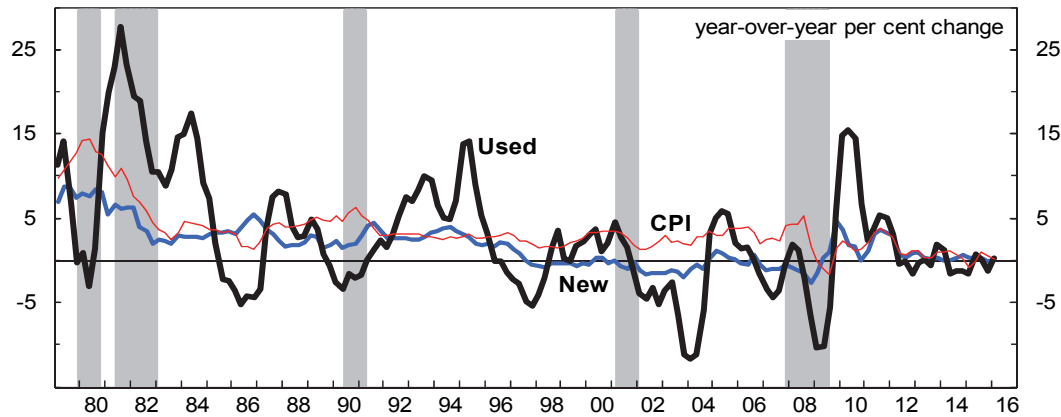
*Scotiabank estimate from Canadian Black Book data.

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							
	2015Q1	2060	1.70	4.57	5.40	1.88	15.16
	Q2	3124	2.14	5.41	6.87	1.92	23.07
	Q3	3244	2.29	5.32	7.49	1.82	23.05
	Q4	2988	2.19	4.98	6.41	1.84	20.63
	2016Q1	2048	1.58	4.58	5.41	1.90	14.24
Average (89-15)		929	1.27	6.03	3.26	2.33	12.05
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

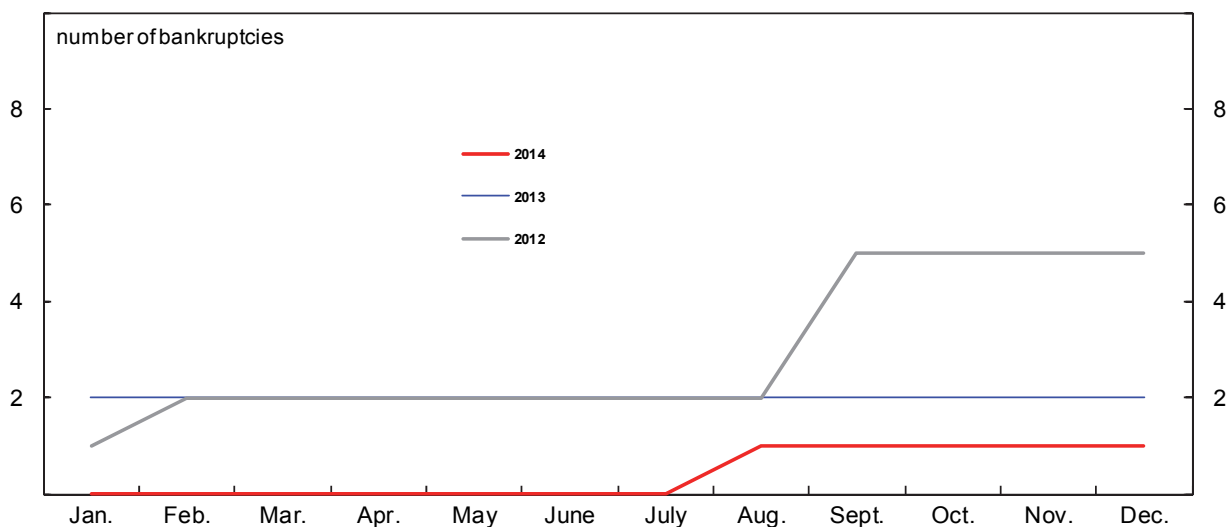
Inventory Turnover Ratio: sales/inventory

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.