

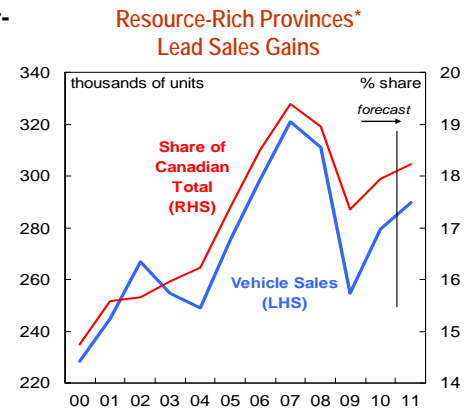
# Global Auto Report

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## Resource-Rich Provinces Lead Rebound In Canadian Auto Sales

**Global car sales continue to strengthen. Purchases climbed 9% year-over-year in December — one of the strongest increases since last spring — and automakers began 2011 with additional solid gains in North America.** Volumes in the United States jumped 18% y/y in January, climbing to an annualized 12.5 million units, a further improvement from an average of 12.3 million in the final quarter of 2010. The increase was concentrated in retail purchases, with the two largest North American automakers indicating that their sales to households jumped roughly 30% above a year earlier. This represents a significant positive for the industry and dovetails with recent data indicating that overall retail activity picked up significantly in the final months of 2010, alongside improving consumer confidence and renewed job hiring.

Canadian car and light truck sales also remained above a year earlier in January, but volumes have moderated in recent months. Purchases fell below an annualized 1.50 million units in both December and January, from a full-year 2010 total of 1.56 million. The moderation reflects some reduction in incentives, as economic conditions continue to gain momentum. For example, consumer confidence is at the highest level since last spring, and the pace of job creation in Canada — the key driver of vehicle sales — is now advancing by roughly 15,000 per month, compared with a flat performance during summer.



### PROVINCIAL SALES OUTLOOK FOR 2011

**The resource-rich provinces of Alberta, Saskatchewan and Newfoundland will lead the improvement in car and light truck sales across Canada in 2011. Commodity prices posted a double-digit increase in 2010, and will continue to advance this year alongside a strong and sustained economic recovery, particularly in the fast-growing emerging nations.**

An acceleration in the pace of global job creation and continued double-digit gains in business investment will support not only the global economic recovery, but also gains in Canadian auto sales. The BRIC nations — the key drivers of demand for commodities — are leading the way, with employment growth now advancing by 4% y/y — a significant improvement from a flat year-over-year performance in early 2010.

**Alberta** will lead the improvement in vehicle sales across Canada in 2011, with purchases expected to climb to 210,000 units, up from 200,000 last year and only 182,000 in 2009. Volumes will be buoyed by a double-digit increase in oil sands production — the sharpest gain in five years. The revival in the oil patch has already lifted employment in Edmonton 3% y/y — a percentage point above the national average, and one of the strongest advances among major Canadian cities. Population flows are also once again attracted to Alberta, and will lift the vehicle-buying age population in the province by more than 2% annually over the next several years — the largest increase among the provinces.

Vehicle sales in **Saskatchewan** have also started to rebound alongside rising mineral production. Purchases jumped 6% last year to 46,000 units and will reach 48,000 in 2011 — a level matching the recent peak set in 2008. The agricultural sector will also start to bolster economic activity in 2011, reversing double-digit declines since the third quarter of 2009.

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**Newfoundland and Labrador** is also benefitting from the rebound in the energy sector, with vehicle sales jumping by 11% last year to a record high of 32,000 units — more than 20% above the average of the past decade. However, the gain will moderate in 2011, as the province now has the youngest vehicle fleet in Canada. In addition, a declining driving age population will also dampen sales gains.

Purchases in **British Columbia** will climb to 157,000 units in 2011, up from 154,000 in 2010. Activity will be bolstered by strengthening exports to Asia — the destination for 40% of the province's overall exports. In particular, exports to China have surged by 60% over the past year, and are now more than double 2007 levels.

Fleet volumes in British Columbia will also start to edge higher this year, reversing the 60% plunge since 2006. In fact, the slump in fleet purchases was sharpest in British Columbia, roughly double the decline in the rest of Canada. This likely reflects the prolonged weakness in the province's forestry sector, which until recently, was the largest source of export earnings. However, forest products exports have started to stabilize, on the back of an 80% y/y surge in lumber shipments to China. The sector will experience a moderate increase in shipments in 2011, as U.S. housing starts begin to edge higher.

Sales in **Manitoba** are expected to advance to 46,000 units in 2011, matching the 2008 annual peak, and up from 44,000 last year. The province has the most stable auto market in Canada, with volumes posting an annual peak-to-trough decline of only 7% during the latest downturn — significantly outperforming the 12% drop in the rest of Canada. The stability in the auto market reflects Manitoba's diversified economy,

which enabled the province to avoid a contraction during the latest global economic downturn. Economic activity in Manitoba was flat in 2009, compared with a 2.5% slide across Canada.

Vehicle sales in **Ontario** jumped 8% last year, climbing to 576,000 units from a thirteen-year low of 535,000 in 2009. A 40% surge in vehicle production bolstered purchases and job creation across the province last year. In fact, Oshawa posted the strongest employment growth among Ontario cities in 2010, with payrolls advancing by 5%. Vehicle assemblies are likely to climb an additional 9% in 2011, helping to lift car and light truck sales in Ontario to 586,000 units — the highest level since 2007, and only 3% below the average of the past decade.

Car and light truck sales in **Quebec** were higher than expected in 2010, advancing by 6% to 415,000 units. Purchases were supported by ongoing government stimulus, which helped lift fleet purchases by 8% last year. However, despite the recent acceleration in the global economic expansion, sales gains in the province will moderate to about 2% in 2011 — held back by cutbacks in government spending. In particular, infrastructure expenditures in Quebec are expected to decline by about 6% per annum over the next several years.

**Nova Scotia** was the only province to post a small decline in vehicle sales last year, but will likely post a small gain in 2011. Activity in the province will be supported by the upcoming 2011 Canada Winter Games in Halifax, which will boost tourism. Car and light truck sales are likely to be flat in both **New Brunswick** and **PEI** this year, following double-digit increases in 2010. In both provinces, activity was supported by ongoing capital projects, but job growth has recently weakened.

## International Car Sales Outlook

	<u>1990-99</u>	<u>2000-07</u>	<u>2008</u>	<u>2009</u>	<u>2010e</u>	<u>2011f</u>
	<i>(millions of units)</i>					
<b>TOTAL SALES</b>	<b>39.20</b>	<b>49.19</b>	<b>52.33</b>	<b>51.03</b>	<b>57.34</b>	<b>61.03</b>
<b>North America*</b>	<b>16.36</b>	<b>19.41</b>	<b>15.85</b>	<b>12.68</b>	<b>13.98</b>	<b>15.14</b>
Canada	1.27	1.60	1.64	1.46	1.56	1.59
United States	14.55	16.79	13.19	10.40	11.60	12.70
Mexico	0.54	1.02	1.02	0.82	0.82	0.85
<b>Western Europe</b>	<b>13.11</b>	<b>14.59</b>	<b>13.54</b>	<b>13.62</b>	<b>12.96</b>	<b>13.28</b>
Germany	3.57	3.30	3.09	3.81	2.92	3.06
<b>Eastern Europe</b>	<b>1.18</b>	<b>2.55</b>	<b>4.17</b>	<b>3.12</b>	<b>3.66</b>	<b>3.88</b>
Russia	0.78	1.37	2.90	1.47	1.91	2.10
<b>Asia</b>	<b>6.91</b>	<b>10.45</b>	<b>15.07</b>	<b>17.68</b>	<b>22.47</b>	<b>24.24</b>
China	0.43	2.91	4.98	7.32	9.52	10.95
India	0.31	0.78	1.20	1.43	1.87	2.10
<b>South America</b>	<b>1.64</b>	<b>2.19</b>	<b>3.70</b>	<b>3.93</b>	<b>4.27</b>	<b>4.49</b>
Brazil	0.94	1.37	2.23	2.53	2.65	2.86

\*Includes light trucks.