

Global Auto Report

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Record Global Sales And Production In Early 2014 — North American Output Schedules Point To Further Gains

Recent Global Sales Developments

Global vehicle sales climbed to record highs in February, with gains accelerating to 7% y/y alongside a double-digit increase in Asia and an ongoing recovery in Western Europe. China led the way with volumes increasing 22% y/y, largely due to a 58% surge in purchases of crossover utility vehicles (CUVs). Japan also posted the sixth consecutive double-digit gain, as households are buying new vehicles ahead of a three percentage point increase in the national sales tax in April.

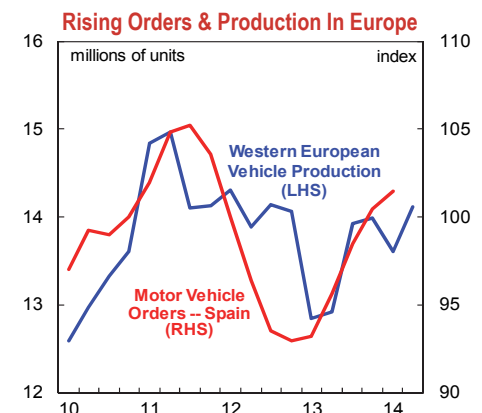
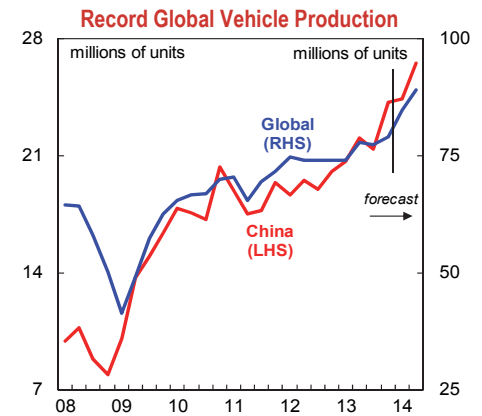
Car sales in Western Europe climbed above a year earlier for the sixth consecutive month, with gains in every major market, except France. Spain led the way, with sales jumping 18% above a year earlier due to the recent renewal of the vehicle scraping program. Purchases in Germany — the region's largest market — also advanced for the third consecutive month, as the economic recovery has begun to unleash replacement demand. Used car prices in Germany — a leading indicator of new vehicle sales — have been gaining momentum since mid-2013 and are currently up 12% y/y — one of the fastest gains on record and a clear indication that households are feeling more comfortable about replacing their aging vehicles.

In North America, passenger vehicle sales are being bolstered by the rising popularity of CUVs. These models garnered a record 28% of the U.S. market last month, up from a full-year total of 25.5% in 2013 and less than 24% in 2012. CUVs are even more popular in Canada capturing a record one-third of overall sales in February, up from 27.8% a year ago. In fact, CUV purchases have outpaced sales of small cars so far this year, becoming the largest segment in Canada.

Auto Production Buoy Economic Activity

Global vehicle production has climbed to record highs in early 2014, even as severe winter weather dampened output in North America. However, vehicle assemblies began to improve in the United States last month, and output is expected to strengthen throughout North America as automakers increase production in the second quarter. In fact, assemblies are expected to continue ramping up across the globe, providing a welcome boost to global economic activity. Output gains will continue to be strongest in Asia, partly due to capacity expansion, and will help calm financial market fears of an economic slowdown in China.

After falling to an annualized 15.8 million units in January, partly due to inclement weather and parts shortages at some facilities, vehicle production in North America improved in February and, despite the highest U.S. dealer inventories in nearly a decade, is scheduled to climb to an annualized 16.9 million units in the April-June period. The current second-quarter plans are well above the 2013 full-year production of 16.5 million units and are at the highest level since mid-2002. The ramp up is entirely driven by light trucks and highlights the shift in



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consumer preference towards crossover utility vehicles. Through February, purchases of CUVs have surged 13% in Canada and the United States, while car sales have declined 7% y/y over the same period.

After subtracting from growth in early 2014, rising vehicle production is expected to add 0.7 percentage points to economic growth in the United States in the second quarter — the largest increase in two years and a sharp reversal from an estimated 0.4 percentage point decline in the opening months of 2014. The impact will be even greater in Mexico, with second-quarter assemblies scheduled to jump 5% above a year earlier to an annualized 3.2 million units. Sharper output gains in Mexico reflect the ramp up of production by Nissan, Mazda and Honda at recently opened assembly plants. **We estimate that the auto industry will add a full percentage point to growth in Mexico in the April-June period — the largest contribution in more than four years.**

Assemblies will also increase in Canada, but the gain will lag its NAFTA partners over the next several months. We estimate that higher auto production sector in Canada to add only 0.2 percentage points to economic growth during the second quarter, as output gains are held back by re-tooling at a facility in the Greater Toronto Area.

Increases in vehicle production are even greater outside of North America, and is being driven by capacity expansion and rising demand. For example, despite concerns that economic activity is slowing in China, assemblies in the world's largest auto market have surged 11% so far this year and the gains will accelerate in coming months. This reflects the fact that automakers continue to invest in new assembly plants, despite some fears of overcapacity in China and other emerging markets. Vehicle assembly capacity in China is already more than double the North American total of nearly 18 million units, and will jump to more than 40 million by 2015. Most of the new capacity in China is being put in place by the major global automakers, which continue to gain share in the world's largest auto market.

Volkswagen plans to invest more than US\$25 billion in new production facilities in China through 2018. This includes the addition of three new assembly plants by next year. These three facilities will have the capacity to build more than 600,000 vehicles per annum and are on top of the 3.1 million units that VW built in China in 2013. In fact, VW's production in China will likely top the automaker's output in its home region of Western Europe this year.

General Motors plans to open four additional plants in China through 2015, increasing its capacity in China by 30% to 5 million units per year. This includes a US\$1.3 billion investment in a Cadillac plant. GM aims to double its Cadillac sales in China to 100,000 by 2016. Ford is also building two new assembly plants in China, lifting its annual assembly capacity to 1.2 million units.

Output is also rebounding in Western Europe, led by Germany and Spain. The increase reflects strengthening sales across the region. In fact, strong sales in the opening months have added to optimism, lifting new orders from assembly plants in Spain — a leading indicator of European auto production — to the highest level since late 2011.

International Car Sales Outlook (millions of units)

	<u>1990-99</u>	<u>2000-10</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014f</u>
TOTAL SALES	39.20	50.71	60.80	64.98	68.69	72.23
North America*	16.36	17.97	15.22	17.11	18.33	18.89
Canada	1.27	1.59	1.59	1.68	1.74	1.76
United States	14.55	15.40	12.73	14.44	15.53	16.00
Mexico	0.54	0.98	0.90	0.99	1.06	1.13
Western Europe	13.11	14.26	12.80	11.76	11.55	11.90
Germany	3.57	3.30	3.17	3.08	2.95	3.10
Eastern Europe	1.18	2.75	3.90	4.14	4.08	4.12
Russia	0.78	1.56	2.65	2.93	2.78	2.69
Asia	6.91	13.05	24.41	27.25	29.98	32.38
China**	0.43	4.51	12.16	13.18	16.30	18.36
India	0.31	0.98	1.95	2.02	1.87	1.78
South America	1.64	2.68	4.47	4.72	4.75	4.94
Brazil	0.94	1.67	2.64	2.84	2.76	2.81

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

Canada/U.S. Motor Vehicle Sales Outlook

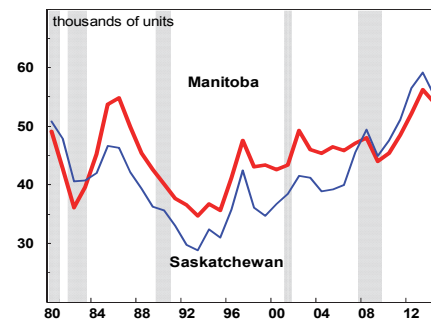
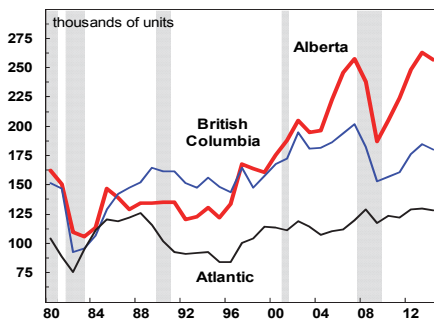
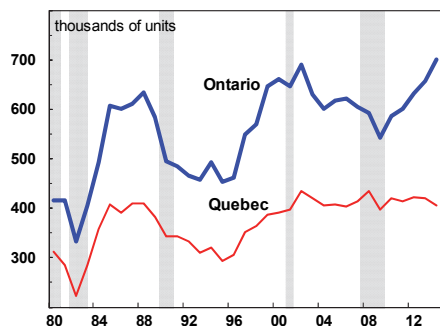
	<u>1991-05</u> Average	<u>2006-11</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	
					Jan-Feb**	Annual f
(thousands of units, annualized)						
CANADA	1,398	1,587	1,677	1,745	1,755	1,760
Cars	797	795	760	761	740	760
Domestic	583	489	470	493	470	490
Transplants	178	268	280	301	298	302
Imports	214	306	290	268	270	270
Light Trucks	601	792	917	984	1,015	1,000
(millions of units, annualized)						
UNITED STATES	15.5	13.4	14.4	15.5	15.5	16.0
Cars	8.3	6.6	7.2	7.6	7.6	7.8
Light Trucks	7.2	6.8	7.2	7.9	7.9	8.2
(millions of units, annualized)						
NORTH AMERICAN PRODUCTION*	15.58	13.10	15.77	16.49	16.10	17.20
CANADA	2.50	2.15	2.46	2.38	2.20	2.45
UNITED STATES	11.67	8.80	10.30	11.06	11.00	11.50
MEXICO	1.41	2.15	3.01	3.05	2.90	3.25

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

Vehicle Sales Outlook By Province*

	<u>1994-05</u> Average	<u>2006-11</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	
					Jan-Feb **	Annual f
CANADA	1,446	1,587	1,677	1,745	1,755	1,760
ATLANTIC	102	119	126	135	131	136
CENTRAL	936	987	1,034	1,061	1,087	1,066
Quebec	366	408	416	415	394	416
Ontario	570	579	618	646	693	650
WEST	408	481	517	549	537	558
Manitoba	42	45	50	54	53	55
Saskatchewan	36	45	55	58	55	59
Alberta	166	220	239	257	250	262
British Columbia	164	171	173	180	179	182

*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>2013</u>		<u>2014</u>		<u>2013</u>		<u>2014</u>	
	Jan to Feb		Jan to Feb		Feb		Feb	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	83.4	100.0	77.6	100.0	44.3	100.0	41.0	100.0
Big Three	21.6	25.9	17.5	22.6	11.2	25.3	9.3	22.8
General Motors	8.9	10.6	6.8	8.7	4.7	10.6	4.0	9.9
Ford	7.4	8.9	5.9	7.6	3.7	8.4	3.1	7.6
Chrysler	5.3	6.4	4.8	6.3	2.8	6.3	2.2	5.3
Japanese	33.1	39.7	32.8	42.3	17.4	39.2	17.2	41.9
Honda	8.7	10.4	9.3	11.9	4.6	10.3	4.7	11.5
Toyota	10.6	12.7	9.8	12.7	5.2	11.7	5.3	12.8
Nissan	4.6	5.6	5.1	6.5	2.5	5.7	2.7	6.5
Mazda	6.6	7.9	5.8	7.4	3.8	8.5	3.1	7.4
Mitsubishi	0.9	1.1	1.4	1.8	0.5	1.1	0.8	1.8
Subaru	1.3	1.6	1.5	2.0	0.7	1.6	0.7	1.8
Hyundai	11.1	13.3	9.8	12.6	6.3	14.1	5.4	13.2
Volkswagen	6.4	7.7	5.8	7.4	3.5	7.9	2.9	7.0
Kia	5.2	6.2	5.8	7.4	2.7	6.2	3.2	7.8
BMW	2.4	2.8	1.7	2.2	1.2	2.8	0.9	2.3
Mercedes-Benz	1.8	2.2	2.4	3.2	1.0	2.3	1.1	2.7
Other	1.8	2.2	1.8	2.3	1.0	2.2	1.0	2.3

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

Truck Market Share By Manufacturer — Canada*

(thousands of units, not seasonally adjusted)

	<u>2013</u>		<u>2014</u>		<u>2013</u>		<u>2014</u>	
	Jan to Feb		Jan to Feb		Feb		Feb	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	121.2	100.0	128.5	100.0	61.1	100.0	67.1	100.0
Big Three	72.5	59.9	73.4	57.1	35.9	58.7	38.3	57.2
General Motors	18.9	15.6	17.2	13.4	9.3	15.2	8.9	13.3
Ford	25.1	20.8	24.8	19.3	12.6	20.5	13.1	19.5
Chrysler	28.5	23.5	31.4	24.4	14.0	23.0	16.3	24.4
Other Domestic	6.6	5.4	5.6	4.3	2.6	4.3	2.8	4.2
Japanese	26.2	21.6	32.4	25.2	14.3	23.4	16.8	25.0
Honda	6.4	5.3	7.3	5.6	3.3	5.3	4.1	6.1
Toyota	9.6	7.9	11.5	9.0	5.6	9.2	5.7	8.5
Nissan	5.6	4.6	8.1	6.3	3.1	5.1	4.1	6.2
Mazda	2.0	1.7	2.3	1.8	1.1	1.7	1.2	1.8
Mitsubishi	1.8	1.5	1.6	1.3	0.9	1.5	0.9	1.4
Subaru	2.4	2.0	3.2	2.5	1.2	1.9	1.7	2.5
Hyundai	5.0	4.1	5.0	3.9	2.5	4.1	2.7	4.0
Kia	2.7	2.2	2.5	2.0	1.4	2.3	1.2	1.8
Other Imports	8.2	6.8	9.6	7.5	4.4	7.2	5.3	7.8
LIGHT TRUCKS	115.3	95.2	124.1	96.5	58.9	96.4	64.9	96.8

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

Auto Sales By Province

(thousands of units, not seasonally adjusted)

	<u>2012</u> Jan to Dec	<u>2013</u> Jan to Dec	<u>2013</u> Jan	<u>2014</u> Jan
CANADA	759.0	761.4	39.0	36.2
ATLANTIC	61.5	64.9	3.1	2.7
Newfoundland	14.0	14.4	0.6	0.6
Nova Scotia	25.8	27.4	1.2	1.1
New Brunswick	18.3	19.1	1.1	0.9
Prince Edward Island	3.4	4.0	0.2	0.1
CENTRAL	533.6	527.6	26.2	24.7
Quebec	240.6	233.0	11.0	10.2
Ontario	293.0	294.6	15.2	14.5
WEST	163.9	168.9	9.7	8.8
Manitoba	17.3	18.9	0.9	0.9
Saskatchewan	13.5	12.6	0.8	0.6
Alberta	59.4	62.6	3.6	3.2
British Columbia	73.7	74.8	4.4	4.1

Truck Sales By Province*

(thousands of units, not seasonally adjusted)

	<u>2012</u> Jan to Dec	<u>2013</u> Jan to Dec	<u>2013</u> Jan	<u>2014</u> Jan
CANADA	957.7	1,015.3	58.9	61.4
ATLANTIC	67.2	72.2	4.0	3.9
Newfoundland	19.3	21.2	1.0	1.1
Nova Scotia	22.9	25.1	1.5	1.3
New Brunswick	21.6	22.5	1.3	1.3
Prince Edward Island	3.4	3.4	0.2	0.2
CENTRAL	521.5	548.5	29.1	32.2
Quebec	182.5	186.5	10.2	9.7
Ontario	339.0	362.0	18.9	22.5
WEST	369.0	394.6	25.8	25.3
Manitoba	34.9	37.4	2.3	2.1
Saskatchewan	43.0	46.6	3.0	2.8
Alberta	188.4	200.6	13.2	13.3
British Columbia	102.7	110.0	7.3	7.1

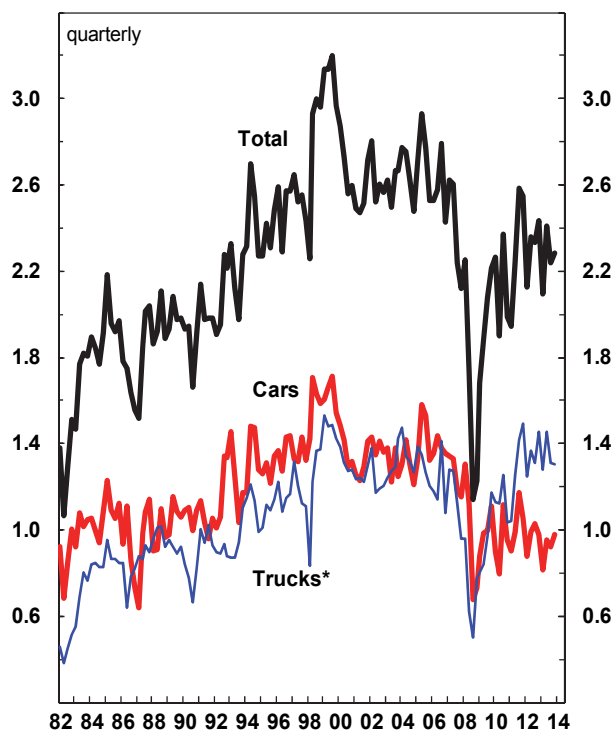
*Light, medium and heavy trucks.

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

	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
	Jan to Feb	Jan to Feb	Feb	Feb
TOTAL	377.4	365.3	193.9	191.2
CAR	166.1	139.1	80.3	74.0
Chrysler	41.7	33.6	21.3	19.7
GM	53.4	47.1	26.5	25.6
Honda	42.6	31.4	19.6	15.5
Toyota	28.4	27.0	12.9	13.2
TRUCKS**	211.3	226.2	113.6	117.2
Chrysler	39.5	50.3	26.7	28.5
Ford	44.9	46.5	21.0	23.2
GM	58.5	60.9	28.7	31.4
Honda	29.4	34.3	14.1	17.3
Toyota	37.8	32.5	22.2	16.0
Others	1.2	1.7	0.9	0.8

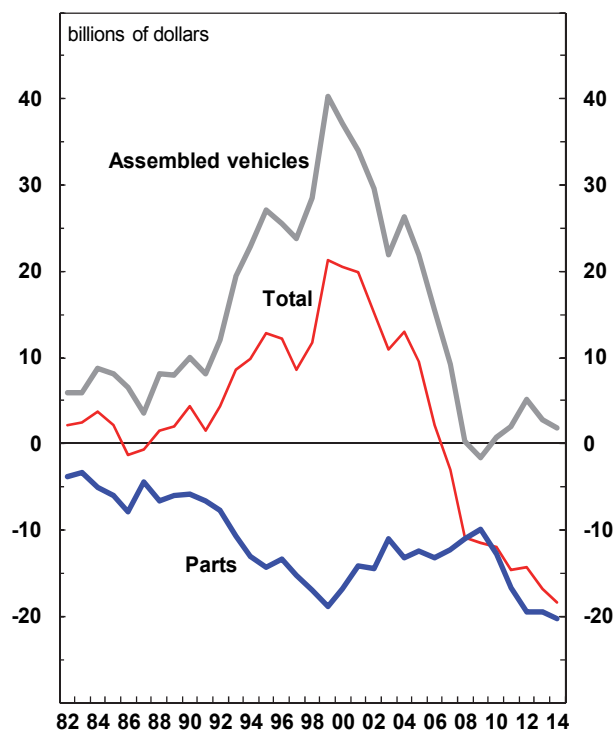
*Production data from Ward's Automotive Reports. **Light, medium and heavy trucks.

Canada — Motor Vehicle Production



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

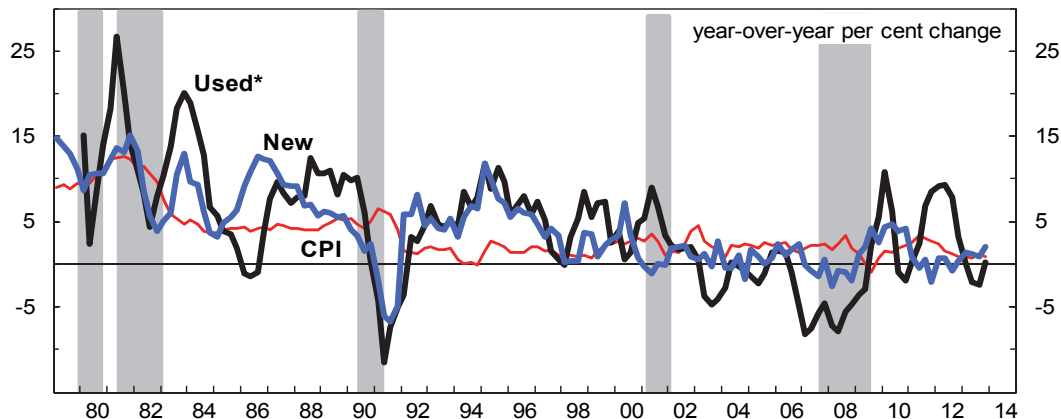
Canada — World Auto Trade Balances



2014 data are January annualized.

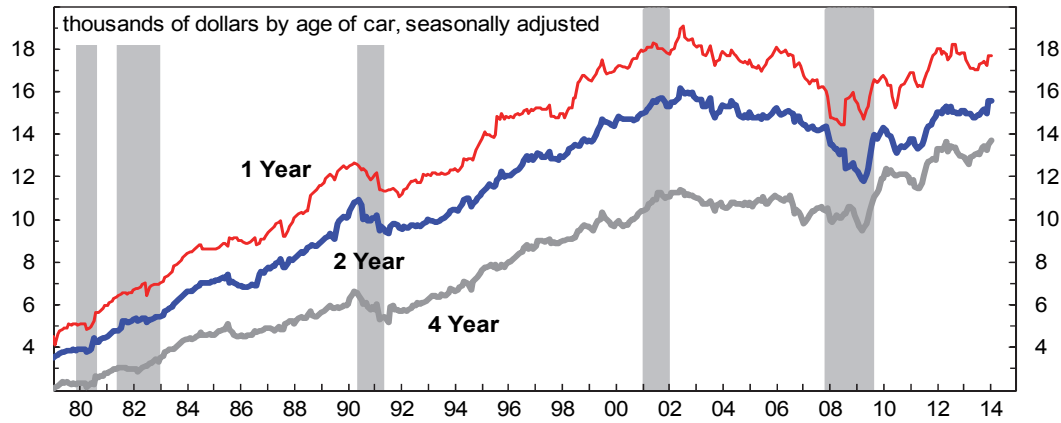
New & Used Car Prices

Scotiabank Car Price Indicators — Canada



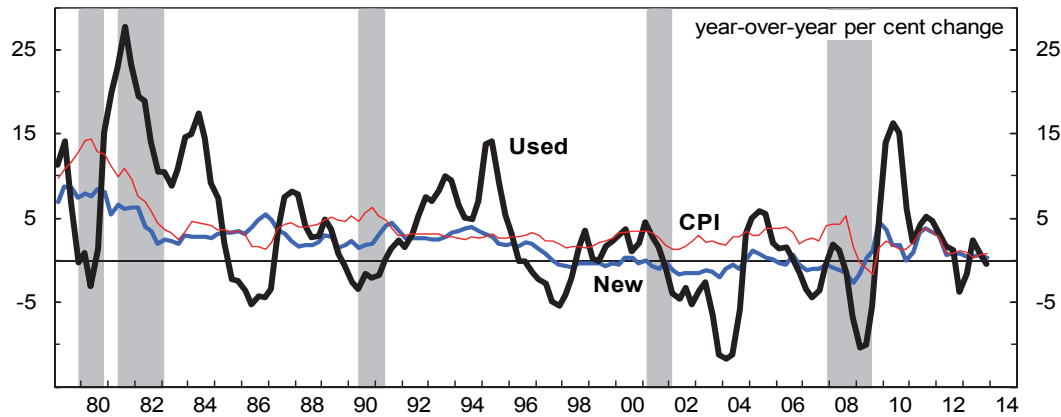
*Scotiabank estimate from Canadian Black Book data.

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	2001	521	0.75	7.06	2.13	1.98	8.37
	2002	773	1.02	7.48	3.09	2.04	11.28
	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	1702	2.04	5.16	5.14	1.92	17.01
	2012	2149	2.41	4.87	5.60	1.78	18.81
	2013	1892	2.03	4.95	7.22	1.62	14.91
Quarterly at annual rates							
	2012Q4	2044	2.35	4.99	5.32	1.64	16.87
	2013Q1	1280	1.63	4.43	5.64	1.72	10.72
	Q2	1984	2.05	5.17	7.91	1.69	16.20
	Q3	2208	2.24	5.16	8.21	1.59	17.16
	Q4	2096	2.16	5.07	7.13	1.51	15.30
Average (89-13)		658	1.22	6.10	3.09	2.34	11.23
Low (89-13)		-68	0.10	4.38	1.10	3.57	-1.20

Definition of Ratios:

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

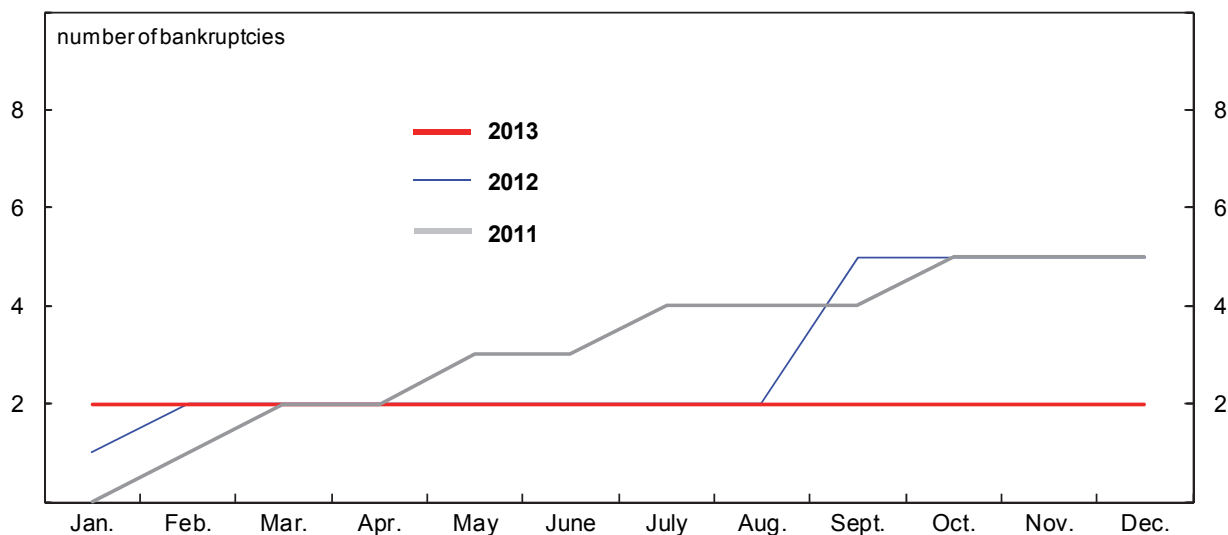
Inventory Turnover Ratio: sales/inventory

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.