

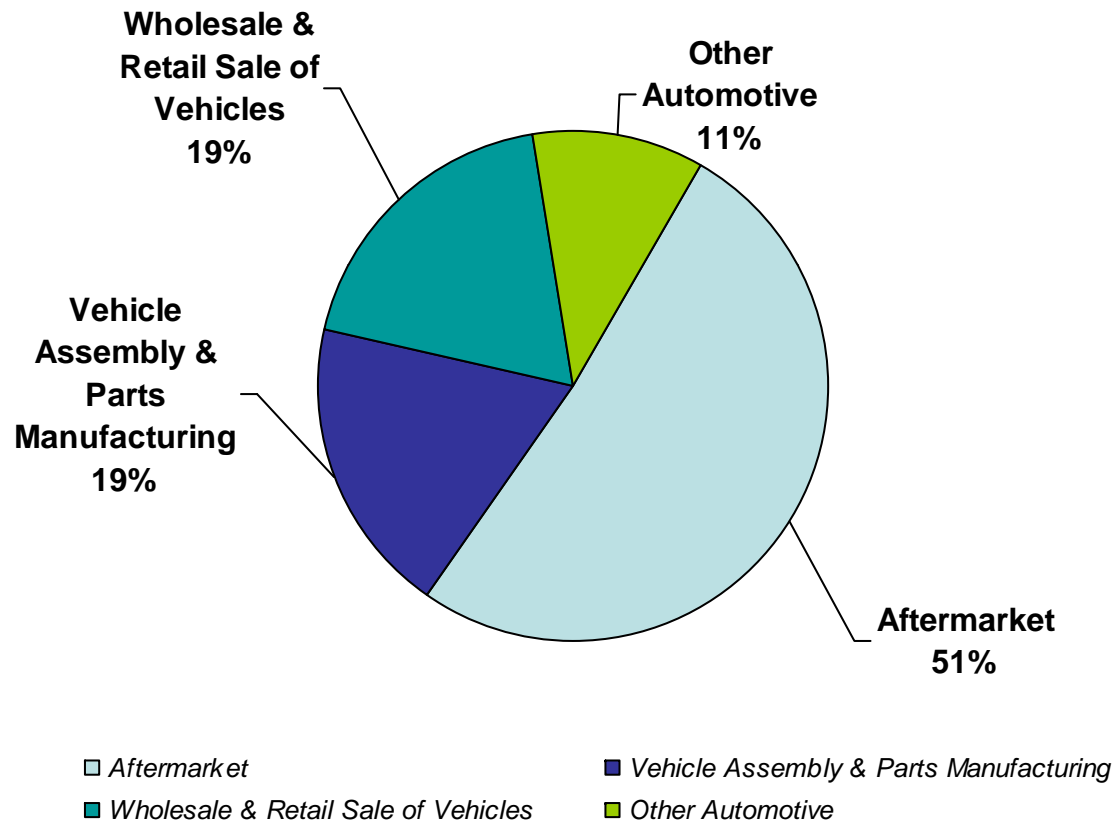
## Automotive Review - Dennis DesRosiers



## **High-Level Review of the Automotive Market**

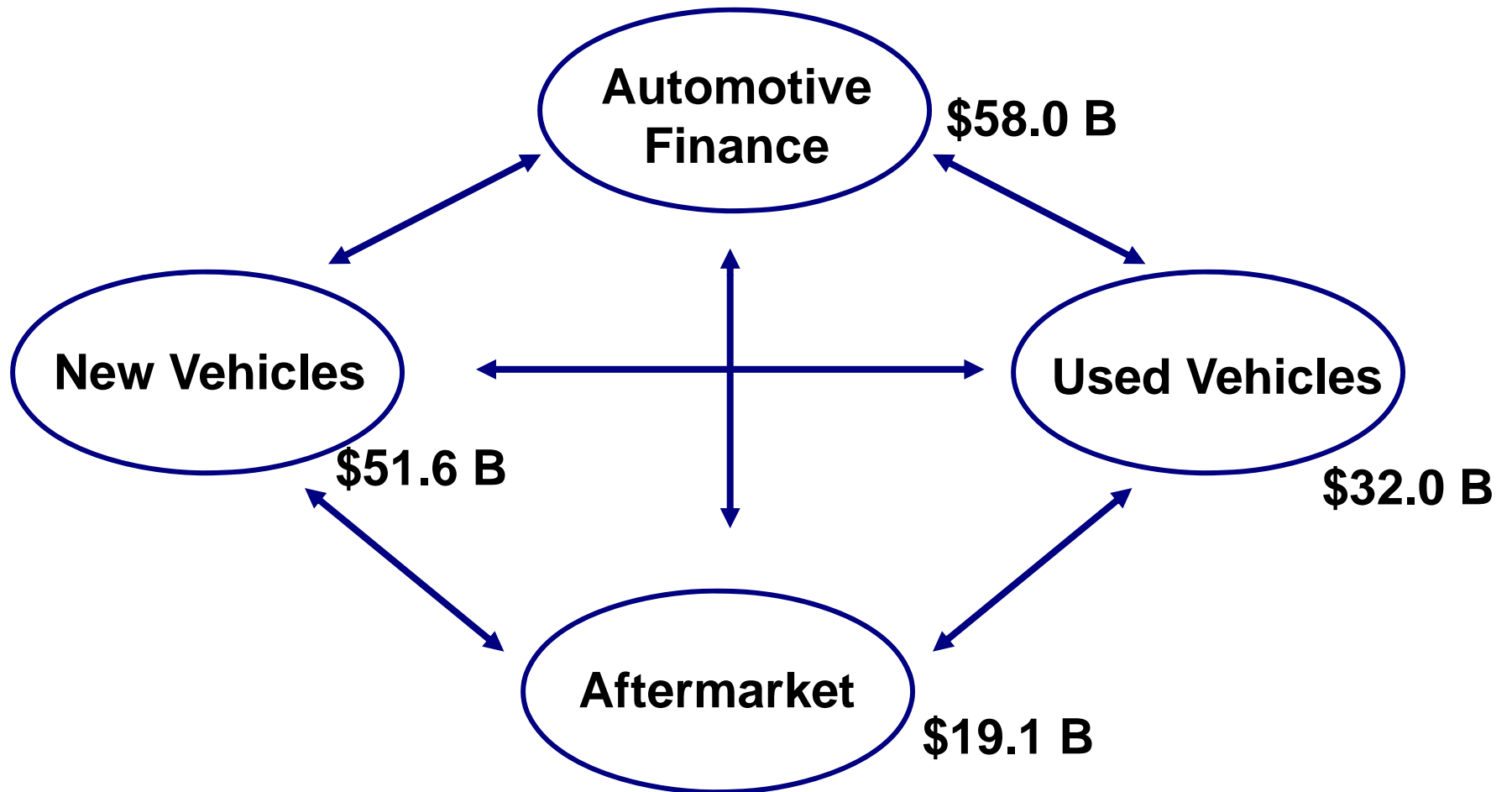
- **The Canadian automotive industry is a highly complex and dynamic industry**
- **It is one of Canada's largest and most important sources of employment and economic activity, accounting for approximately 900,000 direct jobs in 2010**
- **One in Seven jobs in Canada are tied directly and indirectly to Automotive**
- **The automotive market consists of four broad categories, which encompass their respective value chains – These include:**
  - **New Vehicles**
  - **Used Vehicles**
  - **Automotive Finance**
  - **Parts and Service**
- **Combined, these four value chains generated \$160.7 Billion in revenue in Canada in 2010, with automotive finance and new vehicle sales holding the largest shares**

# Canadian Automotive Employment – By Sector for 2010



Source: DesRosiers Automotive Consultants Inc

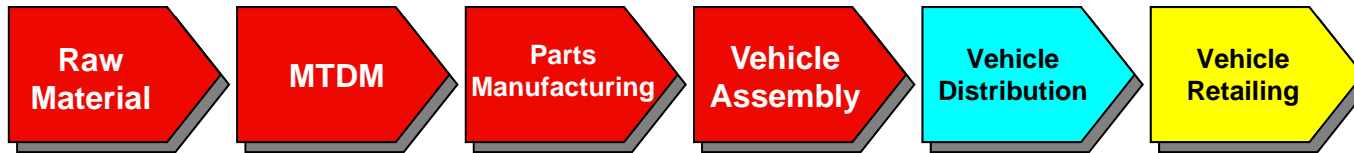
## High-Level Review of the Automotive Sector



**2010 - Final Retail = \$160.7 Billion including Financing**

# The Auto Sector by Function

## New Vehicles



## Used Vehicles

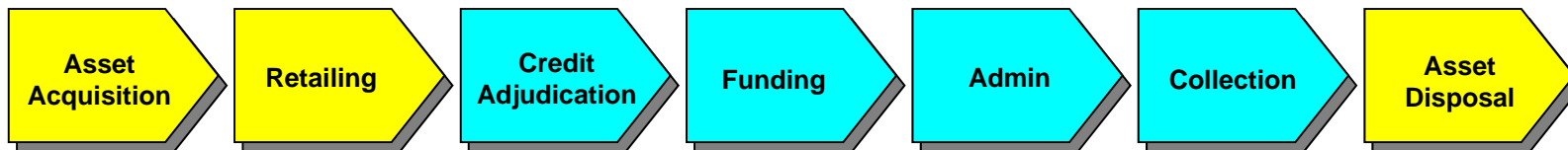


**Manufacturing Focus in Red**

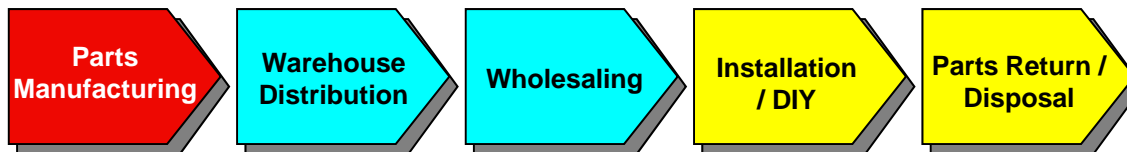
**Distribution Focus in Blue**

**Retail Focus in Yellow**

## Vehicle Finance



## Aftermarket



# **Outlook for the New Vehicle Market**

# Forecasting the North American Market requires two separate Analysis

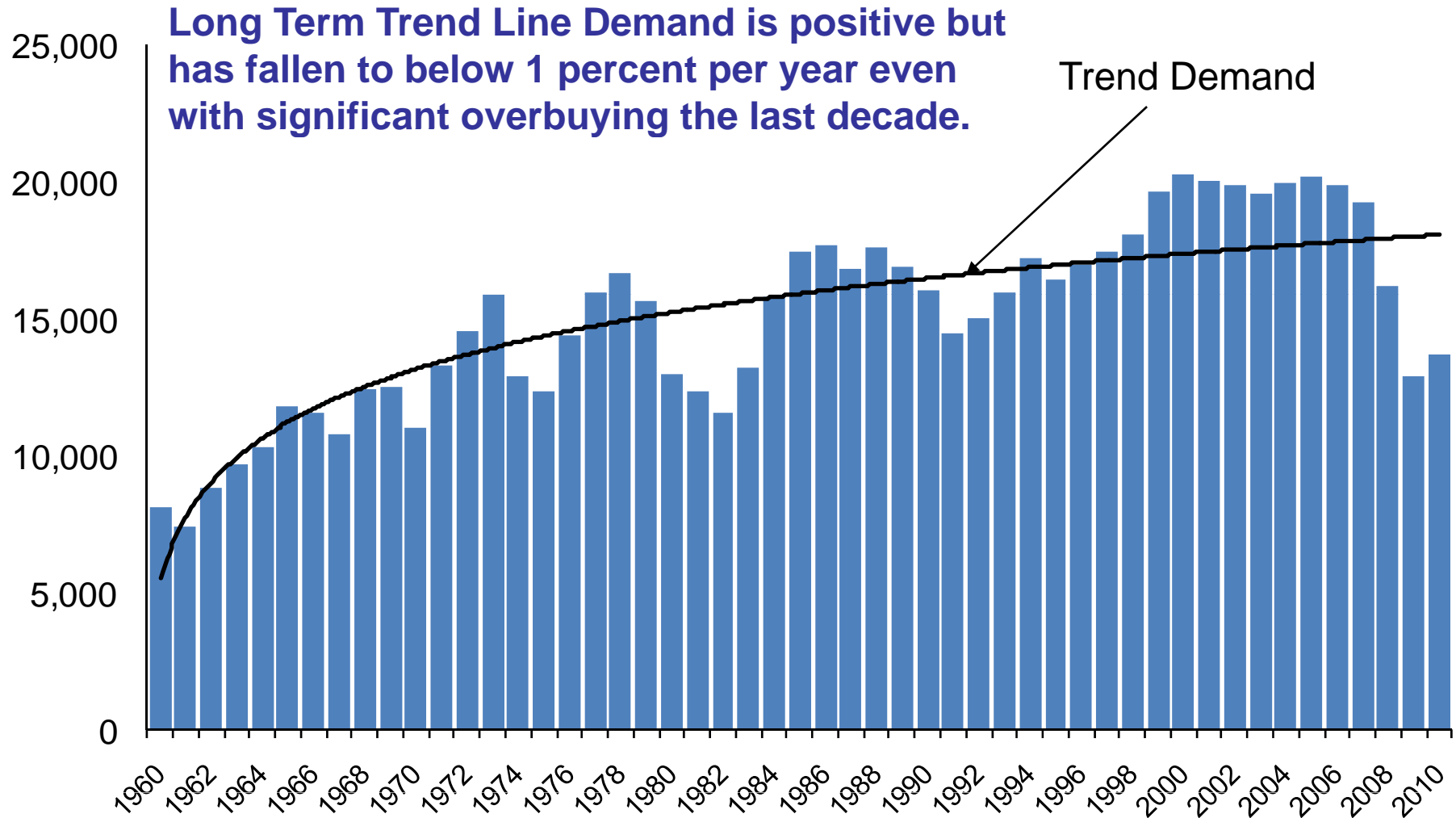
- **First, is to calculate structural demand or as some may call it “Long Term Trend Line” demand ... following are some important considerations:**
  - **Scrappage rates or replacement demand**
    - Age structure of the vehicles on the road
    - Vehicle Usage
    - Build quality/technology – “Expected Useful Life”
    - The state of repair of the vehicle Parc
  - **Driving age population**
    - Age structure of the population
    - Immigration policy and trends
  - **Vehicle ownership levels or the penetration of vehicles into Society**
    - The cost of ownership
    - Attitude towards vehicles
    - Household structure ... family formation
    - The types of vehicles available to consumers
    - Transportation Infrastructure etc

# Forecasting the North American Market requires two separate Analysis

- The second step is to estimate what we call “Cyclical” demand or in other words the economic factors that leads to the market running above or below trend line demand. Key variables include:
  - Employment/Unemployment ... If you have a job in N.A. you need a vehicle
  - Real Income growth ... affordability issues
  - Interest rates since 90 percent of vehicles are financed
  - The wealth effect ... best example is house prices but Equity markets are also an important element
  - Consumer Confidence
  - New product Introductions

# North American Vehicle Sales

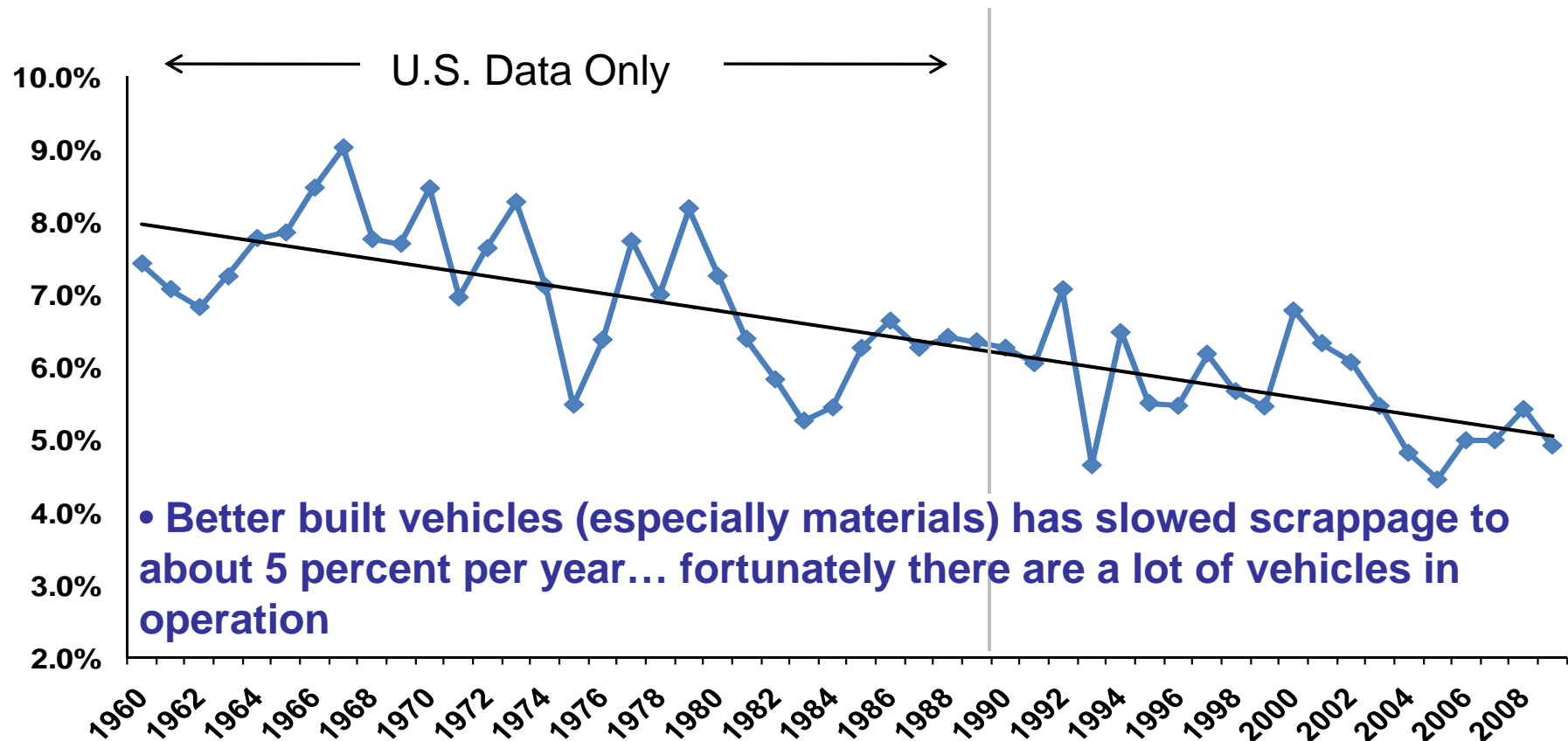
(thousands of vehicle)



Source: DesRosiers Automotive Consultants Inc.

# Vehicle Scrappage as a percent of Units in Operation

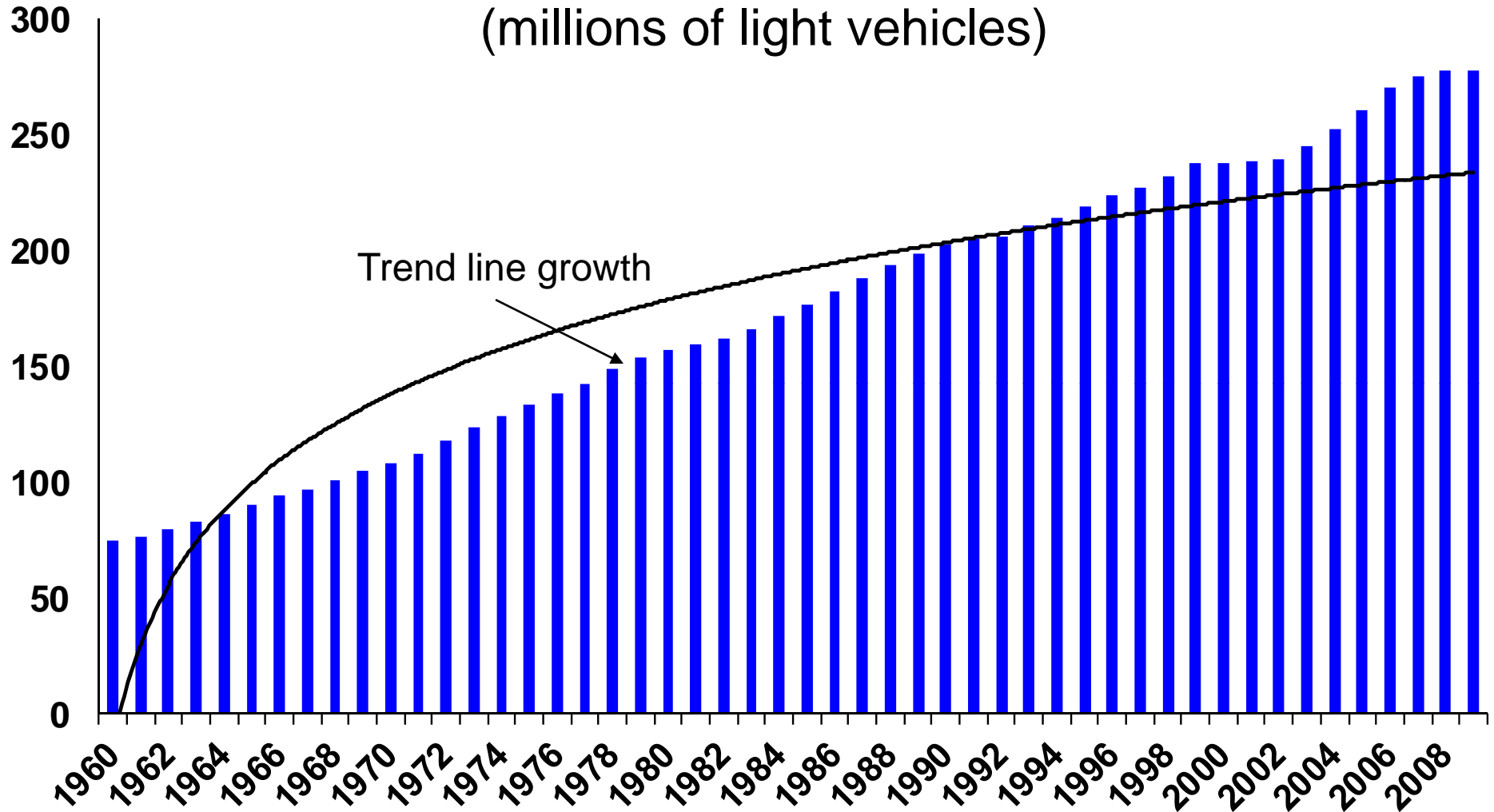
## North America 1990 - 2009



- The age structure of vehicles on the road can be positive for scrappage
- The amount of driving is a key issue and with high gas prices scrappage is more likely to continue to go down rather than up

# Units in Operation, North America

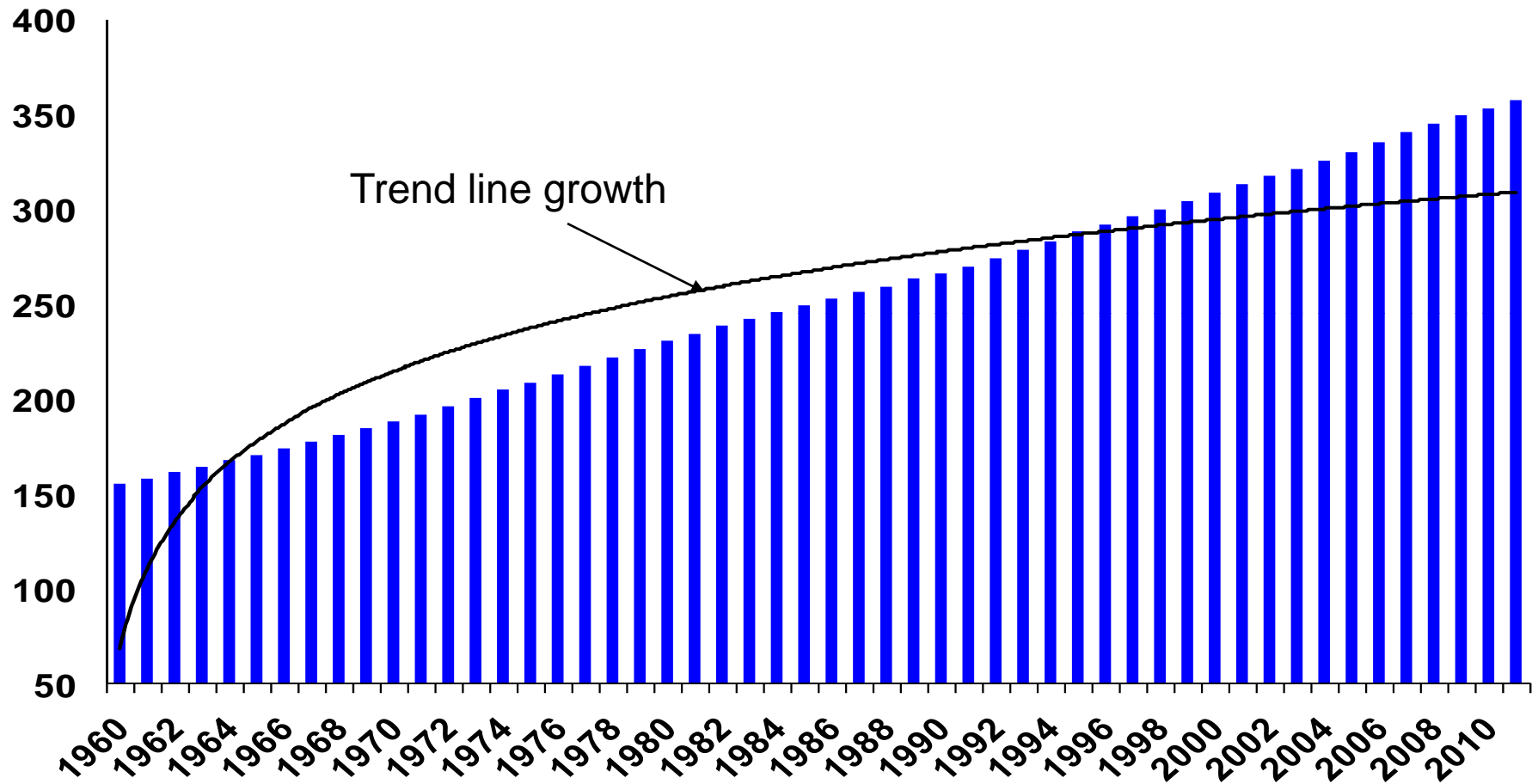
(millions of light vehicles)



- There are currently 280 million Vehicles in Operation so 5 % replacement demand translates into about 14 million units per year of trend line demand.

# Driving Age Population, North America

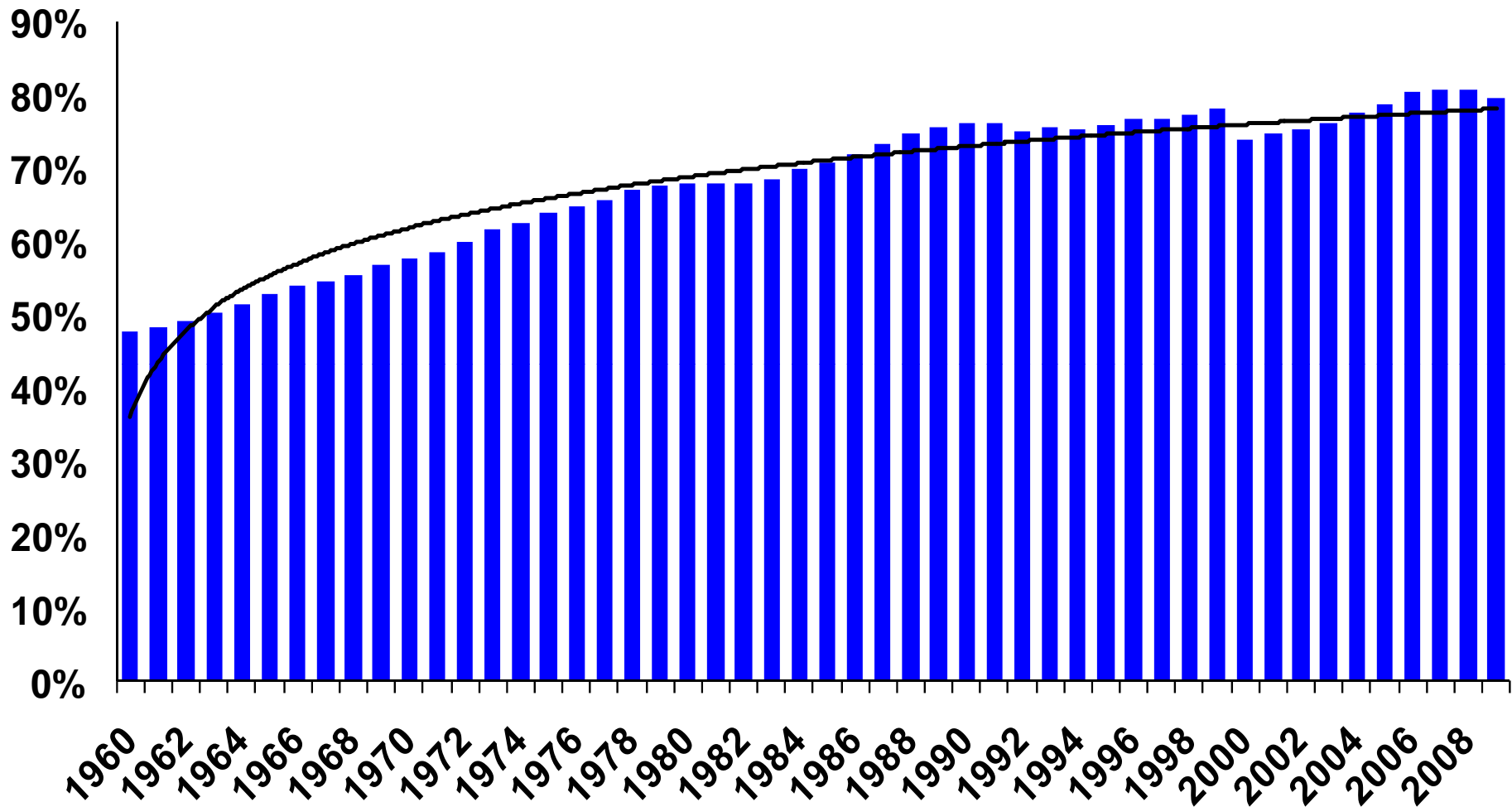
(millions of people, age 16+)



- Growth in Driving Age Population remains positive and adds another 1.5 to 2.0 million units of demand to long term growth

# Vehicles per Driving Age Population, North America

(Percentage of population, age 16+)



- This is the most difficult variable to call since the US is De-fleeting ... there is some growth in Canada and significant potential for Mexico but a potential that has never been realized. If long term trends continue it adds up to about 2 million units of long term trend demand but any reversal would reduce demand by millions.

# **Expect a Long Term “LEAN” New Vehicle Market from a trend line perspective**

- Most factors affecting long term trend line demand in North America are negative or only slightly positive ... vehicles are better built and lasting longer, driving age population is slowing, Mexican and Canadian vehicle ownership is growing but NOT in the US which is beginning to DE-FLEET.**
- Trend line demand has fallen to less than 1 percent growth per year**

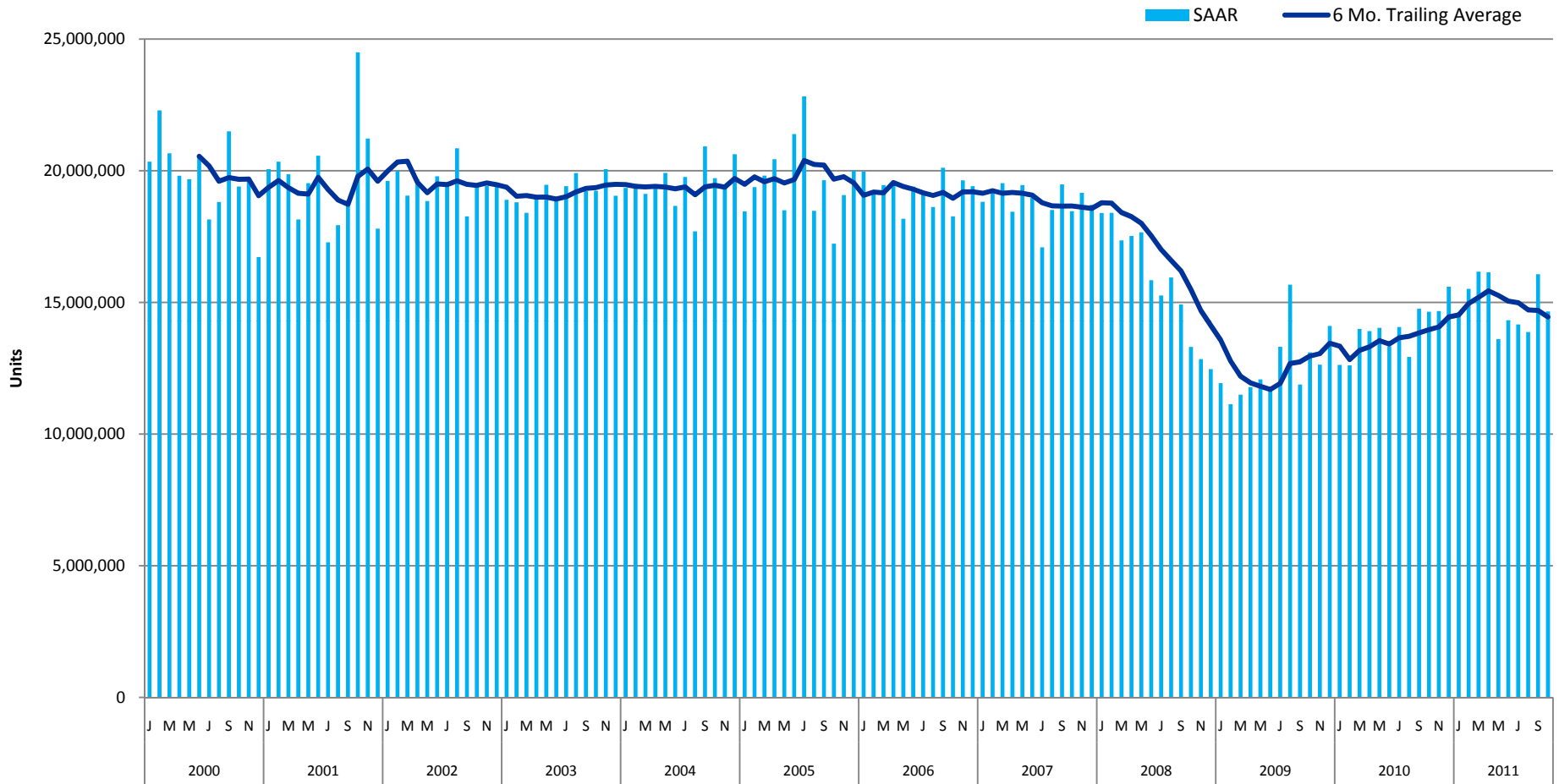
# **Cyclical Issues devastated the market in 2008/9 and are still prevalent today**

- **Almost all factors that determine whether the market runs above or below long term trend demand are negative.**
  - **Unemployment is stubbornly high**
  - **Real income growth is stagnant**
  - **Interest rates can't go lower and are more likely to go higher**
  - **Consumer confidence has not recovered**
  - **Some growth in new vehicle introductions but not enough to offset the negatives from the other variables.**

# **Cyclical Issues are pushing the market well below trend line demand and it will remain below for quite some time**

- The market has recovered slightly from its low in 2009 but remains about 4 to 5 million units below trend line demand in 2011**
- They will improve over the next 3-4 years so that is positive but will still remain below trend line demand until at least 2015 – 2016 ... we are a very long ways from being out of this mess.**
- Consumers will buy fewer vehicles this decade than last decade**

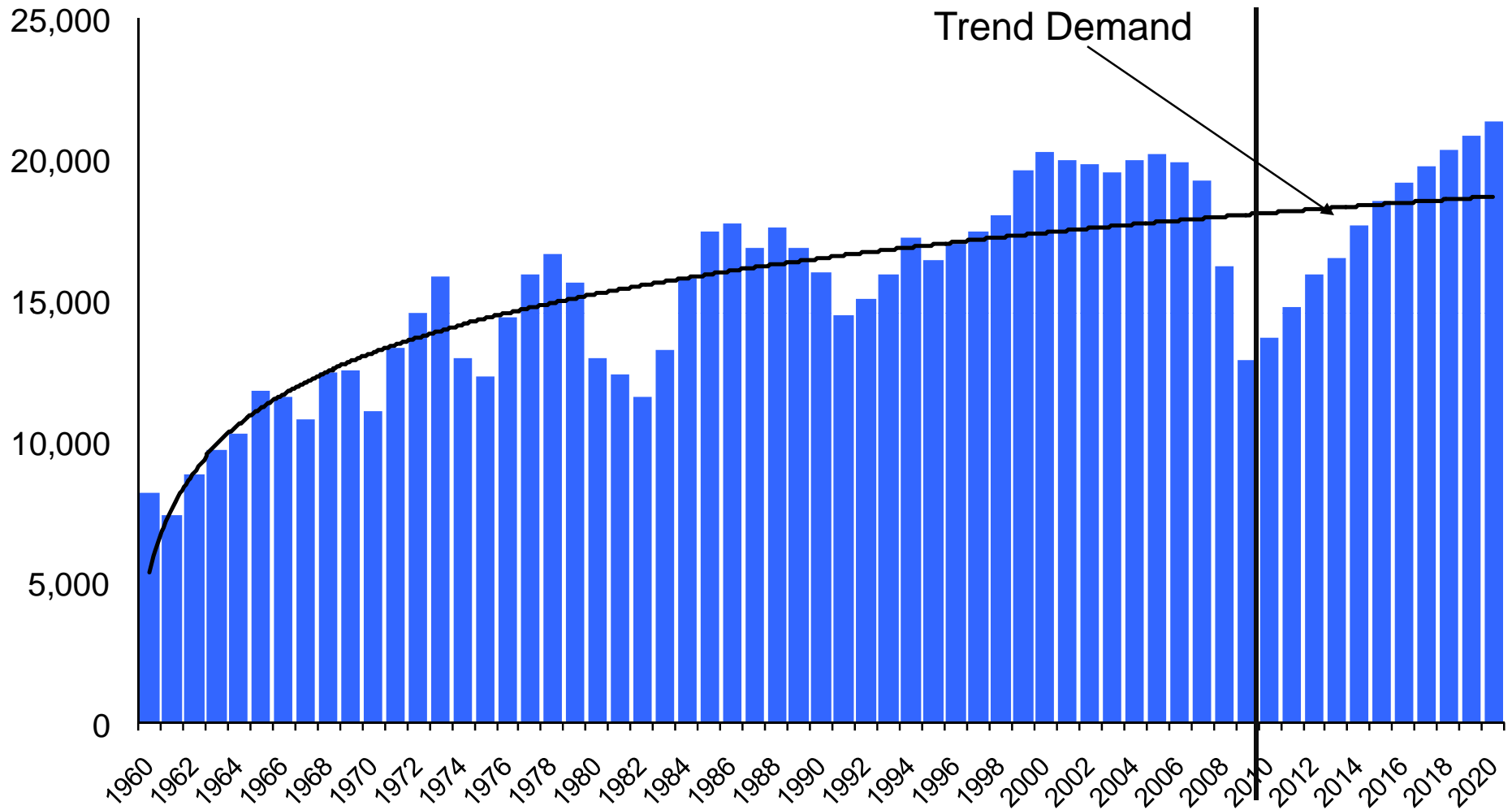
## North American Light Vehicle Sales: SAAR Monthly 2000 - 2011



- Sales began to fall in 2006 and fell off a cliff in the fall of 2008 with only a modest recovery. A second decline is currently underway.

# North American Vehicle Sales

(thousands of vehicle)



Source: DesRosiers Automotive Consultants Inc.

# North American Light Vehicle Sales vs. Production

	TOTAL VEHICLE SALES UNITS	TOTAL VEHICLE PRODUCTION UNITS	PRODUCTION TO SALES RATIO
1960-69	103,500,717	101,331,179	97.9%
1970-79	142,695,663	128,917,841	90.3%
% CHANGE	37.9%	27.2%	
1980-89	152,515,567	120,272,734	78.9%
% CHANGE	6.9%	-6.7%	
1990-99	167,305,208	147,297,933	88.0%
% CHANGE	9.7%	22.5%	
2000-09	188,318,225	151,922,187	80.7%
% CHANGE	12.6%	3.1%	
2010-19 Forecast	<b>177,334,295</b>	<b>138,674,167</b>	<b>78.2%</b>
% CHANGE	<b>-5.8%</b>	<b>-8.7%</b>	

- Vehicle production under performs vehicle sales due to increased import penetration led by European and Asian vehicles in the near term .... This translates into a more negative view for the automotive parts sector

Source: DesRosiers Automotive Consultants Inc.

# **Outlook for the Used Vehicle Market**

The used vehicle market as a whole should **significantly outperform** the new vehicle market in the long term.

However, individual submarkets will perform very differently.

- **Record new vehicle sales the past decade increases the supply of used vehicles in Canada this decade**
- **Longer lasting vehicles increases the supply of older less expensive used vehicles**
- **FTA/NAFTA opens the border to an unlimited supply of used vehicles from the US market ( 240 million used units on the road in the USA )**
- **A strong Canadian dollars increases imports of used vehicles from the USA and in the process lowers the prices of all used vehicles**
- **Scrappage of vehicles will continue to grow so a lot of older vehicles will need to be replaced**

- **The quality of vehicles has radically improved so, for the most part, buyers of used vehicles are no longer “buying someone else’s problem” at least through the first decade of ownership**
  - **How do you manufacturer a ‘high quality’ used vehicle? ... first make a high quality ‘new’ vehicle and wait for the owner to put it up for sale**
- **Vehicles per driving age population in Canada continues to grow resulting in more vehicles on the road and most first time buyers enter the market by buying used instead of new**

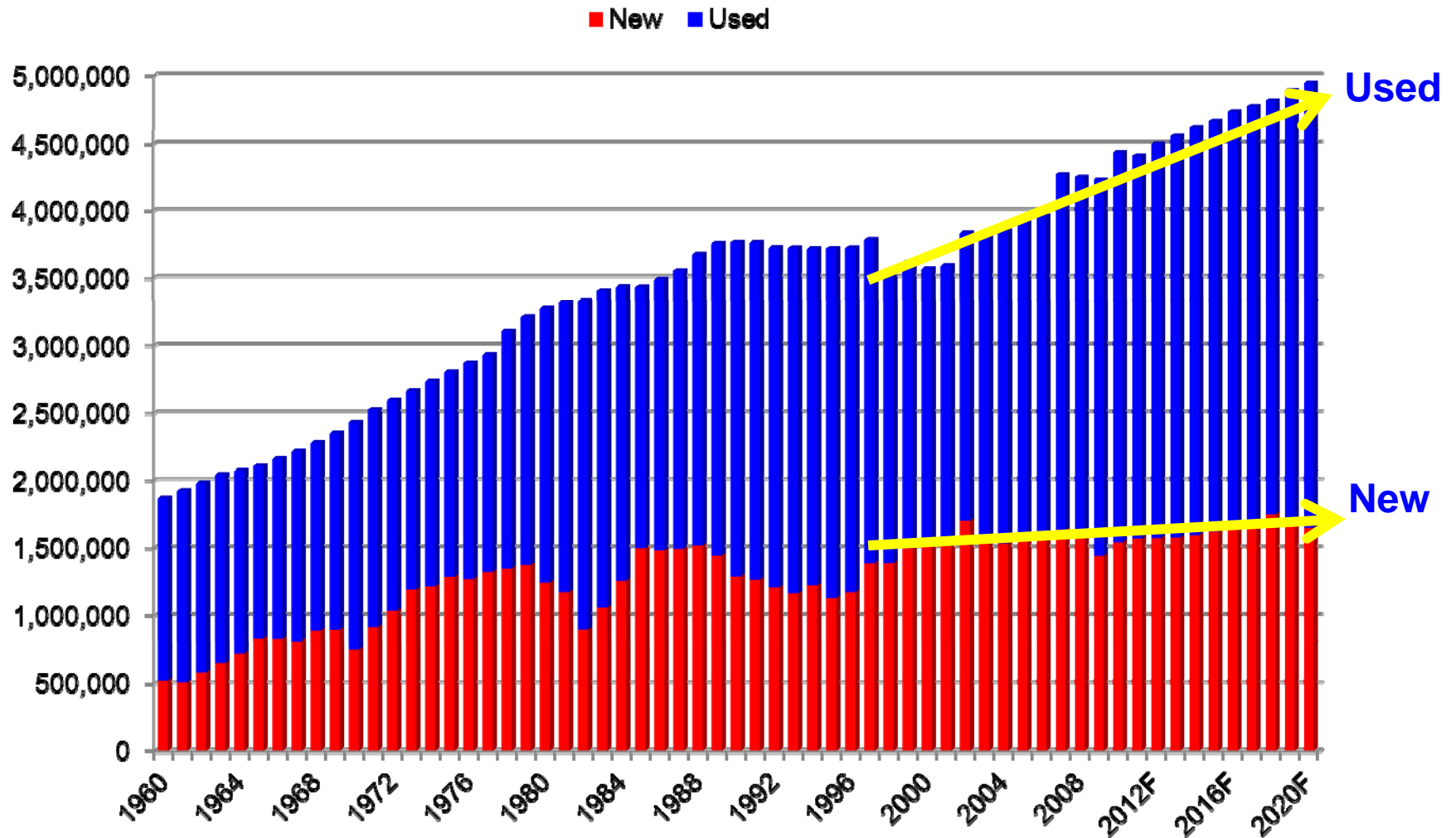
- **Much higher NEW vehicle prices are expected due to a heavy regulatory burden (Fuel efficiency, Environment, Safety) for new vehicles so used vehicles largely untouched by regulation should be in a better price position relative to new vehicles which should strengthen the substitution effect for used vehicle purchases**
- **The substitution effect also grows in a lean economic environment with more consumers choosing a used vehicle over a new vehicle for budget reasons**

## New vs. Used Light Vehicle Sales – Decade over Decade

	New Light Vehicles # of Units	Used Light Vehicles # of Units	Total Light Vehicles # of Units	Units in Operation (Average)	Total Sales % of UIO
1960-69	7,281,158	13,757,268	21,038,426	6,767,372	31.1%
1970-79	11,954,793	16,169,983	28,124,776	9,604,067	29.0%
% CHANGE	64.2%	17.5%	33.7%	41.9%	
1980-89	13,359,197	21,615,335	34,974,532	13,096,013	26.5%
% CHANGE	11.7%	33.7%	24.4%	36.4%	
1990-99	13,024,076	24,363,556	37,387,632	15,820,118	23.5%
% CHANGE	-2.5%	12.7%	6.9%	20.8%	
2000-09	16,257,883	23,501,573	39,759,456	19,096,326	20.6%
% CHANGE	24.8%	-3.5%	6.3%	20.7%	
<b>2010-19</b>	<b>16,576,780</b>	<b>30,063,291</b>	<b>46,640,071</b>	<b>23,876,746</b>	<b>19.4%</b>
<b>% CHANGE</b>	<b>2.0%</b>	<b>27.9%</b>	<b>17.3%</b>	<b>25.0%</b>	

- The new and used vehicle market are historically counter-cyclical so with a very lean new vehicle market forecast for this decade we expect a very healthy USED vehicle market

# New vs. Used Vehicle Sales in Canada 1960 – 2020 Forecast



**The Used vehicle market has been growing much faster than the new vehicle market and will continue to do so**

# **Outlook for the Aftermarket in Canada**

## More Elements are Positive than Negative

- Better built, longer lasting vehicles
- Record new vehicle sales this past decade, especially high maintenance light trucks
- Many vehicles in their prime aftermarket repair years
- Still a lot of vehicle usage although down recently
- Government safety and emissions programs forcing consumers into the aftermarket
- Pricing recovering

## Record Number of Vehicles in Their “Prime” Aftermarket Repair Years

MODEL YEAR	2000 ACTUAL	2010 ACTUAL	2015 FORECAST
1-3 YEARS	3,547,900	4,091,290	4,333,144
4-5 YEARS	1,985,717	3,128,353	3,100,694
6-7 YEARS	2,082,115	2,883,836	2,885,194
8-12 YEARS	5,293,828	6,310,672	7,095,446
12+ YEARS	4,191,339	5,587,127	6,717,861
<b>TOTAL</b>	<b>17,100,899</b>	<b>22,001,278</b>	<b>24,132,339</b>
1-3 YEARS	20.7%	18.6%	18.0%
4-5 YEARS	11.6%	14.2%	12.8%
6-7 YEARS	12.2%	13.1%	12.0%
8-12 YEARS	31.0%	28.7%	29.4%
12+ YEARS	24.5%	25.4%	27.8%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Almost all the growth in units in operation is with older vehicles particularly very old vehicles

Source: DesRosiers Automotive Consultants Inc. and R.L. Polk & Co.'s NVPP® Vehicle Registration Database, as of 7/1 of each year

**The positives out-weigh the negatives so we forecast positive demand for the next few years for the automotive aftermarket**



**SIZE OF THE AFTERMARKET BY MARKET SEGMENT - \$ MILLIONS**  
**EXCLUDES WARRANTY WORK, COLLISION & FLEET MAINTENANCE**

	1 TO 5 YEAR OLD VEHICLES	6 TO 10 YEAR OLD VEHICLES	OVER 10 YEAR OLD VEHICLES	TOTAL
DURING 2005	\$4,163.9	\$5,196.8	\$6,765.1	\$16,125.8
DURING 2006	\$4,399.8	\$5,659.0	\$6,688.2	\$16,747.0
DURING 2007	\$4,545.6	\$6,326.1	\$6,772.1	\$17,643.9
DURING 2008	\$4,610.7	\$6,520.9	\$7,132.6	\$18,264.3
DURING 2009	\$4,689.9	\$6,772.6	\$7,265.9	\$18,728.4
DURING 2010	\$4,477.2	\$6,966.9	\$7,625.9	\$19,070.0
<b>DURING 2011F</b>	<b>\$4,448.4</b>	<b>\$7,207.4</b>	<b>\$7,940.4</b>	<b>\$19,596.1</b>
<b>DURING 2012F</b>	<b>\$4,281.6</b>	<b>\$7,451.4</b>	<b>\$8,434.4</b>	<b>\$20,167.5</b>
<b>DURING 2013F</b>	<b>\$4,316.7</b>	<b>\$7,540.0</b>	<b>\$9,022.9</b>	<b>\$20,879.6</b>
<b>DURING 2014F</b>	<b>\$4,445.8</b>	<b>\$7,705.5</b>	<b>\$9,415.1</b>	<b>\$21,566.5</b>
<b>DURING 2015F</b>	<b>\$4,482.1</b>	<b>\$7,790.9</b>	<b>\$9,971.9</b>	<b>\$22,245.0</b>
2005 TO 2006	5.7%	8.9%	-1.1%	3.9%
2006 TO 2007	3.3%	11.8%	1.3%	5.4%
2007 TO 2008	1.4%	3.1%	5.3%	3.5%
2008 TO 2009	1.7%	3.9%	1.9%	2.5%
2009 TO 2010	-4.5%	2.9%	5.0%	1.8%
<b>2010 TO 2011</b>	<b>-0.6%</b>	<b>3.5%</b>	<b>4.1%</b>	<b>2.8%</b>
<b>2011 TO 2012</b>	<b>-3.7%</b>	<b>3.4%</b>	<b>6.2%</b>	<b>2.9%</b>
<b>2012 TO 2013</b>	<b>0.8%</b>	<b>1.2%</b>	<b>7.0%</b>	<b>3.5%</b>
<b>2013 TO 2014</b>	<b>3.0%</b>	<b>2.2%</b>	<b>4.3%</b>	<b>3.3%</b>
<b>2014 TO 2015</b>	<b>0.8%</b>	<b>1.1%</b>	<b>5.9%</b>	<b>3.1%</b>

# Questions?

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