

April 26, 2016

QUEBEC – ONTARIO

New car sales boom: heading for a new peak in 2016?

HIGHLIGHTS¹

- Auto sales rose 5.7% in Quebec in 2015. A record 444,557 new vehicles were sold last year. In the first quarter of 2016, they were up 10.6% from the same time in 2015.
- In Ontario, 760,521 new vehicles were sold last year, an increase of 5.9%. The first quarter of 2016 saw a jump of 14.5% from the first quarter of 2015.
- Oil-producing provinces, however, posted a drop in the number of new vehicles sold in 2015: -11.7% in Alberta, -4.6% in Saskatchewan and -0.9% in Newfoundland and Labrador.

COMMENTS

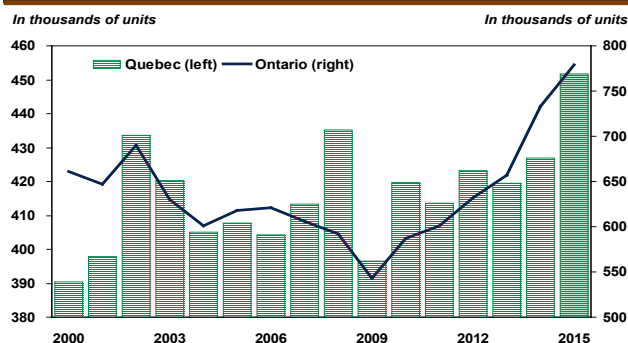
The fact that some provinces saw new auto sales tumble is not surprising. Low oil prices have created economic difficulties in some parts of the country, hitting consumer confidence and, in turn, the purchase of durable goods like motor vehicles.

The reverse occurred in Quebec and Ontario. Consumer confidence did not decline as it did elsewhere in the country, and the labour market continued to perform well last year. New motor vehicle sales surged in 2015 and even accelerated in the first quarter of this year.

Beyond the substantial regional disparities seen in 2015, the country's market has been growing persistently since the 2008–2009 recession. Nearly 2 million vehicles were purchased last year, a record high. According to DesRosiers Automotive Consultants Inc., new vehicle prices have increased 10% over 10 years in Canada, to \$27,563 in 2014. For that same year, the average price for mini-vans and light trucks, especially SUVs, was \$40,000, up 3.6% over 10 years. In Quebec, the two consecutive 1% QST increases in 2011 and 2012 inflated the bill for all vehicle types.

¹ Data highlights are from DesRosiers Automotive Consultants Inc.

Quebec and Ontario new vehicle sales hit a peak in 2015



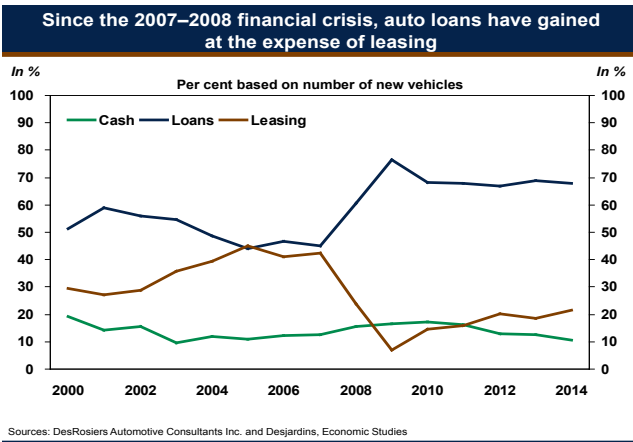
Sources: Statistics Canada and Desjardins, Economic Studies

Beyond the rise by new vehicle sales and prices, payment methods have changed enormously in the last 15 years. In the early 2000s, nearly 20% of new cars were bought for cash in Canada. Now, that figure is around 10%.

Just before the 2008–2009 recession, leasing to acquire a new vehicle was the preferred financing option for more than 40%. According to a recent study², leasing has lost ground in Canada since the last economic and financial crisis. Automakers have thus dropped this type of financing, and leasing declined substantially. This payment method's share dropped below 10% in 2009, then gradually climbed to around 20% in recent years.

Fewer new cars are being bought for cash and leasing is less accessible. Consumers have shifted toward taking out conventional bank loans over the years. Car loans have therefore surged, especially longer-term car loans. These car loans are spread out over six to eight years, making the

² Financial Consumer Agency of Canada, "Auto Finance: Market Trends," March 8, 2016, 16 p., www.fcac-acfc.gc.ca/Eng/resources/researchSurveys/Documents/auto-finance-market-trends.pdf.



monthly payments lower. More than 70% of the new car loans in Canada are now extended in this way.

Implications: Quebec and Ontario posted record sales last year, largely offsetting the pullback elsewhere in the country. The first quarter data suggests even stronger growth in 2016 in the two provinces, and a smaller decline in the rest of Canada. In this context, sales growth could be twice as fast this year, going to 5% in Canada, compared with 2015's 2.6% gain.

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