



Global Auto Report

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Demographic Boom Turning To Bust For North American Auto Sales — Growth in potential new vehicle buyers to slump to fifty-year low

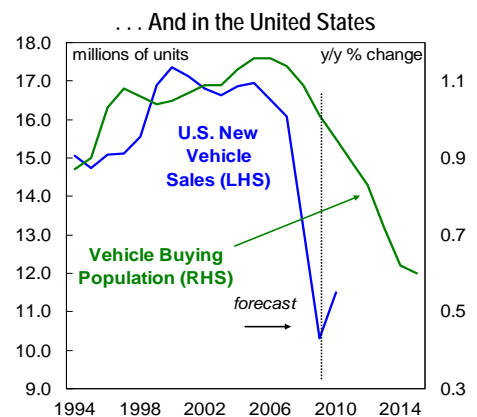
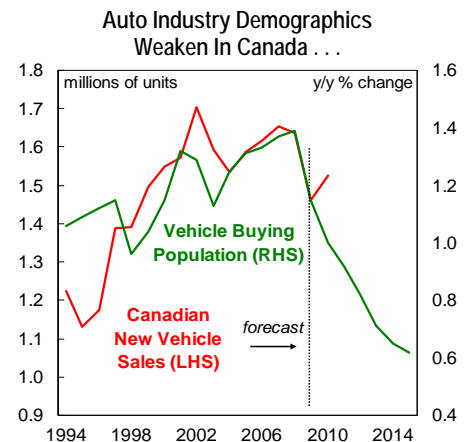
Global car sales continue to gain momentum, with purchases in January posting a double-digit increase for the fourth consecutive month, led by more than a doubling in volumes in China — the world's largest auto market. U.S. auto sales also advanced year-over-year for the fourth consecutive month, climbing to an annualized 10.8 million units, up from a full-year 2009 total of 10.4 million. North American automakers outperformed, with both Ford and General Motors posting double-digit gains, lifting the share of North American automakers to 45.6% last month, up from a record low of 41.2% in August 2009. Volumes at both companies were buoyed by popular crossover utility vehicles (CUV) — the fastest-growing segment in the industry, with year-over-year gains of 13% last month. CUV sales in the United States totalled 2.3 million units in 2009, only marginally less than the industry-leading mid-size cars, and will become the largest segment in 2010.

Canadian car & light truck purchases remained above a year ago for the second consecutive month, led by a 19% surge in the fast-growing CUV segment. However, seasonally adjusted purchases softened to an annualized 1.45 million units in January, down from a full-year 2009 total of 1.46 million, and an average of 1.55 million during the July to October period. Much of the weakness was driven by double-digit declines for several imported brands. Nevertheless, preliminary data indicate that purchases are rebounding sharply in February, and we expect full-year 2010 volumes to increase to 1.53 million units, up from a decade-low of 1.46 million in 2009. As in the United States, CUVs will lead the way.

DEMOGRAPHICS TO DAMPEN AUTO DEMAND

The global economy and auto sector are in the early stages of a cyclical recovery which will lift car and light truck sales in Canada and the United States above 13.0 million units in 2010, up from 11.9 million last year. However, unfavourable demographics, including the retirement of the baby boom generation, will dampen vehicle demand over the coming decades, leaving the industry increasingly dependent on replacement demand. While generation Y will also become increasingly more important for the auto industry, growth in the vehicle buying population is set to moderate to the slowest pace in more than fifty years.

Baby boomers, born between 1945 and 1963, have had an enormous impact on the auto market in North America — Canada and the United States — expanding the size of annual new passenger vehicle purchases from an average 10.0 million units in the 1960s to a peak of 17.4 million over the past decade. Surveys indicate that this generation still accounts for more than half of all new vehicle purchases and roughly 60% of all drivers. However, **this age group is starting to retire, with the 65-70 year old population in North America advancing by nearly 5% per**



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annum over the next five years. In contrast, the number of young drivers — 16-to-29 year olds — is increasing at the slowest pace since the mid-1990s. These developments will reduce growth in the North American vehicle buying population to 0.6% per annum in Canada over the coming decade, and only marginally higher in the United States (see charts on page one). This represents a sharp slowdown from an average annual growth in the driving age population of 1.4% over the past fifty years. The growth in vehicle buying population has already been slowing since 2007, but the downturn will intensify, and remain in place through 2030.

In addition to demographic shifts, **behavioral trends will also dramatically reduce North American driving needs.** Industry estimates suggest that work-related travel accounts for nearly 30% of overall driving. While some retirees may actually increase their driving in the initial years of retirement as they embark on driving vacations, historical data indicate that, on average, retirees drive nearly 40% less than the 55-to-64 year old age group.

The auto industry is relying on generation Y to partly offset the retirement of the baby boomers, but the sharp fall-off in driving by retirees will have an enormous negative impact on new vehicle demand. This will become more evident by 2013, once the number of North Americans that are 60 years or older surpasses the potential young vehicle buying population — 16-to-29 years old. By that time, a total of 69 million Canadians and Americans will be at least 60 years old, surpassing the 67 million potential young drivers under the age of 30.

The generation Y was born between 1978 and 1994, and totals 70 million people — 7 million in Canada and 63 million in the United States. The peak birth years for this group were between 1989 and 1993 when 20 million were born in the

United States, and an additional 2 million in Canada. The average age of generation Y is currently 21 years, and its youngest members have already reached driving age.

However, in contrast to their parents and older siblings, many in the generation Y age group are postponing getting their licence. U.S. data show that only 46% of the 16-to-19 year old teenage population has a driver's licence. This represents a sharp fall-off from over the past twenty years, when 64% of the 16-to-19 year old population had a driver's licence. Other members of generation Y are also delaying obtaining a licence. Only 72% of the population under 30 years of age in the United States currently has a licence, compared with nearly 84% in 1998, and roughly 90% when their parents were the same age. The trend is similar in Canada. In Ontario, which accounts for nearly 40% of the Canadian population, only 75% of the eligible driving age population between 16 and 29 years of age has a licence.

REPLACEMENT TO THE RESCUE

On the positive side, many baby boomers and their children in both Canada and the United States are still driving older vehicles, and many of these models will have to be replaced over the next several years. **The median age of the U.S. vehicle fleet is a record 9.4 years, with nearly half of the 250 million cars & trucks on the road at least 10 years old.** Historically, nearly 6% of the U.S. fleet is replaced each year, with an additional 3 million units coming from new buyers. Vehicle scrappage is even more important in Canada, with an average of 7% of the fleet replaced each year. Scrappage slumped to less than 6% across Canada in 2009, but is set to rise over the coming year, helping counter the negative emerging demographic trends.

International Car Sales Outlook

	<u>1990-99</u>	<u>2000</u>	<u>2001-07</u>	<u>2008</u>	<u>2009</u>	<u>2010f</u>
	<i>(millions of units)</i>					
TOTAL SALES	39.20	46.64	49.53	52.17	50.91	53.35
North America*	16.36	19.77	19.36	15.85	12.68	13.88
Canada	1.27	1.55	1.61	1.64	1.46	1.53
United States	14.55	17.35	16.71	13.19	10.40	11.50
Mexico	0.54	0.87	1.04	1.02	0.82	0.85
Western Europe	13.11	14.75	14.57	13.54	13.62	12.53
Germany	3.57	3.38	3.29	3.09	3.81	3.24
Eastern Europe	1.18	2.38	2.54	4.01	3.01	3.14
Russia	0.78	1.03	1.42	2.73	1.47	1.53
Asia	6.91	7.85	10.82	15.07	17.68	19.54
China	0.33	0.61	2.56	5.04	7.31	8.77
India	0.31	0.60	0.81	1.20	1.46	1.60
South America	1.64	1.89	2.24	3.70	3.92	4.26
Brazil	0.94	1.17	1.40	2.23	2.48	2.72

*Includes light trucks.