



Global Auto Report

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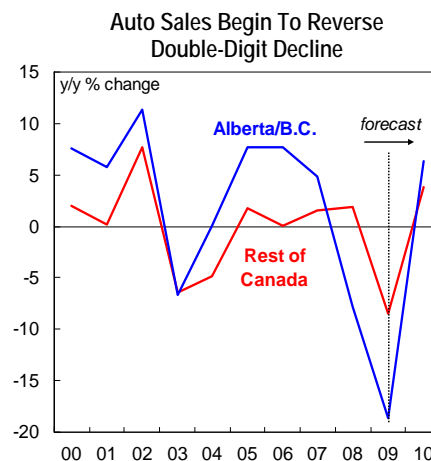
Western Provinces Lead Rebound In Canadian Auto Sales

— Resource-rich provinces begin to reverse the sharpest decline since the early eighties

Global car sales continue to strengthen, with purchases surging 22% year-over-year in December — one of the strongest advances on record and the third consecutive double-digit increase. U.S. auto sales ended 2009 on a strong note, enabling automakers to enter 2010 with renewed confidence. Car and light truck sales totalled an annualized 11.2 million units in December, up from an average of 10.2 million during the previous three months and a full-year total of 10.4 million.

Strengthening sales combined with still-low inventories — 40% below a year earlier — have prompted automakers to boost North American production schedules to an annual rate of 11.6 million units in the opening months of 2010, up from 10.8 million in the final months of 2009 and only 6.9 million a year earlier.

Canadian car and light truck sales improved in December, posting the first year-over-year increase since October 2008 — before the sharp fall-off in global economic activity. This is another sign that the global economy, including Canada, is now in recovery mode and will help lift Canadian light vehicle purchases to 1.53 million units in 2010 — up from a decade low of 1.46 million last year and only slightly below the 1.59 million average of the past decade.



COMMODITY MARKET STRENGTH DRIVES CANADA'S AUTO SALES RECOVERY

The resource-rich provinces of Alberta and British Columbia will lead the rebound in car and light truck sales across Canada in 2010. Commodity prices have posted a double-digit gain since bottoming last spring, and will continue to be buoyed by the nascent global economic recovery of more than 3% this year.

In contrast, the sharp global economic contraction that began in late 2008 led to the sharpest annual decline in vehicle sales since the recession of the early 1980s in the westernmost provinces. **Alberta** led the downturn in 2009, but is expected to outperform this year, as higher oil prices lift car and light truck sales to 198,000 units, up from 184,000 in 2009. **Drilling activity — the key driver of economic activity and vehicle sales in the province — bottomed last summer, and is up nearly 20% y/y in the opening weeks of 2010.** During 2009, drilling activity plunged by 45% in Alberta, as declining global energy demand slashed oil prices to less than US\$50 per barrel through the spring of 2009. However, oil prices have averaged a profitable US\$75 per barrel over the past three months, lifting drilling activity and prompting a ramping up of oil sands investment in Alberta. Oil companies have announced the restart of projects valued at more than \$8 billion in recent months.

Despite last year's economic slowdown, Alberta still has Canada's strongest population growth at 2.3% y/y, as Canadians and new international arrivals relocate to the West. Alberta's neighbours — British Columbia and Saskatchewan — have the next highest population growth, 1.6% each. In contrast, population is advancing by 1% or less in every province east of the Manitoba/Ontario border. Alberta's labour market bottomed in October, and has created 27,000 new jobs over the past two months, reducing the unemployment rate by nearly a full percentage point.

Purchases in **British Columbia** will be bolstered as consumers come out of a two-year hiatus to welcome the athletes and spectators to the 2010 Winter Olympic and Paralympic Games. Vehicle sales in British Columbia have dropped a cumulative 25% since the 2007 peak of 198,000 units — including a 15% slump in 2009 to 150,000 units — but are expected to increase to 158,000 this year. The vehicle fleet in B.C. is one of the oldest in Canada, with more than half of all vehicles at least 9 years old.

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Labour markets have also begun to stabilize in British Columbia, with job creation of 26,000 since last spring. The forestry sector (accounting for one-third of overall exports) has started to see some improvement, with lumber prices jumping nearly 50% since last March, alongside some stabilization in U.S. housing starts. Stepped-up market development in China is also yielding benefits, with lumber sales to China surpassing exports to Japan. Significant expansion is also underway in the province's shale natural gas regions of Horn River and Montney. Transportation activity, which accounts for nearly 7% of overall economic activity in B.C. — nearly double the national average — is also benefitting from the province's status as the Gateway to Asia.

Vehicle sales in **Saskatchewan** have also started to rebound from an 8% decline in 2009, and are expected to total 46,000 units in 2010, up from 44,000 last year. Despite last year's fall-off, vehicle sales in Saskatchewan remained 12% above the average of the past decade, as economic growth has outpaced the national average by 2 percentage points over the past three years. The province has the oldest vehicle fleet in Canada, with the average age exceeding 11 years.

Sales in **Manitoba** are expected to climb to 45,000 units in 2010, from 43,000 last year, as the province benefits from ongoing infrastructure projects, such as the expansion of the Winnipeg airport and construction of the Waskwatim hydro-electric dam. Manitoba has a diversified economy that will be buoyed by the global economic upturn. Manitoba also has the lowest vehicle penetration rate in Canada at only 54.5% — 4 percentage points below the Canadian average.

Purchases in **Ontario** will climb to 557,000 units in 2010, up from 535,000 last year. Sales will be bolstered by the termination of a four-year cyclical decline in North American vehicle output, as sales bounce back in the key U.S. market. Automakers are now

increasing output and adding shifts across North America, a significant reversal from a year ago when the industry was focused on cutting production and idling workers.

The key finance, insurance and real estate sectors, which account for nearly one-quarter of overall economic activity in Ontario have also recently become a major source of strength, reversing the weakness experienced from mid-2007 through the opening months of 2009. This reflects the stability of Canada's financial system and double-digit gains in existing home sales since mid-2009.

Car and light truck sales in **Quebec** will increase a moderate 3% in 2010 to 402,000 units, as the province has one of the youngest fleets in Canada, with less than 40% of the fleet averaging less than 9 years old. In addition, while the hard-hit sectors in other provinces have started to rebound (e.g. oil sands investment in Alberta and auto production in Ontario), the downturn in the global aerospace sector is still exerting downward pressure on the province's largest manufacturing industry. Order cancellations continue, although at a moderating pace, and the order backlog continues to decline.

Higher base metal prices have encouraged mine operators to ramp up production in Newfoundland and Labrador, helping to lift sales in **Atlantic Canada** to 119,000 units this year, up from 115,000 in 2009. Construction projects, including the building of new sports facilities and the renovation of existing arenas in preparation for the 2011 Canada Winter Games in Halifax, will support purchases in Nova Scotia. A thriving finance, insurance and real estate sector in Halifax, which added two thousand jobs over the past year, will also buoy sales. Some pick-up in forest products demand south of the border will help re-open some paper plants and pulp mills in New Brunswick. Forest products account for more than one-quarter of the province's overall exports.

International Car Sales Outlook

	<u>1990-99</u>	<u>2000</u>	<u>2001-07</u>	<u>2008</u>	<u>2009e</u>	<u>2010f</u>
	<i>(millions of units)</i>					
TOTAL SALES	39.20	46.64	49.53	52.17	50.91	52.72
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	3.21
Russia	0.78	1.03	1.42	2.73	1.47	1.60
Asia	6.91	7.85	10.82	15.07	17.68	18.84
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.