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Canada Autos Report Q4 2010

https://marketpublishers.com/r/CB95950A865EN.html
Date: September 2010
Pages: 34
Price: US$ 1,295.00 (Single User License)
ID: CB95950A865EN

Abstracts

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A return to stronger vehicle sales in June has kept Canada's auto industry on track for BMI's projection of 5.8% growth in 2010. Although sales for June were up 12% year-on-year (y-o-y), at 154,565 units, a much improved performance from 0.6% growth in May, this is still lower than the 25.9% peak of February. Moreover, year-to-date sales growth has been sliding from 15% for Q110, to 11% for the first four months and now 9% for H110. Based on our view for heightened economic uncertainty in the more developed states during H210, we are confident in retaining our 5.8% forecast.

One notable trend in June's sales is a shift back towards the light truck market, which accounted for 53.2% of total sales, compared with 48% in June 2009. Within that segment, which also includes SUVs and crossovers, pick-up trucks accounted for 15% of the market in the five months to May, which is the highest market share for pick-ups in 12 years. However, BMI cautions that some of the most generous cash incentives have been offered in the truck market, which could be inflating natural growth. BMI believes that sales growth can remain positive, with growth to moderate to an annual average of 1% for the remainder of the five-year forecast period.

Although we believe Canada has proven more stable than the US in terms of returning to natural and sustainable vehicle sales growth, the market ranks much lower in BMI's Business Environment Ratings for the automotive industry in the Americas region. The country ranks eighth with a score of 42.6 out of a possible 100. Despite the lower ranking, the country scores highly for its regulatory environment, reflecting free trade agreements (FTAs) such as the North American Free Trade Agreement (NAFTA). The Detroit Three have benefited from a return to favour for trucks. Ford reported its best monthly sales in a decade in June to lead the market, while GM reported growth of 16.4% and Chrysler more than doubled sales compared with June 2009. However, this

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must be placed in context as GM and Chrysler were going through Chapter 11 restructuring at this point in 2009 with most North American plants closed and inventories plundered. On the other hand, the more passenger car-oriented Japanese brands have suffered from the shift in preference, with Toyota's sales falling 15% in June and Honda's sales down 12.5%. Both brands have also seen sales for H110 fall, by 4.7% for Toyota and 5.7% Honda, which resulted in a drop in market share for the two to 10.9% and 7.4% respectively from 12.5% and 8.6% in H109. Both slipped by a further percentage point in the seven months to July.

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