



Dennis DesRosiers

Canadian - U.S. Vehicle Pricing

For almost a decade, DesRosiers Automotive Consultants Inc. has carried out an annual analysis that has compared light vehicle prices in the Canadian and U.S. markets (exchange rate adjusted). These reports were always popular within the halls of Canada's automakers, so much so that they often clamoured for us to complete the analysis so that our data could be used to lobby head offices for price adjustments.

Conversely, few in the media picked up the story. When they did, the resulting stories were always below the fold - certainly never front page news. Newspaper editors clearly didn't care that Canadians were paying \$5,000 to \$6,000 less for their vehicles than Americans (again, exchange rate adjusted).

Last year, however, our research indicated that the trend had reversed. A media frenzy followed our release of the report and the buzz has yet to die down. This is far-and-away the most popular interview request I get from members of the press. Canadian vehicle companies did not adjust their prices in-step with the rising value of the Canadian dollar, and consumers continued to face higher list prices (MSRPs) than comparably equipped American-market vehicles. Add in the higher costs associated with licensing, registering and

insuring a vehicle in Canada (not to mention our GST burden, feebate, and any other number of ancillary taxes targeting our vehicles) and it became clear that the cost of new vehicle ownership - formerly one of the few areas in which Canadians could claim a slight advantage over Americans - had undergone an unfortunate reversal.

To borrow a British turn-of-phrase, the dossier had been sexed-up. A former non-story was now headline news and vehicle companies were squirming in the spotlight. The attention was largely negative as most in the media took the angle that somehow Canadians were being taken advantage of or even "ripped off". I argue that this negative slant was not entirely deserved. The Canada - U.S. currency exchange is one of the most difficult economic variables to predict, so it was easy and natural for Canadian OEMs to cite economic conservatism when explaining why they failed to lower prices. Our automotive market wouldn't be an exemplar of maturity and stability if prices waxed and waned at the money market's fancy - but a certain degree of flexibility should exist to account for real trends, not fluctuations. Because of the volatility of exchange rates, all OEMs employ sophisticated hedging strategies so many were locked into a much weaker dollar and were

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not seeing any exchange rate advantage from a stronger Canadian dollar. Furthermore, it is not clear which currency each use in their purchasing policies. Depending on whether they were buying in Canadian or foreign currencies, there may not have even been an exchange rate bonus.

Vehicle pricing is a hot-button issue because our vehicles are directly comparable to those sold in the United States. We have a high percentage of our population living within a comfortable drive to the US border and we also are

dominated by American media outlets, especially TV, which allow Canadians to have near-direct contact with anything American (including vehicles). The cars and trucks populating our dealer lots are largely the same as those in the U.S. Our safety and environmental regulations are similar, as are our broad buying preferences. Having the same products available in both markets makes it relatively easy to draw conclusions about pricing trends between the two countries.

The issue is complicated by the fact that manufacturers equip

their vehicles differently in Canada and the U.S. - different combinations of trim, options, and powertrains - but we try to take these problem areas into account by individually researching and comparing vehicles of identical specification. Often times these are base models, but recently it has become necessary to look elsewhere within the various model ranges to find equivalencies. Our analysis isn't always perfect, but we believe it is well within the ballpark.

This Observation will update our analysis for 2007 and try to answer the key question on everyone's mind: Are these price differentials justified?

What everyone has to understand is that these price gaps have emerged primarily because of our exchange rate. MSRPs have not gone up faster in Canada than in the US. Several segments actually show a reduction in list prices! In the popular compact car segment (the largest segment in Canada), average MSRPs declined about \$400 dollars in 2007 versus 2006 and the unweighted price differential dropped by a thousand dollars to only \$221 dollars. Indeed, in all of our "popular" vehicle segments (Subcompact and Compact Cars, Compact SUVs, Small Vans, and Large Pickup Trucks), the price gap between

Price Differentials - Weighted by Sales in Canada versus the US

	2007 Weighted	2006 Weighted	2004 Weighted	2003 Weighted	2002 Weighted	2001 Weighted	2000 Weighted	1999 Weighted
Passenger Cars								
-Subcompact	-\$68	\$791	-\$347	-\$2,704	-\$2,500	-\$2,745	-\$2,476	-\$6,592
-Compact	-\$2,159	-\$1,973	-\$1,673	-\$3,683	-\$3,805	-\$4,828	-\$3,637	-\$2,409
-Intermediate	\$1,319	\$1,200	-\$1,271	-\$5,076	-\$5,837	-\$4,704	-\$4,487	-\$3,417
-High Luxury	\$4,294	\$5,173	-\$2,836	-\$8,143	-\$10,048	-\$10,781	-\$10,132	-\$6,824
-Luxury	\$4,293	\$5,126	\$2,832	-\$4,422	-\$8,890	-\$7,658	\$6,866	-\$5,530
-Luxury Sports	\$7,572	\$7,010	\$5,718	-\$2,189	-\$8,657	-\$986	-\$2,482	\$985
-Sports	\$4,211	\$4,477	-\$1,887	-\$5,998	-\$3,841	-\$4,408	-\$1,725	-\$3,980
Total	-\$4,178	-\$3,809	-\$5,155	-\$7,823	-\$8,675	-\$9,231	-\$5,885	-\$6,913
Light Truck								
-Compact SUV	\$3,963	\$3,740	\$204	-\$5,787	-\$5,636	-\$3,203	-\$3,365	-\$2,380
-Intermediate SUV	\$7,960	\$6,397	\$2,759	-\$6,223	-\$4,350	-\$1,036	-\$2,904	-\$644
-Large SUV	\$6,891	\$3,934	\$8,369	-\$9,636	-\$6,836	-\$3,930	-\$3,399	-\$4,324
-Luxury SUV	\$5,260	\$4,656	\$7,784	-\$9,636	-\$7,869	-\$5,773	-\$2,606	-\$3,881
-Small Pick-up	\$3,155	\$2,027	-\$2,056	-\$3,221	-\$1,880	-\$746	-\$955	-\$3,019
-Large Pick-up	\$1,975	\$910	-\$1,680	-\$10,281	-\$3,881	-\$4,050	-\$1,074	-\$2,298
-Small Van	-\$2,330	-\$604	-\$860	-\$11,586	-\$6,923	-\$5,767	-\$6,714	-\$3,899
-Large Van	\$3,333	\$2,622	-\$7,829	-\$8,770	-\$9,079	-\$4,363	-\$3,329	-\$5,175
Total	\$815	\$451	-\$5,155	-\$9,285	-\$5,973	-\$4,416	-\$3,040	-\$3,766
Total All Vehicles	-\$1,748	-\$1,768	-\$1,469	-\$8,967	-\$5,973	-\$7,163	-\$3,167	-\$3,782

Price Differentials Unweighted by Sales in Canada vs the US

	2007 Unweighted	2006 Unweighted	2004 Unweighted	2003 Unweighted	2002 Unweighted	2001 Unweighted	2000 Unweighted	1999 Unweighted
Passenger Cars								
-Subcompact	\$437	\$1,420	-\$44	-\$2,595	-\$3,505	-\$2,877	-\$1,401	-\$4,739
-Compact	\$221	\$1,245	-\$1,403	-\$3,636	-\$3,684	-\$4,789	-\$2,848	-\$2,927
-Intermediate	\$2,190	\$1,991	-\$1,242	-\$5,016	-\$5,879	-\$5,133	-\$3,540	-\$3,901
-Luxury High	\$11,011	\$12,204	\$3,143	-\$4,045	-\$6,213	-\$7,730	-\$4,150	-\$5,705
-Luxury	\$4,325	\$4,576	\$885	-\$3,301	-\$7,183	-\$7,419	-\$4,325	-\$4,938
-Luxury Sports	\$13,694	\$14,408	\$6,934	-\$3,045	-\$8,194	-\$2,726	\$851	-\$2,527
-Sports	\$2,880	\$4,130	\$453	-\$4,373	-\$2,032	-\$5,262	-\$2,976	-\$4,087
Light Truck								
-Compact SUV	\$2,684	\$2,976	\$285	-\$5,978	-\$5,611	-\$3,654	-\$2,563	-\$2,218
-Intermediate SUV	\$7,774	\$5,530	\$2,834	-\$5,948	-\$5,461	-\$3,027	-\$3,475	-\$2,110
-Large SUV	\$9,153	\$5,973	\$7,559	-\$8,426	-\$8,222	-\$3,399	-\$5,546	-\$4,101
-Luxury SUV	\$8,366	\$8,345	\$4,533	-\$6,080	-\$7,658	-\$6,028	-\$2,071	-\$4,532
-Small Pick-up	\$3,539	\$2,565	-\$437	-\$3,118	-\$1,706	-\$1,271	-\$857	-\$2,716
-Large Pick-up	\$2,409	\$2,446	-\$263	-\$5,071	-\$3,388	-\$3,897	-\$1,334	-\$3,451
-Small Van	\$2,555	\$2,564	\$560	-\$8,028	-\$7,829	-\$2,831	-\$5,849	-\$4,405
-Large Van	\$3,791	\$3,927	-\$10,947	-\$8,288	-\$9,841	-\$4,499	-\$3,434	-\$5,342

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

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Canada and the US narrowed in 2007. Sales weighted MSRPs also went down in most but not all of these segments. The average MSRP for a minivan, for instance, declined by roughly \$2,000 to only \$27,693 in 2007.

The other issue that our readers need to be aware of is that this analysis takes into account only list prices, not transaction prices. We believe that the OEMs have been more aggressive in Canada than in the US in offering incentives this past year (Canadian incentives were typically a thousand dollars per vehicle lower than in the US but now are closer to par). We now believe that the use of

incentives has been their favourite route for transferring some of this exchange rate advantage to consumers. We do not have access to transaction price data so we can't quantify this factor, but I suspect the price gaps would be even smaller in most segments if incentive dollars were factored into the analysis. The media headlines should read, "MSRPs are falling, great deals await consumers in the vehicle markets." I don't expect to see this story anytime soon.

If you deep dive into this analysis you would find that

there is a Canada - U.S. price differential of approximately \$1,000 spread across two thirds of the market. In most cases, the price differential is getting smaller despite an even stronger dollar this year. As mentioned before, if we were able to work with transaction price information, the gap would be even smaller.

This may surprise many - with the exception of the economists in our midst - but the market appears to be working! Maybe not as fast as some would like and maybe not in the manner that some would like but markets do adjust. There is still a lot of work to be done and our analysis of any individual OEM indicates they all suffer the occasional instance where pricing may still need to be adjusted, but most vehicles in Canada are very fairly priced and there are few adjustments required beyond the regular month-to-month tweaking that OEMs already perform.

This means that for the vast percentage of cars and trucks being purchased by Canadians, the vehicle companies are NOT ripping consumers off. In fact, I suspect that many consumers are getting incredibly good deals even if there is still a price differential. Remember, many MSRPs have come down and there is a lot of incentive money on the table, so consumers still

Canadian MRSP - Sales Weighted

	2007 Weighted	2006 Weighted	2004 Weighted	2003 Weighted	2002 Weighted	2001 Weighted	2000 Weighted	1999 Weighted
Passenger Cars								
-Subcompact	\$14,748	\$13,274	\$14,836	\$14,578	\$14,882	\$13,919	\$12,462	\$14,150
-Compact	\$18,717	\$19,134	\$17,515	\$17,556	\$18,318	\$16,036	\$17,588	\$15,795
-Intermediate	\$26,843	\$25,832	\$25,624	\$25,295	\$26,040	\$23,744	\$24,264	\$22,813
-Luxury High	\$58,792	\$56,830	\$53,688	\$49,012	\$48,967	\$47,045	\$51,183	\$50,951
-Luxury	\$40,445	\$39,765	\$35,692	\$37,309	\$37,033	\$38,944	\$36,571	\$36,261
-Luxury Sports	\$69,317	\$65,361	\$58,528	\$70,383	\$61,493	\$64,540	\$63,512	\$66,262
-Sports	\$31,597	\$32,367	\$28,520	\$26,177	\$26,757	\$22,929	\$22,654	\$22,635
Light Truck								
-Compact SUV	\$28,492	\$28,448	\$26,012	\$28,236	\$27,700	\$24,289	\$25,192	\$24,729
-Intermediate SUV	\$41,228	\$39,507	\$39,090	\$38,214	\$37,724	\$36,161	\$36,234	\$31,891
-Large SUV	\$47,815	\$47,232	\$37,607	\$42,621	\$45,940	\$40,166	\$50,958	\$36,171
-Luxury SUV	\$50,030	\$49,924	\$46,348	\$54,457	\$50,605	\$49,484	\$54,002	\$46,573
-Small Pick-up	\$22,552	\$22,787	\$18,932	\$18,832	\$19,179	\$19,076	\$16,440	\$15,896
-Large Pick-up	\$23,971	\$22,155	\$25,788	\$28,876	\$27,487	\$21,737	\$21,263	\$20,750
-Small Van	\$27,693	\$29,437	\$33,767	\$28,927	\$30,636	\$27,135	\$27,565	\$24,603
-Large Van	\$31,643	\$31,171	\$22,494	\$29,229	\$29,149	\$28,576	\$27,134	\$24,611

Canadian MRSP - Not Weighted by Sales

	2007 Unweighted	2006 Unweighted	2004 Unweighted	2003 Unweighted	2002 Unweighted	2001 Unweighted	2000 Unweighted	1999 Unweighted
Passenger Cars								
-Subcompact	\$15,643	\$15,721	\$15,514	\$15,238	\$15,814	\$14,303	\$12,915	\$14,935
-Compact	\$18,616	\$19,638	\$17,679	\$17,792	\$18,573	\$16,208	\$18,263	\$15,743
-Intermediate	\$28,419	\$27,164	\$26,000	\$25,783	\$26,651	\$24,123	\$24,284	\$22,955
-Luxury High	\$69,299	\$68,662	\$58,173	\$50,672	\$51,383	\$48,683	\$52,073	\$51,107
-Luxury	\$38,746	\$38,597	\$39,039	\$37,849	\$37,324	\$39,516	\$36,893	\$36,995
-Luxury Sports	\$76,218	\$78,098	\$63,812	\$71,857	\$61,770	\$67,250	\$65,254	\$66,629
-Sports	\$29,250	\$30,812	\$28,700	\$25,420	\$25,865	\$23,344	\$22,663	\$23,246
Light Truck								
-Compact SUV	\$26,305	\$26,369	\$25,789	\$27,718	\$27,503	\$23,709	\$24,888	\$24,882
-Intermediate SUV	\$40,130	\$38,081	\$39,588	\$38,185	\$37,670	\$35,012	\$36,287	\$31,872
-Large SUV	\$51,296	\$51,031	\$51,033	\$44,002	\$45,459	\$41,396	\$49,880	\$36,048
-Luxury SUV	\$54,362	\$54,009	\$53,358	\$54,120	\$50,700	\$49,680	\$56,328	\$46,417
-Small Pick-up	\$24,420	\$24,631	\$19,969	\$18,638	\$19,597	\$18,597	\$16,499	\$15,755
-Large Pick-up	\$25,499	\$24,336	\$26,069	\$28,033	\$27,020	\$21,091	\$20,576	\$20,030
-Small Van	\$31,557	\$31,811	\$36,377	\$32,903	\$31,560	\$30,882	\$28,204	\$26,152
-Large Van	\$33,947	\$35,694	\$30,613	\$29,228	\$29,135	\$28,575	\$27,045	\$24,663

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

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enjoy a price break as in years past.

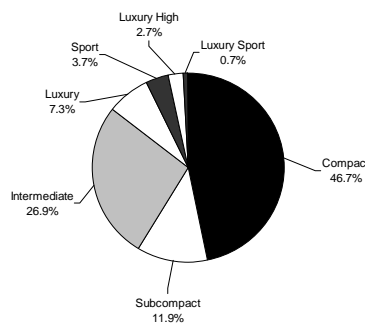
Think about this: Our market this year is selling at a record pace - a pace that would be unattainable if vehicle prices were edging on unaffordability. How would this be possible if pricing was radically out of line? With close to 30 different vehicle brands in Canada and nearly 3,500 individual car dealers, there is absolutely no room for monopoly or oligopoly pricing in the vehicle industry. Maybe competition is not "perfect" to use a well-known economic phrase, but there is certainly a great deal of competition. In this environment, we would expect the market to respond to any pricing issues and indeed this appears to be happening.

Additionally, many observers forget that a number of vehicle companies also produce a large volume of vehicles in Canada and are facing a double-edged sword with exchange rates. They may get a bonus on their imported products but face a penalty on their exported products. Most export more than twice as many vehicles as they import, so they may end up 'net negative' with exchange rates rather than positive as most would assume. If you talk with GM, Ford, Chrysler, Toyota and Honda, they will tell you that they export between

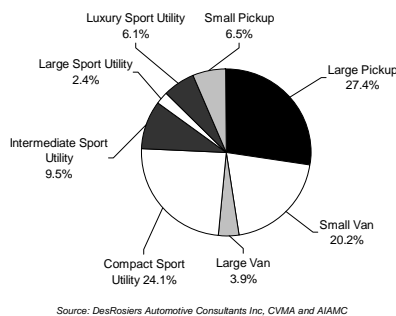
70 and 90 percent of their Canadian vehicle production into the US and the strength of our dollar has eaten away at much (if not all) of any exchange rate bonus they receive importing vehicles into Canada.

Where the market is not adjusting to these exchange

Passenger Car Sales Share 2006



Light Truck Sales Share 2006



Source: DesRosiers Automotive Consultants Inc., CVMA and AIAMC

rates is in the very low-volume luxury segments where some substantial price differentials still exist. Luxury Sports Cars track \$13,694 higher than in the U.S., while High Luxury Cars (\$11,011), Large SUVs (\$9,153), and Luxury SUVs (\$8,366) also have extremely high per-vehicle price differentials (unweighted to sales). All are a lot lower when sales weighting is applied

to the analysis, reflecting a traditional Canadian leanness in these segments. Collectively, these high-dollar segments account for only 6 percent of the Canadian market, so I'm not exactly sure why the broader media would be focusing on these vehicles. However, if one wants to identify a vehicle that is selling for ten, fifteen or even twenty thousand more in Canada than in the U.S., these are the segments to explore.

I find it intellectually challenging to figure out why this very narrow end of the market hasn't adapted to our stronger dollar. The buyers of these vehicles would seem to have the most to gain by shopping in the US. These buyers also would appear to have more ability to shop in the US than the ordinary Joe consumer in our core vehicle segments. An economist would predict that these segments would adapt faster than the volume segments but this has not been the case. I come up with one simple reason: The OEMs selling higher-end vehicles have not adjusted prices for these vehicles simply because they do not have to. Prices in these segments are relatively inelastic so the OEMs can post higher stickers and their customers will pay them. I say, "More power to them."

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