

The Canadian Light Vehicle Sales Outlook

2010 Edition

Sample

desrosiers
AUTOMOTIVE CONSULTANTS INC.

www.desrosiers.ca

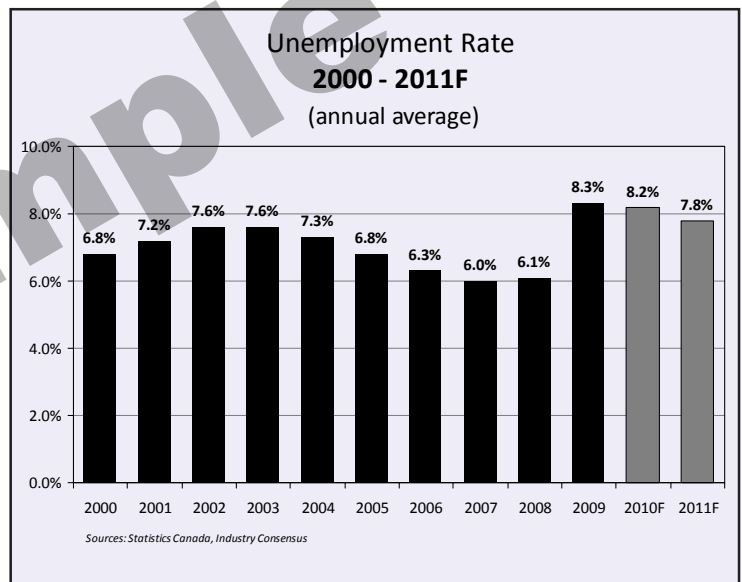
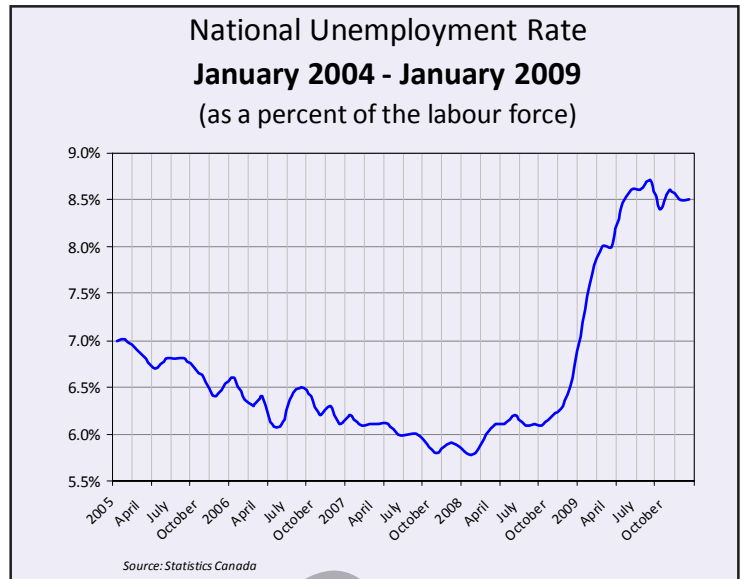
Table of Contents

| | |
|---|-----------|
| 1. The Canadian Macroeconomic Environment | 3 |
| 1.1 <i>Gross Domestic Product</i> | 4 |
| 1.2 <i>Unemployment</i> | 5 |
| 1.3 <i>Real Personal Disposable Income</i> | 6 |
| 1.4 <i>Consumer Spending</i> | 7 |
| 1.5 <i>Household Debt</i> | 8 |
| 1.6 <i>Consumer Price Index</i> | 9 |
| 1.7 <i>Prime and Exchange Rates</i> | 10 |
| 2. Current Automotive Issues | 11 |
| 2.1 <i>Canadian Gasoline and Diesel Price Survey</i> | 12 |
| 2.2 <i>Fuel Economy and Vehicle Purchase</i> | 13 |
| 2.3 <i>New Model Launches and Product Replacements</i> | 14 |
| 2.4 <i>Canadian and U.S. Market Development</i> | 15 |
| 2.5 <i>Light Vehicle Segment Market Share Analysis 2009 (Canada vs. U.S.)</i> | 16 |
| 2.6 <i>Structure of the Canadian Light Vehicle Fleet</i> | 17 |
| 3. The Canadian Light Vehicle Forecast | 18 |
| 3.1 <i>Annual Light Vehicle Sales by Brand</i> | 19 |
| 3.2 <i>Vehicle Segmentation</i> | 20 |
| 3.3 <i>Forecast Summary + Risk Factor Analysis</i> | 22 |
| 3.4 <i>Vehicle Segment Forecast Analysis</i> | 23 |
| 3.4.1 <i>Subcompact Car</i> | 24 |
| 3.4.2 <i>Compact Car</i> | 26 |
| 3.4.3 <i>Sports Car</i> | 28 |
| 3.4.4 <i>Intermediate Car</i> | 30 |
| 3.4.5 <i>Luxury Car</i> | 32 |
| 3.4.6 <i>Luxury High Car</i> | 34 |
| 3.4.7 <i>Luxury Sports Car</i> | 36 |
| 3.4.8 <i>Compact Sport Utility</i> | 38 |
| 3.4.9 <i>Intermediate Sport Utility</i> | 40 |
| 3.4.10 <i>Large Sport Utility</i> | 42 |
| 3.4.11 <i>Luxury Compact Sport Utility</i> | 44 |
| 3.4.12 <i>Luxury Intermediate Sport Utility</i> | 46 |
| 3.4.13 <i>Luxury Large Sport Utility</i> | 48 |
| 3.4.14 <i>Small Van</i> | 50 |
| 3.4.15 <i>Large Van</i> | 52 |
| 3.4.16 <i>Small Pickup</i> | 54 |
| 3.4.17 <i>Large Pickup</i> | 56 |

1.2 Unemployment

Our economic front line was hit hard by the recession. A disastrous employment market during the first half of last year caused the national unemployment rate to reach record highs. After a decade of employment growth, Canada saw the jobless rate return to 8.3 percent - a benchmark not seen since 1998. Canada was able to steer away from a 1990s recessionary-like scenario with some job recovery during the latter part of last year. The insecure environment that dominated 2009 had a negative impact on consumer confidence. Light vehicle sales finished with a dismal 1.46 million units last year.

Some near-term momentum has led forecasters to expect more job creation for 2010, meaning that Canada is unlikely to see further unemployment growth in the foreseeable future. However, some caution is in order as it has been suggested that the Canadian labour force typically takes a long time to recover from recession. Most economists predict a very soft recovery for 2010 and 2011, where the unemployment rate would drop marginally by 0.1 percentage points this year and 0.5 points in 2011.



| Unemployment | (as a percent of the labour force) | | | | | | | | | | |
|----------------|------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| January | 7.2 | 5.8 | 6.2 | 6.6 | 7.0 | 7.4 | 7.4 | 7.9 | 6.9 | 6.8 | 7.8 |
| February | 7.7 | 5.8 | 6.1 | 6.4 | 7.0 | 7.4 | 7.4 | 7.9 | 6.9 | 6.8 | 7.8 |
| March | 8.0 | 6.0 | 6.1 | 6.3 | 6.9 | 7.5 | 7.3 | 7.7 | 7.0 | 6.8 | 7.8 |
| April | 8.0 | 6.1 | 6.1 | 6.4 | 6.8 | 7.3 | 7.5 | 7.6 | 7.0 | 6.8 | 8.3 |
| May | 8.4 | 6.1 | 6.1 | 6.1 | 6.7 | 7.2 | 7.8 | 7.7 | 7.0 | 6.6 | 8.1 |
| June | 8.6 | 6.2 | 6.0 | 6.1 | 6.8 | 7.3 | 7.7 | 7.5 | 7.0 | 6.6 | 7.6 |
| July | 8.6 | 6.1 | 6.0 | 6.4 | 6.8 | 7.2 | 8.0 | 7.6 | 7.0 | 6.8 | 7.7 |
| August | 8.7 | 6.1 | 6.0 | 6.5 | 6.8 | 7.2 | 8.0 | 7.5 | 7.2 | 7.1 | 7.8 |
| September | 8.4 | 6.1 | 5.9 | 6.4 | 6.7 | 7.1 | 8.0 | 7.7 | 7.2 | 6.8 | 7.5 |
| October | 8.6 | 6.2 | 5.8 | 6.2 | 6.6 | 7.1 | 7.6 | 7.6 | 7.3 | 6.9 | 7.2 |
| November | 8.5 | 6.3 | 5.9 | 6.3 | 6.4 | 7.3 | 7.5 | 7.5 | 7.5 | 6.9 | 6.9 |
| December | 8.5 | 6.6 | 5.9 | 6.1 | 6.5 | 7.0 | 7.4 | 7.5 | 8.0 | 6.8 | 6.8 |
| Average | 8.3 | 6.1 | 6.0 | 6.3 | 6.8 | 7.3 | 7.6 | 7.6 | 7.2 | 6.8 | 7.6 |

Source: Statistics Canada

1.5 Household Debt

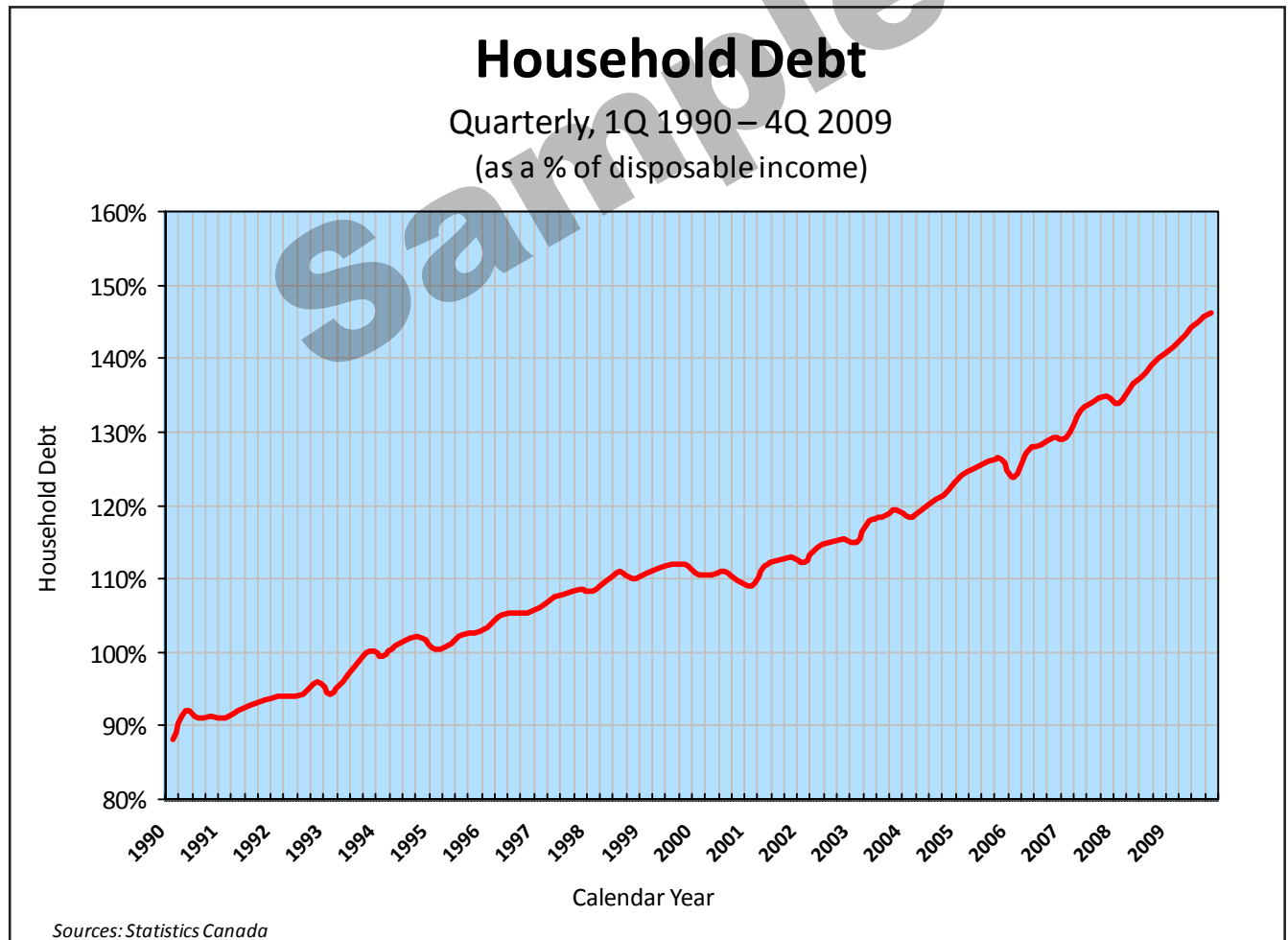
Mortgages account for a significant portion of household debt according to Statistics Canada. The Canadian housing market was red hot last year, driven by bidding wars and campouts for new houses and condos. The Canadian mortgage debt to household income ratio hit a record 70 percent, too high for comfort when having a stable paycheck is a luxury for some people.

Excessive household debt remains an enduring concern in Canada. Fueled by low interest rates, Canadians have been building up to a level of debt which could prove very dangerous in the event of another crisis. The household debt ratio has increased at a rapid pace over the past

decade. We watched last year as Canadian household debt exceeded the amount of disposable income by more than 40 percent.

Canada is shielded from the housing-led recession in the U.S. by our banks' sound financial practices, but we are not protected from any interest rate fluctuations.

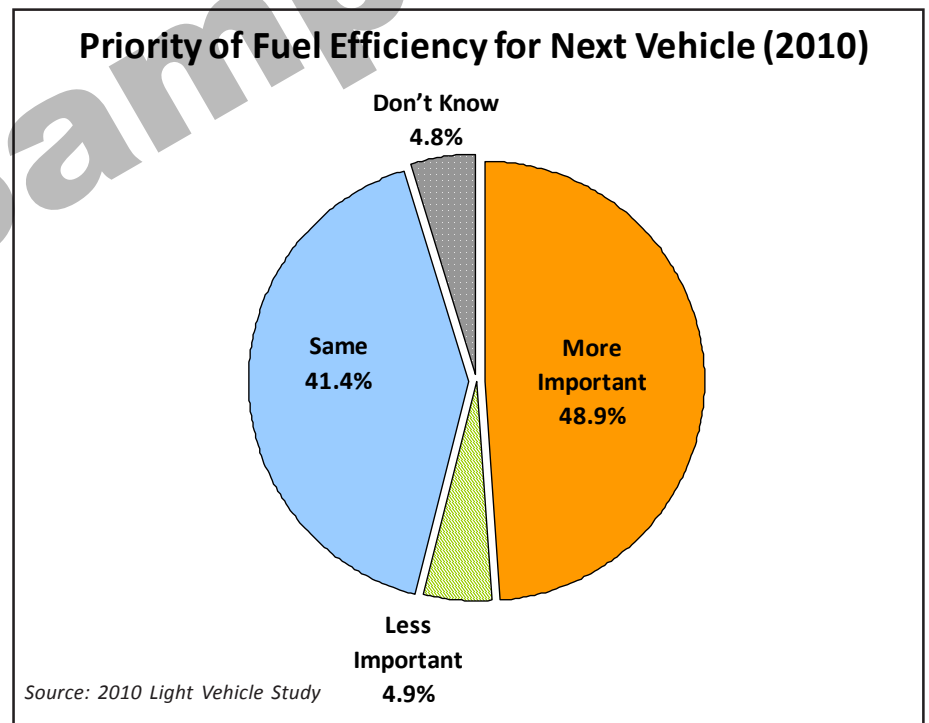
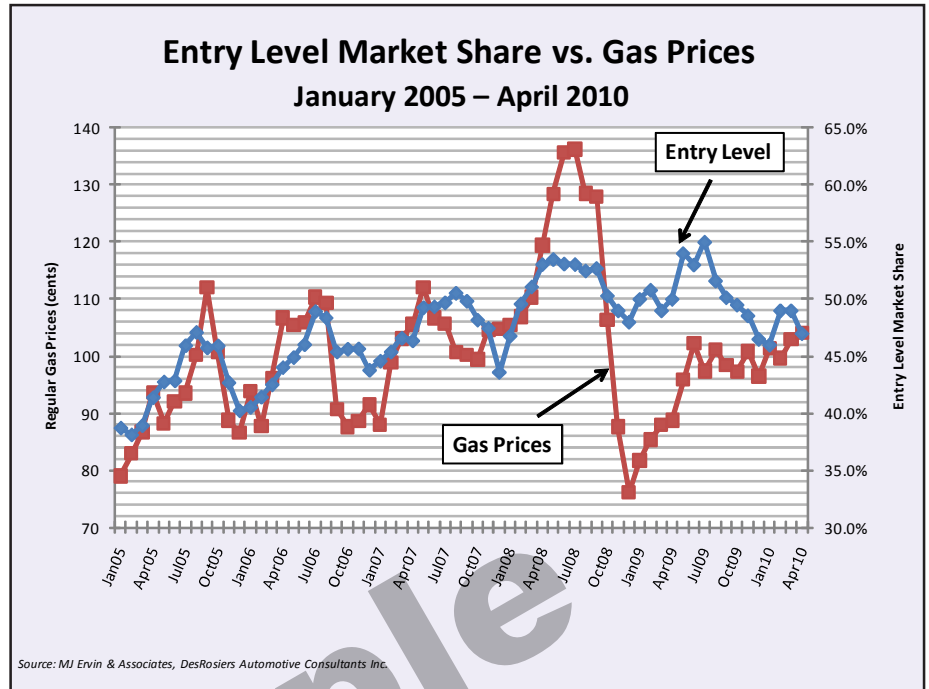
Excessive household debt will have a negative impact on the economic recovery.



2.2 Fuel Economy and Vehicle Purchase

The first chart reveals two interesting trends regarding Canadian consumer habits. The first suggests that entry level vehicle buying patterns are linked to the fluctuation of gas prices. The entry level market has been tracking below 50 percent since gas prices dropped significantly since October 2008. The market reached a high of 53 percent while prices were over \$1.20 cents per litre. The second graph indicates Canadians are more receptive to entry level vehicles despite their seasonal buying patterns. Entry level market share grew from below 40 percent in March 2005 to 50 percent in February 2009 with gas prices tracking at 85 cents per litre.

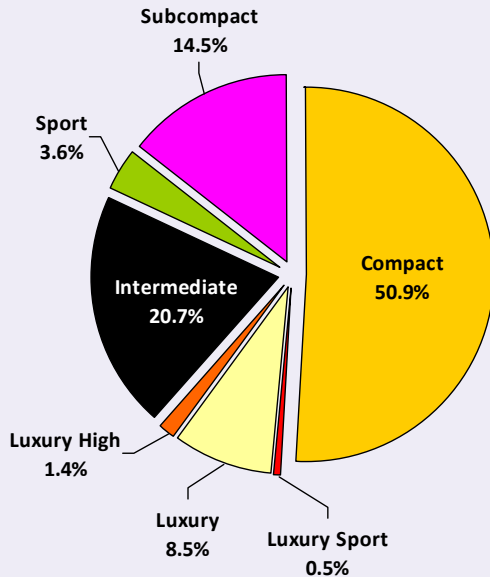
The 2010 Light Vehicle Study (LVS) suggests that 49 percent of vehicle owners believed fuel efficiency was a major vehicle purchase criterion, down from 57 percent in 2009. Of those polled, 41.4 percent expected their next vehicle to be as fuel efficient as their current vehicle, up from 32.4 percent in the 2009 study.



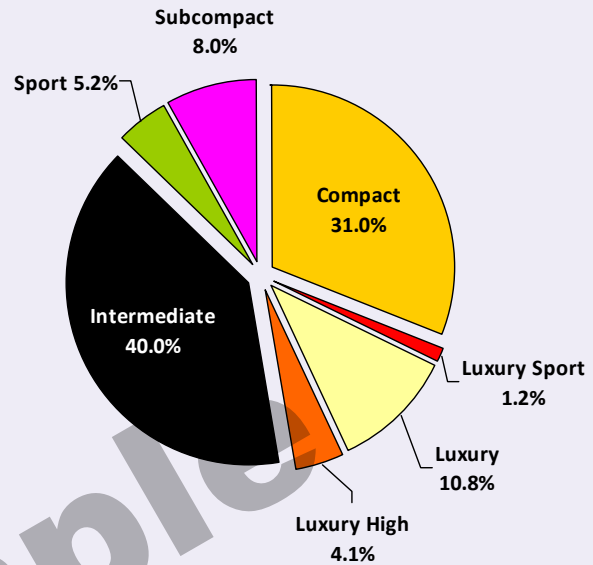
For more information on our 2010 Light Vehicle Study (LVS), please contact Lisa Marchese at (905) 881-0400. ext. 28. or email at lisa@desrosiers.ca

2.5 Light Vehicle Market Share Segment Analysis - Canada vs. U.S.

Light Vehicle Sales Market Share by Passenger car Segment 2009



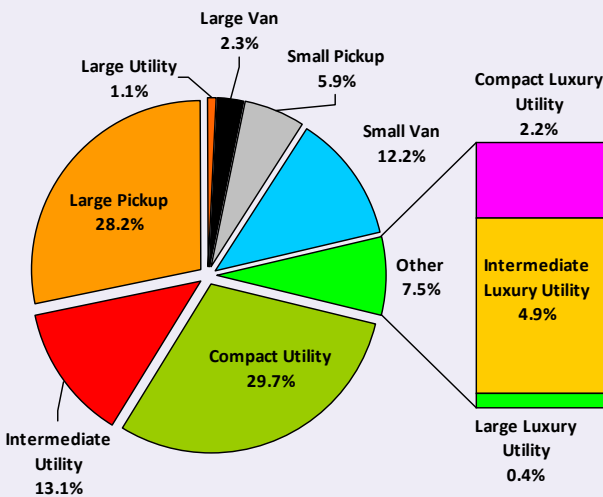
Canada



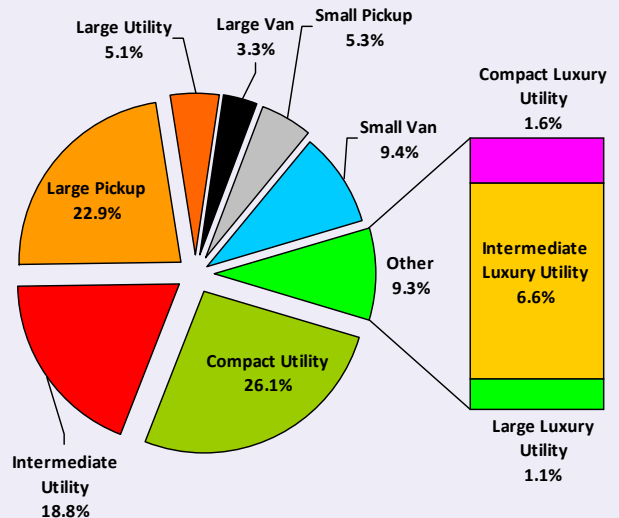
United States

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

Light Vehicle Sales Market Share by Light Truck Segment 2009



Canada



United States

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

3.3 Forecast Summary + Risk Factor Analysis

The recent global recession prompted a profound structural change within the auto industry, setting the stage for a massive sales decline in 2009. General Motors and the Chrysler Group operated with reduced capacity while emerging from their respective bankruptcies. This generated space for growing international manufacturers to strengthen their positions. The European and Korean automakers have been most successful in capitalizing on this shift in the automotive landscape.

The medium-term market outlook is slightly restrained when compared to the strength the market has shown in past years. There is a strong possibility due to the recent restructuring that the overall market will operate at a lower capacity. A “new normal” of between 1.5 and 1.6 million could develop in the next five years, instead of the 1.6 to 1.8 million range common in pre-recessionary years. The probability of exceeding the 1.6

million barrier exists if significant growth is to occur in the economy.

Although the market has been tracking well above levels seen in 2009, it is still unclear as to where the sustainable threshold lies in 2010. A simple calculation using data from the past six months gives us an average of 1.52 million. As we continue moving towards recovery, an increasingly stable national economy should provide more sustainable footing for light vehicle sales. We are optimistic that the market could achieve a 1.5 million average for the remainder of this year.

While our point of view is slightly upbeat, the possibility for the market to exceed 1.56 million units is slim. If some key markets fail to improve upon their current status during the coming months, the industry might end the year below our forecast.

Canadian Light Vehicle Sales Summary (AIAMC/CVMA Segmentation)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010F |
|----------------------|---------|---------|---------|---------|---------|---------|
| Passenger Car | 850.3 | 867.7 | 861.0 | 894.6 | 747.5 | 790.6 |
| % Change | 3.4% | 2.0% | -0.8% | 3.9% | -16.4% | 5.8% |
| Light Truck | 732.9 | 747.0 | 792.4 | 741.4 | 713.1 | 769.0 |
| % Change | 2.9% | 1.9% | 6.1% | -6.4% | -3.8% | 7.8% |
| Total Light Vehicles | 1,583.3 | 1,614.7 | 1,653.4 | 1,636.0 | 1,460.6 | 1,559.6 |
| % Change | 3.2% | 2.0% | 2.4% | -1.1% | -10.7% | 6.8% |
| Light Vehicle Share | | | | | | |
| Passenger Cars | 53.7% | 53.7% | 52.1% | 54.7% | 51.2% | 50.7% |
| Light Trucks | 46.3% | 46.3% | 47.9% | 45.3% | 48.8% | 49.3% |

**Forecast
Data**

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA.

3.4 Vehicle Segment Forecast Analysis

Canadian Light Vehicle Sales by AIAMC/CVMA Segment (2005 - 2014F)

| Units (000's) | 2005 | 2006 | 2007 | 2008 | 2009 | 2010F |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Passenger Cars | | | | | | |
| Compact | 410.5 | 401.7 | 399.7 | 431.7 | 380.1 | 407.6 |
| Intermediate | 229.0 | 237.1 | 221.3 | 207.5 | 154.4 | 153.8 |
| Luxury | 74.1 | 75.3 | 70.2 | 70.1 | 63.5 | 71.3 |
| Luxury High | 15.3 | 14.1 | 13.1 | 11.4 | 10.6 | 11.6 |
| Luxury Sport | 7.4 | 6.4 | 5.7 | 5.1 | 3.8 | 4.2 |
| Sport | 30.0 | 32.1 | 32.6 | 27.2 | 26.9 | 30.3 |
| Subcompact | 84.2 | 101.1 | 118.3 | 141.5 | 108.2 | 111.7 |
| Passenger Car Total | 850.3 | 867.7 | 861.0 | 894.6 | 747.5 | 790.6 |
| Light Trucks | | | | | | |
| Compact Utility | 145.1 | 180.8 | 209.2 | 216.8 | 211.7 | 245.4 |
| Intermediate Utility | 93.2 | 71.6 | 90.5 | 95.1 | 93.5 | 112.2 |
| Large Pickup | 204.6 | 205.6 | 224.5 | 198.9 | 200.9 | 208.5 |
| Large Utility | 15.2 | 17.8 | 14.2 | 11.8 | 7.9 | 6.5 |
| Large Van | 28.4 | 28.9 | 26.6 | 20.8 | 16.7 | 19.9 |
| Luxury Compact Sport Utility | 3.2 | 4.5 | 8.1 | 9.0 | 15.6 | 20.0 |
| Luxury Intermediate Sport Utility | 32.4 | 32.5 | 34.7 | 33.2 | 35.3 | 38.3 |
| Luxury Large Sport Utility | 3.1 | 4.5 | 4.6 | 3.4 | 2.9 | 2.6 |
| Small Pickup | 36.3 | 48.8 | 54.9 | 51.2 | 41.8 | 45.3 |
| Small Van | 171.5 | 152.0 | 125.1 | 101.3 | 86.8 | 70.1 |
| Light Truck Total | 732.9 | 747.0 | 792.4 | 741.4 | 713.1 | 769.0 |
| Grand Total | 1,583.3 | 1,614.7 | 1,653.4 | 1,636.0 | 1,460.6 | 1,559.6 |
| Percentage Change | 3.2% | 2.0% | 2.4% | -1.1% | -10.7% | 6.8% |
| Segment Shares | | | | | | |
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010F |
| Passenger Cars | | | | | | |
| Compact | 25.9% | 24.9% | 24.2% | 26.4% | 26.0% | 26.1% |
| Intermediate | 14.5% | 14.7% | 13.4% | 12.7% | 10.6% | 9.9% |
| Luxury | 4.7% | 4.7% | 4.2% | 4.3% | 4.3% | 4.6% |
| Luxury High | 1.0% | 0.9% | 0.8% | 0.7% | 0.7% | 0.7% |
| Luxury Sport | 0.5% | 0.4% | 0.3% | 0.3% | 0.3% | 0.3% |
| Sport | 1.9% | 2.0% | 2.0% | 1.7% | 1.8% | 1.9% |
| Subcompact | 5.3% | 6.3% | 7.2% | 8.7% | 7.4% | 7.2% |
| Passenger Car Total | 53.7% | 53.7% | 52.1% | 54.7% | 51.2% | 50.7% |
| Light Trucks | | | | | | |
| Compact Utility | 9.2% | 11.2% | 12.7% | 13.2% | 14.5% | 15.7% |
| Intermediate Utility | 5.9% | 4.4% | 5.5% | 5.8% | 6.4% | 7.2% |
| Large Pickup | 12.9% | 12.7% | 13.6% | 12.2% | 13.8% | 13.4% |
| Large Utility | 1.0% | 1.1% | 0.9% | 0.7% | 0.5% | 0.4% |
| Large Van | 1.8% | 1.8% | 1.6% | 1.3% | 1.1% | 1.3% |
| Compact Luxury Utility | 0.2% | 0.3% | 0.5% | 0.5% | 1.1% | 1.3% |
| Intermediate Luxury Utility | 2.0% | 2.0% | 2.1% | 2.0% | 2.4% | 2.5% |
| Large Luxury Utility | 0.2% | 0.3% | 0.3% | 0.2% | 0.2% | 0.2% |
| Small Pickup | 2.3% | 3.0% | 3.3% | 3.1% | 2.9% | 2.9% |
| Small Van | 10.8% | 9.4% | 7.6% | 6.2% | 5.9% | 4.5% |
| Light Truck Total | 46.3% | 46.3% | 47.9% | 45.3% | 48.8% | 49.3% |
| Grand Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

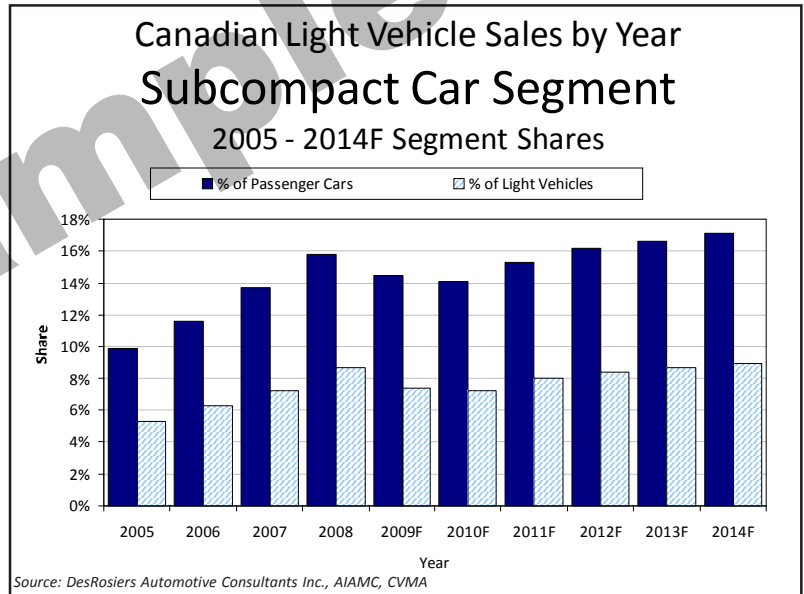
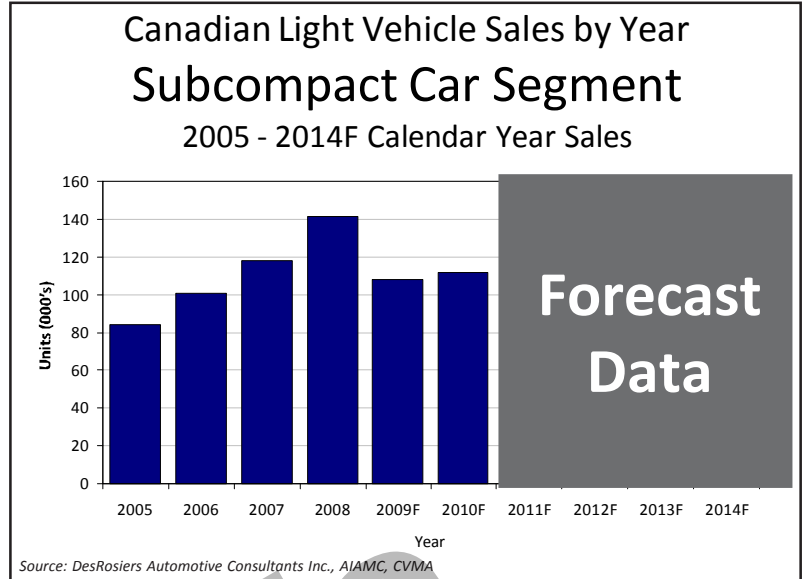
Forecast
Data

Source: DesRosiers Forecast Services using AIAMC/CVMA vehicle segmentation

3.4.1 Subcompact Car

Subcompact car sales went from 60 to 0 at breakneck speed. Manufacturers had a tough time targeting budget-conscious consumers as the economy collapsed last year. Sales declined by a jaw dropping 23.6 percent after generating much momentum in previous years. The decrease in average fuel prices could have also influenced consumers' buying decisions. Almost every player in the segment took a significant loss in 2009, including segment leaders Hyundai and Toyota.

Things are looking grim thus far in 2010. April year-to-date sales are down 19.6 percent, making the subcompact segment the worst-performing passenger car market. A recent incentive war has weakened some of the price advantages (compared to compact cars) that this segment has traditionally enjoyed. Canadians have also been getting a break from high gas prices over the past 12 to 16 months. Statistics have proven in the past that most subcompact buyers shop according to gas prices. As such, we anticipate slightly better performance should high gas prices return. A stable long-term economic outlook should allow sales to grow.



Subcompact Car Segment - Annual Sales

| Units (000's) | 2005 | 2006 | 2007 | 2008 | 2009 | 2010F | 2011F | 2012F | 2013F | 2014F |
|---------------------|---------|---------|---------|---------|---------|---------|----------------------|-------|-------|-------|
| Segment Sales | 84.2 | 101.1 | 118.3 | 141.5 | 108.2 | 111.7 | Forecast Data | | | |
| Passenger Car Total | 850.3 | 867.7 | 861.0 | 894.6 | 747.5 | 790.6 | | | | |
| % of Passenger Cars | 9.9% | 11.6% | 13.7% | 15.8% | 14.5% | 14.1% | | | | |
| Light Vehicle Total | 1,583.3 | 1,614.7 | 1,653.4 | 1,636.0 | 1,460.6 | 1,559.6 | | | | |
| % of Light Vehicles | 5.3% | 6.3% | 7.2% | 8.7% | 7.4% | 7.2% | | | | |

Source: DesRosiers Automotive Consultants Inc., AIAMC, CVMA