AutoWatch

Janaury, 18 2008

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Industry Checklist

Canada	Economic Condition	*YELLOW*
Canada	Light Vehicle Sales	*GREEN*
Canada	Auto Production	*YELLOW*
Canada	Fuel Prices	*RED*
Canada	Incentives	*GREEN*
U.S.	Economic Condition	*YELLOW*
U.S.	Light Vehicle Sales	*YELLOW*

A disappointing finish to a strong year

Consumers have pulled back for the second consecutive month, suggesting the fear of a possible economic slowdown seems to have concerned our light vehicle market. Demand for new light vehicles faded 5.1 percent to 119,894 units in December. The decline was the largest year-over-year decrease in 2007. The decline of the passenger car segment (-15.9%) was enough to offset stronger light truck sales (+5.6%). A number of manufacturers were affected by the downward pressure in December, noticeably General Motors (-28.2%), Ford (-11.9%), Hyundai (-13.0%) and Volkswagen (-34.1%). In addition, both General Motors (-4.1%) and Ford (-2.2%) peformed below the industry average. On the flip side, Mitsubishi (+124.1%), BMW (+41.5%), Honda (+9.7%) and Toyota (+24.6%) all peformed well above the market. 2007 went into the books as the second best year in Canadian light vehicle sales history. Overall sales were 2.4 percent better than last year.

HIGHLIGHTS

2008 North American International Auto Show

Market Snapshot

	December 2007	December 07/06	Total 2007	Total 07/06	Total Share 2007
General Motors	25,579	-28.2%	398,546	-4.1%	24.1%
Chrysler	18,985	2.1%	232,688	5.5%	14.1%
Ford	15,111	-11.9%	223,773	-2.2%	13.5%
Toyota	13,865	24.6%	187,938	2.3%	11.4%
Honda	15,542	9.7%	150,188	3.1%	9.1%
Mazda	4,811	4.2%	86,659	7.0%	5.2%
Hyundai	4,089	-13.0%	75,005	7.1%	4.5%
Nissan	4,970	7.2%	70,027	16.8%	4.2%
Volkswagen	1,971	-34.1%	36,909	5.1%	2.2%
Kia	1,878	35.8%	34,820	17.8%	2.1%
BMW	2,131	41.5%	24,031	20.0%	1.5%
Acura	2,275	27.4%	20,119	-1.2%	1.2%
Mitsubishi	1,546	124.1%	16,759	53.0%	1.0%
Subaru	1,318	4.3%	16,504	1.9%	1.0%
Mercedes-Benz	1,412	-5.4%	16,114	10.8%	1.0%
Lexus	1,223	15.6%	13,388	11.6%	0.8%
Suzuki	535	-35.5%	12,001	7.6%	0.7%
Volvo	398	-28.7%	8,874	-10.5%	0.5%
Audi	714	14.2%	8,230	0.1%	0.5%
Infiniti	415	-13.9%	6,756	-0.3%	0.4%
Land Rover	267	-4.0%	2,963	15.3%	0.2%
MINI	286	-15.1%	3,703	8.6%	0.2%
smart	245	240.3%	2,433	-19.5%	0.1%
Saab	167	-11.6%	2,209	-16.3%	0.1%
Porsche	110	13.4%	1,987	6.4%	0.1%
Jaguar	51	-37.0%	738	-21.7%	0.0%
Total Market	**119,894**	**-5.1%**	**1,653,362**	**2.4%**	

Note: Manufacturers sorted based on YTD market share.

Source: DesRosiers Automotive Consultants Inc., AIAMC, CVMA

2008 North American International Autoshow - Selected Highlights

GENERAL MOTORS displayed its commitment to biofuels as an alternative fuel source by announcing its partnership with ethanol-producer Coskata Inc. and unveiling two E85-powered concept vehicles: the Hummer HX and Saab 9-4X (pictured here). GM ensured that performance would not be sacrificed for the increased fuel economy, with respective horsepowers of 304 and 300. GM also introduced the new 2009 CTS-V which sports a 6.2L V-8 supercharged engine that provides 550 horsepower. The CTS Coupe Concept was also unveiled. If produced, it would compete with vehicles such as the Infiniti G37 and BMW 3-Series Coupe.

CHRYSLER is keeping pace in the increasingly competitive large pickup truck segment with its introduction of the new 2009 Dodge Ram. In total, 35 new features are new or improved for model year 2009. The Ram is the first in its segment to utilise a coil spring rear suspension rather than the traditional leaf spring, giving it a more comfortable ride without sacrificing load capacity. It also features the Ram Box; two lockable compartments in the walls of the box that straddle the rear wheel wells, adding 8.6 cubic feet of lockable storage. The Ram offers a 380 horsepower 5.7L Hemi V-8, with a Cummins turbodiesel expected after 2009 and a 2-mode hybrid system scheduled for 2010. Chrysler also revealed three new concept vehicles: the Jeep Renegade, Dodge Zeo, and the Chrysler ecoVoyager. All three are primarily electrically powered.

FORD introduced the new 2009 F-150 pickup, built on a new chassis and offering industry exlusive features such as a box side step and tailgate step for easier access. The F-150 offers a segment leading 35 different configurations; with 3 cab styles, 4 box options, and 7 different trim packages. Three V-8 engines will be available for the truck including the Triton V-8, which is capable of running on E85 or any ethanol-to-gasoline mixture below that. Ford also revealed its intent to re-enter the small car market in North America, unveiling the Verve Concept. Ford has been absent from the B-class segment since 1997, the final year of the Ford Aspire. The 4-door Verve is slated to be sold in North America in 2010. It’s major competitors in the growing subcompact segment will be the Toyota Yaris and Honda Fit.

TOYOTA unveiled its new 2009 Venza, a crossover vehicle that reflects more of its sedan roots than SUV traits. Toyota considers the Venza the best of both worlds, targetting primarily “active boomers and young couples with small families.” Key to the image of the Venza is its North American exclusivity. Engineered and designed entirely in the U.S., it will be assembled in Toyota’s Georgetown, Kentucky plant and will only be available to the North American market. The Venza will be available with a 2.7 L four cylinder engine or a 3.5 L V-6, the latter providing 268 horsepower. Toyota also announced a diesel engine option for the Tundra pickup, a key addition to its competitiveness within the large pickup segment.

2008 NAIAS Continued

HONDA revealed its production prototype of the 2009 Pilot SUV, offering bolder styling and increased third-row passenger seating space over its predecessor. The 2009 Pilot will be equipped with Honda's Advanced Compatability Engineering body structure, designed to reduce frontal collision forces between different sized vehicles, and will use the most high-strength steel of any Honda product thus far. The next generation Pilot will feature an improved Variable Cylinder Management system, enabling the engine to operate on 6, 4, or 3 cylinders, depending on the driver's desire for fuel efficiency versus power.

MITSUBISHI debuted its new 2009 Lancer Ralliart, broadening the Lancer lineup. It positions itself between the Lancer and the Lancer Evolution, sporting agressive styling with a distinctive front facia. An estimated 235 horsepower is provided by its 2.0L DOHC MIVEC turbocharged engine. Mitsubishi also unveiled the Concept-RA (pictured here), which indicates possible future styling cues for the Eclipse.

KIA introduced the Borrengo midsize SUV, the largest and most powerful vehicle in the company's fleet to date. It will be available with a 3.8L V-6 engine, and in some markets including North America, Kia's first V-8 (4.6L V-8 DOHC), the latter providing more than 300 horsepower. The Borrengo will be available in North America in the summer of 2008.

VOLKSWAGEN presented its new 2009 Passat CC which is loaded with technology features that offer insight into future VW models. It will feature Lane Assist, VW's first application of a lane-departure correction system. It will also include technology such as "Dynamic Drive Control," which provides three settings for suspension damping and steering, as well as "Front Assist," which monitors the distance of vehicles ahead and automatically primes the brakes for emergency situations, increasing stopping capability. In North America, the Passat CC will have three gasoline engine options: the turbocharged 1.8L TSI DI 4-cylinder (136 hp), the 2.0L version (167 hp), and the 3.6L FSI V-6 (276 hp). Turbo diesel engines will only be available in Europe. The 2009 Passat CC is scheduled to reach North America in the fourth quarter of 2008.

BMW announced its entrance into the North American diesel market with the 2008 335d Sedan and X5 xDrive35d SUV. Both models will feature a 3.0L diesel engine that produces 265 horsepower while meeting 50 state emission requirements. BMW also debuted the 1-Series Sedan and Convertible and the X6 Sport Activity Coupe (pictured here). The 128i will be available with a 3.0L inline 6-cylinder engine, yielding 230 horsepower. The 135i will offer the same engine, but twin-turbocharged, outputting 300 horsepower. The 1-Series will compete in the compact luxury segment with the Audi A3 and Volvo C30.

Top Ten Selling Models (Nov YTD)

1 Ford	F-Series	68,596
2 Honda	Civic	63,787
3 Dodge	Grand Caravan	50,512
4 Mazda	3	45,905
5 Toyota	Corolla	38,574
6 Dodge	Ram Pickup	38,458
7 GMC	Sierra	37,195
8 Chevrolet	Silverado	36,938
9 Toyota	Yaris	32,809
10 Chevrolet	Cobalt	30,880

Source: DesRosiers Automotive Consultants Inc., AIAMC, CVMA

Select New Model Introductions

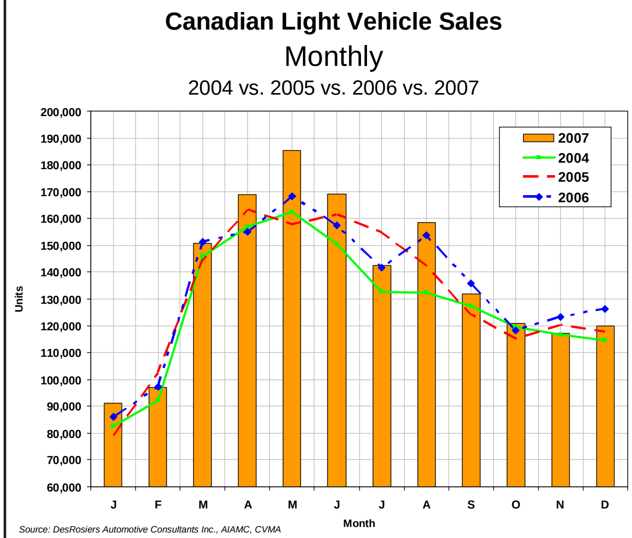
Infiniti EX	*January 2008*
Nissan Murano	*January 2008*
Toyota Corolla	*February 2008*
Ford F-150	*Second Quarter 2008*
Dodge Ram	*Second Quarter 2008*
Volkswagen Passat Coupe	*Third Quarter 2008*

Monthly Sales By Segment (000's)

November	2002	2003	2004	2005	2006	2007	07/06
Compact Utility	9.7	8.0	9.1	11.8	15.8	15.7	-0.7%
Intermediate Utility	10.1	7.8	8.4	7.0	6.6	7.9	19.8%
Large Pickup	17.1	14.5	16.3	16.5	15.2	16.5	8.7%
Large Utility	2.4	1.7	1.8	1.6	1.9	1.4	-26.2%
Large Van	2.0	1.9	2.2	2.2	2.0	1.7	-15.9%
Luxury Utility	2.1	3.0	3.8	3.8	3.7	4.2	14.3%
Small Pickup	2.6	1.6	2.2	2.9	3.8	3.8	1.1%
Small Van	14.0	13.2	12.5	12.2	10.6	7.9	-25.6%
Total Light Truck	60.1	51.8	56.3	58.1	59.6	59.1	-0.8%
Compact	28.8	25.9	27.0	29.1	28.5	24.6	-13.5%
Intermediate	21.7	22.4	18.2	16.4	18.2	17.6	-2.9%
Luxury High	2.2	2.7	2.2	2.0	1.9	1.9	-2.6%
Luxury	3.7	3.0	4.4	5.0	4.7	4.7	0.9%
Luxury Sport	0.4	0.4	0.5	0.4	0.3	0.2	-22.7%
Subcompact	4.9	4.4	6.1	7.5	8.8	7.4	-15.5%
Sport	2.5	1.8	2.1	1.7	1.7	1.7	4.7%
Total Passenger Car	64.2	60.6	60.5	62.1	63.9	58.2	-8.9%
Total Light Vehicle Sales	124.3	112.4	116.7	120.2	123.5	117.3	-5.0%

Source: DesRosiers Automotive Consultants Inc., AIAMC, CVMA

Market Comment



2007 became the second time in Canadian automotive history to break the 1.65 million unit mark in new vehicle sales. It was also a year for many manufacturers to shine. Chrysler (+5.5%) and BMW (+20.0%) were the only companies to have recorded sales increases for all 12 months last year. Toyota joined the 200,000 club for the first time with record-breaking sales of both Toyota and Lexus vehicles. Honda/Acura (+2.6%), Nissan/Infiniti (+15.0%) and Mazda (+7.0%) all broke records for their total annual sales. Mitsubishi (+53.0%) made the most out of 2007 by posting the largest year-over-year increase, setting a new sales record of 16,759 units. 2007 has been an exceptional year, but not without turbulence along the way. Monthly sales dropped three times in the past four months, hinting 2008 will be a challenging year ahead. With the uncertainty in the U.S. economy we predict sales will finish lower in 2008.

The Canadian Economic Environment

Economic Checklist

Gross Domestic Production	*GREEN*
Consumer Price Index	*YELLOW*
Canadian Dollar	*GREEN*
Employment	*GREEN*

Highlights

Employment grew 2.2 percent in 2007

Inflation accelerated 2.5 percent in November

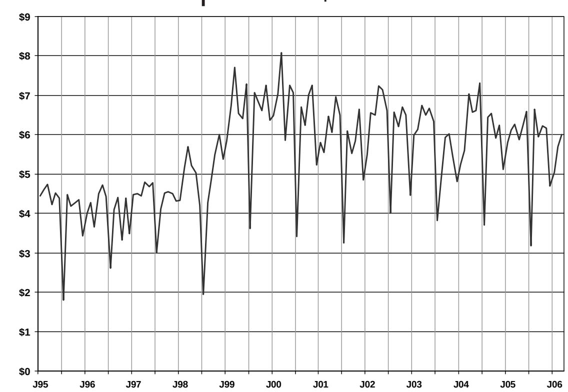
CDN dollar weakened to US$99.6 cents

GDP increased 2.8 percent in October

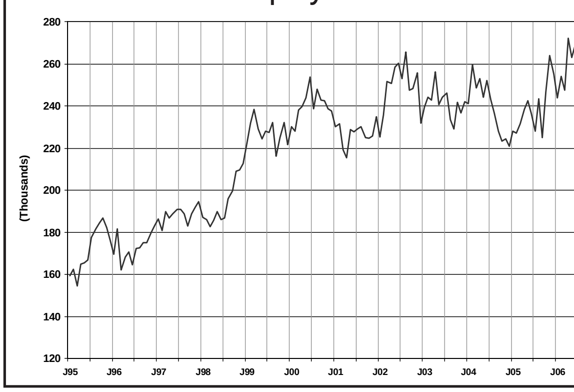
Economic Forecast	(AAr. over AAr. % change unless indicated)						
	2008F	2007F	2006	2005	2004	2003	2002
Real Gross Domestic Product	2.4	2.6	2.4	2.9	2.8	1.7	3.4
Consumer Spending	3.4	4.0	3.4	3.9	3.3	3.1	3.4
Consumer Price Index	2.1	2.3	2.1	2.2	1.8	2.8	2.3
Exchange Rate (US$/CDN$)	103.8	97.7	88.2	82.7	76.8	71.4	63.7
Real Disposable Income	2.8	3.7	2.8	2.2	2.3	1.4	1.7
Industrial Production	0.5	0.6	0.5	1.8	3.4	0.1	1.7
Unemployment Rate	6.1	6.0	6.3	6.8	7.3	7.6	7.6

Forecast data represents an average of figures released by:
BMO Nesbitt Burns, TD Economics, Bank of Montreal and ScotiaBank

Canadian Motor Vehicle Assembly Shipments - $Billions



Automotive Assembly & Parts Manufacturing Employment



Source: Statistics Canada

Real Gross Domestic Product	Year over Year Percentage Change										
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
January	2.0	3.3	3.2	1.6	3.4	2.0	3.1	4.7	3.1	3.3	2.8
February	2.1	3.3	3.6	1.6	3.1	2.6	3.0	3.8	2.4	3.4	3.5
March	3.7	3.2	3.3	1.6	2.5	2.5	2.3	4.7	2.4	4.4	3.1
April	2.1	3.1	2.7	2.9	1.8	3.4	2.5	4.3	2.7	3.5	3.7
May	2.5	2.6	2.8	3.2	1.8	2.8	2.4	4.8	3.1	3.0	4.0
June	2.7	2.6	2.6	3.1	1.6	3.2	1.9	4.7	3.6	2.5	3.8
July	2.5	2.5	2.6	3.1	1.9	3.9	1.5	4.6	4.6	1.1	4.4
August	2.4	2.2	2.7	4.6	0.8	3.9	1.3	4.4	4.1	2.0	4.1
September	2.9	2.5	2.8	3.3	1.1	4.6	0.4	4.1	4.4	2.1	4.2
October	2.8	1.6	3.1	3.2	0.2	4.4	0.9	4.6	4.2	2.0	4.2
November		1.6	3.0	3.2	1.8	3.8	1.4	4.7	4.3	2.7	3.3
December		2.3	2.3	3.0	0.5	3.7	1.4	4.9	4.2	2.1	4.5
Average		**2.7**	**2.9**	**2.8**	**1.7**	**3.4**	**1.9**	**4.5**	**3.6**	**2.7**	**3.8**

Source: Statistics Canada

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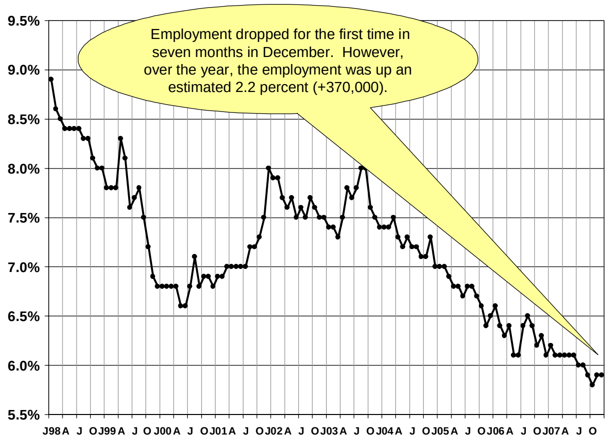
Unemployment Rate

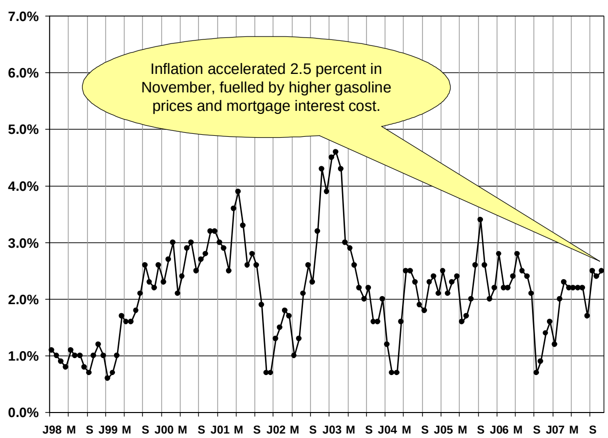
January 1998 - December 2007



Source: Statistics Canada

Consumer Price Index

January 1998 - November 2007 (YOY)



Source: Statistics Canada

Exchange Rate (Monthly Average)

January 1998 - December 2007 ($CDN/$US)

Source: Bank of Canada

Economic Commentary

Excerpts from commentary made by:

Pascal Gauthier
Economist
TD Economics
January 11, 2008

Putting December's numbers in perspective reminds us how strong the job market has been outside of manufacturing, and that part of December's disappointment is payback for unsustainable – when compared to real GDP growth in particular – levels of jobs creation in prior months. Taking stock of overall net job creation for 2007 at 2.3% (+380,000), one can't help but notice the boom in non-private sector employment. Public sector jobs grew by 2.5% in 2007 and self-employment grew by a whopping 4.6%, both sources of employment significantly out-performing their long-term trend job creation, which are respectively 1.1% and 2.6%. Notwithstanding, the bellwether private sector employment also grew at a decent rate of 1.7%, which is only a notch below its long-term performance of 1.9%. On a quarterly basis, overall job creation has been trending up nationwide since mid-2005. The fourth quarter of 2007 saw the best job creation rate in 19 quarters. Public sector employment did account for much of that performance. In and of itself, this should not cast a cloud in terms of quality of employment and income generated, but it does remind us of the volatility of employment from that sector. We should not expect such strong growth from public sector jobs going forward. Add to that the continued woes in manufacturing – which incidentally were not as bad in terms of jobs lost as were 2005-06 – the slowdown of the U.S. economy and the consequent slowdown in Canada and you get a recipe for slower job growth in 2008. But the labour market will remain tight, as highlighted by the strong wage growth of 4.9% (year-over-year for permanent employees) observed in December. We expect fewer entrants into the labour force, and the unemployment rate should remain close to 6%. December's report does not markedly change the overall picture for the Bank of Canada, which we expect will lower its overnight rate by ¼ percentage point at its next two meetings.

Next Issue

February 11, 2008