

Quebecers and their automobiles: A love story

When spring arrives, people go car crazy, and Quebecers are no exception to this rule. To wit, just over 4.5 million passenger vehicles owned by individuals were circulating on Quebec's roads at the end of 2013. This number increased despite the congestion of automobiles in urban centres, repeated calls for action from environmentalists, ever-rising gas prices and the increasing availability of alternative transportation methods (bus, metro, car-sharing services, taxis, taxibus, Bixi, extended cycling paths, etc.). The desire for personal cars has not diminished in recent years despite the high cost of car ownership. However, the aging of the population, the modest economic outlooks for the next few years, anticipated interest rate hikes and households' desire to reduce debt could usher in a sweeping change—a major challenge for both lenders and borrowers, who want to maintain a balance in their finances.

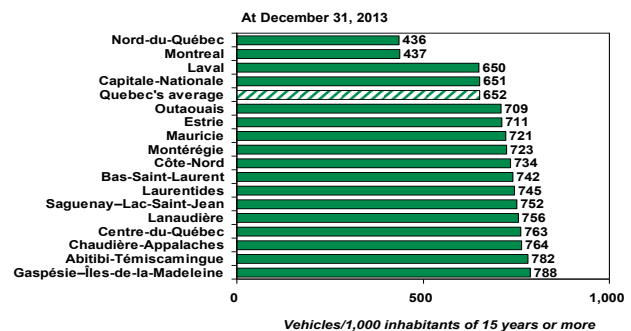
A SNAPSHOT OF PERSONAL CAR OWNERSHIP

Transportation is a major issue in Quebec. For instance, in 2010, transportation represented 29.1% of Quebec's total energy consumption, and it was the second-largest expense for households in 2012. Quebec's total road network covered 30,600 km that same year, or three quarters of the earth's circumference. On December 31, 2013, there were 4,502,414 passenger vehicles (automobiles and light trucks¹) owned by individuals on Quebec's roads, according to the statements issued by the Société de l'assurance automobile du Québec (SAAQ). Of these, 66% were automobiles, with light trucks representing the rest (33%).

The fact that the number of passenger vehicles in circulation is rising is worth noting. From 2006² to 2013, the number has increased annually by about 80,000 on average, 45,000 of which were in the areas of Montreal, Montérégie, Laval, Lanaudière and the Laurentides combined. That said, the numbers are not always as dramatic—a peak slightly upwards of 106,000 was reached in 2010 in Quebec, which tumbled to a low of 56,000 the following year.

To drill this down further, in 2013 there were 652 passenger vehicles for every 1,000 inhabitants aged 15 or more. This number has consistently increased since 2006 despite environmentalists' qualms about air quality, the efforts of municipal and provincial authorities to further develop public transit, and despite the substantial jump in gas and

Graph 1 – Vehicles/1,000 inhabitants*
Montreal and Nord-du-Québec trail Quebec's average



*Inhabitants aged 15 years or more
Note: Passenger vehicles (automobiles and light trucks) in circulation.
Sources: Société de l'assurance automobile du Québec, Institut de la statistique du Québec and Desjardins, Economic Studies

diesel prices. In comparison, the ratio was 617 in 2006, and this number has increased every year since then.

A closer look (graph 1) shows that the administrative regions of Montreal and Nord-du-Québec are the only areas that clearly fall below Quebec's average. The regions of Laval (650) and the Capitale-Nationale (651) are in line with the average while the other regions are above average. Why the disparity? The answer stems from a variety of factors: population growth, disposable personal income, the regional GDP, the availability of alternatives for private passenger transportation and the demographic density that either makes it possible—or impossible—to implement a public transit network.

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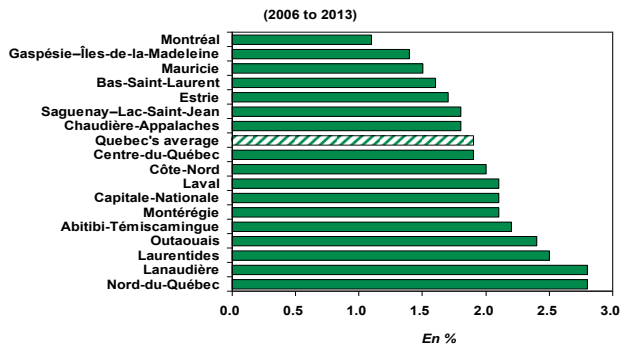
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From 2006 to 2013, the number of passenger vehicles in Quebec grew at an annual rate of 1.9%. This rate exceeded the population growth rate for people aged 15 or more (1.1%) and real GDP growth (1.4%) for the same period. Based on these calculations, we note that Quebecers' love of vehicles remains intact. Among the regions in Quebec that posted the sharpest growth, Nord-du-Québec and Lanaudière (tied at 2.8%) led the way followed by the Laurentides and Outaouais regions, which were slightly above average (graph 2). In contrast, Montréal (1.1%), Gaspésie and Îles-de-la-Madeleine (1.4%) and Mauricie (1.5%) posted below-average growth rates in terms of the number of passenger vehicles in circulation.

Graph 2 – The average annual growth rate of passenger vehicles varies widely

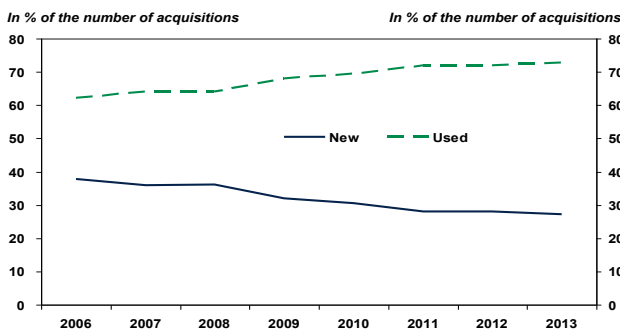


Sources: Société de l'assurance automobile du Québec and Desjardins, Economic Studies

THE DRIVING FORCE: ACQUISITIONS

According to the SAAQ, in 2013, 1,268,147 passenger vehicles (new and used) were acquired (purchased or leased) in Quebec. Used vehicles (72.7%) clearly outnumbered new cars (27.3%). The share of new vehicles acquired—purchased or leased—has been declining since 2006 (graph 3). Keep in mind however that a used vehicle

Graph 3 – Annual vehicle purchases by individuals: New automobiles are losing their lustre

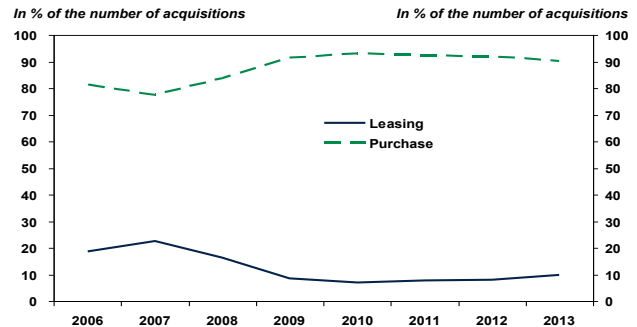


Sources: Société de l'assurance automobile du Québec and Desjardins, Economic Studies

can be the subject of several transactions before it winds up in the end user's hands.³ The benefit of a used vehicle over a new one is the reduced purchase cost. It also enables some people to tool around in a higher-end vehicle than if they had purchased new. The question of cost is indeed a considerable factor in a context where households are carrying high debt.

In 2013 as in previous years, when it comes to acquiring a vehicle, purchasing wins out over leasing (90.2% vs. 9.8%, respectively), which is not surprising since most purchases overwhelmingly involve used cars (graph 4). Leasing has been steadily losing ground since 2006. The impasse suffered by the major automakers, especially in the United States, in the mid-2000s and the difficulties they had securing financing forced them to gradually withdraw from the leasing market.

Graph 4 – Annual vehicle purchases by individuals: Leasing is less popular



Sources: Société de l'assurance automobile du Québec and Desjardins Economic Studies

As an acquisition method, leasing applies mostly to new vehicles—about three out of four leased cars in the past three years were brand new.

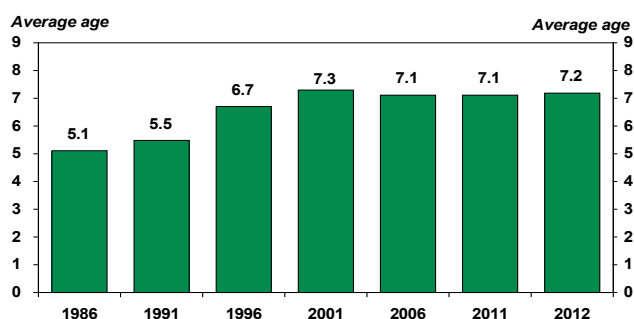
In return, those who preferred to purchase their cars outright in recent years opted for used cars in most cases, to the tune of 77.6% in 2013. This percentage has risen gradually since 2006, when it was 73.6% for that year.

In short, when it comes to vehicle purchases, new automobiles are losing their lustre. When Quebecers purchase a car, they prefer to buy one outright rather than lease. Those who do opt for leasing almost always lease a new car, and those who purchase a car almost always buy used.

THE AGE OF THE PASSENGER VEHICLE FLEET

Is the automobile fleet genuinely getting older? That depends on the standpoint used to view the situation. The SAAQ estimate for 2012 was 7.2 years of age for passenger vehicles (automobiles and light trucks). Light trucks on average were not quite as old as automobiles (6.8 years vs. 7.3 years). Passenger vehicles have had an average age of about 7.1 years for roughly the last 10 years. The age of the automobile fleet has indeed changed, especially during the 1980s and 1990s (graph 5). Since then, automakers have put the pedal to the metal to enhance the quality and durability of their products.

Graph 5 – Quebec: Average age of the passenger vehicle fleet has been steady since the year 2000



Note: Vehicles in circulation
Source: Société de l'assurance automobile du Québec

For its part, market researcher DesRosiers Automotive Consultants estimated at 8.3 the age of Quebec's automobile fleet in 2012. This estimate includes all vehicles owned by individuals and transportation fleets. However, the data for the 2000s confirm the SAAQ's observations: the age of Quebec's automobile fleet has been relatively steady from 2000 to today. Moreover, the data gathered by DesRosiers makes it possible to compare Quebec with other regions in Canada. In 2012, the Canadian average was 9.3 years. This

average was supported in the Prairies (10.4 years in 2012 as well). With an estimate of 8.6 years, Ontario and the Atlantic provinces had averages that came closest to Quebec's average. Several factors can sway these statistics—the model; the size of vehicles purchased; a preference for new vs. old or even weather conditions.

QUEBEC STANDS APART

The data compiled by DesRosiers Automotive enable us to draw comparisons with Canada on several aspects, especially in terms of the types of vehicle purchased. As a result, we noted that in 2012, more Quebecers purchased passenger cars (58%) than light trucks (42%) (table 1). This is a reversal of the trend seen elsewhere in Canada. Quebec clearly distinguishes itself from other provinces. This variance can even be seen with Ontario, which cannot claim to be supporting its resource-based economy as a reason for purchasing this many light trucks.

With regard to new passenger vehicle purchases, Quebec stands somewhat alone. Quebec is the champion of smaller cars. Table 2 on page 4 presents an average for the years 2008 to 2012. The compact and sub-compact category dominated, with an average of 74% of new passenger car purchases falling into this category, while the same category averaged 64.5% in Canada and 57% in Ontario. Quebecers bought fewer cars in the intermediate and luxury segments, which are more expensive. This trend is not new and cannot be completely attributed to the more effervescent economic situation in Western Canada since oil prices recovered in the early 2000s. There is of course a question of personal preference, but a closer look at changes in disposable after-tax income shows that Quebec is trailing the rest the Canada (graph 6 on page 4). As such, the amount available for a new vehicle purchase may not be as high as it is elsewhere, which argues in favour of smaller vehicles.

Table 1 – Share held by each type of vehicle for new vehicle purchases in 2012

	Canada	Quebec	Ontario	Prairies	British Columbia
Passenger automobiles	45.3	58.0	47.4	47.7	42.8
Light trucks	54.7	42.0	52.6	52.3	57.2
Total	100.0	100.0	100.0	100.0	100.0

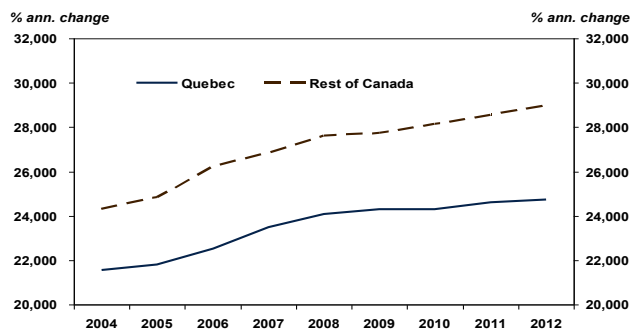
Sources: DesRosiers Automotive Consultants and Desjardins, Economic Studies

**Table 2 – Segmentation % of passenger vehicles:
Quebec remains the champion of compacts and sub-compacts**

	Canada	Quebec	Ontario	Prairies	British Columbia
Sub-compact	14.0	19.5	9.7	9.9	15.9
Compact	50.5	54.5	47.3	48.0	46.7
Sport	3.7	2.9	3.8	5.9	4.8
Luxury	8.7	6.5	11.4	8.4	11.4
Intermediate	20.9	15.2	25.0	25.5	17.6
Great Luxury	1.6	1.0	2.2	1.5	2.7
Luxury sports car	0.5	0.4	0.6	0.7	0.9
Total	100.0	100.0	100.0	100.0	100.0

Note: Due to rounding, percentages may not add to 100%.
Sources: DesRosiers Automotive Consultants and Desjardins, Economic Studies

**Graph 6 – Real disposable household income per inhabitant:
Quebec trailing the rest of Canada**



Sources: Statistics Canada, Provincial and Territorial Economic Accounts, 2012 and the Demography Division

In terms of prices, the average retail price of a new car purchased in Quebec by an individual was \$31,069 in 2013, below the Canadian average of \$34,292 last year.

The retail price of a new vehicle purchased in Quebec could generally be expected to increase from one year to the next due to inflation, but this is not always the case. In 2012, the price fell by 0.7%. What was behind this price pullback? More modest purchases, perhaps? Was it due to manufacturers' rebates? Did the daunting economic scenario scare buyers who turned to less expensive models instead? This decline is difficult to explain. And it was not

the only decline noted during the first 10 years of the new century. The average price also declined in 2000, 2001, 2007 and 2008.

The researchers at DesRosiers Automotive did not limit their study to new vehicles only. The firm also looked at the different channels favoured by individuals to purchase their used cars. The company observed that in 2012, 39% of used vehicles in Quebec traded hands between independent sellers—37.2% among individuals and 23.8% from new car dealerships that also sell pre-owned vehicles and offer financing arrangements. In this last case, DesRosiers Automotive estimates that the average retail price was \$15,171 (\$16,338 in Canada).

AUTOMOBILE FINANCING: A WORLD UNTO ITSELF

What about financing in Quebec? DesRosiers Automotive also collects data on automobile financing. In 2013, the vast majority of new vehicle purchases, 68.6%, were financed by a loan (table 3). Leasing represented 19.7% of new acquisitions and 11.7% of purchases were settled in cash. The number of cash payments has been declining for the past five years. Leasing as an option was far more popular before 2008, when the major automakers offered financing arrangements that challenged any competition. Loans are becoming increasingly popular, but an exceptional peak of 77.1% was reached in 2009.

Table 3 – Vehicle financing trends in Quebec

Type of financing	New vehicles		Used vehicles	
	In 2013 (in %)	Past 5 years	In 2013 (in %)	Past 5 years
Cash payment	11.7	↘	18.5	↘
Leasing	19.7	↗	2.2	=
Loan	68.6	↗	79.3	↗
Total	100.0		100.0	

Sources: DesRosiers Automotives Consultants and Desjardins, Economic Studies

For pre-owned vehicles, loan financing won the lion’s share in 2013 (79.3%). Leasing was flat (2.2%) and an estimated 18.5% of payments were made in cash. That cash payments are also on the decline is worth noting. Loan financing is clearly taking over.

Equifax Canada has noted that since 2011, financing terms have been extended over a longer period of time. We have seen terms of 84 and 96 months appear. The result is lower monthly payments that are spread over a longer timeframe.

A SUBSTANTIAL SHARE OF HOUSEHOLD BUDGETS

According to Statistics Canada’s annual Survey of Household Spending (SHS), transportation is the second-largest expense in household budgets after housing. That consumers are taking a much closer look when it comes to fulfilling their transportation needs is not surprising. In 2012, each household spent \$9,540 on transportation, or 14.6% of total expenses (\$11,216 in Canada, or 14.9% of total expenses). For private transportation (which excludes city buses, the metro, commuter trains, taxis, planes, inter-city buses, and other inter-city passenger transit services), the total expenses per household were assessed at \$8,779 in 2012. In Canada, this amount reached \$10,087.

In 2012, the amount earmarked in Quebec households for the purchase of an automobile, minivan or a truck was \$3,388, while in Canada the average amount was \$3,875. While these data cannot be modelled on the estimates provided by DesRosiers Automotive, they nevertheless confirm that individuals in Quebec who purchase a vehicle spend less than their Canadian neighbours. The Statistics Canada Survey also showed that the cost of running an automobile, minivan or truck in Quebec is less than it is in Canada.

As we can observe, owning and operating a vehicle takes a big bite out of the budget in Quebec’s households. The estimates provided by the Canadian Automobile Association (CAA) support the figures put forth by Statistics Canada on the cost of private transportation.

The 2013 edition of the CAA’s Driving Costs guide provides several examples. For the purposes of this article, we will use a compact car as our example (a Honda Civic LX). We will keep in mind that Quebecers shopping for a new car prefer automobiles to light trucks and that compact and sub-compact cars top the list. This explains why we selected a compact car as an example.

By following the calculations made by CarDATA and presented by the CAA in table 4, we estimate that the total annual cost to run a compact car such as the Honda Civic LX was \$8,806.96, based on 16,000 km driven annually. This figure is not far off from Statistics Canada estimates for the annual household cost of private transportation, even if both of the realities studied were different. The fact that usage costs increase with the number of kilometers driven also has to be considered. For an intermediate automobile, such as the Toyota Camry, the operating costs are higher (\$10,127.60 for 16,000 km/year), and the same applies to a sport utility vehicle (SUV). These data are just an overview, and the data for individual drivers could be different based on a host of factors to be taken into account. Still, the figures suggest that car ownership is a substantial drain on a budget.

LOOKING AHEAD: BY 2020

What does the future hold for Quebec’s automobile sector? The rapidly changing trends make it difficult to pinpoint but the exercise is worth thinking about, however. In terms of demand, the population will increase at a modest pace and age at a faster pace, which will change personal travel needs. The labour force participation rate will gradually decline, thus limiting the financial resources required to finance a transport vehicle. At the same time, the economic projections are rather modest. The conditions as they currently stand do not point to a run-up in demand.

Table 4 – Annual driving costs - based on the Civic LX

<i>kilometres driven per year</i>	<i>Annual operating costs (variable)</i>	<i>Annual fixed ownership costs</i>	<i>Total cost</i>	<i>Cost per kilometre</i>
12,000 km	\$1,743.60	\$6,214.20	\$7,957.80	\$0.66
16,000 km	\$2,324.80	\$6,482.16	\$8,806.96	\$0.55
18,000 km	\$2,615.40	\$6,482.16	\$9,097.56	\$0.51
24,000 km	\$3,487.20	\$6,737.88	\$10,225.08	\$0.43
32,000 km	\$4,649.60	\$7,225.08	\$11,874.68	\$0.37

Sources: Canadian Automobile Association, Driving Costs, 2013 Edition, CarDATA Consultants Inc. Calculations

As far as supply is concerned, innovations like electric cars, renewable fuel, more models to choose from, greater durability, smart cars, etc., could bolster Quebecers' desire to own a car. Could a new range of financing options tilt the scales? Creativity will be the watchword given that household margins are slim.

Other elements could also weigh in the balance and influence the forces at play one way or the other. On the economic front, the relative weakness of the Canadian dollar could increase the cost of imported products and limit the choice for car buyers, and the anticipated interest rate hikes will increase financing costs. The cost of fossil fuels is expected to rise gradually, unless major technological advances are made or major fuel deposits are discovered. Whether these increases will be dizzying or gradual remains to be seen. Other considerations could also have an effect, such as an increase in public transit or a disastrous environmental toll that would compel the government to clamp down on Quebec's motorists.

With regard to the economic elements, the current trend does not point to a rapid increase in the automobile fleet. The extent to which the other factors will hold sway over Quebecers' decisions remains to be seen. In the meantime, financing an automobile will present a major challenge for buyers and lenders alike. How will individuals deal with rising interest rates without jeopardizing their finances? To what point will households focus on reducing their debt? Will the relationship between car and owner last longer than it does now? Given the context, will the current level of attachment become even tighter in the future?

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¹ Light truck: "Road vehicle weighing 4,000 kg or less, a minivan, van or multi-purpose vehicle (4 x 4)." Source: Société de l'assurance automobile du Québec (SAAQ).

² 2006: The first year from which comparisons can be made due to changes in methodology.

³ For example, a used vehicle can be traded in for a new car at a dealership, which sells the car to a private garage that in turn sells it to an individual.