

SEMI-ANNUAL INSIGHTS

CANADA
JUNE, 2022





As the leading automotive media organization in the world, Hearst Autos connects

car buyers, owners, and enthusiasts to the information they need, the experiences they crave, and the stories they love—while connecting automotive marketers to this audience of unrivaled breadth and diversity.

With insight into the shopping activity of 2.3 million monthly visitors,¹ Hearst Autos has a unique view into emerging trends in consumer interest. We are thrilled to share a semi-annual view on this ever-changing industry—from the top segments, brands, and models, to an unrivaled understanding of what Canadian car-shoppers really want.

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YEAR OF THE EV

¹comScore Media Metrix, Canada, Jan - March, 2022

MARKETPLACE AT A GLANCE

First quarter new vehicle sales of 333,039 units dropped by 12.3% vs. Q1 2021 and were down 9% through April. The automotive industry continues to struggle with inventory and material shortages, as well as lingering effects of the pandemic. And if these factors aren't enough, the Canadian economy is also experiencing setbacks from recent events like the Ambassador Bridge border blockade (the Automotive Parts Manufacturers' Association estimated losses of up to \$1 billion) and Russia's invasion of Ukraine, which is impacting energy prices and has continued to further disrupt supply chains.

“The inventory issue remains on the scene; a global problem that seems to be turning the corner, but it is far from solved.”

– AutoForecast Solutions LLC via Automotive News Canada

Despite consumer demand remaining strong, 2022 looks to be another challenging year given production and dealership inventory shortages, causing many analysts to bring down their projections for the remainder of the year. Here are the numbers.

NEW CAR MARKET

1.78M

New vehicle projections for Canada in 2022 have been revised to 1.78 million¹ by AutoForecast Solutions (AFS).

\$13B

Amount automakers have pledged in Canada for EVs, including a \$5 billion EV battery factory in Windsor by Stellantis and LG Energy Solution.¹

\$2 / L

Gas prices in Canada reached \$2.06 per litre in mid-May for the first time ever, climbing \$0.30 since mid-April when prices topped \$1.70.²

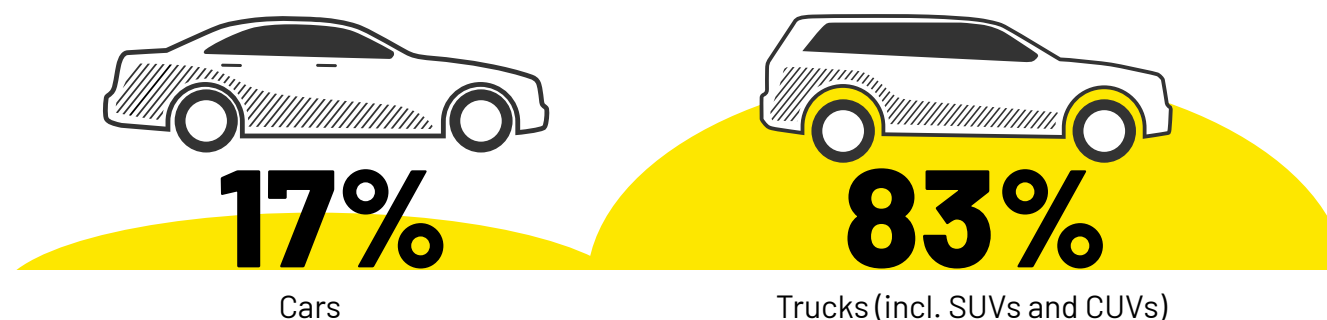
Source: ¹Automotive News Canada, April 2022, ²Natural Resources Canada via CTV News, May 17, 2022

PRODUCTION AND SALES IMPACT

Retail sales through April skewed heavily (83%) to trucks and SUVs/CUVs, while luxury also accounted for 15% share of market. With semiconductor shortages, manufacturers continue to shift production priorities to larger, and higher-end luxury models with greater profit margins. For Canada, that means large pickup trucks and premium luxury have been winning the chip game. This has largely served manufacturers well, however there are looming factors such as gas prices and a new Luxury Tax that are starting to shift demand into other segments or price points, and cause manufacturers to change their production plans.

Canada Sales by Light Vehicle Category

January - April, 2022



Canada's New Luxury Tax:

The federal government introduced a new Luxury Tax last April that vehicles \$100,000 and more will be levied with a luxury tax that ranges up to 10 per cent depending on the purchase price. Boats and aircraft priced at \$250,000 are also affected. The federal levy will apply to the vehicle's price after provincial (PST), goods and service or harmonized taxes (GST or HST) are added. This means, a premium luxury vehicle could carry a range of taxes from 20 - 35% its purchase price, or even more, depending on the province. This tax is expected to go into effect September 1, 2022.

“The Canadian auto industry shouldn't expect relief until 2026.”

– James Hancock, Director, OEM Strategy and Analytics, Canadian Black Book

LACKLUSTER FIRST QUARTER SALES

Of the 22 Canada automotive brands that posted sales gains in the first quarter of 2022, most were luxury and luxury exotic brands. Coupled with the desire to upgrade, higher trade-in values are providing the opportunity for many consumers to move-up into a luxury car category by having more equity towards their purchase.

| Luxury Brand | Growth vs. Q1 2021 |
|--------------|--------------------|
| Genesis | +38.1% |
| Porsche | +28.6% |
| Lincoln | +18.5% |
| Alfa Romeo | +13.9% |
| Maserati | +9.7% |
| Lexus | +5.7% |
| BMW | +5.5% |
| Audi | +4.8% |
| Volvo | +2.2% |

| Mainstream Brand | Growth vs. Q1 2021 |
|------------------|--------------------|
| Chrysler | +53.7% |
| Mitsubishi | +37.1% |
| Volkswagen | +25.1% |
| Jeep | +11.4% |
| Hyundai | 7.5% |

Following 60% growth in EV sales in 2021, the desire for upgrades and lower fuel costs could help move Canadian shoppers closer to reaching the government's goal of EVs accounting for one-in-five passenger vehicles sold in Canada by 2026.

Among mainstream brands, only a handful were able to post gains in the first quarter. Under the Stellantis and FCA Canada group, only Chrysler and Jeep posted gains. Both the Grand Caravan and Pacifica drove Chrysler's growth, while Jeep's growth came from a number of new launches and product updates, namely The Wrangler 4xe (plugin hybrid) and the Grand Cherokee L.

44% of Canadian shoppers stated they are in-market for a vehicle because they want to upgrade their car. Another quarter indicated they would like a more fuel efficient vehicle.¹

Source: ¹ Hearst Autos, In-Market Shopper Study, Canada, May 2022

USED CAR MARKET

It's no surprise that the inventory shortages in new cars have caused many ripple effects in the used car market. Facing supply challenges from fewer new car sales or leases, as well as fewer fleet returns in the past two years, analysts expect used prices to remain high until 2026, when the industry is finally expected to return to a more normal balance of supply and demand.

Why 2026? Largely because inventory of new cars is continuing to struggle, and most manufacturers don't see the light at the end of the tunnel until the end of 2023. It will take another 2 - 3 years until those vehicles start to feed the used supply through lease returns or trade-ins. So where do we stand now?

+34.5%

In what most believe was the peak of used car pricing, Autotrader Canada estimates used pricing was up nearly 35% over the course of 2021.¹

+4.1%

Used vehicle pricing is already up more than four percent in the beginning of 2022, according to Canadian Black Book.²



Sources: ¹AutoTrader Canada via The Globe and Mail, March 2022 ²Canadian Black Book via Automotive News Canada, May 2022

HEARST AUTOS SHOPPING ACTIVITY

With a view into a highly-engaged audience of more than 2 million shoppers in Canada, Hearst Autos measures shopper interest based on sessions, visitors, and pages viewed for every vehicle on the market.

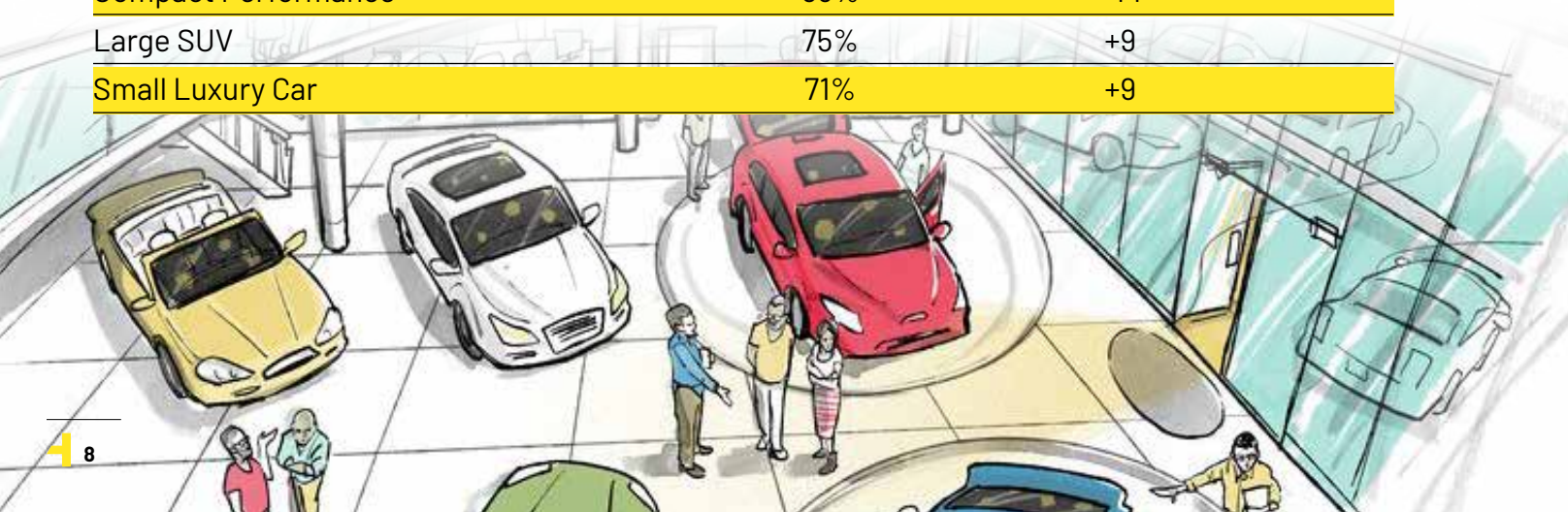
Aligning with industry sales, we continue to see market demand is still holding strong for SUVs/CUVs and trucks, but we are closely monitoring shifts in interest based on economic factors such as gas prices and available inventory. And when looking at some of our fastest-growing categories, there's undeniable interest growing where exciting new vehicles are entering the market.

| TOP 10 SEGMENTS IN CONSUMER INTEREST | % Share Q1 2022 | % Change vs. Q1 2021 |
|--------------------------------------|-----------------|----------------------|
| Compact SUV/CUV | 8.6% | 3% |
| Full-Size SUV/CUV | 4.7% | -15% |
| Midsize SUV/CUV | 4.7% | -6% |
| Full-Size Pickup Truck | 4.5% | 12% |
| Compact Performance | 4.4% | 83% |
| Subcompact Plus Crossover | 4.1% | 27% |
| Compact Car | 4.0% | 11% |
| EV Crossover | 3.9% | 66% |
| Luxury EV Car | 3.9% | -7% |
| Midsize Luxury SUV/CUV | 3.8% | 2% |

VEHICLE SEGMENTS THAT ARE TAKING OFF, Q1 2022 VS. Q1 2021

Among 45 segments that we measure at Hearst Autos, these five emerged in highest growth from Q1 2022 to Q1 2021:

| Segment | % Change in Share | + / - Rank |
|---------------------|-------------------|------------|
| Electric Truck | 140% | +15 |
| Electric SUV | 92% | +3 |
| Compact Performance | 83% | +14 |
| Large SUV | 75% | +9 |
| Small Luxury Car | 71% | +9 |



KEY VEHICLES DRIVING GROWTH IN SHOPPER INTEREST

Below are key models responsible for driving vehicle segment growth in the first quarter. Some are related to upcoming launches or refreshes, while others are driven more by availability in today's market.

ELECTRIC TRUCK

- **Silverado EV** (new entrant) jumped to **#1 with 30% share** of segment in Q1
- **Rivian R1T** (+32% growth) ranked **#2 and is holding 20%** share EV truck interest
- **Ford F-150 Lightning** (new entrant) rank **#3 in Q1 and holds 16%** share of the segment

ELECTRIC SUV

- **Hyundai Ioniq 7** (new entrant) rank **#1 and holds 39%** share of the segment
- **Kia EV9** (new entrant) ranked **#2 with 28%** share of EV SUVs
- **Bollinger B1** (new entrant) ranked **#4 has seen the highest growth** in the segment (**+167%**) in Q1

COMPACT PERFORMANCE

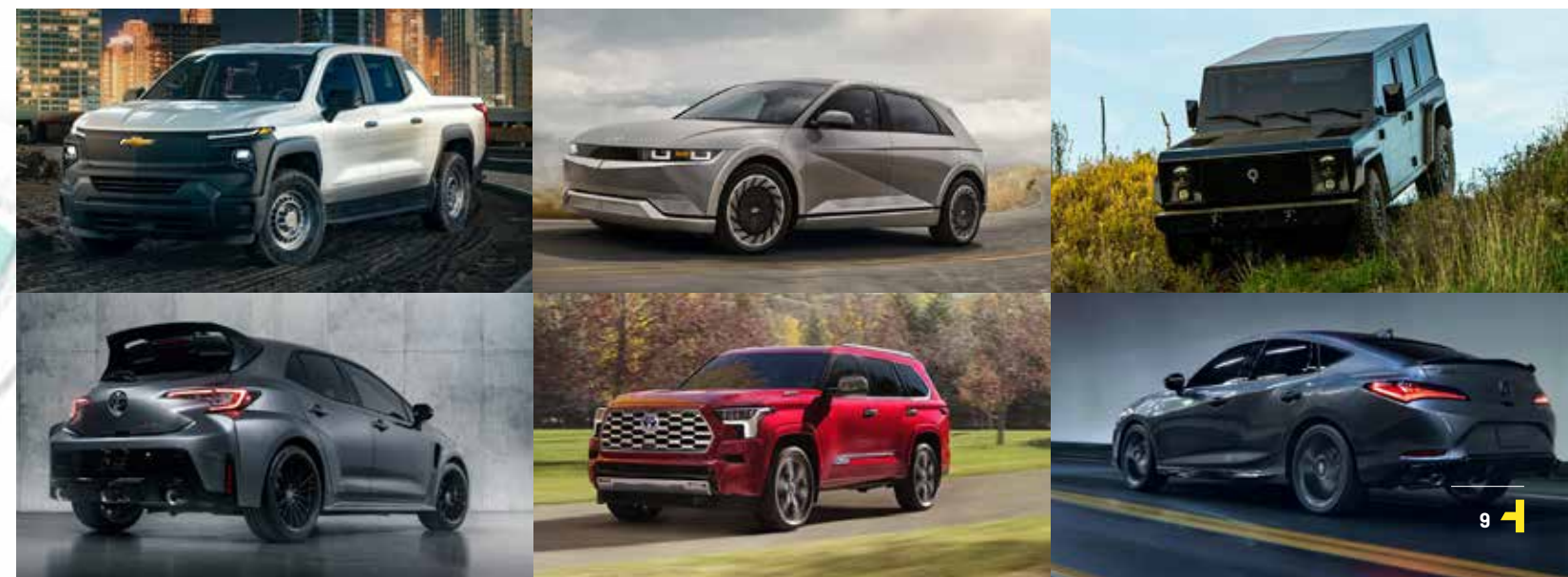
- **Toyota GR Corolla** (new entrant) jumped to **#1 rank with 18%** share of segment
- **Hyundai Elantra N** holds only **6%** share of this segment, but saw the highest growth in Q1 (**+212%** share)
- **Honda Civic Si** ranked **#4** in the segment but saw **high growth of 97%** in share of segment

LARGE SUV

- **Toyota Sequoia** has stolen the segment in Q1 2022 with **455%** growth in share, holding **36%** of the segment's shoppers
- **Chevrolet Suburban** ranked **#4** in the segment and is the only other vehicle in the category to see share growth (**+36%**)

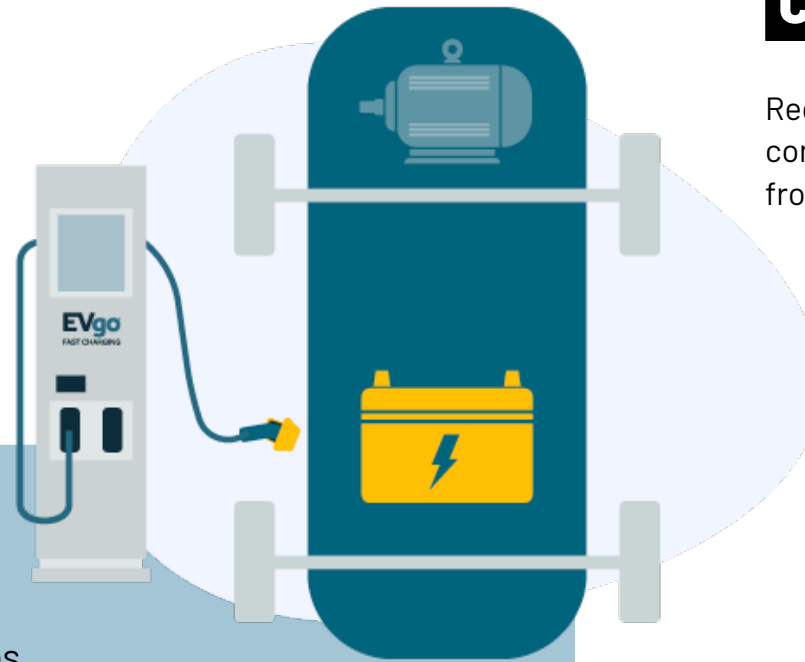
SMALL LUXURY CAR

- **Acura Integra** (new entrant) jumped to rank **#1** in the category holding **38%** share of the segment
- **BMW 2-Series** ranked **#2** and is the only standing vehicle in the segment (not a new entrant) that saw share growth in Q1 (**+18%**)



YEAR OF THE EV

Battery electric vehicle (BEV) sales grew **nearly 60% in Canada** in 2021, but the government is putting pressure on the industry to move at a faster pace towards federal mandates. BEV sales accounted for **5.2% of new vehicle registrations** in Canada in 2021, a **49% increase** from 2020 where they represented **3.5% of sales**. Most EV sales (**71%**) are registered in Quebec or British Columbia.



Mandates by Environment Minister

By 2026: 1-in-5 new vehicles sold

By 2030: 3-in-5 new vehicles sold

By 2035: All new vehicles sold must run on batteries

EV Incentives

There's a debate going on as to whether the government Incentives for Zero-Emission Vehicles (iZEV) are doing enough to entice consumers into buying this technology. Under this program, the maximum incentive is \$5,000. Recent revisions to the program include:

- Zero-emission **cars** up to a price of \$65k will now qualify (previously \$55k)
- Zero-emission **trucks/SUVs/Vans** up to a price of up to \$70k will now qualify (previously \$60k)
- Large vehicle 7-seat minimum criteria has been removed

Although these revisions open the door to more vehicles qualifying for the incentive, many critics argue that the government isn't doing enough to drive greater adoption. Given the rate of inflation (near 6% in 2022), the price increases in both the new and used markets, the \$5k maximum incentive doesn't move the affordability of a new car, especially given the preference towards larger, luxury vehicles, nor does it offset the taxes.

New Arrivals That Could Drive More Adoption

Ford F-150 Lightning and Chevrolet Silverado EV could be game-changers in the adoption of electric vehicles. Given Canada's love of large vehicles (trucks & SUVs account for 83% market share), and the rising costs of gas, these new vehicles could drive the industry towards the BEV market share goals at a faster pace than in recent years. It's worth noting however, that many of these vehicles start at the high \$60k range and quickly jump to \$85k or more. This means that adoption isn't going to be driven by incentives.

If it works in pickups, the technology will work anywhere.

— Robert Karwel, J.D. Power Canada

CONSUMERS ARE EXCITED AND WARY

Recent studies from Hearst Autos, KPMG, and NR Canada (Natural Resources Canada) have been conducted to understand consumer sentiment and intent towards EVs. Here are some key findings from these studies:

HEARST AUTOS

FROM HEARST AUTOS¹:

- 5%** currently own a BEV, 14% stated they'd prefer one for their next vehicle purchase (+210% growth)
- 34%** of those that currently don't own but are looking to purchase in the next year are considering an alternative fuel vehicle, with 9% considering a BEV
- 70%** are most interested in the elimination of gas costs, followed by environmental benefits (52%) of EVs
- 50%** are concerned with high upfront costs and 46% are uncertain about driving range/distance on charge

KPMG

FROM KPMG²:

- 71%** of Canadian consumers would consider an EV (**77%** for Millennials)
- 80%** would not consider an EV with less than 400 kilometers range
- 85%** have concerns over wait times at public charging stations and **51%** wouldn't wait longer than 20 minutes to fully charge

Canada

FROM NR CANADA³:

- 66%** of Canadians have never driven or ridden in a zero-emissions vehicle (ZEV)
- 46%** are unsure whether the repair and maintenance costs for a zero emission vehicle are lower than for a gas or diesel-powered vehicle
- 79%** say proven reliability in Canadian climates would make them more likely to consider purchasing or leasing a ZEV

"Canadians also have limited experience with ZEVs, and little understanding about a range of important issues associated with these vehicles, such as safety, vehicle charging, performance, maintenance costs, and resale value, suggesting these are areas in need of increased ZEV awareness/ education initiatives."

— Key Findings from NR Canada EV study

The year of the EV will continue to rest on how well the industry can ease concerns among consumers, build more education and infrastructure, and offer more appealing incentives to curtail the already high costs. All of these are critical steps towards a net-zero future.

Sources: ¹Hearst Autos, In-Market Shopper Study, Canada, May 2022, ²KPMG Canada, February 2022, ³NR Canada, Canadians' Awareness, Knowledge and Attitudes Related to Zero Emission Vehicles (ZEVs), June 2021



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