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# CANADIAN MARKET OVERVIEW *HIGHLIGHTS*

## 2020-2021

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**QEDinc.** ■

*Providing quantitative economic research  
to support informed decisions*

# Variants, Vaccines and the Economy

Canada's economy is opening once again, and the toll lockdowns took on households, businesses and governments will become more apparent in the coming months. Despite the current acceptance of higher public indebtedness, some level of fiscal drag is inevitable, especially once interest rates start to rise and debt service costs threaten to become unsustainable.

Most sectors of the economy suffered in 2020, including the asset-based finance industry. However, one segment of the industry made substantial gains because it played a vital role in financing the restructuring of the economy. Even though public and private machinery and equipment spending fell 13% in 2020, new business financing of machinery and equipment rose 12% from 2019. As a result, overall new business volumes fell 8% in 2020 to \$127 billion while total finance assets rose 1% to \$427 billion.

## Economic Outlook

While 2021 has been better than 2020 from an economic standpoint, it has not lived up to the sense of hope earlier in the year. New COVID-19 variants sparked necessary, but crippling, public health measures to cope with a surge in new cases and hospitalizations. Meanwhile, delays in vaccine shipments and concerns about their safety and efficacy dominated public discourse. New, additional variants remain a worry because they can plunge parts of Canada back into regional lockdowns.

## PUBLIC & PRIVATE INVESTMENT SPENDING IN CANADA BY ASSET TYPE

	MILLIONS OF DOLLARS		% GROWTH	
	2021 F	2020 F	2021 F	2020 F
<b>NON-RESIDENTIAL BUILDING CONSTRUCTION</b>	<b>57,230</b>	<b>53,548</b>	<b>6.9%</b>	<b>-4.4%</b>
Industrial buildings	12,419	11,562	7.4%	-7.6%
Commercial buildings	28,342	26,291	7.8%	-5.9%
Institutional buildings	16,469	15,696	4.9%	0.7%
<b>ENGINEERING CONSTRUCTION</b>	<b>115,342</b>	<b>105,558</b>	<b>9.3%</b>	<b>-11.1%</b>
<b>MACHINERY AND EQUIPMENT</b>	<b>97,490</b>	<b>85,679</b>	<b>13.8%</b>	<b>-13.4%</b>
Passengers cars and light trucks	11,239	10,095	11.3%	-1.5%
Medium and heavy trucks, buses and other motor	15,062	13,601	10.7%	-4.4%
Other transportation equipment	7,087	6,925	2.3%	-6.2%
Processing equipment	11,622	10,730	8.3%	-15.3%
Computers and office equipment, excluding software	12,197	11,741	3.9%	-11.5%
Telecommunications, cable and broadcasting	5,592	5,250	6.5%	-13.3%
Commercial and service industry machinery	3,064	2,925	4.8%	-7.8%
Scientific instruments and equipment	3,332	3,217	3.6%	-2.1%
Other machinery and equipment	12,334	11,578	6.5%	-10.99%

Source: QEDinc's Canadian Modelling System, Statistics Canada (34-10-0039-01)

TABLE 1

Canada's economy is expected to rebound in 2021 compared to 2020:

- output up 6.5%
- employment up 4.1%
- unemployment down to 7.5%.

Economic growth is expected to slow in 2022 to 3.3% , with unemployment falling to 7.2%.

Statistics Canada's February 2021 survey of capital spending intentions showed a partial recovery from the \$13.3 billion decline in public and private machinery and equipment spending in 2020. The survey also indicated spending will rise by 6%, or \$5.3 billion, in 2021. QEDinc's June forecast is more optimistic with capital spending up 14% in 2021, or \$11.8 billion, and slowing to 5% in 2022. Table 1 provides forecast values by type of asset from QEDinc's Canadian Modelling System (June 2021 forecast). Subject to resolving the ongoing supply change issues, the forecast suggests spending growth will be positive for all machinery and equipment asset categories with strength in the other industrial machinery and equipment asset categories.

### CANADIAN ASSET-BASED FINANCE MARKET DETERMINANTS

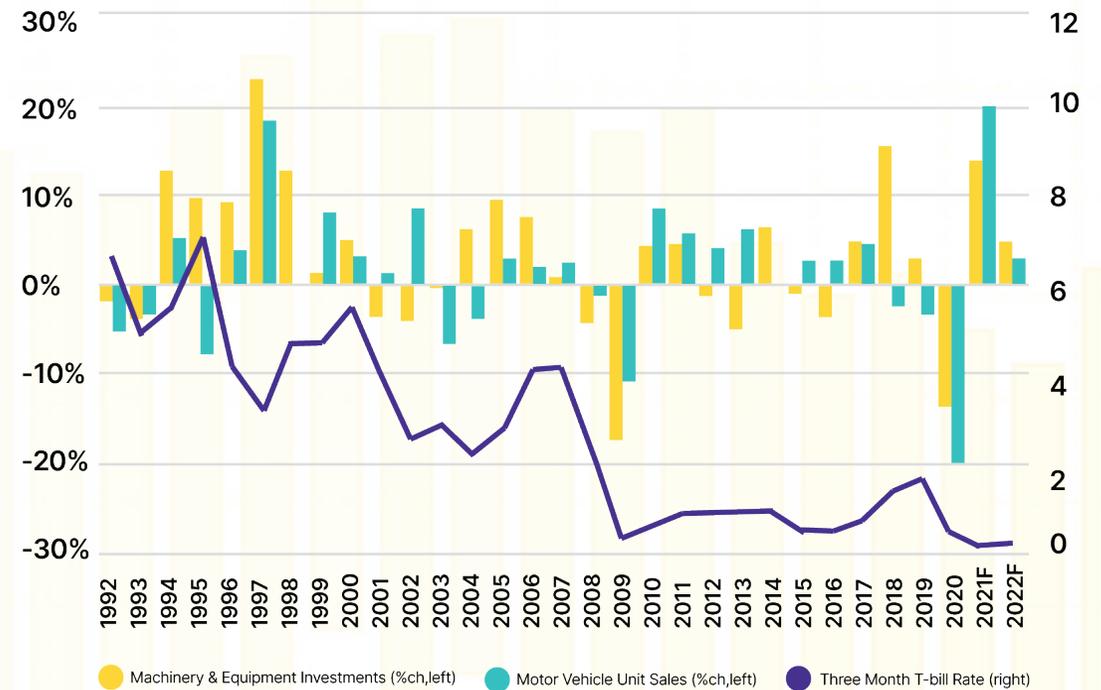


TABLE 1

DesRosiers Automotive Consultants paint a similar outlook for retail sales of new light vehicles. They expect a 3% increase in 2022 after a 20% increase in 2021 and 20% decrease in 2020.

## Asset-Based Finance Market in Canada

Canada's asset-based finance market shrunk in 2020 – new business volumes fell 7.8% to \$126.9 billion and total assets financed rose 0.9% to \$427.0 billion. Both business volumes and total assets financed were down from the 2.1% growth in new business in 2019 and 5.1% growth in total assets financed that year. However, the industry was instrumental in financing the restructuring of the economy as the finance of machinery and equipment assets excluding commercial light vehicles grew 11.5% to \$27.5 billion – despite a sharp decline in actual spending on these assets. These gains were offset by a 38.7% decline in fleet vehicle new financing and an 8.1% decline in retail vehicle new financing. The gains in the machinery and equipment segment appears to be the result of a significant decrease in the use of cash and other non-finance instruments to purchase new equipment.

### ASSET-BASED FINANCE MARKET IN CANADA

	MILLIONS OF DOLLARS		% GROWTH	
	2020	2019	2020	2019
<b>TOTAL FINANCE ASSETS</b>	<b>426,997</b>	<b>423,008</b>	<b>0.9%</b>	<b>5.1%</b>
Machinery & Equipment Market	64,300	60,017	7.1%	4.1%
Fleet Vehicle Market	43,673	46,938	-7.0%	6.8%
Retail Vehicle Market	319,024	316,053	0.9%	5.0%
Equipment & Commercial Vehicles	107,973	106,955	1.0%	5.3%
<b>Total Vehicle Market</b>	<b>362,696</b>	<b>362,991</b>	<b>-0.1%</b>	<b>5.2%</b>
<b>TOTAL NEW BUSINESS</b>	<b>126,866</b>	<b>137,542</b>	<b>-7.8%</b>	<b>2.1%</b>
Machinery & Equipment Market	27,516	24,672	11.5%	4.2%
Fleet Vehicle Market	8,740	14,250	-38.7%	1.5%
Retail Vehicle Market	90,610	98,620	-8.1%	1.6%
Equipment & Commercial Vehicles	36,256	38,922	-6.8%	3.2%
<b>Total Vehicle Market</b>	<b>99,350</b>	<b>112,870</b>	<b>-12.0%</b>	<b>1.6%</b>

Source: Canadian Finance and Leasing Association, DesRosiers Automotive Consultants Inc.

TABLE 2

## Historical Trends: New Business Volumes

New business volumes in Canada rose 4.5% a year on average since 1990 with the consumer vehicle market outpacing the equipment and commercial vehicle market at 5.2% to 3.2% a year. To put this performance into perspective, national income (GDP) has risen 3.9% a year over the same period and business spending on machinery and equipment just 1.9% a year.

## Equipment & Commercial Vehicle Finance Penetration Rate

In 2020, the asset-based finance sector was estimated to finance 42% of all spending on equipment and commercial vehicles, a significant increase from the 39% financed in 2019. Statistics Canada's February survey of machinery and equipment spending intentions for 2021 indicates commercial vehicle and equipment penetration rates could remain high in 2021.<sup>1</sup>

CANADIAN ASSET-BASED FINANCE MARKET  
PENETRATION RATES FOR MACHINERY, EQUIPMENT AND  
COMMERCIAL VEHICLES

	2021 F	2020	2019
Equipment & Commercial Vehicles New Business	38,431	36,256	38,922
Spending on New Machinery & Equipment	91,016	85,679	98,979
Finance Penetration Rate	42%	42%	39%

Source: CFLA, Statistics Canada, Desrosiers Automotive Consultants inc.

TABLE 3

<sup>1</sup> The 2021 commercial vehicle and equipment finance penetration rate would fall back to 39% if capital spending rises at the rate forecast by QEDinc.

## Consumer New Vehicle Finance Penetration Rate

Of the 1.4 million new vehicles sold in the consumer market in 2020, 92% were financed through either a lease or a loan. In 2021, DesRosiers Automotive Consultants expects sales of new vehicles in the consumer market to rise to 1.5 million units with the finance and lease penetration rates expected to remain relatively constant.

CANADIAN ASSET-BASED FINANCE MARKET  
PENETRATION RATES FOR CONSUMER NEW VEHICLES

	2021 F	2020	2019
Consumer Market New MV Sales (units)	1,542,963	1,351,119	1,577,175
Lease	565,000	488,000	582,000
Loan	849,000	753,000	864,000
Lease Penetration Rate	37%	36%	37%
Finance Penetration Rate	92%	92%	92%

Source: CFLA, Statistics Canada, Desrosiers Automotive Consultants inc.

TABLE 4

# New Business Finance by Region

Ontario and Quebec accounted for 40% and 22%, respectively, of the \$127 billion financed in 2020. On average, new business finance volumes grew 5% a year nationally over the last decade. Growth across most regions is close to this average over the last decade with British Columbia slightly outpacing the rest of the country.

2020 REGIONAL TOTAL NEW BUSINESS FINANCE VOLUMES

	2021 F	AVG %CH 2010 - 2020
Atlantic Canada	6%	4%
Quebec	22%	4%
Ontario	40%	5%
Manitoba	3%	5%
Saskatchewan	3%	4%
Alberta	15%	4%
British Columbia	11%	6%
<b>CANADA</b>	<b>100%</b>	<b>5%</b>

Source: Canadian Finance and Leasing Association

2020 REGIONAL TOTAL NEW BUSINESS VOLUMES (\$BILLIONS)

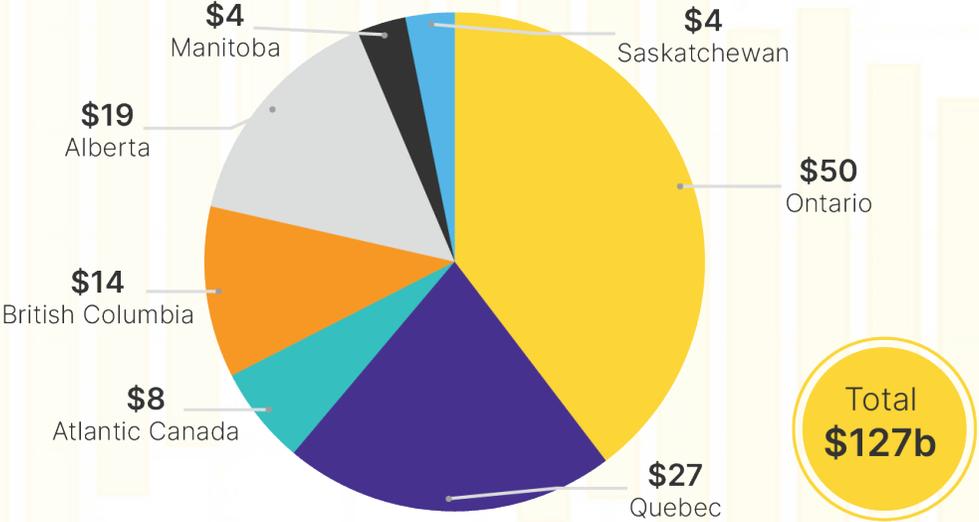


FIGURE 2

## New Business Finance by Credit Instrument and Source

In 2020, customers primarily leased equipment and commercial vehicles. Leases accounted for 40% of the market followed by secured loans at 28%. Banks supplying 42% of this credit in 2020. Secured loans account for 75% of new and used retail vehicle finance with 50% of this credit supplied by manufacturers' captive finance companies in 2020. Banks supplied 39% of this credit and independent finance companies supplied the remaining 11%.

### NEW BUSINESS FINANCE BY CREDIT INSTRUMENT AND SOURCE IN 2020

	EQUIPMENT & COMMERCIAL VEHICLES		RETAIL VEHICLES	
	\$ MILLIONS	% SHARE	\$ MILLIONS	% SHARE
<b>FINANCE BY CREDIT INSTRUMENT</b>				
Lease	14,486	40%	22,830	25%
Secured Loan	9,993	28%	67,780	75%
Line of Credit	7,632	21%		
Credit Card	4,145	11%		
<b>FINANCE BY SOURCE</b>				
Banks	15,255	42%	34,978	39%
Independent Finance Companies	9,627	27%	10,013	11%
Manufacturers' Captive Finance Co.	7,810	22%	45,619	50%
Other Finance Companies	3,565	10%		

Source: Canadian Finance and Leasing Association, DesRosiers Automotive Consultants Inc.

**TABLE 5**