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CANADIAN MARKET OVERVIEW

2021-2022

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QEDinc. ■

*Providing quantitative economic research
to support informed decisions*

Navigating Stormy Seas

While 2021 was a better year for the Canadian economy than 2020, new variants of Covid-19 and public health restrictions prevented Canadian businesses from reopening, limiting the strength of the economic recovery. Disruptions to supply chains, labour shortages, commodity price increases, and rising costs for many goods and services inhibited economic growth. The threat of entrenched inflation led the Bank of Canada to start aggressively raising interest rates in 2022.

The asset-based finance (ABF) industry played a vital role in financing a pandemic-induced restructuring of the Canadian economy. Many sectors had to reorient their business practices with retail and education shifting online, healthcare diverted to the pandemic response, a boom in residential investment spending and a bust in commercial space, to name just a few of the ways the economy has been altered. Public and private expenditure on machinery and equipment rose 6.3% in 2021, while financing of new equipment and commercial vehicle assets rose 6.9%. Overall new business asset financing rose 9.4% to \$139 billion in 2021, **while the total value of assets financed rose 3.4% to \$439 billion.**

Economic Outlook

Canada's economy is expected to continue recovering in 2022 from the pandemic-induced slowdown:

- Real output up 3.5% from 4.5% in 2021
- The Consumer Price Index (CPI) rose 7.1% from 3.4% in 2021
- 3-month T-Bill rate averaged 1.90% from 0.12% in 2021
- Employment growth slowed to 3.7% from 5.1% in 2021
- The unemployment rate was down to 5.3% from 7.4% in 2021.

Statistics Canada's February 2022 survey of capital spending intentions showed continued recovery from the \$13.4 billion decline in public and private machinery and equipment spending in 2020. Spending rose 6.3% – \$5.4 billion – in 2021 and is expected to rise another 6.3% or \$5.8 billion in 2022.

Growth in capital spending on machinery and equipment varied widely across the country in 2021: from a high of 14% in Manitoba to a low of -6% in Alberta. Québec and Saskatchewan recorded double-digit spending growth of 11.2 % in both provinces. Meanwhile, British Columbia and the Atlantic Province's spending growth was 5.2% and 3.1%, respectively, and lagged compared to the national average of 6.2%. Spending growth in Saskatchewan is expected to remain strong in 2022 while falling flat in Manitoba. Other regions' growth is expected to fall close to the national average in 2022.

PUBLIC & PRIVATE SPENDING ON NEW MACHINERY & EQUIPMENT

	MILLIONS OF DOLLARS		% GROWTH	
	2022 F	2021	2022 F	2021
CANADA	96,731	90,961	6.3%	6.3%
Atlantic Canada	4,882	4,694	4.0%	3.1%
Quebec	18,703	17,306	8.1%	11.2%
Ontario	38,147	35,683	6.9%	8.6%
Manitoba	3,330	3,338	-0.2%	13.8%
Saskatchewan	5,037	4,557	10.5%	11.2%
Alberta	14,438	13,785	4.7%	-5.9%
British Columbia	11,638	11,074	5.19%	5.2%

Source: Statistic Canada (34-10-0035-01)

TABLE 1

CANADIAN ASSET-BASED FINANCE MARKET DETERMINANTS

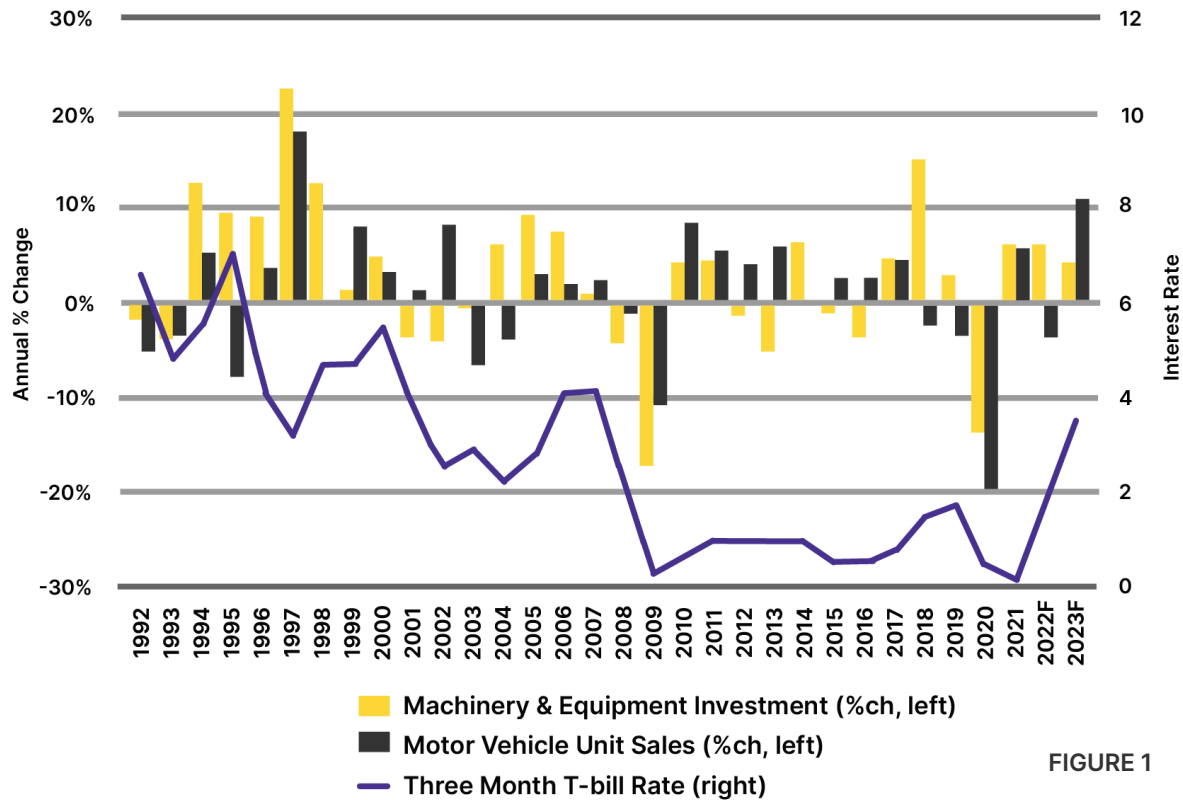


FIGURE 1

Source: Public and Private Investment Survey, Statistics Canada; Bank of Canada; 2022 Summer Forecast, Quantitative Economic Decisions, Inc.; DesRosiers Automotive Consultants

QEDinc's Summer 2022 forecast suggests capital spending growth will slow to just 4% in 2023. DesRosiers Automotive Consultants' outlook for retail sales of new light vehicles similarly predicts a 3% decline in unit sales in 2022, with an 11% rebound in 2023. The three-month treasury bill rate forecasts an average of 1.9% in 2022 and continues to rise to 3.5% in 2023.

The Asset-Based Finance Market in Canada

Pandemic restrictions reduced new business volumes in Canada by 7.8% in 2020 and slowed growth in total assets financed to just 0.9%. The asset-based finance market recovered in 2021 from the 2020 slowdown, with new business volumes up 9.4% to \$139.1 billion and total assets financed up 3.4% to \$438.6 billion.

The ABF industry has been instrumental in financing the restructuring of the economy. Equipment and commercial vehicle asset financing rose from less than 40% in 2019 to over 42% in 2020 and 2021. The fleet vehicle segment saw substantial gains by expanding 16% in 2021 after a 39% crash in 2020. The retail vehicle segment rose 10% in 2021 after an 8% decline in 2020.

ASSET-BASED FINANCE MARKET IN CANADA

	MILLIONS OF DOLLARS		% GROWTH	
	2021	2020	2021	2020
TOTAL FINANCE ASSETS	438,593	424,357	3.4%	0.9%
Machinery & Equipment Market	68,079	64,303	5.9%	7.1%
Fleet Vehicle Market	39,275	40,449	-2.9%	-8.0%
Retail Vehicle Market	331,240	319,605	3.6%	1.0%
Equipment & Commercial Vehicles	107,353	104,752	2.5%	0.7%
Total Vehicle Market	370,514	360,054	2.9%	-0.1%
TOTAL NEW BUSINESS	139,143	127,193	9.4%	-7.8%
Machinery & Equipment Market	28,667	27,516	4.2%	11.5%
Fleet Vehicle Market	10,101	8,740	15.6%	-38.7%
Retail Vehicle Market	100,374	90,938	10.4%	-8.2%
Equipment & Commercial Vehicles	38,769	36,256	6.9%	-6.8%
Total Vehicle Market	110,476	99,677	10.8%	-12.0%

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

TABLE 2

Historical Trends: New Business Volumes

New business volumes in Canada have risen 4.7% a year since 1990. The consumer vehicle market typically outpaces the equipment and commercial vehicle market by 3.4% to 5.4% per year. New vehicle business volumes performed well, considering national income (GDP) increased by 4.2% a year over the same period, and business spending on machinery and equipment rose 2.1% yearly.

Equipment & Commercial Vehicle Finance Penetration Rate

In 2021, QEDinc estimated that the ABF sector would finance 43% of all spending on equipment and commercial vehicles, slightly higher than the 42% financed in 2020. Statistics Canada's February survey of machinery and equipment spending intentions for 2022 indicated that commercial vehicle and equipment penetration rates could remain high in 2022.

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

	2022 F	2021	2020
Equipment & Commercial Vehicles New Business	41,422	38,769	36,256
Spending on New Machinery & Equipment	96,731	90,961	85,592
Finance Penetration Rate	43%	43%	42%

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

TABLE 3

Consumer New Vehicle Finance Penetration Rate

Of the 1.4 million new vehicles sold in the consumer market in 2021, 89% were financed through either a lease or a loan. In 2022, DesRosiers Automotive Consultants expects sales of new vehicles in the consumer market to fall by about 50 thousand units, partly because of supply shortages. Despite high unit prices, the finance penetration rate fell in 2021 – retail vehicle leasing's share of unit sales was wholly responsible for this decline because “cash” deals claim a higher market share.

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

	2022 F	2021	2020
Consumer Market New MV Sales (units)	1,369,151	1,418,678	1,351,119
Lease	425,806	432,697	487,754
Loan	784,523	828,508	752,573
Lease Penetration Rate	31%	31%	36%
Finance Penetration Rate	88%	89%	92%

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

TABLE 4

New Business Finance by Region

2021 REGIONAL TOTAL NEW BUSINESS FINANCE VOLUMES

	SHARE	AVG %CH 2011 - 2021
Atlantic Canada	6%	4%
Quebec	22%	5%
Ontario	39%	5%
Manitoba	3%	5%
Saskatchewan	3%	3%
Alberta	14%	2%
British Columbia	12%	6%
CANADA	100%	5%

Source: Canadian Finance and Leasing Association

2021 REGIONAL TOTAL NEW BUSINESS VOLUMES (\$BILLIONS)

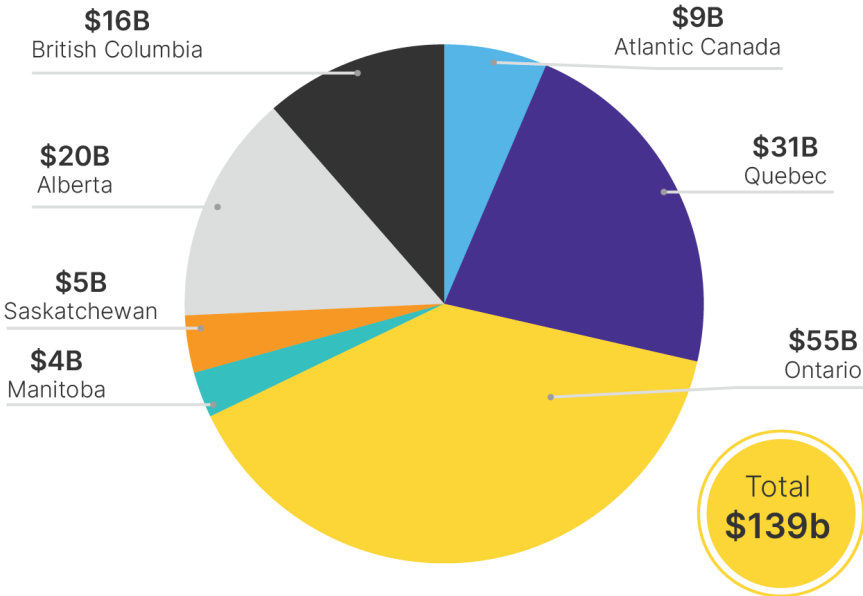


FIGURE 2

New Business Finance by Credit Instrument and Source

In 2021, customers typically leased equipment and commercial vehicles. Leases accounted for 40% of the market, and secured loans at 28%. Banks supplied 42% of this credit in 2021.

Secured loans accounted for 78% of new and used retail vehicle finance, and manufacturers and captive finance companies supplied 50% of this credit. Banks provided 39%, and independent finance companies gave 11%.

NEW BUSINESS FINANCE BY CREDIT INSTRUMENT AND SOURCE IN 2021

	EQUIPMENT & COMMERCIAL VEHICLES		RETAIL VEHICLES	
	\$ MILLIONS	% SHARE	\$ MILLIONS	% SHARE
FINANCE BY CREDIT INSTRUMENT				
Lease	15,490	40%	21,212	22%
Secured Loan	10,685	28%	73,185	78%
Line of Credit	8,161	21%		
Credit Card	4,432	11%		
FINANCE BY SOURCE				
Banks	16,312	42%	36,439	39%
Independent Finance Companies	10,294	27%	10,432	11%
Manufacturers' Captive Finance Co.	8,351	22%	47,526	50%
Other Finance Companies	3,812	10%		

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

TABLE 5