

Canadian Market Overview 2023–24



Slip or Slide

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The prevailing economists' consensus is that economic growth is weak enough to continue lowering the inflation rate in Canada, allowing the Bank of Canada to reduce interest rates further. This raises the question: How far and how fast will rates fall? There remains some risk that lowering rates too much will encourage resumed spending and another surge in inflation, but at present, everyone is comforted to have some relief from the high interest rates of last year.

Lower interest rates should improve access to capital for businesses and households. Although default rates have risen, they are still low relative to other business financing options. Moreover, the high cost of new motor vehicles will continue to make lease financing an attractive option for many households. As a result, the asset-backed finance (ABF) industry will continue to be an essential source of equipment financing for small and medium-sized businesses and personal motor vehicles.

Canadian workers continue to have less productive capital to work with than their counterparts in peer nations but are unlikely to see much improvement in this situation as rapid growth in the labour force will continue to depress wages – thus, the incentive to spend on productive capital. Nevertheless, public and private spending on machinery and equipment rose 6.5% in 2023, while the financing of new equipment and commercial vehicle assets rose 2.8%. Overall, new business asset financing grew

6.4% to \$120 billion in 2023, while the total value of assets financed in Canada rose 3.3% to \$389 billion.

Economic Outlook

The Bank of Canada's monetary policy is expected to deliver lower inflation, higher unemployment and a relatively “soft landing” in 2024.

- Real output growth remains low at 1.1%, down from 1.2% in 2023
- The Consumer Price Index (CPI) slowed to 2.6% from 3.9% in 2023
- The 3-month T-Bill rate averages 4.40%, down from 4.80% in 2023
- Employment growth slowed to 1.7% from 2.4% in 2023
- The unemployment rate rose to 6.3% from 5.4% in 2023.

Statistics Canada's February 2024 survey of capital spending intentions showed continued growth. Spending was up 6.5% to \$7.0 billion in 2023 and is expected to rise another 6.3% or \$7.3 billion in 2024.

Growth in capital spending on machinery and equipment varied across the country in 2023, from a high of 13% in Saskatchewan to a low of 1% in Quebec. Alberta and the Atlantic Provinces also performed well, with capital spending growing by 10%, while Manitoba and British Columbia were laggards relative to the national average.

Table 1

Public & private
spending on new
machinery and
equipment

Area	Millions of Dollars		% Growth	
	2024 F	2023	2024 F	2023
Atlantic Provinces	7,626	6,352	20.1%	-1.3%
Quebec	23,175	21,140	9.6%	3.5%
Ontario	46,409	42,052	10.4%	3.8%
Manitoba	3,940	3,486	13.0%	4.9%
Saskatchewan	6,104	5,985	2.0%	16.4%
Alberta	19,837	21,601	-8.2%	9.1%
British Columbia	14,993	14,107	6.3%	5.4%
Canada	122,651	115,385	6.3%	6.5%

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

QEDinc's Fall 2024 forecast suggests capital spending growth will slow to 5% in 2025. DesRosiers Automotive Consultants' outlook for retail sales of new light vehicles predicts a 2% increase in new

light vehicle unit sales in 2025, weaker than the 5% growth expected in 2024. The three-month treasury bill rate is expected to average 4.45% in 2024 and continue falling to 3.1% in 2025.

Figure 1

Canadian
Asset-based
Finance Market
Determinants

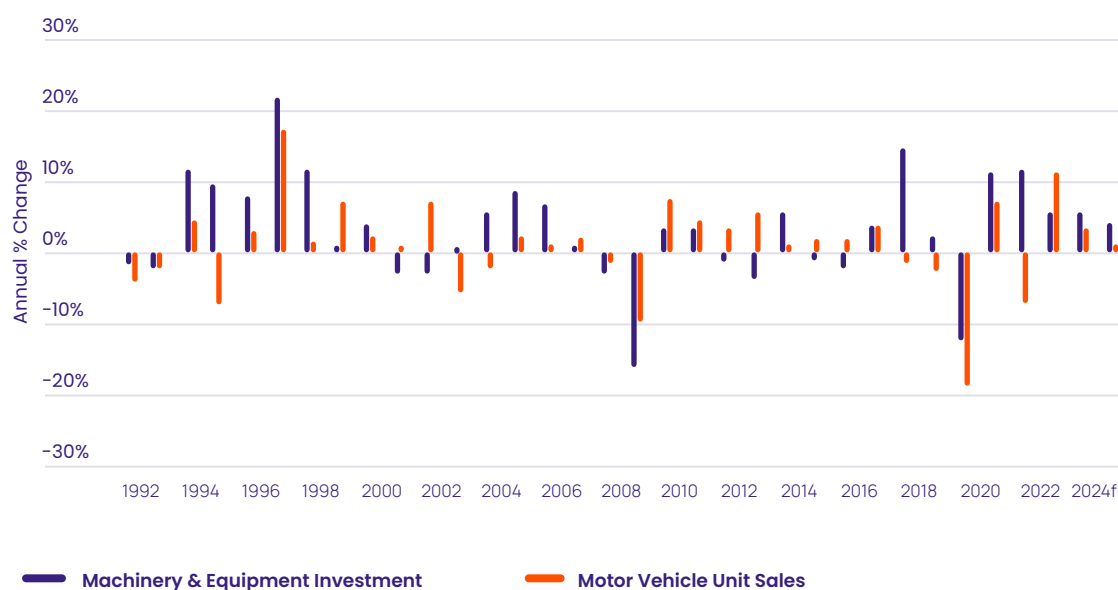
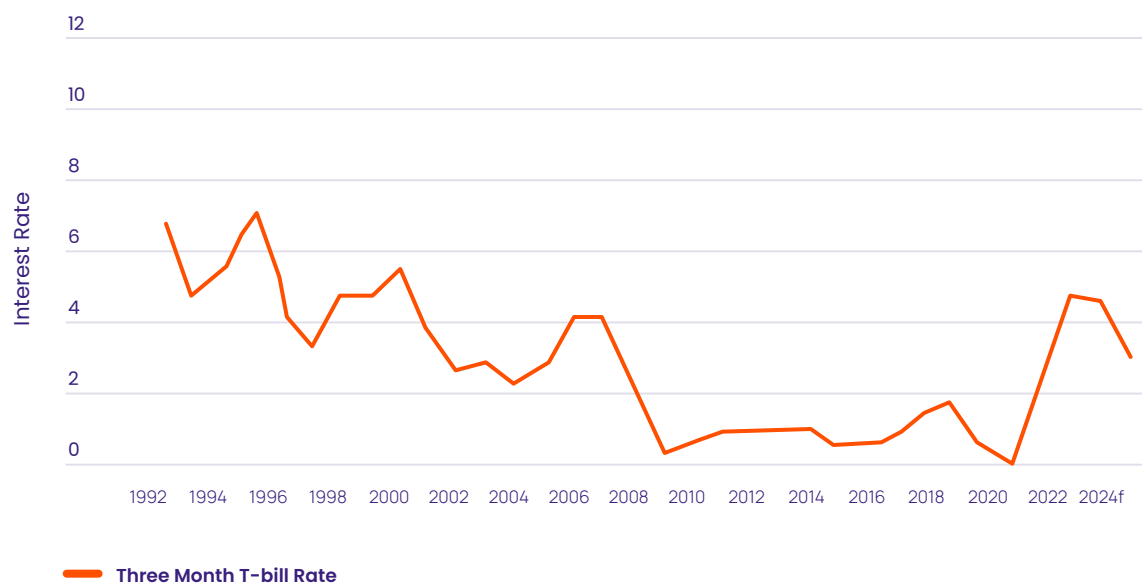


Figure 2
Canadian
Asset-based
Finance Market
Determinants



Source: Public and Private Investment Survey, Statistics Canada; Quantitative Economic Decisions, Inc.; DesRosiers Automotive Consultants

The Asset-Based Finance Market in Canada

Despite high interest rates and an expected recession, which did not come to pass, the asset-based finance market grew in 2023, with new business volumes up 6.4% to \$120 billion while total assets financed grew 3.3% to \$389 billion.

As the economy weakens in 2024 and perhaps beyond, the ABF industry will provide equipment financing for a large portion of the economy as traditional lenders will focus on larger enterprises. Similarly, any household without access to significant cash or cash equivalent balances will rely on the sector to finance the purchase of new vehicles.

Table 2

Asset-based
finance market
in Canada

Area	Millions of Dollars		% Growth	
	2023	2022	2023	2022
Total Assets				
Machinery & equipment	72,300	71,350	1.3%	13.5%
Fleet vehicles	42,201	38,510	9.6%	-5.5%
Retail vehicles	274,928	267,262	2.9%	0.8%
Equipment & commercial vehicles	114,501	109,861	4.2%	6.0%
Total vehicle market	317,129	305,773	3.7%	-0.1%
Total assets financed	389,429	377,123	3.3%	2.2%
Total New Business				
Machinery & equipment	29,021	33,106	-12.3%	29.3%
Fleet vehicles	14,388	9,133	57.5%	-22.0%
Retail vehicles	76,181	70,208	8.5%	-3.4%
Equipment & commercial vehicles	43,409	42,240	2.8%	13.2%
Total vehicle market	90,569	79,342	14.2%	-6.0%
Total new business	119,591	112,448	6.4%	2.2%

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

Historical Trends: New Business Volumes

New business volumes in Canada have risen 4.4% a year since 1990. The consumer vehicle market has outpaced the equipment and commercial vehicle market by 5.1% to 3.5% per year. New vehicle business volumes outperformed the overall economy as national income (GDP) increased by 4.4% a year over the same period, and business spending on machinery and equipment rose 2.6% yearly.

Equipment & Commercial Vehicle Finance Penetration Rate

QEDinc estimates that the ABF sector financed 38% of all spending on equipment and commercial vehicles in 2023, slightly lower than the 39% financed in 2022. Statistics Canada revised its estimate of spending in 2022 up by \$2.7 billion, and spending exceeded their intentions survey by \$4.3 billion in 2023. The equipment and equipment penetration rate in 2022 and 2023 was unaffected because finance new business was similarly revised up to reflect benchmark revisions over the last decade. Statistics Canada's February survey of machinery and equipment spending intentions for 2024 indicates that the commercial vehicle and equipment penetration rate could soften in 2024 unless spending underperforms their intentions survey.

Table 3

Canadian asset-based finance market penetration rates for machinery, equipment, and commercial vehicles

	2024 F	2023	2022
Equipment & commercial vehicles new business	42,485	43,409	42,240
Spending on new machinery & equipment	122,651	115,385	108,336
Finance Penetration Rate	35%	38%	39%

Source: CFLA, Statistic Canada, DesRosiers Automotive Consultants Inc.

Consumer New Vehicle Finance Penetration Rate

Of the 1.4 million new vehicles sold in the consumer market in 2023, 78% were financed through either a lease or a loan. In 2024, DesRosiers Automotive Consultants expects sales of new vehicles in the consumer market to improve by just under 60,000 units as a weaker economy and high vehicle prices constrain growth. Both the finance and narrower lease penetration rates fell in 2023 as households used “cash” from other sources for their vehicle purchases.

New Business Finance by Region

Ontario and Québec, respectively, accounted for 39% and 22% of the \$120 billion financed in 2023. On average, new business finance volumes have grown 3% per year nationally over the last decade. Growth is concentrated in British Columbia, Ontario, and Quebec, while other regions lag the national average.

Table 4

Canadian asset-based finance market penetration rates for consumer new vehicles	(units)	2024 F	2023	2022
	Consumer market new vehicle sales	1,495,555	1,436,616	1,341,657
	Lease	381,367	301,689	356,881
	Loan	785,166	815,998	736,570
	Lease Penetration Rate	26%	21%	27%
	Finance Penetration Rate	78%	78%	82%

Source: CFLA, Statistic Canada, DesRosiers Automotive Consultants Inc.

Table 5

2023 regional total new business volumes	Share	Average % change 2013–2023
Atlantic Provinces	6%	2%
Quebec	22%	3%
Ontario	39%	4%
Manitoba	3%	1%
Saskatchewan	4%	0%
Alberta	16%	0%
British Columbia	11%	4%
Canada	100%	3%

Figure 3
2023 regional
total new business
volumes



\$120 billion

2023 Regional Total New
Business Volumes

Source: CFLA, Statistic Canada, DesRosiers
Automotive Consultants Inc.



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