

Downturn in Global Auto Sales Persists in May

- Global auto sales fell by 6.7% y/y (nsa) in May for the ninth consecutive month of year-on-year declines.
- Well into peak sales season in most regions, anemic purchases in May reaffirm the global slowdown. Year-end sales are expected to close out around 77.0 mn units, down from last year's 78.6 mn units.
- The global selling rate improved modestly in May by 1.8% on a month-over-month, seasonally adjusted basis, with slightly stronger US sales largely offset by a continued slide in Chinese purchases.
- With significant downside risks facing the global economy, marginal month-over-month improvements may not be a bad thing.

GLOBAL: IT COULD BE WORSE

The outlook for auto sales is arguably in the eye of the beholder. As the year progresses, the global downturn in auto sales is increasingly reaffirmed. Sales are down by 7.0% on a year-to-date basis. Forecasts for 2019 now sit at 77.0 mn units, down from highs of 79.0 mn and 78.6 mn units in 2017 and 2018 respectively. Almost all major regions will show declines in total sales. This trend can be explained to a degree by the synchronized global economic slowdown, while some variability reflects different countries' responses to the moderation.

Unprecedented policy uncertainty no doubt also weighs on the outlook. On-again, off-again trade tensions are taking a toll on business and consumer confidence and are dampening growth prospects. This creates additional uncertainty around the outlook for auto sales for the remainder of the year, not only via consumer wealth effects, but also through interest rate channels, tariff impacts on prices, and exchange rate effects.

A modest uptick in month-over-month auto sales could be perceived positively in light of the downside risks outstanding. The performance of US auto sales will be key as the year progress, i.e., will downside risks materialise, as the other dominant consumer market—China—is already showing clear signs of substantial and sustained weakness.

CANADA: A CAUTIOUS CONSUMER

Canadian auto sales rate ticked up marginally in May with a 0.1% increase on a seasonally-adjusted basis (saar), but the decline on a year-over-year basis continued. May had the makings for a decent sales month: warm weather had finally arrived, tax refunds were in the mail—including the new carbon tax refund to many households across the country, and corporations now have a host of federal and provincial tax incentives to encourage purchases with Ontario the latest province to introduce matching depreciation allowances in its April budget. May also offered temporary reprieve from trade uncertainty with USMCA ratification on-track (again) and the aluminum and steel tariffs lifted in the middle of the month. (Recall, the 5% tariff threat to Mexico arrived on the last day of the month).

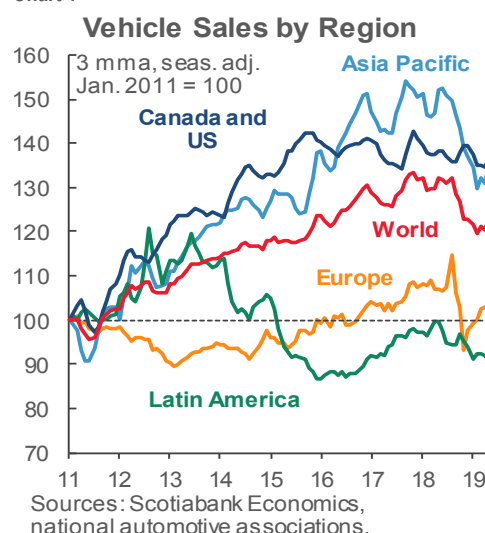
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Motor Vehicle Sales						
	Apr '19	May '19	Jan-May '19	Apr '19	May '19	Jan-May '19
	(y/y % change, NSA)			(m/m % change, SA)		
World	-8.0	-6.7	-7.0	-3.3	1.8	-7.2
North America						
Canada	-3.5	-5.6	-3.9	-2.8	-0.1	-4.7
US	-2.2	-0.5	-2.5	-5.8	5.9	-1.9
Mexico	-10.2	-11.3	-3.7	-4.8	-1.6	-5.4
South America						
Argentina	-60.9	-63.1	-57.8	-11.4	-9.5	-58.8
Brazil	5.5	20.1	8.8	13.3	2.8	11.3
Chile	-7.8	-11.7	-4.6	4.7	-5.2	-6.5
Colombia	0.2	11.7	0.2	2.5	6.3	2.1
Peru	0.0	-10.5	-0.5	15.2	-8.8	-2.6
Western Europe						
France	0.4	1.2	-0.4	3.1	-0.9	0.0
Germany	-1.1	9.1	-0.2	1.4	5.6	1.4
Italy	1.5	-1.1	-4.7	5.3	-0.6	-3.9
Spain	4.9	-7.3	-9.2	10.4	-8.2	-9.2
UK	-4.1	-4.6	-2.7	-1.4	2.5	-2.6
Eastern Europe						
Russia	-2.7	0.5	-1.1	-1.6	4.1	-0.9
Turkey	-41.8	-40.6	-44.1	-26.1	-4.0	-46.1
Asia Pacific						
Australia	-9.0	-8.1	-8.3	-3.0	0.2	-8.3
China	-17.7	-17.4	-14.7	-9.7	0.8	-15.0
India	-15.0	-18.3	-4.5	-9.0	-0.3	-7.6
Japan	3.4	6.5	0.0	11.7	1.7	1.8
Korea	-3.6	-2.9	-3.2	4.5	-1.2	-3.1

Sources: Scotiabank Economics, Wards Auto, national automotive associations.

Chart 1



Nevertheless, sales were underwhelming despite these tailwinds. On a year-over-year basis, May sales dropped by 5.6% (nsa), representing the fifteenth consecutive month of year-over-year declines. These year-over-year declines should begin moderating as the year advances given low base effects from the slowdown late last year, but the boost will be modest. Year-to-date sales are trending at 1.94 mn saar units, where we expect them to land by the end of the year, down from highs of 1.98 mn and 2.04 mn units sold in 2018 and 2017 respectively.

There has been a moderation in the decline in retail sales. Retail sales declined by about 4.5% versus double-digit drops late last year. Fleet sales had been picking up the slack as dealers were pressed to offload inventory. This has reversed with fleet sales dropping by about 10% in May y/y. We expect the decline in retail sales to continue to moderate as economic growth picks up and as dealers adjust inventories to reflect expected demand.

All regions across Canada experienced a modest strengthening in May sales rates on a seasonally adjusted basis, but declines in total sales continue on a year-over-year basis. There were some notable divergences within regions.

- Central Canada is still posting a decline in sales of about 4% year-to-date (nsa), but the sales rate in Quebec surged by 7% (sa) on a month-over-month basis, whereas Ontario was the only province where the sales rate declined in May (by 2% m/m sa). This likely reflects Quebec's strong fundamentals, whereas the jury may still be out on Ontario's outlook in light of expected austerity measures.
- The slowdown has been most evident in Western Canada with a 7% decline in sales on year-to-date basis (nsa). Alberta and British Columbia are not showing significant divergence around this trend at present. In May, Alberta showed a modest strengthening of its sales rate by 3% (m/m sa), likely reflecting a cautious return of consumer confidence as oil prices stabilize, while British Columbia's performance was relatively flat at about 1% growth (m/m sa). As the year progresses, BC's performance should experience a stronger boost from growth, whereas Alberta's economy will continue to face headwinds from oil price uncertainty, albeit increasingly benefiting from lower base effects from last year.
- Vehicle sales in Atlantic Canada continue their modest rebound, following their very sharp decline last year. The region as a whole is down by about 3% on a year-to-date basis (nsa). All provinces posted month-over-month improvements in May sales rates with the most marked improvement in Newfoundland and Labrador (10% m/m sa) versus the weakest—but nonetheless positive—in Nova Scotia (1% m/m sa).

UNITED STATES: DECENT IN SPITE OF ITSELF

US auto sales performed largely as expected in May with a seasonally-adjusted annualised sales rate of 17.31 mn. This represents a 5.4% (sa) increase in the sales rate over the previous month, nudging year-to-date sales up slightly to 16.9 mn saar units from last month's 16.8 mn saar units. Consumers responded to ramped-up Memorial Day incentives, following a lacklustre month for sales in April. May sales have likely exhausted any pent-up demand from early-year headwinds including the government shut-down, poor weather, and strong base effects from last year's tax incentives.

Sales nevertheless continue to decline on a year-over-year basis. May's 0.5% drop y/y (nsa) represents a fifth month of decline. We expect a slowing economy and on-again, off-again trade uncertainty to modestly dampen sales growth for the remainder of the year. We forecast year-end sales to land at 16.8 mn units, below 17.2 mn sales last year which benefited from exceptionally strong growth and a highly accommodative policy environment. With a high probability of interest rate cuts later this year, the impact on auto sales remains to be seen insofar as it is interpreted as an insurance against a downturn (with a stimulatory impact on consumption) versus a decision driven by more troubling motives (with a consequent tightening of financial conditions).

MEXICO: BETWEEN A ROCK AND A HARD PLACE

Mexican auto sales continued to deteriorate in May. Sales fell sharply again by 11.3 % y/y (nsa), following last month's drop of 10.2%. The early-year boost to sales in the first quarter, underpinned by minimum wage increases, has faded. An expected slowdown in view of the moderating economy is amplified by policy uncertainty, both domestically and abroad. The brief reprieve from trade conflict with the US had little impact on May sales. Deteriorating credit quality with downgrades by major rating agencies will likely continue to erode consumer confidence, along with already-tight financial conditions, that suggest a continued decline in auto sales over the course of the year.

ASIA-PACIFIC: CHINESE SALES DECLINES PERSIST

Chinese auto sales continued to disappoint. May witnessed a 17.4% drop y/y (nsa), representing the eighth month of double-digit declines over the last three quarters. Escalating trade tensions with the US have been a major factor in the decline, dampening business and consumer confidence, though a slowing economy also weighs on auto sales. The early introduction by some regions of new vehicle emissions standards that will take effect nation-wide in July 2020 has also created some headwinds to sales. We expect the decline to continue, particularly in view of last year's strong sales performance. Additional government support, along with reduced trade tensions, should moderate the decline, but not fully arrest it.

Indian auto sales continued their sharp decline in May. Sales dropped by 18.3% y/y (nsa) after a similarly pronounced decline of 15.0% y/y in April. Sales have been trending downward over the course of the year with headwinds from rising interest rates and increasing fuel costs. With the Modi government securing a second term in late May, an easing of the monetary stance, and an expectation of more policy stimulus to come, the hemorrhaging should be stemmed, but sales are nevertheless expected to continue their downward trend against lower growth expectations.

Japanese auto sales saw a surge, but are likely a temporary factor in an otherwise flat sales environment. May sales increased by 6.5% (y/y nsa), but an exceptional 10-day celebration of the new emperor likely distorted sales. Auto purchases have been relatively stable following a prolonged economic slowdown over the course of 2018 and early 2019. A consumption tax hike (from 8% to 10%) anticipated in October 2019 is expected to dampen growth more generally, but a recent tax reform bill offsets the impact on auto sales through reduced ownership taxes. Trade tensions could also increasingly weigh on Japan's outlook, particularly as Trump threatens import tariffs on automobiles and auto parts. Japan and the US are in the midst of trade negotiations with a November deadline imposed by the US administration.

EUROPE: A PRECARIOUS REBOUND

European Union auto sales continued their precarious rebound in May. The sales rate picked up modestly in May across the region by 0.8% m/m (sa), maintaining a steady strengthening following the abrupt slowdown in September 2018 with the introduction of new emissions standards in the European Union. Year-over-year sales are still down by 4.6% (nsa). However, sales' averages mask important differences within the region. Western Europe's year-over-year sales are slowly edging back to flat (with only a drop of 0.6% y/y, nsa for May), whereas the gap for Eastern Europe still stands at 7.1% y/y nsa.

Western European sales are moving in different directions. Major political instability continued to weigh on May auto purchases in the UK and Spain with drops of 4.6% and 7.3% y/y (nsa) respectively, and curiously less so in Italy with only a 1.1% y/y drop. France posted a modest boost (1.2% y/y), while German sales surged by 9.1% y/y (nsa) in spite of weak employment data for May and waning consumer confidence.

Looking ahead, any potential tailwinds from more dovish expectations with respect to ECB policy rates are likely to be eroded by heightened instability in several EU countries, uncertainty with respect to EU leadership, and global trade tensions. This suggests a fragile recovery for the EU, largely relying on German resilience. In light of a weaker outlook for Germany than anticipated earlier in the year, we forecast annual sales to remain flat for 2019 at 14.2 mn sales.

SOUTH AMERICA: BRAZIL BOOMING BUT LOOK OUT FOR THE SPEED-BUMP

Auto sales in Brazil continued to grow robustly by 20.1% y/y (nsa) in May. Year-to-date sales, at a healthy 8.8%, y/y nsa, have been bolstered by a strengthening economy, rising wages, and easing financial conditions. However, business confidence is showing signs of deterioration. Initially rooted in concerns around the government's contingent liabilities related to pension reform, uneasiness is becoming more broad-based. We expect this to weigh on auto sales for the remainder of the year, slowing the pace of growth.

Argentinian auto sales continue to plunge (63.1% y/y for May), weighing heavily on the region's outlook. Peru and Chile also faced declines of 10.5% y/y and 11.7% y/y respectively, while Colombia demonstrated a continued strengthening with growth at 11.7% y/y. Overall, we expect sales in the region to level in 2019 to decline modestly to a forecast of 3.6 mn units.

Table 1 — International Motor Vehicle Sales Outlook (mns units)

	2000–15	2016	2017	2018	2019f
Total Sales	54.9	77.3	79.0	78.6	77.0
North America*	17.9	21.0	20.7	20.6	20.1
Canada	1.62	1.95	2.04	1.98	1.94
United States	15.24	17.46	17.13	17.21	16.80
Mexico	0.99	1.60	1.53	1.42	1.36
Western Europe	13.7	14.0	14.3	14.2	14.2
Germany	3.2	3.4	3.4	3.4	3.4
Eastern Europe	3.1	3.1	3.4	3.4	3.1
Russia	1.9	1.4	1.6	1.8	1.8
Asia	17.1	36.1	37.1	36.8	36.0
China**	7.3	23.6	24.2	23.4	22.7
India	1.2	2.1	2.2	2.4	2.3
South America	3.2	3.1	3.5	3.7	3.6
Brazil	1.9	1.4	1.5	1.7	1.8

*Includes light trucks. **Includes crossover utility vehicles from 2005.

Sources: Scotiabank Economics, Ward's Automotive Reports, Bloomberg.

Table 2 — Canada & US Motor Vehicle Sales and Production Outlook

	2000–15	2016	2017	2018	2019 Jan-May	2019 fcst
	(thousands of units, annualised)					
Canada**	1,668	1,949	2,041	1,984	1,942	1,940
Cars	776	662	644	576	512	485
Domestic	490	439	438	378	352	333
Imports	286	223	206	197	160	152
Light trucks	892	1,287	1,397	1,408	1,430	1,455
	(millions of units, annualised)					
United States	14.40	17.50	17.10	17.21	16.76	16.80
Cars	6.90	6.90	6.10	5.30	4.95	4.50
Light trucks	7.50	10.60	11.00	11.91	11.81	12.30
	(millions of units, annualised)					
North American Production*	14.63	18.15	17.48	17.46	16.93	17.63
Canada	2.24	2.37	2.19	2.02	1.96	1.93
United States	9.80	12.18	11.23	11.32	11.01	11.50
Mexico	2.59	3.60	4.06	4.11	3.96	4.20

*Includes light, medium and heavy trucks. **Canadian sales are Scotiabank estimates.

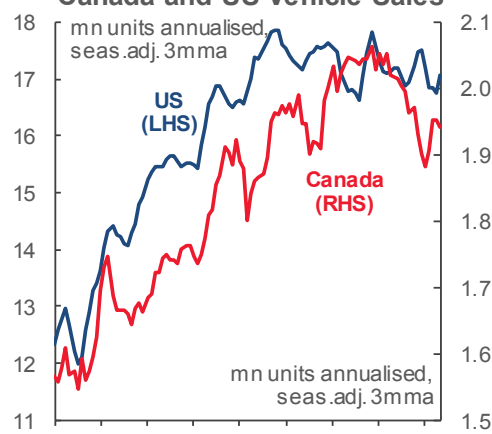
Sources: Ward's Automotive Reports, Statistics Canada.

Table 3 — Provinces Motor Vehicle Sales Outlook (mns units ann.)* **

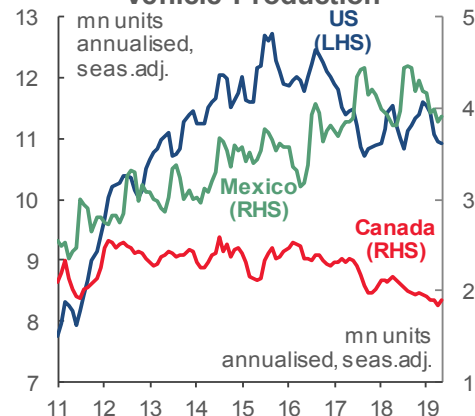
	2000–15	2016	2017	2018	2019f
Canada	1,668	1,948	2,040	1,984	1,940
Atlantic	125	140	143	125	124
Central	1,034	1,264	1,299	1,302	1,261
Quebec	411	458	462	449	432
Ontario	623	806	837	853	829
West	509	544	598	557	555
Manitoba	49	55	62	67	60
Saskatchewan	49	51	56	47	48
Alberta	232	220	245	226	221
British Columbia	179	218	235	217	226

*Includes cars and light trucks. **Scotiabank estimates.

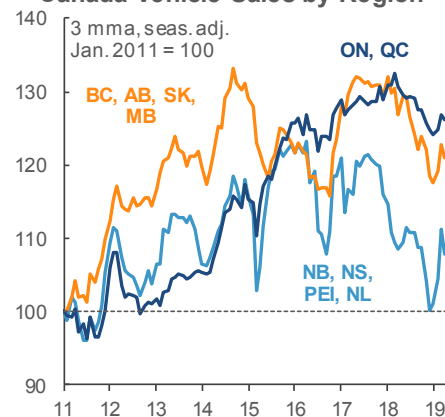
Sources: Statistics Canada, Canadian Vehicle Manufacturers' Association.

Chart A1
Canada and US Vehicle Sales


Sources: Scotiabank Economics, GAC, WardsAuto.

Chart A2
North American Vehicle Production


Sources: Scotiabank Economics, WardsAuto.

Chart A3
Canada Vehicle Sales by Region


Sources: Scotiabank Economics, Statistics Canada. One month lag in data.

Table 4 — Canadian Car Sales Share By Manufacturer (000s units)*

	2018 Jan to May		2019 Jan to May		2018 May		2019 May	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
Total Sales	54.5	100.0	49.4	100.0	68.7	100.0	57.0	100.0
Big Three	10.0	18.3	6.7	13.6	15.4	22.4	8.5	15.0
Fiat-Chrysler	1.2	2.2	1.1	2.2	2.2	3.3	1.0	1.7
Ford	3.1	5.6	2.4	4.8	4.6	6.7	2.9	5.2
General Motors	5.7	10.5	3.2	6.5	8.5	12.4	4.6	8.1
Japanese	22.8	41.9	17.3	35.0	24.7	36.0	22.7	39.9
Honda	7.8	14.4	6.4	12.9	8.0	11.7	7.5	13.2
Toyota	7.0	12.8	5.5	11.2	8.5	12.4	8.4	14.7
Nissan	3.7	6.7	2.3	4.6	2.7	4.0	2.5	4.3
Mazda	2.6	4.7	1.8	3.6	3.1	4.5	2.8	4.9
Mitsubishi	0.5	0.8	0.3	0.5	0.5	0.7	0.2	0.3
Subaru	1.3	2.4	1.0	2.0	1.8	2.6	1.4	2.5
European	8.6	15.8	7.6	15.4	11.6	16.8	10.5	18.5
BMW	1.7	3.1	1.4	2.8	2.2	3.2	2.2	3.8
Mercedes-Benz	1.8	3.3	1.4	2.8	2.1	3.1	1.6	2.9
Volkswagen Group	4.8	8.9	4.6	9.3	6.9	10.1	6.5	11.3
Volvo	0.1	0.2	0.2	0.4	0.2	0.2	0.2	0.4
Other	0.1	0.3	0.1	0.1	0.1	0.1	0.0	0.1
Rest of the world	13.1	24.0	17.8	36.0	17.0	24.7	15.2	26.6
Hyundai	4.8	8.9	4.5	9.1	6.4	9.4	6.3	11.0
KIA	2.9	5.4	2.8	5.8	3.7	5.4	3.6	6.3
All other	5.3	9.7	10.4	21.1	6.8	9.9	5.3	9.3

*Sources: Scotiabank Economics, Global Automakers of Canada.

Table 5 — Canadian Truck Sales Share By Manufacturer (000s units)*

	2018 Jan to May		2019 Jan to May		2018 May		2019 May	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
Total Truck Sales	121.2	100.0	121.4	100.0	150.2	100.0	150.1	100.0
Total Light Truck Sales	121.2	100.0	121.4	100.0	150.2	100.0	150.1	100.0
Big Three	65.7	54.2	63.5	52.3	82.3	54.8	79.5	52.9
Fiat-Chrysler	21.0	17.4	18.1	14.9	26.0	17.3	20.1	13.4
Ford	21.7	17.9	22.4	18.4	28.3	18.8	29.9	19.9
General Motors	19.7	16.3	19.5	16.1	24.3	16.2	25.5	17.0
Other Domestic	3.1	2.6	3.5	2.8	3.8	2.5	4.0	2.6
Japanese	37.0	30.5	38.1	31.4	44.4	29.6	46.3	30.8
Honda	8.5	7.0	8.6	7.1	10.3	6.8	11.0	7.3
Toyota	11.6	9.5	12.3	10.2	14.1	9.4	15.3	10.2
Nissan	8.4	6.9	9.0	7.4	9.8	6.5	11.3	7.6
Mazda	3.6	3.0	2.9	2.4	4.3	2.8	2.5	1.7
Mitsubishi	1.7	1.4	2.0	1.7	2.2	1.5	1.9	1.3
Subaru	3.2	2.6	3.2	2.6	3.8	2.5	4.3	2.8
European	10.7	8.8	10.3	8.5	12.1	8.0	11.6	7.7
BMW	2.1	1.7	2.2	1.8	2.5	1.7	2.3	1.6
Mercedes-Benz	2.6	2.1	2.2	1.8	2.9	1.9	2.4	1.6
Volkswagen Group	4.3	3.5	4.2	3.4	4.8	3.2	5.0	3.3
Volvo	0.6	0.5	0.6	0.5	0.8	0.5	0.7	0.5
Other	1.1	0.9	1.1	0.9	1.1	0.7	1.1	0.7
Rest of the world	7.9	6.5	9.5	7.8	11.4	7.6	12.8	8.5
Hyundai	4.8	3.9	5.9	4.9	7.5	5.0	8.1	5.4
KIA	2.8	2.3	3.2	2.6	3.6	2.4	4.3	2.9
All other	0.4	0.3	0.4	0.3	0.4	0.2	0.4	0.2

*Sources: Scotiabank Economics, Global Automakers of Canada.

Table 6 — Car Sales By Province (000s units)

	2018 Jan to Apr	2019 Jan to Apr	2018 Apr	2019 Apr
CANADA	123.39	104.97	57.45	49.23
ATLANTIC	7.26	6.29	3.95	3.24
Newfoundland and Labrador	1.46	1.16	0.59	0.60
Prince Edward Island	0.38	0.44	0.24	0.22
Nova Scotia	3.52	2.92	1.98	1.48
New Brunswick	1.91	1.77	1.13	0.94
CENTRAL	87.04	74.94	41.55	35.60
Quebec	33.93	27.92	16.75	14.54
Ontario	53.11	47.02	24.80	21.06
WEST	29.09	23.75	11.95	10.39
Manitoba	3.30	2.53	1.68	1.02
Saskatchewan	1.67	1.39	0.65	0.60
Alberta	9.01	7.04	3.83	3.68
British Columbia	15.11	12.79	5.79	5.09

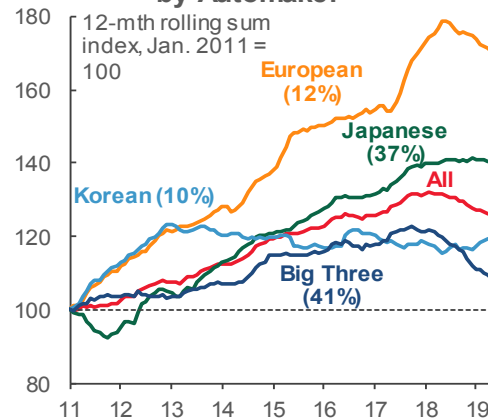
Source: Statistics Canada. One month lag in data.

Table 7 — Truck Sales By Province (000s units)*

	2018 Jan to Apr	2019 Jan to Apr	2018 Apr	2019 Apr
CANADA	451.24	451.46	130.34	136.17
ATLANTIC	25.38	26.72	3.95	9.17
Newfoundland and Labrador	4.41	4.76	0.59	2.22
Prince Edward Island	1.47	1.64	0.24	0.51
Nova Scotia	10.26	10.90	1.98	3.45
New Brunswick	9.25	9.42	1.13	2.99
CENTRAL	281.14	284.66	86.20	87.62
Quebec	92.52	94.00	30.05	29.77
Ontario	188.62	190.66	56.16	57.85
WEST	144.71	140.08	40.19	39.37
Manitoba	18.56	16.31	5.14	3.74
Saskatchewan	13.01	13.26	3.94	3.82
Alberta	62.21	60.14	16.43	17.56
British Columbia	50.94	50.38	14.68	14.24

*Light, medium and heavy trucks. Source: Statistics Canada. One month lag in data.

Chart A4

**Canada Vehicle Sales
by Automaker***


Sources: Scotiabank Economics, GAC.

*market share in parentheses.

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