

Global Auto Sales Post Another Weak Month

- Global auto sales faced another slow month in October with a 3.6% y/y (nsa)* drop for the fourteenth consecutive month of decline.
- Despite easing policy rates around the world, along with rumours of a potential US-China (partial) trade deal emerging in the middle of the month, there was little lift for global auto sales.
- Synchronized slowdowns occurred in three of the largest markets: US, China, and Japan. Admittedly idiosyncratic factors including the GM strike in the US and the October excise tax hike in Japan drove some of this weakness.
- On the other hand, most European markets witnessed positive year-over-year sales growth, but base effects from last Fall's regulatory changes account for much of the effect.
- The global sales rate pulled back by 5.0% m/m (sa) in October despite it being a traditionally higher sales season in most markets.

CANADIAN AUTO SALES DIP AGAIN IN OCTOBER

Canadian auto sales fell back modestly by 0.6% y/y (nsa) in October. Flat fleet sales provided little offset to a continued decline in retail performance. Base effects may be obscuring some modest strength in this month's sales figures as last October's sales stood out as the only (relatively) decent month in an otherwise very challenging Fall of 2018. This month's seasonally adjusted selling rate in fact picked up by 5.7% m/m (at a pace of 1.98 mn saar units) following September's weak sales month. Nevertheless, little can be read into the pick-up in the sales rate given its high month-to-month volatility.

Auto financing conditions presented mixed signals. Government bond yields remained elevated for most of October—and generally on par with September's peak—relative to the summer lows that spurred accelerating sales in those months. Nevertheless, yields still sat well-below last year's highs which should have provided a lift to year-over-year growth in auto sales. In fact, consumer credit growth (excluding HELOCs) in September posted an expansion of 7.9% m/m saar—the fastest pace since end-2015. As chances of an end-of-October policy rate cut looked increasingly remote as the month advanced, some wait-and-see customers may have been pulled into the market to provide a small boost to sales.

Market fundamentals otherwise remained durable. Unemployment figures and wage growth readings held steady at 5.5% and 4.3% respectively, though October's job growth missed market expectations with a loss in full-time jobs only partially offset by part-time job gains. Home sales were flat nationwide for October, ending a seven-month streak of increases, while aggregate prices rose by 1.8% y/y (nsa). The year-to-date auto sales rate sits at 1.94 mn saar units, in line with our 2019 sales forecast.

CONTACTS

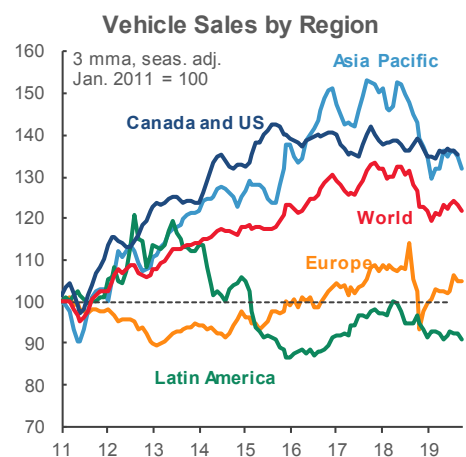
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Motor Vehicle Sales						
	Sept '19	Oct '19	Jan-Oct '19	Sept '19	Oct '19	Jan-Oct '19
	(y/y % change, NSA)			(m/m % change, SA)		
World	-2.8	-3.6	-5.6	1.4	-5.0	-5.8
North America						
Canada	-3.9	-0.6	-3.3	-6.3	5.7	-3.5
US	-11.3	-1.8	-1.2	1.0	-3.5	-1.6
Mexico	-12.3	-8.9	-7.7	-1.9	1.2	-7.7
South America						
Argentina	-37.0	-26.9	-47.0	-25.0	14.5	-46.9
Brazil	9.2	-1.4	7.6	7.2	0.7	8.0
Chile	-3.4	-24.5	-8.9	4.7	-7.3	-9.1
Colombia	5.4	11.7	8.1	-0.1	4.0	7.8
Peru	19.9	9.1	1.3	7.1	-2.6	1.5
Western Europe						
France	16.6	8.7	-0.3	-12.7	6.7	-0.7
Germany	22.2	12.7	3.4	-30.8	28.0	3.4
Italy	13.4	6.7	-1.0	-17.6	12.6	-0.7
Spain	18.3	6.3	-9.6	-3.9	6.8	-10.2
UK	1.3	-6.7	-2.9	-35.2	13.7	-2.9
Eastern Europe						
Russia	-0.2	-5.2	-2.4	-0.6	-2.5	-2.3
Turkey	47.5	79.2	-36.1	56.5	-14.8	-37.3
Asia Pacific						
Australia	-6.8	-8.7	-7.7	-2.8	-1.2	-7.6
China	-6.3	-5.8	-10.9	-3.3	-1.4	-10.9
India	-23.6	-1.2	-13.4	0.7	25.4	-13.6
Japan	12.9	-24.9	0.5	3.1	-26.7	0.5
Korea	-11.7	-15.9	-8.3	0.1	-0.5	-8.4

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

Chart 1



Sources: Scotiabank Economics, national automotive associations.

*All numbers reported are not seasonally adjusted (nsa), unless otherwise indicated (sa).

Consumer confidence dipped modestly in October but levels overall remain healthy. Federal election uncertainty may have fueled the dip, along with trade uncertainty that only modestly abated later in the month.

Luxury auto brands benefited from a third consecutive month of positive—albeit modest—sales following a steep retrenchment beginning in mid-2018. Luxury brand auto sales grew by 1.8% y/y in October, improving slightly year-to-date performance that is down 7.8% y/y. There are likely low base effects coming into play following fourteen months of decline though sales are also likely benefiting from wealth effects with the recovery in key housing markets (i.e., GTA, GVA). Nevertheless, it is too early to declare a reversal in the longer term decline, explored more fully [here](#).

Auto sales diverged across regions in October. Central Canada and Atlantic Canada saw auto sales gains of about 2.6% and 3.8% y/y respectively. Whereas Central Canadian auto sales was underpinned by stronger economic foundations with commensurate sales growth in both of its major economies, Atlantic Canada's auto sales growth continues to reflect last year's slowdown. All Western Canadian provinces posted drops averaging 7.5% y/y.

GM STRIKES WEIGH ON OCTOBER AUTO SALES IN THE UNITED STATES

US auto sales posted another decline of 1.8% y/y (nsa) in October. This follows last month's sharp pullback of 11.3% y/y (nsa) with year-to-date sales down by 1.2% (nsa), rounding out a disappointing sales season. On a seasonally adjusted basis, the monthly selling rate also weakened by 3.4% m/m (at a rate of 16.55 mn saar units).

The GM strike likely impacted the final tally. GM's US sales were down by almost 14% y/y (nsa) in October, a far steeper retrenchment relative to its year-to-date sales performance sitting at -1.5%. According to the company, the 40-day strike resulted in an estimated 300,000 GM vehicles in lost production including high-demand full-size SUVs and pickup trucks. Some loyal customers likely deferred purchases in October as inventories were depleted. Some of this should support stronger sales in November with the resolution of the workers' action in the latter part of October.

Trade uncertainty in October arguably provided more 'up' than 'down' on its rollercoaster ride. President Trump announced the makings of a "substantial phase one deal" between the US and China on October 11th and delayed a fresh round of tariffs that were to come into effect on October 15th. Days later the US Trade Representative announced a new round of tariff exclusions for certain Chinese products affected by earlier tariffs. Optimism jumped around the potential deal to be formalised on the margins of the (subsequently cancelled) November APEC meeting. Noise continues to remain generally positive around an interim deal potentially to be announced after the American Thanksgiving but it takes little to derail even modest progress on the trade front.

The Federal Reserve cut its policy rate for a third time at the end of October. Cumulative cuts now amount to 75 basis points since easing began in July to counteract persistently soft core inflation, stalling trade and business investment, and waning business confidence in light of heightened uncertainty and the global slowdown. This cut was already largely priced into markets so it is unlikely to provide much additional stimulus to November's auto purchases.

Indicators of consumption proved resilient in October. Job growth beat expectations, while wages accelerated at a solid 3%. Unemployment notched up slightly to a still record-low of 3.6%, reflecting in part the GM strike, as well as the re-entry of more Americans into the labour market. Retail spending also ticked up modestly higher by 0.3%, largely lifted by automotive and gasoline purchases, while housing starts picked up by 3.8% m/m (sa) in October. The US Conference Board nudged consumer confidence modestly lower for October, but levels remain elevated, while the University of Michigan revised higher its October and November readings of consumer sentiment. Nevertheless, vehicle purchase intentions have posted small declines in the past few months.

The year-to-date sales rate stands at 16.9 mn saar units. We expect a modest pick-up to close out the year at 17.0 mn units.

MEXICAN AUTO SALES SLUMP STEEPENS IN OCTOBER

Mexican auto sales slid by 8.9% y/y in October bringing year-to-date sales down by 7.7% y/y. The Mexican economy is now in a technical recession following recent official data revisions, with some observers now calling for flat growth in 2019. The government subsequently announced an ambitious US\$43bn infrastructure investment plan including US\$22bn next year. It aims to lift GDP growth to 4% under the plan, which will be financed in part through private sector partnerships. While investment is much needed in Mexico, its actual economic impact remains to be seen with few details on its execution, its implications for Pemex (the proposal includes building a new state-owned refinery), or its potential impact on Mexico's budgetary balance. Needless to say, auto sales will continue to face headwinds in the interim.

A SYNCHRONIZED SLOWDOWN IN AUTO SALES ACROSS ASIA-PACIFIC

All major Asia-Pacific economies posted declines in auto sales in October. Japan witnessed the largest decline of 24.9% y/y as a result of a pull-forward of auto purchases in September before the 2% sales tax hike came into effect on October 1st. Sales are otherwise expected to be largely flat as the year closes. The steep auto sales decline continued in China with a drop of 5.8% y/y. This is a relatively more modest drop in the sixteen-month slide with year-to-date sales down by 10.9% y/y. India felt a reprieve from its prolonged and steep retrenchment in sales with a more modest drop of 1.2% in October. However, this is likely a transitory bump from its festival season, against an otherwise slowing economy with vulnerabilities where year-to-date auto sales are down by 13.4% y/y.

EUROPEAN AUTO SALES CONTINUE TO REBOUND FROM REGULATORY CHANGES

European economies saw a near-universal boost to October sales with the exception of the UK. Western European sales were up by 10.5% y/y following last month's surge of 19.9% y/y. Regulatory changes around tighter emissions standards introduced in September of 2018 put a halt on last Fall's sales across the region. Most economies continue to recover from the impact. In fact, Germany is the only major regional economy that sits in positive year-over-year growth territory at 3.4% on a year-to-date basis. With the EU cutting its growth outlook to the weakest since its sovereign debt crisis earlier in November, auto sales across the region will continue to face headwinds despite further easing of monetary conditions and low unemployment in the region.

Eastern European auto sales enjoyed a similarly positive sales month with growth of 6.8% y/y though driven largely by a dramatic turn-around in Turkish auto sales. Turkish auto sales increased by a substantial 79.2% y/y in October, following September's 47.5% y/y boost. The Turkish economy continues to recover, aided by a front-loading of policy rate cuts (a full 2.5 percentage point cut in October), along with the lifting of US economic sanctions. Russian auto sales, which typically dominate the headline numbers, continue to slide with another 5.2% drop in October bringing the year-to-date retrenchment to 2.4% y/y.

DIVERGENCE IN AUTO SALES PERFORMANCE ACROSS SOUTH AMERICA

Regional sales dropped by 5.4% y/y as a modest dip in Brazilian auto sales was amplified by steep declines in Argentina and Chile. Brazilian auto sales posted a 1.2% y/y decline in October against what has otherwise been a strong year for the Brazilian auto sector with sales up 7.6% ytd. The recent slide in Brazil's currency could put pressure on policy rates which would dampen sales growth, an effect that would be further exacerbated if reforms wane. Argentina's auto sales were down by 26.9% y/y following a year and a half of average monthly drops of about 40% y/y. The election of leftist President Fernández in October will fuel continued uncertainty as his approach to bondholders and the IMF is revealed. Political uncertainty in Chile also drove a steep decline in its auto sales of 24.5% y/y as protests erupted in mid-October, compounding what has already been a slow year for auto sales which are down by 8.9% y/y on year-to-date. Plans for constitutional reform have modestly boosted market confidence but a referendum will only take place next year.

Colombia and Peru otherwise continue to be strong performers. Colombia posted a healthy 11.7% y/y growth in auto sales, while Peruvian sales increased by 9.1% y/y. Solid fundamentals, namely consumer strength bolstered by easier monetary conditions, should continue to offset a slowing growth environment in both economies, as well as some political uncertainty in Peru around elections in the new year.

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

	2000–15	2016	2017	2018	2019f
Total Sales	54.9	77.6	79.3	79.0	75.3
North America*	17.9	21.0	20.7	20.6	20.2
Canada	1.62	1.95	2.04	1.98	1.94
United States	15.2	17.5	17.1	17.2	17.0
Mexico	1.0	1.6	1.5	1.4	1.3
Western Europe	13.7	14.0	14.3	14.2	14.0
Germany	3.2	3.4	3.4	3.4	3.4
Eastern Europe	3.1	3.1	3.4	3.4	2.9
Russia	1.9	1.4	1.6	1.8	1.7
Asia	17.1	36.1	37.1	36.8	34.0
China**	7.3	23.6	24.2	23.4	22.0
India	1.2	2.1	2.2	2.4	2.3
South America	3.2	3.4	3.8	4.0	4.2
Brazil	1.9	2.0	2.2	2.5	2.7

*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

	2000–17	2018	2019 Jan-Oct**	2019 fcst	2020f	2021f
			(thousands of units, annualised)			
Canada**	1,704	1,983	1,938	1,940	1,915	1,915
Cars	762	575	502	504	460	440
Domestic	484	377	320	321	293	281
Imports	278	198	182	183	167	160
Light trucks	942	1,407	1,436	1,436	1,455	1,475
			(millions of units, annualised)			
United States	14.7	17.2	18.3	17.0	16.9	17.0
Cars	6.9	5.1	6.1	4.6	4.2	4.1
Light trucks	7.9	12.1	12.2	12.4	12.7	12.9
			(millions of units, annualised)			
North American Production*	15.0	17.5	16.7	16.8	17.2	17.4
Canada	2.2	2.0	1.9	1.9	1.8	1.7
United States	10.0	11.3	10.9	10.9	11.5	11.6
Mexico	2.7	4.1	3.9	4.0	4.0	4.1

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

Sources: Ward's Automotive Reports, Statistics Canada, DesRosiers Automotive Consultants Inc.

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

	2000–15	2016	2017	2018	2019f	2020f	2021f
Canada	1,668	1,948	2,040	1,984	1,940	1,915	1,915
Atlantic	125	140	143	125	130	121	116
Central	1,034	1,264	1,299	1,302	1,258	1,240	1,240
Quebec	411	458	462	449	448	435	435
Ontario	623	806	837	853	810	805	805
West	509	544	598	557	547	554	559
Manitoba	49	55	62	67	60	58	58
Saskatchewan	49	51	56	47	49	50	51
Alberta	232	220	245	226	223	227	231
British Columbia	179	218	235	217	215	219	219

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

Sources: Statistics Canada, Canadian Vehicle Manufacturers' Association.

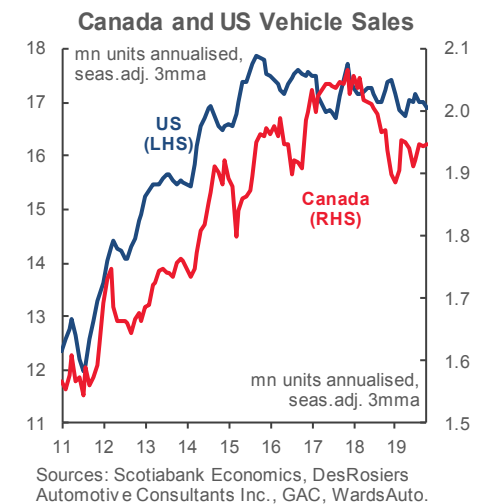
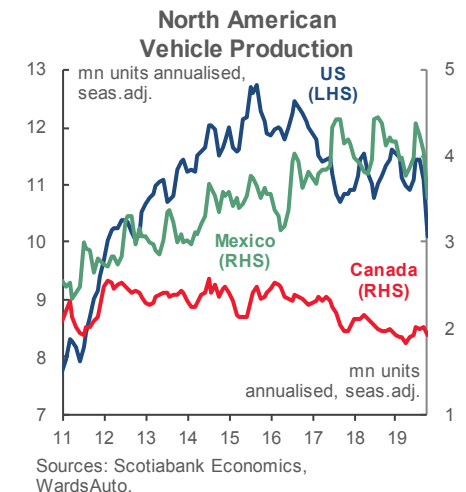
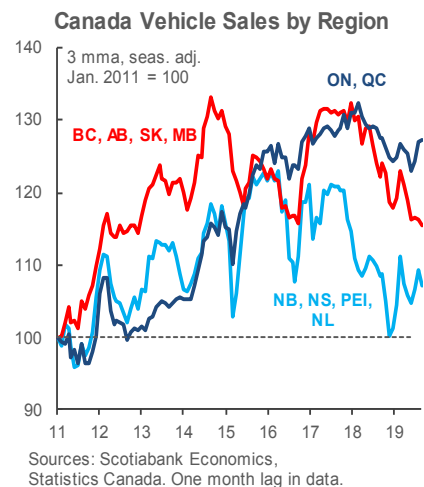
Chart A1

Chart A2

Chart A3


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

	2018 Jan to Oct		2019 Jan to Oct		2018 Oct		2019 Oct	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
Total Sales	57.0	100.0	50.8	100.0	45.3	100.0	41.3	100.0
Big Three	9.2	16.2	6.9	13.6	6.2	13.7	6.5	15.7
Fiat-Chrysler	1.1	2.0	0.9	1.9	0.8	1.7	0.6	1.5
Ford	2.8	4.9	2.1	4.2	1.3	2.9	1.9	4.6
General Motors	5.3	9.3	3.8	7.5	4.1	9.1	3.9	9.6
Japanese	23.9	42.0	17.3	34.0	24.7	54.7	22.7	55.1
Honda	8.3	14.5	6.4	12.6	8.0	17.8	7.5	18.2
Toyota	7.5	13.1	5.5	10.9	8.5	18.9	8.4	20.2
Nissan	3.6	6.4	2.3	4.5	2.7	6.1	2.5	6.0
Mazda	2.7	4.7	1.8	3.5	3.1	6.9	2.8	6.8
Mitsubishi	0.4	0.7	0.3	0.5	0.5	1.1	0.2	0.4
Subaru	1.4	2.5	1.0	2.0	1.8	4.0	1.4	3.4
European	9.1	15.9	7.9	15.6	8.3	18.4	8.3	20.2
BMW	1.8	3.1	1.4	2.8	1.6	3.6	1.3	3.1
Mercedes-Benz	1.7	3.0	1.5	2.9	1.5	3.4	1.7	4.0
Volkswagen Group	5.3	9.3	4.8	9.5	4.9	10.8	5.2	12.7
Volvo	0.2	0.3	0.2	0.4	0.2	0.5	0.1	0.3
Other	0.1	0.2	0.1	0.1	0.1	0.1	0.0	0.1
Rest of the world	14.8	25.9	18.7	36.7	6.0	13.2	3.7	9.0
Hyundai	5.4	9.5	4.9	9.6	5.0	11.1	4.6	11.1
KIA	3.2	5.6	3.1	6.1	2.9	6.5	2.9	6.9
All other	6.2	10.8	10.7	21.0	-2.0	-4.5	-3.7	-9.0

*Sources: Scotiabank Economics, Global Automakers of Canada, DesRosiers Automotive Consultants Inc.

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

	2018 Jan to Oct		2019 Jan to Oct		2018 Oct		2019 Oct	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
Total Truck Sales	124.4	100.0	125.5	100.0	118.4	100.0	121.5	100.0
Total Light Truck Sales	124.4	100.0	125.5	100.0	118.4	100.0	121.5	100.0
Big Three	66.2	53.3	64.6	51.4	57.0	48.2	56.1	46.2
Fiat-Chrysler	18.9	15.2	18.3	14.6	13.9	11.7	15.2	12.5
Ford	23.2	18.7	23.2	18.5	20.1	17.0	19.3	15.9
General Motors	20.3	16.3	19.6	15.7	19.3	16.3	17.7	14.5
Other Domestic	3.8	3.1	3.5	2.8	3.8	3.2	4.0	3.3
Japanese	39.3	31.6	40.8	32.5	40.8	34.5	43.3	35.6
Honda	8.8	7.1	9.2	7.4	8.5	7.2	10.2	8.4
Toyota	12.2	9.8	13.1	10.4	13.7	11.6	13.7	11.3
Nissan	9.2	7.4	9.3	7.4	9.2	7.8	8.8	7.3
Mazda	3.8	3.0	3.7	2.9	3.6	3.0	4.2	3.5
Mitsubishi	1.8	1.4	2.0	1.6	1.6	1.4	2.0	1.6
Subaru	3.5	2.8	3.5	2.8	4.2	3.5	4.3	3.6
European	11.1	9.0	11.1	8.8	12.6	10.6	12.7	10.5
BMW	2.1	1.7	2.2	1.8	2.3	1.9	2.4	1.9
Mercedes-Benz	2.5	2.0	2.4	1.9	2.5	2.1	2.6	2.2
Volkswagen Group	4.8	3.8	4.7	3.7	6.1	5.1	5.9	4.8
Volvo	0.6	0.5	0.7	0.5	0.6	0.5	0.7	0.5
Other	1.1	0.9	1.1	0.9	1.1	1.0	1.2	1.0
Rest of the world	7.7	6.2	9.0	7.2	7.9	6.7	9.4	7.7
Hyundai	5.8	4.7	6.7	5.4	6.5	5.5	7.2	5.9
KIA	3.1	2.5	3.5	2.8	2.7	2.3	3.4	2.8
All other	-1.2	-1.0	-1.2	-1.0	-1.2	-1.1	-1.2	-1.0

*Sources: Scotiabank Economics, Global Automakers of Canada, DesRosiers Automotive Consultants Inc.

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

	2018 Jan to Sept	2019 Jan to Sept*	2018 Sept	2019 Sept*
CANADA	465.75	387.84	50.05	39.15
ATLANTIC	31.65	25.83	3.26	2.52
Newfoundland and Labrador	6.34	5.04	0.64	0.51
Prince Edward Island	1.95	1.83	0.24	0.15
Nova Scotia	14.51	11.65	1.36	1.17
New Brunswick	8.85	7.31	1.01	0.69
CENTRAL	335.55	281.56	36.28	28.98
Quebec	133.09	112.02	14.67	11.38
Ontario	202.45	169.54	21.61	17.60
WEST	98.55	80.45	10.51	7.65
Manitoba	12.30	7.89	1.73	0.79
Saskatchewan	5.66	4.90	0.59	0.48
Alberta	30.75	25.51	3.26	2.42
British Columbia	49.84	42.16	4.93	3.96

Source: Statistics Canada. *One month lag in data.

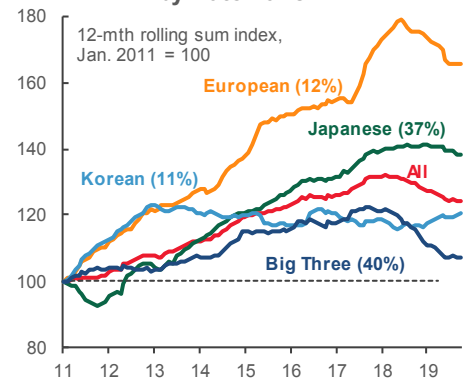
Table 7 — Truck Sales By Province (000s units)*

	2018 Jan to Sept	2019 Jan to Sept**	2018 Sept	2019 Sept**
CANADA	1,137.05	1,150.01	123.56	130.82
ATLANTIC	75.11	78.48	3.26	8.94
Newfoundland and Labrador	18.19	19.46	0.64	2.34
Prince Edward Island	4.29	4.55	0.24	0.52
Nova Scotia	28.37	29.23	1.36	3.22
New Brunswick	24.26	25.24	1.01	2.87
CENTRAL	705.51	729.68	79.32	83.32
Quebec	230.04	241.47	25.77	27.42
Ontario	475.47	488.21	53.55	55.90
WEST	356.44	341.85	40.98	38.56
Manitoba	42.89	37.42	4.67	4.21
Saskatchewan	33.25	33.20	3.99	3.88
Alberta	154.61	149.45	18.12	16.88
British Columbia	125.68	121.78	14.20	13.59

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

Chart A4

**Canada Vehicle Sales
by Automaker***



Sources: Scotiabank Economics, DesRosiers Automotive Consultants Inc., GAC,
*market share in parentheses.

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