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Sport Utility Vehicles: Driving Change

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Sport Utility Vehicles: Driving Change

Erik Magnusson
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Summary

Drivers appear to love them and manufacturers are responding: there are a lot more sport utility vehicles on the road these days and more of them are being produced in Canada.

In fact, since 1999, SUV production in Canada has increased dramatically, even though overall automotive manufacturing has stalled. During 2004, SUV production surpassed the output of both minivans and pickup trucks in Canada.

For the period of January to September 2004, SUVs accounted for 18% of total light-duty vehicle manufacturing, which assembles passenger cars, vans, minivans, pickup trucks and SUVs. This was nine times the proportion of only 2% just five years earlier.

Through the first nine months of 2004, automotive manufacturers in Canada churned out 350,000 SUVs. This surpassed the total of 331,634 SUVs that they produced in the entire year of 2003.

What it means is that the Canadian automotive industry is benefiting from one of the largest and fastest growing market segments in North America. The nation is also reaping economic benefits, as the motor vehicle industry accounted for nearly 13% of the total manufacturing sales in 2002. Ontario motor vehicle makers alone employed more than 42,000 workers in 2002, or 4.7% of the province's employment in manufacturing.

Despite recent record high prices for crude oil, which began climbing in late 2002, North American consumers have had a big appetite for SUVs which tend to be less economical on gas consumption than passenger cars. Sales reached all-time highs in both Canada and the United States in 2003.

In 2003, US consumers bought 4.5 million SUVs, the equivalent of one SUV for every four vehicles sold. This market has increased by 8.9% a year on average since 1999 when SUVs held 19% of the light-duty vehicle market.

The Canadian market for SUVs has also grown, but sales remain relatively lower than in the United States. In 2003, dealers sold 272,000 SUVs here, which comprised 17% of all light-duty vehicle sales in Canada that year, up from 12% in 1999. Sales were up 10.7% a year on average during this period.

This occurred despite warnings from environmental groups, which claim that sport utility vehicles guzzle more gas and pollute more than cars.

Sales in the United States remained strong in 2004 in spite of continued increases in gasoline prices. During the first nine months of the year, sales of light trucks jumped 4.3% in the United States compared to the same period in 2003. A little more than half of light trucks sold in this market are SUVs. But in Canada, SUV sales have declined 7.3%, as overall automotive sales slumped.

This study examines production and sales trends in Automotive and Light-Duty Motor Vehicle Manufacturing in Canada and the United States from 1999 to 2004. It focuses on production and sales of sport utility vehicles.

Definitions

Motor Vehicle Manufacturing (NAICS 3361) includes Automobile and Light-Duty Motor Vehicle Manufacturing (NAICS 33611) and Heavy-Duty Truck Manufacturing (NAICS 33612).

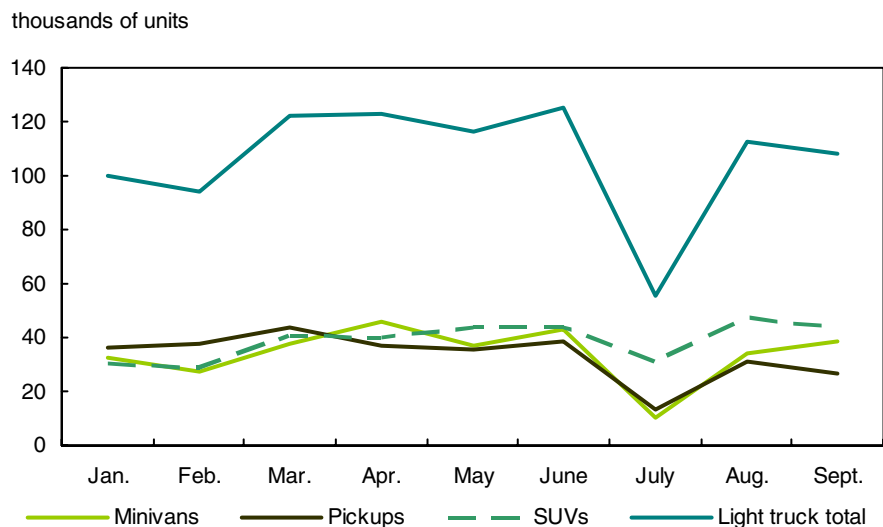
Light-duty vehicle manufacturing—Automobile and Light-Duty Motor Vehicle Manufacturing (NAICS 33611)—comprises establishments primarily engaged in manufacturing passenger cars and light trucks. The light truck category includes vans, minivans, pickup trucks and sport utility vehicles.

SUVs outpace minivans, pickups

Beginning in May 2004, SUVs surpassed minivans and pickup trucks to become the largest segment of light truck production. Sport utility vehicles now comprise a much larger share of Canadian light-duty vehicle manufacturing. Over the first nine months of 2004, SUVs accounted for almost 18% of this manufacturing production, compared with just over 2% in 1999.

SUV production amounted to 66,000 vehicles in 1999. Production exploded to more than 350,000 vehicles during the first nine months of 2004.¹ January-to-September SUV production has already surpassed 2003 year end totals (331,634), making 2004 the top year ever for SUV production.

Canadian light truck production by segment, January to September 2004



Source: DesRosiers Automotive Consultants, 2004, DesRosiers Automotive Reports, Vol. 18, No. 1-20, Richmond Hill: Dennis DesRosiers.

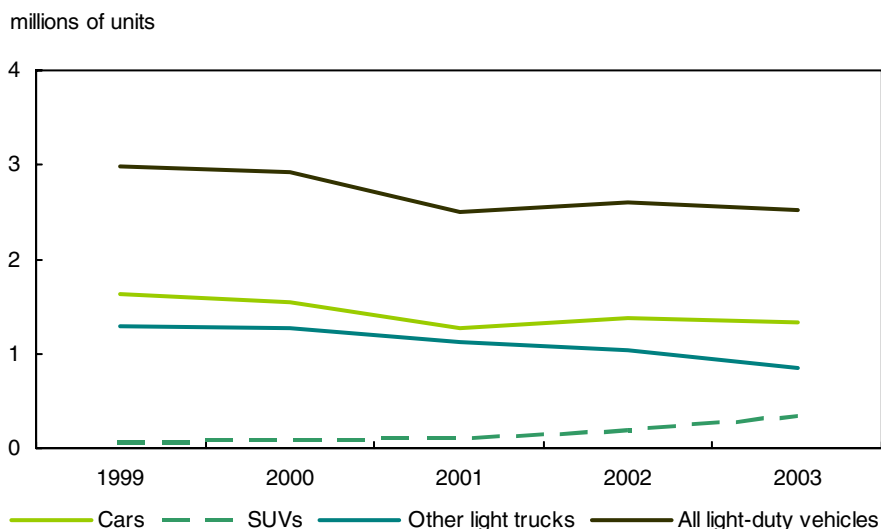
1. 2004 year-to-date totals may be revised by DesRosiers Automotive Reports. The numbers presented here are the sum of published monthly light-duty vehicle production numbers.

Prior to 2000, only two compact SUV models were produced at Canadian assembly plants. Manufacturers have since added a number of new models to the assembly lines, including two models brought into production in 2004.

Total light-duty vehicle production has declined in recent years, as both passenger car and light truck production has slowed. The number of vehicles assembled annually in Canada has dropped from 1999 and 2000 levels and production has remained flat from 2001 to 2003.

Light-duty vehicle production for the first nine months of 2004 was slightly ahead of 2003 for the same period, and Canadian light-duty vehicle manufacturing appears to be on pace for levels of production similar to recent years.

Canadian light-duty vehicle production, 1999 to 2003



Source: DesRosiers Automotive Consultants, 2004, DesRosiers Automotive Yearbook 2004, Edition Richmond Hill: Dennis DesRosiers.

The value of shipments by light-duty vehicle manufacturers in Canada has declined since 2000 when shipments peaked at \$70.8 billion. They also topped the \$70 billion mark in 1999 and 2002.

In 2003, shipments dropped to \$65.6 billion, down 6.8% from 1999. Through the first nine months of 2004, shipments were 3.3% higher than the same period in 2003.

Canadian light-duty vehicle manufacturing shipments, 1999 to 2003



Source: Statistics Canada, CANSIM table 304-0014.

Motor Vehicle Manufacturing a key industry

Motor Vehicle Manufacturing is a key industry for the Canadian economy. In 2002, motor vehicle manufacturing accounted for more than 13% of all sales of manufactured goods in Canada, employed over 47,000 people and paid \$3.3 billion in salaries and wages.

Selected indicators, Total, Motor Vehicle and Automobile and Light-Duty Motor Vehicle Manufacturing, Canada and Ontario, 2001 or 2002

	Total Manufacturing	Motor Vehicles	Automobile and Light- Duty Motor Vehicles	Motor Vehicles share
	millions of dollars			%
Canada				
Sales (2002)	550,244	72,766	68,905	13.2
Salaries and wages (2002)	81,372	3,296	2,979	4.1
GDP (2001)	178,585	11,977	.	6.7
Employees (2002, Persons)	1,958,850	47,495	40,874	2.4
Ontario				
Sales (2002)	292,259	69,883	x	23.9
Salaries and wages (2002)	41,588	3,052	x	7.3
GDP (2001)	90,320	11,506	.	12.7
Employees (2002, Persons)	894,255	42,430	x	4.7

. not available for any reference period.

x suppressed to meet the confidentiality requirements of the *Statistics Act*.

Source: Statistics Canada, Cansim tables 301-0003, 379-0023, 379-0025.

The industry also drives significant activity in other related industries, such as the automotive parts industry. The industry's impact is greatest in Ontario, where Motor Vehicle Manufacturing is concentrated. The industry is a vital sector of Ontario's economy. Motor Vehicle Manufacturing employs more than 42,000 people and represents almost 24% of all sales of manufactured goods in Ontario.

According to the input/output model for the Canadian economy, every dollar of output from the motor vehicle industry directly generates 16 cents of gross domestic product (GDP) in Ontario. Including indirect effects, the motor vehicle industry generates 33 cents of GDP for each dollar of output in Ontario.

In terms of impact on employment, one million dollars of additional output from the motor vehicle industry has the effect of generating 2.86 jobs in Ontario, directly and indirectly. With shipments in the \$70 billion range annually, the industry's direct and indirect impacts on the Ontario economy are substantial: \$23 billion of GDP and more than 200,000 jobs.

The following table provides details on the location of all Canadian light-duty vehicle assembly plants, as well as the SUV models produced.

Location of Canadian assembly plants and SUV models produced in these plants

Company	Location	SUV models	SUV segment
Toyota	Cambridge	Lexus RX330	luxury
Honda	Alliston	Acura MDX	luxury
		Honda Pilot	intermediate
CAMI	Ingersoll	Chevrolet Equinox	compact
DaimlerChrysler	Windsor	Chrysler Pacifica	luxury
	Brampton	none	none
Ford	Oakville	none	none
	St. Thomas	none	none
General Motors	Oshawa	none	none
Source: DesRosiers Automotive Reports, 2004.			

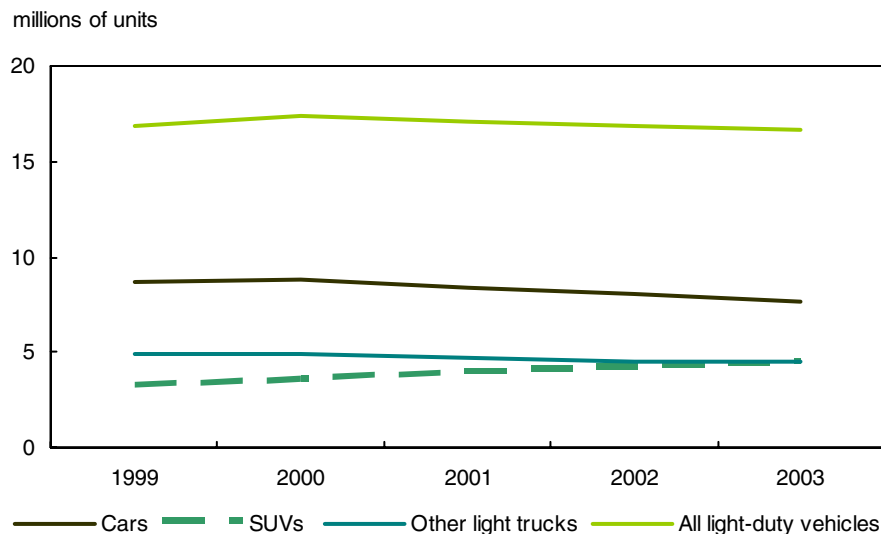
SUVs gaining in popularity

The popularity of SUVs has grown steadily in recent years, particularly in the United States. Sport utility vehicles outsold all other light trucks combined in the United States last year. A little more than half of light trucks sold in this market (50.2%) were SUVs.

More than one in every four (27%) vehicles sold in the United States in 2003 was a SUV, up substantially from the market share of 19% in 1999. During 2003, 4.5 million SUVs were sold in the United States.

With the United States being the dominant market in North America—87% of all light-duty vehicle sales in North America occurred there in 2003—consumer preferences south of the border have a significant impact on auto manufacturing in Canada.

US light-duty vehicle sales, 1999 to 2003



Source: DesRosiers Automotive Consultants, 2004, DesRosiers Automotive Yearbook 2004, Edition Richmond Hill: Dennis DesRosiers.

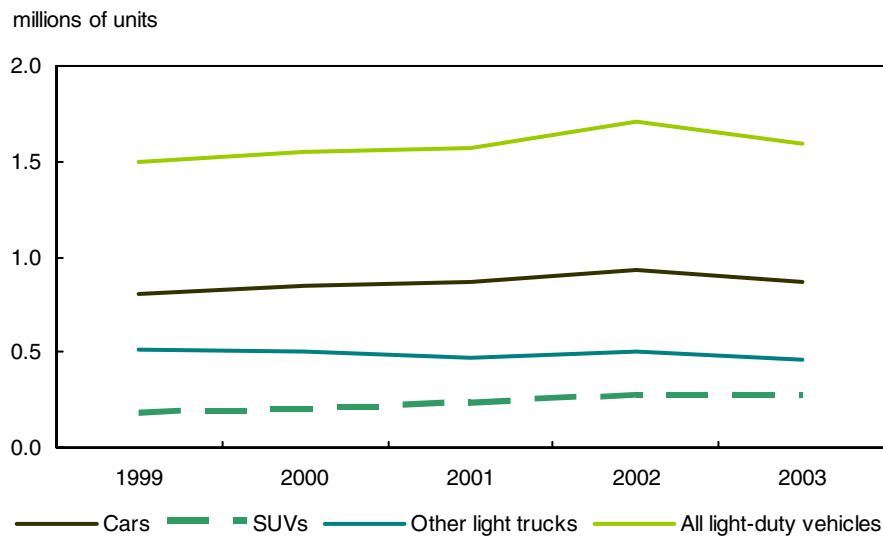
In comparison, the Canadian market share for SUVs has also grown, but remains a smaller segment in a much smaller market than in the United States. Sport utility vehicles made up 17% of light-duty vehicle sales in Canada in 2003, up from 12% in 1999. In 2003, about 272,000 SUVs were sold in Canada.

Crude oil prices began to increase in late 2002 and have continued to rise in 2004.² Despite rising fuel costs and the SUV's reputation for being gas guzzlers, sales of SUVs grew to reach all-time highs in Canada and the United States in 2003.

Sales remain strong in the United States as light truck sales—about half of which are SUVs—increased 4.3% in the period between January and September 2004 compared with the same nine-month period in 2003. In Canada, SUV sales have declined 7.3% relative to the same period last year, as overall Canadian automotive sales have fallen in 2004.

2. See Radu Chiru, 2004, "The Soaring Loonie and Prices: Lower Inflation for Consumers?", *Analysis in Brief*, Statistics Canada Catalogue no. 11-621-MIE2004014.

Canadian light-duty vehicle sales, 1999 to 2003



Source: DesRosiers Automotive Consultants, 2004, DesRosiers Automotive Yearbook 2004, Edition Richmond Hill: Dennis DesRosiers.

Several factors have likely contributed to the popularity of SUVs. These include:

Sport utility vehicles are perceived to offer a broad range of capabilities: performance, power, cargo room, functionality, better sightlines, safety and luxury. As a result, SUVs appeal to a wide spectrum of drivers.

Image is also very important to some drivers when choosing a vehicle. Whether the image is sporty, big or luxury, light-duty vehicle manufacturers make SUVs that can fit the bill.

Several SUV models are now built on car platforms and handle more like cars than vans or trucks. Combining a car-like drive and styling, along with van or truck-like cargo capacity makes SUVs an attractive alternative for some consumers. Since many drivers do not use SUVs for off-road driving, vehicle offerings in this segment have evolved from the more rugged early models. Sport utility vehicles now meet the needs of numerous former car, truck and minivan drivers, but in a different package.

In addition, another possible key factor in the growing demand for SUVs is growth in disposable income in both Canada and the United States. Between 1999 and 2003, per capita personal disposable income increased 15% in Canada and 17% in the United States.³ This means consumers may have more money to spend on expensive vehicles such as SUVs. Recently, automotive companies have also offered increased retail incentives, helping to boost demand. The largest increase in incentives has been for the larger models.⁴

3. Sources: Statistics Canada, CANSIM tables 384-0012 and 051-0001, accessed on January 25, 2005 and Bureau of Economic Analysis, National Income and Product Accounts Table, Table 2.1 Personal Income and Its Disposition www.bea.doc.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=58&FirstYear=2002&LastYear=2004&Freq=Qtr, accessed on December 22, 2004.

4. Edmunds.com, 2004, *True Cost of Incentives: SUV Incentives Soar as Market Share Shifts to More Fuel-Efficient Vehicles*, June 10, www.edmunds.com/help/about/press/102223/article.html, accessed on November 19, 2004.