



# Canada: Automotive Aftermarket Parts & Accessories, & Service Equipment

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## Summary

The Automotive Aftermarket sector is the largest retail sector in Canada ahead of clothing, food, furniture, and pharmaceuticals. The aftermarket encompasses production, re-manufacturing, distribution and retailing of replacement parts, tools, equipment, accessories, chemicals and services used to repair and replace automotive parts and components after their initial production. Using the NAICS codes, Statistics Canada estimates the retail value of the automotive aftermarket at US\$19.9 billion 2007. The province of Ontario hosts the largest automotive aftermarket at more than \$9.7 billion, followed by Quebec with over \$4.9 billion, the Prairie Provinces at over \$4.7 billion, British Columbia at over \$3.3 billion, and the Atlantic Provinces with over \$1.53 billion. Despite a slight drop in demand in 2006 and early 2007, revenues continued to improve during the lull showing profits of \$1.3 billion in 2006. Demand rebounded through the third quarter of 2007, where revenues accrued profits of roughly \$2.1 billion. The industry forecast for 2008 expects the Automotive Aftermarket market will experience an average annual real growth rate of 2 percent, which will engender a more consistent quarterly profit increase throughout the year.

The automotive aftermarket includes: plastic parts (NAICS 316193), rubber and plastic hose and belting (NAICS 326220), engines and assemblies (NAICS 336310), steering and suspension components (NAICS 336330), brake systems (NAICS 336340), transmission and power train parts (NAICS 336350), seating and interior (NAICS 336360), and audio and video equipment (NAICS 334310).

## Market Demand

Overall, demand in Canada's automotive aftermarket industry will improve in 2008. The upturn is predicated on the continuation of long standing market trends, as well as the emergence of new market segments. At present, only 11 percent of Canada's automotive fleet is in their first year of use, which means 89 percent of the vehicles on Canadian roads fall under the purview of the automotive aftermarket. What's more, 43 percent of vehicles are 15 years or older, which will continue to drive the aftermarket parts and accessories industries. According to DesRosiers Automotive Consultants Inc, the proportion of older vehicles on the road will continue to grow in the coming years as vehicle retention increases among consumers. Likewise, recent data point to an increase in mechanically installed (MI) and Do-It-Yourself (DIY) purchases and repairs, which are also profiting from Canada's aging fleet.

At the same time, Original Equipment Manufacturers (OEM), particularly the "Big Three" of North America - Chrysler, General Motors, and Ford – have recognized the need to routinely update vehicle platforms. Whereas North American vehicle manufacturers had previously retained a platform for up to 20 years – as with the GM J-platform – foreign competitors were introducing several redesigned product cycles, leading to improved sales and a greater market

share. Consequently, aftermarket parts and accessories manufacturers will have an opportunity to diversify their product lines for export so as to meet the demands of a more assorted Canadian market as vehicles age. This includes products aimed at interior (e.g. audio and video equipment) and exterior (e.g. body kits, wheels) esthetic alterations.

Traditional mainstays such as garage tools, diagnostic service and repair equipment, in addition to the aforementioned automotive accessories, and performance and appearance products will continue to be staples in Canada's automotive aftermarket.

At the same time, products in-line with "green" technologies represent the fastest growing segment within the automotive aftermarket. As concerns over oil prices and emissions increase among consumers - who spend roughly 3 percent of their annual income filling their gas tanks - products engineered toward efficiency and environmental sustainability will increase in demand. In fact, as a response to these concerns, many major vehicle manufacturers have developed gasoline-electric hybrid vehicles, which are presently available to consumers. Sales of hybrids have abounded over 300 percent since 2004, with January 2008 demonstrating a 27.3 percent improvement over the previous January. Despite premium pricing, hybrid sales are expected to continue to improve through 2008 as manufacturers look to offer a greater variety of hybrid alternatives to their current product lines.

Despite increased competition over vehicle sales within Canada, U.S.-based manufacturers continue to out-sell all competitors within the light and heavy-duty truck market, retaining an 89 percent market share. Consumer demand for trucks - which includes minivans, SUV's, light and heavy trucks, vans and buses - is forecasted to abound through 2008, with the aforementioned preference for American trucks expected to continue.

Motorcycles and subsequent aftermarket parts are demonstrative of a growing export market for 2008. U.S. Census Bureau statistics indicate a 20 percent growth in exports between January 2007 and January 2008, with Canada consuming 20 percent of total U.S. manufactured motorcycles and parts exported globally. New motorcycle sales grew roughly 1 percent through 2007, and are expected to continue upward in 2008. The slight increase in annual sales indicates a strong aftermarket parts industry, which given the annual decline in American motorcycle sales evident over the past year - 85,000 fewer units were sold in 2007 - offers a reprieve for U.S.-based manufacturers.

It should also be noted that demand for U.S. automotive aftermarket exports will continue to be negatively affected by foreign competition. Within the Canadian automotive market, U.S. manufacturers and suppliers are facing increased competition from their Asian counterparts, namely Japan, China and South Korea. Japan-based Honda, Mazda, Nissan and Toyota, as well as South Korea's Hyundai and Kia, have seen their market shares improve steadily over the past five years. If industry forecasts ring true, this trend will only continue going forward, as Chrysler, Ford, General Motors find their percentage of the market decreasing annually.

More importantly, low-cost manufacturing in the Peoples Republic of China has engendered consistent expansion of Sino-built parts into Canada's automotive aftermarket. The Sino-Canadian Foreign Investment Protection and Promotion (FIPA) is set to amplify two-way foreign direct investment (FDI), as China has become one of Canada's Top Priority Markets, and the two move closer to most-favored-nation treatment. Automotive imports from China have increased 1.3 percent over the last five years from 0.3 percent of total imports in 2001, to 1.6 percent in 2006. This increase has been led in large part by the aftermarket and component

parts sectors. At present, Chinese expansion into the automotive aftermarket is replacing export countries outside of North America, with a marginal effect on U.S. exports to date. However, as Sino-Canadian trade relations grow, China's ability to manufacture more cost-effective products will cut into the American market share.

**Market Data**

**Canadian Automotive Aftermarket**

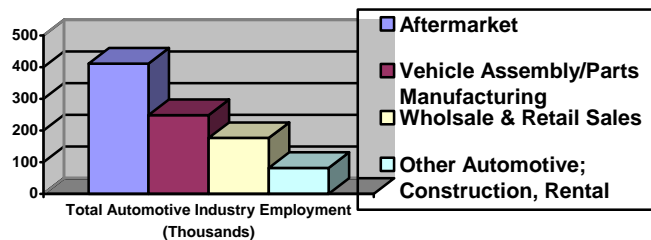
	2006	2007	2008*
Total Market Size	19,600	19,900	20,200
Total Local Production	12,360	12,680	13,000
Total Exports	7,280	7,430	7,580
Total Imports	14,520	14,650	14,780
Imports from the U.S.	12,420	12,530	12,640

(In Millions of U.S. Dollars. Exchange rate: \$1.00 US = \$1.00 CDN)

\*Estimated totals for 2008.

At the close of 2007, the United States represented 80.5 percent of Canada's automotive aftermarket imports at roughly \$19.9 billion. This represents a 1.5 percent increase over 2006 totals, and is in-line with industry trends which forecast another 1.5-2 percent accrual through 2008.

**Canada: Automotive Employment - 2007**



Automotive parts manufacturing and retail employment in Canada totaled 410,000 in 2007. The strength in the employment numbers for this sector is a key indicator of the stability of the automotive aftermarket in Canada.

**Canada Motor Vehicle Sales 2007 (Units)**

	2007	2006	Year/Year Change (%)
Passenger vehicles*	858,679	863,161	-0.5
Trucks **	831, 869	803,168	3.6
Motorcycles	82,482	82,022	0.5
Total Canadian Sales	1,690,548	1,666,327	1.5

Note: \*Canadian statistics include light commercial vehicles under passenger vehicles.

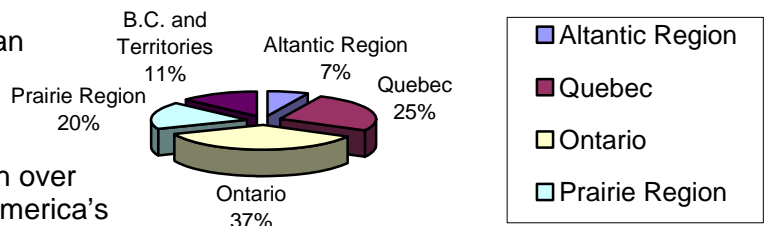
\*\*Trucks include minivans, SUV's, light and heavy trucks, vans and buses.

Insofar as the aftermarket is ultimately fuelled by automotive sales, increased motor vehicle sales in 2007, and thus far into 2008, are indicative of the prospects to come. 2007 sales improved 1.5 percent over the previous year thanks to a strong fourth quarter, which was propelled in large part by aggressive dealer marketing and newly structured payment options. In total, new motor vehicle sales reached 1.7 million units in 2007, Canada's second highest yearly total to date. This trend has continued thus far into 2008, with sales surpassing the previous years totals for January and February. Improved new vehicle sales over the last two quarters,

combined with industry forecasts point to a strong demand for automotive aftermarket parts over the long term.

### **Canadian Light Vehicle Segmentation by Province - 2007**

The province of Ontario hosts the largest automotive aftermarket at more than \$9.7 billion, followed by Quebec with over \$4.9 billion, the Prairie Provinces at over \$4.7 billion, British Columbia at over \$3.3 billion, and the Atlantic Provinces with over \$1.53 billion. Presently, Ontario is North America's largest vehicle manufacturer, ahead of Michigan with 3,459,984 units in 2007. What's more, Ontario accounts for 1,147 of the country's 3,287 wholesale and install/retail establishments, and over 7 million of Canada's vehicles are registered in Ontario.



The primary parts and accessories segments of U.S. automotive exports abroad consist of: automobiles and light duty motor vehicles (including chassis), heavy duty trucks (including chassis), motor vehicle parts, motor vehicle gasoline engines, motor vehicle electric and electronic equipment, motor vehicle steering and suspension components, motor vehicle break systems, motor vehicle transmission and power train parts, motorcycles and parts. According to the U.S. Census Bureau, exports to Canada dropped in the first month of 2008 from January 2007 totals, except in automobiles and light duty motor vehicles (up 29 percent), and motorcycles and parts (up 20 percent). The table below demonstrates the shift in export totals. The slight decline of U.S. exports to Canada in many aftermarket parts sectors is indicative of the impact stemming from increased foreign competition in the marketplace. However, it should be noted that in each of these sectors Canada retains close to, or more than a 50 percent share of U.S. global exports, which denotes Canada's significance to American-based automotive aftermarket manufacturers.

**Major Automotive Export Sectors Statistics - January 2008:** Canada's Percentage of Total Exports and Percentage Change From January 2007 (Thousands of U.S. Dollars)

	<u>Exports to Canada for January 2008</u> (Thousands of U.S. Dollars)	<u>Canada's Percentage of World Totals (US Exports)</u>	<u>January 2007/2008 Change (%)</u>
Automobiles and Light Duty Motor Vehicles, including Chassis	1,016,405	33%	29%
Heavy Duty Trucks and Chassis	503,007	66%	-7%
Motor Vehicle Parts	796,425	45%	-7%
Motor Vehicle Gasoline Engines and Engine Parts	356,137	68%	-14%
Motor Vehicle Electric and Electronic Equipment	126,552	45%	-14%
Motor Vehicle Steering and Suspension Components	54,148	63%	-22%
Motor Vehicle Brake Systems	81,707	55%	-27%
Motor Vehicle Transmissions and Power Train Parts	315,374	66%	-4%
Motorcycles and Parts	34,720	20%	20%

Source: U.S. Census Bureau – U.S. International Trade Statistics

### Best Prospects

Prospects pertaining to exports for U.S. automotive aftermarket products remain high within the traditional sectors as U.S. suppliers and manufacturers continue to be in the best possible position to take advantage of the automotive aftermarket parts and accessories market in Canada. In the traditional segments, best prospects will be tied to mechanical products, which include non-electrical/electronic engine hard parts and chassis, drive train, suspension parts and components, electronic parts and components, and light emitting diode (LED) lighting.

As they have in recent years, external (e.g. GPS) and embedded (e.g. engine control systems) computer systems in automobiles will continue to be a profitable aftermarket segment in Canada. With growth in this market segment expected to match overall market levels, firms manufacturing automotive computer hardware and software can expect to find increased opportunity in Canada.

However, as international competition increases, the application of high-tech and “green” technologies in the aforementioned sectors will offer greater opportunities for American

manufacturers. Technology and innovation represent the most significant opportunity for American automotive exporters. For the first time, the Federal government of Canada is developing fuel consumption regulations for all new cars and light trucks beginning with the 2011 model year. Consequently, manufacturers, exporters, importers and distributors of cars and light trucks, as well as component parts, engines, electrical systems, computer technologies, aftermarket parts, assembly equipment and any other stakeholder currently within, or expressing interest in the Canadian market employing hybrid or “alternative” technologies stand to benefit from the impending regulations. In particular, reducing fuel consumption is necessarily linked with vehicle weight. This means demand for lightweight plastics and other component parts will increase as a corollary to the impending federal regulations. Moreover, as “green” technologies advance throughout the manufacturing sector, subsequent technologies within the aftermarket and vehicle maintenance sectors will develop to meet industry trends. As a result, U.S. exporters of aftermarket parts and machinery in-line with “green” technologies will experience increased opportunity as this technology proliferates.

Gasoline-electric hybrids represent a strong growth sector within Canada’s automotive market. As mentioned above, high fuel prices and an increased awareness of global warming are driving consumer sales of hybrids, which have risen over 300 percent since 2004; with January 2008 demonstrating a 27.3 percent improvement over the previous January. While hybrid sales currently represent only about 2 percent of light automobile sales in Canada, with high fuel prices and global warming as the primary catalysts for sales, this market sector will continue to grow. As a result, the hybrid-based aftermarket parts and accessories industry sector will certainly experience greater opportunity within the Canadian marketplace going forward.

U.S. suppliers may also wish to pay attention to the Vehicle Make and Mix on Canada’s roads and address these makes and models accordingly.

### Key Suppliers

Industry Suppliers:Automotive Aftermarket Suppliers Association (AASA)  
Auto Value  
Carquest Canada Ltd  
Lordco  
Magna  
Martinrea  
NAPA Canada  
PartSource

Uni-Select  
Falpaco  
Vlier

Buying Groups:  
Auto Sense Ltd.  
Bestbuy  
Engine Rebuilders Inc. (ERI)  
Kerr Machine Shop Group (KMSG)

### International Parts Supply Countries to Canada: Motor Vehicle Parts Manufacturing

	2003	2004	2005	2006	2007
<b>United States (U.S.)</b>	33,477,583	33,029,398	30,581,842	28,412,023	28,059,289
<b>Mexico</b>	2,050,361	2,542,872	2,642,448	2,634,428	2,970,226
<b>Japan</b>	1,432,090	1,549,312	1,726,111	1,978,318	1,635,615
<b>China</b>	214,088	643,961	858,340	974,299	999,674
<b>Germany</b>	282,389	479,957	516,705	438,901	409,283
<b>South Africa</b>	9,875	37,889	41,950	34,568	290,186
<b>Austria</b>	211,707	261,341	220,744	260,623	236,151
<b>Korea, South</b>	105,929	149,608	160,078	188,411	203,604
<b>Taiwan (Taipei)</b>	148,195	169,921	168,761	154,284	158,496
<b>Re-Imports</b>	150,049	166,810	202,713	179,628	154,956

<b>(Canada)</b>					
<b>SUB-TOTAL</b>	38,082,266	39,031,069	37,119,690	35,255,482	35,117,480
<b>OTHERS</b>	658,556	807,721	884,196	852,300	803,234
<b>TOTAL (ALL COUNTRIES)</b>	38,740,823	39,838,790	38,003,886	36,107,783	35,920,715

All Values in U.S. Dollars

Source: Trade Data Online, Industry Canada

## Prospective Buyers

Demand in the automotive aftermarket is measured by the performance of a few key variables: New vehicle sales, used vehicle sales, and vehicle leasing rates. Other factors influencing demand include government regulations, shifts in the age and size of the auto fleet, and the general economy.

New passenger vehicle sales rose 1.5 percent in 2007, totaling \$54 billion. This led to a 1.02 percent increase in the overall size of Canada's automotive fleet, which will continue to grow as vehicle retention rates continue to abound. With 1,690,548 new vehicles added in 2007, Statistics Canada currently estimates the nation's automotive fleet at roughly 21 million. The growing number of used vehicles on Canadian roads and increased driving levels will translate into improved demand for automotive aftermarket parts.

In addition, used motor vehicle sales demonstrated a slight increase over 2006 totals, returning roughly 2.35 million vehicles to the road in 2007. Used vehicle sales combined with Canadians penchant to retain vehicles over long periods bode well for the automotive aftermarket going forward.

As mentioned above, in light of increased gas prices and emissions awareness, products related to hybrid technologies and the reduction of fuel consumption will continue to be well received in the Canadian automotive aftermarket. Insofar as hybrid-based automobile sales are expected to increase over the short-term, manufacturers of applicable parts will find an ever-improving market in Canada.

Changes to regulations also have the potential to affect U.S. aftermarket exports to Canada. Exporters to Canada should take note of the following:

1. The Government of Canada will begin to regulate fuel consumption of new cars and light trucks, beginning with the 2011 model year. The level of the standard will be determined through the normal regulatory process. No decision has been made on the format of the Canadian standard. In general, however, the standard will be specified for fuel consumption, retaining established test procedures, and will be compatible with the U.S. federal approach to fuel economy standards. The Canadian standard will be prescribed under the *Motor Vehicle Fuel Consumption Standards Act*, through which current regulations are applied, and will pertain to each manufacturer or importer of vehicles sold in Canada.
2. On March 22, 2008, the Government of Canada proposed an amendment to the Motor Vehicle Safety Regulations (MVSR) to harmonize the Canadian bumper standard for passenger cars with similar safety standards from the United States and Europe. The amendment will result in one set of globally regulated test speed requirements for the design of bumpers. The purpose is to simplify the bumper design for vehicles destined for the North American and European markets.

Given the impending changes to present standards within the Canadian automotive aftermarket, these regulations will alter the needs of Canadian end-users, and subsequently the production of U.S. manufacturers.

The impact of Canadian investment and the Federal budget on the automotive aftermarket is another aspect which should be of interest to prospective U.S. exporters. Thus far in 2008, the Automotive Parts Manufacturers Association (APMA) and Precarn Incorporated - a not-for-profit company representing a national network of corporations, universities, colleges, research institutes and government partners engaged in the development of enabling technologies – have awarded \$3.5 million in research and development funding to help bridge the gap between Canadian and American R&D firms. Presently, U.S. companies enjoy a significant monetary advantage over their Canadian counterparts in R&D, and are thus often able to be first to the market. American manufacturers should take note of how such funds are dispersed within the Canadian aftermarket, and look to maneuver their exports so as to maintain said advantage.

In regards to the Canadian Federal budget, its short-term impact on the automotive aftermarket will be minimal, with little being done to advance R&D. Of the corporate tax reductions and research funds allocated in the February budget, the majority of these initiatives are directed toward research and development of “green” technologies; though the fruits of this investment are years away.

U.S. automotive aftermarket parts suppliers interested in the Canadian market should also be aware of the vehicle mix in Canada – make, size, origin. Despite the integrated nature of the Canadian and American automotive industries, the mix within Canada is typically different as a result of the variances in terrain and weather, as well as higher gas prices and a more even income distribution. This results in a greater relative demand for compact and “economy” cars, and a significantly smaller desire for sports cars and full size luxury sedans.

## Market Entry

The U.S. and Canadian automotive industries (vehicle assembly as well as OE and aftermarket parts manufacturing) are highly integrated. Despite said integration, it is important for new, as well as current U.S. exporters to understand the requirements under the North American Free Trade Agreement (NAFTA), and how these differ from those previously established by the U.S.-Canada Free Trade Agreement (FTA). Under the terms of the FTA, duties on aftermarket products meeting the minimum 50 percent U.S. content were reduced in equal increments over a five year period, from 9.2 percent in January 1, 1989 to zero on January 1, 1993. Thus, the FTA opened the Canadian aftermarket to U.S. exports at North American prices. However, to be eligible for duty free treatment under the North American Free Trade Agreement (NAFTA) aftermarket products are required to have 62.5 percent North American content. These trade agreements have been instrumental in increasing investments in North America and facilitating north-south trade between Canada and the United States in the auto industry, including aftermarket parts as well as other sectors.

Entering the Canadian automotive aftermarket with any degree of success requires the manufacturer to meet the needs of the end-user, as well as any government specifications. As mentioned, need within the major end-use sectors will stem predominantly from the increasing shift toward “green” technologies, in addition to the traditional market segments. Provided the product is Canadian Standards Association (CSA) approved, a distributor remains the most fortuitous avenue through which to enter the Canadian market. Distributors with strong



relationships with end-users involved in the sale or employment of parts, components, chemicals, computer technologies and “green” technologies are aptly situated to facilitate product entry, or to improve a products presence in a specific end-use sector.

As mentioned, U.S. companies will need to evaluate the mixture of the Canadian automotive fleet and also remain current on all pending legislation before the House of Commons. This information can be found via Transport Canada (<http://www.tc.gc.ca/en/menu.htm>).

## Trade Shows

2008 APMA Annual Conference & Exhibition – April 30-May 1, 2008. Hamilton, Ontario  
(<http://www.apma.ca/client/APMA/APMA.nsf/web/APMA+Annual+C&E!OpenDocument>)

AutoMechanika Canada – June 19-21, 2008. Toronto, Ontario.  
(<http://www.automechanikacanada.com/>)

Truck World - April 17-19, 2008. Toronto, Ontario.  
(<http://www.truckworld.ca/>)

ExpoCam – April 16-18, 2009. Montreal, Quebec.  
(<http://www.expocam.ca/>)

Truxpo 2008 – October 2-4, 2008. Abbotsford, British Columbia  
([http://www.truxpo.com/Truxpo2008\\_GeneralInformation.pdf](http://www.truxpo.com/Truxpo2008_GeneralInformation.pdf))

Lindertech North Automotive Technical Training and Education Conference - April 25-27, 2008.  
Mohawk College Residence and Conference Centre, Hamilton, Ontario.  
(<http://www.lindertech.com/ca~conf~08.htm>)

## For More Information

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