

APEC Research Report

The Economic Impact of the Nova Scotia Automobile Dealers Association



March 2020



on behalf of



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The Economic Impact of the Nova Scotia Automobile Dealers Association

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Executive Summary

- This report provides an estimate of the economic impact of Nova Scotia's automobile dealers in 2018.
- When indirect and induced (i.e. spin-off) effects are included, the total economic impact of the industry reaches \$610 million in GDP and over 6,900 jobs. The direct impact accounts for 0.9% of provincial GDP and 1.1% of provincial employment.
- Nova Scotia new automobile dealerships had total retail sales of \$3.2 billion in 2018, which represented 21% of total retail sales in the province. Sales reached an all-time high in 2017, and a shift from cars to trucks (including SUVs) continues to become more pronounced.
- Both household and business expenditures on new motor vehicles reached record levels in 2017.
- Approximately 4,800 people are employed in the automobile dealers industry in Nova Scotia. Employment in the sector has outpaced the rest of the NS economy over the past five years.
- At \$1,011 in 2018, average weekly wages for Nova Scotia automobile dealers were 16% above the all-industry average. Furthermore, growth in their wages has outpaced both the national average for automobile dealers, as well as the broader provincial economy.
- Auto service technicians see lower unemployment rates than the all-occupation average. This tightness seems to be resulting in higher incomes, as the position has higher-than-average wages.
- Major project investment such as the Halifax Shipbuilding project could increase new motor vehicle sales in the future as a result of higher employment, incomes and spending when construction of the combat vessels starts-up in 2023. Jupia Consultants predicts that the shipbuilding project could boost local new car sales by 750 units per year. Lower fuel prices could translate into more spending on new motor vehicles.
- However, population aging and rising consumer insolvencies could constrain growth prospects for new motor vehicle sales in the future. While a global economic slowdown has reduced auto sales in units, lower interest rates should provide some economic stimulus.
- Nova Scotia's population increased by 1.2% in 2019 - the highest growth rate since 1973 - on the back of a 27% increase in immigration. Higher population boosts incomes, spending and investment – including in new autos. Compensation of employees in Nova Scotia increased by 5.5% in 2019, highlighting income gains.

Introduction

The Nova Scotia Automobile Dealers Association (NSADA) consists of 120 new car franchised dealers in the province and an associate membership comprised of suppliers to the automotive retail sector in Nova Scotia.

The NSADA strives to serve the collective interest of its members and promote positive relationships with government, industry, suppliers, consumers and media, by offering needed and effective programs and services.

The NSADA engaged APEC to estimate the economic and fiscal impact generated by the members of the NSADA in 2018. For more details on the economic impact methodology, see Appendix 1.

This report contains an overview of the industry, including some relative comparisons to other industries in Nova Scotia. It also outlines the economic and fiscal impact of the Nova Scotia automobile dealer industry in 2018. Lastly, the report discusses some future directions for the industry, including opportunities and risks.



Terminology

The new automobile dealers industry includes, “...establishments primarily engaged in retailing new automobiles, sport utility vehicles, and light-duty trucks and vans, including mini-vans, to final consumers or to automobile lessors. These establishments also typically retail used cars, replacement parts and accessories, and provide repair services.”

Throughout this report, the new automobile dealers industry includes the following types of economic activity by new automobile dealers:

New automobile sales

includes passenger cars, vans, sport utility vehicles and light-duty trucks.

Used automobile sales

includes used automobile sales by new automobile dealers only (i.e., excludes used automobile sales by used car dealers and private sales).

Motor vehicle repairs

includes motor vehicle repairs by new automobile dealers only (i.e., excludes motor vehicle repairs by motor vehicle repair shops).

Motor vehicle parts

includes motor vehicle parts sales by new automobile dealers only (i.e., excludes motor vehicle parts sold by motor vehicle parts retailers).

Motor vehicle accessories

includes motor vehicle accessories sales by new automobile dealers only (i.e., excludes motor vehicle accessories sold by other motor vehicle accessories retailers).



Nova Scotia Automobile Dealers Association: Value Chain

The supply chain for new automobile dealers is impacted by purchases of goods and services, as seen in the value chain diagram below (**Figure 1**). It demonstrates that while economic activity is created from the direct operations of new automobile dealers, there are also indirect and induced impacts that result from supply chain linkages. The supply chain includes a combination of primary (i.e., sales and repair service) and support (i.e., human resources, IT, accounting, etc.) activities of new automobile dealerships.

One example of a significant supply chain activity is transportation logistics at CN's Autoport in Dartmouth, which employed 250 unionized staff and handled nearly 185,000 motor vehicles in 2018. While only a portion of these vehicles were sold in Nova Scotia, it highlights the extent of the supply chain impact.

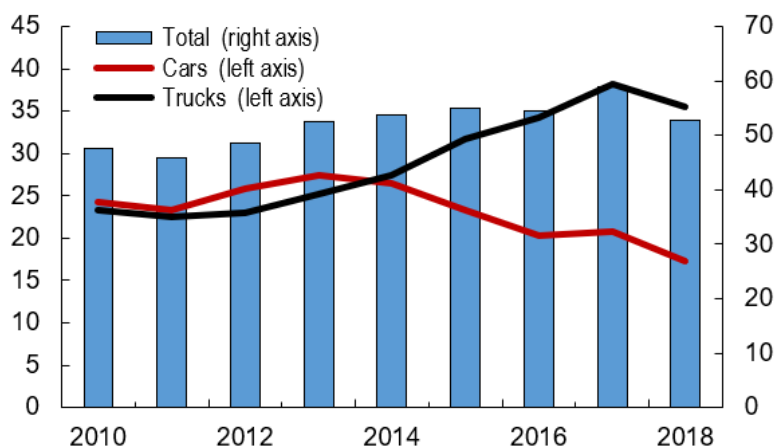
Figure 1: Value Chain of New Automobile Dealerships



Nova Scotia Automobile Dealers Association: New Automobile Dealer Sales

Figure 2: New Motor Vehicle Sales

New motor vehicle sales (000s of units), Nova Scotia



Sources: Statistics Canada

Total sales of Nova Scotia new automobile dealers eased in 2018 after an all-time high in 2017, while a long-run shift from cars to trucks (including SUVs) continues to become more pronounced. After having comparable unit sales in 2014, the volume of truck sales was more than double that of car sales in 2018 (**Figure 2**).

In 2018, Nova Scotia new automobile dealerships had total retail sales of \$3.2 billion with nearly 53,000 new motor vehicles sold (**Table 1**). This represented 20.8% of total retail sales for all store types in Nova Scotia in 2018. New motor vehicle sales accounted for \$1.9 billion while used car sales, motor vehicle parts and repairs, and accessories comprised the remaining \$1.3 billion of Nova Scotia new automobile dealerships total retail sales in 2018.

Table 1: 2018 Sales Estimates for New Auto Dealers

	2018 NS	2018 CA
Total sales of new motor vehicles (\$billions)	1.9	85.5
Total other retail sales (\$billions) (i.e., used cars, parts, repairs, accessories)	1.3	48.5
Total sales of new vehicle dealers (\$billions)	3.2	134.0
New vehicle dealership sales as a % of total retail sales	20.8%	22.3%
Total sales of new motor vehicles (\$billions)	1.9	85.5
% Sales value from passenger car sales	24.0%	21.6%
% Sales value from truck sales	76.0%	78.4%
Total units sold	52,797	2,035,832
% Passenger cars	32.6%	28.4%
% Trucks	67.4%	71.6%

Source: Statistics Canada, Canadian Automobile Dealers Association

**Motor vehicle sales
in Nova Scotia have
hit record levels in
recent years.**

Nova Scotia Automobile Dealers Association: Employment

The automobile dealers industry in Nova Scotia employed roughly 4,800 people in 2019. This is comparable to the number of people employed by clothing stores, plastic/rubber manufacturers, and traveler accommodations (Figure 3).

Employment in the sector has grown by 2.4% per year since 2013, similar to the national average for automobile dealers (2.5%) and significantly outpacing the broader Nova Scotian economy (0.5% per year).

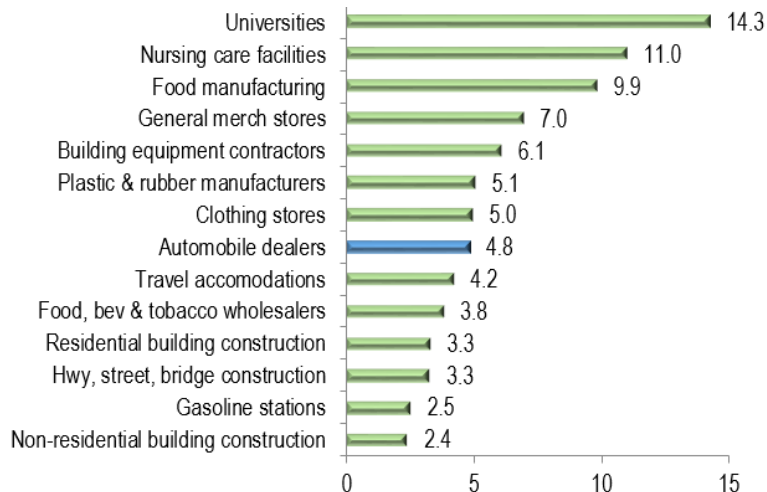
The total number of Nova Scotia firms with employees in the new automobile dealers industry increased between June 2014 and June 2018, likely reflecting a recovering economy and favourable lending conditions. Between June 2014 and June 2018, the number of business locations (with 5 or more paid employees) for Nova Scotia new automobile dealers rose from 127 to 136, a 7.1% increase (Table 2).

Approximately 44% of automobile dealer jobs are held in the Halifax region, while the majority of positions exist in other urban and more rural areas such as Cape Breton, New Glasgow, Truro, Kentville and others (Figure 4).

Approximately 4,800 people are employed in the automobile dealers industry in Nova Scotia.

Figure 3: Employment by Industry

Thousands of persons, Nova Scotia, 2018



Source: Statistics Canada

Table 2: Number of Business Locations by Employee Size

Count of new car dealer businesses, Nova Scotia

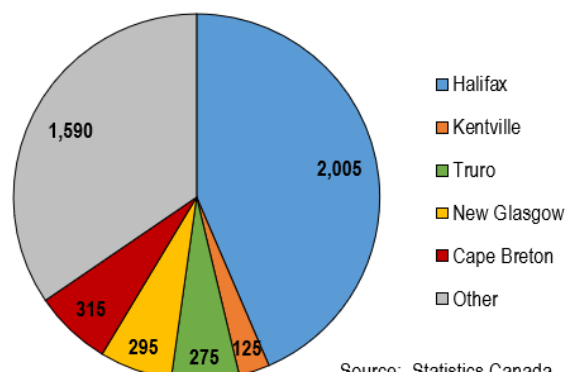
	Size of firm (number of employees)						
	Total	5-9	10-19	20-49	50-99	100-199	200-499
June 2018	136	6	31	65	23	2	1
June 2014	127	8	35	60	21	2	1
June 2009	143	12	36	67	24	4	0

Note: This table excludes business locations with no paid employees, as well as business locations with less than 5 paid employees.

Source: Statistics Canada

Figure 4: Automobile Dealer Employment by Region

Persons, Nova Scotia, 2016 Census

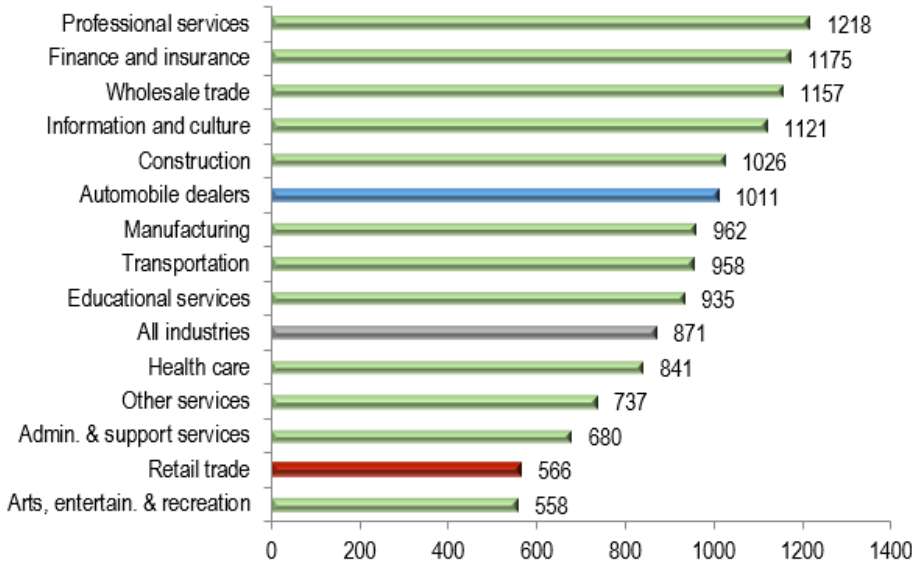


Source: Statistics Canada

Nova Scotia Automobile Dealers Association: Wages

Figure 5: Average Weekly Wages

Nova Scotia, 2018 (\$)



Source: Statistics Canada

Average weekly wages for those employed in the Nova Scotia automobile dealers industry were \$1,011 in 2018, 16% above the all-industry average in the province (**Figure 5**).

Workers in Nova Scotia's automobile dealers industry are well paid compared to the retail trade sector in 2018. Their average weekly wages exceeded those of the broader retail trade sector average in the province by more than 78% in 2018. Commissions on new motor vehicle sales likely account for some of this wage premium.

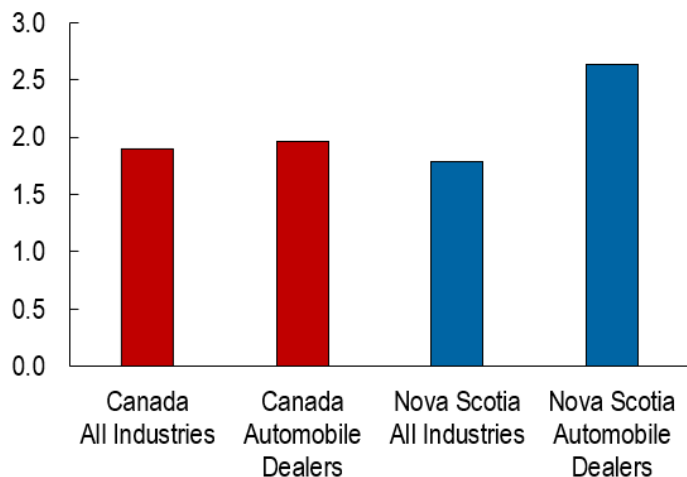
Wages for automobile dealers in Nova Scotia are 16% above the all-industry average.

While average weekly wages for automobile dealer employees in Nova Scotia are high relative to the rest of the retail trade sector, they are still lower than the Canadian average for automobile dealers of \$1,088.

However, this gap has narrowed in recent years as wages for automobile dealers in Nova Scotia have grown faster than the rest of Canada. Wage growth in the industry has also outpaced the broader provincial economy (**Figure 6**).

Figure 6: Growth in Average Weekly Wages

Average annual growth in nominal weekly earnings, 2013 to 2018 (%)



Source: Statistics Canada

Nova Scotia Automobile Dealers Association: Auto Service Technicians - Employment

Auto service technician positions are dispersed across the province, with a significant share of jobs being held in smaller rural areas despite the bulk of the positions existing in the Halifax area (Figure 7).

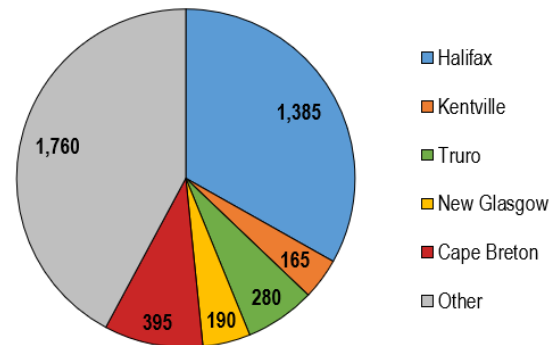
The labour market for auto service technicians is one with lower-than-average unemployment rates. The unemployment rate in the profession is 5.2%, nearly half the rate of 10% for all occupations in the province. We also see this job-specific tightness at the regional level, as seen in Figure 8.

Over the period 2016-2018, automotive service technician employment in Nova Scotia averaged 3,800. Service Canada projects job openings of 190 positions over the next three years. According to the 2016 census, approximately 43% of employed automotive service technicians in Nova Scotia were age 45 years or older, and therefore eligible to retire over the next two decades.

Over the last five years, the Nova Scotia Community College had average annual enrolment of 161 in its automotive service and repair certificate program, while the annual number of graduates averaged 104 over this period. This is sufficient to address the impact of retirements, although individual dealerships can still have difficulty attracting labour in this occupation. For example, there is a need for automotive service technicians with Red Seal certification and experience working with newer vehicles containing the latest technology features. Some dealerships provide their own training to ensure their automotive service technicians have the latest skills.

Figure 7: Auto Service Technician Jobs by Region

Employment by region (persons)

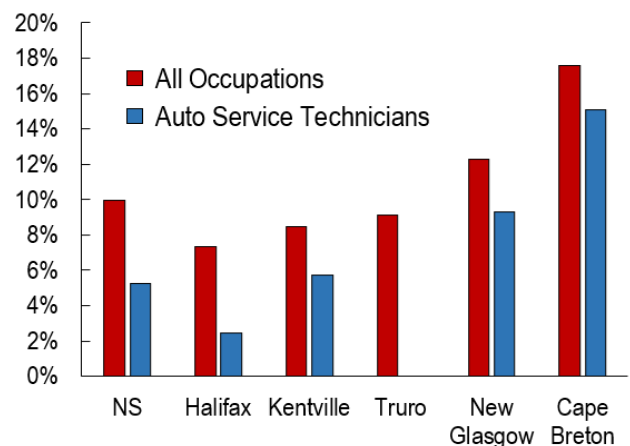


Source: Statistics Canada 2016 Census

NSCC students will help meet the industry's future demand for labour.

Figure 8: Auto Service Technicians Unemployment Rate by Region

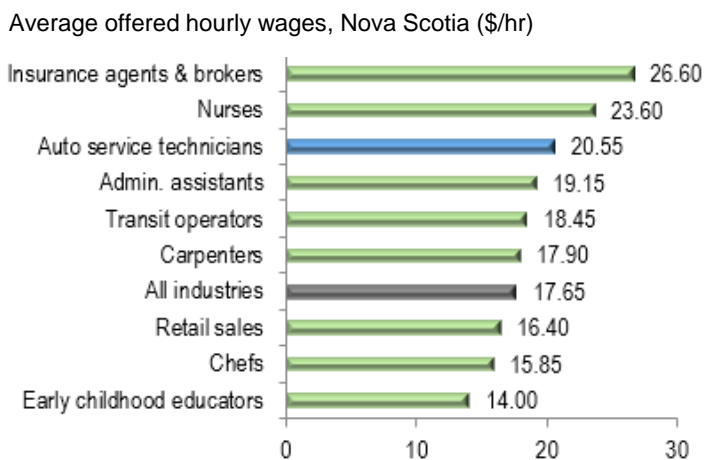
Unemployment rate by occupation by region, 2016 (%)



Source: Statistics Canada 2016 Census

Nova Scotia Automobile Dealers Association: Auto Service Technicians - Wages

Figure 9: Average Offered Hourly Wages – Skill Level B Jobs*



* "Skill Level B" jobs are defined as those which require college education or apprenticeship training
Source: Statistics Canada

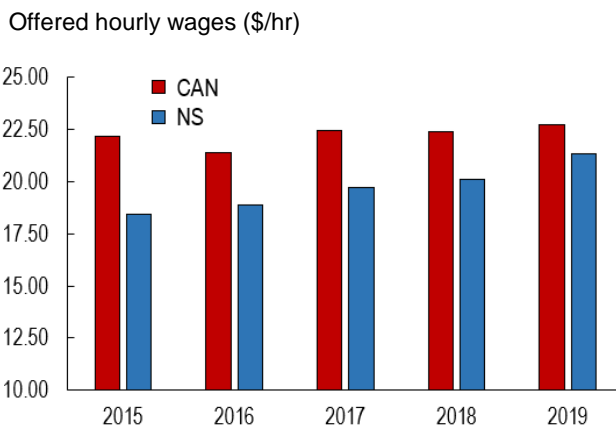
Auto service technicians in Nova Scotia see higher-than-average offered hourly wages relative to the rest of its economy. Wages in the position are above those for administrative assistants, transit operators and carpenters (Figure 9).

Auto service technicians are well-compensated relative to other positions with similar credential levels.

While wages for auto service technicians in Nova Scotia are slightly lower than the national average in the position, the gap has closed considerably as of late. Since 2015, these wages have grown by 16% in Nova Scotia compared to only 2.4% growth at the national level (Figure 10). This is a stark contrast from the broader economy, where national wages have outpaced wage growth in NS over the same period.

The wage gap between Nova Scotia's auto service technicians and the national average has narrowed.

Figure 10: Offered Hourly Wages for Auto Service Technicians



Source: Statistics Canada

Nova Scotia Automobile Dealers Association: Economic Impact Analysis

Table 3: Estimated New Automobile Dealers Spending

	2018 Spending \$millions	% of Total Costs
Cost of goods sold	2,295	81.8%
Wages, salaries and commissions	262	9.3%
Vehicles and supplies	94	3.3%
Advertising and promotion	37	1.3%
Rent	26	0.9%
Interest	31	1.1%
Amortization	28	1.0%
Professional and business fees	11	0.4%
Repairs and maintenance	11	0.4%
Insurance	11	0.4%
Total costs	2,807	100.0%

Source: Statistics Canada, Innovation, Science and Economic Development Canada and APEC

The total expenditures by Nova Scotia new automobile dealers are estimated to be approximately \$2.81 billion, as summarized in **Table 3**. Expenditures on new motor vehicles, parts and supplies manufactured outside the province were removed from the economic impact analysis.

Nova Scotia's automobile dealers industry supports up to 6,900 full-time equivalent jobs.

The economic impact of the Nova Scotia new automobile dealers industry on direct GDP in 2018 was approximately \$390 million (**Table 4**), after removing purchases from outside the province. APEC estimates the Nova Scotia new automobile dealers industry directly generated \$305 million in household income in 2018; and 4,800 full-time equivalent (FTE) jobs. The direct GDP and employment generated by the new automobile dealers industry accounted for 0.9% and 1.1% of total provincial GDP and employment, respectively.

The estimated 2,100 spin-off jobs (indirect and induced) created by the spending associated with the Nova Scotia automobile dealers industry in 2018 were spread across a number of sectors of the economy, including retail trade (i.e., auto parts, general merchandise); professional services (i.e., accounting and legal services); and financial services (such as banking and insurance) to list a few supply chain industries.

Table 4: Economic Impacts of Nova Scotia New Automobile Dealers Industry

Economic Impacts - 2018	Output \$millions	Nominal GDP \$millions	Household	
			Income \$millions	Employment #FTE jobs
Direct	600	390	305	4,800
Indirect	170	90	50	900
Induced	210	130	50	1,200
Total Economic Impact	980	610	405	6,900

Note: Figures in table are rounded

Nova Scotia Automobile Dealers Association: Economic Impact Analysis

This report also estimates the total fiscal impact from federal, provincial and municipal taxes, including personal and corporate income taxes, sales and commodity taxes, custom duties, payroll taxes, user fees, liquor and gaming profits, and property taxes (**Table 5**). A significant portion of the fiscal impact is from federal/provincial sales taxes (i.e., GST/HST) on new automobile dealer sales to households, since they are not subject to Input Tax Credits.

APEC's estimates of the economic impact of new automobile dealerships does not include the economic impact of automobile dealership capital expenditures. Statistics Canada estimates Canadian motor vehicle and parts dealers had capital spending of \$865 million in 2018. Based on Nova Scotia's share of national automobile dealership revenues, APEC estimates Nova Scotia motor vehicle and parts dealers had capital spending of \$22 million in 2018.

Table 5: Fiscal Impacts of Nova Scotia New Automobile Dealers Industry

Fiscal Impacts - 2018	Federal Taxes \$millions	Provincial Taxes \$millions	Municipal Taxes \$millions	Total Taxes \$millions
Direct	190	250	15	460
Indirect	20	20	3	45
Induced	20	20	3	45
Total Fiscal Impact	230	290	21	550

Note: Figures in table are rounded

It is beneficial to provide a comparison of the economic impacts from new automobile dealers to the economic impacts of other industries. APEC completed a study on the economic impact of the Nova Scotia core non-profit sector which showed it created \$1.7 billion in GDP and approximately 30,000 full and part-time jobs in 2017. By comparison, new automobile dealers generated \$610 million in GDP and 6,900 jobs in 2018. However, average labour income created by the core non-profit sector was under \$40,000, well below the \$59,000 for auto dealers³.

The Halifax Port Authority estimates the Port of Halifax created nearly 15,000 jobs and \$715 million in incomes annually in Nova Scotia, above the 6,900 FTEs and \$405 million in household income created by new automobile dealers in 2018. Once again, average incomes created by the auto dealers are higher than those created via port operations (\$59,000 versus \$48,000).

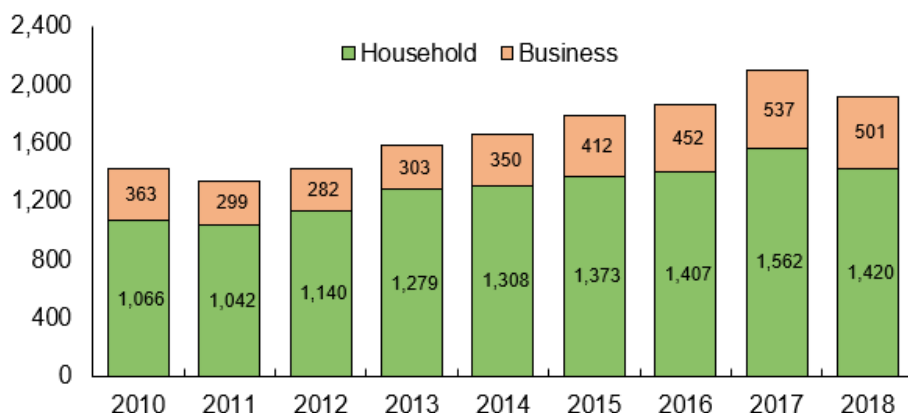
The Canadian Home Builders Association performed an economic impact study in 2018 on new home construction in Nova Scotia. They estimate that new home construction in the province contributes upwards of \$640 million in household income, and more than 11,800 jobs. These are comparable to the \$405 million in household income and 6,900 jobs created by new automobile dealers in Nova Scotia.

Nova Scotia Automobile Dealers Association: Future Directions and Conclusions

Nova Scotia's new automobile dealers industry represents a significant share of the retail trade industry and pays much higher wages than the rest of the retail trade industry. Household and business expenditures on new motor vehicles in Nova Scotia have generally been increasing since the recession, both of which hit record-highs in 2017 (**Figure 11**).

Figure 11: Business Expenditure on New Automobiles

Expenditures on new motor vehicles, Nova Scotia, \$millions



Sources: Statistics Canada, APEC

Nova Scotia consumer insolvencies rose by 8% in 2019, highlighting the downside risk to consumer confidence from elevated household debt levels. Further, rail blockades and the coronavirus pose a risk to Canada's economic outlook.

Nova Scotia's new automobile dealers industry nonetheless remains a significant contributor to economic activity. Major project investment, including the Halifax Shipbuilding project, could increase the Halifax Regional Municipality's population and employment, thereby stimulating new motor vehicle sales. However, the closure of Northern Pulp will dampen auto sales in the Northern region.

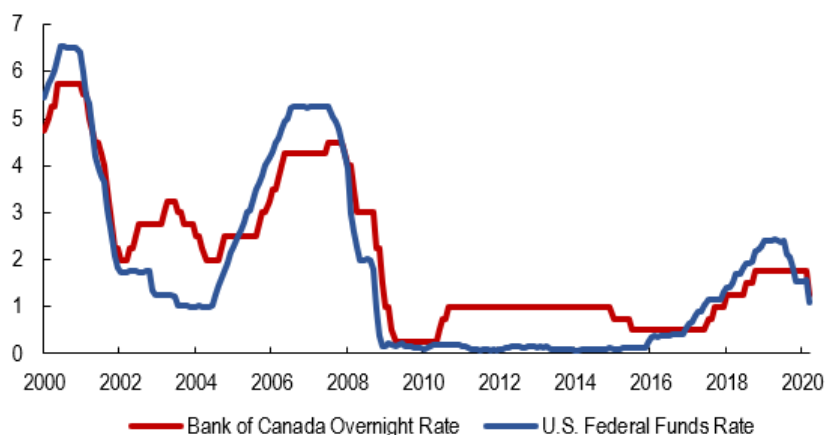
While Halifax gasoline prices increased 10% in 2018, fuel prices declined by 4% in 2019 and remain well below levels experienced in 2013/2014. Nova Scotia's cap and trade program will limit gasoline price increases due to carbon pricing to 1 cent per litre over the first four years of the program. The US Energy Information Administration forecasts Brent crude oil prices in US dollars will decline by 5% in 2020. Modest fuel prices will provide an accommodative market environment for automotive sales over the near term.

The average Nova Scotia household allocated 6.6% of total household expenditures to the purchase of motor vehicles in 2017 according to Statistics Canada's Survey of Household Spending. A global slowdown and on-going trade tensions resulted in lower auto unit sales in Canada in 2019. Scotiabank is forecasting a modest decline of 0.4% in national auto sales in 2020.

Nova Scotia Automobile Dealers Association: Future Directions

Figure 12: Interest Rates in Canada, US

Interest rate (%)



Source: Statistics Canada, FRED

The Bank of Canada reduced the overnight rate by 50 basis points in March 2020 to help offset the negative impact of the coronavirus on Canadian economic growth (Figure 12), which should provide some economic stimulus for new auto sales. A study by the Bank of Canada (Chernis and Luu, 2018) shows that motor vehicles are among the most sensitive purchase items to changes in the interest rate. Given recent spending constraints from elevated debt levels, the latest reduction in interest rates could create room for discretionary spending on new automobiles.

Nova Scotia's population increased by 1.2% in 2019, the highest growth rate since 1973. Continued migration to the province more than offset a natural rate of decline. Immigration increased by 27% or over 1,600 persons in 2019. Over the last three years, interprovincial migration to Nova Scotia has averaged 3,000 persons. Higher population boosts incomes, spending and investment – including in new autos. Nova Scotia compensation of employees increased by 5.5% in 2019, highlighting income gains.

An ageing population could impact industry growth. Seniors tend to have lower incomes, due to lower labour force participation. Nova Scotia already has one of the highest shares of persons aged 65 plus in Canada, so an ageing population could reduce new automobile spending.

Going forward, the target to get to net zero emissions by 2050 will change the automobile industry as market demand switches from fuel-powered vehicles to zero-emission vehicles (ZEVs). Beginning May 1, 2019, the federal government provides incentives for the purchase of new ZEVs to a maximum \$5,000 for longer range plug-in hybrid vehicles; and a maximum \$2,500 for shorter range plug-in hybrid electric vehicles. The federal government also intends to broaden incentives to include used ZEVs. Since ZEVs tend to be more expensive, the market transformation could boost the value of total sales over the long-term, but the pace of adoption will determine the degree of gain.

The Economic Impact of the Nova Scotia Automobile Dealers Association

Appendices

Appendix 1 – Economic Impact Methodology

APEC's estimates of the economic and fiscal impacts of the Nova Scotia Automobile Dealers Association (NSADA) were developed using Statistics Canada's 2016 Input-Output multipliers. The estimation process involved a number of steps:

1. This report's methodology partially relies on previous studies of a similar nature conducted by MNP for the New Car Dealers Association of British Columbia, as well as APEC's 2015 study that estimated the economic impact of the NSADA in 2013. Estimate 2018 operating revenues of Nova Scotia new automobile dealers, based on growth in monthly retail sales of Nova Scotia new automobile dealers.
2. Estimate 2018 expenditures (i.e., cost of goods sold; wages, salaries and commissions; etc.) of Nova Scotia new automobile dealers, based on Innovation, Science and Economic Development Canada Small Business Profiles financial performance data (i.e., expenditures as a percentage share of total revenues) for Nova Scotia new automobile dealers with up to \$5 million in annual sales in 2017 and Statistics Canada data on cost of goods sold, labour remuneration and operating expenses for all Nova Scotia new automobile dealers in 2017.
3. Estimate the share of operating revenues that was attributable to members of the NSADA in 2018, based on NSADA membership as a percentage share of Statistics Canada data on business location counts for Nova Scotia new automobile dealers in December 2018 (excluding businesses with no paid employees and very small businesses with 1 to 4 paid employees).
4. Adjust total expenditures to remove out-of-province spending (i.e., imports of manufactured vehicles – cost of goods sold, etc.). This is equivalent to estimating the economic impact of new automobile dealers' gross margin in 2018.
5. Estimate consumer spending at Nova Scotia new automobile dealers in 2018, based on Statistics Canada data on household expenditures on new and used motor vehicles, Canadian Automobile Dealers Association (CADA) data on new and used motor vehicle sales by new automobile dealers, Statistics Canada data on new automobile dealers sales and CADA data on the average sales price for used motor vehicles. This step was necessary to estimate the fiscal impact on indirect taxes, including sales and commodity taxes, custom duties and payroll taxes. Since business expenditures at new automobile dealers are eligible for Input Tax Credits, they would effectively not be subject to the HST.
6. Estimate the economic impact based on Statistics Canada's 2016 Input-Output multipliers, which were applied to APEC's adjusted expenditure estimates for Nova Scotia new automobile dealers in 2018 as described above in step 4.
7. Estimate the fiscal impact based on APEC's estimated federal, provincial and municipal tax multipliers, which are based on Statistics Canada estimates of government tax revenues by source as a percentage share of primary household income, gross operating surplus or imports depending on the tax revenue source. The tax multipliers were applied to the results from step 6. However, there were also additional tax impacts due to the consumer spending estimates from step 5, since sales tax paid by consumers on new car sales is unrecoverable.

Appendix 2 – Economic Impact Analysis

The new automobile dealers industry operates within the greater retail trade industry and the majority of its initial economic impact is the result of wages, salaries and commissions paid to employees, as well as gross margins earned as a result of selling new motor vehicles, parts and accessories.

Measuring Economic Impacts

There are three types of economic impact to be considered.

Direct Economic Impact: The direct economic impact usually refers to the direct impact of a specific industry, such as the output value of the new automobile dealers industry in this study.

Indirect Economic Impact: The indirect economic impact measures the impact of the new automobile dealers industry on other sectors of the economy. For example, the increased sales of new motor vehicles would require bank financing, the potential sale of motor vehicle accessories, as well as the transport of new motor vehicles to the dealerships.

Induced Economic Impact: The induced economic impact measures the impact of consumer spending, based on spending of wages earned both by workers directly employed in the new automobile dealers industry and indirectly employed in its supply chain industries.

This report provides estimates for the direct, indirect and induced impact of the new automobile dealers industry on output, GDP, household income and employment.

The economic impact analysis in this report focuses on estimating the impact on output (i.e., operating revenues), gross domestic product (GDP), household income and employment (i.e., full-time equivalent jobs).

This report used Statistics Canada's 2016 Input-Output multipliers to estimate the size of these effects. In addition, this report also estimates the induced impact from the spending of incomes earned by persons employed in the direct new automobile dealers industry and the indirect industries that form the industry supply chain.



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