2 Reasons to Steer Clear of Auto Stocks in 2018

Description

Auto sales in Canada hit the two million mark for the first time in history in 2017. This represented the fourth straight year of record sales with the success of the light truck segment leading the way. However, a number of headwinds in the auto sector were identified by experts and analysts leading into 2018. Recent developments have vindicated some of these warnings.

Here are two reasons investors may want to stay on the sidelines in what may grow into an increasingly difficult year for the auto sector.

Auto sales dropped in March and April

Auto sales hit record levels in Canada in the months of January and February. After a rate hike in mid-January, this was especially encouraging, but recent data should temper expectations.

In March, vehicle sales fell 0.6% year over year. Passenger car sales dropped 12.4% year-over-year while sales in the light truck segment increased 5.2%. The numbers were still historically high, which may have served as a silver lining for onlookers.

April auto sales were released by DesRosiers Automotive Consultants on May 2. Passenger cars dropped by another 12.4% in April, while the number of light trucks rose 2.2%. David Adams, president of the Global Automakers of Canada, said that cooler weather in April may have contributed to a delay in the spring market.

AutoCanada Inc. (TSX:ACQ) stock was down 1.82% in afternoon trading on May 3. Shares of AutoCanada have dropped 5.5% in 2018 thus far. The Edmonton-based operator of franchised automobile dealerships reported record revenues in 2017. The company is expected to release its first-quarter results early this month. Earnings may reflect the relative strength of the industry in January and February.

NAFTA resolution could hurt the broader industry

The impact of broader policy also threatens the industry, both for dealers and auto parts manufacturers like **Magna International Inc.** (TSX:MG)(NYSE:MGA). Shares of Magna have climbed 8% in 2018 after the company posted record sales in 2017.

A recent study from the Center for Automotive Research suggested that new NAFTA auto content rules could dramatically increase pricing for North American vehicles.

Negotiators are reportedly working on a proposal that would stipulate a greater amount of North American auto content, and favour high-wage jurisdictions in the U.S. and Canada. The study in question estimates that at least 46 vehicle types fail to meet these criteria. The producers would be given the choice to obey the NAFTA rules or be subject to a 2.5% tax on a light vehicle in the U.S. and 6.1% in Canada.

The conclusions of the study were troubling. It projected that tariffs could add up to a $3.8 billion tax on U.S. consumers and add between $470 and $2,200 to the cost of said vehicles. This could hurt vehicle sales across the continent. Jeff Rubin, a senior fellow at Canada's Centre for International Governance Innovation, predicts that the industry could face a long-term decline. He also predicted that companies like Magna would opt to pay the tax rather than undergo the changes necessary to meet new stipulations.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:ACQ (AutoCanada Inc.)
3. TSX:MG (Magna International Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/24
Date Created
2018/05/06
Author
aocallaghan