It's a good time to buy a car in Canada

Increasing competition in the auto industry is leading to better deals

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SPECIAL TO THE STAR

When Byron Chui walked into the car dealership, he knew exactly what he was looking for.

His mind was set on a Toyota Celica, the model he always wanted but couldn't afford when it was first released.

He took it for a test drive when his local dealership was holding a sales event. "I said, 'That's the one. I'm taking it.' "

Chui was sold on the car, but not the $18,000 sticker price, which would put him over budget. But he knew he could talk the dealer down.

At first, "the salesman couldn't make a better deal for me," offering a $1,000 discount, which wasn't enough for Chui. Then, the dealer asked him if he wanted to trade his vehicle, again offering only $1,000 for trade.

Unhappy with the price, he said, "No way, I can go to the dollar store, pick up a for-sale sign and someone will buy it for $3,000."

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> CHIEF ECONOMIST WITH THE CANADIAN AUTOMOBILE DEALERS ASSOCIATION

In the end, Chui knocked $4,000 off the sticker price.

It's a good time to be a car consumer. The automotive industry in Canada has grown 6 per cent in 2013, on pace to break the 2002 record of 1.7 million new cars sold.

There are a number of factors driving the boom.

Michael Hatch, chief economist with the Canadian Automobile Dealers Association, which represents 3,200 dealers across the country, says intense competition in the automotive industry is leading to better deals for consumers.

"For the past two decades, the price of a vehicle has gradually been coming down, which is in contravention to the regular inflationary prices we see in the economy," says Hatch.

"If you take inflation into account, prices are 20 to 30 per cent below what they were a generation ago. People are responding to that."

Dealerships frequently flaunt ultra-low financing options, some up to eight years.

"It's all aligning to make a very good year for new car sales," says Hatch.

There may be more good news on the horizon. Prime Minister Stephen Harper just signed a European trade deal, which may bring imported vehicle prices down because of reduced tariffs.

Under the North American Free Trade Agreement, vehicles imported from the U.S. come in tariff-free. The European deal will work much the same.

"The reduction in tariff barriers in particular will be very powerful," says Hatch, explaining that's because the reduction will likely level the playing field with Canadian and North American automakers, as their European counterparts currently pay a 6.1-per-cent tariff.

That percentage may not sound enormous, but Hatch says when you're talking about a vehicle that costs $30,000, a 6-per-cent tariff amounts to $1,800.

"But you need competition to bring down those prices. The car industry is a very competitive one, so those costs savings will show up for consumers," says Hatch.

TransUnion, one of Canada's credit reporting agencies, says the average consumer had $19,345 in outstanding car loans, an increase of 9 per cent over last year.

Consumers may be taking on more debt, but TransUnion is reporting fewer defaults, meaning more people are paying back their loans as contracted.

"There's always risk when you're talking about debt, both by the person granting and the person assuming the debt," says Hatch. "The rate of default on automotive vehicles is tiny, as close to 100 per cent as it could possibly be. So the risk is very low, which is part of the reason the interest rate is so low."

Vehicles across all segments are driving off the lot. However, Canadians do seem to have a penchant for their pickups.

According to DesRosiers Automotive Consultants, the best-selling vehicle in Canada is the Ford F-Series, with more than 84,557 sales so far in 2013.

The Honda Civic is Canada's top choice for passenger vehicle, selling 41,836 vehicles this year.

Vehicles may be priced to sell, but can you truly afford the cost of a new one?

On top of your monthly car payment, you'll need to pay insurance, fuel and maintenance costs.

Create a realistic budget to know what you can afford.

Doing your homework before walking into a dealership can help you negotiate a better bargain. A good place to start is with your credit report. Make sure it's in good standing. If your credit rating is poor, getting that zero-per-cent interest rate isn't likely.

Learning how much a dealer paid for the vehicle you want may put you at an advantage.

Ellen Roseman, a personal finance columnist with the Toronto Star, points to two companies that make the search easier for consumers and may help them save up to 15 per cent when buying a vehicle.

Unhaggle provides free dealer-invoicing reports to consumers. Car Costs Canada also provides this material but for a fee, as it also offers up dealer incentives and manufacturer rebates. It may be good idea to visit your bank before the dealer to inquire about financing options. Ask the bank to print various payment schedules to help you compare monthly payments over different terms.

When you inquire about financing options at the dealer, ask for the same information you received from the bank. This will help you better evaluate and choose the best deal.

Chui points out that everybody has the potential to score a great deal.

"Go in and tell them your budget. Ask them what they can do for you. Be polite, there's no need to be aggressive from the beginning," he says.

"In the end, if you're not getting what you want you can turn on the heat," he says.

> WALK IN WITH CONFIDENCE

Arm yourself with knowledge to get a better bargain at the dealership. Car Costs Canada suggests that you consider the following:

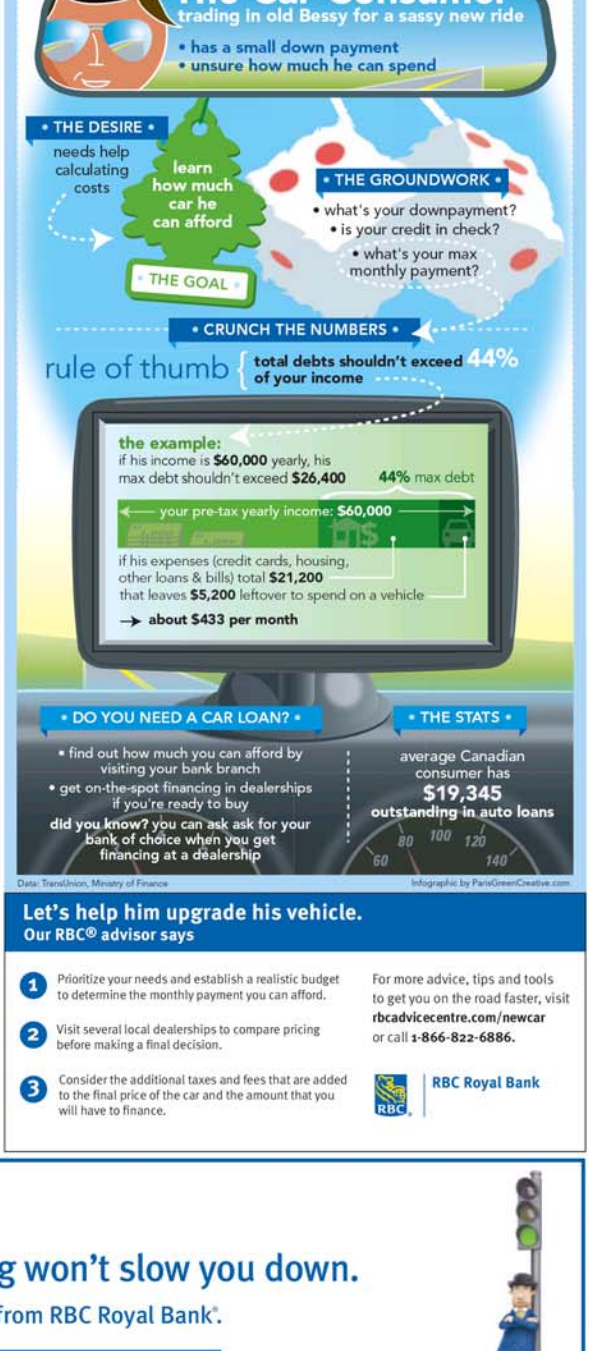
What's the dealer invoice price?
Once a vehicle is transported to a dealership, the manufacturer invoices the dealer. A dealer will typically pay the manufacturer through a pre-arranged line of credit.
This amount may be less than the manufacturers suggested retail price (commonly referred to as the MSRP). This is the amount a dealer wants you to pay.

How do dealers make a profit?
There are two goals that come into play.
The buyer wants to land as close to the manufacturer's invoice number as possible, while the seller will steer you closer to the suggested retail price.
The amount between gives room for dealer profit, but it also has to pay overhead expenses, sales representative salaries, commissions and bonuses.
All of these factors can affect how much dealer is willing to negotiate.

What are factory-to-consumer incentives?
Manufacturer advertisements may include incentives, such as zero per cent financing or a $2,000 cash rebate. It's important to note, you will have to choose between one and the other, as it's an either/or situation.

What are factory-to-dealer incentives?
These rebates are difficult to find, as they are not advertised. They are known as marketing credits, trading dollars, factory cash, dealer cash, dealer bonuses, and invoice credits among other terms.
Manufacturers use them to encourage more vehicle sales or to carry more inventory. Dealers may consider these incentives when negotiating, which in turn can help you land a better deal.

What's a holdback?
This is a complex system intended to supplement a dealer's cash flow. Manufacturers may help subsidize the dealers' marketing and advertising charges, for example. The amount will range from nothing to three per cent of the manufacturer suggested retail price. This figure is considered an "invisible" fee, so you won't see it listed on a vehicle report.



Let's help him upgrade his vehicle.
Our RBC® advisor says

1. Prioritize your needs and establish a realistic budget to determine the monthly payment you can afford.
2. Visit several local dealerships to compare pricing before making a final decision.
3. Consider the additional taxes and fees that are added to the final price of the car and the amount that you will have to finance.

For more advice, tips and tools to get you on the road faster, visit **rbcadvicecentre.com/newcar** or call **1-866-822-6886.**

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