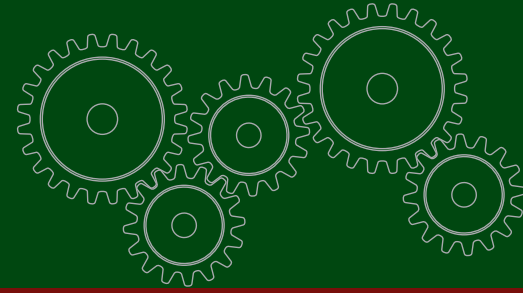




## MANHEIM CONSULTING

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*Accelerate Your Business*

### July 2008

#### ECONOMY:

- Consumer Confidence Index—from the University of Michigan—hit a 28-year low in June; the Conference Board's Index was at a 16-year low-its "future expectations" component was at an all time low.
- June unemployment rate held steady at 5.5% but there was a loss of 62,000 jobs. Sixth straight month of job losses, totaling 438,000 for the first half of 2008. The number of people unemployed for at least 26 weeks is up 37% over last year, almost double the percentage increase for the overall unemployed.
- Gasoline prices hit an all-time high of \$4.11 a gallon. CIBC World Markets projects oil at \$200/barrel—gas at \$7.00/gallon by 2010 (Manheim Chief Economist Tom Webb thinks that is way off the mark, way too high).
- "Fed Sees Turmoil Persisting Deep Into Next Year," New York Times, July 9, 2008: Fed Chariman Ben Bernanke would not provide a specific forecast of how soon he expected the markets would begin to turn. Last week, Treasury Secretary Henry Paulson said in London that the problems of the housing and financial markets might last longer than originally expected.

#### OVERALL INDUSTRY:

- "June U.S. Auto Sales: Automakers Post Major Drops," Automotive News, July 7, 2008. For the MONTH of June: Industry down 18.3%: GM down 18.2%, Ford down 29.5%, Chrysler down 35.9%, Toyota down 21.4%, Honda UP 1.1% and Nissan down 17.7%. KEY: the SAAR-seasonally adjusted annual rate (of sales)—for just June was 13.6 million vehicles (2007 full-year was 16.1m). GM's sales were helped by having 0% financing for 72 months on most vehicles from June 24-30.
- June was also the second straight month that the F-150, the # 1 selling vehicle in the U.S. for 26 consecutive years, ranked # 5—top four: Honda Civic, Toyota Corolla, Toyota Camry and Honda Accord.
- First six months sales and market share: SALES—industry down 10.1%; GM down 16.3%; Ford down 14.5%; Chrysler down 22.0%; Toyota down 6.8%; Honda up 4.1%, Nissan down 2.4%. First six months sales were at an annual rate of 14.7



million vehicles (2007 actual = 16.1 million; 2006 = 16.6 million). MARKET SHARE (2007 market share follows each in parentheses): GM-21.4% (23.0%); Ford-15.8% (16.6%); Chrysler-11.7% (13.5%); Toyota-16.7% (16.1%); Honda-10.8% (9.3%); and Nissan-7.0% (6.5%). Deutsche Bank analyst: each one point of market share—annualized—is worth \$1 billion profit.

- Merrill Lynch conference call: over the next 6-18 months, the SAAR will be in the LOW 14 MILLION range. Merrill Lynch has also revised their 2008 and 2009 auto sales forecasts: 2008—to 14.3m (was 14.8m) and 2009 to 14.0m (was 15.3m)
- Production cuts/assembly plant closings by the Detroit Three: GM—closing four plants that build full-size pickups and SUVs, hired Citibank to review whether to keep or sell Hummer. Ford: reducing third quarter truck production by 50,000 more units than previously announced—DELAYING THE INTRODUCTION of the all-new 2009 F-150 until at least November; Chrysler: closing (October 31) a minivan plant in St. Louis (in which it had invested \$300 million to modernize over the past two years) and reducing to one shift a full-size truck plant—ALSO IN ST. LOUIS—in - which it had invested \$500 million over the past two years. (Much of both the \$300 million and \$500 million were to outfit the plants to build all-new models—the 2008 minivans and the 2009 Ram full-size pickups—gas going over \$4/gallon was the tipping point for both).
- “JP Morgan Analysts See No Bright Spots for Detroit,” July 4, 2008 Atlanta Journal Constitution. “The brokerage house says Chrysler faces the most dire situation, with a ‘major liquidity event’ possible by the second half of 2009.” Main points in a client note: GM—may burn through \$18 billion in cash by the end of 2009, and management will likely not tolerate less than \$15 billion on the books. Ford: has the least liquidity risk, should be able to manage for about two years. May be forced to sell Volvo (for \$3.5 billion) or its stake in Mazda (for \$2.5 billion). Chrysler: said it had about \$9 billion in cash at the end of 2007, may be forced to sell its Jeep, minivan or Ram franchises...but even that would only postpone, rather than avert, bankruptcy.
- “New-car losses soar; dealer’s 3<sup>rd</sup> year of red ink.” Automotive News, June 30, 2008. NADA says that net losses per new vehicle sold in the first four months of 2008 are averaging \$136 per vehicle vs. a loss of \$61 per vehicle for the same period a year ago. As recently as 2004, the average net profit per new vehicle sold was \$176. Never before has the average new vehicle department lost money for three consecutive years---but that will happen in 2008. On used vehicles, dealers are averaging a net profit of \$220 per vehicle for the first four months of 2008, down 36% from \$344 in the first four months of 2007.

#### USED VEHICLE PRICES:

- Manheim June Index had overall used vehicle prices down 6.2% year-over-year. By segment, the biggest decreases were in full-size SUVs (down 27.5%) and full-size pickups (down 25.4 %). Prices for compact cars were up 12.7%, the only segment with an increase. Main culprits-what Tom Webb yesterday on his quarterly





Manheim Used Vehicle Value Index conference call referred to as “the three forces of evil:” credit markets (frozen), energy, labor markets.

#### ENERGY PRICES:

- Gas Prices hit an all-time high of \$4.11 a gallon. CIBC World Markets, in a June Report, projects oil at \$200 barrel and gas at \$7/gallon by 2010. Manheim Chief Economist Tom Webb thinks that is way off the mark, way too high.

#### GM:

- “GM: Burning Cash Like Rubber” (June 23, 2008 Business Week). Since last fall, GM’s cash hoard has dropped from \$30 billion to \$24 billion, is burning \$1 billion a month. Merrill Lynch thinks GM will have to raise a fresh \$15 billion to get through 2010.
- GM’s share price at a 53 year low. Market caps as of July 1: GM--\$6.1 billion; Toyota--\$163 billion.
- “GM Weighs More Layoffs, Sales of Brands,” (Wall Street Journal, 7/07/08). GM has 8 brands and 21% market share (Toyota has three and 17%). Saab sells just 35,000 cars a year, Hummer brand under review. Everything except Chevrolet and Cadillac is on the table.

#### FORD:

- “Kerkorian May Fill Ford’s Tank,” (Business Week, July 7, 2008): The minority stakeholder is poised to help the ailing automaker raise billions for a restructuring. Ford currently has \$29 billion in cash, but 91-year old Kirk Kerkorian may be willing to invest a few billion dollars if the company needs cash. Goldman Sachs, banker to both the company and the Ford family, could also aid.
- “Glut of ‘08 Ford F-150s Delays Launch of ‘09s,” Automotive News, June 23, 2008. As of June 1, Ford had 226,000 pickups in stock at dealerships—a 142-day supply. 2009 all-new F-150 will now debut in November.

#### CHRYSLER:

- “Chrysler Taps a \$2 billion Credit Line,” New York Times, June 25, 2008. The \$2 billion credit line was a condition of its sale last year from Daimler to Cerberus Capital Management. Chrysler had no comment on what the money would be used for or why it was drawn at this time.

