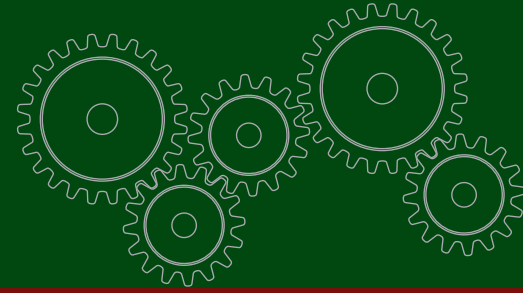




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Accelerate Your Business

June 2008

OVERALL INDUSTRY:

- “Detroit Faces Two Very Challenging Years In Its Biggest Market,” (May 30 Kiplinger Letter). Sales could fall 15% from a year ago in the U.S. Blame high gas prices and hard-to-get credit. The Detroit 3’s share of new sales may dip below 50% this year—a first. Chrysler is in the worst shape of the three, may be on the auction block.
- Despite automakers’ earlier hopes for a rebound in the second half of 2008, many analysts see the pain lasting well into 2009 and beyond. Argus Research: “it’s going to be a real critical time for the next two or three years.”
- The auto industry contributes almost 4% of U.S. economic output and employs 2.5 million people directly and indirectly.
- May auto sales down 14% (year-to-date down 8%), Detroit Three down 26%, seventh consecutive year-over-year decline, annual selling rate was 14.3 million vehicles (was 16.1 million last year, 16.6 million prior year, all-time record year was 2000-17.4 million). Key stories behind the numbers: a.) # 1 selling vehicle USUALLY—the Ford F-150, dropped to # 5 behind Honda Civic, Toyota Corolla, Toyota Camry and Honda Accord; b.) Toyota was within 10,000 vehicles of GM’s total sales; c.) Honda outsold Chrysler, dropping them to # 5; d.) May sales market shares: GM-19.1% (first time ever under 20%); Toyota-18.4%; Ford-14.7%; Honda-12.0%; Chrysler-10.6%; and Nissan-7.2%.
- Cars accounted for 57% of U.S. light vehicle sales in May, the highest proportion in 12 years and up from 53% in April.
- Sales decreases for the Detroit Three in May: GM down 30%, Ford down 19% and Chrysler down 28%. Top execs at the Detroit Three are all talking of this “as a structural change in the market, not a cyclical change.” The days of 2.5 million full-size pickups selling annually are permanently changed.
- U.S. car and light truck sales peaked at 17.4 million in 2000, and the Detroit Three had two-thirds of the market (44% in May). The market share that they have lost since then is equivalent to a Ford-size company being wiped out. Since 2000, they have also shed 270,000 employees—nearly a third of their total—with more coming. May was only the fifth month in history that imports have outsold the Detroit Three, but the imports share had never previously topped 52.6%-it was 55.6% in May.



- Trucks make up 70% of Chrysler's U.S. sales compared to 41% for Toyota (GM and Ford are in the low 60s).
- Credit Suisse estimates that each light truck contributes an average of \$9,000 to pre-tax profit while the average car earns only \$3,000.
- Merrill Lynch has lowered their sales forecasts for both 2008 and 2009. 2008 has been lowered by 500,000 units from 15.3m to 14.8m; 2009 by 700,000 units from 16.0m to 15.3m units.
- "Stalled In The U.S.A.: Europe's Small Cars:" The strong euro and pricey labor are making it tough for VW, Volvo and others (who don't have an assembly plant here) to show a profit in America. Over the last 12 months, the euro has risen 13% against the dollar. High labor costs are another fact of life in Europe. President of Volvo North America: "there isn't a scenario where we can sell cars under \$30,000 at a profit."
- "Detroit Levels Productivity Playing Field; Auto makers slash labor cost advantage of Japanese rivals" (Wall Street Journal June 6). Chrysler and Toyota tied for the top spot in plant productivity in North America according to the annual Harbour Report. The Big Three are now nearly even on manufacturing productivity. Chrysler and Toyota were each at just over 30 hours to assemble a vehicle and major components like the engine and transmission; GM was at 32 hours, Ford at 33.5; hence, Ford's labor cost was just \$260 higher than Toyota. Honda was just behind Toyota and Chrysler, Nissan was just behind GM and ahead of Ford. As recently as 2003, that gap had been 10.5 hours, or about \$800.
- Although productivity is improving (see above article), the higher cost structure of the Detroit Three makes vehicle production a money losing business. In 2007, Ford lost \$1,467 per vehicle while GM lost \$729 and Chrysler lost \$412. Toyota made \$922 per vehicle, while Honda and Nissan both made \$1,641. That gap should narrow starting in 2010 when the UAW contract kicks in and the automakers hand over their retiree health care liabilities to new independent trusts overseen by the UAW.
- J.D. Power 2008 Model Initial Quality Survey Results: Top five: Porsche, Infiniti, Lexus, Mercedes-Benz and Toyota/Mercury (tied). Bottom five: Suzuki, Saturn, Land Rover, Mini and Jeep (worst at 167 problems per 100 vehicles). Industry average was 118 problems per 100 vehicles, a 6% improvement from 2007's 125 problems per 100 vehicles. With a few exceptions, Ford and GM were better than industry average; Dodge, Chrysler and Jeep were all below industry average. The survey reports on the initial quality of new vehicles during the first 90 days of ownership, based on responses from more than 81,000 verified owners of 2008 model vehicles.
- GM and Ford Doing Very Well Overseas. (Kiplinger Letter May 30). Both GM and Ford sell more than 50% of their vehicles overseas (Chrysler just 9%). GM already outsells Toyota in 16 of the world's 20 hottest markets. Both should be able to up global sales by 10% by 2015.



- The Manheim Index for May reflected the impact of higher gas prices on larger vehicles; compared to prices for May 2007, full-size pickups were down 21% and full-size SUVs were down 24%. Compact car prices, the only segment with an increase, were up 6%. Also of note, prices for used entry-luxury cars were off 9%. The Index overall was down 6.3% from May 2007.
- “May CPO Sales Surge to New Record:” On a bright note for franchised dealers, sales of certified pre-owned vehicles rose to an all-time any month high in May of 164,000 vehicles—up 5% from a year ago. On an annual basis, CPO units now are a 1.6 million plus market. Customers prefer them because they have a factory warranty and are relatively young/have acceptable miles. Dealers like them because they turn much faster and for higher profits than non-CPO units.

ENERGY:

- “Gasoline Hits Average of \$4 a Gallon,” Wall Street Journal (6/09/08): Price shock, among the worst in a generation, will worsen the risk of recession. Gasoline prices have risen 29% over the past year, eating up money that consumers might otherwise spend on appliances or movie tickets or vacations. May’s jump in the unemployment rate—from 5.0 to 5.5%—and the loss of 49,000 jobs will further crimp the economy. Gasoline prices have risen more than \$1.00/gallon since the economic stimulus package cleared Congress in February (some/much of the rebate checks have gone to pay for gas).
- As of June 10, gas was at a record \$4.04/gallon and 23 states and the District of Columbia were at \$4.00 or higher.
- Oil prices were \$30 a barrel at the start of the Iraq War.
- Kiplinger forecasts \$100 a barrel oil—a 30% drop—and \$3.45 a gallon gas by year-end. Demand is falling, miles traveled in the U.S. are down and consumer habits are changing. Half of the drop will come from the speculative froth subsiding. No long term collapse however that followed previous spikes in 1979 and 1980.

TOYOTA:

In late May, for the first time ever, Toyota started offering a nationwide APR program for select certified vehicles—full-size trucks and full-size SUVs. Qualified buyers can get 2.9% financing for 66 months on certified Tundras and Sequoias. The program runs through July 31. Toyota estimates that translates into monthly savings of \$50-\$60 for customers.

