



Weekly Car Dealers Newsletter

April 26, 2010

This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources.

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TOYOTA TO FACE CONGRESS AGAIN ON MAY 6TH
[FLIGHT CRISIS HITS NISSAN PARTS SUPPLY](#)
JD POWER – SALES RATE AT 11.5 MLN
NADA USED CAR GUIDE PREDICTS WHOLESALE PRICE DROP
PURSUIT RATED: AN UP-CLOSE LOOK AT THE NEW FORD POLICE INTERCEPTOR

TOYOTA TO FACE CONGRESS AGAIN ON MAY 6TH

Toyota executives have been asked to testify again to a U.S. House subcommittee on May 6, and lawmakers today asked for more information about Toyota's testing for causes of sudden acceleration and its work with California research firm Exponent.

The Japanese automaker also said it had been able to duplicate a flaw in the skid control system on new Lexus GX 460 sport utility vehicles, but said it had not yet settled on exactly how to fix the problem. U.S. Reps. Henry Waxman, D-Calif., and Bart Stupak, D-Menominee, asked Toyota and Exponent for several documents, including copies of all contracts and correspondence between the two firms regarding Toyotas and sudden acceleration.

Toyota hired Exponent last month to help discredit claims by an Illinois professor that an electronic flaw could trigger the problem in Toyota models. Exponent showed the technique used by David Gilbert of Southern Illinois University could be applied to several models from other automakers.

Toyota has paid a \$16.4-million fine by the National Highway Traffic Safety Administration that it delayed the recall of more than 2 million vehicles with sticky gas pedals that could trigger sudden acceleration. The company has recalled a total of 5.4 million cars and trucks in the United States for pedals and floor mats linked to sudden acceleration, but steadfastly

maintained that there were no flaws in its electronic systems which could trigger such a problem.

The automaker stopped selling the Lexus GX460, a SUV sold by Toyota's luxury brand, earlier this week after Consumer Reports deemed the truck unsafe to drive because its skid controls allowed the vehicle to veer to the side before regaining control in certain maneuvers.

Toyota spokesman Bill Kwong said the automaker had duplicated Consumer Reports' results and was working on a fix. He said Toyota would offer the repair either as a recall or a less-urgent "customer service campaign." *Source: Detroit Free Press*

FLIGHT CRISIS HITS NISSAN PARTS SUPPLY

TOKYO — Nissan Motor Co. said Tuesday that the volcanic eruption in Iceland has forced it to temporarily suspend part of its domestic production lines as it is unable to airlift auto parts from Ireland. Japan's third-biggest car maker by volume will halt one of its two production lines at a factory in Kanagawa and also suspend two production lines at a plant in Fukuoka on Wednesday, as it is unable to procure pneumatic sensors by plane, a Nissan spokesman said. The sensors are installed in the company's Cube compact, Rogue small sport-utility vehicle and the Murano SUV that Nissan exports from Japan to North America. *Source: The Wall Street Journal*

JD POWER – SALES RATE AT 11.5 MLN

Influential forecaster J.D. Power and Associates said on Thursday it expects U.S. auto industry sales to reach an 11.5 million vehicle annualized rate in April, up sharply from a year earlier, but down from March. In terms of retail sales, the rate is expected to increase slightly in April from March, supported by incentives that have been extended from March, but are far below levels seen during the depths of the downturn a year ago, J.D. Power said. Incentives declined overall in April from the prior month, "which suggests that the likelihood of an outright incentive war is now lower," Jeff Schuster, J.D. Power's executive director of global forecasting, said in a statement.

Toyota Motor Corp in March brought out broad incentives to jump-start sales that had faltered in January and February due to pressure from its massive safety recalls and a related sales halt on some of its most popular vehicles. The result for Toyota was a 41 percent sales increase in March from a year earlier and an extension of most incentives into early May. Other major automakers were forced to go along at least in part with incentives to remain competitive.

J.D. Power left its full 2010 forecast for U.S. industry sales of 11.7 million vehicles unchanged, noting that consumer confidence had improved recently, but remains low overall due to the high unemployment rate. Automakers sold about 10.4 million vehicles in the United States last year.

"However, the outlook is improved from where it was at the end of 2009, and the industry is now able to focus on moving forward, rather than worrying about surviving," Schuster said. *Source: Reuters*

NADA USED CAR GUIDE PREDICTS WHOLESALE PRICE DROP

According to NADA Used Car Guide, there are four reasons why analysts believe wholesale vehicle prices will moderate and follow seasonal depreciation patterns during the remainder of the year. The specific reasons given by Jonathan Banks, executive automotive analyst for NADA Used Car Guide, included margin erosion, new-vehicle sales, returning used supplies and segment performance. Banks and his colleagues delved deeper into each of those elements.

—**Margin Erosion:** The first factor Banks cited as a reason for sharp depreciation in wholesale prices is that the gap between wholesale and retail prices continues to narrow. "Based on NADA's analysis of the margin between used-retail prices, provided by J.D. Power PIN data, and used wholesale AuctionNet prices, the margin between wholesale and retail prices has declined dramatically during 2010," Banks indicated.

One example the company offered was how mid-size CUVs experienced margin declines of up to 50 percent compared to the beginning of this year. They believe dealer demand for used models drove up wholesale prices with retail prices not experiencing parallel movements.

Furthermore, based on historical data, analysts emphasized that this relationship is likely unsustainable since historical retail prices create a ceiling for wholesale price appreciation. "The emphasis on selling used products during the downturn has improved efficiencies and driven demand for better tools to improve turn rates, pricing and financing for used products, which explains part of this reduction since expenses on the dealer side have improved," Banks highlighted. "However the tighter margins surely will drive dealers to look for better margins in the future," he added.

—**New-Vehicle Sales:** Further explaining its prediction, NADA Used Car Guide reported that increasing new-vehicle sales should result in a higher number of trade-ins. The company cited forecasts by Global Insight that indicated new-vehicle sales are expected to jump by 13 percent this year; thereby increasing potential used trade-in volume by approximately 1 million units. "The expectation is that 2010 sales will outpace 2009 in every month, excluding August, which was buoyed by Cash-for-Clunkers, reaching 11.8 million units for the year," Banks explained. "It should be noted that Global Insight's forecast is in line with most forecasts, including NADA's," he continued.

—**Returning Used Supply:** In addition to rising levels of trade-ins, NADA Used Car Guide's analysis also showed that an increase in used supply — driven by past new sales and seasonal factors — will also provide dealers with additional inventory relative to 2009. The analysts'

estimates indicated that the total pool of new vehicles returning to the market will gradually increase in the second quarter of this year. They also noted that the year-over-year change will increase by 4 percent in June. "This increase in used supply, coupled with the expected increase in trade-ins, will help align expected demand increases with available supply, thereby slowing down the upward movement in wholesale price experienced so far in 2010," Banks stressed.

—**Segment Performance:** Analysts found that prices across all segments have shown similar strength with no particular movement based on fuel economy. NADA Used Car Guide determined supply for car segments has remained relatively stable indicating that demand is the primary driver of the price increases this year. "With the national average price of fuel looming near \$3, small car segments may have the potential for upward movement as we move into the historical high season for gas prices," Banks explained.

"NADA witnessed price appreciation on 2003 through 2006 luxury models, which may indicate a recovery in the luxury segment as consumers move into 'affordable' luxury models," he noted. "This portends to stronger luxury price performance when unemployment begins to improve as we move forward from the jobless recovery."

Moving on to a discussion about trucks, analysts noticed wholesale prices in this segment have led the market. They spotted an average increase of about 20 percent for 5-year-old or newer truck, CUV and SUV prices on a year-over-year basis. Analysts added that these increases are on top of the recovery from the historically low prices for trucks and SUVs driven by the dramatic increase in gasoline prices in 2008.

"In this case the recovery in prices is driven by manufacturers' dramatic production cuts on truck and SUV models ultimately resulting in constrained supply of both new and used vehicles for these segments," Banks determined. One example he shared was connected with General Motors. Banks said the automaker is in short supply of its full-size SUV offerings and is considering an increase in production.

NADA Used Car Guide also shared more elements that could push prices in the truck segment. "With housing starts and construction just starting to show signs of life, demand for these models will continue to increase thereby keeping prices high in the short-term since it is unlikely that manufacturers will be able to adjust production until late 2010," Banks offered. "Fuel prices clearly will play a role in the performance of used prices for these models and the recent increase in barrel prices and the tight supply of refined gasoline are concerns; however fundamentals are pointing to a possible reduction in oil prices, or at the very least stability during the next few months," he went on to note.

With all of those elements in play, NADA Used Car Guide expects wholesale prices to remain stable during the next two months with gas prices expected to cause differing performance between cars and trucks. Analysts added that guidebook valuations through May will project this

stability, which outperforms typical seasonal trends. "We expect the market to begin exhibiting mild depreciation beginning in the latter half of the second quarter; however on a year-over-year basis used prices are expected to remain at or above levels experienced during 2009," Banks stated. *Source: Auto Remarketing*

PURSUIT RATED: AN UP-CLOSE LOOK AT THE NEW FORD POLICE INTERCEPTOR

Don't look now--though it might be wise to check your rearview mirror--but cop cars are suddenly quite cool. The latest evidence of this is found at Ford, where a new Police Interceptor based on the Taurus is set to go on patrol in 2011.

And it's not just the Blue Oval that's in hot pursuit of the police market. [Chevrolet](#) recently revealed the V8-powered, rear-wheel-drive sedan we've all been waiting for. No, not an Impala SS. This is a cop cruiser called the Caprice.

At the moment, you have to be in uniform to drive this Bow Tie beauty, which is a crime.

And of course, Chrysler is also hitting the streets with fury--not with the Gran Fury famously used by police forces decades ago, but with its modern muscle car, the Hemi-powered Dodge Charger.

With all of this Detroit muscle on patrol, what chance does a perp have? Not much, if he's being tailed by officers in the new Ford Police Interceptor. It replaces the Crown Vic next year.

We got an up-close look at the new cop car on Thursday at Ford's development facilities in Dearborn, Mich. It's an impressive sedan with all of the modern amenities police need on the mean streets of America.



ZOOM
Greg Migliore

The new Ford Police Interceptor comes with front or all-wheel drive and will replace the Crown Victoria in 2011.

Necessary force under the hood

The new car breaks from the tried-and-true rear-wheel, big-engine template Ford uses today in the Crown Victoria. Instead, the police car comes with Ford's twin-turbo EcoBoost-powered V6 pumping out 365 hp and 350 lb-ft of torque. A naturally aspirated V6 with 263 hp is the other engine choice. All-wheel and front-wheel drive are available. To better cope with life on the streets, the engine also gets a heavy-

duty alternator and a larger radiator.

Ford expects these configurations to be comparable with those of the Crown Vic, which has commanded the lion's share of the police market since Chevy killed the old Caprice in the 1990s. Ford also expects the car to match up against the more traditional engine and drivetrain

options from Chevy and Dodge for police uses. The EcoBoost engine is 25 percent more powerful than the 4.6-liter V8 employed in the current Crown Vic.



ZOOM
Greg Migliore

A hands-free feature allows officers to get the lights going while keeping their hands on the steering wheel. Plus, the cruiser gets an enhanced version of Sync.

More than just room for handcuffs and pepper spray

Plus, Ford's cop cruiser offers loads of technology from its latest gadget bins, including a more powerful version of Sync. This allows officers to give commands into a voice box from the driver's seat. There's also a hands-free feature so officers can switch on the lights and siren without taking their hands off the wheel during chases, Ford's cross-traffic alert and a rearview camera.

The car will be assembled in Chicago alongside its Taurus sibling, though the police variant gets stronger suspension parts, among other enhancements.

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"We have over 70 percent of the police business, and we don't take that for granted," said Mark Fields, Ford's president of the Americas.

Clad in a gray suit and a silver tie, the exec look at bit like a plainclothes detective. Though unlike *NYPD Blue's* Andy Sipowicz, Fields was all smiles--perhaps because his new cop car has passed rigorous testing by the Michigan State Police and the Los Angeles County Sheriff's Department.

"Now, we have the police car for the 21st century," he said.

Other important features include antistab plates (in case a suspect smuggles a knife into the back seat), ballistic panels (for protection in shootouts) and 18-inch wheels complemented by underbody plates for when officers need to drop it into gear quickly and perhaps jump a curb in the process. The old-school column shifter is used in this modern cop car, so there is more room in the center console for a computer and for officers to interact.

The rear doors open 71 degrees for stuffing suspects in the back seat, and there are special materials in the rear in case a suspect is bleeding or losing other bodily fluids on the drive downtown.



ZOOM
Greg Migliore

The rear doors swing open 71 degrees for ease of entry and exit--in cuffs.

The interior

What's it like to sit in? At a preview event, *AutoWeek* spent a bit of time in the front and back seats. We weren't cuffed, thankfully. Ford has been showing a concept vehicle of sorts, but it's pretty much the car that officers will use on patrol. We played with the lights--probably to the chagrin of everyone else in the room--and took particular joy in shining the spotlight on random people. The car is well laid out and

looks similar to a conventional Taurus, with the handsome dials and sharp steering wheel. The seats are sporty and supportive, and the whole dynamic is closer to that of a cockpit than a typical family sedan.

In back, it's surprisingly pleasant. If you're ever unfairly accused of a crime you didn't commit, take solace in the fact you'll at least be riding in style for questioning until you lawyer up. The defenses that separate and protect the cops from the robbers do crowd the legroom in the back. But if you do find yourself there, that's probably the least of your troubles. *Source: Autoweek.com*
