



Weekly Car Dealers Newsletter

May 17, 2010

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

Week of May 17, 2010

THE FOLLIES OF FUEL EFFICIENCY

The trouble with our energy programs is that many of us just don't believe they are anything but talk. Does anyone really believe that even one new nuclear plant will be built in the next 15 years? Or that someone will come up with a way to burn coal without putting carbon into the atmosphere? Or that any serious quantity of oil will result, even two decades from now, from the offshore lands the government is supposedly freeing up?

The point is that we've created a country where there's all kinds of talk, but talk doesn't mean anything. Studies are made, lawsuits are filed, time passes and then there are more studies. An exception is the government plan to reduce gasoline use by decreeing that by the time the 2016 models are out, new cars and trucks will average 35.5mpg. This might be accomplished -- and just might be a disaster. Everyone likes the idea of getting more miles per gallon. Everyone likes improving our national security by reducing oil imports. Everyone likes to cool the earth by using less CO₂. But the cost is likely to be great. My estimate to accomplish that 35.5mpg goal is an average \$10,000 per car, pushing the average price close to \$40,000. Our government estimates the cost at \$1,000 a car. This is the same government that pays \$7,000 for a thermos and \$600 for a toilet seat. Just to give you an idea, batteries for an electric car run \$10,000 to \$20,000. (That's for a range of 40 to 100 miles.) A hybrid system for a pickup costs \$10,000. Then there will be the costs of new, light materials such as carbon fiber and sophisticated engine controls.

Is it possible that car buyers will fall in love with smaller cars? The first of the new small cars to be built on this continent, the Ford Fiesta, will be here in weeks, but we really don't know how it will sell. Small cars really don't do that well now; Daimler sold only 1,397 of its tiny Smart cars here in the first quarter, and BMW sold only 8,728 of the somewhat more acceptable Mini. That

compared with 103,039 Ford F-Series pickups. Don't think our auto companies will be happy to pump up the volumes by selling small cars at giveaway prices. They need a good price to earn back their investments and make a profit. One trip to bankruptcy court is enough. So will Americans pay high prices--say, \$25,000 or so by 2016 -- for a small car? Here's a guess: If we do get to 35.5mpg, there will be fewer car sales overall. Last year's sales of 10.4 million vehicles, a disaster, might not look so bad in comparison.

The key variable in the sale of tiny cars is the price of gasoline. Right now gasoline prices are rising again, toward \$3 a gallon in New York. (It's not that the government is pushing up taxes but that speculators are pushing up the prices.) We can't be certain of what price levels we need to make small car sales boom, but from looking at Europe, I would say \$5 or \$7 a gallon would do the trick. Of course, gasoline prices like that would probably kill auto sales, adding to unemployment, crushing manufacturing and perhaps rekindling the recession. Economists and car industry leaders seem to favor pushing up fuel taxes. But then most of our driving is going to work, and, frankly, I have a problem with taxing people to go to work.

You see the issue: Our government has ordered a fuel economy standard that will require pushing up car prices and fuel prices and getting people to want smaller and costly cars -- yet all these things might slow or damage American industry, even those plants run by foreigners in Kentucky and Alabama. So what will happen?

Some conservatives believe they will win an election and roll back the 35.5mpg rule. I don't see a rollback. There might be new ways of powering cars or great improvements -- electric cars, hydrogen fuel cell engines, combustion miracles. It's all possible, but not in six years. It will take more like 20 years to get to 35.5mpg with vehicles that are affordable and that people want to drive. Perhaps I am completely wrong. Europeans drive small cars and pay more for both the cars and the fuel than we do. We might follow that pattern -- but it could take years to take hold. Perhaps it will be like the plans for nuclear plants or clean coal: lots of talk and government spending, and then things stall, and then they say they are restudying it. *Source: Forbes.com*

GENERAL MOTORS - RETURNING TO THE CAR LENDING BUSINESS?

GM gave up majority control of finance-arm GMAC, now known as Ally Financial, in late 2006 as part of efforts to raise cash for ongoing restructuring. As a new company, thanks to a U.S. government-backed bankruptcy last year, GM's balance sheet is greatly improved. GM finished repaying \$8.4 billion in loans from the U.S. Treasury and Canadian governments last month -- well ahead of schedule. But for taxpayers to recoup their investment in GM, the company must go public again, something that officials have said could occur as soon as late this year.

GM Chairman and CEO Ed Whitacre is looking at options to either buy back the auto lending business from GMAC or create a new finance arm, the Free Press has learned. Nothing is believed to be imminent. The development was first reported by *Bloomberg News*. Tom Wilkinson, a GM spokesman, declined comment. "It's speculation," he said.

A captive finance arm, which can be quite lucrative, could give GM greater ability to sell cars and help dealers get credit to run their businesses. Dealers have been complaining about difficulties in getting credit in the current market. Rebecca Lindland, an industry analyst with IHS Global Insight, said such a move could make sense for GM if structured in the right fashion. "I think it's a really great way to be able to regain control over the ability to sell cars," she said.

GM's upcoming initial public offering is surely influencing the matter. "Absolutely every decision that this company is making is based around the IPO," Lindland said.

With GM's sales up in recent months, some might argue that the automaker hasn't been hindered under its current set-up with Ally. GM's U.S. sales are up 14% through the end of April compared with last year.

Ally posted a \$162-million first-quarter profit this year, which reversed a \$675-million loss during the same period last year. The U.S. Treasury owns 56% of the lender, which has received \$17.2 billion in taxpayer loans since the 2008 financial crisis. Gina Proia, an Ally spokeswoman, declined comment about GM's interest, calling it "speculation." She added that GM is an important partner to Ally. "We are focused on helping them be successful in selling more vehicles," she said in an e-mail. *Source: Detroit Free Press*

FERRARI LOOKS AT LAYOFFS, CUTS BACK PRODUCTION

We guess it's not all GTOs and 458 Italias. The word out of Italy is that Ferrari is looking at cutting production and eliminating 9 percent of its workers after sister company Maserati cut engine orders.

Ferrari made only about 4,500 engines for Maserati last year, compared with nearly 9,000 in 2008.



According to *Automotive News Europe*, workers walked out for four hours on Tuesday because Ferrari wants to cut 120 office positions and 150 factory jobs.

Ferrari plans to close its Maranello, Italy, plant for a week starting on May 17, giving about 600 workers the week off. Ferrari employs about 3,000 people.

Ferrari also is cutting 2010 production to 11,000 cars, from 20,000. The company claims it is focusing its money on product development, technological innovation and reaching new customers, although Ferrari's first-quarter profit was down 28 percent *Source: Autoweek.com*

CHRYSLER WATCHING GM FINANCING MOVES CLOSELY

Chrysler Group LLC would need time to find a permanent and stable replacement for providing auto loans if it loses access to bank financing it shares with General Motors Co GM.UL, Chrysler Chief Executive Sergio Marchionne said on Thursday. Marchionne made the comment after updating Michigan lawmakers on Capitol Hill where he also expressed the need for expanded manufacturing capability in the United States, according to a member who attended the meeting. "He reported that the painful restructuring of the company that we have all experienced is beginning to pay dividends," said Representative Candice Miller. Chrysler, which restructured in bankruptcy last year, is now run by Marchionne-led Fiat ([FIA.MI](#)) of Italy.

Marchionne told reporters that Chrysler would need a stable option for auto financing, if GM buys out or becomes formally affiliated with the financing business of Ally Financial, its old GMAC unit. Sources with knowledge of the deliberations said this week that GM is considering a return to captive financing for new car purchases and leases. One option would have GM acquire Ally's auto loan business.

Captive financing, or loans arranged by dealers with lending options affiliated with automakers, factors into most car purchases in the United States. "Once they tell me that GMAC is going back into General Motors, we need to have the time, the space to find an alternative solution to the long-term future of Chrysler," Marchionne said. "One of the things we do not wish under any circumstance is to have an uncompetitive relationship vis-a-vis GM," Marchionne said.

Detroit-based GMAC, now known as Ally Financial, is 56-percent owned by the U.S. Treasury after the government injected \$17 billion as part of a restructuring that also saw the finance company become a commercial bank.

GM and Chrysler were placed under the car loan umbrella now run by Ally during their government-financed restructurings last year. The Treasury owns 60 percent of GM and nearly 10 percent of Chrysler.

Separately, Miller said Marchionne expressed in their meeting a need for expanding U.S. production capacity. She said Chrysler's decision to repurchase the Sterling Heights, Michigan, assembly plant from assets left behind in bankruptcy is a hopeful sign for the state and the company. Miller said Marchionne made no long term commitment for production at Sterling Heights but told lawmakers the facility was part of the company's future plans. Sterling Heights turned out the Chrysler Sebring and Dodge Avenger sedans and its repurchase was a victory for the United Auto Workers, which owns 55 percent of Chrysler.

Separately, Chrysler said this week it would invest \$43 million to expand capacity at Indiana powertrain facilities that support vehicles including the Sebring and Avenger. As part of Chrysler's 2009 bankruptcy restructuring, the Obama administration gave Fiat a 20 percent stake in Chrysler in exchange for bringing smaller vehicles and more fuel-efficient engines to the U.S. automaker. *Source: Reuters*