



Weekly Car Dealers Newsletter

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CLUNKERS PROGRAM COULD DRIVE USED CAR PRICES UP

Hundreds of thousands of "clunkers" headed for scrappers may cause already rising prices for used cars to head even higher, dealers and market analysts warn. The popular cash-for-clunkers program, extended by Congress last week with \$2 billion more in federal incentives, requires that all the old fuel guzzlers traded in are scrapped — not resold. That means up to 750,000 vehicles will never find their way into the hands of another owner. Many are at the end of their useful lives, but others, with years of life left in them, normally would be resold. "Those are the cars that lower-income families need," says Geoff Smartt, owner of Smartt Cars in Caldwell, Idaho.

Used car prices have risen about 5% on average in the last year, says Tom Webb, economist for Manheim Consulting, a branch of a major used car wholesale operation. Fewer new car sales have meant a drop in recent-model trade-ins. Car rental companies also have reduced supply by cutting their fleets. That's resulted in fewer castoffs for used car lots. Now, the clunker program could cause prices to rise 5% to 10% more, especially for vehicles worth \$4,500 or less, says Alec Gutierrez, senior market analyst for Kelley Blue Book. "It's going to drive prices up of some of the most affordable vehicles we have on the road."

The \$2 billion added by Congress came after eager buyers churned through most of the original \$1 billion in the first two weeks. The program provides incentives of up to \$4,500 to people who trade in an old car for a new, fuel-efficient vehicle. But to prevent fraud, the program requires that all trade-ins be scrapped so the gas guzzler doesn't find its way back on the road. Sen. Tom Coburn, R-Okla., called that provision "nuts" during debate in the Senate last week. He said that in his state, one trade-in had less than 10,000 miles on the odometer. "We're going to destroy the opportunity for somebody less fortunate to have that automobile," he said.

Used car dealers agree. They say fewer older cars are at auction. Too few older cars at reasonable prices could put some dealers out of business, says Tim Swift, general manager of the Corry Auto Dealers Exchange, an auction operation for dealers in Corry, Pa.

"It's was tough finding them before, and now, it's even worse," says Mike Williams, owner of Auto Wise in Shelbyville, Ky. "The \$3,000-to-\$5,000 car is just gone." *Source: USA Today*

GMAC TO OFFER LEASE-FINANCING EXPANSION

GMAC Financial Services announced plans to provide lease financing on various 2009 and 2010 models in 45 states and will consider expanding the program to other vehicles.

General Motors Co. and rival Chrysler Group LLC pulled out of leasing in August 2008 amid a steady decline in vehicle resale values, a sales slump and troubles at their respective lending affiliates. At the time, leasing represented about 20% of GM's new-car business in the U.S. and was causing losses for GM and other car makers.

Many of their key competitors -- including [Ford Motor](#) Co., [Daimler](#) AG and [Toyota Motor](#) Corp. - - scaled back leasing but didn't pull out of the business completely. GMAC President Bill Muir said Monday the company doesn't expect leasing "to return to its hey-dey levels across all models, but it remains an attractive financing tool for certain segments" particularly new models and some luxury models. The decision to re-enter the market was based on increased funding flexibility, the completion of its GM's massive restructuring and rising used-car values, according Muir.

The current lease program excludes Ohio, Michigan, New York, Connecticut and New Jersey, where the company says an existing program is under way.

The company said it will initially offer leases on 2009 the Cadillac CTS, as well as the Chevrolet Malibu and Traverse models. The 2010 models include the Buick Enclave and Allure models, the Chevrolet Equinox and GMC Acadia.

GM, which filed for bankruptcy in June and emerged from court protection in early July, has said credit availability still remains a key drag on auto sales. After running into serious liquidity problems in late 2008, both GM and GMAC, a former subsidiary, have been propped up by more than \$60 billion in government funds. GMAC's balance sheet was strengthened by \$12 billion in federal capital in the second quarter alone. *Source: The Wall Street Journal*

HONDA BACKS HYDROGEN AS U.S. FAVORS BATTERY VEHICLES

Honda Motor Co. is backing hydrogen power for the cars of the future, waving aside a decision by the Obama administration to drop the so-called fuel-cell technology in favor of battery-run vehicles. "Fuel-cell cars will become necessary," said Takashi Moriya, head of Tokyo-based Honda's group developing the technology. "We're positioning it as the ultimate zero-emission car." Honda, the only carmaker to lease hydrogen-powered autos to individuals, opened a production line last year ... to make 200 fuel-cell FCX Clarity sedans, the model being leased in a trial in Los Angeles. The Obama administration sought to eliminate hydrogen-station funding

and instead lend \$1.6 billion to Nissan Motor Co. and \$465 million to Tesla Motors Inc. to make electric cars, and give \$2.4 billion in grants to lithium-ion battery makers. Toyota Motor Corp., Daimler AG, General Motors Corp. and Hyundai Motor Co. say hydrogen, the universe's most abundant element, is among the few options to replace oil as a low-carbon transportation fuel. Source: [Bloomberg](#)

CHRYSLER PLANS NEW DEALERSHIPS

Two months after terminating 789 dealerships, Chrysler Group LLC is approaching some of those dealers to compete for a chance to sell Chrysler, Dodge and Jeep cars again in one of 140 "open" locations throughout the United States. So far, two terminated dealers have applied, but Chrysler spokeswoman Kathy Graham said it could take two years to open all the new locations.

Chrysler declined to say whether any of the locations are in Michigan. It might take some difficult conversations to re-establish trust with dealers who lost new car franchises, which in some cases had been owned by the same family for two or three generations. Chrysler acknowledged it has not yet paid many terminated dealers for the rebates they needed to sell their last vehicles.

Jim Tarbox, who was stripped of his Jeep dealership in North Kingstown, R.I., and a Dodge dealership in Attleboro, Mass., said a Chrysler official told him last week he would be considered as a candidate for a new location near the one he closed. "I don't know if they're harassing me or what. They just took everything away from me," said Tarbox. His Jeep dealership consistently exceeded Chrysler's sales and customer satisfaction targets.

Graham said Chrysler is looking for new property even in towns where dealerships were terminated because the old sites weren't in high-traffic locations. The company also will evaluate prospective dealers who were not terminated in June. New locations would sell Chrysler, Jeep and Dodge brands. Successful candidates must have "sufficient capitalization," but Graham declined to quantify that. Chuck Eddy, a Chrysler-Jeep-Dodge dealer near Youngstown, Ohio, said Chrysler would not accept dealers who want to sell any non-Chrysler brands from the same site. "I will guarantee you the bar will be high," Eddy said. "That's not going to make the terminated dealers happy." Source: *Detroit Free Press*

TRADE-IN PROGRAM DRIVES FORD TO BOOST PRODUCTION

Focus, Escape output to rise in quarter

Ford Motor Co., benefiting from the Obama administration's cash-for-clunkers program, is boosting production of its Ford Focus compact car and its Ford Escape small crossover so it can replenish dealership inventory. On Thursday, Ford said it plans to build 495,000 cars and trucks during the July-September period. That's 35,000, or 18%, more than the same period last year and 10,000 more than Ford was planning for in June. Ford also said it plans to build 570,000 cars and trucks during the last three months of this year, or 141,000 more than last year. "We had the right product at the right time," Ford sales analyst George Pipas said during a

media event Thursday. Both the Focus and Escape are among the 10 most-popular vehicles purchased under the cash-for-clunkers program. *Source: [Detroit Free Press](#)*

VOLKSWAGEN TO BUY 42 PERCENT OF PORSCHE, FULL MERGER PLANNED

Volkswagen will buy 42 percent of Porsche's sports-car business en route to a full merger by the end of 2011, the companies announced Thursday.

VW will pay \$4.7 billion for its initial stake in Porsche. It positions the new company to have 10 brands and global sales of 6.4 million, and Volkswagen CEO Martin Winterkorn is likely to lead the entity. Porsche had tried--and failed--to takeover VW, but the attempt left Porsche debt-ridden and forced it to seek a deal with its much larger rival. It also led to the departure of Porsche CEO Wendelin Wiedeking.



With cutbacks and sales dips by General Motors and Toyota, the merged Volkswagen could challenge for the title of world's largest automaker. "Volkswagen and Porsche today took a decisive step towards a joint future," Winterkorn said in a statement. "As a group with now 10 strong, independent brands, we will further expand our unique global position. More than ever before, we now have what it takes to become the automotive industry's number one." Porsche will keep its headquarters and retain some independence, similar to Audi's arrangement under the VW umbrella. *Source:Autoweek.com*
