



Weekly Car Dealers Newsletter

October 25, 2010

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

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[AUTO INDUSTRY'S NEW MATH SENDS LEASES SOARING](#)

If there's a silver lining in the weak U.S. auto market, this may be it: Anemic new-car sales will mean short supplies of used cars in two or three years. That has made it possible for automakers to return to leasing in a big way -- with little fear that a glut of returns in 2012 or 2013 will hammer residuals and damage brand images. "A lot less sales now is a lot less used cars later," Don Esmond, Toyota Motor Sales' senior vice president of automotive operations, said last week in Detroit. "Our arithmetic says leasing is a good deal. It's a good bet that resale values will be a little better later on." Leasing is more attractive for several reasons: Credit is more available this year, financing costs for manufacturers are cheaper because interest rates are falling, and automakers consider subsidized leases less damaging to brand perceptions than cash incentives. "If it's just cash on the hood, you are not helping the residual," said John Mendel, executive vice president of American Honda Motor Co. "If it's leasing and you believe the residual will be higher, that plays into the market because you are getting those cars back. Usually cash plays into a lower residual value." *Source: Bloomberg*

ENVIRONMENTAL LIFT OF BATTERY CARS IS LIMITED

Most No Better Than Hybrids Because They Will Be Recharged With Electricity From Coal- or Gas-Fired Power Plants

Electric cars, advocates say, are harbingers of a green, emission-free future, helping cut greenhouse gases and smog. Yet the environmental benefits of electric vehicles will be limited for years because most will be recharged by electricity produced by coal- and gas-fired power plants. That means the ecological gain from driving an all-electric car—and putting up with its high cost, recharging time and limited driving range—likely won't be much greater than driving a hybrid gas-electric vehicle such as the Toyota Motor Corp. Prius, which keeps going as long as the gas tank is filled, experts say. People who drive a hybrid or all-electric vehicle both will cut greenhouse gas emissions by 30% when compared with a traditional internal combustion engine in most areas of the U.S., according to separate studies by the Department of Energy's Argonne National Research Center and the Electric Power Research Institute, which is funded in part by the power industry. This so-called wells-to-wheels analysis, which looks at the carbon footprint of plug-in cars, comes into play as the Environmental Protection Agency is considering new fuel-economy and pollution window stickers for automobiles. The first draft of new rules regarding how auto makers will advertise fuel economy leaves out the broader "carbon footprint" of an electric car, so it gives electrics top marks for environmental impact. But the agency is holding hearings on the matter and could broaden the carbon disclosure to the detriment of electric vehicles, said Cathy Milbourn, an EPA spokeswoman. Source: *The Wall Street Journal*

PORSCHE SE MERGER WITH VW MAY BE DELAYED

STUTTGART, Germany - Legal disputes and tax issues could delay the absorption of troubled auto holding Porsche SE by Volkswagen beyond the end of next year, the chief executive of both companies said. "Investigations by the public prosecutor are ongoing, there are several claims filed by hedge funds in the United States, and conciliatory proceedings have been applied for in Germany," Martin Winterkorn told a news conference. But he brushed off concerns that these unresolved issues could scupper the planned transaction. "Let me be quite clear about this: the integrated automotive group will happen." Last week, Porsche SE unveiled preliminary results that showed its majority-owned sports car business drove in a near-unheard of 23 percent operating margin during the fiscal fourth quarter. Source: *Reuters*

MICROSOFT UNVEILS NEW AUTOMOTIVE SOFTWARE

Microsoft today announced a new version of its automotive communication software that is used in Ford's Sync system as well as a partnership with Nissan. Microsoft said the latest version of its software gives carmakers the ability to develop two-dimensional and three dimensional graphics and includes upgraded speech recognition technology that allows users to respond to text messages with voice commands. The software, called Windows Embedded Automotive, was first introduced in 2007 by Ford when the Dearborn automaker launched Sync, its voice-controlled in-

car communication system. Since then, other automakers including Hyundai and Fiat have used Microsoft's software system to develop similar communication systems. *Source: Detroit Free Press*

MARCHIONNE MAKES FINAL PUSH TO FIX ALFA ROMEO AS VW CIRCLES

Fiat SpA Chief Executive Officer Sergio Marchionne, rejecting overtures from Volkswagen AG, says Alfa Romeo isn't for sale. That means at least two more years of depressed profit for the Italian company's shareholders. Fiat is currently losing about 300 million euros (\$416 million) annually on the brand, estimates Max Warburton, a Sanford C. Bernstein analyst in London. Marchionne, who says he needs to sell 300,000 Alfa Romeos a year for the brand to turn a profit, doesn't expect to reach that goal until 2013. Alfa Romeo, which made its first model in 1910 and was withdrawn from the U.S. in 1995, is Fiat's only entry in the volume section of the luxury auto market. "Alfa Romeo is the only possibility for Marchionne to compete in the high-price segment," said Marco Santino, a consultant in Rome at A.T. Kearney, which has worked for Fiat on supply-chain operations. "It's a long-term project. In the short run, he has no chance of meeting the targets." Marchionne aims to raise Alfa Romeo sales fivefold to 500,000 in 2014 by reintroducing the unit to the U.S. in late 2012 with the Giulia sedan and station wagon as well as a sport-utility vehicle it's building with Chrysler Group LLC, of which Fiat owns 20 percent. *Source: Bloomberg*

HOW HIGH IS UP FOR USED-CAR PRICES? WE MAY BE THERE NOW

New-car sales could get a boost from an unusual quarter, which the market hasn't seen in a while: used-car prices are so high; they're starting to bump heads with new-car prices. That may motivate some used-car shoppers to make the jump to new cars, since the price difference has shrunk. That's according to Tom Kontos, executive vice president, customer strategies and analytics for used-car auction firm ADESA. "Strong new vehicle sales in September support the thesis that some car shoppers are gravitating towards new vehicles when faced with a choice of paying relatively high prices for used cars versus affordable new vehicles, as long as financing and available inventory are not prohibitive factors," Kontos said in a written report this week. But as Kontos pointed out, there's also an upper limit on used-car prices, and that's the point where relatively new used cars start competing with discounted new cars. ADESA reported that the average wholesale price for a used vehicle in September was \$9,830. That was down 1.7 percent from August 2010, but 1 percent higher than September 2009. *Source: BNET*

FORD'S FOCUS TO GET NEW ENGINE; 40 MPG PREDICTED

DEARBORN, Mich. -- When the new Ford Focus compact arrives in U.S. showrooms early next year, it will come with a new 160-horsepower, two-liter four-cylinder engine that will help the car get a projected 40 miles per gallon on the highway, Ford said Wednesday. The engine will have high-pressure direct gasoline injection into the cylinders, which makes it more efficient than

earlier engines. "Drivers will notice improved low-end power and better fuel economy. And there are benefits they won't notice too, like reduced emissions overall, especially at part-throttle," Jamie Hanshaw, a Ford valve timing technical specialist, said in a statement. The new engine has 14 percent more horsepower than the current Focus with 140. Gas mileage with a six-speed automatic transmission is expected to rise six miles per gallon above the current automatic Focus, which gets 34 mpg on the highway. *Source: The Associated Press*

NHTSA URGES FORD OWNERS TO GET RECALLED VEHICLES FIXED

WASHINGTON —The National Highway Traffic Safety Administration urged owners of recalled Ford Motor Co. vehicles over fire risks to get them repaired. NHTSA said just 40 percent of the 14 million or so vehicles that have been recalled have been fixed — lower than the industry average of 70 percent repaired after 18 months. "It appears that there are still far too many people who have ignored the company's notification to bring their vehicles in for the free repair," NHTSA administrator David Strickland said. "We're urging owners of these previously recalled Ford vehicles to take them in to their Ford dealers for this vital repair if they haven't already done so." According to NHTSA, approximately 17.5 million Ford vehicles have been involved in the recalls since 1999 because of a faulty cruise control disconnect switch that can overheat and burn — potentially causing a vehicle fire long after the engine has been turned off. NHTSA said Ford has been diligent in contacting owners of the affected vehicles, including sending re-notification letters to owners in many cases. Despite notification efforts, NHTSA estimates that there may be several million vehicles still on the road with the dangerous defect. *Source: The Detroit News*

NADA CHAIRMAN SKEPTICAL OF 62 MPG

DETROIT – National Automobile Dealers Assn. Chairman Ed Tonkin calls unreasonable a bid by some groups to push U.S. fleet fuel-economy standards to more than 60 mpg (3.9 L/100 km) by 2025. "It sounds real good," Tonkin says of the target, which would fall at the high end of a range of recent proposals for 2025 from the National Highway Traffic Safety Administration and Environmental Protection Agency. "Some environmental groups consider 60 mpg the Holy Grail and already they are campaigning hard for it," he tells a meeting of Automotive Press Assn. here earlier today. "But reasonable people would agree it is a stretch, would be very costly and nobody even knows if we can get there." The government said last month it will consider raising corporate average fuel economy standards by as much as 6% per year between 2017 and 2025, reaching an equivalent of 62 mpg (3.8 L/100 km) in the final year. Tonkin says his group, which lobbies on behalf of the nation's new-car dealers in Washington, wants higher fuel economy standards but also thinks the desires of consumers are being overlooked in the push to 62 mpg. "We'd all like to believe consumers would be willing to pay whatever it takes to reach such a lofty goal, but will they?," he asks rhetorically. "Or is this another gamble in getting ahead of the consumer, pushing too far too fast?" And while he admits more car buyers today shop for fuel economy, they remain more focused on convenience features, affordability of monthly payments

and predictability of performance in areas such as horsepower. Tonkin cites sales of hybrid vehicles, which continue to moderate after a spike in demand alongside record-high gas prices in 2008. "We all hope in the future there is some technology that's affordable and will get us 60 mpg sooner than later," he says. "We all hope for greater fuel economy that will reduce our dependence on foreign oil. And we all hope advanced technology will further cut greenhouse gases. But we have to look beyond hope. Public policy has to take into account the harsh realities of the marketplace." Source: Ward's Auto
