



Weekly Car Dealers Newsletter

June 11, 2007

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

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**MAY SALES MOSTLY UP
GM SIGNS TWO TO BUILD VOLT BATTERIES
HONDA DROPS HYBRID ACCORD
TRUCKS KEEP SLIPPING
POWER: PORSCHE, FORD BIG ON INITIAL QUALITY**

MAY SALES MOSTLY UP Toyota continued to tighten its grip on the U.S. market as its sales jumped 14 percent in May. The Japanese automaker continued to push ahead of both American and Asian rivals as rising gasoline prices continued to influence new car buyers across the U.S. Even regional sales slumps in California and Florida, traditionally two of Toyota's strongest markets, didn't slow the Japanese auto giant's continuing onslaught. General Motors Corp. posted a healthy 9.6-percent increase in sales as well, while Chrysler reported a 4.3-percent sales increase. Both companies credited their gains to new, more fuel-efficient vehicles. "We had a good month," said Paul Ballew, GM's general director of market analysis. Darryl Jackson, Chrysler vice president of U.S. sales, said the company's passenger car sales improved last month and Jeep had another strong month as the Wrangler and Patriot brought customers into the show room. Michael Keegan, Chrysler vice president of volume planning operations, disputed the assertions the Chrysler was using big incentives to prop up sales. Both Ford and GM have cut prices on several models, which has reduced the amount they spend on incentives, he noted. Honda and Nissan, two other charter members of the new "Big Six," also reported sales increases during May. Overall, Asian automakers lifted their share of the market by 1.2 points, to 41.4 percent as Subaru, Mitsubishi, and Suzuki reported sales rising. Audi, BMW, and Mercedes Benz also reported sales increases. "Small is big right now," Dick Colliver, executive vice president of American Honda, said in a statement. "Smaller vehicles have become more attractive ... and we expect this trend to continue for the time being." Overall Honda sales were up more than two percent. Nissan North America also got a lift from strong sales of the Sentra and Altima as its overall sales climbed 3.2 percent. However, Nissan's trucks sales sank nearly 19 percent.

Meanwhile, Ford sales declined as it continued to trim sales to rental fleet sales and as once-powerful nameplates such as Explorer continued to fade. Explorer sales dropped more than 17 percent and F-Series pickup truck sales dropped 12 percent. George Pipas, Ford's sales analyst, said the drop was relatively small and Ford officials said the company's numbers showed signs of improvement. Sales of new products such as the Ford's new crossovers, the

Ford Edge and Lincoln MKX, were particularly strong, climbing 39 percent. "These new crossovers are the right products at the right time," said Mark Fields, Ford's President of the Americas. "Consumer demand for the Ford Edge and Lincoln MKX has exceeded our original expectations, so we're raising the bar. We now expect Ford Edge sales to reach 120,000 this year - 20 percent higher than our original forecast."

Weakening demand

The automakers, however, continue to face a market starting to show signs of weakening. Overall, the U.S. industry posted a five-percent sales increase to a 2007 high of 1.56 million cars and light trucks in May, according to estimates. But the seasonally adjusted running rate is now under the initial forecasts automakers set out last January. Ballew, in fact, said GM had reduced its forecast for the balance of the year to between 16.7 million or 16.8 million units. Like other carmakers, GM had predicted sales would reach 17 million units this year. "It looks like we'll track below 17 million units," he said. George Pipas also said Ford would build only 640,000 cars in the third quarter, which was down slightly from the 642,000 units the company built in the third quarter of 2006 when it slashed production dramatically in the face of falling market share. The small cut comes despite shortages of some F-150 models and a huge drop in inventories of unsold vehicles, Pipas said.

Buyers did respond to higher gas prices. The overall car-truck split in retail sales was close to 50/50, noted Ballew. Also, for the first time in years, Ford's cars and car-based crossovers during May outsold the company's trucks and sport-utility vehicles, Pipas said. The split in May was 52-48 in favor of cars and crossovers, he said. Ballew also said there are some signs across the industry of weakness in luxury sales and there also seems to be some downshifting in vehicle content and in powertrains, particularly in the mid-size car segment.

GM SIGNS TWO TO BUILD VOLT BATTERIES In a significant step toward building a gas-electric plug-in hybrid, General Motors said today that it had awarded two contracts to companies that will make the lithium-ion batteries it needs for its "E-Flex" hybrid drivetrain to enter production. GM's "E-Flex" hybrid powertrain will use the batteries to provide energy storage for either the gas-electric, plug-in versions of the powertrain or hydrogen-powered, fuel-cell versions. The Volt concept shown at the Detroit and Shanghai auto shows has been the showcase for the new powertrain.

The two companies charged with making the new batteries are Michigan-based Compact Power, Inc., a part of Korea's LG Chem. The other is Germany's Continental Automotive Systems, which will develop the battery packs. GM says it will continue to look for options to speed battery development. Lithium-ion batteries have had reliability troubles, which may lead Toyota to forgo the high-energy battery's use in the next Prius. While the contracts have been inked, building batteries that will provide safe and reliable operation is still a major hurdle to the production of the Volt and other E-Flex-powered vehicles.

"The signing of these battery development contracts is an important next step on the path to bring the Volt closer to reality," said GM Chairman and CEO, Rick Wagoner. "Given the huge potential that the Volt and its E-Flex system offers to lower oil consumption, lower oil imports, and reduce carbon emissions, this is a top priority program for GM."

HONDA DROPS HYBRID ACCORD Will focus on small hybrids, diesels. Honda says it will stop building Accord Hybrids when the current-generation car is replaced later this year. The new-generation Accord will not have any hybrid option, a Honda spokesman confirmed to CNN. "We have found that our hybrid system works better on smaller cars," the spokesman told the news channel.

Honda says it's planning a new hybrid car for 2009; that new model is expected to be much closer to the previous Insight Hybrid, and more along the lines of Toyota 's compact Prius hybrid - a stand-alone model rather than a hybrid powertrain grafted on an existing model. Honda also is working on a new clean diesel engine that will not require an after-treatment, but will instead use a new type of catalytic converter that's more efficient at cleaning diesel emissions. While Toyota 's Camry Hybrid will continue - it captures 14 percent of Camry sales, according to CNN - Honda's clean diesel engines will likely be offered as fuel-saving options in its larger vehicles, as in its European Accords

TRUCKS KEEP SLIPPING It didn't take a trained eye to notice. Heading up to northern Michigan, on warm summer weekends, back in the late 1980s, it was hard to ignore the growing number of minivans, pickups and sport-utility vehicles shooting up I-75. Sure, there were always those who needed a pickup for work, a minivan for a big family, or an SUV to haul a boat. But a close inspection showed that more and more of those light trucks were simply replacing the traditional sedan.

By 1997, the scales officially tipped, and with the brief exception of 2002, trucks have consistently outsold traditional passenger cars. That is, until May, when sedans, coupes and sports cars narrowly nosed into the lead, with 778,651 sold, according to the tracking firm, Ward's AutoInfoBank, compared with 777,296 light trucks. That's probably no surprise, considering the economics of \$3-plus gasoline. As light truck critics have long argued, there are plenty of folks who simply don't need to be running from business luncheon to afternoon meetings behind the wheel of a 12-mpg HUMMER. One could argue that the balance has tipped even more in favor of cars, depending on your definition of the new crossover vehicles flooding the market. Products like the Toyota RAV4 and Saturn Vue may look like utes, but they ride on unibody platforms often shared with more conventional passenger cars. Under the skin, Ford's recently renamed Taurus X is virtually identical to the Five Hundred sedan, which is about to be rebranded with the Taurus badge.

For the first time, last year, crossovers outsold conventional, truck-based SUVs, notes George Pipas, Ford's chief sales analyst, and the trend will continue – at an increasingly rapid pace, many analysts believe, in the face of record gasoline prices. Don't write off the truck just yet, industry analysts are quick to caution. Detroit manufacturers, in particular, are maintaining SUV and pickup-heavy production schedules, notes a story in the New York Times. These gas guzzlers are simply too profitable – especially when compared with the fuel stingy econoboxes that Big Three makers have traditionally lost money on.

A revival of the moribund U.S. housing market will likely generate a jump in pickup sales, since a large percentage of these trucks are still sold for commercial applications. And there remain plenty of buyers who need pickups and large SUVs to haul boats, RVs and other trailers. Meanwhile, facing the reality of high gasoline prices, the industry is looking for ways to counter

the naysayers – and regulators – who'd like to drive light trucks off the road. I just experienced one example in the form of the Mercedes-Benz GL320 CDI. This diesel-powered, three-row SUV gave me an average of nearly 30 mpg running around Los Angeles, over the course of a week, much of that in heavy traffic. Expect manufacturers to start adding a lot more oil burners to their powertrain line-ups, now that the technology exists to meet tough new diesel emissions standards.

But barring a collapse in fuel prices, there seems little likelihood conventional trucks will regain the momentum they had early this decade. Mounting social pressures only add to the impact of high gasoline prices. The truck boom is almost certainly at an end.

POWER: PORSCHE, FORD BIG ON INITIAL QUALITY The German sports car manufacturer, Porsche, took the top spot in the 2007 J.D. Power Initial Quality Study, with Mercedes-Benz and Land Rover weighing in as two of the most improved marques, while Honda nudged past long-time quality benchmark Toyota to take the top spot among mass-market brands in the closely-watched annual industry report card. Toyota's modest slide was one of several surprises in the 2007 IQS, which surveyed American motorists about the quality of their new cars, trucks, and crossovers after 90 days in service. Power researchers, who tallied the responses of 97,000 owners, also found a sharp increase in the reported quality of Ford Motor Co. vehicles - but a decline by the rest of the Big Three.

For 2007, there was an average of 125 problems per 100 vehicles, or PP100, according to the latest IQS, a very slight decline from the 124 defects experienced by owners of 2006 products, Power reported. Since 1987, when the first Initial Quality Study was completed, the number of defects in the average vehicle - "problems" in Power's lingo - has declined more than fourfold. In fact, "the worst vehicle today (is) better than the best vehicle ten years ago," reported Neal Oddes, director of product research and analysis for J.D. Power and Associates (JDPA), during a Wednesday presentation to the Detroit Automotive Press Association. Power has slightly modified its survey process, over the last couple years, to reflect the changing nature of the auto industry and better account for the causes of quality problems. The survey now focuses on two specific areas: manufacturing defects, and design defects. The latter, explained Oddes, might involve such things as a poorly-placed cupholder or a difficult-to-operate navigation system. Indeed, one area where consumers reported more problems than in the past involves climate control technology. In some of today's newest vehicles, seemingly simple tasks, such as adjusting a blower fan or changing temperature, require using the same video screen that operates onboard navigation. While 22 percent of the survey involves such design issues, these accounted for 48 percent of the actual problems reported by IQS respondents.

On the manufacturing side, Oddes noted that carmakers continue to have serious problems when launching production of all-new or significantly redesigned vehicles. That hurt several manufacturers quite badly, including Nissan, which struggled to get things right with the new Altima and Versa models, and Hyundai, which faced big problems with its new Alabama assembly line. Hyundai fell from third place in the 2006 IQS rankings to twelfth, this year, but still ranked above the industry average.

Ford the exception

Ford Motor Co. was a notable exception to the problem with poor launches, Power data revealed. It did extremely well with such critical roll-outs as the new Lincoln MKX crossover vehicle. Ford's domestic luxury marque shot from twelfth place to third, just behind Toyota's high-line Lexus division. Meanwhile, the Mercury brand came in eighth, while Ford rounded out the IQS Top 10. "The news is certainly positive," declared Bennie Fowler, Ford's vice president of global quality. "Hopefully, buyers will recognize that Ford is serious about the quality of its vehicles," Fowler added, acknowledging that the problems the automaker experienced earlier in the decade seriously hurt its reputation. Various Ford models, including the Mustang, Lincoln Mark LT, and Mercury Milan, captured a total of five awards as best-in-segment, tying with Toyota. But reflecting recent, well-reported quality snags, the giant Japanese maker suffered an increase in problems, from 106 PP100 for the Toyota division, in 2006, to 112 this year. Lexus also saw its own problem count rise by one, in the 2007 IQS.

Among the 37 brands Power has tracked year-to-year, Mercedes-Benz made the most dramatic climb up the charts, in 2007, rising from 25th to fifth place, underscoring its campaign to fix vexing quality problems. Like Ford, Mercedes benefited from some good product launches, notably with its completely redesigned flagship, the S-Class. Though it remained the last-ranked nameplate, Land Rover slashed its problem count more than any other brands, from 204 PP100 to 170. While Ford proved that the Big Three could perform with the industry's best, the rest of Detroit's nameplates fared far more poorly - not a single General Motors or Chrysler brand rising above the industry average. The results of the 2007 IQS were particularly disappointing for GM's Cadillac, which fell from seventh to 25th.

But GM spokesman Tom Wilkinson downplayed the news, insisting that "You should be skeptical" about the IQS results. The gap between the best and the worst - Porsche at 93 PP100 and Land Rover at 170 - is statistically insignificant, Wilkinson asserted, with the typical 2007 model suffering little more than one problem per vehicle. Indeed, one of the reasons Power redesigned the IQS was because it was becoming harder to distinguish the performance of the various brands. But the GM spokesman acknowledged that his company still "has to get better every day," adding that in the public's eye, a poor performance in the IQS will "hurt." As part of the annual study, Power researchers also target the quality of individual plants around the world. Far and away the best, they reported, was the Ford factory in Wixom, Michigan producing the Lincoln Town Car. Ironically, that plant closed just days before the 2007 IQS results were announced, a victim of the automaker's ongoing cost-cutting efforts. Ford has also closed what was long its most productive plant, in Atlanta, Georgia.
