



Weekly Car Dealers Newsletter

October 8, 2007

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

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**SEPT. SALES: GM UP, FORD SINKS
DAIMLER AG TAKES SHAPE
TOYOTA GETTING HAMMERED BY GREENS
FORD MUSTANG SHELBY GT ON THE WAY
HONDA JETS PREPARE TO FLY**

SEPT. SALES: GM UP, FORD SINKS New vehicle sales were weak during September, as Toyota's numbers dropped slightly and Ford recorded a stunning 21-percent decline. General Motors reported a four-percent sales increase, while Chrysler reported a five-percent sales decline and blamed the drop on the transition to the 2008 model year.

Meanwhile, Nissan, Honda, Mercedes-Benz, and Mitsubishi reported double-digit sales increases on the strength of new product, while BMW and Subaru reported modest sales increases. Audi, Hyundai and Kia reported essentially flat sales and Volkswagen said its sales dropped by almost six percent.

George Pipas, Ford's sales analyst, defended the sharp drop in sales at his company by noting that its market share was still holding at the level outlined in the company's "Way Forward" recovery. "We still have 13-percent market share, which what we projected in our plan," he said. On a better note for Ford, the Lincoln brand posted its 12th straight month of higher retail sales. In September, total Lincoln sales were up 33 percent and so far have increased 15 percent this year. However, other vehicles critical to the Dearborn-based automaker, including the Mustang and the F-Series pickup truck, posted double-digit sales declines.

Toyota said its sales dropped almost one percent in September. So far this year Toyota's sales total are up 3.8 percent. The Toyota Division posted September sales of 187,929, down 0.9 percent from last September. The Lexus division reported September sales of 25,114 units, an increase of 1.6 percent. "Given September's economic headwinds, the industry saw a fair month," said Jim Lentz, TMS executive vice president. "The fall selling season is likely to benefit from increased stabilization and modest gains," he added.

Paul Ballew, GM's general director of market analysis, said the interest rate cut last month by the Federal Reserve Board should help stabilize sales of new vehicles in the next few months. The annual rate of light-duty vehicle sales dropped to about 16.3 million units in September, he added. "It was absolutely the right thing to do," he said. "We didn't want the volatility in the credit markets to spill over into the auto markets." Ballew said the sales results for September were quite encouraging for GM, which saw its market share move past 25 percent for the second month in a row. Ballew raised some warning flags, however, as sales in California and Florida were soft. One of the keys to keeping sales rolling in what has been a challenging market has been new product, carmakers said.

"September was our first full month of sales for the new 2008 Subaru Impreza," said Tim Colbeck, vice president of sales, Subaru of America, Inc. "The market has responded with enthusiasm to the new product and we see this trend continuing through the end of the year."

"The mid-September launch of the all-new Accord helped increase sales momentum for both the model and the Honda brand," said Dick Colliver, executive vice president of American Honda.

DAIMLER AG TAKES SHAPE DaimlerChrysler AG was laid to rest in Berlin Thursday as shareholders voted to support changing the company's legal name to Daimler AG, amid a flurry of complaints and criticism from dissidents who had never accepted the original merger with Chrysler back in 1998. The special shareholders' meeting was called in August after DaimlerChrysler closed the sale of Chrysler to Cerberus Capital Management of New York.

Dieter Zetsche never looked back on the Chrysler deal during his comments at the meeting, except when he disclosed that the name change will cost the company about \$100 million and won't be entirely complete until April, 2008. Zetsche instead focused on the future, which includes making the renamed Daimler into a "green" company. "To sum up, we are not striving to become the world's largest automotive company. Instead, our aim is to be one of the most respected and admired on a permanent basis," Zetsche said. "We've made massive investments in research and development, and today we have gained additional know-how in areas such as CO2 reduction, emission reduction and vehicle safety," he said. "Our earnings will be more sustainable, as in the future we will no longer be so strongly dependent on the volatile North American volume market. We have more organizational and investment strength, as Chrysler retains its healthcare and pension liabilities, which total (\$52 billion)," Zetsche added. In explaining the rationale behind adopting the Daimler name, Zetsche said the company's board of management believed there should be a clear distinction between the corporate brand and the company's product brands. "When the focus is on the company as a whole in its dealings with political decision-makers and the general public, in the financial markets, in its relations with the business media, and as an employer, the automaker wants to present itself as Daimler, providing an umbrella designation for all of the individual product brands," Zetsche said. "Wherever the company is dealing directly with customers, and in areas where the focus is primarily on products of a single brand, the corresponding brand name will be used. The product brands Mercedes-Benz, Maybach, smart, AMG, Freightliner, Sterling, Western Star, Detroit Diesel, Setra, Thomas Built Buses, Orion, and Mitsubishi Fuso will serve as the company's 'business cards' to the customers," Zetsche said. Zetsche noted the company had paid Ford and Jaguar \$20 million for the Daimler name.

Shareholders challenged Zetsche's upbeat assessment. The merger was either a disaster or the company's management bungled it, one shareholder said. One estimate widely circulated in Germany is that the acquisition of Chrysler wound up costing Daimler shareholders, 80 percent of whom live in Germany, more than \$27 billion. Bodo Uebber, Daimler's chief financial officer, said there was no fair way to assay the total cost. He also noted Chrysler earned \$10 billion in profits while it was part of DaimlerChrysler and the company has paid out more than \$21 per share in dividends over the past decade. "We're looking back at many, many years of asset destruction," noted one dissident shareholder, while another suggested now that the American are gone from the company, it might be time to cut the compensation of senior executives who had their pay inflated while the company was linked to Chrysler.

TOYOTA GETTING HAMMERED BY GREENS Environmentalists are putting pressure on Toyota to switch sides in the ongoing debate over fuel economy. As a member of the Alliance of Automobile Manufacturers, Toyota, which has artfully used the hybrid Prius to polish its green image, has sided with its American rivals-General Motors, Ford and Chrysler-in opposing tougher fuel-economy standards. The debate over fuel-economy standards could reach a climax this fall in the U.S. House of Representatives where the Alliance and the United Auto Workers union have been fighting a ferocious battle against standards approved the U.S. Senate this past June that would raise fuel economy standards to 35 miles per gallon by 2020. "Congress is negotiating an energy bill that could raise the fuel economy standard to 35 miles per gallon, a move that would save America 1.2 million barrels of oil each day by 2020-more than we import from Saudi Arabia," said Deron Lovaas, the director of the Natural Resources Defense Council, an environmental activist group. "But Toyota has joined forces with General Motors, Ford, Chrysler and other automakers in an attempt to derail what would be the first improvement in fuel economy standards in nearly 20 years."

"Why is Toyota, a company that can make a car that gets 55 miles per gallon today, fighting a 35 mpg standard?" Lovaas asked in a statement. "As the world's largest automaker and inventor of the best-selling hybrid car on the market, Toyota has a responsibility to lead, follow or get out of the way as Congress debates the first substantial fuel-economy boost in decades," she said. "Shamefully, Toyota has joined forces with older automakers," she said. Lovaas estimated more than 8,000 consumers have sent letters to Toyota objecting to its participation in the campaign to block the new standards. Other environmental groups are being encouraged to join the campaign to put additional pressure on Toyota.

Facing growing pressure for higher fuel economy standards, the Alliance has shifted its tactics from outright opposition to any change in the current corporate average fuel economy, or CAFE, rules to support a moderate proposal from an Indiana Democrat, Baron Hill, and Nebraska Republican Lee Terry, that would boost fuel economy to 32 to 35 miles per gallon by 2022. Toyota officials noted the position on the Hill-Terry bill represents the first time the industry has united behind a common proposal that would actually lead to new, tougher standards. Jim Press, formerly the top American executive at Toyota who moved to Chrysler in August, was instrumental in getting the automakers to support a compromise.

Ron Gettelfinger, UAW president, said in a recent speech the tougher rules pending in Congress would shatter the U.S. domestic car industry and offered the Hill-Terry bill as a compromise. "There's a much better bill before Congress-a bill that would require a sharp increase in fuel economy standards in a responsible manner that would help our industry and

preserve American jobs," Gettelfinger said. "That would be the biggest increase ever since CAFE standards were first implemented in the 1970s," Gettelfinger said. "But unlike other, more extreme proposals, the Hill-Terry bill would phase in these requirements over a reasonable period between now and 2022. That gives automakers sufficient time to re-tool their plants to shift towards more fuel efficient vehicles," Gettelfinger said.

FORD MUSTANG SHELBY GT ON THE WAY The first Ford Mustang Shelby GT is due to leave the Shelby garage in Las Vegas today, headed for showrooms with a \$36,970 price tag and almost certain unavailability at that price.

The first car, Ford says, will wear CSM No. 07SGT0001 and will be the third in the latest clutch of Shelby vehicles to come from the companies. The others are the Shelby GT-H, the Hertz rental version, and the Shelby GT500. The first GT will be auctioned at next month's Barrett-Jackson auction in Scottsdale, Ariz. The proceeds will benefit the Carroll Shelby Children's Foundation. Early in 2006 a Shelby GT500 went for auction at Barrett-Jackson for \$600,000. "I couldn't be more excited to see production up and running on a new Shelby Mustang," says Carroll Shelby, CEO and Chairman of Shelby Automobiles, Inc. "The new Shelby GT is a great addition to the Shelby GT500 and Shelby GT-H, and it will only further the lead that Mustang has in the coming muscle car wars."

HONDA JETS PREPARE TO FLY Honda of Japan has announced the formation of Honda Aircraft Co., Inc., with headquarters in Greensboro, North Carolina, for the manufacture and marketing of a new twin-jet small executive-type airplane it has developed. And in true Honda fashion, the subsidiary's newly named CEO Michimasa Fujino was also the engineer who led the team that designed and developed the prototype Hondajet over a 20-year period. Mr. Fujino told Detroit's Automotive Press Association that his company had shown off the prototype aircraft to a business flyers' association and received more than 100 orders. However, it will be a while before there will be any deliveries: the Federal Aviation Administration (FAA) has granted Honda only experimental licensing for the plane, and it may be three to four years before "type certification" permitting sale is granted after extensive testing.

The 41.7-foot long Hondajet lays claim to several new design features, most obviously the mounting of the jet engines on struts above the wings on either side of the unique composite material fuselage. The plane is projected to provide seven or eight seating positions, including pilot, providing more space for both passengers and luggage than present competitors in the small jet market, Eclipse and Cessna. According to the *Detroit Free Press*, the five-occupant Eclipse 500 and Cessna Citation Mustang are priced at \$1.5 million and \$2.6 million, respectively. The Japanese company projects the price for its Hondajet at \$3.65 million. Honda says it will announce later where in the U.S. the Hondajet plant will be built for worldwide distribution.

So what does this have to do with automobiles, and why should TheCarConnection readers care?

In the first place, an airplane is a "motor vehicle." And Honda is big in motors, having started after World War II by converting war surplus radio generators into engines to power bicycles

and morphing from there into motorbikes, motor scooters, and motorcycles as well as stand-by generators, outboard motors for boats, and finally Honda and Acura cars.

In the second place, as old timers and business historians know, it's nothing new for an auto company to be in the aviation business. For example, Ford pioneered all-metal commercial airliners with its Stout-designed Tri-Motors, of which more than 170 were built between 1926 and 1932. During WWII, Ford redesigned the Consolidated B-24 so it could be built on an automotive-type assembly line, and turned out 8685 of the bombers at the famed Willow Run plant in a miracle of wartime production. General Motors invested in Eastern Airlines, Trans World Airlines, Fokker Aircraft, Bendix, and North American Aviation in the 1930s, supplied Allison liquid-cooled engines for P-38, P-39 and P-40 fighters, and built more Grumman Avenger torpedo bombers than Grumman (including the TBM that President Bush 41 was flying when he was shot down in the Pacific late in WWII).

In the third place, Honda has a history of proceeding very deliberately from one highly engineered and innovative product to another, showing infinite patience with the normal delays that frustrate Western businesses. Eclipse, of which retired Ford CEO Red Poling is chairman, and old-line aircraft producer Cessna will need to step lively to keep ahead in the small jet market.

Is it unbelievable to speculate that Boeing, too, needs to keep an eye on Honda?
