



Weekly Car Dealers Newsletter

February 11, 2008

This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources. For more information please call our Edmonton office.

Week of February 11, 2008

LIVE FROM NADA – San Francisco

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Three members of the MacKay team attended the 2008 NADA Convection. Conven Tang and Garry Filafalo accompanied me to the meeting. On Friday February 9th Auto Team America hosted one its most successful CEO/CFO Forums in recent years. If any of the comments below interest you please contract one of us for more details. From Mike Bruynesteyn (Lehman Brothers) comments included:

- January 2008 was the worst January for the industry in 11 years
- Consumer confidence is soft and getting softer
- The yield curve is in an unfavourable trend right now
- Vehicle affordability is positive but other factors are having a much stronger impact
- Rising gas prices are changing the market mix faster than some manufacturers can change the their product mix. Ford is probably in the weakness position with the fewest energy efficient vehicles in it next product cycle. Its announced reduction of V8 engines and the introduction of I4s and V6s will not occur until the next product cycle
- Scrapage rates are trending down which reduces the demand for new and near new units
- The new CAFÉ standards (35 miles per galloon for both cars and light trucks):
 - Only 2 to 3 product cycles away
 - Will result in power train changes:
 - 1/3 of vehicles will be diesel powered
 - 2/3's of gasoline and diesel vehicles will be turbocharged
 - 50% of power trains will include a hybrid component

- These changes will increase the manufacturing costs related to power trains by 30% which will increase overall vehicle costs by 10% to 15%
- New units sold in each store must increase
- Ford is the weakest of the “Detroit Three”

Mike’s comments were followed by a Panel discussion on Private Equity Groups and their possible impact on dealership succession, expansion and ownership trends.

Many exhibitors at the show involved some form of energy saving, used oil furnaces, new lighting, computerized light to reduce lighting during closed hours, more recycling for washing waters and other fluids used in the dealership.

The theme of the conference is “Focus on Profitability”, this will be incorporated into our upcoming CFO meetings this spring and summer. Our sessions will include Best Ideas, managing technology costs, inventory management and cost management strategies.

CONSUMER REPORTS: CADILLAC CTS OUTSCORES MERCEDES, BMW Conventional wisdom seems to be falling by the wayside, these days, especially when it comes to the established order among automotive nameplates. As *TheCarConnection.com* previously reported, Nissan’s Altima pulled an unexpected win over the well-entrenched Honda Accord, in the most recent Consumer Reports list of affordable midsize sedans. Now comes an even bigger surprise from the influential CR: in an equally noteworthy upset, Cadillac’s second-generation CTS sedan has whopped both the benchmark BMW 328i, as well as the recently redesigned Mercedes-Benz C300 in the magazine’s list of upscale sports sedans. Among a tough, competitive field, CTS was the only model to win an “Excellent” ranking.

“The Cadillac CTS now competes toe-to-toe with some of the best German and Japanese sport sedans,” explained David Champion, Consumer Reports’ (CR) senior director of automotive testing. “There are more safety features and interior amenities in the new model. Fit and finish is greatly improved, and the interior is much more pleasant than in the previous generation.”

While the folks at General Motors headquarters, in the Detroit Renaissance Center, may be cheering, they’re not entirely surprised. CTS also won the coveted Motor Trend Car of the Year trophy, late last year, and it was the first runner-up in the closely watched balloting by 45 North American auto writers. In the end, however, honors as the North American Car of the Year went to CTS’s sibling, the latest-generation Chevrolet Malibu. (The shot below captures a beaming Chevy General Manager Ed Peper collecting his NACTOY award.

Not-so-coincidentally, Consumer Reports announced that it has given an “Excellent” rating to the Malibu, as well, both in inline-4 and V-6 trim. In its “Auto Test Extra,” CR proclaimed, “The redesigned Malibu now ranks among the best family sedans in CR’s ratings, just below the Nissan Altima, Honda Accord, and Toyota Camry.”

CAMARO GOES HYBRID, AS GM AXES REAR-DRIVE IMPALA, LACROSSE?

General Motors has been forced to rework the investment case for the [Chevrolet Camaro](#) in

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the wake of new fuel-economy rules adopted this past December.

The Camaro will still be built, but higher-end V-8 versions likely will be priced higher than expected. As for other [planned GM rear-drivers](#)—a new [Chevrolet Impala](#), [Buick LaCrosse](#) and the replacement for the Pontiac G8 due this spring—all have been dropped along with a new V-8 engine GM was contemplating building. “You can’t kill something that was never approved,” said one GM official, who asked for anonymity but who confirmed the rear-wheel-drive projects are now dead.

Stew Low, a spokesman for GM of Canada, said the Camaro project is safe and is moving forward. The GM of Canada plant in Oshawa, Ontario outside of Toronto should be ready to build the first Camaro late this year, Low said.

Buzz Hargrove, president of the Canadian Auto Workers union, said that GM is spending \$2.5 billion in Oshawa - including \$435 million from the Ontario and Canadian federal governments. “We anticipated that would be followed by other rear-wheel-drive vehicles, but the money they spent on the plant makes it a flex plant, so you can build both front-drive and rear-wheel-drive in the facility,” Hargrove told reporters in Canada.

Only a proposal for new ultra-luxury rear-wheel-drive Cadillac seems to still have a chance of making it through GM’s product development process and into production. Even that project, though, may well depend on how the Environmental Protection Agency writes the rules enforcing the new fuel-economy standards. The death of the other rear-drive GM vehicles also has implications for the final pricing of the Camaro when it goes on sale next year. Last year, GM vice chairman [Robert Lutz had told TheCarConnection.com](#) that the rear-wheel-drive platform developed for the Camaro would support other vehicles as part of GM’s effort to make the project financially manageable. Spinning more vehicles from one platform spreads the costs around and is the most efficient and effective way for GM to use its available capital, Lutz has said.

As part of global product strategy GM plans to use fewer but more flexible platforms that would accommodate a wider range of vehicles and vehicle designs. Specifically, the new Camaro platform could be used for other rear-drive vehicles, Lutz said he said before the fuel-economy debate had heated up in Congress. Part of the reason for the delay in moving forward with the Camaro project revolved around extending the utility of the fundamental architecture so it could serve as the platform for other vehicles as well, he said. The new fuel-economy rules, however, have basically forced GM to reconsider its extensive plans for rear-wheel-drive vehicles. Rear-wheel-drive trucks and SUVs are safe for now because the new federal rules will allow some wiggle room for trucks. GM, though, is not in a position to absorb the roughly 1-mpg fuel-economy penalty that comes with building rear-wheel-drive passenger cars, GM insiders said in the wake of the North American International Auto Show in Detroit.

However, GM’s decision to scrap the other rear-drive models is putting an enormous cost burden on the new Camaro. GM officials are saying they should be able to recover some of the investment costs in the new rear-wheel-drive platform by selling the vehicles in places such as Australia, the Middle East and China. Australia, however, has a new government that takes global warming very seriously. China is imposing new fuel-economy standards that are as tough as those found in the United States and one of the largest vehicle markets in the Middle East, Iran, is off limits to American car companies. Nevertheless, GM desperately wants to price the new Camaro competitively against vehicles like the new Dodge Challenger and particularly the

Ford Mustang, which pretty much inherited the segment after GM withdrew the Camaro earlier in the decade.

With a new generation of rear-wheel-drive vehicles consigned to the never-built file somewhere in the company's engineering office, GM now is working on a plan B for Camaro. GM chairman Richard Wagoner has already confirmed a V-6 engine will be part of the Camaro package. While the concept Camaro has come with V-8 engine, a V-6 would serve as basic engine for the production Camaro and would help keep prices competitive.

Meanwhile, Tom Stephens, the head of GM's Powertrain Group, told reporters recently that turbocharging can help boost both fuel economy and horsepower. The V-8 version of the Camaro is very likely carry a substantial premium and GM is thought to have assigned a team of engineers to work out how to apply its new dual-mode hybrid system for an even more expensive version of the Camaro

CHRYSLER GOES BACK TO WORK – FOR NOW Things should quickly be getting back to normal at Chrysler, now that the bankrupt supplier, Plastech has agreed to start sending it more than 500 critical plastic parts.

On Monday, Chrysler was forced to shut down four assembly plants, including one producing the Sebring sedan, because of a contract dispute with Plastech, which had been forced into Chapter 11 – and which had demanded what Chrysler called an “extraordinary” amount of financial assistance. In turn, the automaker threatened to take all the tools needed to produce those plastic parts and switch to an alternate supplier. About 10,500 Chrysler workers were briefly idled, but the dispute threatened to shutter most of the company's U.S. and Canadian operations if it wasn't settled quickly. But the peace settlement could be a brief one, lasting only until February 15th, unless the two sides can resolve some serious differences.

Though Dearborn, Michigan-based Plastech has been in trouble for several years, Frank Merola, an attorney representing a group of debt-holders, argued in front of a bankruptcy judge that, “Chrysler caused this bankruptcy.” And he declared that Plastech will “hold Chrysler fully responsible.”

“We vehemently disagree with the contention that we caused this bankruptcy,” countered Chrysler attorney Mike Hammer.

Dozens of suppliers to the U.S. auto industry have gone into bankruptcy in recent years, including major names like Dana Corp and Tower Automotive. There had been some hope, among industry observers, that the situation might improve this coming year, but with growing signs that the weak economy will hurt U.S. auto sales, signs of a revival seem to be growing increasingly dim.

GM WILL NEED TO PROVIDE BIG SUBSIDIES FOR VOLT There will likely be a big gap between customer expectations and the actual cost to build Chevrolet's first plug-in hybrid, the Volt, a senior General Motors executive tells TheCarConnection.com. That means, at least for the first few years of production, the automaker will have to heavily subsidize production of the high-profile, high-mileage vehicle.

“It’s going to be expensive” to build, acknowledged Troy Clarke, president of GM North America, following his speech marking the opening of the 2008 Chicago Auto Show. Clarke noted that even though GM has promised to bring the Volt plug-in – more accurately described as an “extended-range electric vehicle” – to market sometime in 2009, it is still in the midst of inventing the necessary technology, with most of that effort focusing on the vehicle’s lithium-ion batteries. “The first generation (of new technology) will cost you like the dickens,” said Clarke. “It’s usually the third generation of a technology that gets you to a normalized cost base.” The Volt takes a markedly different approach than a conventional hybrid, such as the Saturn Vue or Toyota Prius – which use less powerful and markedly less expensive nickel-metal hydride batteries. Volt’s wheels are only driven by the vehicle’s electric motors. In turn, those can derive power either from a pack of lithium batteries, or from a small, internal combustion engine which acts like an electric generator. The plan is to provide somewhere around 30 to 40 miles of battery range, enough for a typical day’s commuting. For longer drives, the gasoline engine would kick in.

How much it will cost for the batteries needed to deliver that range is unclear, but well-placed industry sources believe it could run to the tens of thousands of dollars. That’s one reason why a plug-in version of the Toyota hybrid may deliver significantly less range, according to Toyota President Katsuaki Watanabe.

But industry insiders believe that Toyota swallowed about half the cost of the Prius during its first few years on the market. Company officials don’t deny they subsidized the hybrid early-on, but today, they insist, Prius actually turns a profit. “It’s the burden of leadership,” to accept the initial cost penalties of groundbreaking technology, said Clarke, but he also acknowledged that if Volt is successful in the marketplace, the payoff will be substantial, even initially. Not only could it draw new buyers, but it would also enhance General Motors’ “green” credentials, something the automaker has sought to enhance in its global battle with Japanese arch-rival Toyota.