Autos Off to a Slow Start
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It is hard to think about anything other than the big picture in the automotive industry these days. There is always any number of intriguing things going on that could be commented upon, but this year it is harder to tear oneself away from fixed examination of the overall health of this patient. So we will use this month's column to do a spot check on how things are holding up. The short answer is, not so well.

Vehicle sales are way down. Anyone who is surprised by this, raise your hand…. Just as I thought - I don't see any hands. Looking at a year over year comparison, light vehicle sales in January and February were down 39.4%, but early 2008 was the front end of the recession, a very different time and place. Industry forecasters including IRN have been expecting a slower first half of the year for 2009 and a stronger second half. Our current forecast calls for a seasonally-adjusted annualized rate of 8.8 million units over the first six months and an 11.5 million SAAR in the second half, for 10.2 million US sales in total. The actual SAAR for January and February were 9.8 million and 9.1 million, respectively.

Sales of small vehicles are performing better than the overall market. Dramatic decline in gas prices notwithstanding, we see a pattern of the compact and subcompact cars and smaller SUVs drawing more buyers relative to last year than the larger or luxury models. The vehicle segments that have not fallen as much as the overall market are the following:

- A segment (e.g. BMW Mini) – up 6.3%
- B segment (e.g. Nissan Versa) – down 33%
- C segment (e.g. Honda Civic) – down 30.5%
- Sports Car segment (e.g. Chevy Corvette) – down 36.7%
- Crossover SUV segment (e.g. Ford Escape) – down 25.8%

This is not to say that sales of these segments have been anywhere near good, of course. Inventories of unsold vehicles are through the roof, even with the production cutbacks of this year. Used cars are posing strong competition to new car sales as well.

No automaker has escaped unscathed. It is a little misleading to look at year-over-year percentages for all car companies, since the percentage change for a niche manufacturer represents a far smaller number of actual vehicles. A major full-line volume-driven company has a much harder time accomplishing the same percentage result. We offer the following figures with that caveat. Auto assemblers outperforming the overall US sales level include:

- The Germany-based companies of BMW, Daimler, Porsche, and Volkswagen, all of whom had percentage declines in US sales that were "only" 19% to 28% down from last year;

- Most of the Japan-based car makers (Honda, Mazda, Nissan, and Toyota), with declines ranging from 29% to 36% YOY;
- Two companies that actually saw sales rise from the same period last year – Korean automaker Hyundai up 4% (great marketing and warranties) and Japanese automaker Subaru up 4.5% (due to the good luck of a new product introduction).

The domestic Big Three saw sales declines of greater than 40% (49% for Chrysler, 46% for Ford, and 51% for GM) in the first two months of the year compared to last year. Ford, which has been making a strong push to convert some of its truck production to small cars, fared the best of the three. What we are seeing this year is not the usual interplay of consumer demand, new product introductions, incentives, etc., but a system-wide slump that is testing every company.

Component suppliers are getting sorted out. An article in *Automotive News* earlier this year noted that GM had pulled its tooling from 50 parts makers over the year-end holiday shutdown. This is done in cases where an automaker is concerned about current or potential issues in getting the flow of parts it needs. Consequently, a number of other suppliers have gotten opportunities to take over existing jobs as companies lose their contracts or exit the business. Key ingredients in the winning formula these days include minimal debt, creative cost-cutting, and seizing opportunities to add value to what you sell. The $5 billion federal supplier assistance package will help provide some stability and eventually help improve normal access to credit for the supply base.

Consumers need confidence-boosting. The Conference Board's Consumer Confidence Index was relatively flat in January but dropped to an all-time low in February. Those surveyed exhibited both a critical assessment of current conditions and an expectation of more of the same. All told, wintry conditions continue for the U.S. auto industry. None of the indicators as of this writing are signaling a turnaround, but we are all watching hopefully for signs of spring, literally and figuratively.