Autos Insider

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Auto sales outlook gloomier

Suppliers, dealers, state brace for tougher 2008

Eric Morath / The Detroit News

The storm clouds over next year's auto sales are getting thicker by the day -- and more than just automakers are preparing for a dampened 2008.

From auto suppliers to car dealers to Michigan's economy, if auto sales fall 500,000 or more units, as many forecast, the impact will be wide and deep, including likely consolidation of automotive suppliers, fewer dealerships and lower state tax revenue.

And the impact will be felt beyond the auto industry. Fewer people will eat out or travel to northern Michigan, and they'll curtail their spending at local retailers to try and weather the downturn.

Last week, Global Insight Inc. lowered its 2008 U.S. light vehicle sales projection to 15.5 million units -- among the lowest forecasts to date among numerous analysts who see sales sliding. Ford Motor Co. has predicted sales as low as 15.2 million based on market conditions expected for the first six months of the year. Some in the industry say the number will drop further than that.

Three major suppliers told The Detroit News they project U.S. vehicles sales ranging from 14.5 million to 15 million units. Officials at the companies asked not to be named because such information is considered proprietary, but those in the industry are buzzing about how deep production cuts will go.

"The present conditions are very uncertain," said Ford sales analyst George Pipas. "Will there be a recession or not? When does housing rebound? What will gas prices be? Uncertainty in the economic situation is reflected in (the) stock market, and the same can be said for consumers."

Most in the industry agree auto sales will dip below the 16 million mark in this country for the first time since 1998.

Such a decline in sales would ripple through the economy of Michigan -- and the nation, says Harry Veryser, an economist at the University of Detroit Mercy.

"The auto industry is such a big part of the economy that if things go right, they make profits like crazy, but when things go wrong, it multiplies," said Veryser, who once owned a Fraser auto supply company. "The effect will be across the country if those forecasts are correct."

A struggling housing industry, continued difficulties in the credit market and high oil prices will make it more difficult to sell cars, especially in the first half of 2008, said George Magliano, director of automotive research for Global Insight. He predicts economic growth will slow.

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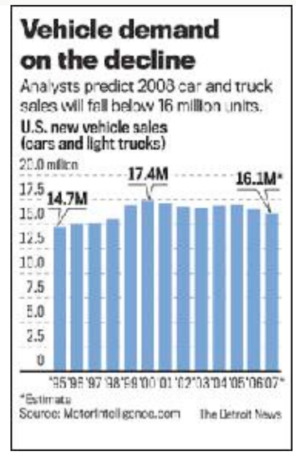

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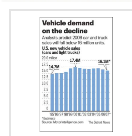

Extras

Slumping market

Most are projecting 2008 U.S. light vehicle sales to be below 2007's estimated level of 16.1 million:

Analysts

Global Insight: 15.5 million
Bear Stearns: 15.5 to 15.7 million
Fitch Ratings: 15.6 million
Goldman Sachs: 15.6 million
Deutsche Bank: 15.75 million
CSM Worldwide: 15.8 million

Automakers

Ford: 15.2 million to 15.7 million*
Nissan: 15.5 million to 16 million
Honda: 15.9 million
General Motors: Flat or slightly down from 2007
Toyota: 16.1 million
Chrysler: No forecast
*Annualized sales for first six months.

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"Things have changed drastically for the worst," he said. "There will be nearly no growth (in the economy) next year. We haven't seen the worst of the credit crisis or the housing market."

More layoffs hit factories

The impact of fewer car sales is already becoming apparent to some in Michigan as Chrysler and Ford workers learned recently that they'll be on extended layoffs early next year as the automakers bring production in line with demand.

In addition, Chrysler is eliminating shifts at two Metro Detroit plants, and thousands of area employees are expected to depart from the Auburn Hills automaker. This month, General Motors laid off workers at its Hamtramck plant due to decreasing demand for products built there.

Those losses could result in falling sales for restaurants, retailers and other businesses seemingly removed from the auto industry, said Charles Ballard, an economist at Michigan State University.

"There's a multiplier effect if workers have less money in their pockets; they might not get their hair cut as often, go to the movies less or cut back on going out to eat," he said.

A definite loser is the state government, Ballard said. Already the state House Fiscal Agency predicts that next year's budget shortfall could reach $500 million. Ballard said declining sales, income and business tax revenue related to automotive struggles threaten to further strain the state's ability to provide health care and other services.

Also affected are television networks, magazines, newspapers and other media outlets that depend on the $9.6 billion spent on automotive advertising in 2006. Merrill Lynch is forecasting a 5.3 percent decline in 2008 automotive advertising.

Supplier demand may fall

As demand for new vehicles declines, so does the demand for auto suppliers' products.

Automakers' cost-cutting efforts in recent years led to lower margins for suppliers. To stay profitable, many suppliers have tried to increase the volume of parts they produce, to spread costs over more parts. If volumes drop, but costs remain constant, suppliers could lose money on every part they sell, said John Henke, a supplier analyst and professor at Oakland University.

The pain will not be spread equally, he said. Suppliers tied closely to SUV and truck components, where sales are dropping most steeply, are likely to be harder hit than those that supply parts to popular crossovers and other hot-selling models.

The most likely to suffer are smaller suppliers that don't have foreign sales and diverse products to get them through tough times.

"You could see layoffs or them closing their doors altogether if they can't make money in this market," Henke said.

David Cole, chairman of the Center for Automotive Research, said several suppliers he spoke with are forecasting sales below what most automakers are projecting.

Uncertainty in the industry makes it difficult for small suppliers, such as T & W Tool and Die Corp. in Oak Park, said President Herb Trute.

Small shops, like Trute's, typically work on only one or two vehicle programs at a time, but commit 20 to 40 weeks to the projects.

"If one of those programs is canceled or delayed, you have the potential to lose your backlog for a half of a year," he said, which could affect staffing and require canceling equipment purchases.

Low sales hurt dealers first

But it is the auto dealers who get hit first.

If sales drop significantly, "a lot of dealerships won't be in as good shape to carry their overhead, and you'll see a few exiting the market," said Alan Helfman, owner of River Oaks Chrysler Jeep in Houston.

As new car sales decline, dealers will have to focus on areas of their business that are profitable -- particularly maintenance, repair and used car operations that could increase as drivers look for cheaper vehicles or want to keep their cars longer, said Paul Melville, an automotive corporate recovery specialist with Grant Thornton LLP.

The silver lining is that continued difficulty in the auto industry hastens Michigan's movement toward a state less dependent on manufacturing vehicles and more tied to technology, said Ilhan Geckil, senior economist at the Anderson Economic Group in Lansing.

"2009 will be better for the state because Michigan's economy is transforming," he said. "We are getting

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