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Wednesday, January 16, 2008

2008 North American International Auto Show

# Industry outlook is dicey

**Auto company analysts predict continued decline in market.**

**Eric Morath / The Detroit News**

This year will be the worst automotive market in a decade, economists from Detroit's Big Three automakers say, but the bottom is not about to drop out.

A moribund housing market, continued fuel-price concerns and worrisome consumer sentiment are expected to lead to declining auto sales this year.

But economists representing GM, Ford and Chrysler who spoke Tuesday at a Society of Automotive Analysts conference said monetary and fiscal policy adjustments, a stabilizing overall economy and consumers buying more fuel-efficient models should mitigate the sales decline.

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General Motors Corp. expects annual sales to hold flat at last year's 16.1 million unit level, while Chrysler LLC projects 15.5 million to 16 million units sold, and Ford Motor Co. 15.7 million.

"There is some potential for sales to be higher than that," said Ellen Hughes-Cromwick, Ford's senior economist. "Depending on what economic stimulus are in place" and what incentives manufacturers offer.

This year's results could be worse, if not for the Federal Reserve's lowering of interest rates and the possibility that Washington policy makers could take other steps to stimulate the economy, Hughes-Cromwick said.

Most analysts are more skeptical because of mounting fears the nation may already be in a recession. They peg this year's U.S. sales at 15.5 million for light vehicles

"By the time you actually figure out you are in a recession, you're probably climbing out of it," said Erich Merkle, vice-president of forecasting for IRN Inc. in Grand Rapids.

Still, frugal consumers will take their toll on auto sales this year, Merkle said.

Automakers' belief that the national economy will stabilize this year is on target said Harry Veryser, an economist at the University of Detroit-Mercy, but they shouldn't peg hopes of a turnaround on government intervention. He said lower interest rates are not likely to have a major impact on consumer spending.

And a more stable national economy does not necessarily mean a stabilized Michigan, Veryser said.

"Losing a half-million units is nothing to sneeze at," he said. "That could lead to continued automotive layoffs and more cost cutting by suppliers."

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On Wall Street Tuesday, Ford and GM continued their stock slide amid heavy trading as weak retail sales figures fueled fears of a recession. Ford fell 21 cents to \$5.97 a share, down 3.4 percent from the Monday close. GM declined 5.9 percent to \$22.28 a share, a \$1.41 drop from Monday.

#### Low unemployment may help

Hughes-Cromwick said the biggest drag on consumer spending is increasing energy costs and rising interest payments. The typical American household dedicates 14.1 percent of its disposable income to interest payments, including credit cards.

On the other hand, low national unemployment and relatively stable household income are positives for the auto industry, said Paul Traub, Chrysler LLC senior manager for economic and industry analysis.

He said the 17 million vehicle-a-year peak U.S. car market, which coincided with the boom in financial and housing markets, may have been more an anomaly than a reality. Traub added that sales will be more profitable as automakers cut back on fleet sales.

GM lead economist Ted Chu said he thinks the U.S. auto market in 2008 will be comparable to 2007.

"Most of the impact will not be on total (spending) or volume, but on the mix of vehicles and the size," he said. Joe Phillipi, head of AutoTrends Consulting, is one of the less-optimistic analysts. He's forecasting U.S. sales of 15.5 million in 2008, and is especially bearish on the large pickup and traditional SUV market, which already is slumping because of the rise in gas prices and sharp slowdown in housing and construction.

"If we get a recovery, it is going to be modest," Phillipi said. "After years of strong sales, there is no pent-up demand."

#### Overseas sales expected to rise

Troy Clarke, GM's North American chief, said this week that the worst may be over in terms of sluggish U.S. auto sales.

"Maybe the first quarter and second quarter don't have to be as bad as people thought they'd be," he told reporters during an interview at the North American International Auto Show. "This year could surprise us."

Clarke said he doubts the market will fall below 16 million. "It's hard to imagine a full quarter that runs at less than (a rate of) 16 million. We're set up for a cold winter if that's where it is."

In contrast to sluggish U.S. sales, all three automakers are seeing sales outside the country growing, and they are increasingly looking to other regions of the world for profits.

*Staff writers Louis Aguilar and Sharon Terlep contributed to this report. You can reach Eric Morath at (313) 222-2504 or [emorath@detnews.com](mailto:emorath@detnews.com).*

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