The Automotive Industry, 2008, 2009 and looking forward

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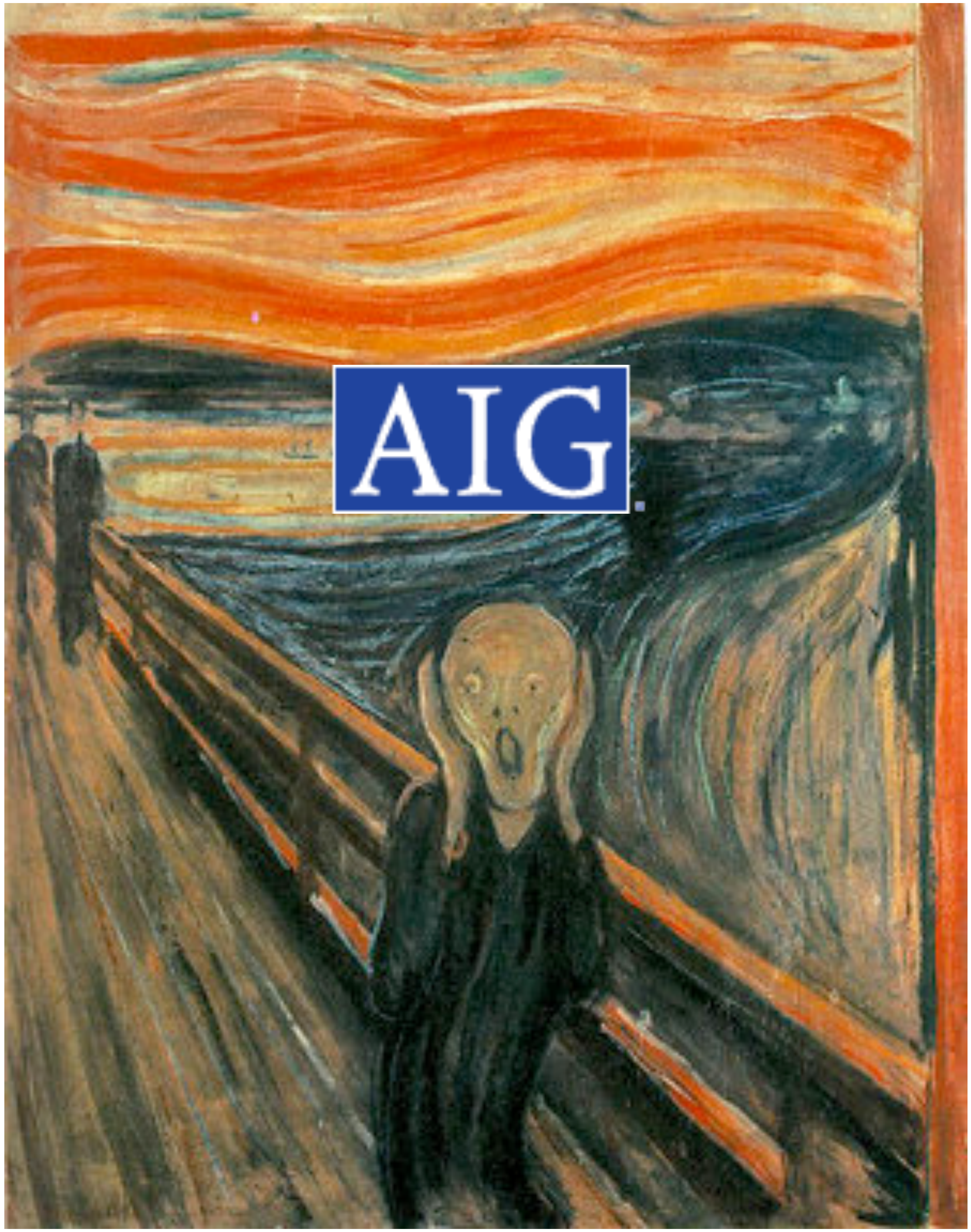
CENTER FOR AUTOMOTIVE RESEARCH

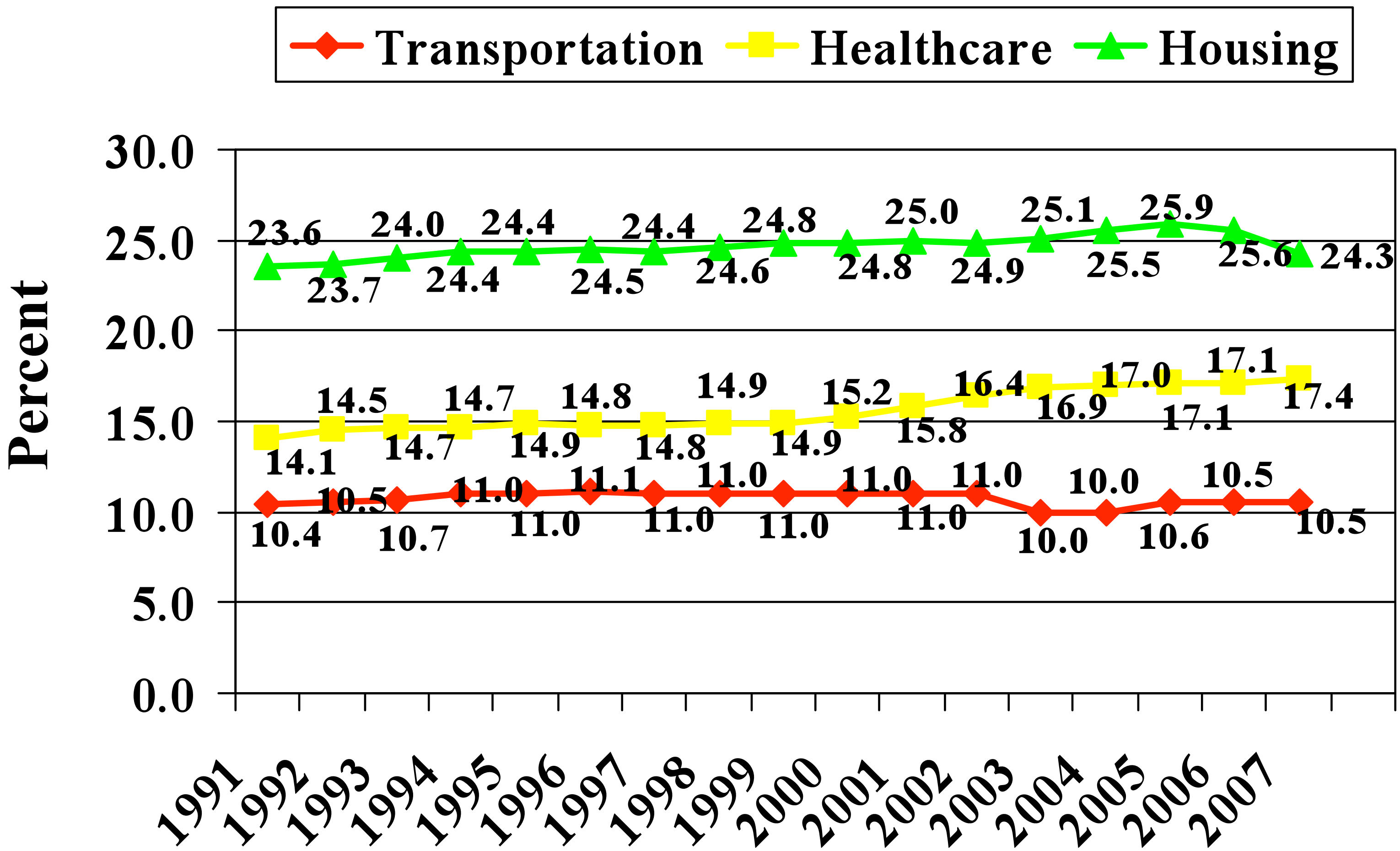

Take a Deep Breath . . .
Happy, Happy . . .


The Future


AIG

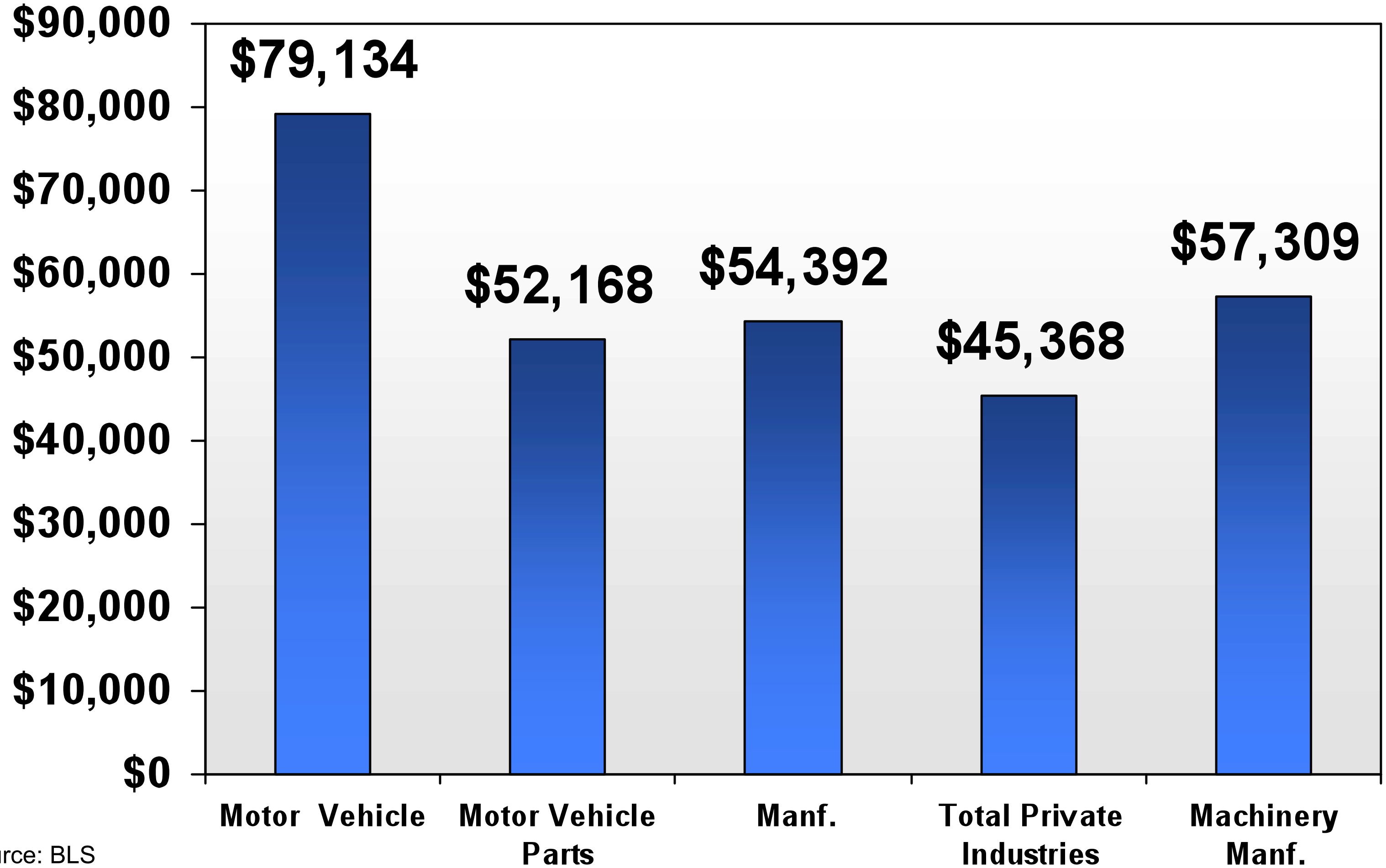
Is Manufacturing Relevant?

GDP by Major Social Function: 1991-2007



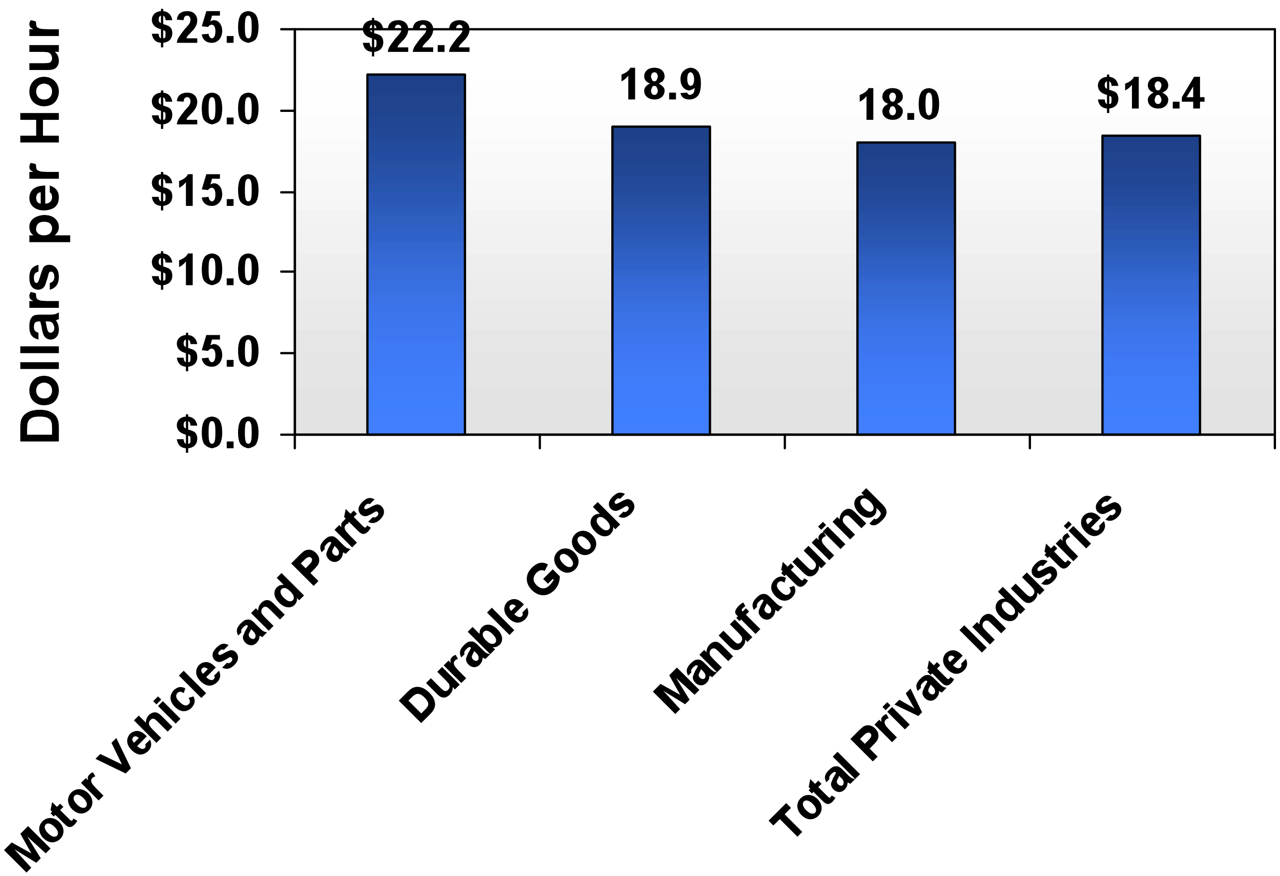
Source: U.S. Department of Transportation, Bureau of Transportation Statistics

2008 Average Annual Pay for U.S. Industrial Sectors



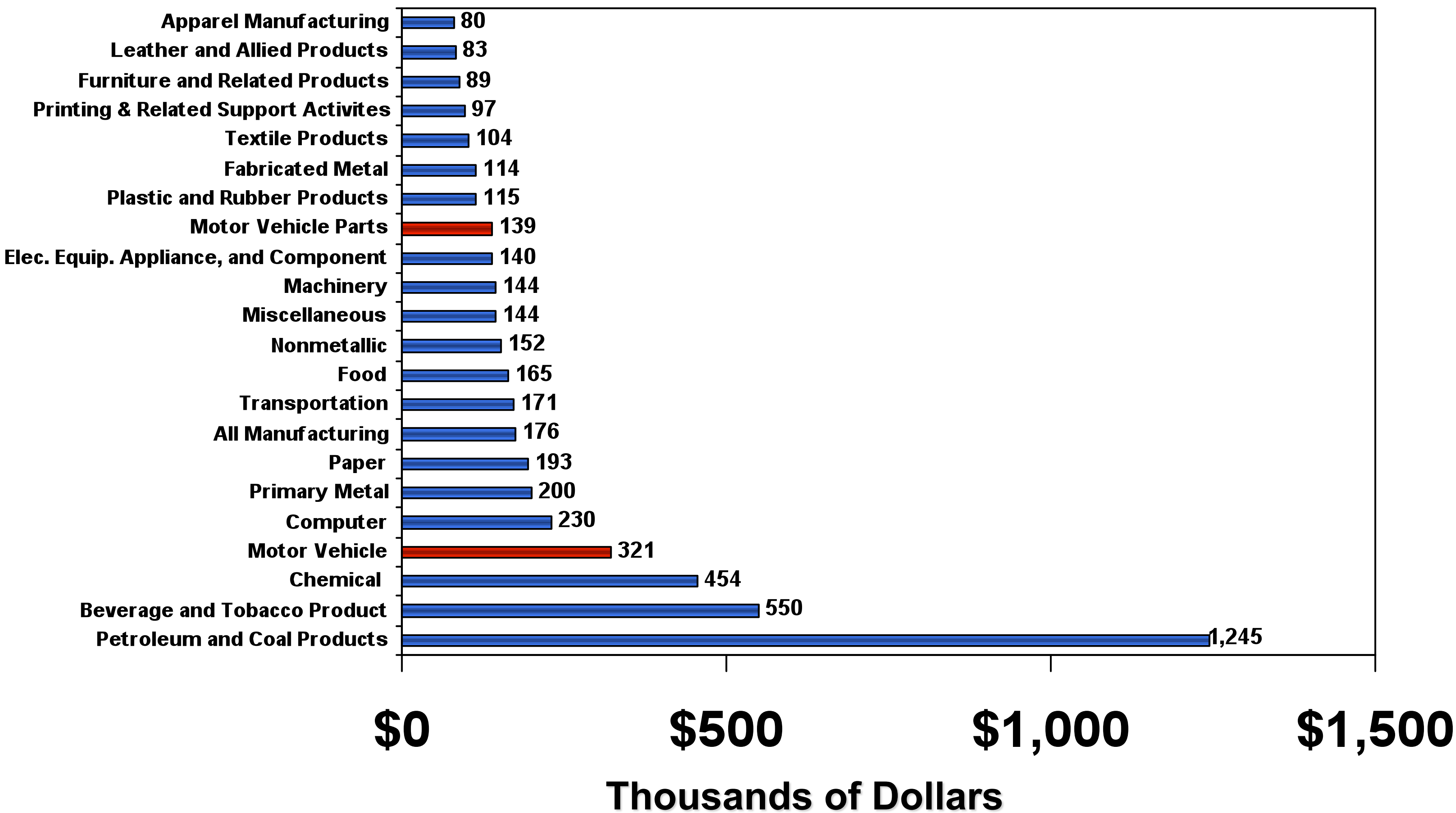
Source: BLS

2008 Average Hourly Earnings Per Production Worker for U.S. Industrial Sectors



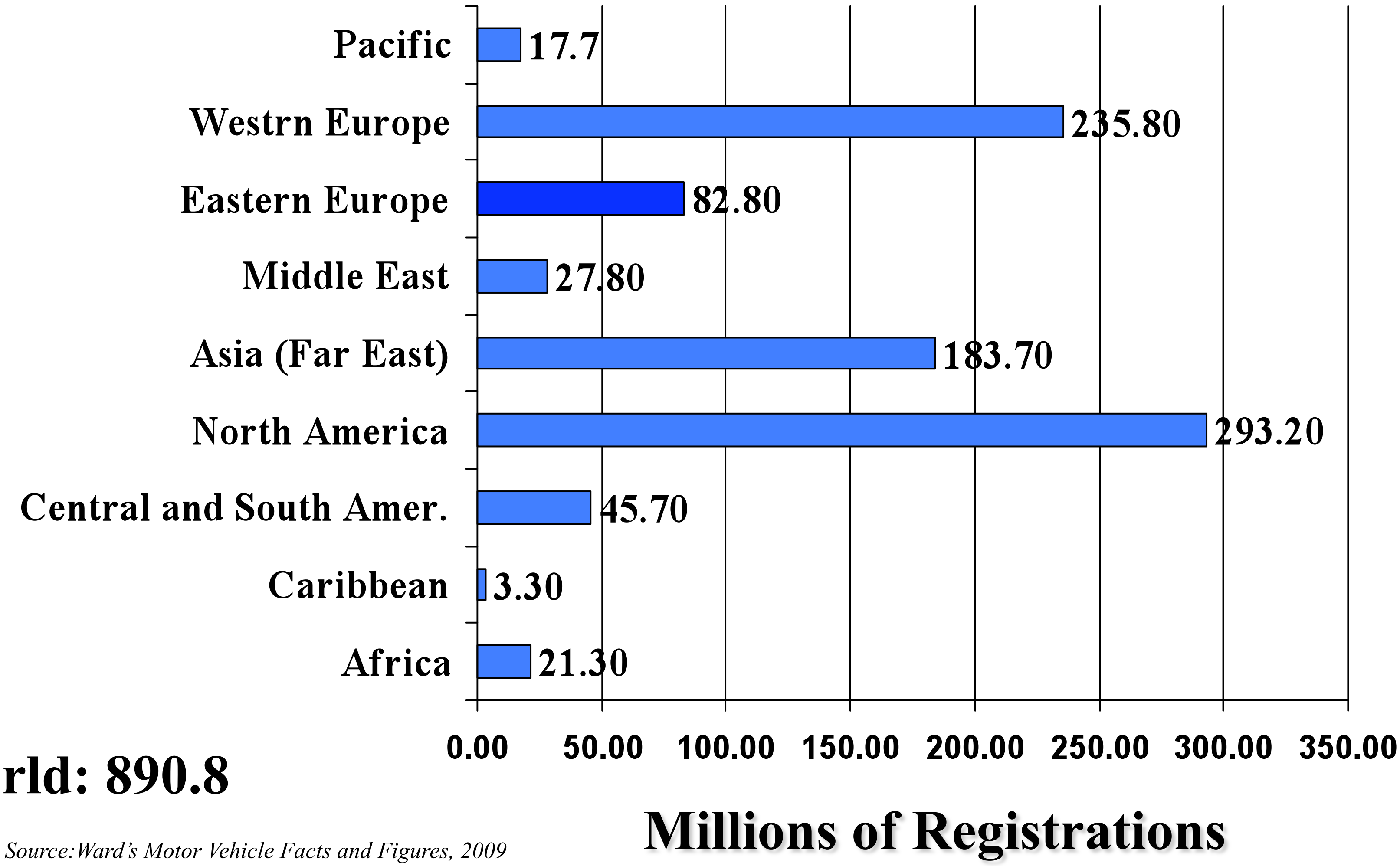
Source: BLS

2006 Value Added Per Employee



Source: 2006 Annual survey of Manufacturers; US Census Bureau

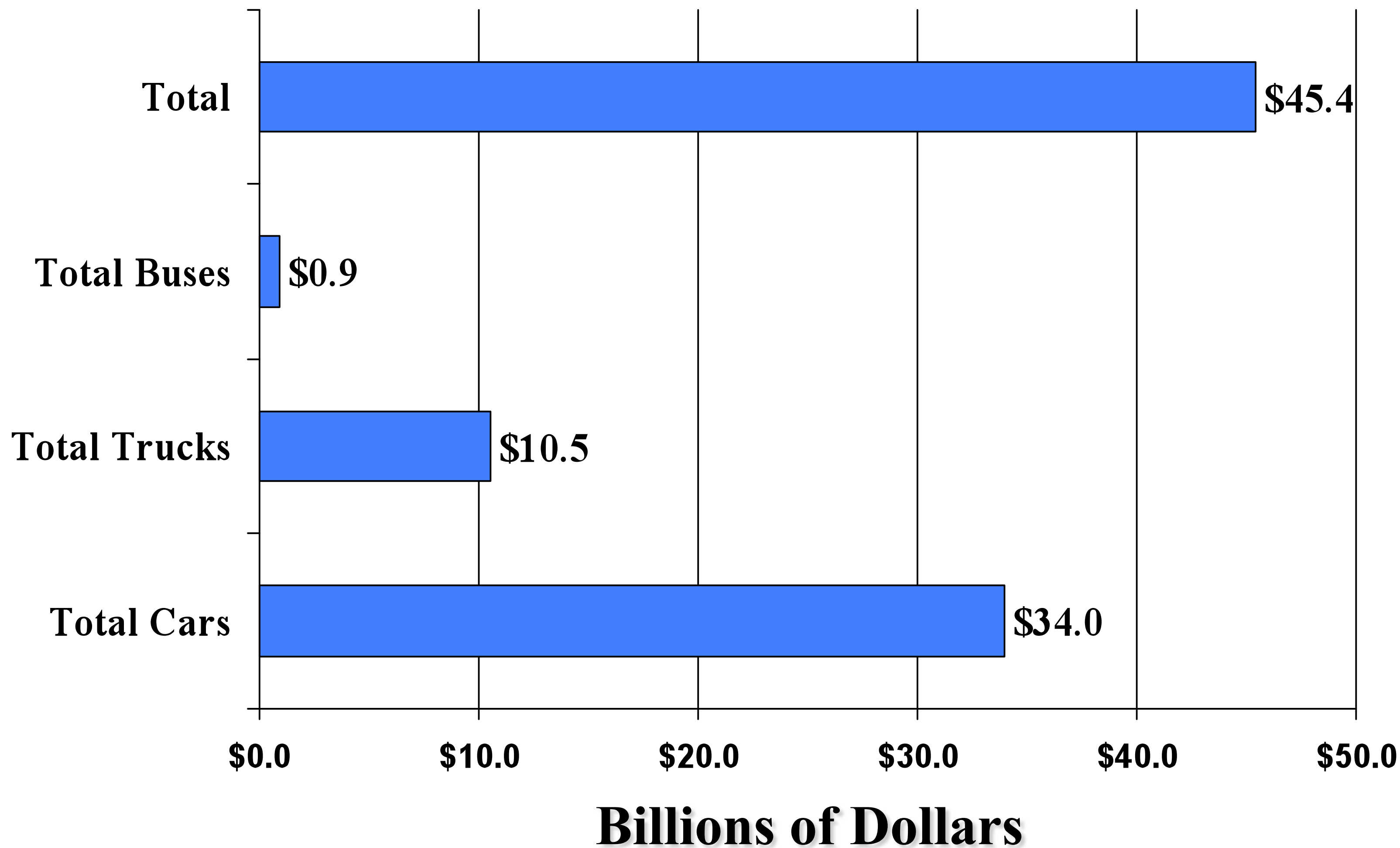
Total Vehicle Registrations by Region: 2007 in Millions



World: 890.8

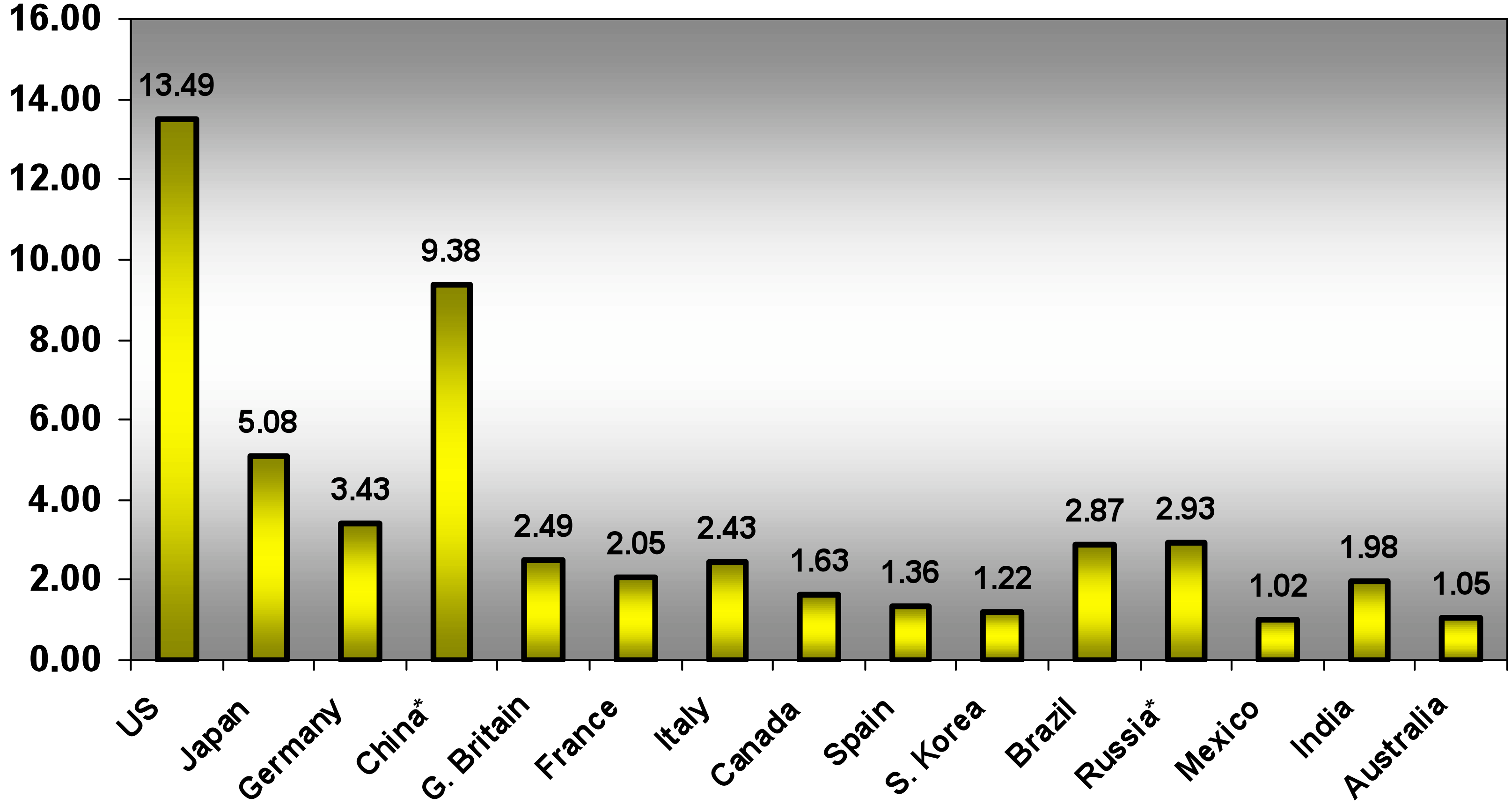
Source: Ward's Motor Vehicle Facts and Figures, 2009

2007 Total U.S. Vehicle Exports: In Billions of Dollars



Source:Ward's Motor Vehicle Facts and Figures, 2009

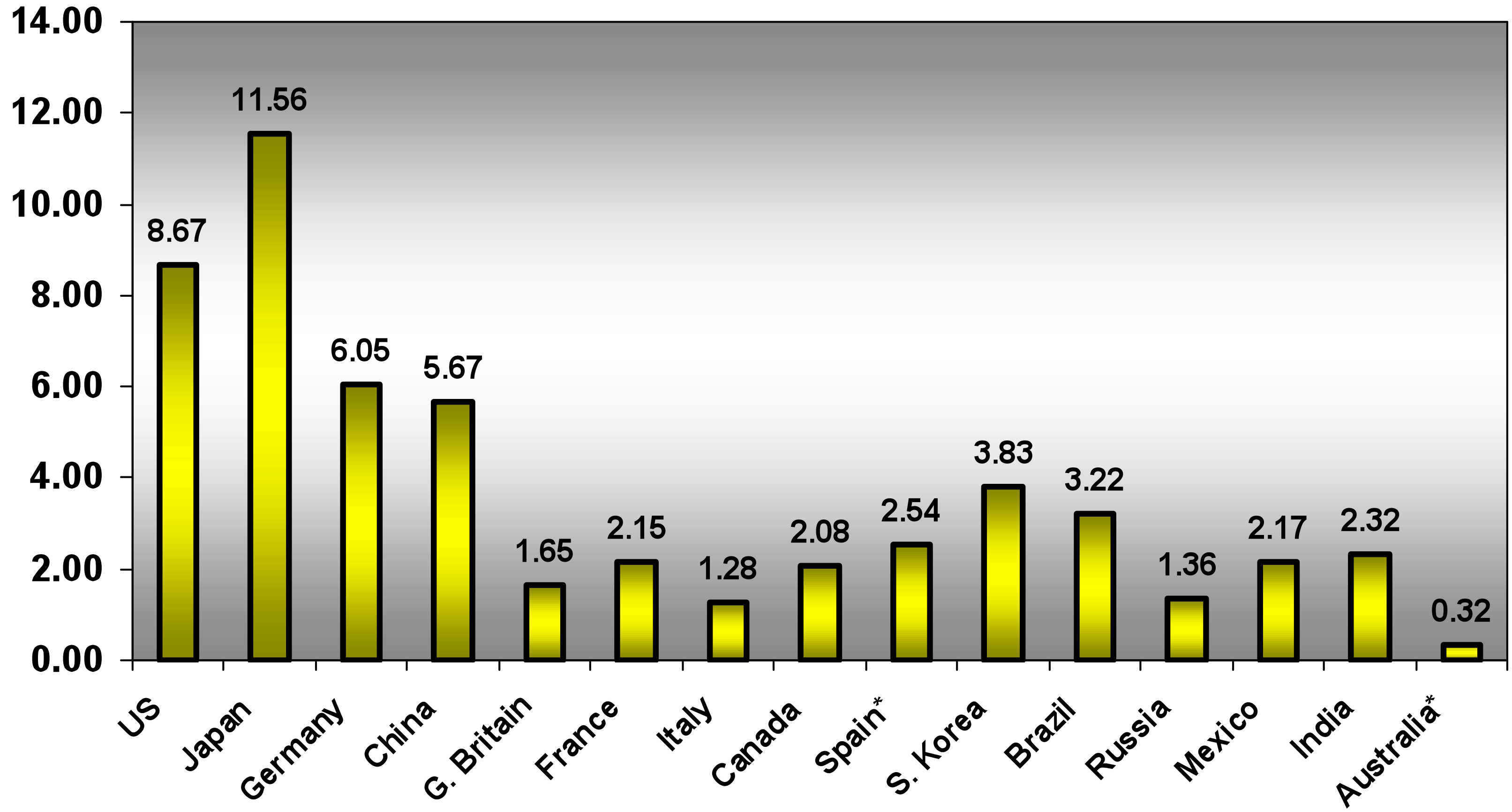
2008 Vehicle Sales in Major Countries: In Millions



Source: Ward's Automotive Yearbook, 2009

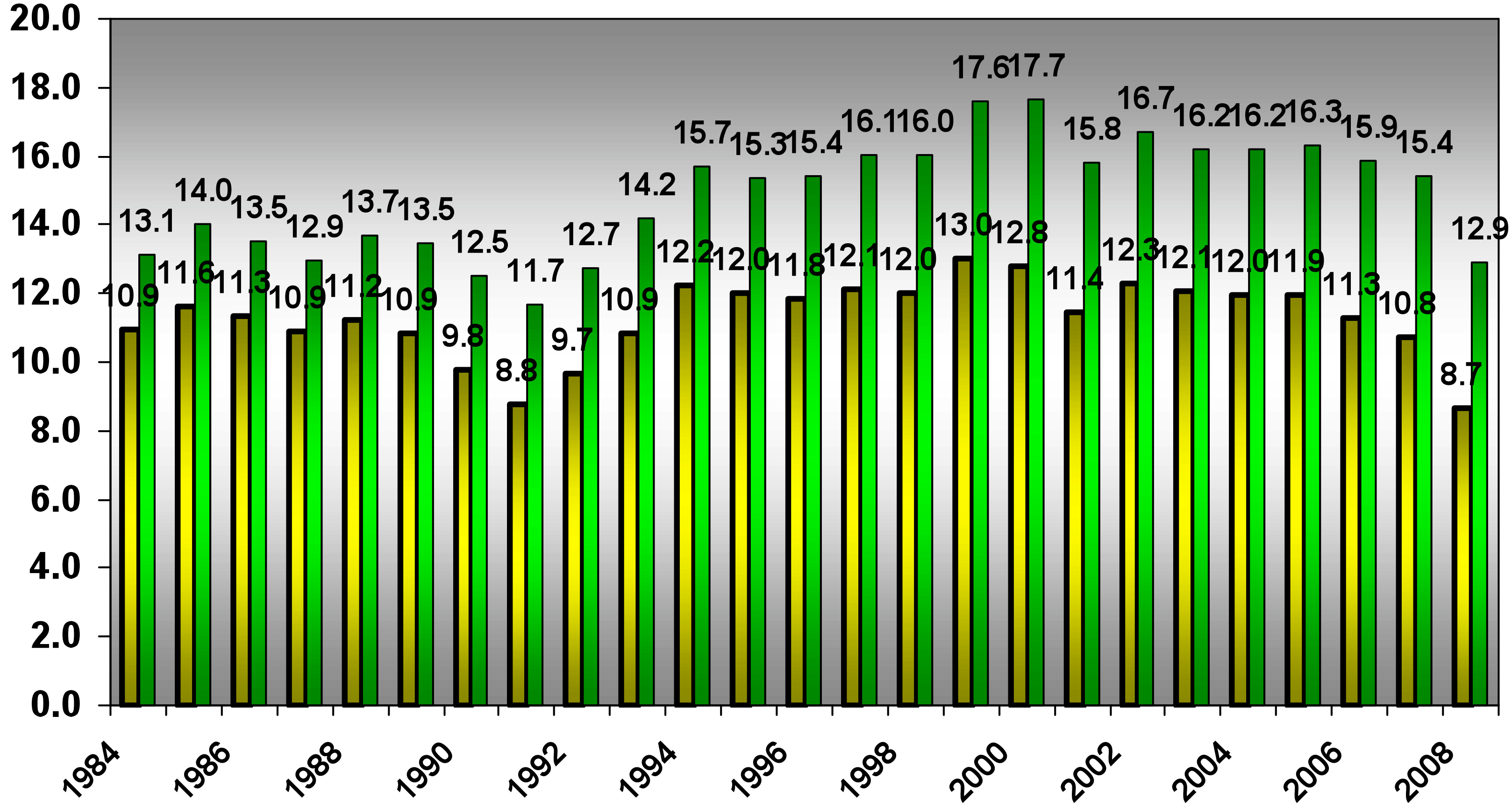
*Source: Marklines

2008 Vehicle Production in Major Countries: In Millions



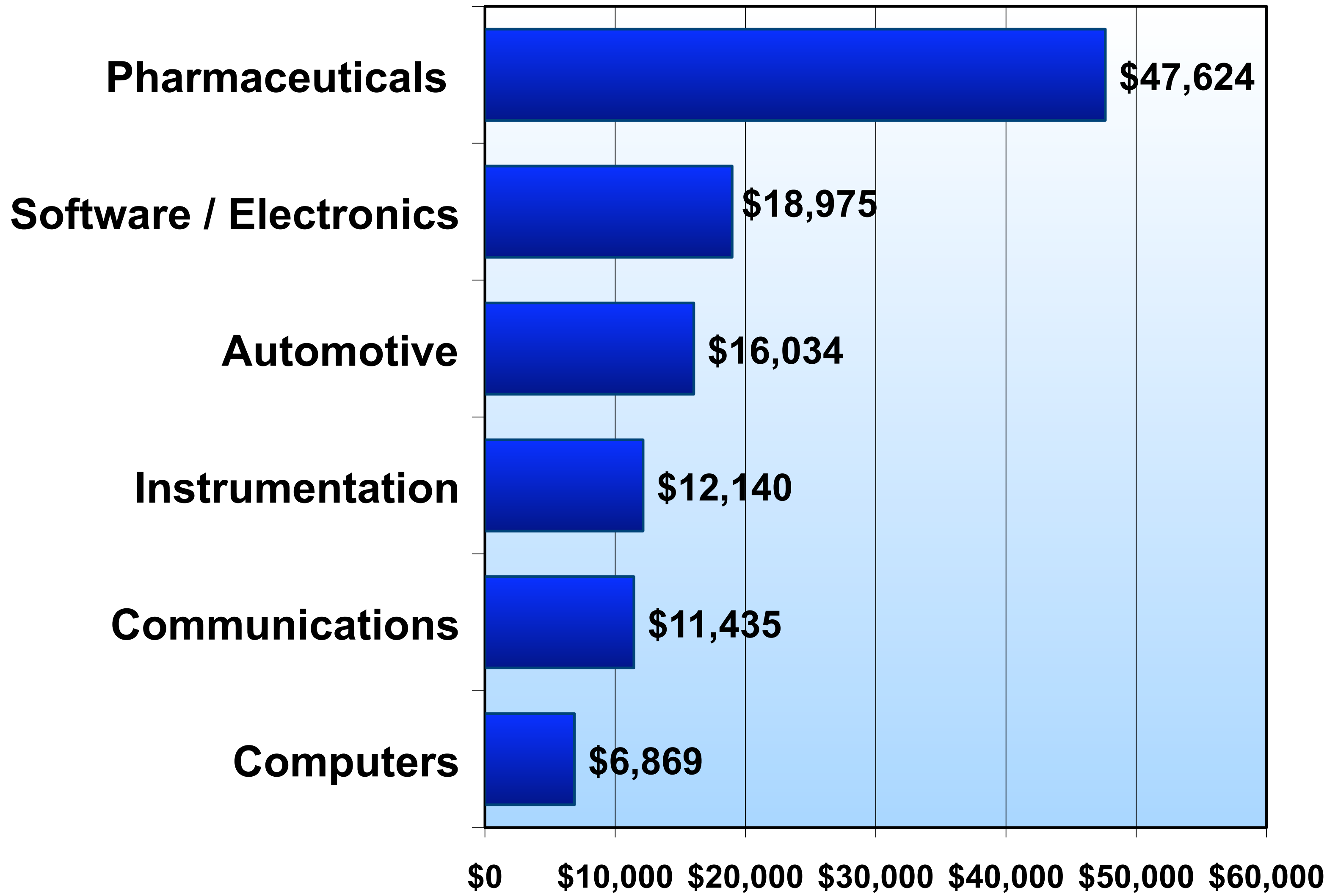
Source: Ward's Automotive Yearbook, 2009
*Source: Marklines

Total N.A. and U.S. Motor Vehicle Production: 1984-2008



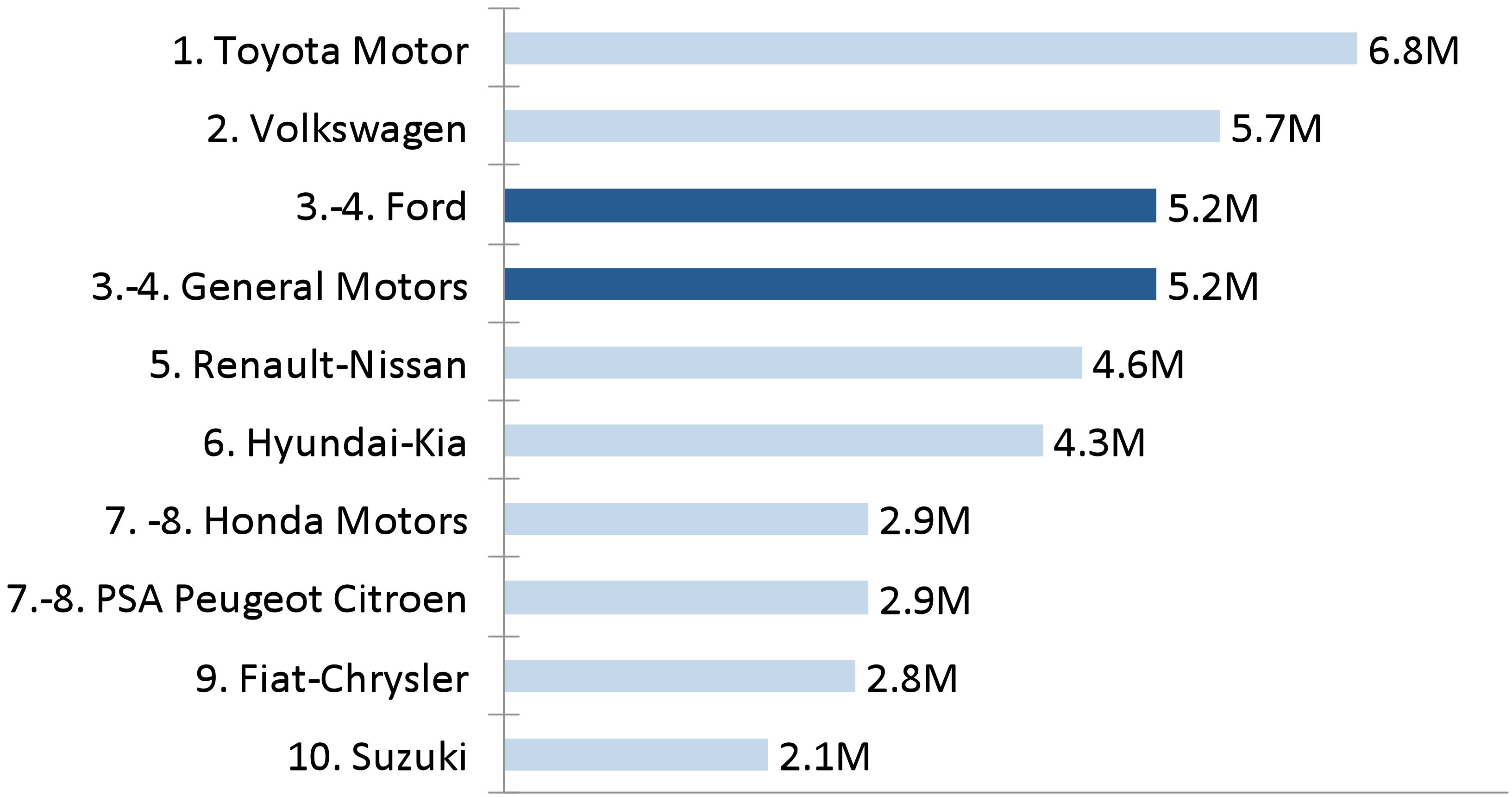
Source: Ward's Automotive Yearbook, 2009

2007 Private R&D Spending by Industry: In Millions



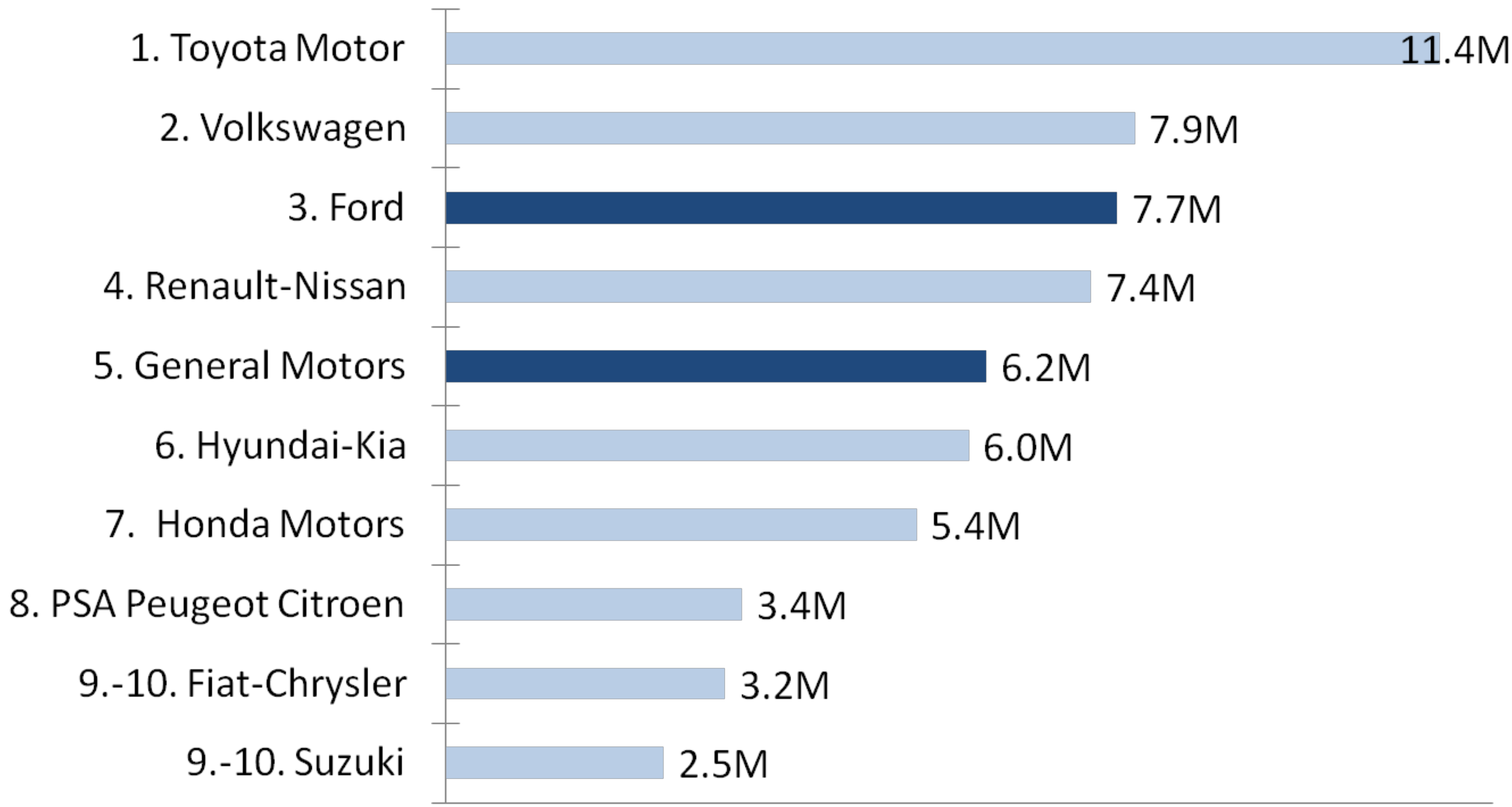
Source: NSF, Research and Development in Industry 2007, Table 1

Global Sales
2009 (estimate)



Source: CSM Worldwide; Ford Figures include Volvo and Mazda

Global Sales
2015 (estimate)



Source: CSM Worldwide; Ford Figures include Volvo and Mazda

Defining the Automotive Industry

Direct Employment and Compensation

*OEMs directly employed **313,000** people*

- Includes manufacturing, research and development, headquarters, and all other operational activities
- Directly reported by OEMs at end of 2008

***686,000** people were employed in the automotive parts sector.*

- Includes a percentage employment from rubber, plastics, batteries, and other non-automotive sectors

***737,000** people were employed in the dealer network selling and servicing new vehicles.*

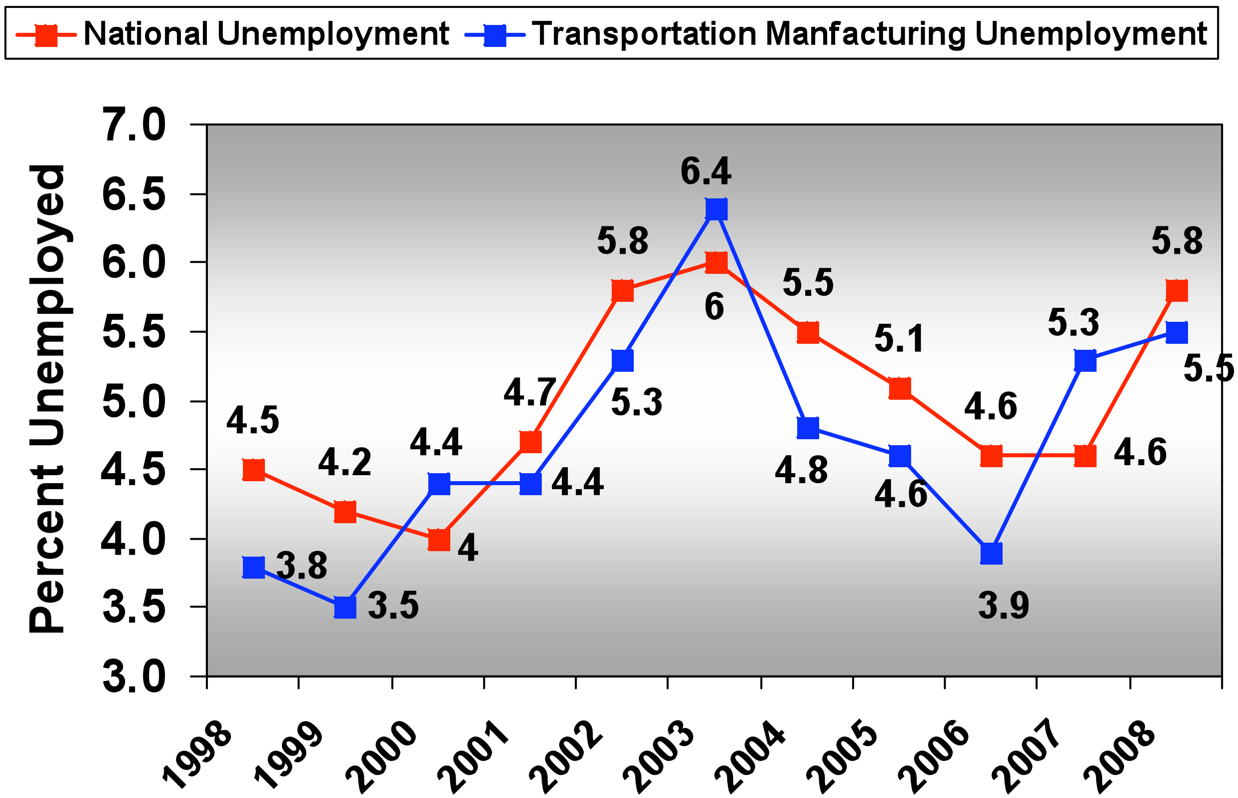
Estimated Total Employment Impacts

An estimated:

- ***8 million private sector jobs***,
- *more than **$500 billion** in annual compensation, and*
- *nearly **$70 billion in personal tax revenues***

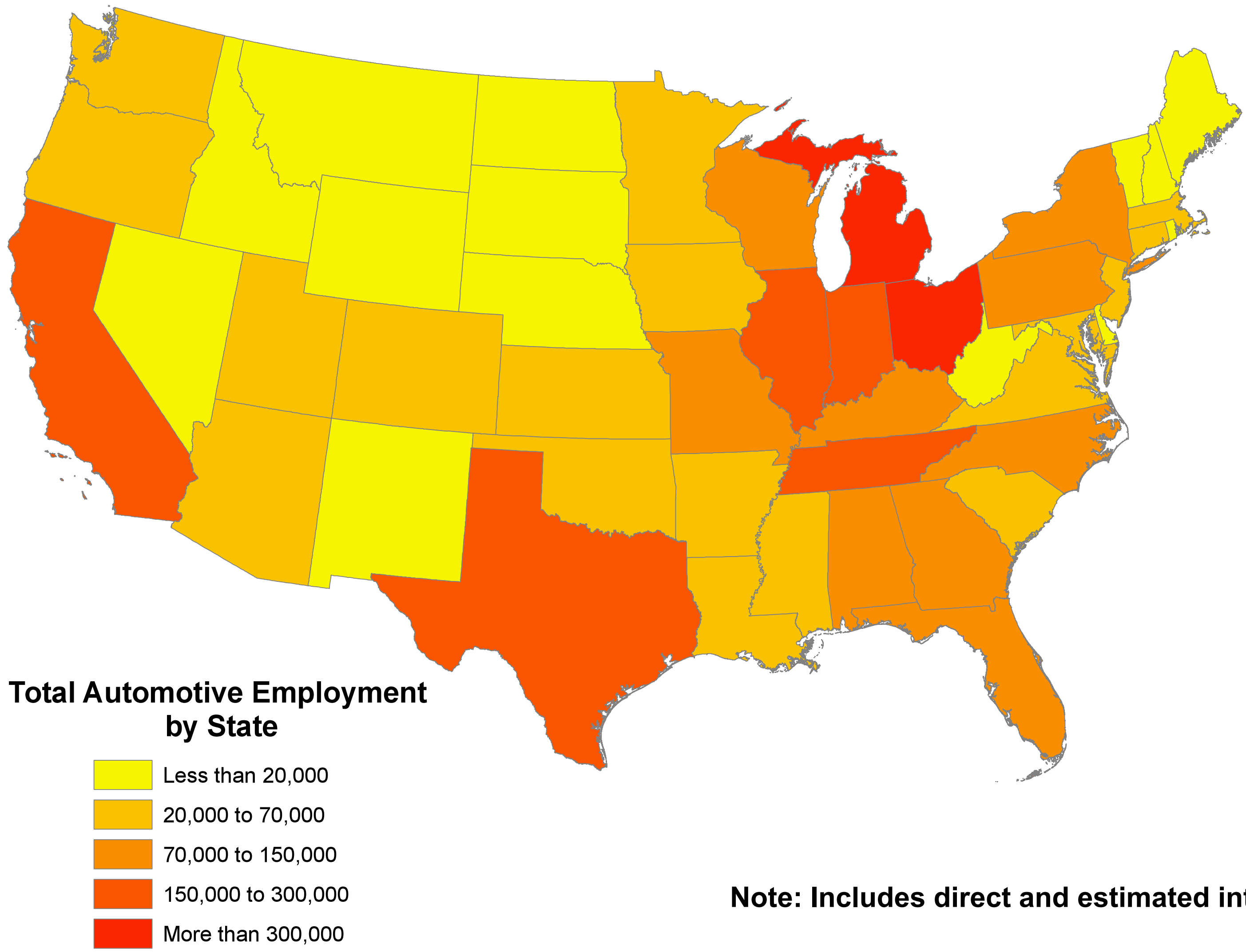
*are generated by the automotive industry's **total U.S. automotive operations**, including new vehicle development and production, parts manufacturing, along with the contribution from the sales and service of new vehicles.*

U.S. Annual Unemployment Rate: 1998 to 2008



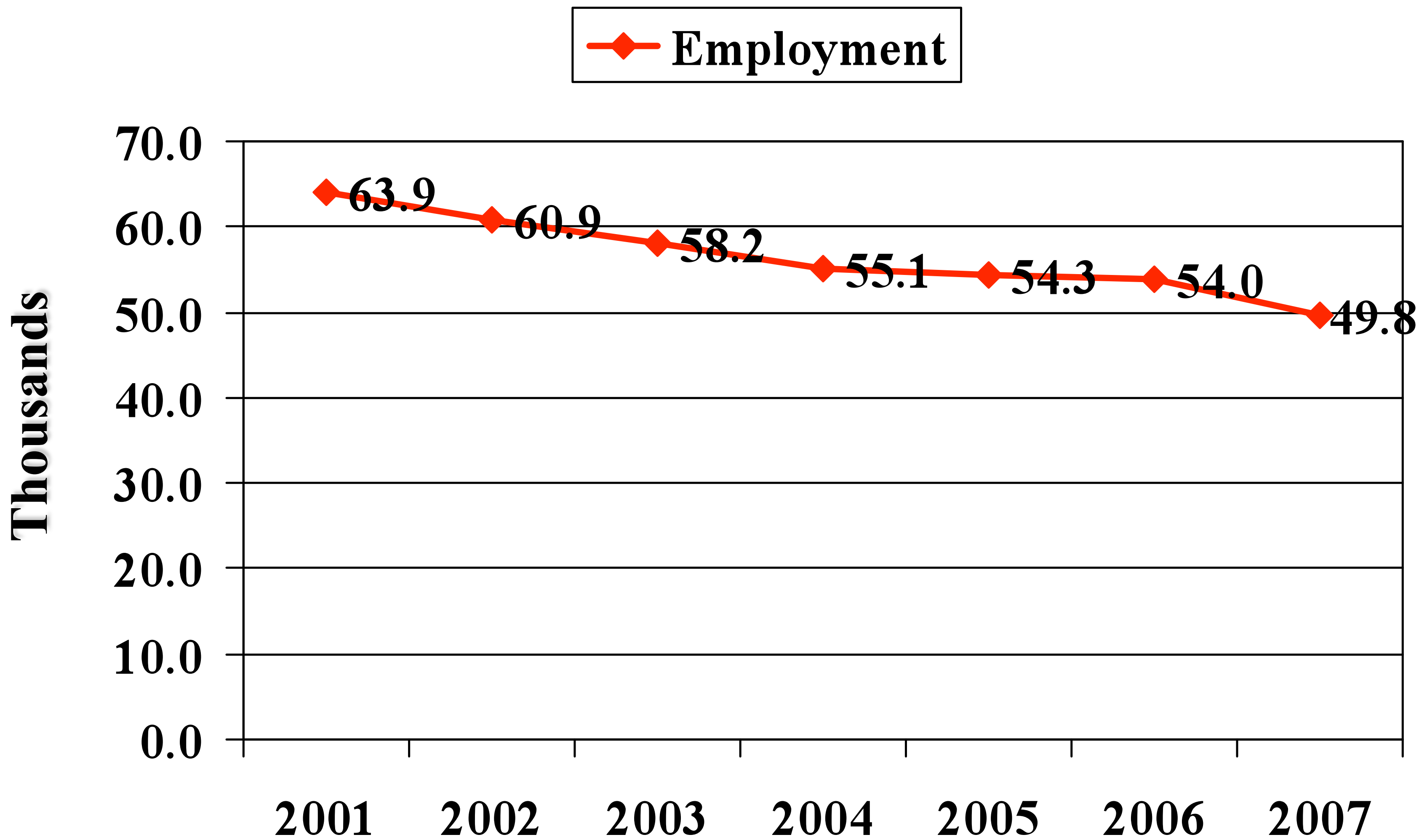
Source: BLS

Automotive Industry Total Employment



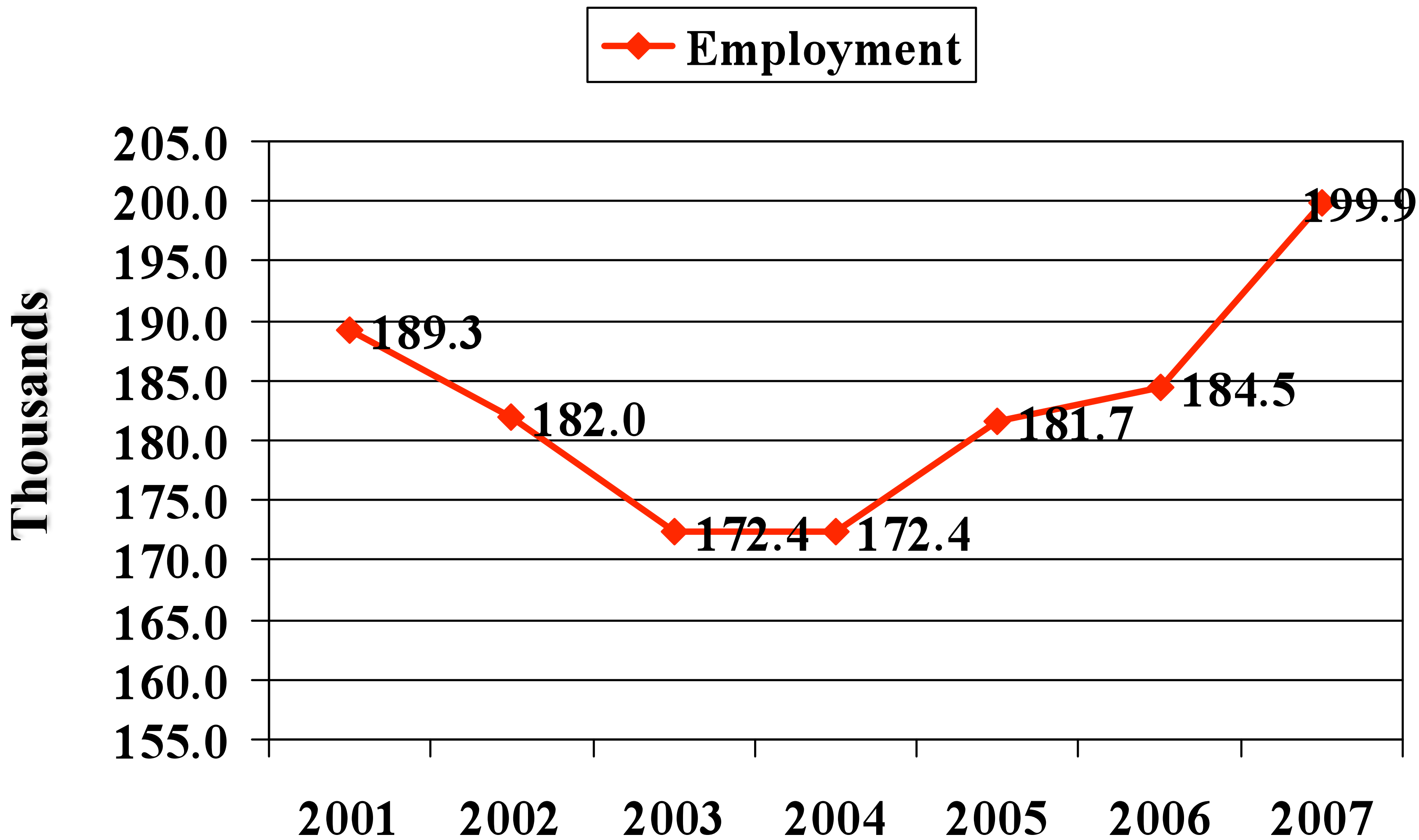
Note: Includes direct and estimated intermediate jobs

326211: Tire Manufacturing Employment 2001-2007



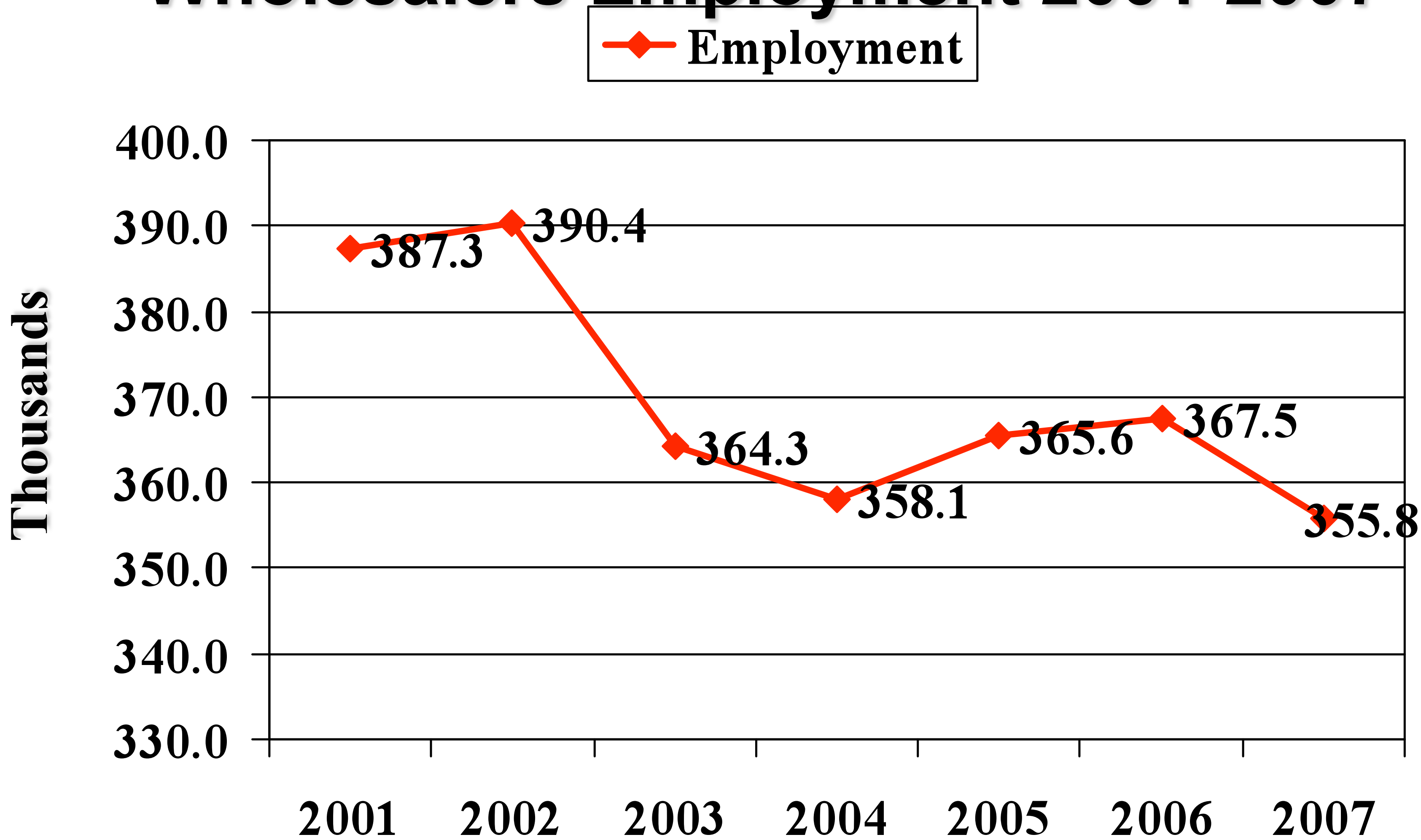
Source: US Census Bureau, County Business Patterns

5321: Automotive Equipment Rental and Leasing Employment 2001-2007



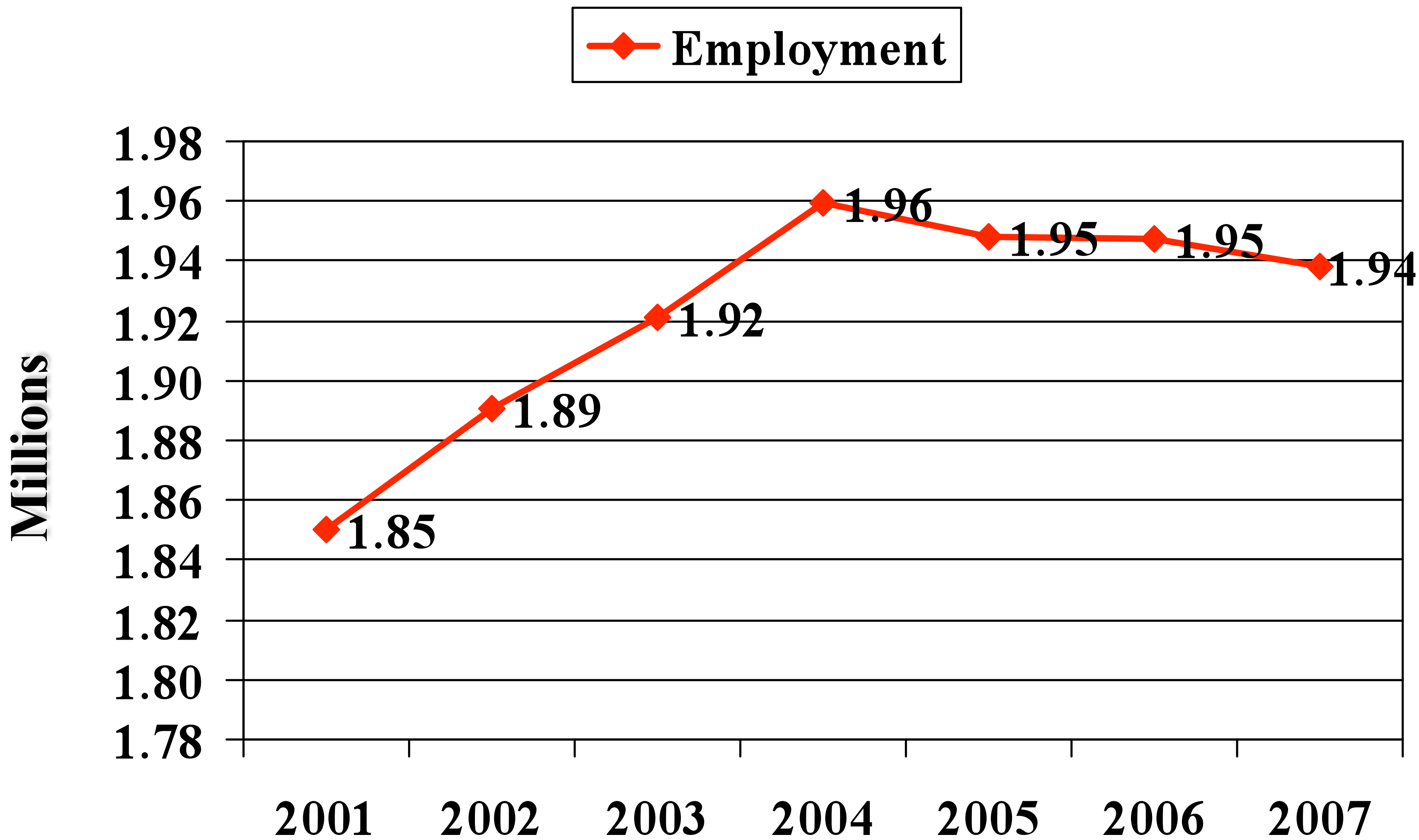
Source: US Census Bureau, County Business Patterns

4231: Motor Vehicle and Motor Vehicle Parts and Supplies Merchant Wholesalers Employment 2001-2007



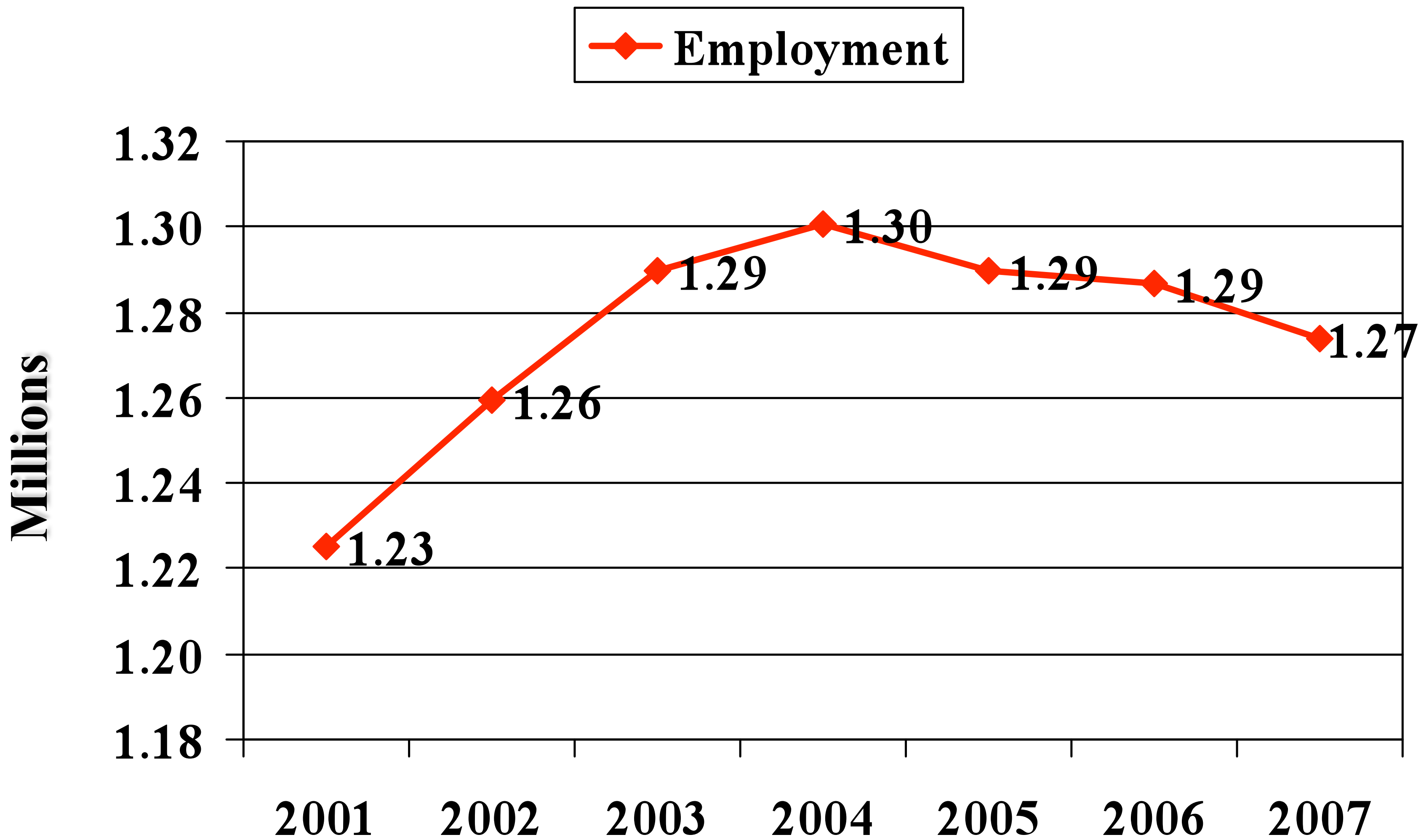
Source: US Census Bureau, County Business Patterns

441: Motor Vehicle and Parts Dealers Employment 2001-2007



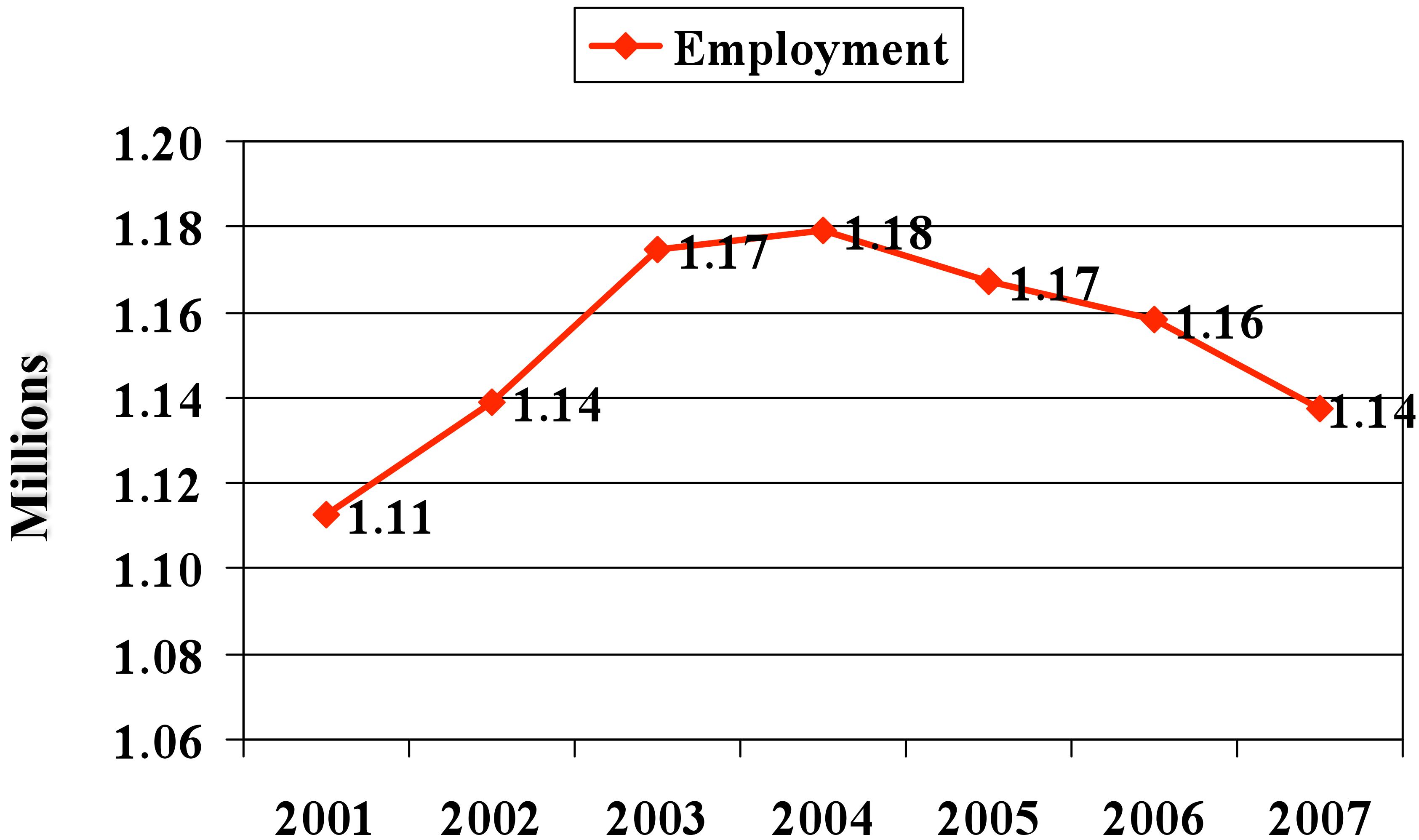
Source: US Census Bureau, County Business Patterns

4411: Automobile Dealers Employment 2001-2007



Source: US Census Bureau, County Business Patterns

44111: New Car Dealers 2001-2007

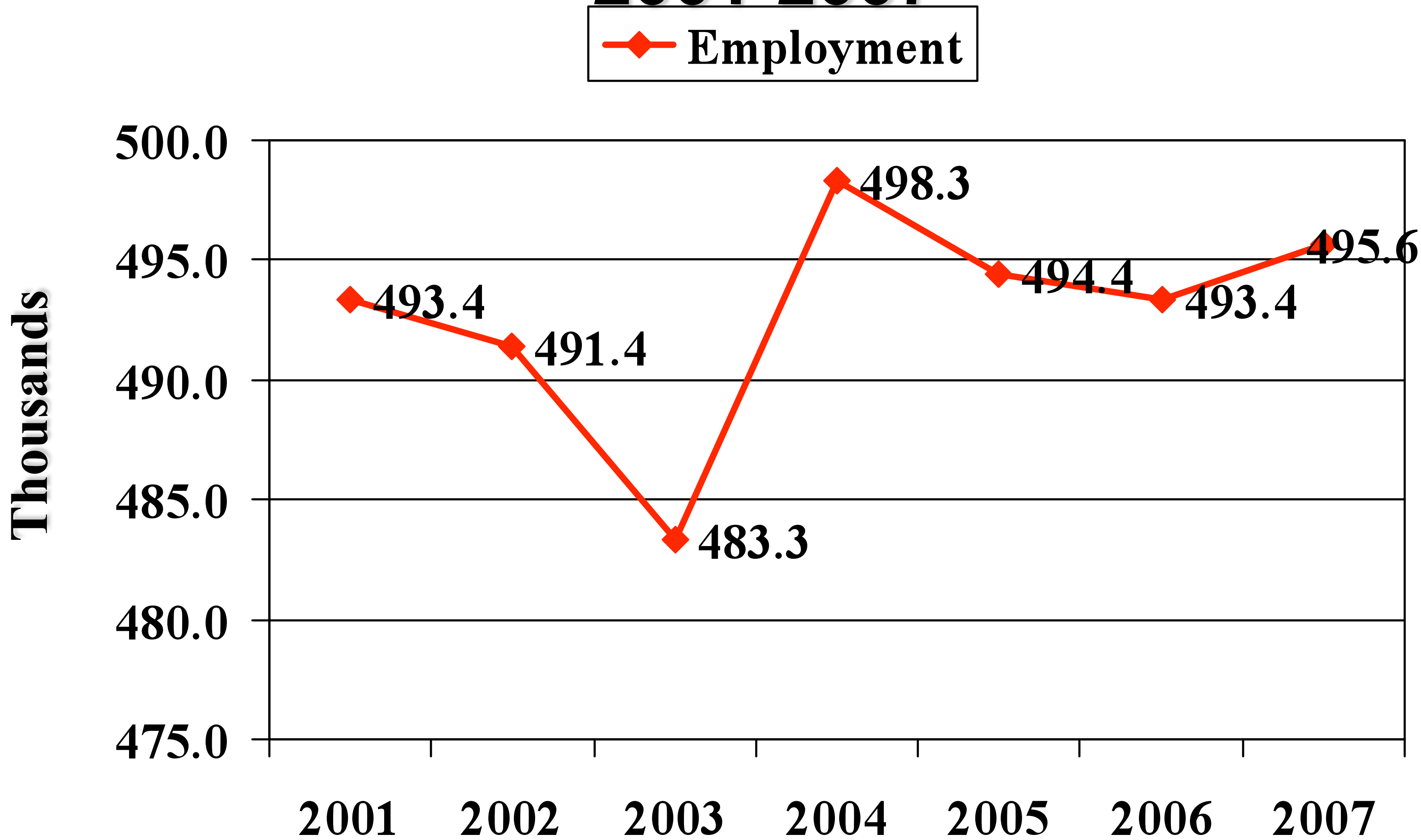


Source: US Census Bureau, County Business Patterns

44112: Used Car Dealers 2001-2007

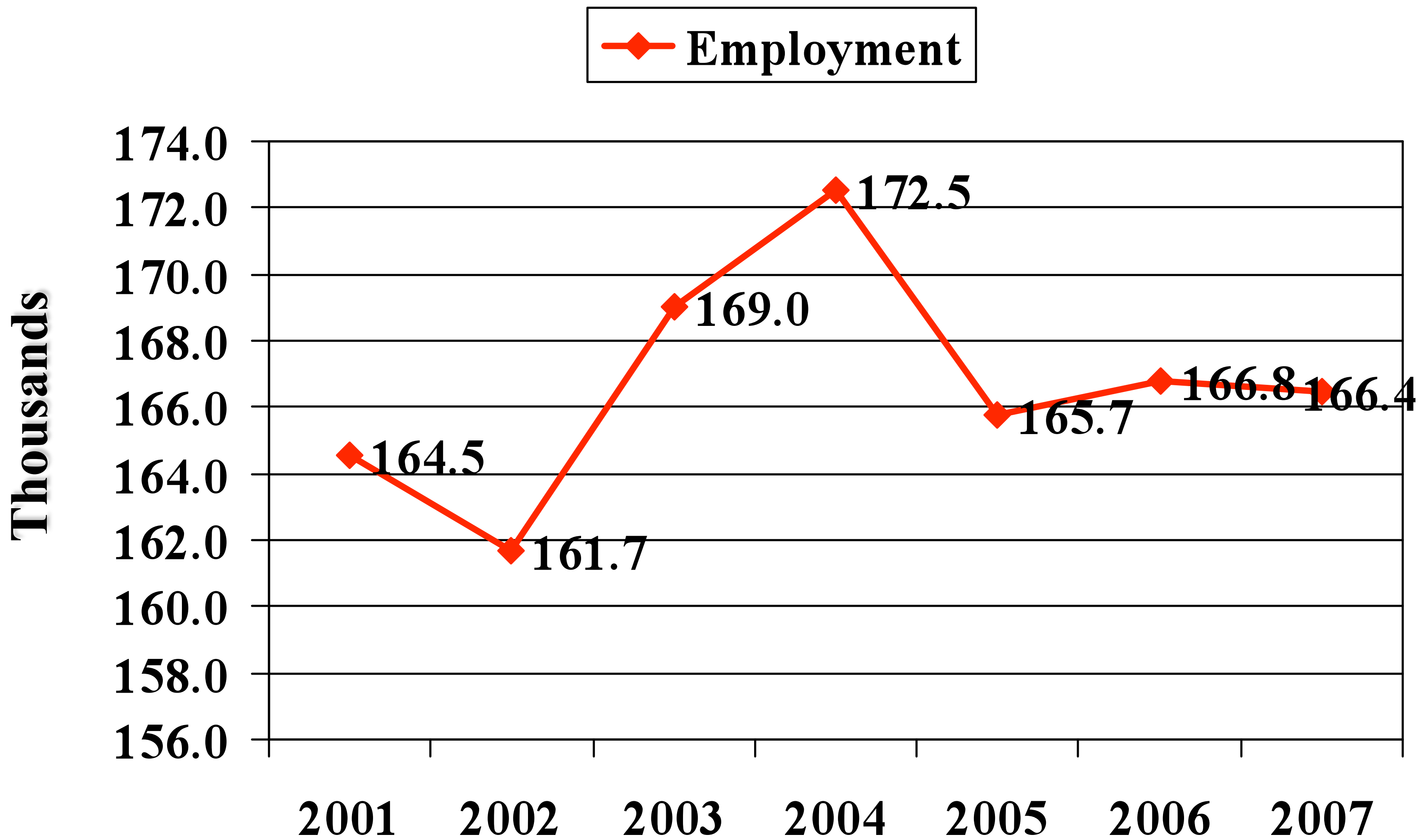
Source: US Census Bureau, County Business Patterns

4413 : Automotive Parts, Accessories, and Tire Stores 2001-2007



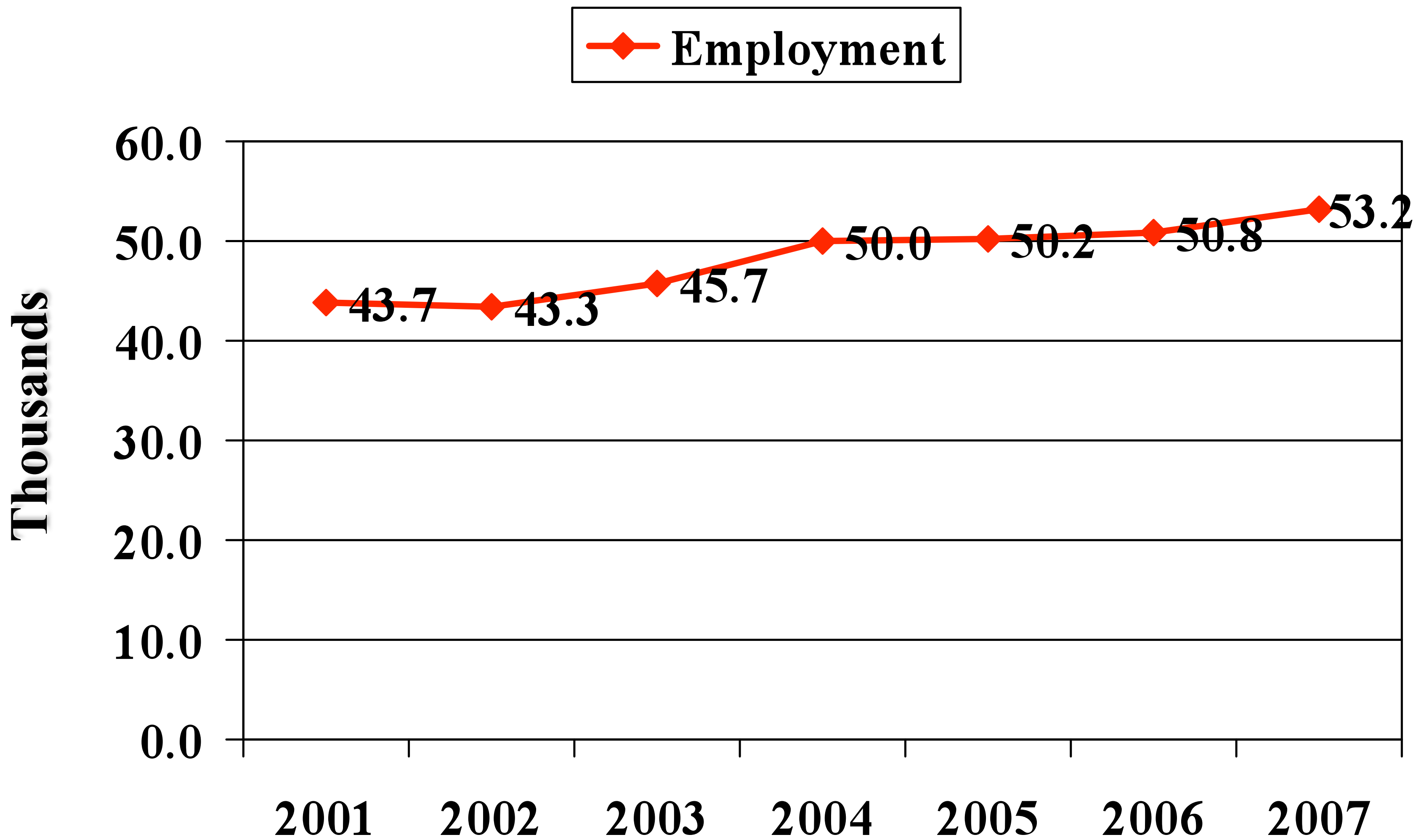
Source: US Census Bureau, County Business Patterns

44132: Tire Dealers Employment 2001-2007



Source: US Census Bureau, County Business Patterns

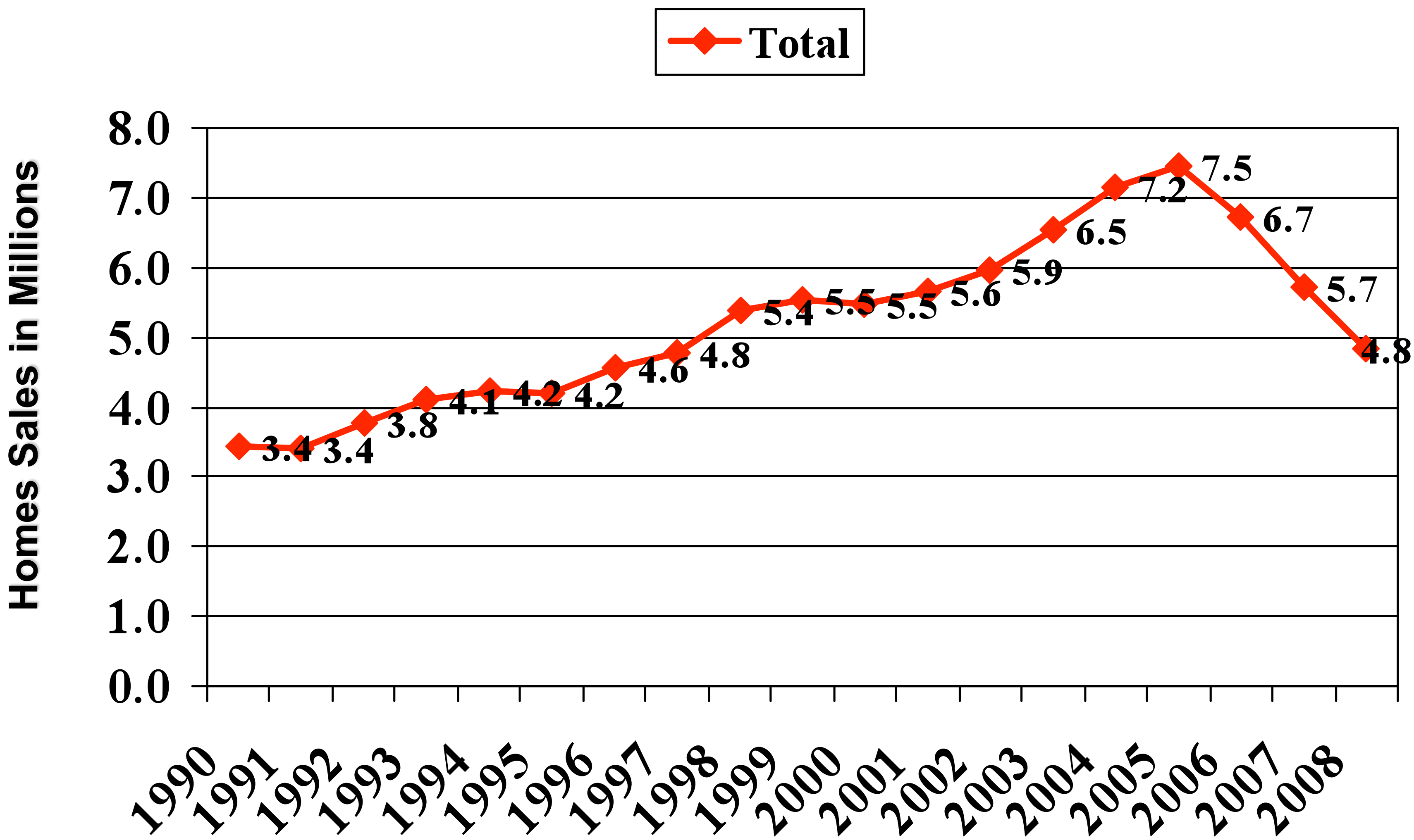
488410: Motor Vehicle Towing Employment 2001-2007



Source: US Census Bureau, County Business Patterns

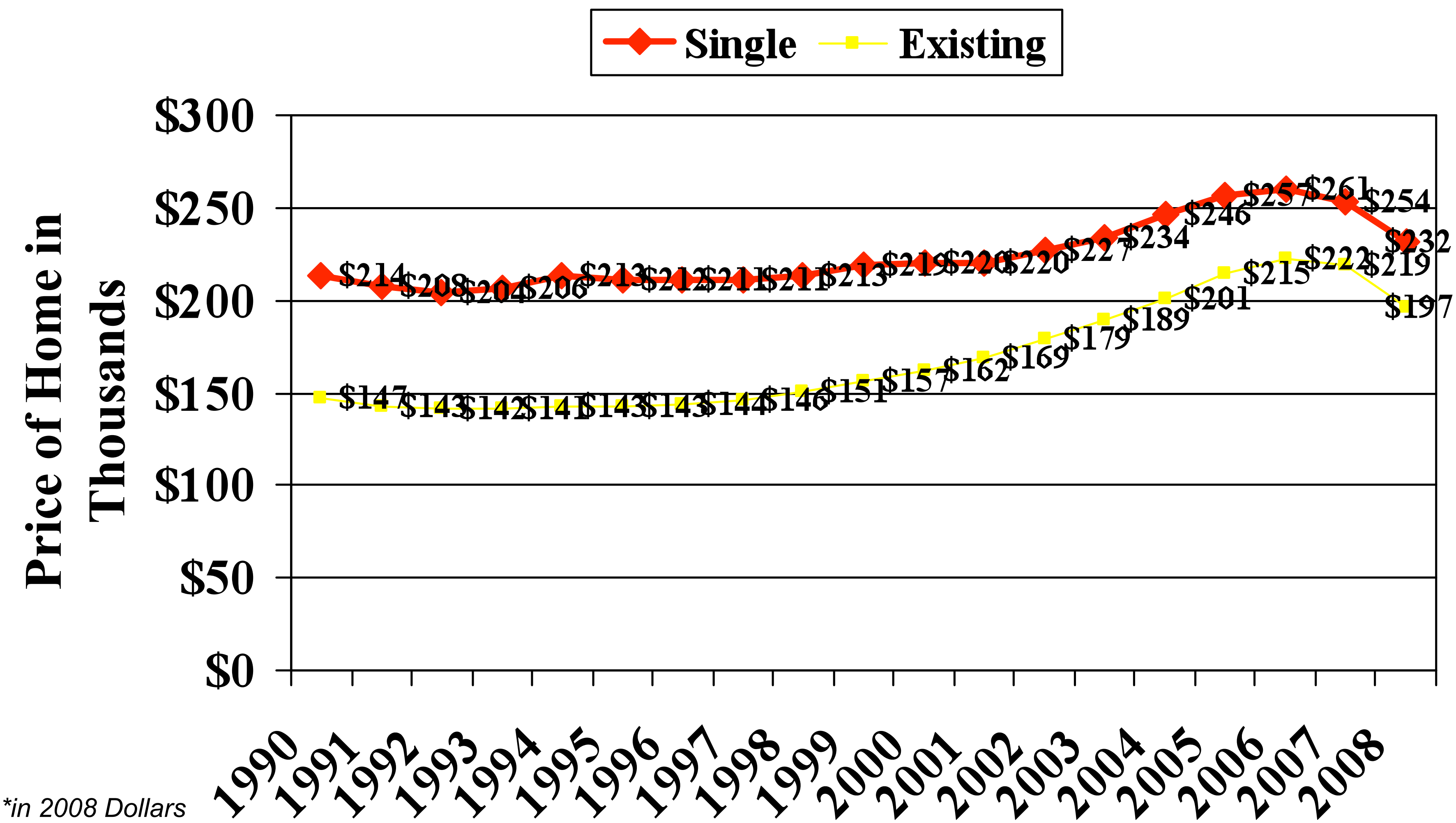
Housing Crunches,
Credit Crunches,
and the tanking of auto sales

U.S. Home Sales in Millions



Source: National Association of Realtors

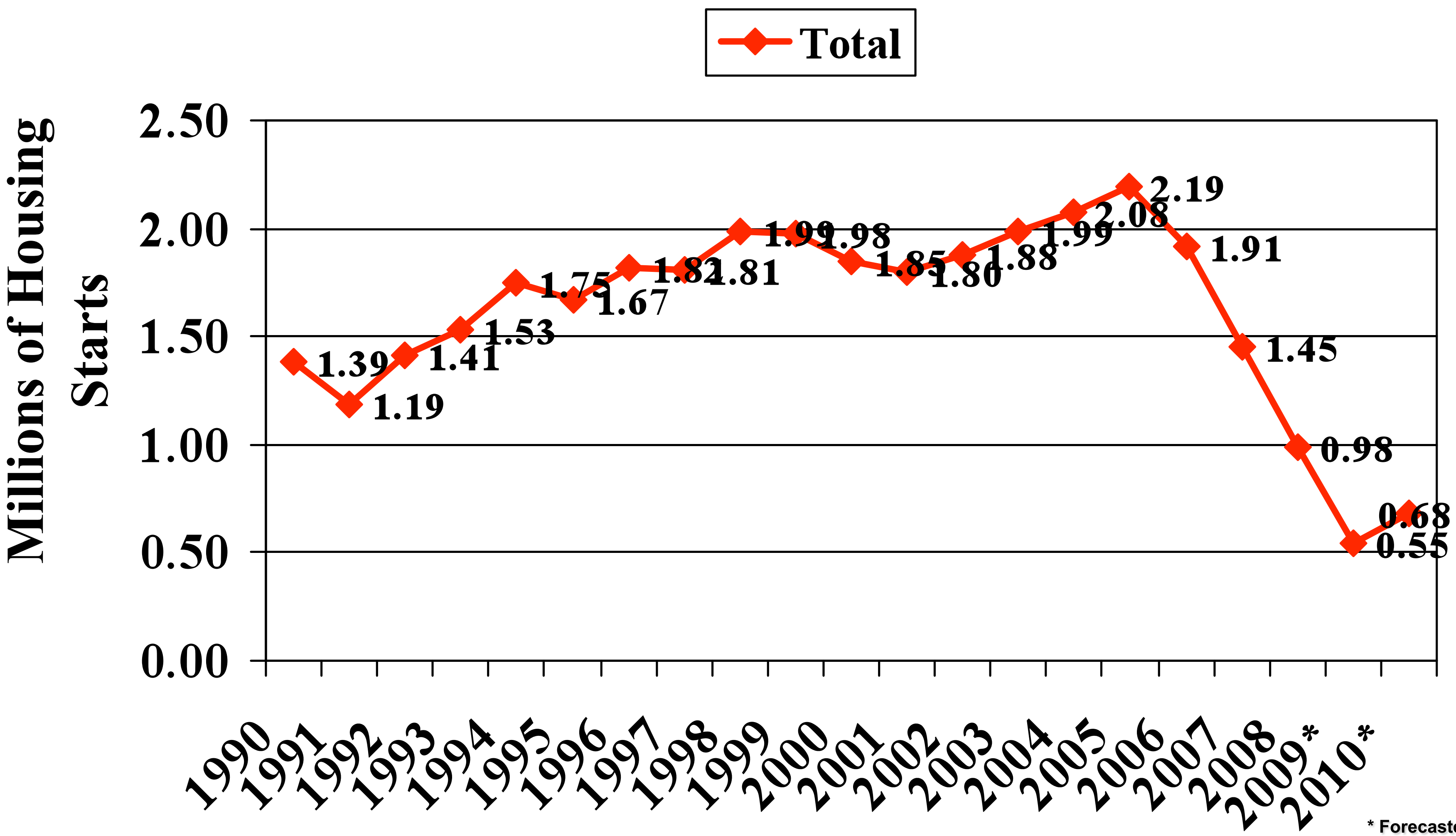
Current Homeowners Are Stuck: Medium Price of New and Existing Homes 1990-2008*



*in 2008 Dollars

Source: US Census Bureau, Medium and Average Sales Price of New One-Family Houses Sold, www.census.gov/const/uspriceann.pdf.

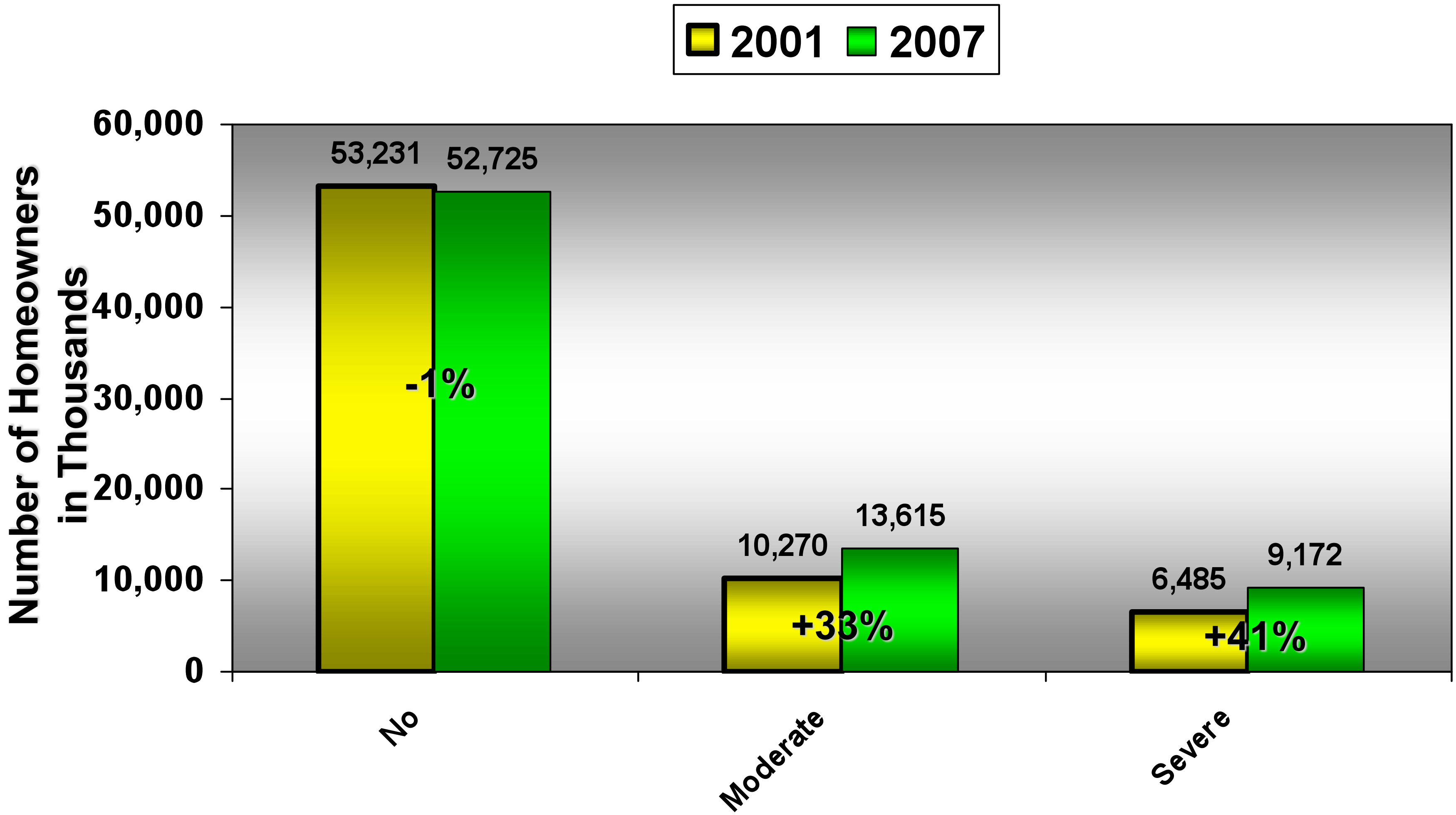
Reduced Building will help, but Surplus still Exists: Housing Starts 1990-2010



* Forecasted

Source: US Census Bureau, New Privately Owned Housing Units Started www.census.gov/const/startsan.pdf

Burden Level on Homeowners: Housing Costs as a Percent of Income



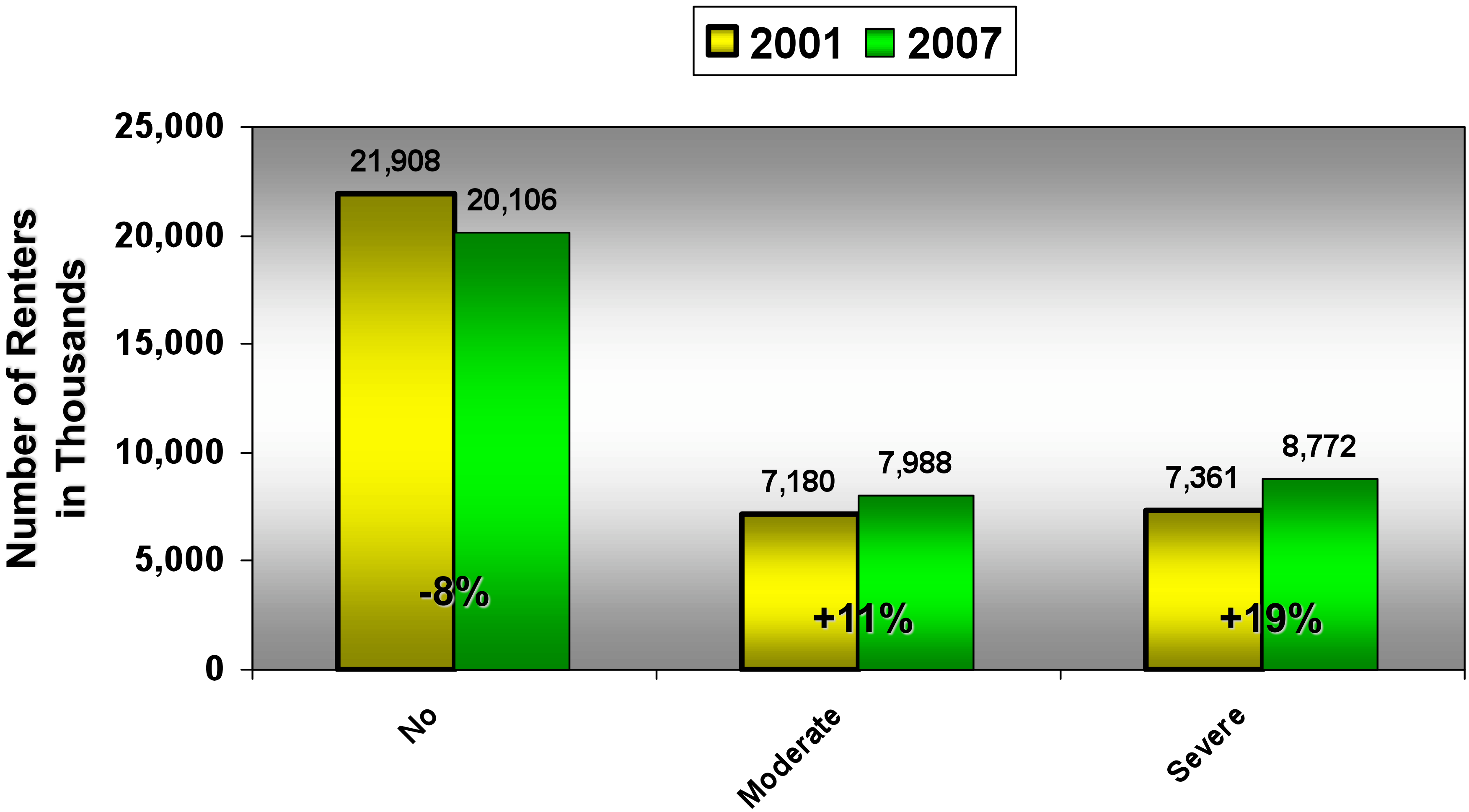
No Burden: <30% of Income

Moderate: 30-50%

Severe: >50%

Source: Harvard University Joint Center for Housing Studies, based on U.S. Census Bureau data from the American Community Survey

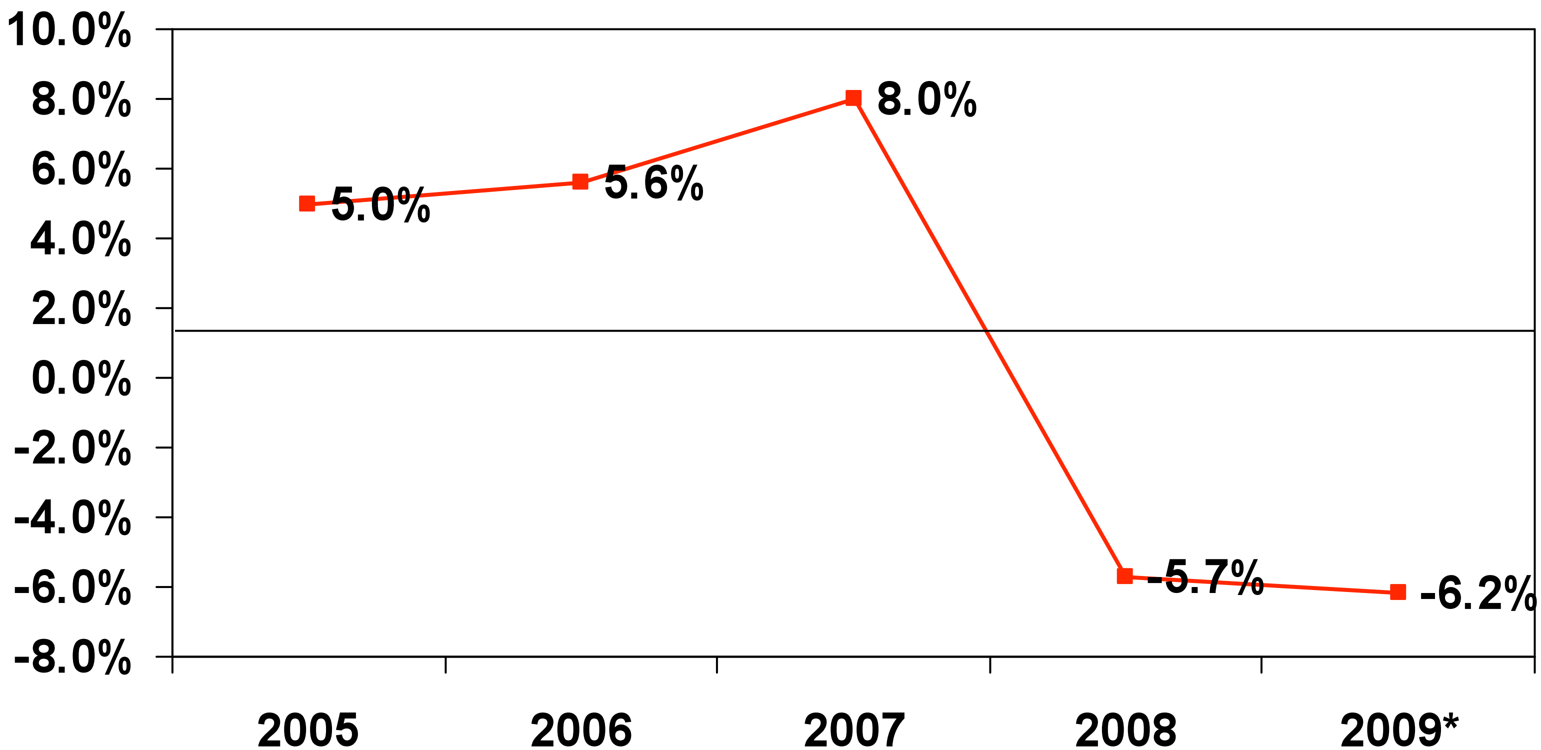
Burden Level on Renters: Housing Costs as a Percent of Income



No Burden: <30% of Income **Moderate: 30-50%** **Severe: >50%**

Source: Harvard University Joint Center for Housing Studies, based on U.S. Census Bureau data from the American Community Survey

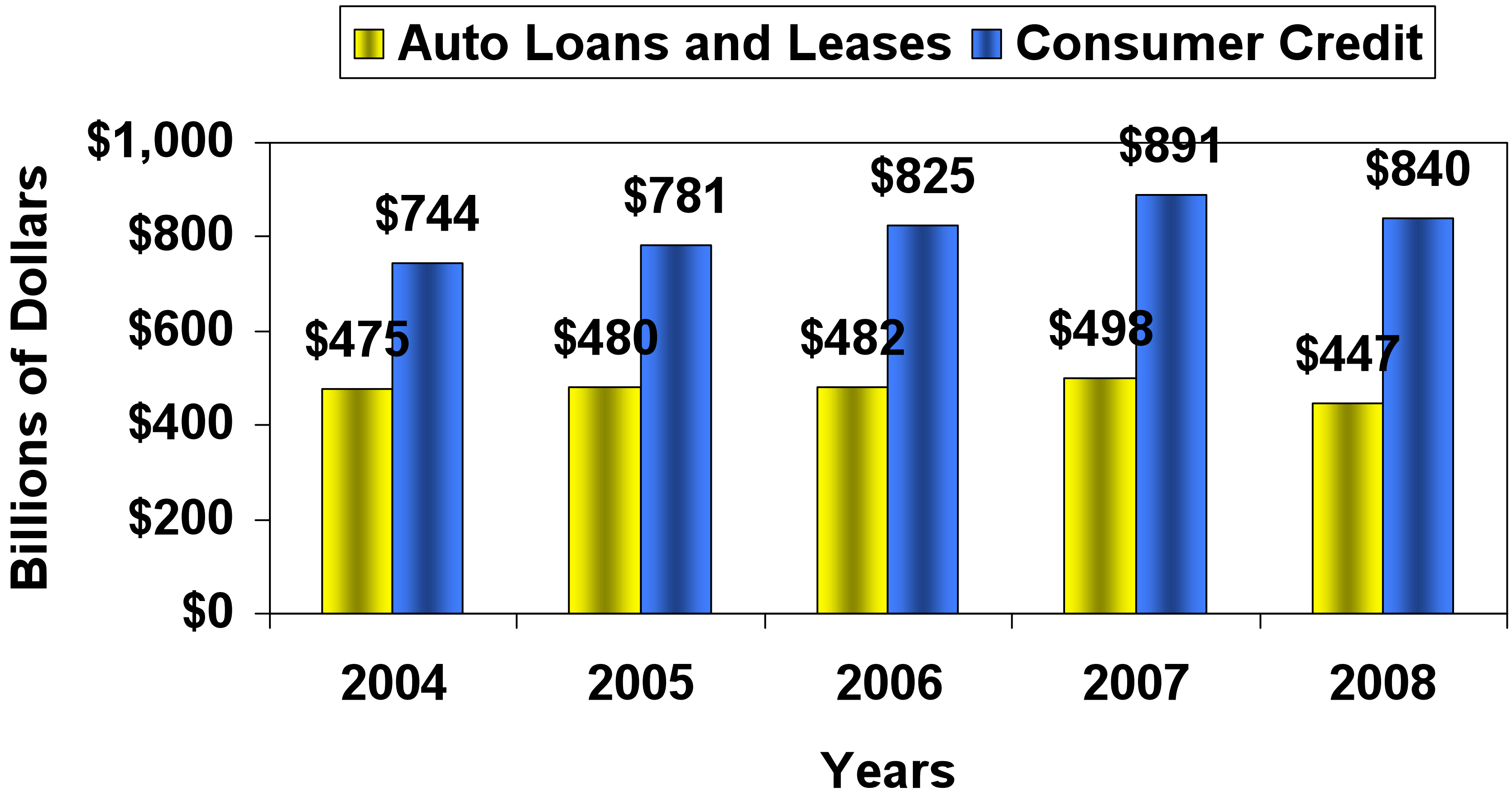
YOY %Δ of Consumer Credit: 2004-2009*



*2009 Q1

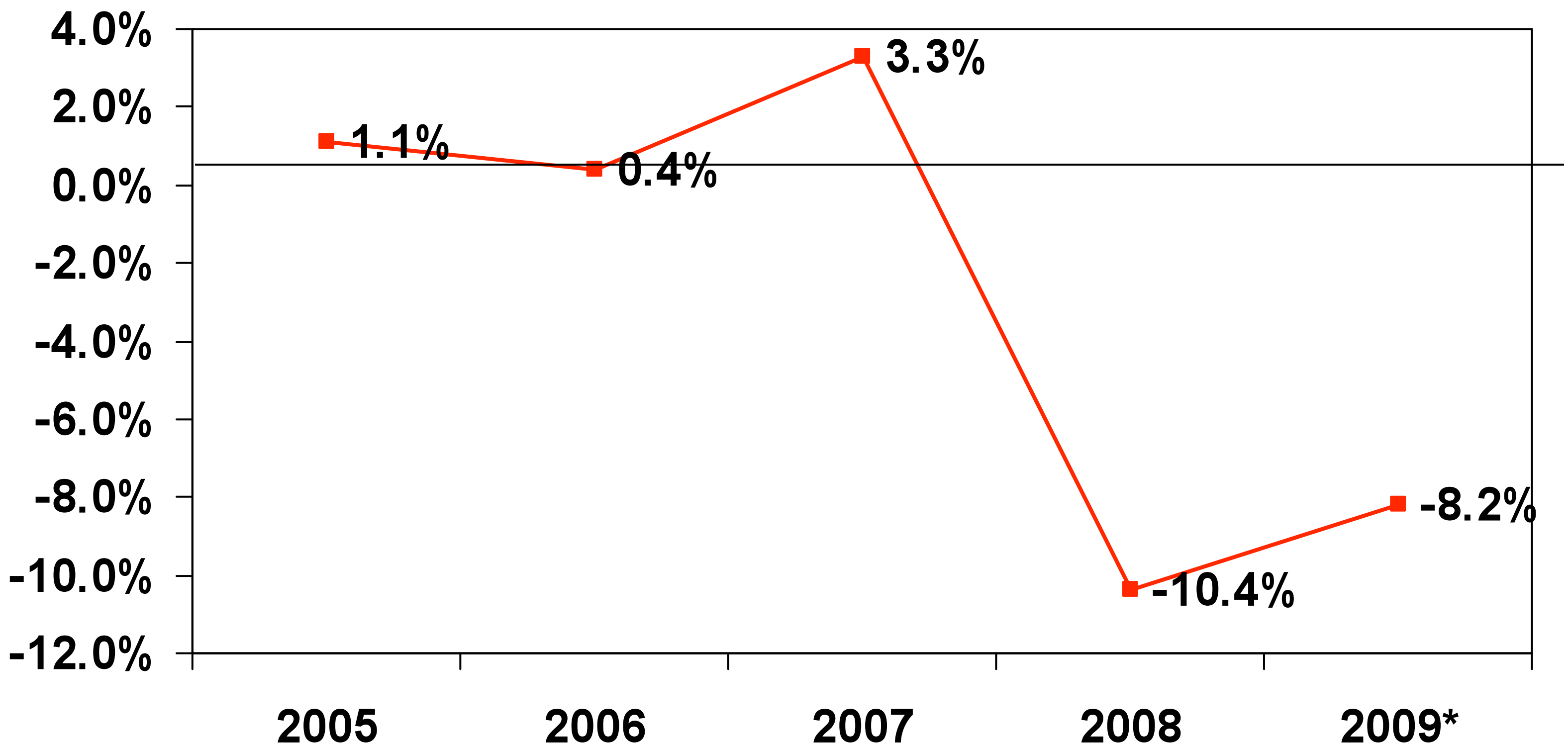
Source: Federal Reserve

Consumer Motor Vehicle Loans and Leases and Consumer Credit: 2004-2008



Source: Federal Reserve

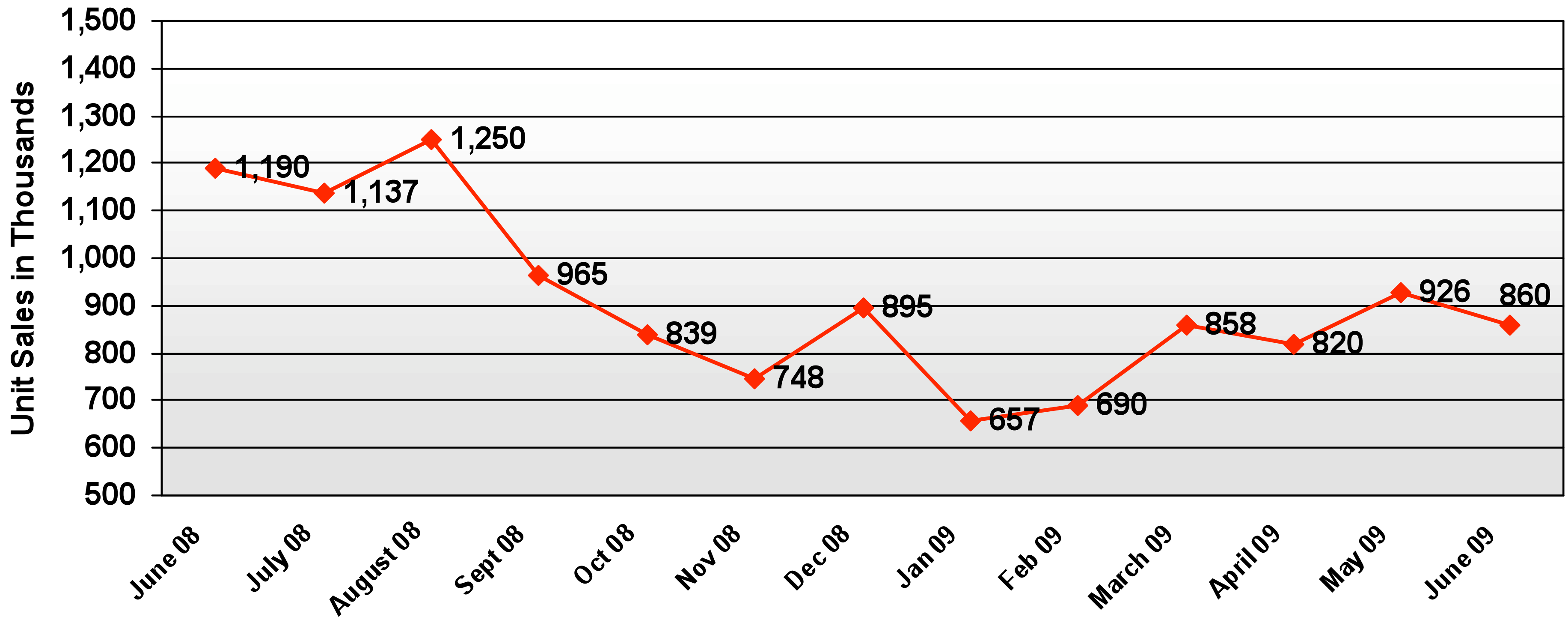
YOY %Δ of Consumer Auto Loans and Leases: 2004-2009*



*2009Q1

Source: Federal Reserve

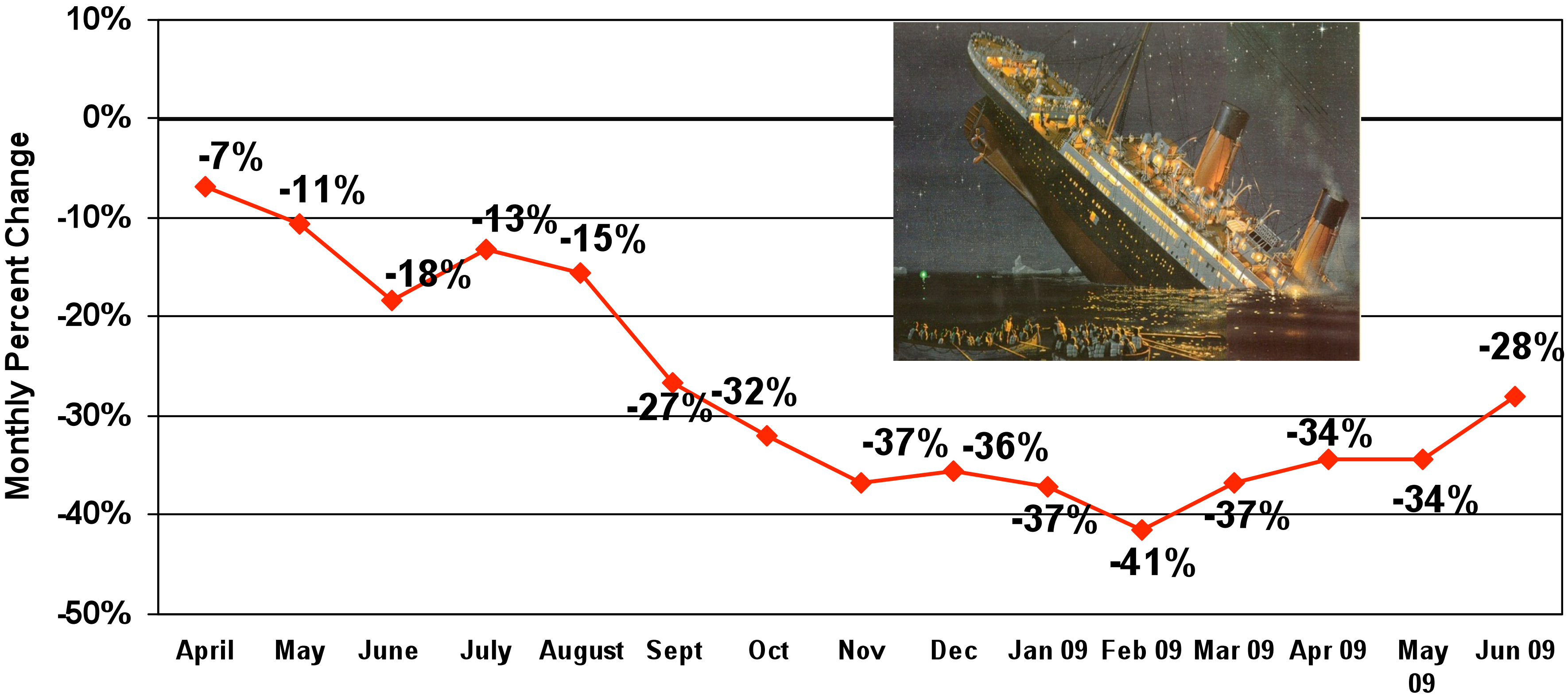
U.S. Light Vehicle Sales by Month: June 2008 through June 2009



Source: Automotive News Data Center

U.S. Light Vehicle Sales

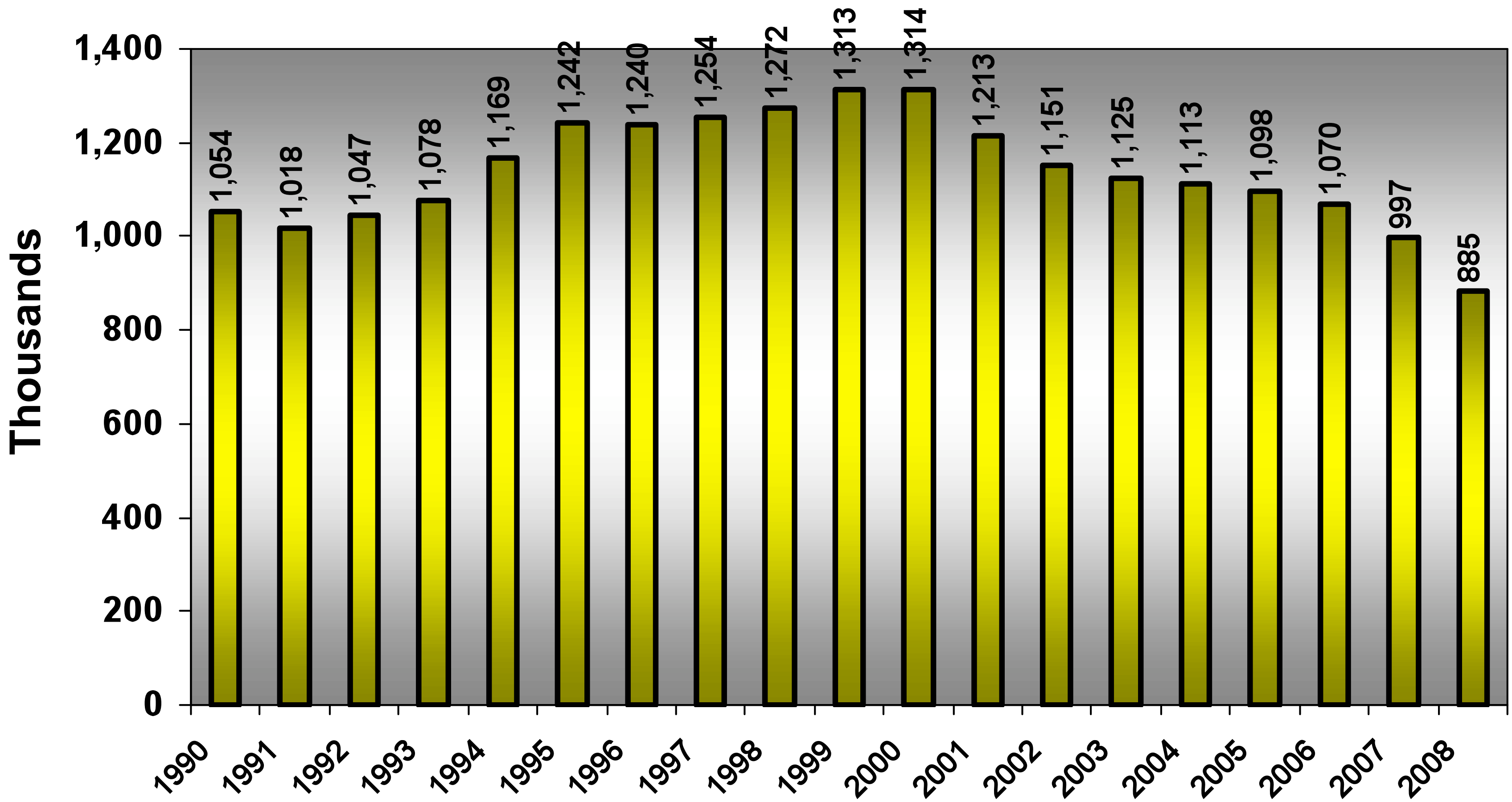
Monthly Percentage Change*:
April 2008 through June 2009



Source: Automotive News Data Center

***Percent change is a comparison of the given month's sales volume to its corresponding value in the previous year.**

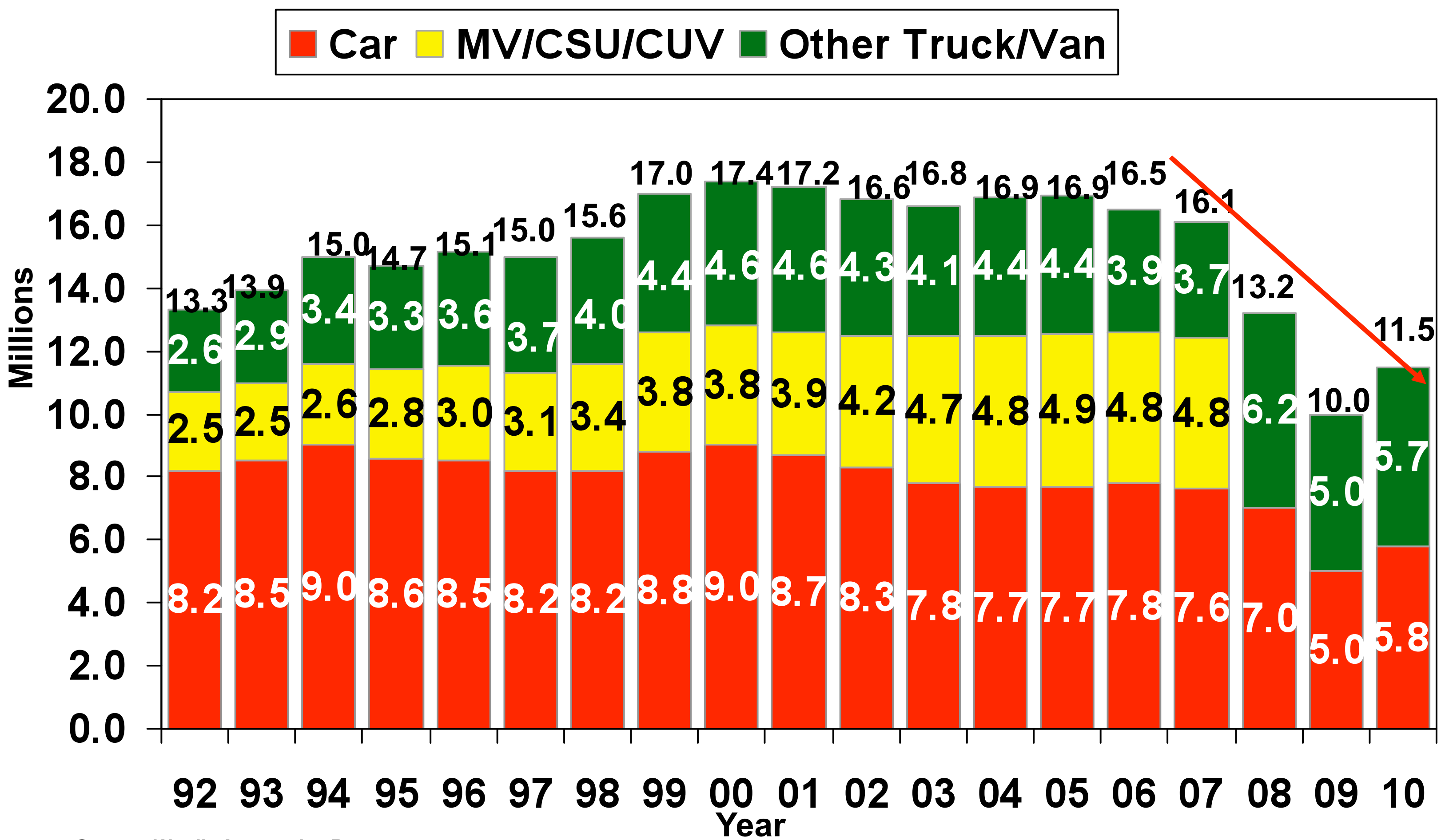
Total U.S. Employment: Motor Vehicles and Equipment



Source: Ward's Automotive Facts and Figures, 2009

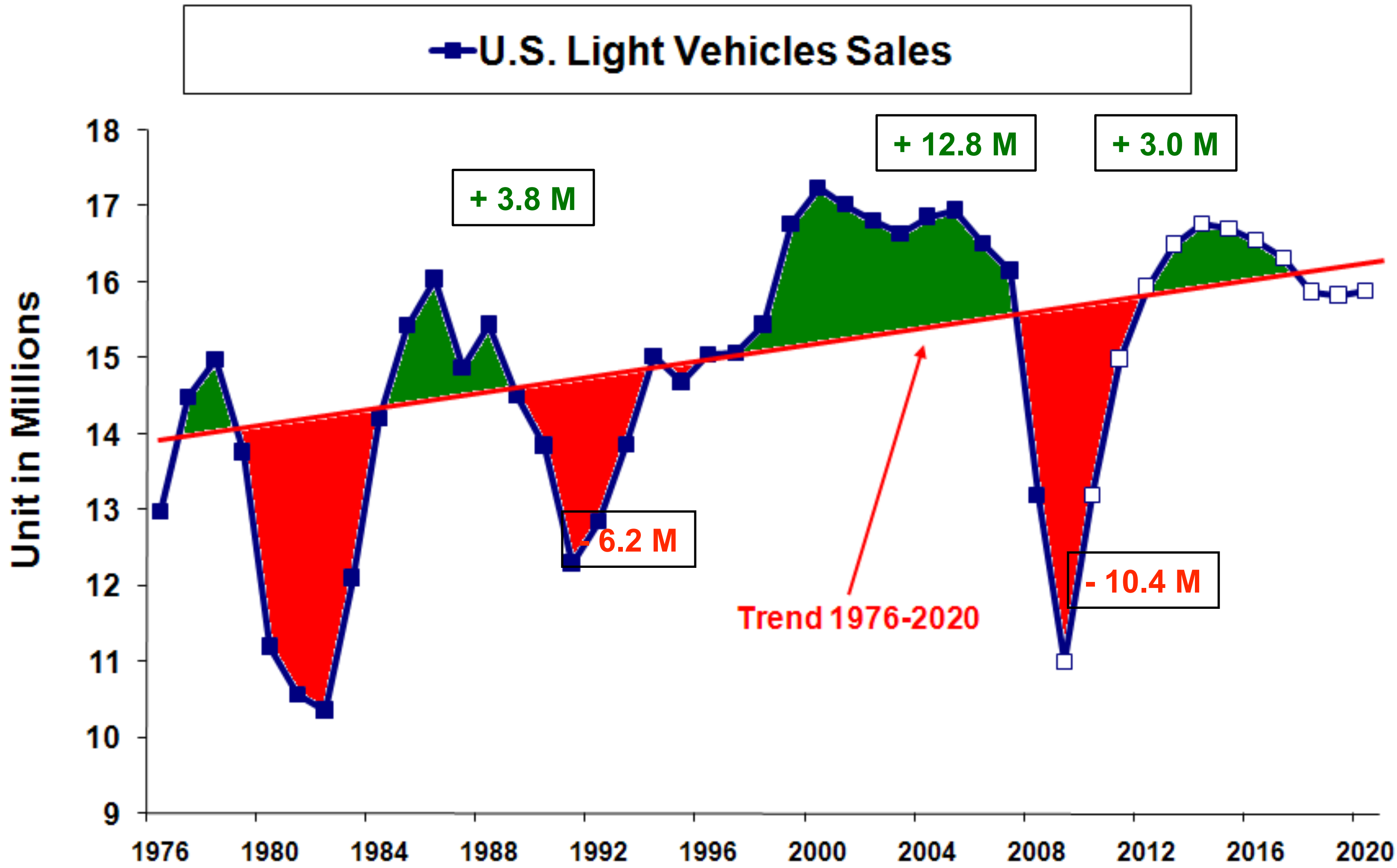
Off A Cliff!

Total U.S. Sales of Light Vehicles: 1992 - 2009



Source: *Ward's Automotive Reports*

However, Will It Come Back . . ?
U.S. Light Vehicle Sales Forecast



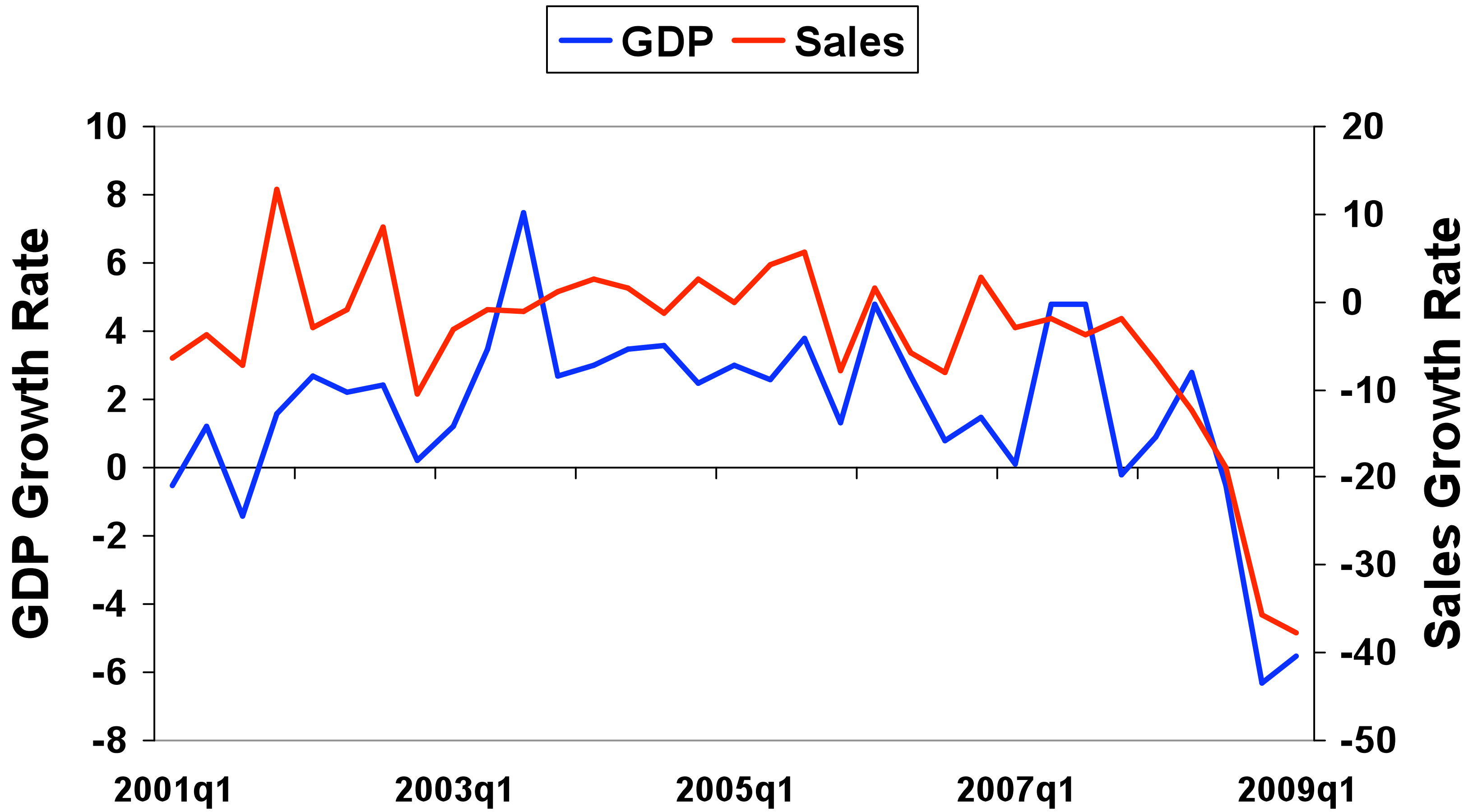
May 26 2009

CAR Forecast

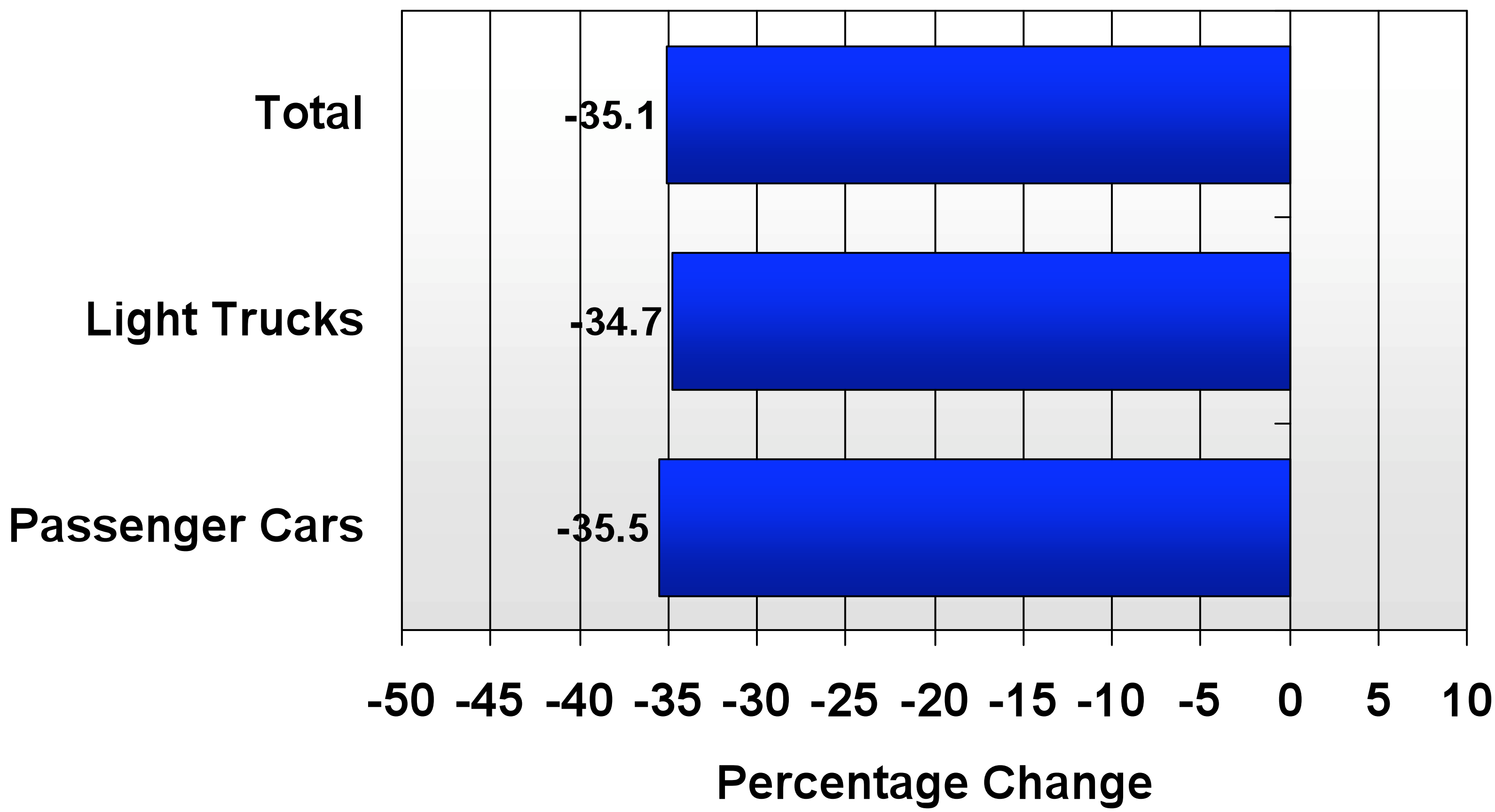
U.S. GDP Growth Rate and Light Vehicle Sales Growth Rate

1Q 01' thru 2Q 09'

YOY % Change

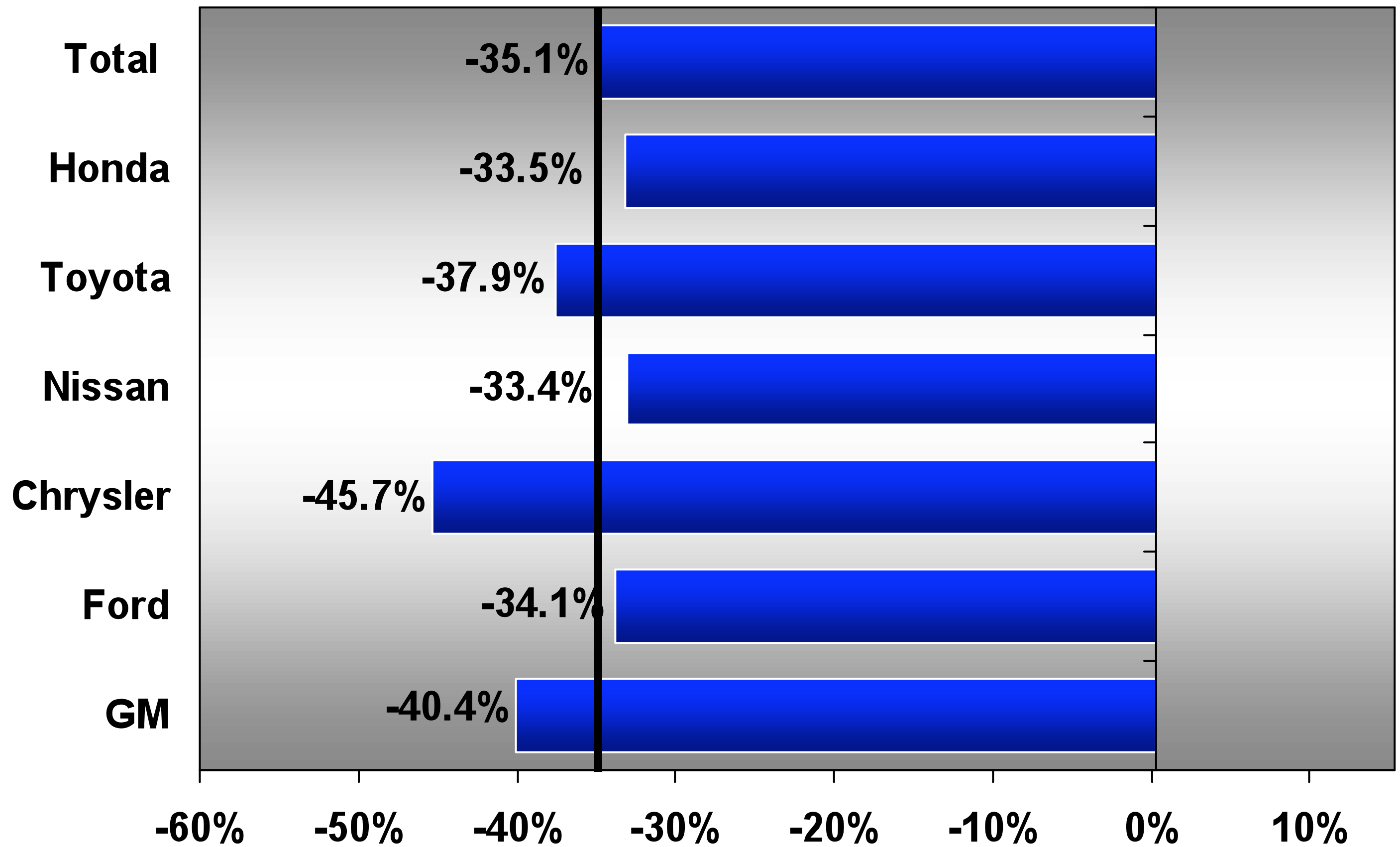


Segment Breakdown - U.S. LV Sales
YOY % Change
YTD Through June: 2009 vs. 2008



Source: Automotive News

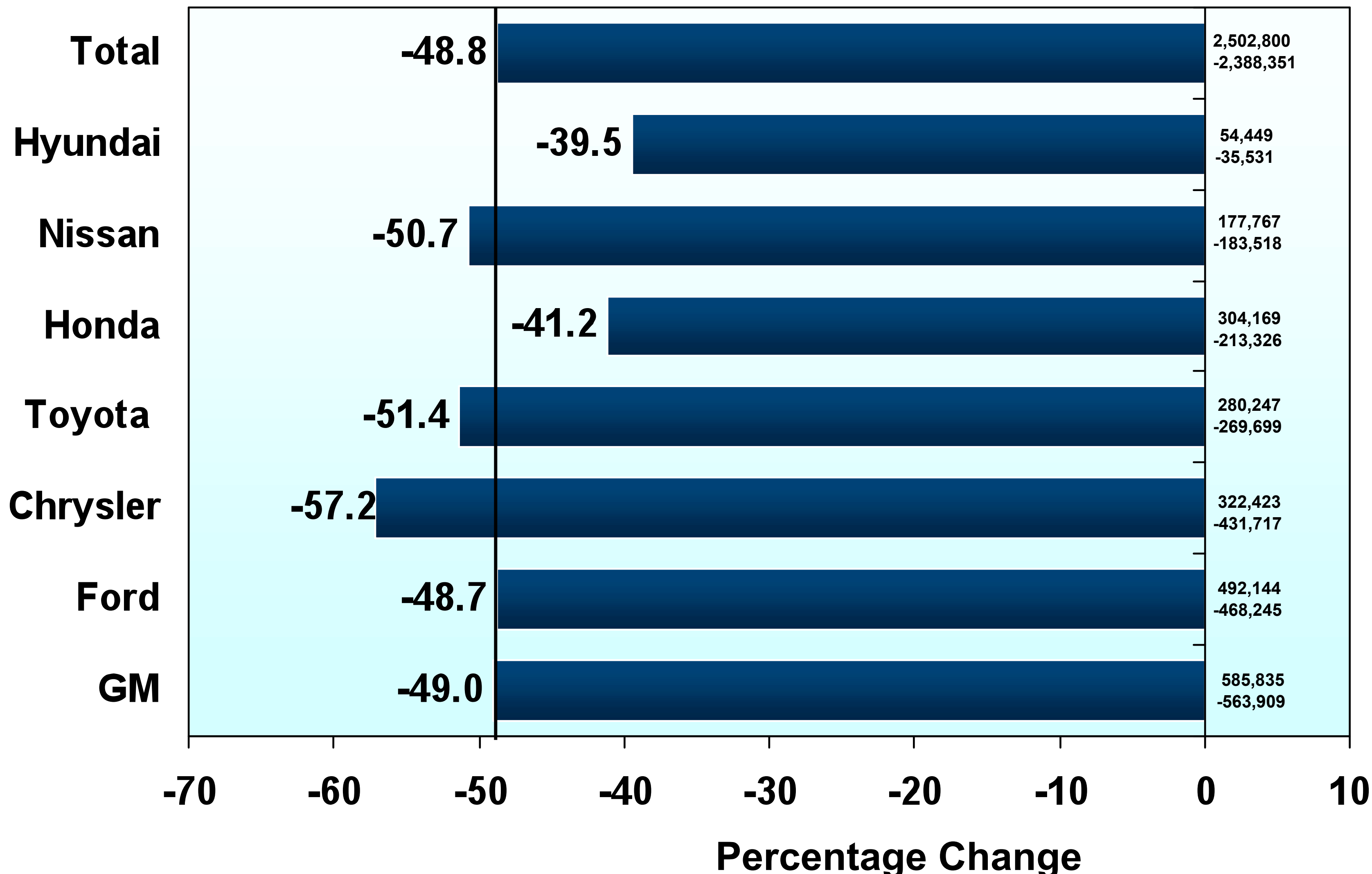
Percentage Change in Sales of Light Vehicles Per OEM:
YTD Through June 2009 vs. 2008



Source: Automotive News

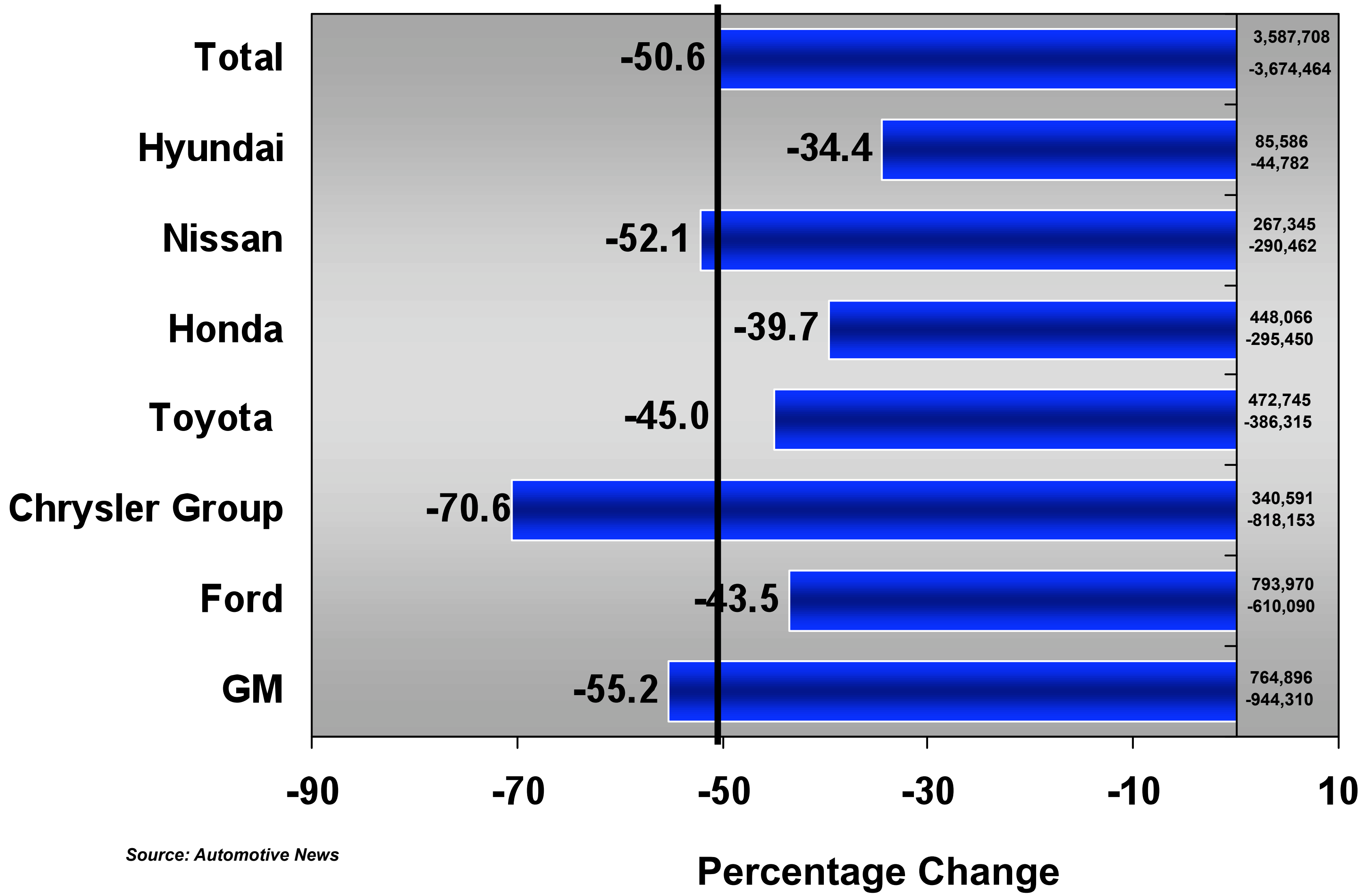
N.A. Light Vehicle Production Percent Change

YTD Through April: 2009 vs. 2008



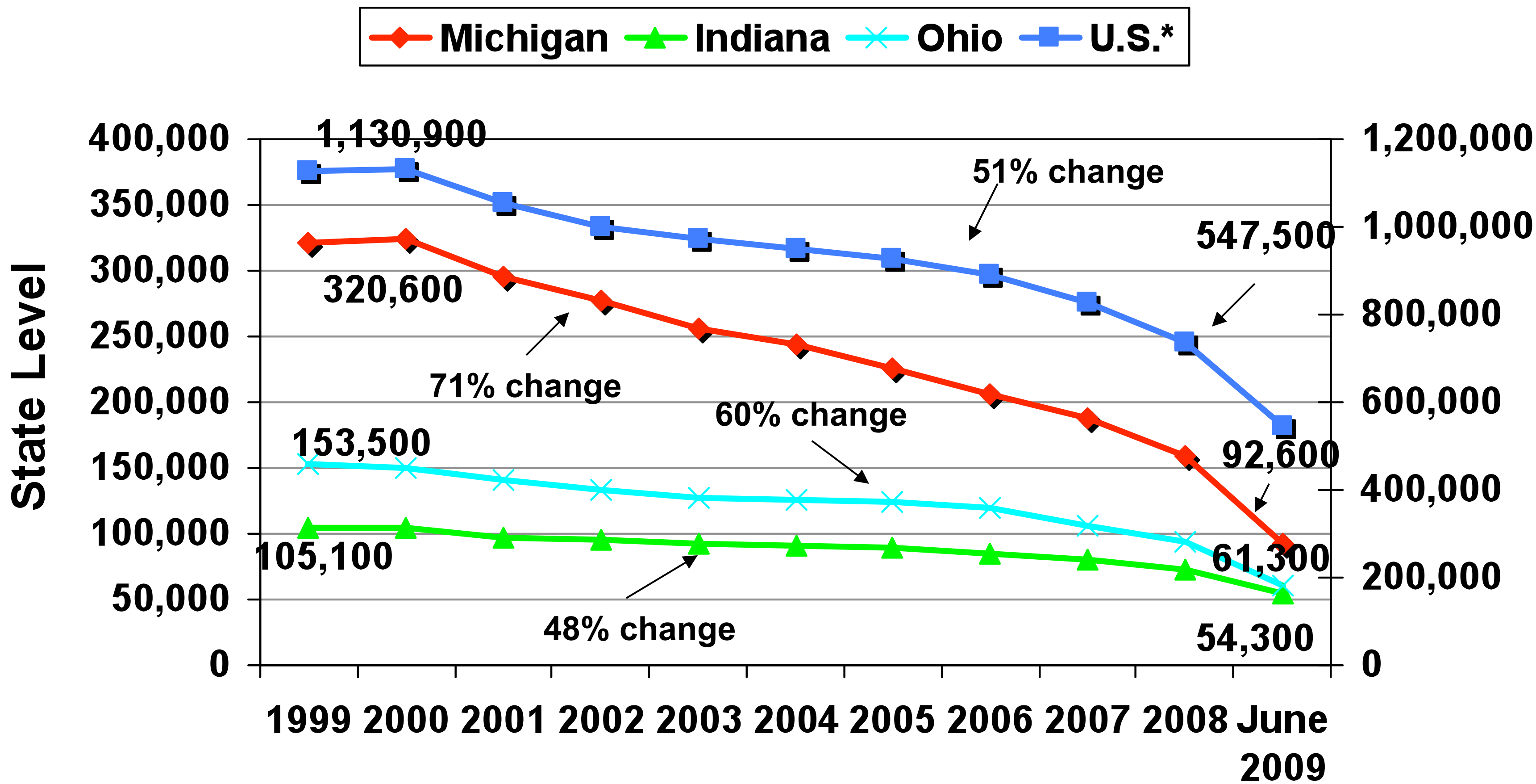
Source: Automotive News

N.A. Light Vehicle Production Percent Change
YTD Through June: 2009 vs. 2008



Source: Automotive News

The Darkest Part of the Tunnel…
Motor Vehicle & Parts Manufacturing Employment
1999 – June 2009



Source: BLS, U.S. DOL, April 2009

*U.S. through May 2009

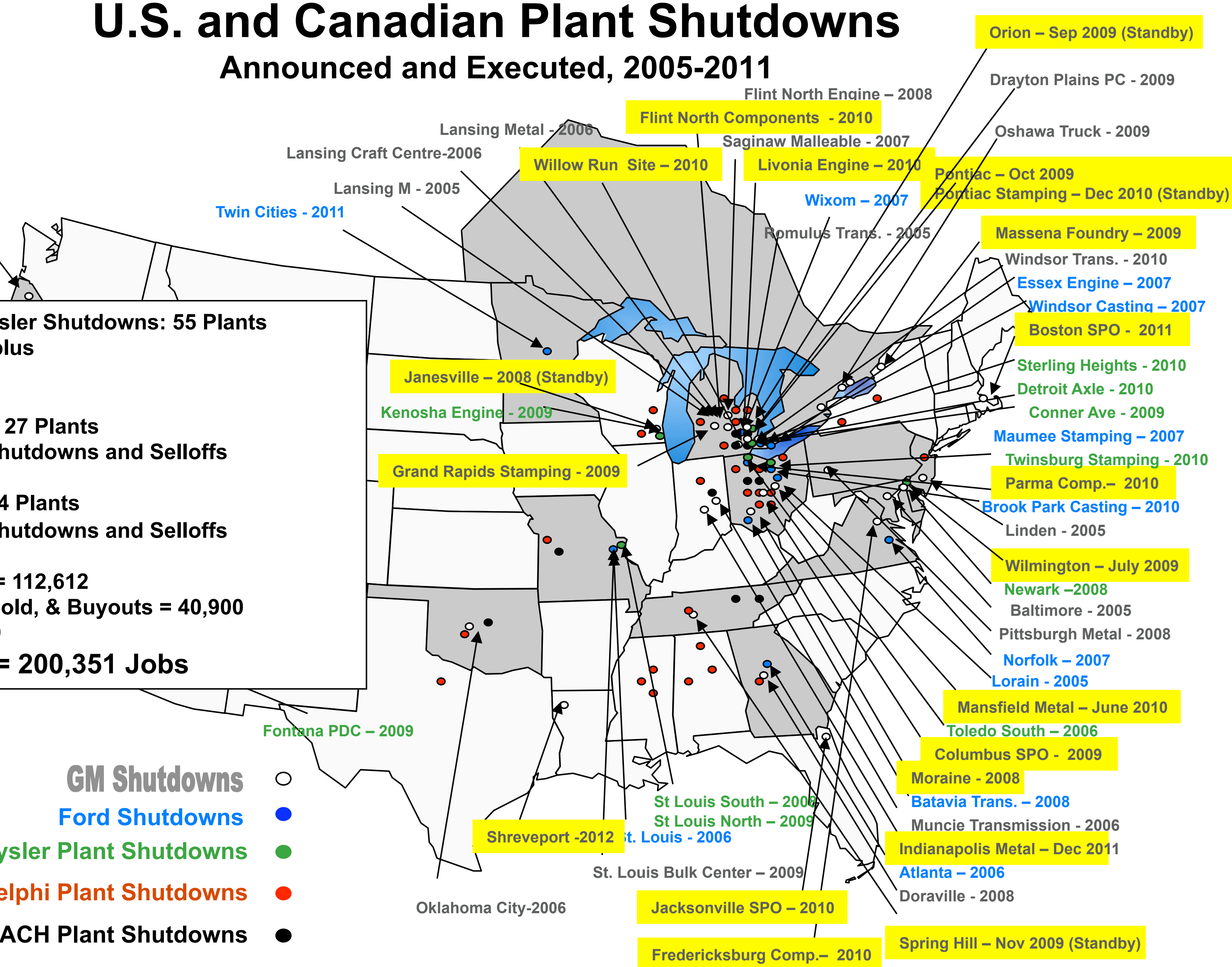
GM, Ford, Chrysler, Delphi & ACH
U.S. and Canadian Plant Shutdowns
Announced and Executed, 2005-2011

GM, Ford & Chrysler Shutdowns: 55 Plants
111,398 Hourly; plus
49,176 Salaried

Delphi Job Cuts: 27 Plants
18,377 in Plant Shutdowns and Selloffs

ACH Job Cuts: 14 Plants
21,400 in Plant Shutdowns and Selloffs

Shutdown Total = 112,612
Line Trimming, Sold, & Buyouts = 40,900
Salaried = 46,839
Total Impact = 200,351 Jobs



GM Shutdowns
Ford Shutdowns
Chrysler Plant Shutdowns
Delphi Plant Shutdowns
ACH Plant Shutdowns

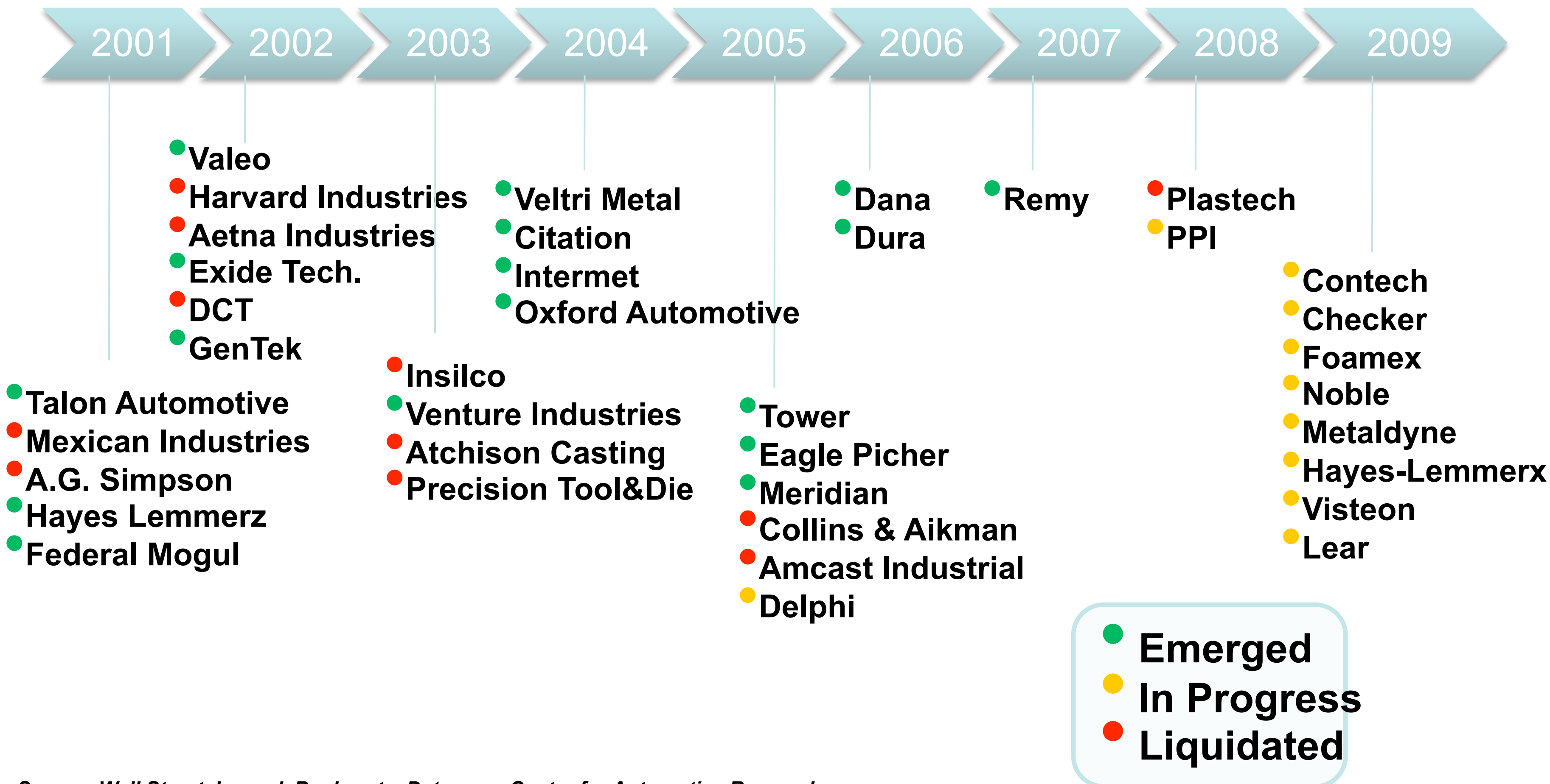
Updated: June 26 , 2009

More Shutdowns and Employment Reductions

- Announced 12 to close, 4 put on “Standby” idle at GM – Assembly, Stamping, Powertrain (some already idle, e.g. Janesville Assembly) by 2010
- 8 at Chrysler (2 already idle)
- Thousands of dealer franchises to be closed 2,400 at GM eventually and 1,300 now, and 786 at Chrysler right away.
- Pontiac and Saturn gone at end of year.
- GM to cut 21,000 U.S. hourly jobs by 2011, and Chrysler about 3,500.
- Chrysler Global Employment: 54,055 End of 2008, 49,667 as of July 1, 2009. Employment already down 8.7% in 2009. Most cuts in US.
- Ford may slow its restructuring or . . .

Help! Bankruptcy!

Major Supplier Bankruptcies



Source: Wall Street Journal, BankruptcyData.com, Center for Automotive Research
** The latest filing is listed in multiple bankruptcy cases.*

Why Did GM and Chrysler Go Bankrupt?

- No end in sight of the auto sales slump
- N.A. Revenues down by 50%
- GM $74B in debt - $174B in liabilities
- Not enough cash to operate (gone on 1/1/09)
- Couldn’t reduce dealers outside of court (-3,000+)
- UAW wouldn’t deal without court threat (21 plant shutdowns)
- Government said they had to . . . (to get money)
- Taxpayers funding the deal (only source of DIP)
- Bondholders and stockholders were wiped out
- They will be smaller . . . “Bottom-Up” crash for suppliers is possible

Chrysler Post Bankruptcy Will be Tough

- U.S. Government was only bidder and DIP financier – sells to Fiat (20% - 35% - 49%), UAW VEBA (68%), U.S. Govt. (10%), and Canadian Govt. (2%). 4,3,1,and 1 BOD seats. But Fiat controls.
- Over $12.9B Of U.S./Canadian Govt. Support during and after bankruptcy. Fiat promises one U.S. and 1 Canadian plant ---- and 1 Mexican. 6 cars?
- 789 cancelled dealers will close. Eight manufacturing plants, 3,500 more workers to be bought out.

  However, no new Fiat models for up to two years – can Chrysler Group survive? U.S. market share could fall to 5%.
- Fiat will sell Chrysler product (Jeeps) in Europe and Latin America and maybe China

GM Company has many new advantages

- 2,600 storefronts to close . . . (1,100 now, 1,000 to come and 500 Saturn/Saab/Hummer), 14 US plants to close or be idled, 21,000 hourly jobs, 6,000 more salaried job cuts in U.S.
- $74.4B in debt to be reduced to $17B: $6.7B to US Treasury, $1.3B to Can. Govt., $2.5B to UAW-VEBA, and $6.8B of "other" debt. Also, $9B of preferred stock to governments and UAW-VEBA.
- Governments get 72.5% (60.8% U.S.), UAW 17.5%, and bondholders 10% (eventually 25%) of new equity. Plus warrants. Government may deal more with bondholders with assistance of judge in bankruptcy. Secured creditors ($6B) are fully re-paid.
- GM will remain a private firm for 12-18 months.
- Four core brands in North America: Chevrolet, Cadillac, Buick, and GMC. GM says that market share will vary between 18.4 to 18.9% beyond 2009. May actually fall to 15%
- Government funding supporting bankruptcy and beyond is $33.0B. Funding must be adequate or supplier sector will crash. GMAC must fund dealer floor-plans or fire sales by dealers and banks. Dealer consolidation delayed thru end of 2010. GM should have cash pile of $15 B by January.
- International operations outside of Europe are supposed to be unaffected.
- Reduction in fixed costs in N.A. of $3,000 per unit thru 2011, then $5,000 per unit thereafter. Breakeven now of 11.5 mil. U.S. SAAR.
- Must increase revenue per unit by $2-4,000.

New GM Capital Structure

- Critical to GM's reinvention is a significantly healthier balance sheet
  - On March 31, 2009, GM reported consolidated debt of $54.4 billion along with approximately a $20 billion UAW VEBA obligation.
- Other than $8B of debt, all other amounts owed to UST and Canadian and Ontario governments will be exchanged for common and preferred equity

($ Billions)	Debt	9% Perp. Pref. Equity	Common Stock	*Memo:* Warrants
U.S. Treasury	$ 6.7	$ 2.1	60.8%	
Canadian & Ontario Governments	1.3	0.4	11.7%	
New VEBA	2.5	6.5	17.5%	2.5%
Unsecured Bondholders, Other Creditors	-	-	10.0%	15.0%
Other Debt	~ 6.8	*n/a*	*n/a*	
Total	**~$17.3**	**$9.0**	**100%**	**17.5%**

Viability After Reorganization

- Overall economic conditions
- Functioning financial sector providing credit to automakers, suppliers and consumers
- Stability in the supplier sector
- Speed at which companies are able to bring new product plans to market
- Final response of consumers to Chrysler and General Motors’ use of the bankruptcy process

The Good News . . .

- GM and Chrysler still exist and have emerged from Bankruptcy – <u>quickly</u>
- GM will cut fixed costs by up to $5,000 per vehicle
- GM has an adequate pipeline of new product starting next year
- The U.S. Government is committed to the long-term success of these two companies.
- The Government is re-examining its support for suppliers
- The recession can’t last forever. . .

Drive One!

- Earnings loss far lower than Toyota and Nissan in Q1
- Ford reduced its operating loss to $424 Million in Q2
- April/May U.S. sales and market share higher than Toyota’s
- Posted a net profit of $2.3 Billion due to debt restructuring
- New labor agreement – and a match coming
- Sold 300 million shares to raise case
- 2010-2011 model launches will set a record
- Sales and production are rising, profitability soon?

And the Result?

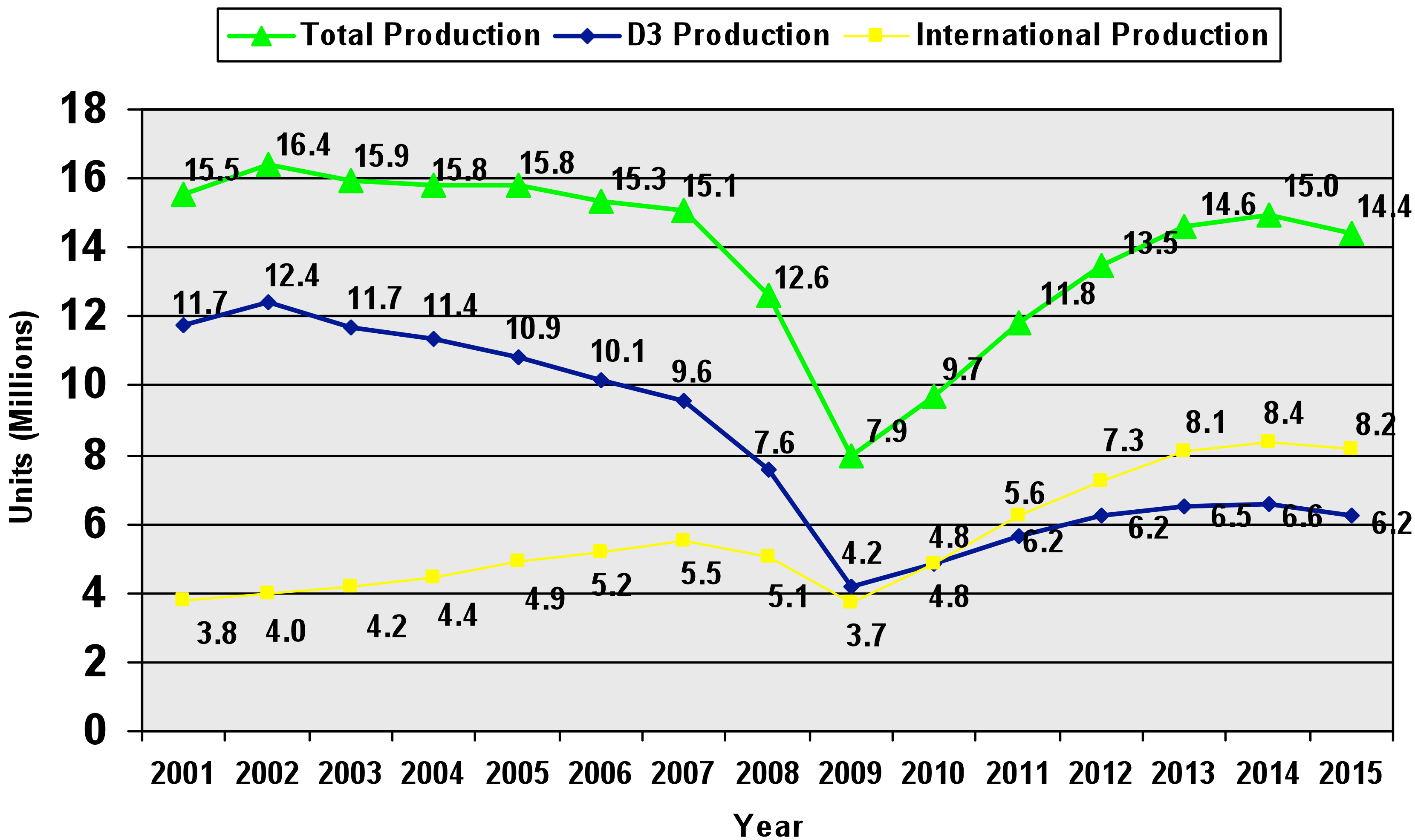
- GM and Chrysler will be much, much smaller . . .
- U.S. GM with 15-16% share, and 60,000 employment.
- U.S. Chrysler with 7-8% share and 30,000 employment.
- But Ford may be bigger with 15-17% share. And GM/Chrysler will exist for now.
- U.S./Canada industry and market will resemble Europe – many competitors with government control of market, products, and ownership.
- Government participation now apparent in other regions – should result in national champions, and the end of global competitors and competition. Will Policy replace competition?

Yet, who wants to be in this market?

Well……..,

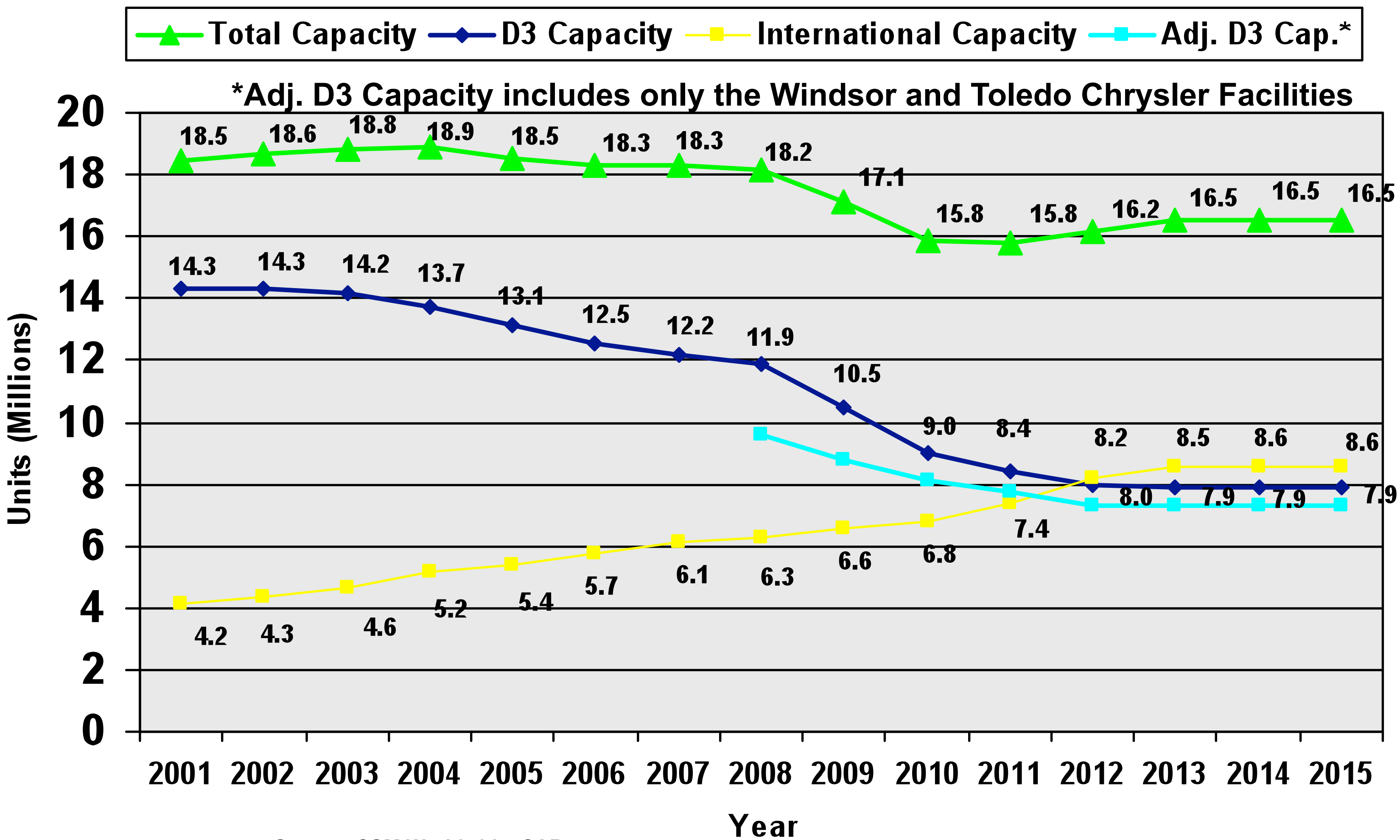
- The Germans are coming (VW)
- The Italians are coming (Fiat)
- The Indians are coming (Tata)
- The Chinese are coming (to buy Hummer and Volvo)
- The GM small car is coming (Lake Orion)
- Roger Penske is coming (to rescue Saturn)
- Many other automakers are selling or will: Hyundai/Kia, Mahindra, Opel (Magna), and many more . . .

N.A. Production
2001 – 2015



Source: CSM Worldwide, CAR

N.A. Production Capacity
2001 – 2015



Source: CSM Worldwide, CAR

Conclusions

- U.S. market will mostly recover
- GM and Chrysler market will shrink by 1/3 to 1/2
- Ford will gain
- Toyota and Honda are solid
- Many new automakers in N. America soon
- Supplier sector still in danger

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QUESTIONS??

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