



News Capsule



Auto Industry In Troubled Times:

A Special Report By The Nebraska Autobody Association

Fearing an economic collapse, lawmakers' passed a controversial \$700 billion financial bailout to stem the economic downturn that choked the flow of credit and threatened to collapse the nation's economy. The administration is now assembling a team of advisors to determine how to bail out lenders who are stuck with near-worthless securities.

Lawmakers hope that the bailout will provide a lifesaving tourniquet to stem the economic hemorrhage that is threatening the health of the automotive industry. Automakers reported disappointing September car sales as the credit crisis seeped through the U.S. economy. According to Reuters, overall car sales in the U.S. dropped 26 percent, with Toyota down 40 percent, Nissan 37 percent, Ford Motor Company 34 percent, Chrysler 33 percent, Toyota 32 percent and Honda 24 percent. Overall, General Motors reported a 16-percent decline. The slump in car sales was attributed to tighter credit, larger down payments requirements, high gasoline prices, a slump in the housing market and a drop in consumer confidence.

Dwindling car sales could result in the closure of a number of dealerships. "An increasing number of dealers are simply closing their doors because sales have plummeted, credit has dried up, the overall retail environment is increasingly challenging and potential investors are sitting on the sidelines," said Paul Melville, a partner with Grant Thornton LLP. Summaries posted on the National Automobile Dealers Association's web site reported that nearly 600 auto dealerships have closed so far this year, and as many as 750 will likely shut down by year's end. Up to 300 or so new dealerships will open this year, amounting to a net loss of 300 to 600 dealerships. Mergers and acquisitions are also expected to increase as a result of declining car sales and dealers are offering fresh incentives to bring reluctant buyers back into the showrooms.

President Bush had also signed into law a bill that includes a \$25 billion low-interest loan package to assist General Motors, Ford and Chrysler to produce more fuel-efficient motor vehicles. Automakers are also asking Washington to bail out bad car loans that are choking the credit available to prospective car buyers; many of whom are upside down on their loans and are having trouble raising down payments.

While fuel prices have moderated, motorists continue to restrain their driving habits. New data released by the U.S. Department of Transportation show that, since last November, Americans have driven 53.2 billion miles less than they did over the same period a year earlier. Americans drove 4.7 percent less, or 12.2 billion miles fewer, in June 2008 than June 2007. Fewer miles driven by motorists result in fewer accidents and a reduction in the severity of vehicle damage, factors that effect collision shops nationwide.

A throttled economy may also have long-lasting effect on the driving and buying habits of U.S. motorists as drivers squeezed by financial priorities may opt for lower-priced insurance policies with higher deductibles. A floundering economy could also see more drivers cashing out on their policies rather than have collision-damaged vehicles repaired.

The challenges for shops will be to remain competitive throughout the financial crisis and to develop and maintain effective marketing and sales strategies. Environmental factors including weather (hail, ice, snow,) and deer collisions may provide regional boosts for repairers.

The Nebraska Autobody Association continues to work on legislative efforts including those that will tighten automobile insurance requirements. Associations can be especially valuable during tough economic times in areas of legislation and consumer education. NABA encourages shops to stay involved in industry issues throughout the current financial crisis.

The information in this news capsule is obtained from sources believed to be accurate and reliable but readers should consult with an appropriate business professional before acting on information contained herein. Information contained herein does not necessarily reflect the opinions of NABA, its leadership or management. Summary prepared by Norbert Zaenglein.