life after the fall

Ward's forecasts U.S. sales bottoming out this year at 9.8 million light vehicles and GM, Ford and Toyota leading the market, each with 15%-16% share, by 2012.

By Tom Murphy

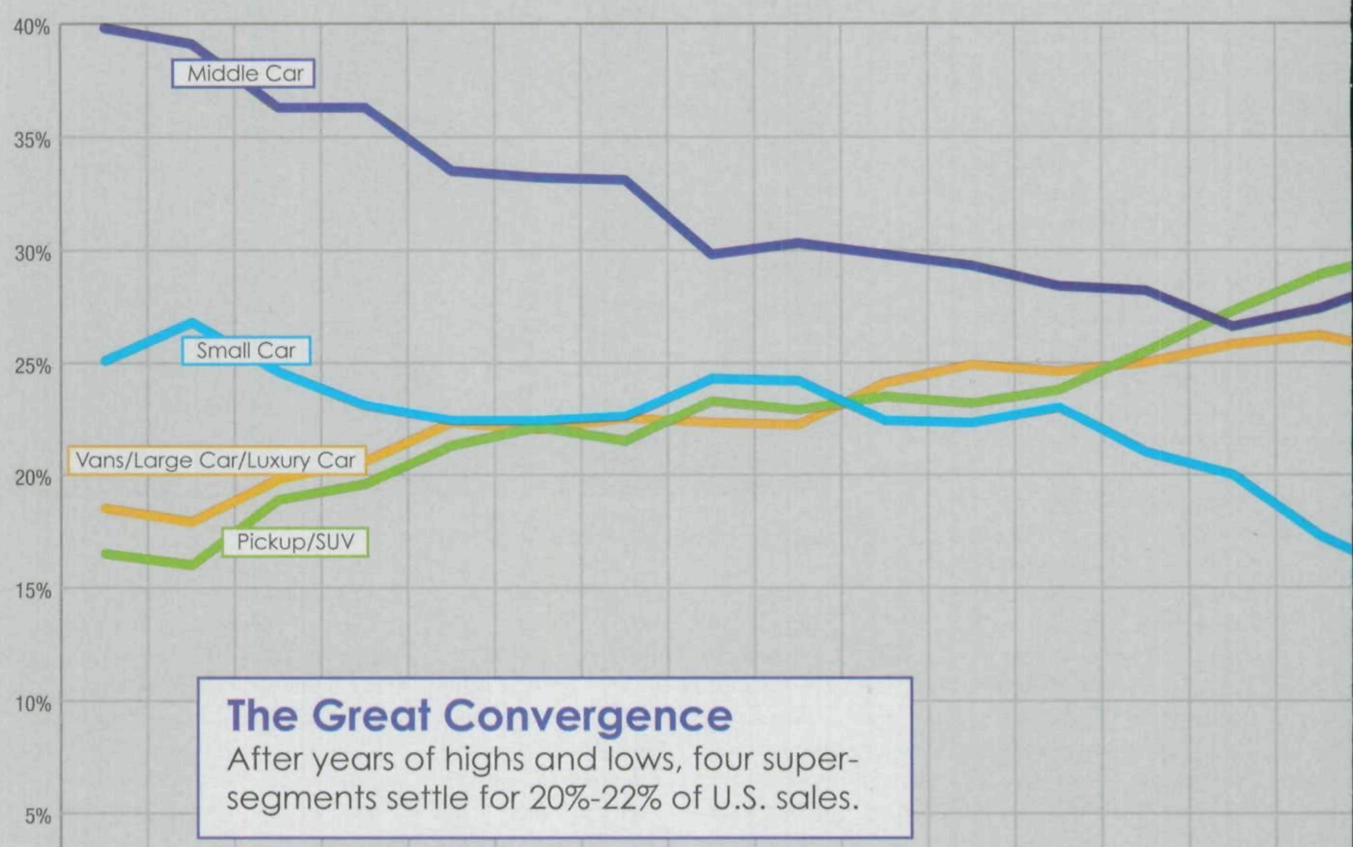
From the auto industry's perspective, this economic typhoon isn't over until consumers get serious about buying new vehicles and start visiting dealer showrooms.

At that point, the debate can begin about whether the economy has hit rock bottom and whether better times are on the way.

A *Ward's* forecast derived from decades' worth of sales data reveals a fascinating vision of life after the fall.

Once the recession ends:

- Four of America's top five auto makers will lose market share by 2012, including Toyota Motor Sales U.S.A. Inc. Only American Honda Motor Co. Inc. will buck the trend by slightly growing its U.S. share.
- General Motors Co. is the biggest loser among the top seven OEMs, falling from 35.3% of the U.S. market in 1989 to 19.8% for the first six months of 2009. After plant consolidation and aggressive downsizing, GM should



The Great Convergence
After years of highs and lows, four super-segments settle for 20%-22% of U.S. sales.

settle for about 16% of the market.

- Toyota and Ford Motor Co. are expected to hold up to a 16% share through 2012. No runaway favorite is expected to reach 20% of the U.S. market for the next several years. Expect, GM, Ford and Toyota to exchange the sales crown from year to year.
- Volkswagen of America Inc. will nearly double its current share to 5% but remain behind Nissan North America Inc. and Hyundai Motor America Inc., each slated to reach 8% market shares.
- The marginal players today will remain marginal players tomorrow. But if Chinese and Indian auto makers bring cars to the U.S., they likely will grab up to 2% of the market almost instantly, presumably with low-priced small or minicars.
- BMW of North America LLC, which has logged solid market-share gains since 1989, is positioned for continued growth when luxury vehicles become fashionable again. The same is true for rival brand Mercedes-Benz, but to a lesser extent.

With regard to segments, the post-recession U.S. market should show a remarkable ability to achieve balance, according to *Ward's AutoForecasts.*

Unlike any time in the past 30 years, no single light-vehicle segment is expected to dominate. From small and midsize cars to cross/utility vehicles and trucks, each is expected to stabilize at 20%-22%.

As recently as seven years ago, trucks and SUVs ruled the roost, while small cars were unpopular and CUVs were still bit players.

If the remaining groups (mainly large cars, luxury cars and vans) were gathered in a fifth category, it would be the weakest, at 16% of the market, largely because most auto makers are not investing product-development dollars in these vehicles.

Looking further ahead, none of the five "super segments" is expected to achieve 30% of the U.S. market.

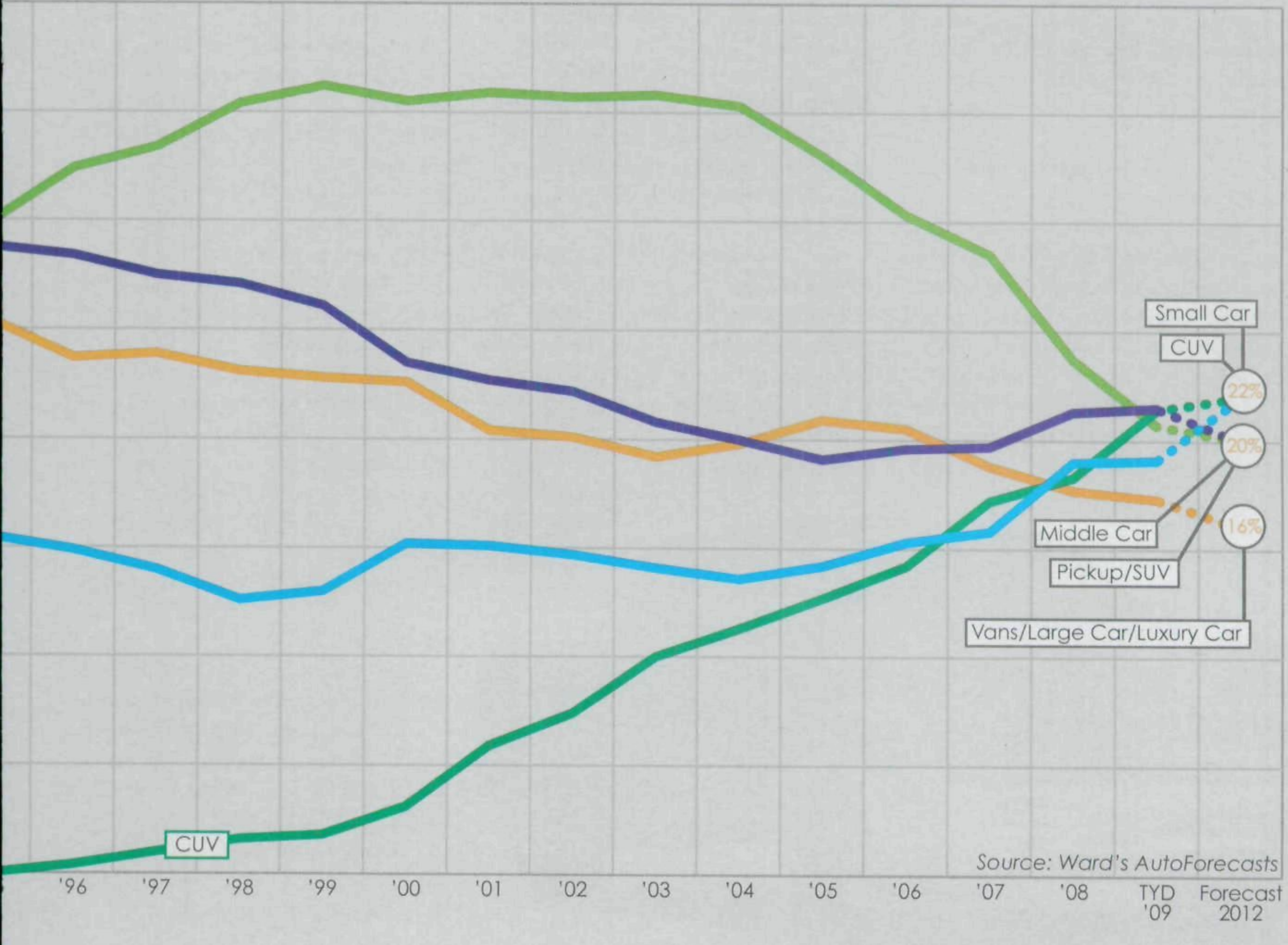
Light-vehicle sales peaked at 17.3 million units in 2000.

For several subsequent years, the U.S. hovered near 17 million deliveries, until the crisis began in 2008 and drove the tally down to 13.2 million units.

Market to Bottom Out

This year, the market should hit bottom at 9.8 million cars and light trucks before trending upward in 2010 to 11.3 million light vehicles, 13.4 million in 2011 and 13.8 million in 2012. Through the following four years, the market should experience similar incremental gains, to 15.2 million in 2016, according to *Ward's* forecasts.

On the production front, North American light-vehicle plants should



North American Light-Vehicle Sales

Data	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008
U.S. Light-Vehicle Sales	16,900,000	16,900,000	16,500,000	16,100,000	13,200,000
N. A. Light-Vehicle Production	15,800,000	15,800,000	15,300,000	15,000,000	12,600,000

assemble 8.6 million units this year, 10.4 million in 2010, 12.3 million in 2011 and 12.6 million in 2012.

Again, incremental growth in the subsequent years takes the North American production tally to 13.9 million units in 2016. Despite the recovery, the manufacturing pace should fall well below the 15.8 million-unit tallies of 2004 and 2005.

For historical perspective, consider the recession of the early 1980s. After the light-vehicle market bottomed out in 1982, it only took three years to grow a monumental 50%. That surge was sustained until 1989, when the market began to fall.

After sales tanked again in 1991, it took nine years for the market to climb 40%.

As the current downturn comes to an end, *Ward's* forecasts the recovery to take about five years and the market to grow more than 40% from 2009's low-water mark.

The health of the real-estate market will have a major impact on the speed of the automotive recovery. In the recent past, light-vehicle sales were strongest when housing prices, on average, were highest.

Today, home values remain depressed and experts say it could take a decade for homeowners to recover the lost value.

If that scenario plays out as predicted, then the auto industry is in store for a long, gradual uptick in light-vehicle sales, and a boom year is not likely in the foreseeable future.


Kia plans to build Sorento at new plant in Georgia.

More Isn't Necessarily Better

Despite the popular "more is better" philosophy to sales, incremental, predictable growth is preferable for a number of reasons.

First, the supply chain is capacity-constrained and cannot shoulder a massive vehicle build. Many suppliers are bankrupt and, as a result, have been restructuring, which means headcount reductions as well as plant closings and consolidations.

Suppliers managing to stay out of bankruptcy court also have been downsizing capacity because of the dramatic decline in production.

According to *Ward's* forecasts, a quick ramp-up in volume would require more offshore component sourcing, which could drive up logistics costs and, ultimately, sticker prices. Consumers would balk.

Second, all auto makers with plants in North America are holding their breath in the middle of a devastating year, waiting for the dust to settle. They have too much unused capacity.

In 2007, the last reasonably good year, U.S. light-vehicle sales reached 16.1 million while North American OEMs had capacity to produce 19.7 million light vehicles, according to *Ward's* data.

This year, although sales are down dramatically to an anticipated 9.8 million units, the North American market remains capable of producing 17.2 million light vehicles.

While struggling U.S. auto makers scale back and close assembly plants, Asian OEMs have been aggressively ramping up with new facilities in places such as Lincoln and Montgomery, AL; San Antonio, TX; and Canton, MS.

In Woodstock, ON, Canada, Toyota opened a new plant last year to build the RAV4 CUV, and Honda last fall opened a

Dodge Ram doing well in struggling pickup market.

Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
9,800,000	11,300,000	13,400,000	13,800,000	14,000,000	14,500,000	14,700,000	15,200,000
8,600,000	10,400,000	12,300,000	12,600,000	12,800,000	13,300,000	13,500,000	13,900,000

Source: Ward's AutoForecasts

new plant in Greensburg, IN, currently building Civic compacts on one shift.

Still to come, Kia Motors Corp. will open its first North American plant, in West Point, GA, making next-generation Sorento CUVs. Toyota's Blue Springs, MS, plant is on hold and may not produce Prius hybrid-electric vehicles as originally planned.

More Downsizing Necessary

Meanwhile, General Motors Co. and Chrysler Group LLC have endured quick bankruptcies and, as a result, must shrink.

As part of its latest attempt to restructure, GM is closing five vehicle assembly plants and idling two others by November.

Chrysler closed its St. Louis North pickup plant this summer, the third assembly operation the auto maker has shuttered in the last nine months. St. Louis South, one of Chrysler's two minivan production sites, was closed in October.

An SUV plant in Newark, DE, went dark in December, and the jury is still out on a midsize car plant in Sterling Heights, MI.

Even after restructuring, Chrysler's viability remains in question. Its products are getting old, the pipeline is alarmingly empty and sales this year are down dramatically for nearly every vehicle in the portfolio. The new Dodge Challenger coupe and Ram pickup are among its few success stories.

Chrysler's U.S. market share has fallen from 15.6% in 1999 to 9.8% today, and *Ward's* forecasts a 9% share in 2012.

To survive, the Auburn Hills, MI, auto maker needs to inch closer to 10% and stay there.

Otherwise, its dealer and manufacturing capacity remains too high.

Chrysler is bound to continue chasing Honda, which is expected to lead the second-tier OEMs with 11.5% share in the U.S. by 2012, according to *Ward's* forecasts.

Honda has maintained a fresh lineup, with more product on the way and a solid brand perception built on quality. Honda occasionally may flirt with 13% market share, but its lack of presence in fullsize trucks likely will keep the Japanese auto maker out of the top tier of auto makers.

So as the Americans downsize and the Asians build new brick-and-mortar, the North American market should continue maintaining capacity to produce 17.7 million light vehicles annually from 2010 until 2015. It's still too much capacity, especially in the trough years of 2009 and 2010.

Despite the Asian plant buildup, most Japanese auto makers will remain second-tier players in the U.S. and are not expected to challenge the new Big Three (GM, Toyota and Ford).

Toyota is well positioned in numerous product segments, but it likely will remain No.2 or No.3 most months because of an anticipated truck-volume gap with Ford and GM.

Light-Vehicle Market Flattens

Long ago, the market was segregated, with the original Big Three – GM, Ford and Chrysler – dominating the landscape, in some cases separated by 20 points of market share from their Asian rivals.

Since then, the market has compressed rapidly. The big have gotten smaller while the small have grown.

But certain niche players are destined to remain small in 2012.

Mitsubishi Motors America, for instance, held 1% of the U.S. market in 1989 and should claim the same share in three years, according to *Ward's* forecasts.

Mazda North American Operations, despite a successful product renais-

Light-Vehicle Share by Company in Post-Recession Market

	1989 %	1999 %	2009 YTD %	Forecast 2012 %
General Motors	35.3	29.6	19.8	16.00
Ford	25.2	24.2	15.9	15.00
Toyota	6.5	8.7	16.1	15.00
Honda	5.4	6.4	11.1	11.50
Chrysler	13.8	15.6	9.8	9.00
Nissan	4.6	4.0	7.3	8.00
Hyundai/Kia	1.3	1.8	7.3	8.00
Volkswagen	1.0	2.3	2.8	5
Mazda	2.4	1.4	2.1	2
Fuji (Subaru)	0.9	0.9	1.9	1.5
Mitsubishi	1.0	1.5	0.6	1
Suzuki	0.2	0.3	0.5	0.5
BMW	0.4	0.9	2.4	2
Daimler	0.5	1.1	2.0	1.5
Tata Motors (Jaguar, Land Rover)	0.2	0.4	0.4	0.3
Porsche	0.1	0.1	0.2	0.2
Saturn/Hummer/SAAB	0.0			1.5
Other New Players	0.0			2
Others (No longer selling in US)	2.1	0.7	0.0	0.0
Current Top 7	92.0	90.3	87.2	82.5
Small Volume	5.6	6.5	7.9	10.0
Luxury Brands	1.2	2.6	4.9	4.0
New Players	0.0	0.0	0.0	3.5
Others (No longer selling in US)	1.2	0.7	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Ward's AutoForecasts

sance and a flood of well-received new vehicles, such as the Mazda5 CUV and Mazda3 compact, should remain steady with about 2% of the market.

For perspective, expect Mazda to continue outselling Porsche Cars North America Inc. by a factor of 10 in the U.S. The Stuttgart sports car producer is expected to claim about 0.2% of the U.S. market, twice its share as in 1989.

Niche marketing became the norm in the late 1990s and early 2000s, but today it's extremely difficult for any single auto maker to play competitively in multiple niches.

Even Toyota has felt the stress of trying to be everything to everyone, with the mediocre reception of the all-new Tundra fullsize pickup and falling interest in the youth-oriented Scion brand.

The upside is, smaller companies can distinguish themselves with intriguing products that excite a customer base that is tiny, but loyal enough to keep that manufacturer afloat.

Fiesta subcompact critical to Ford's success in car market.

Other small players are entering the U.S. from China and India. Tata Motors Ltd., having purchased the money-draining Jaguar and Land Rover brands from Ford, lands a convenient entrance to the U.S. market.

With these premium brands, Tata is expected to hold steady with about 0.3% of the market, but that share could climb if the Indian auto maker finds a way to import its domestic vehicles, such as the new Nano. **WAW**

– with *James M. Amend, Eric Mayne, Christie Schweinsberg and John Sousanis*

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