Volume 21 | Issue 3 | February 15th, 2007

OBSERVATIONS

Dennis DesRosiers

2006 North American Market Review

The beginning of a new year is always a time of analysis and reflection. This year was no different in that regard, and we witnessed the beginnings of some key trends that mark 2006 as something of a watershed year. With 342,762 fewer North American sales than in the previous year, 2006 represented the first "down" year since 2003. Furthermore, the Detroit-based automakers showed a combined loss of 7.3 percent over their 2005 sales volume - the largest drop since 1991. In fact, not since 1992 have GM, Ford, and DaimlerChrysler together sold fewer vehicles in North America. Given the fact that this year's sales results highlight a such significant trends, it's a good idea to look at both production and sales numbers in greater depth.

North American Light Vehicle Market Overview

In 2006, nearly 20 million vehicles (including medium and heavy duty trucks) were sold in North America, with over 1.6 million of that total purchased in Canada. The vehicle market is highly cyclical, and this cyclicality has traditionally manifested itself through short growth cycles (typically three to five years long) punctuated by short downturns (typically two to four years long).

(continued on next page)

Vehicle Sales and Production in North America
Includes Heavy Duty Truck

	Sales Units	Percent Change	GM/Ford/ DCX Sales	GM/Ford/ DCX Sales Share	Production Units	Percent Change	GM/Ford/ DCX Production	GM/Ford/ DCX Production Share
1990	16,005,452		11,007,561	68.8%	12,533,865		10,235,069	81.7%
1995	16,467,428	-4.3%	12,020,995	73.0%	15,337,964	-2.2%	12,049,954	78.6%
2000	20,300,099	3.2%	13,240,737	65.2%	17,659,700	0.2%	13,196,873	74.7%
2001	20,012,684	-1.4%	12,638,115	63.2%	15,816,654	-10.4%	11,593,637	73.3%
2002	19,874,336	-0.7%	12,255,536	61.7%	16,717,553	5.7%	12,281,894	73.5%
2003	19,591,598	-1.4%	11,801,076	60.2%	16,215,337	-3.0%	11,499,933	70.9%
2004	19,992,961	2.0%	11,651,587	58.3%	16,224,864	0.1%	11,060,100	68.2%
2005	20,206,239	1.1%	11,434,688	56.6%	16,316,670	0.6%	10,372,739	63.6%
2006	19,863,477	-1.7%	10,602,806	53.4%	15,854,737	-2.8%	9,676,079	61.0%
2007 F	19,184,372	-3.4%	9,952,545	51.9%	15,347,498	-3.2%	8,831,793	57.5%
2008 F	18,687,099	-2.6%	9,395,574	50.3%	15,005,740	-2.2%	8,109,927	54.0%
2009 F	19,160,118	2.5%	9,307,678	48.6%	15,443,055	2.9%	7,960,199	51.5%
2010 F	20,286,569	5.9%	9,489,732	46.8%	16,411,834	6.3%	8,049,265	49.0%

Source: DesRosiers Automotive Consultants Inc. AIAMC, Automotive News, CVMA, and Ward's Automotive Reports

Observations - “North American Market Review”

(continued from previous page)

In the present-day market, these cycles have become elongated.

Although the Canadian market performed at near-record levels in 2006, production capacity reductions (and the corresponding sales volume and market share reductions) at GM, Ford, and DaimlerChrysler brought the U.S. light vehicle sales total down to pre-2004 levels, dropping the overall North American number down to 19.8 million units.

North American Production of Vehicles - # Of Units
Includes Heavy Duty Truck

	Total North America Units	GM,Ford, DCX Units	GM,Ford, DCX Share	New Domestic Units	New Domestic Share	Other MD/HD Truck Units	Other MD/HD Truck Share
1990	12,533,865	10,235,069	81.7%	2,135,876	17.0%	162,920	1.3%
1995	15,337,964	12,049,954	78.6%	3,002,223	19.6%	285,787	1.9%
2000	17,659,700	13,196,873	74.7%	4,117,212	23.3%	345,615	2.0%
2001	15,816,654	11,593,637	73.3%	3,997,567	25.3%	225,450	1.4%
2002	16,717,553	12,281,894	73.5%	4,168,305	24.9%	267,354	1.6%
2003	16,215,337	11,499,933	70.9%	4,422,906	27.3%	292,498	1.8%
2004	16,224,864	11,060,100	68.2%	4,805,539	29.6%	359,225	2.2%
2005	16,316,670	10,372,739	63.6%	5,511,509	33.8%	432,422	2.7%
2006	15,854,737	9,676,079	61.0%	5,621,219	35.5%	557,439	3.5%
2006/2005	-2.8%	-6.7%		2.0%		28.9%	
2007 F	15,347,498	8,831,793	57.5%	6,132,017	40.0%	383,687	2.5%
2008 F	15,005,740	8,109,927	54.0%	6,520,670	43.5%	375,144	2.5%
2009 F	15,443,055	7,960,199	51.5%	7,096,780	46.0%	386,076	2.5%
2010 F	16,411,834	8,049,265	49.0%	7,952,273	48.5%	410,296	2.5%

Source: DesRosiers Automotive Consultants Inc. AIAMC, Automotive News, CVMA, and Ward's Automotive Reports

Market share loss is forecasted to continue, with GM, Ford, and DaimlerChrysler expected to hold a combined market share of just 46.8 percent in 2010.

Despite the lack of growth, the North American vehicle market remains in the midst of an extended up-cycle. The lead-in to this up-cycle began in 1993, peaked in 2000, and has been holding volume since that time. The extent of the current upside is unprecedented, buoyed in large part by a wave of new product, the growth of import-nameplate manufacturers, mortgage refinancing in the U.S., and the adoption of heavy sales incentives by GM, Ford, and DaimlerChrysler. As such, much of the added volume has contributed to a situation of "profitless prosperity," whereby vehicles are being sold at an unprecedented rate but profit margins are slim or nonexistent (especially among the three U.S.-based automakers). Restructuring plans recently undertaken by the Detroit automakers have attempted to address this issue.

It is believed that the North American vehicle market is entering the beginning stages of a cyclical downturn. We foresee continued softening but no "free fall," with long-term volumes likely to fluctuate in the 15 to 25 percent range. There remains potential upside, but the likelihood of a cyclical downtown is much higher.

GM, Ford, and DaimlerChrysler Review

GM, Ford, and DaimlerChrysler have lost a significant amount of North American light vehicle market share in the past decade, with 2006 merely a continuation of the trend. Combined sales of these three automakers dropped another 7.3% from 2005 to 2006. In the longer-term analysis, the U.S.-based automakers lost almost 20 percentage points of market share between 1995 and 2006, falling from 73.0 percent to 53.4 percent of the North American light vehicle market. Market share loss is forecasted to continue, with GM, Ford, and DaimlerChrysler expected to hold a combined North American market share of below 50 percent in 2010.

There has been a concordant reduction in production share. Production at GM, Ford, and DaimlerChrysler represented 81.7 percent of the North American light vehicle production total in 1990, but that figure was down to 61.0 percent in 2006. Production has dropped 26.7 percent since 2000, with 6.7 percent of that decline occurring during the 2006 calendar year.

(continued on next page)

North American Production Of Vehicles - # Of Units
Includes Heavy Duty Truck

	U.S. Total	Canada Total	Mexico Total	North America Total	Canada as a % of N.A.	Mexico as a % of N.A.
1990	9,767,439	1,947,371	819,055	12,533,865	15.5%	6.5%
1995	11,995,248	2,407,999	934,717	15,337,964	15.7%	6.1%
2000	12,773,714	2,963,097	1,922,889	17,659,700	16.8%	10.9%
2001	11,424,689	2,534,851	1,857,114	15,816,654	16.0%	11.7%
2002	12,279,582	2,633,301	1,804,670	16,717,553	15.8%	10.8%
2003	12,087,028	2,552,862	1,575,447	16,215,337	15.7%	9.7%
2004	11,960,354	2,711,536	1,552,974	16,224,864	16.7%	9.6%
2005	11,946,653	2,687,892	1,682,125	16,316,670	16.5%	10.3%
2006	11,240,211	2,572,304	2,042,222	15,854,737	16.2%	12.9%
2006/2005	-5.9%	-4.3%	21.4%	-2.8%		
2007 F	10,730,843	2,639,770	1,976,885	15,347,498	17.2%	12.9%
2008 F	10,461,877	2,580,987	1,962,876	15,005,740	17.2%	13.1%
2009 F	10,704,997	2,687,092	2,050,966	15,443,055	17.4%	13.3%
2010 F	11,343,723	2,855,659	2,212,452	16,411,834	17.4%	13.5%

Source: DesRosiers Automotive Consultants Inc. AIAMC, Automotive News, CVMA, and Ward's Automotive Reports

North American Sales Of Vehicles - # Of Units
Includes Heavy Duty Truck

	U.S. Total	Canada Total	Mexico Total	North America Total	Canada as a % of N.A.	Mexico as a % of N.A.
1990	14,146,404	1,314,118	544,930	16,005,452	8.2%	3.4%
1995	15,116,325	1,162,512	188,591	16,467,428	7.1%	1.1%
2000	17,811,673	1,586,054	902,372	20,300,099	7.8%	4.4%
2001	17,472,378	1,597,875	942,431	20,012,684	8.0%	4.7%
2002	17,138,652	1,731,823	1,003,861	19,874,336	8.7%	5.1%
2003	16,967,442	1,625,050	999,106	19,591,598	8.3%	5.1%
2004	17,298,573	1,574,803	1,119,585	19,992,961	7.9%	5.6%
2005	17,444,329	1,630,142	1,131,768	20,206,239	8.1%	5.6%
2006	17,048,981	1,666,292	1,148,204	19,863,477	8.4%	5.8%
2006/2005	-2.3%	2.2%	1.5%	-1.7%		
2006 F	16,850,000	1,655,000	1,150,000	19,655,000	8.4%	5.9%
2007 F	16,500,000	1,574,372	1,110,000	19,184,372	8.2%	5.8%
2008 F	16,100,000	1,537,099	1,050,000	18,687,099	8.2%	5.6%
2009 F	16,500,000	1,560,118	1,100,000	19,160,118	8.1%	5.7%
2010 F	17,400,000	1,636,569	1,250,000	20,286,569	8.1%	6.2%

Source: DesRosiers Automotive Consultants Inc. AIAMC, Automotive News, CVMA, and Ward's Automotive Reports

(continued from previous page)

North American production share is expected to continue falling, dropping below 50 percent of the North American total by 2010.

Since 1980, General Motors has lost around 19 percentage points of market share in both the Canadian and U.S. markets. GM's share of the Canadian market dropped from 46.7 percent in 1980 to 25.9 percent in 2006, and its share of the U.S. market dropped from 45 percent to 24.1 percent during the same 26-year period. However, despite losing nearly half of its market share, the growing vehicle market has ensured that General Motors' production volumes have not fallen concordantly with its market share. GM's North American production total has fallen 34.9 percent since 1980, but total North American sales have only fallen 15.5 percent during the same period (5,646,888 in 1980 vs. 4,769,644 in 2006).

Between 2000 and 2006, Ford's North American production total fell by 39.5 percent (from 4,670,662 units to 2,823,454 units). This drop-off in production outpaced the rest of the North American automotive industry, which registered a 10.0 percent drop-off during the same period. Whereas Ford vehicles represented 26.4 percent of North American production in 2000, they only comprised 17.8 percent of the total in 2006. To alleviate the financial burden from these losses, Ford has announced the permanent closures of assembly plants to compensate. Capacity reduction is a key factor in ensuring future corporate profitability.

In similar fashion, Ford's share of new vehicle sales has fallen considerably since 2000. Whereas the total North American vehicle market shrank 2.1 percent between 2000 and 2006, Ford saw its sales drop 28 percent. Ford's share of the North American vehicle market fell from 23 percent to 16.8 percent during the same period.

From a total of 457,000 people in 1985, GM's workforce is projected to have a total employment roster of only 129,000

DaimlerChrysler's North American production has

(continued on next page)

(continued from previous page)

stayed relatively stable since 1995, rising from 2.46 million units in 1995 to 2.68 million units in 2005. In 2006, their production fell 8.2 percent to 2.46 million units and only 15.5 percent of the North American total. Sales of DaimlerChrysler products have also remained relatively flat, and total North American market share has dropped from a peak of 16.2 percent in 1996 to 12.5 percent in 2006. DaimlerChrysler has experienced the least drop-off among the U.S. automakers, but it has also not managed to grow its market share or sell appreciably more vehicles since 1995.

North American employment at GM, Ford, and DaimlerChrysler has fallen considerably within the past decade. GM's employment trend is illustrative of how negative employment trends have been for any worker tied to GM, Ford, or DaimlerChrysler. From a total of 457,000 people in 1985, GM's workforce is projected to have a total North American employment roster of only 129,000 workers in 2006.

Import nameplates are expected to comprise 51 percent of North American light vehicle production by 2010.

North American Production To Sales Ratios
Includes Heavy Duty Truck

	U.S. Total	Canada Total	Mexico Total	North America Total
1990	69.0%	148.2%	150.3%	78.3%
1995	79.4%	207.1%	495.6%	93.1%
2000	71.7%	186.8%	213.1%	87.0%
2001	65.4%	158.6%	197.1%	79.0%
2002	71.6%	152.1%	179.8%	84.1%
2003	71.2%	157.1%	157.7%	82.8%
2004	69.1%	172.2%	138.7%	81.2%
2005	68.5%	164.9%	148.6%	80.8%
2006	65.9%	154.4%	177.9%	79.8%
2007 F	65.0%	167.7%	178.1%	80.0%
2008 F	65.0%	167.9%	186.9%	80.3%
2009 F	64.9%	172.2%	186.5%	80.6%
2010 F	65.2%	174.5%	177.0%	80.9%

Source: DesRosiers Automotive Consultants Inc. AIAMC, Automotive News, CVMA, and Ward's Automotive Reports

Furthermore, very few new employees are entering the GM, Ford, or DaimlerChrysler employee ranks.

GM, Ford, and DaimlerChrysler together have seen U.S. employment levels drop from 316,000 in 2003 to a projected total of 183,700 employees in 2006.

Import Nameplate OEM Review

Production of import-nameplate vehicles in North America has risen considerably since 1990. Increased market demand has prompted the construction (or expansion) of new factories, and those new facilities have managed to double the import nameplate OEMs' share of North American light vehicle production from 17.0 percent in 1990 to 35.5 percent in 2006 (2,135,876 units to 5,621,219 units). Import nameplates are expected to comprise 51 percent of North American light vehicle production by 2010.

Market share of import nameplate vehicles has risen concordantly. European, Japanese, and Korean OEMs represented 46.6 percent of North American sales in 2006, up from 34.8 percent in 2000 and 27 percent in 1995. By 2009, over 51 percent of the North American light vehicle market is expected to fall under import nameplate control.

It would be a generalization to explain this growth using the popular sound-bite rationale of "superior product," but it would also be reckless to assume that other factors outweigh this overriding truth. Volumes have been written on this issue, but suffice to say that super-competitive products (as well as historically under-competitive products from GM, Ford, and DaimlerChrysler) have had a lot to do with the ongoing success of import nameplate brands. DAR

February 15th, 2007 | ISSN 0841-9957