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U.S. MOTOR VEHICLE MANUFACTURERS ARE UNDER THREAT

International motor-car manufacturers are chipping away at sales of US-manufactured vehicles, right on their own turf.

And the gradual erosion of domestic sales of vehicles in the US is starting to have a profound impact on the largest, single economy in the world.

International manufacturers of motor vehicles, in particular cheap, South Korean motor cars and luxury German motor cars – Mercedes Benz, BMW and Porsche, in particular – have already gobbled up slices of what used to be the exclusive domain of General Motors, Ford and Chrysler.

In April, this year, US domestic motor vehicles accounted for about 76 percent of light lorry sales. This compared with 80 percent of light lorry sales, just one year earlier.

Perhaps, more telling is the statistic that light lorry sales of domestically produced vehicles in the US accounted for about 88 percent of all light lorry sales in 1996 – at the time when there was an unprecedented economic boom in the US.

As for domestic sales of motor cars, US-produced vehicles accounted for about 49 percent of all motor-car sales in April, this year.

And this compared with the April 2000, motor-car sales, amounting to 55 percent of passenger vehicle sales, which was down on the 1996 figure of 64 percent.

Due to such keen competition in the US in motor-car sales, the increase in competition, coming from foreign-produced vehicles, will tend to put a cap on any price increases in US-produced, motor vehicles.

In short, manufacturers of motor vehicles in the US are in for a difficult time in the coming years.

With consumer confidence, being eroded, daily, and with the labour market, being tenuous, to say the least, it is all taking its toll of many US consumers, who are putting off new purchases of consumables – of which a new motor-car is one such item -- unless they are absolutely essential.

After an unsustainable first quarter pace in the sales of vehicles in the US, sales weakened in April to a seasonally adjusted, annualised level of about 16.70 million units.

Sales in April 2001 were down about 7 percent, compared with the like month in 2000.

The following table is compiled by TARGET's analysts:

	Vehicle Sales in the US in Millions of Units, Seasonally Adjusted and Annualised				
	April 2001	March 2001	February 2001	January 2001	December 2000
Motor Cars	8.60	8.40	9.00	8.80	7.90
Light Lorries	8.10	8.80	8.50	8.40	7.60
General Motors's Vehicle Sales	4.40	4.70	5.20	5.00	4.20
Ford Vehicle Sales	3.90	4.10	3.90	3.80	3.40
Daimler-Chrysler Vehicle Sales	2.30	2.50	2.60	2.30	2.10
Honda Vehicle Sales	1.20	1.10	1.20	1.30	1.10

Toyota Vehicle Sales	1.80	1.70	1.60	1.70	1.70
Nissan Vehicle Sales	0.60	0.70	0.70	0.70	0.70
Total Vehicle Sales	**16.70**	**17.10**	**17.50**	**17.20**	**15.50**

That which has been supporting motor vehicle sales in the first quarter of this year has been the high affordability of them, plus moderate income gains.

But, in the second quarter, the worm is likely to turn.

The Importance of Sales to the US Economy

The importance of the motor vehicle industry in the US cannot be underscored, sufficiently.

The entire industry, including repair shops, dealers, parts suppliers, etc, represents about 5 percent of the Gross Domestic Product (the total value of goods and services produced in a country) in any one year.

While motor vehicle manufacturing only contributes about 1.20 percent to the GDP, looked at in the more wider aspect, vehicle manufacturing in the US is a major contributor to the GDP and ranks, right up there with the most important contributors.

Since 1990, the total output of US-based, motor vehicle manufacturers has risen by about 8 percent per annum, in real terms.

That compares with the expansion of the US economy at the rate of about 3.50 percent per annum, on average, during that 11-year period.

Manufacturers of motor vehicles in the US employ more than one million workers.

Including all related sectors of the motor-vehicle industry, it is estimated that, directly or indirect, between 6 million workers and 10 million workers depend on this one industry to put bread on the table.

That statistic amounts to between 5 percent and 8 percent of the entire US labour force.

Put another way, this number of workers amounts to about 50 percent of the entire manufacturing sector's uptake of workers in the US, in any one year.

Given these dimensions, it is clear that motor vehicle manufacturing, with its multiplier effects, is very significant for the performance of the US economy.

The risks to household demand – and, by extension, the demand for new motor cars – lie in the development of the labour market, firstly, and in the possible effects of material reductions in equity wealth, secondly.

Both of the above could erode consumer confidence in a thrice, and, to some extent, the world witnessed an erosion of US consumer confidence in April, leading to increased savings – which has an immediate impact on consumer spending, naturally.

As US households reduce consumption, motor vehicle sales will be hit, hard, leading to higher household debt: The inevitable domino effect.

Recent developments in US equity markets have cut into household consumption as disposable income starts to dry up.

The number of people, that have been put out of work since the end of last year, due to failed dot.com companies and the like, is only part of the problem because, once again, there is the knock-on effect which, inevitably, is the result of economic/financial retractions.

It is estimated that last year, alone, US households' equity assets were sliced by about $US2,000 billion, or about 14.50 percent, compared with US households' equity assets in the previous year.

In January and February, this year, there must have been a further deterioration in US households' equity assets, but those statistics may be a while in coming through.

Debt service is going to be the most important single factor, weighing on the US motor-car manufacturer in the near term.

In the past decade or so, the total debt in the US has risen by about 107 percent of disposable income.

Whenever consumers spend more they earn, it is inflationary.

In 1990, total debt in the US was about 85 percent of disposable income.

At the same time, in the past decade, the volume of consumer loans, outstanding, has, also, risen.

Between 1990 and 1993, consumer loans, outstanding, dropped to 16 percent of disposable income.

But the situation is worsening, now, by all appearances.

As at December 2000, consumer credit amounted to more than 22 percent of disposable income.

This has caused households to have to tighten budgets in order to service debt.

Unless the US Federal Reserve pulls another rabbit out of its hat, the US motor vehicle industry and, by extension, too, the US economy, will continue to be under grave threat; and, all the discounts and promotions of US producers of vehicles, in an effort to loosen the purse strings of the US consumer, will be to no avail.

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