THE MOTOR-VEHICLE INDUSTRY: ANOTHER RECESSION IN THE OFFING ?

Detroit may not want to acknowledge that fact, yet, but it is history.

The Detroit Motor Show of January might well have been considered a success, from the point of view of the participants, however, it could well come to pass that this motor show was just that: A show.

Hanging over the industry that produces the world's motor vehicles is the worrying matter of huge overcapacity.

Individual markets may indicate strong demand for motor vehicles in the short term, but that demand is likely to be short-lived, the way that things stack up, today.

While in the US, adjustments have been made to shave down motor-vehicle capacity, not so in many other parts of the world.

In fact, in the People's Republic of China (PRC), the opposite is true.

An example of the US, cutting back on capacity, was the recent closure in Fremont, California, of the joint-venture plant of General Motors Company and Toyota Motor Corporation.

It closure resulted in some 4,700 workers, walking the streets of California, looking for alternate employment.

For the past 26 years, this factory had been churning out Toyota Corolla vehicles.

Last Thursday-week, the machines at the factory ground to a halt, never to start up again.

New motor-vehicle factories are being planned in Asia and there is some indication that some new plants will sprout in the US, too.

The demand for motor vehicles, globally, is quite likely to expand in 2010 and, perhaps, into 2011, but then, it is likely that that will be the end of any material gains unless various governments determine to front up with cash, again, in order to bail out this vital industry that provides employment to a vast number of workers, globally.

Cash-for-clunkers, as it was colloquially known in the US, caused a flurry of activity in the US as that Government shelled out about $US3 billion (about $HK23.40 billion) to US owners of older motor vehicles in order to entice them to trade in their clunkers and, then, buy new motor cars.

The ploy worked, but one must not forget that the US taxpayers, down the road, had to pay for the artificiality, embedded in the ploy.

Car **A**llowance **R**ebate **S**ystem (**CARS**) was the official name of the US Government's Department of Transportation's CARS Scheme.

The CARS programme achieved the objectives, set out by Congress: To increase motor-vehicle sales in the US and, at the same time, aid the environment.

In just a few short weeks of sales from July 24, 2009, nearly 680,000 older vehicles were replaced by new, more fuel-efficient vehicles.

By the conclusion of CARS, 690,114 dealer transactions had been logged in, it was officially recorded.

The nation's economy benefitted, immediately, from this stimulus programme, which caused a distinct upward movement in Gross Domestic Product and created, or saved, tens of thousands of jobs at a very critical time in the economic recovery process.

CARS came to a halt on August 24, 2009, just one month after its launch: The money had run out.

At the end of the CARS programme, the tally of the biggest gainers of the programme was:

Sales	**Percentage**
Toyota Motor Corporation	19.40 percent
General Motors Company	17.60 percent
Ford Motor Company	14.40 percent
Honda Motor Company Ltd	13.00 percent
Nissan Motor Company	8.70 percent
TOTAL :	**73.10 PERCENT**

Ironically, CARS led to a gain in market share in the US for Japanese and Korean manufacturers at the expense of US, motor-vehicle producers.

The US was not the only country to employ a bonus scheme for people, owning old vehicles, willing to trade up to new motor vehicles.

In Germany, a driving force, pumping up in this country's economy in 2009 in respect of the motor-vehicle industry, was a similar programme to the US version of CARS.

New motor-vehicle registrations in Germany, which is the largest economy of Europe, rose by about 23 percent in 2009, Year-On-Year, but with no more stimulus measures in place for 2010, there is, today, some concern that demand for new motor vehicles could drop back by as much as 30 percent.

In order to ameliorate the forecasted situation, Mercedes Benz engaged on a policy of financing its vehicles overseas, offering interest rates of 2.80 percent per annum, down from the 2008 figure of 3.80 percent per annum.

With the home market, likely to be *'soft'*, Mercedes Benz determined that exporting its vehicles was essential.

And Asia was one of the focuses of this luxury manufacturer of motor vehicles.

Is The Worst Over?

It is generally held that the worst, insofar as the motor-vehicle industry is concerned, is over.

For the private motor car, this may well be the case.

But not so for the lorry segment of the motor-vehicle industry.

Companies, around the world, continue to keep purse strings tightly drawn when it comes to purchasing new capital equipment.

Also, the ending of the motor-vehicle, subsidy programmes by various governments, around the world, has taken the shine off the idea of buying a new family motor car, as far as many households are concerned.

In the US, of course, with the unemployment rate, knocking very close to 10 percent, one cannot help but expect the head of many households to be parsimonious.

Even in the PRC, it is quite likely that that Government's plan to rein in the overheated property market, forcing banks to limit lending to individuals, among other things, will have an effect on the purchasing power of many would-be purchasers of motor cars before the year is out.

However, heavy duty motor-vehicle demand continues unabated as the PRC Government is determined to drive its economy to bigger and better things in the coming years, with the construction of roads and bridges and infrastructure of all kinds, being among the Number One priorities of this forward-thinking nation of some 1.30 billion people.

For the PRC, one may well expect to witness a growth rate in the purchase of new motor cars, being an increase of 10 percent on the 2009-year's level.

The 2009 year was a bumper year for the PRC when one witnessed a growth rate of about 40 percent, Year-On-Year, in the sales of new motor cars.

But one should not expect much more than this, the way that things stand, today.

In the US, a double-digit increase in the sales of motor cars is quite likely, this year, but one must remember that that figure would be calculated on a very low 2009 base.

While it appears that the motor-vehicle industry, worldwide, could be said to be well on its way to recovery from the 2008 and 2009 crises situations, due to the expiry of programmes, such as CARS and the like, along with overcapacity, the scenario is suggestive of further problems, looming on the economic horizon.

Last Monday, Geely Automobile Holdings Ltd () (Code: 175, Main Board, The Stock Exchange of Hongkong Ltd) announced its results for the 2009 Financial Year, ended December 31.

On a Turnover of about 14 billion renminbi (2008 – about 4.29 billion renminbi), the company turned in a Net Profit Attributable to Shareholders of about 1.18 billion renminbi (2008 – about 879.05 million renminbi).

At Page 30 of the official announcement, the company said, inter alia:

> *'The growth of sedan demand in the China market speeded up in 2009, helped by improving consumer sentiment following the Chinese government's implementation of a series of stimulation programmes, aiming at sheltering Chinese economy from the global financial crisis started in late 2008, and the promulgation of some specific policies targeting at stimulating demand for smaller size vehicles. As a result, total sales volume of passenger cars in China increased by 48% over the previous year to a total of 7.47 million units in 2009 according to figures from China Association of Automobile Manufacturers ("CAAM"), making China one of the largest car markets in the World in 2009. Cost pressure also subsided a lot during the year due to continued weak demand outside China. Prices for key raw materials and components have been relatively stable during most of 2009. Although automobile demand in most of the Group's export markets remained very weak during 2009, this had been more than offset by the exceptional strong demand in the China market …'.*

What is very obvious is that a large proportion of this company's gains, during the 2009 Financial Year, was made possible by the economic stimulus programmes, put in place by the Government of the PRC.

During the 2009-Year, the company said that it had raised about $HK769.50 million by the issuance of shares.

Page 22 of the company's report stated:

> *'During the year, the Company issued 570,000,000 ordinary shares of HK$0.02 each at a subscription price of HK$1.35 per share for cash to provide for additional working capital of the Group and to finance the existing and future acquisitions. These shares rank pari passu with the existing shares in all respects …'.*

The words, '*additional working capital of the Group'*, need to be noted.

The financial results of Geely Automobile Holdings Ltd in respect of that company's 2009-Year seem to bear out the prognosis of **TARGET()** for 2010: This year's growth rate in the sales of motor vehicles is unlikely to match that of 2009.

Geely Automobile Holdings Ltd is not the only player on the block and tens of other motor-vehicle producers, from Europe and the US, especially, are nipping at this company's heels in the hope of capturing a bigger slice of the largest consumer market for motor vehicles in the world, today.

As at December 31, 2009, Geely Automobile Holdings Ltd had cash and bank balances of about 4.50 billion renminbi.

In the world of producing motor vehicles, this is not a great deal of money and a few poor months of sales of motor cars could well see that amount of money, whittled down, considerably.

If General Motors Company and Chrysler Group LLC, 2 former giants of the US, motor-vehicle industry, had to eat crow, both having been forced to go cap in hand, begging for cash handouts from the US Government, and, then, having obtained billions of dollars in bridge financing, still had to declare insolvency, it could happen to any company in times of dire need.

General Motors Company, some people may still recall, was once the largest manufacturer of motor vehicles in the world.

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