Has the rash of free financing for new cars, no down payments and $2,000 to $4,000 in cash rebates birthed troubles for the auto industry?
Are the auto companies facing a fall-off in sales in 2003? Are they headed for deep, rough waters and troubled finances

U.S. auto companies have built sales over the last few years with 0% financing in an effort to move cars off their lots into customers' garages. Ford and General Motors have steadily increased their sales by this means, but their necessary, steady bottom line in sales has declined. In other words, without all the sales gimmicks-in view of a slowing economy and purchasing predictions by analysts-would the recent sales figures be there?

For 2003, many analysts in Detroit now predict that sales will decline between 8 and 10%, putting tremendous pressure on the industry. Adding weight to this prediction, it's already known that Detroit's share of the auto market declined from 74% previously to 63% in 2001.

Rather than reading this handwriting on the wall, and reducing manufacturing capacity, the Auto Party has continued with more new plants being built. Now, the auto companies seem stuck with excess manufacturing capacity with analysts predicting a slowdown in sales, and a public accustomed to all the great deals that have been offered to stimulate us to buy. Moreover, recent data proves those buyers bought their new buggies based on those irresistible deals- and it now appears that those purchases were made at the expense of future sales for the auto companies.

Rather frightening for auto workers, Fitch, a debt rating agency, estimates that auto companies have $30 billion in under-funded pension liabilities, most owned by Ford and GM. Add that to a possible sales slow-down and look out!!!

Adding to this picture, debt rating agencies have reduced the credit rating of Ford and GM to just above junk status, and any future decline in credit quality would sharply increase borrowing costs for the two companies.

In my opinion, two groups that will be sharply affected by all this would be wise to take these things into consideration: The automotive suppliers would be wise to prepare for additional pressure on them, because of price reduction demands and less volume- and workers in the auto sector would be wise to avoid new debt, watch their major financial commitments, and keep their personal house in order.

The situation points to possible rough waters ahead.

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