Signs of hope for auto industry

Detroit must not overproduce

By Vince Bond Jr.
Capital News Service

LANSONG — It's tough to keep an old champ down.

Even though the auto industry has seen better
days, some analysts believe it's too early to count out
the region's once-formidable economic backbone.

Meanwhile, new data suggests there are still
signs of life.

According to the Chicago Fed Midwest Manufac-
turing Index, auto sector production in the Mid-
w est increased 5.5 percent in September and 1.8
percent in August. The index defines auto sector
production as "plastics and rubber products" and
"transportation equipment."

Nationally, auto-related production rose 3.4
percent.

The index tracked data from Michigan, Indiana,
Illinois, Iowa and Wisconsin.

Dennis Virag, president of Ann Arbor's Auto-
mobile Consulting Group Inc., said the results are
likely due to auto companies replenishing their in-
ventories after the federal Cash for Clunkers pro-
gram boosted demand.

Virag said the domestic three — General Motors
Corp., Ford Motor Co. and Chrysler LLC — can
survive the recession if they monitor inventory
and avoid overproduction.

Fuel efficient technology also will be key and the
company that innovates will come out on top when
the industry rebounds, Virag said.

The group projects that in 2015, automobile sales
in the U.S. could flirt with the 20 million mark, a
significant jump compared to 2008's 13.2 million.

Virag compares the current economic lull to the
recession of the early 1980s, when car companies
battled to stay afloat and eventually "came back
stronger than ever."

"The auto industry will remain the anchor of the
Midwest," Virag said. "The industry has tremen-
dous amounts of promise. Those people with the
best technology will be the winners."

Come are the days where the Big Three con-
trolled nearly 90 percent of the auto market, but
the recent surge shows that profitability isn't out
of reach, said Bruce Brobry, senior associate dean
of the University of Detroit Mercy's College of
Business Administration.

Brobry said analysts are taking a wait-and-see
approach, but he thinks the recovery has already
begun.

If yearly U.S. sales can consistently reach 11 to 12
million, companies should see annual profits be-
cause they've already undergone the necessary re-
structuring, Brobry said.

"In terms of stimulating sales, it also triggered a
response after the program ended. It got people
thinking about cars again," Brobry said. "The pub-
licity started stimulating car sales. GM is expecting
that they may have had their first year-over-
year sales increase in almost two years and Ford
may show a profit in the third quarter."

Mike Johnston, vice president of government af-
fairs for the Michigan Manufacturers Association,
said that manufacturing will always be part of
Michigan's economic identity, whether it's mak-
ing auto parts or wind turbines.

Light-vehicle demand is projected to increase dra-
matically over the next three years, Johnston said.

While 10 million light-vehicles are projected to
be sold in 2009, that number will rise to 11.6 million
in 2010 and 15.1 million by 2012, Johnston said.

"I think as the economy evolves, you'll see more
hybrid and electrical vehicles," Johnston said.
"We've heard reports that the recession is over, and
I think we've seen the bottom. We're optimistic
about the future of Michigan and manufacturing."

Thomas Marx, director of the Center for Global
Leadership at
Lawrence Technological University, said he's
upbeat about the future of the industry and ex-
pects the "overall volume of sales to be very im-
pressive over the next couple of years."

Although companies may not see overwhelming
success in 2010, Marx said he expects the Detroit
Three to hit their strides by 2011 or 2012.

Marx said GM's fall into bankruptcy forced the
company to adjust burdensome "legacy costs"
such as health care and high salaries.

At one point, GM spent $5 billion a year on
health care alone.

Foreign companies like Toyota set the bar ex-
trremely high in terms of quality, so competition will
continue to be stiff, Marx said.

"Demand doesn't disappear, it's postponed. As
soon as the economy stabilizes and financing be-
comes more readily available, these people will be
trading in their cars," said Marx, who worked for
GM for 28 years, holding positions in economics, gov-
ernment relations and corporate strategic planning.

People may put off car purchases momentarily,"but those sales come back with a vengeance when
the economy starts to pick up," Marx said. "There
is huge pent-up demand."
Desire for new cars doesn’t disappear when times get tough, it only is delayed.