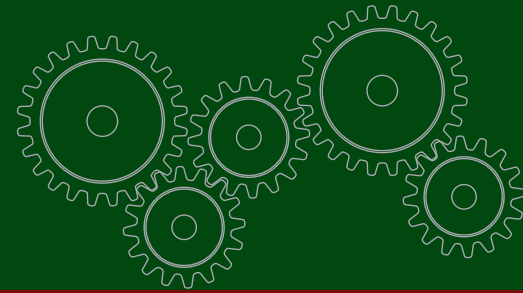




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Accelerate Your Business

September 2007

ECONOMY (vis a vis impact on auto industry sales):

- Mortgage mess spells trouble for auto sales (Kiplinger). Strapped households won't hesitate to postpone car purchases, typically one of the first decisions made in times of uncertainty. U.S. auto makers will feel tremendous strain next year as total U.S. sales slip and Detroit's share continues to drop. We see one of the Big Three throwing in the towel by 2010-via merger or sale-most likely Ford.
- Experts believe that the biggest problems in the mortgage market-subprime and ARMs-will emerge during the next 16 months. Lenders made \$581 billion in option ARM loans in 2005-2006 while doling out \$1.4 trillion in interest-only ARMs. \$325 billion of all these will default, leading to more than one million homeowners relinquishing their property to lenders.
- The number of no or low-documentation loans jumped to 49% of all mortgage loans in 2006, vs. 18% in 2001.
- With housing prices falling for the first time since 1991, a chain reaction has begun.

OVERALL INDUSTRY:

- August new vehicle sales were up slightly from August 2006, but year-to-date are off 3%, and sales in recent months have slowed to the worst annual pace in nearly a decade.
- Annual sales of 16 million or more new cars and light trucks have been the norm for the last 8 straight years. That is likely to end in 2007. Those 8 years did not have \$3 a gallon gasoline, a struggling and straining Detroit 3, a subprime market that is falling apart and a depressed housing market.
- Each of the Detroit 3 is chasing a star that is losing its luster: in August, truck sales (pickups, minivans and SUVs) were 60% of GM's sales, 71% of Ford's and 69% of Chryslers. Cars are strictly an afterthought at each of the Detroit 3.
- The #1 selling SUV in August-of any size and any brand-was the fuel efficient and totally redesigned Honda CR-V for the third straight month. The similar size Toyota RAV-4 was within 53 units of #2 Chevy Trailblazer.



- Saturn buyers are 22 times more likely to default on their loans than Toyota buyers. Owners of American cars are generally more likely to default than owners of Japanese or European cars. Loans secured for European cars are 50% less likely to go into default than loans for American cars, and owners of Japanese cars are 56% less likely to stop paying.
- Buick/Lexus TIE for top spot in J.D. Power Vehicle Dependability Survey (measures problems experienced by original owners of 3-year old vehicles)-first time in 12 years that Lexus has shared the top spot. 5 of the 14 brands that finished above industry average were domestics (but one of those was Oldsmobile). Cadillac, Mercury and Lincoln were the others besides Buick. Land Rover at the bottom of the list.
- 8 of the 10 hottest selling vehicles in July (chart for August not out yet, gets published mid-month in the WSJ) were imports (based on fewest # of days staying on a dealer's lot-regardless of sales volume). Prices ranged from \$16K (Honda Fit) to \$127K (Mercedes-Benz CL). Two domestics: Saturn Sky, GMC Acadia CUV.

DEALERS:

- "Sonic Hopes To Retail More Of Its Trade-Ins in New Program," 8/27/07 Automotive News. Testing a program to move used vehicles more efficiently among its 154 dealerships, using "big box retailer type technology" that enables it to decide what inventory to stock at which stores and when to replenish it. It's part of their effort to retail more trade-ins, INSTEAD OF SENDING THEM TO AUCTION. Test will start by year-end in 15 stores, roll out nationwide in 2008.

G.M.:

- G.M. eliminating previously scheduled overtime at 6 assembly plants that make full size pickups and SUVs. G.M. also cutting fourth quarter production by 10%.
- G.M.'s three new crossover vehicles-Buick Enclave, GMC Acadia and Saturn Outlook-are selling very well and are attracting import buyers-20% of the vehicles traded in on them are Asian brands (vs. usual 3%).

FORD:

Barron's CEO interview with Alan Mulally on one-year anniversary of him becoming CEO:

- We are strategically rationalizing our house of brands-we now have 7-but 7 is still too many.
- Did not answer the question of whether Mercury would be closed (speculation is yes within 4 years a la Oldsmobile).



- Looking for market share to stabilize at 14-15% as they go through their recovery plan.
- “All of the Ford units around the world have grown very independent and autonomous. Our aim is to have everyone sitting at the same table, so that we can share the same purpose, the same tactics and the same strategy.”
- “The level of incentives will be driven by the market and the value of the product.”
- Ford Again Utilizes Rental Market to Showcase Taurus: 2008 Taurus (the new name for the old Five Hundred, ditto Sable for Mercury Montego) is being introduced through rental fleets with 15-20% of production going to daily rental. Critics question sustaining it at that level because of the potential detriment to residual values. Ford is looking for exposure to buyers.

CHRYSLER:

- Hired Jim Press away from Toyota (where had worked for 37 years, a real “dealer guy”) and Phil Murtaugh, former head of GM in China (most recently with Shanghai Automotive) as CEO of its Asia Operations. Press and Tom Lasorda will report to CEO Bob Nardelli.

TOYOTA:

- Aims to sell 10.4 million vehicles worldwide in 2009, up 18% from last year. Clearing 10 million would be an auto industry first. Toyota sold 8.8 million vehicles worldwide in 2006.
- Barron's (9/10/07) cover story on “The Most Respected Companies;” Toyota was # 3 (# 1 was Berkshire Hathaway, # 2 Johnson & Johnson). # 4 and # 5 were P&G and GE