## Wireless Diplomatic Planet.Net

# Acres of Unsold 2008 Autos and Trucks

## The Auto Stockpile Dilemma

The major auto makers – GMC, Chrysler, Ford, Toyota and Honda - are all facing huge stockpiles in the United States of unsold cars and trucks from the 2008 production. This inventory consists of finished product – cars, SUVs and trucks – that must be securely stored in outdoor facilities (abandoned runways, parking lots near ports, etc.) usually near the manufacturing plant or at the port of entry (West Coast or East Coast ports for foreign makers). The shelf-life of this inventory is effected not only by exposure to the natural elements but to “obsolescence” as the 2009 and 2010 model years enter the selling markets.

Even with the month-long plant closings that the domestic manufacturers conducted in December, 2008 these inventories have not been significantly effected – and in fact, once car-buying does increase in the US, there will be tension between the sales of fresh off the line product and the sales of these inventory (warehoused) vehicles.

Given that the fresh autos of 2009 and 2010 may be produced under a lower cost to completion environment, the auto-makers will have to balance the value of their accumulated inventories and the costs of storing and renovation to bring them out of storage for sale or disposition, and the short shelf-life of 2008 model-year vehicles (and their remaining 2007 model-year unsold vehicles) with the buying-public’s general favor for current year models (i.e. fresh 2009-2010 model-year product)

Assuming the overall inventory of unsold 2008 model-year is 500,000 vehicles, domestic and imports, at an average base retail price of $15,000 -- that unsold inventory has a “street” value of USD$ 7.5 billion.

There are obviously some limitations on disposal as this inventory is part of the Auto Maker’s existing financing structures as collateral for corporate bonds, as contract covenants and restrictions. So the balance sheet impact of disposal is a major component of what is possible.

Annual sales of vehicles in the US has fallen from 16 million to 10 million based on the annualized November, 2008 sales – and the auto production lines, while famous for just-in-time inventory controls within their supply chains did not slow their outputs to adjust to the relatively deadening of sales that actually occurred in 2008. (They failed “just-in-time selling”!)

In perspective, five hundred thousand vehicles represents the entire annual 2008 US sales of the Toyota Camry (411,342 through November, 2008 – the fifth most popular vehicle) or of the Ford F-150 pickup (473,933 through November, 2008).

There are estimates that more than one-third of the current auto dealerships will go out of business through failure or planned reductions and consolidations in the next six months.

There are estimates that up to half of the auto parts manufacturers (half numerically, not half of capacity) will go out of business through failure – based on the slow down in sales and production that has already occurred.

The auto part manufacturers is a lumpy universe – there are suppliers that have up to 85% market share of particular parts with individual automakers, and these major suppliers usually provide more than one automaker. While these large suppliers are facing grim times equal to the automakers, the automakers have a vested interest in the sustainability of these large suppliers and will have to focus on not losing them.

There are, however, thousands of smaller manufacturers that will fail due to slow payment by the automakers or supply-chain credit problems that exacerbate their cash-flows and for which they do not have the capital base to absorb the slow, missed or cancelled payments.



WALL STREET CAPITAL ADVISORS GROUP, Inc.
7005 Shore Road - Suite 3H, Brooklyn, New York 11209-1030 USA

## Wireless - Diplomatic Planet.Net

12 January 2009

## Acres of Unsold 2008 Autos and Trucks
## The Auto Stockpile Dilemma

The inventory of unsold vehicles has a high-level of technology and technology-based components – with the value of the components and of their materials and metals. Assuming the five hundred thousand vehicles contain in their catalytic converters at least 200,000 ounces of platinum - at USD$ 900 per ounce - would have a value of USD$ 180,000,000. That is a significant revenue business as a stand-alone.

Granted, the value of these components as commodities has also been reduced within the economic decline. Some of these components could be re-purposed – Batteries, windshield wipers, tires, lighting, radios, etc. – but that would slow the recovery of the overall supply chain of vendors if these products were used in new vehicles. The resultant value of the "stripped" and non-functioning inventory vehicle would be greatly reduced as well.

There are cost advantages to recycling from an environmental perspective – weighed against storage and transport costs and current salvage prices for materials – to reclaiming steel, aluminum, plastics, copper, platinum and other auto components from a disassembled vehicle. The value of these component stockpiles may increase once the global economy recovers.

What disposition of these vehicles will work, what is likely, and what are the outcomes for the automakers, the established auto-dealers, the auto parts manufacturers, the recycling industry and for the proposed business and its eco-economy?

Some Alternatives?
An Online Auction: Provide 80% financing to any buyer (regardless of credit ability) with a minimum price of $5,000 per vehicle. Similar program on a lease basis.
Advantages – large buyer universe and minimize transaction costs of marketing and processing. The vehicles would stay in the repair, maintenance and parts segment of the auto industry – bolstering the local dealerships, parts and services companies. No trade-in for disposal.
Disadvantages – Further damage to the established dealers network. Larger inventory of used vehicles (unused trade-ins) in the marketplace.

Public Fleet Swap: Offer the vehicles on a two-for-one swap basis to towns, cities, schools, utilities and charitable organizations.
Advantages – The newer vehicles would have lower utilization and maintenance costs than the older vehicles replaced at a time when these agencies and organizations have less revenues. The displaced vehicles could be salvaged for recycling of their materials and metals as revenue for the state or local government or through a public-private partnership entity.
Disadvantages – Lessen fleet purchase programs for a period of years; Costs of transport of salvage vehicles to recycling centers if not currently in locality.

David W. Alvey, Executive Director and Editor
Send your responses and posts to dalvey@diplomaticplanet.net – Subject: Unsold 2008 Autos





WALL STREET CAPITAL ADVISORS GROUP, Inc.
7005 Shore Road - Suite 3H, Brooklyn, New York 11209-1030 USA