

"Cars were a bubble" – General Motors

Contributed by Jan Lundberg
16 March 2009

These are exciting times. Finally, sales of new cars in the U.S. are falling behind the number going to the junk yards. If Mother Earth can ever rejoice, it's now. If bicyclists who have been terrorized by oblivious motorists could ever be heartened into believing that the world is really sane and just, it is now. Livelihoods? Transportation? Solvable. Culture Change and a few other "radical" groups have been working on these issues for years, with reports, analysis and physical projects. For now, the news:

"Cars were a bubble just like the housing market was a bubble. That's going to depress demand in subsequent years." - Mike DiGiovanni, the head of sales analysis for General Motors.

That's a wild statement, at least what we might have expected in our wildest dreams a year ago. The extent of the problem of car overpopulation is depicted in the graphics and photographs below and at bottom. Stay tuned, the changes have only just begun!

America's vanishing cars

Through recessions and gas shocks, the number of autos on the road every year has increased since the end of WWII. Until now.

By Chris Isidore, CNNMoney.com

March 13, 2009

NEW YORK (CNNMoney.com) -- In another sign of just how far the U.S. auto industry has fallen, this is likely to be the first year since 1945 when the number of new cars bought will be less than the number of cars turned in to the junk yard.

Auto industry research firm R.L. Polk is forecasting a drop in total auto registrations for the first time since car plants were busy turning out tanks for World War II. This time it's economic distress and tight credit keeping purchases down.

There could be nearly a 4 million vehicle drop in the number of registrations during the 12-months ending June 30, the period during which Polk tracks those figures. That's 1.6% of the total fleet of cars and light trucks that had been on the road as of July 1 2008, just before the bottom fell out of the new car market.

There were about 14 million cars taken off the road in the 12 months ending last June. During the same period auto sales fell 7% in the face of high gas prices, but still came in at 15.3 million.

But with sales now down to about a 10 million annual sales pace, a decline in the number of vehicles on the road is almost inevitable.

0:00 / 1:30 Car giveaways

The automakers think this could be a sign that the worst may almost be over. With sales falling so far below the number of vehicles being scrapped, there is pent-up demand that should help lead to at least a modest rebound in sales in the months or years ahead.

Mike DiGiovanni, the head of sales analysis for General Motors (GM, Fortune 500), said earlier this month that people driving older and older cars will eventually find that they need to replace them -- and this could lead to a modest rebound in sales.

"It's going to eventually be a pressure point that will lift the industry," he said.

But others think that the fact that auto sales outpaced those junked for so many years means there was an excess supply of vehicles on the roads.

Dave Goebel, a consultant for Polk, doesn't buy that the drop in the number of vehicles on the road is a sign of pent-up demand. Instead, he thinks it is further bad news for the battered industry.

Goebel said extra vehicle purchases in recent years were driven by increases in consumers' wealth during the housing boom and bull years for the stock markets. Before those bubbles burst, it was easier for families to justify having more cars, either for teen drivers or for weekend use.

"Now people have decided we've got to get back to basics. We have three cars in the driveway. We need to go back to having two," he said.

Joe Barker, head of North American sales forecasting at auto consultant CSM, agrees that people will be getting by with fewer cars in the coming years. He said the increased level of job losses this year is not only making it harder for people to buy a car, it also is reducing the need for new vehicles.

"As unemployment keeps rising, there are fewer people who need transportation for work," he said.

Barker added that with economic uncertainty and credit being as tight as it is, many potential buyers will continue to sit on the sidelines.

"The trend we'll likely see for the next 12-18 months is a greater mix of buyers with the necessity to buy, rather than just the desire to buy," he said.

Still, Barker does agree with DiGiovanni that there is some pent-up demand building for cars, even though it may not be enough to lift auto sales in the near term.

His firm is forecasting only 9.7 million new car sales this year, but thinks that sales could rise as high as 14 million vehicles in 2011 due to replacement demand.

Barker said even if more car owners looking to get rid of an old vehicle buy a used car instead of a new one, that will help lift new car sales down the road. That's because increased demand for used cars would lift their value. And that could lead some car owners, especially rental car companies, to sell older vehicles in order to buy new cars.

But even with this pent-up demand, DiGiovanni said he is not expecting sales to return to levels from earlier this decade anytime soon.

"Cars were a bubble just like the housing market was a bubble," he said. "That's going to depress demand in subsequent years."

Original source articles:

"More cars are likely to end up in junk yards than being purchased this year for the first time since World War II." - junk yard caption

America's vanishing cars

Special Report (graphs here):

Detroit's downfall

Look at the unsold cars around the world. [thanks R!]

Read a car-ban essay "Shake up and Direct the Collapse: the Macroeconomic and the Body" by Jan Lundberg, Culture Change Letter #242.

This article is published under Title 17 U.S.C. Section 107. See the Fair Use Notice for more information.