

Slow But Good Gains In Auto Sales Expected During 2011

Up To 15 Percent Increase Estimated As Fuel-Efficient Autos Driving Many Sales

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As markets nationwide continue through the sluggish economy, conversation amongst auto dealers, sales experts and economists reveal a likely gain of up to 15 percent in new automobile sales for 2011.

Such an increase would put vehicle sales to about 12 million, Southland Motor Car Dealers Association (SMCDA) Executive Director Todd Leutheuser, said. According to the National Automotive Dealers Association (NADA), last year, the nation's franchised new-car dealers sold 10.4 million new light vehicles – a dramatic decrease from the 13.2 million units sold in 2008.

“The conversation seems to be based on a long, steady, slow recovery. That's indicative of what we see nationally on our sales data that's coming in,” Leutheuser said, adding it is doubtful sales will reach the 16 million-mark the nation saw in the first half of the decade.

Paul Taylor, chief economist for NADA, agreed. “We think an improvement of no more than 15 percent for 2011,” he said. “As a rough estimate, that's somewhat better but it's obviously not back to the level that we had in 2006 when it was typical to sell more than 16 million units.”

The poor housing market is the number one reason car sales have been so difficult, Taylor said, explaining that a typical new car buyer is often a homeowner. The primary source of net assets or accumulated wealth is in home equity, and since the economic free fall in 2007, the recovery is just starting to really show in California, he said. Other western states – Idaho, Nevada and Arizona – have not seen the recovery that the Golden State is seeing, according to Taylor. “It's our view that a lot of people are reluctant to commit to new car payments until they see improvement and some progress toward regaining home equity.” Another obvious factor in slow car sales is the high unemployment rate.

Even with the difficult market, Leutheuser said things that remain in the auto industry's favor are pent-up demand

as a result of vehicles aging and the deals consumers can get on new cars. Traditionally the captive financing companies and the majority of manufacturers can offer light vehicles for very attractive rates, Leutheuser said, whereas buying a later model, like a 2008 car for example, would require a hefty down payment, a good credit score and a few percentage points in interest.

Taylor also points out that slower new car sales over the past two years resulted in fewer trade-ins coming to the marketplace. This shortage of used cars raises the value of a typical car or truck one to five years old, which also increases the trade-in equity of many consumers in their current vehicle, he said. “If we can help consumers to a higher degree of confidence in the economic outlook, new and used car sales will pick up. . . . Rising used car values help new car sales this year. That is one more source of strength for U.S. new car sales next year.”

Since new car sales in California represent 20 percent of all retail sales tax collected annually, Leutheuser believes it's important to have a healthy automotive market. So far this year, the Southland (LAX to Whittier, south to the county border) has sold 49,142 units and Central and North L.A. County 151,307. Therefore, with 2010 sales in all of L.A. County at more than 200,000 units and the average state sales tax at about 10 percent, Leutheuser extrapolated that if the average light vehicle costs \$30,000, sales tax revenue generated just in L.A. County in the first three quarters is about \$601 million. Leutheuser said last year the area generated about \$538 million in sales tax for the state during the first three quarters.

According to the Southland Auto Outlook, released October 27 by the SMCDA, the automakers that hold the regional top market share are Toyota/Scion at 26.9 percent, Honda at 16 percent, Nissan at 7.9 percent, Ford at 7 percent and Chevrolet at 4.8 percent.

Some of those brands showed no growth in the last year. Toyota/Scion and Nissan held the same market share percentage last year, and Honda only showed a 0.1 percent increase. Chevrolet saw a loss of 0.5 percent from 2009. In



Boulevard Buick/GMC Truck partners Ron Charron (left) and Brad Willingham display the new 2011 Buick Regal on the dealership floor. Charron described the Regal as a car for the younger generation looking for an economical and affordable vehicle. The base price for the new CXL model is \$26,995. (Photograph by the Business Journal's Thomas McConville)

the top five, Ford was the only brand to show an increase from 2009, which was 0.5 percent.

The more interesting market share shifts taking place this year are occurring in what Leutheuser called "near luxury," or higher end vehicles, such as Infiniti. Even though the brand is only 1.4 percent of the market, Infiniti gained a 30 percent year-to-date increase in the Southland and a 24 percent increase year-to-date in the rest of L.A. County. Two other brands that jumped in the past year are Hyundai, which saw a 50 percent market share increase from 1.9 percent to 3 percent, and Buick, which showed a 92 percent increase in year-to-date sales in the Southland alone.

These sales numbers indicate some growth, and in listening to car dealers talk, Leutheuser said he thinks there is real optimism on the efficiency front. "I think the market will continue to trend toward the more fuel-efficient vehicles." He said younger people are tending toward these economical vehicles, such as the 2011 Ford models like the Focus or Fiesta, "which are stylish and fun, [with] high mileage, low price and good quality," he said. "There are more fuel-efficient vehicles for the consumer to choose from. Fuel efficiency doesn't have to come in small packages anymore."

For the older generations, there was a trend in auto manufacturing to harken back a generation about five years ago, according to Leutheuser, but today it doesn't seem like the industry is building as many "throwback" vehicles as before. "Manufacturers don't talk much about going retro. I don't think any manufacturer aims to get the oldest customer on the block." If anything, Leutheuser said, the idea behind older generations purchasing new cars is to get a vehicle that makes them feel young. He noted a vehicle manufacturing philosophy of sorts that says not to build a car for a demographic, but for the demographic mentality, which is normally 20 years younger than they are.

Another market gaining ground in the auto industry is electric vehicles. Leutheuser said sales of these efficient vehicles will continue to increase as infrastructure (electric



Nick Worthington, the general manager of Cal Worthington Ford, is pictured with the 2011 Ford Fiesta. The new vehicle comes as a 4-door sedan, which starts at \$13,320, or a 5-door hatchback, with a base price of \$15,120. "Because Long Beach is a metropolitan market, I think it will be a very popular car," he said. (Photograph by the Business Journal's Thomas McConville)

vehicle charging stations) become more commonplace. Mitsubishi will launch its electric vehicle at the L.A. Auto Show later this month for the United States market. That vehicle, which has been on the market in Japan for several years, has a range of 100 miles. The Nissan Leaf, which is completely electric, is, according to Leutheuser, already sold out. The Volt, a mostly electric car produced by Chevrolet, is coming online very soon, he said. At this point, however, Leutheuser doesn't expect electric cars to make a significant impact on the market in 2011. "You will start to see the infrastructure developing and these cars actually becoming part of the conversation," he said, "But I don't see them as penetrating the market to any major level in the next several years. It needs to mature a little more."

Movement Of Local Dealerships Follow Slow Recovery

In the 2009 predictions for this year's sales, Dan Rowand, the former general manager of the Coast Cadillac, told the Business Journal he anticipated strong demand for this year's redesigned Cadillac SRX. However, 2010 wasn't a good year for that dealership, and Coast closed its doors in June.

Local auto dealers Ron Charron and Brad Willingham acquired the closed dealership, located at 3399 E. Willow St., and held a grand opening in August. Now Boulevard Cadillac, the dealership is an extension of Boulevard Buick/GMC Truck at 2850 Cherry Ave. The dealership previously carried vehicles by Pontiac, but the brand ceased production this year.

Boulevard has expanded in the difficult market, taking advantage of the open spaces and new business ventures left behind by dealerships that failed. Boulevard also moved its collision center from Long Beach to Signal Hill, so the dealership now offers one-stop auto services. Charron said things are looking up for 2011, and other dealerships in the Signal Hill Auto Center are using their



Long Beach Honda General Manager Mark Niedringhaus is shown with the 2011 CRZ, a hybrid vehicle based on the Honda CRX, but with a modern look. The 2011 CRZ is built with fuel-efficient technology and has a base price of \$19,200. (Photograph by the Business Journal's Thomas McConville)

collision center out of convenience. "All we can ask is to be considered," Charron said of consumers looking for a new car. He noted the 2011 Buick Regal is on their lot, appealing to the younger generation looking for an economical and affordable car.

Other local auto dealerships' predictions are in line with national economists' predictions of the economic recovery – that business will remain slow but steady. Nick Worthington, general manager of Cal Worthington Ford/Kia, said a popular new Ford vehicle for 2011 is the Fiesta, which he said is the most fuel efficient model in its class and targeted for younger buyers who are looking for fuel efficiency with a little bit of fun. The Fiesta comes in a sedan and a hatchback.

Worthington expects an additional increase in January and February. "It's the same as everybody is saying, and that's exactly what we're seeing. For once, the economists and the [economic] environment are dead on." The dealership has diversified its services, offering a heavy-duty fleet service center at the former Champion Chevrolet location at 2800 Bellflower Blvd. "We already have 25 new accounts with over 4,500 vehicles in fleets that we added this month," Worthington said.

Mark Niedringhaus, general manager of Long Beach Honda, said the dealership is in a tough location in Signal Hill, with no visibility from the freeway. Located at 1500 E. Spring St., the dealership also dealt with the closing of Schaier's Nissan next door. "They made some business mistakes along the way," he said of the Nissan dealership.



Cabe Toyota/Scion of Long Beach General Manager Shawn Dabirnia shows off the new 2011 Scion tC. The vehicle gets an average of 26 miles per gallon and comes with a manual transmission for a base price of \$18,995 or with automatic transmission starting at \$19,995. (Photograph by the Business Journal's Thomas McConville)

Schaier's Nissan of Long Beach General Manager Terry Schaier told the Business Journal in 2009 that pent up demand would contribute to stronger sales. "It's definitely got to be better in 2010," he said. "If not, we are all in trouble." Schaier's closed its doors in May.

Niedringhaus has hopes for a continued economic recovery and said the Honda brand is doing well. "I thank my stars that we have Honda and not something else," he said. For 2011, the dealership has two modern-looking vehicles on the floor – the hybrid Insight and the 2011 CRZ, a 2-door hybrid sports car. Niedringhaus said the vehicles are not only for those who are intrigued by the different look of the cars, but also appeal to those who are interested in more eco-friendly autos. "Its got pretty good power for a hybrid car," he said. "Less junk coming out the back under the trunk."

Cabe Toyota/Scion of Long Beach is doing well so far this year, according to General Sales Manager Shawn Dabirnia. A hot car on the floor at the dealership is the 2011 Scion tC sports coupe, he said, which offers 180 horsepower – 19 more than the previous model – and all new six-speed transmissions. The suggested retail price is \$20,614. The dealership has sold a few of the 2011 Scion tC models already. "I think we are on the road of recovery," he said. "People are purchasing more cars now than over the last few years, so I think we are going to have a good future." ■