Auto Sales Drop; Detroit Faces “Carnage”

A measure of the challenge lying ahead of U.S. automakers can be found in recent sales figures. For October, auto sales in the United States dropped by a precipitous 32 percent overall. The slide was led by embattled General Motors. America’s leading automaker suffered a 45 percent drop in sales.

At Ford, sales figures were also grim. The nation’s second largest automaker reported a drop of 30 percent in car and light-truck sales compared to one year ago. Chrysler, meanwhile, saw sales drop by 35 percent.

The decline in sales, while still hefty, was not quite as bad for Japanese car manufactures. Leading Japanese carmakers Toyota and Honda saw their sales fall 23 and 25 percent respectively, in what has turned out to be the worst automotive market in decades.

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"If you adjust for population growth, it’s the worst sales month in the post-World War II era" for carmakers, said Mike DiGiovanni of GM during a conference call, according to Bloomberg.com. "Clearly, we’re in a dire situation," DiGiovanni warned.

Other top leaders at both GM and Ford emphasized the dramatic downturn in the current market for vehicles. GM’s North American Sales chief Mark LaNeve characterized what’s happened in the market as "carnage," Bloomberg reported. At Ford, Jim Farley, the company’s head of world-wide marketing, called the situation "sobering."

And that is not likely to change any time soon. Automakers traditionally target the end of the year time period for the launch of special sales campaigns and incentives to lure potential car buyers to dealer lots. That may cause an increase of sales that would mask underlying weaknesses in the market. "With the level of merchandising that will happen in November and December, we won’t find what the ambient level is," warned Ford’s Jim Farley, according to CNN.

As a result, the real state of the market might not be clear until into the first quarter of 2009. In any event, continued dismal news out of Detroit could lead to government subsidy of the Big Three. That possibility seemed to have fallen through the cracks early in November when the Treasury Department announced that it would not provide up to $10 billion to help finance a possible merger of GM and Chrysler. But a variety of other routes for subsidy monies remain available.

Business Week’s David Kiley has reported that under rules being written by the Department of Energy, "automakers can apply for $25 billion in loans to off-set tech investments they have been making since January 2008 and through next year to bring more fuel efficient vehicles to the marketplace." Also, Rep. John Dingell and Senator Carl Levin, both of Michigan, have been, according to Kiley, "pushing for GMAC, Ford Credit and Chrysler Credit to be able to borrow from the Federal Reserve’s discount window like a bank in order to make more credit available to borrowers."

Those moves may grease the skids for a final GM push to merge with Chrysler, and might help the automakers survive the worst market for new cars in half a century, though that is far from a foregone conclusion. All that is certain is that Washington, as it did with the banks, is eager to rifle through the depleted wallets of the American taxpayer in order to transfer money to the automakers who have queued up next for the corporate welfare dole.