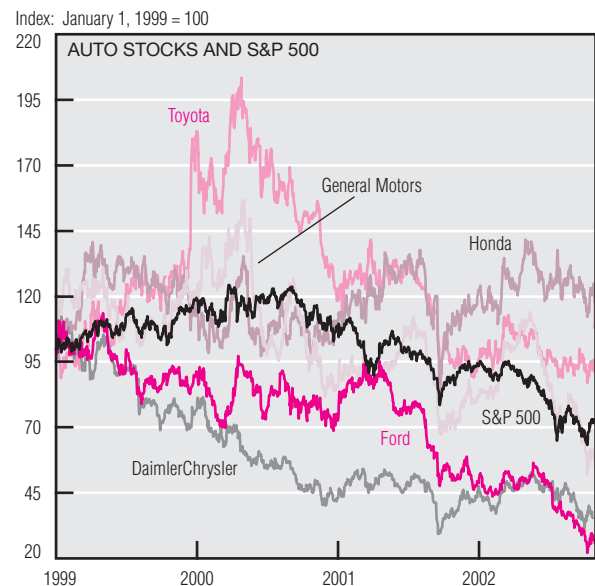
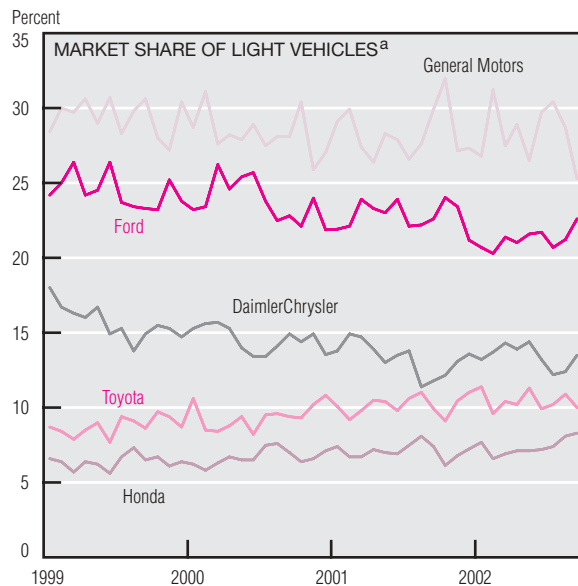
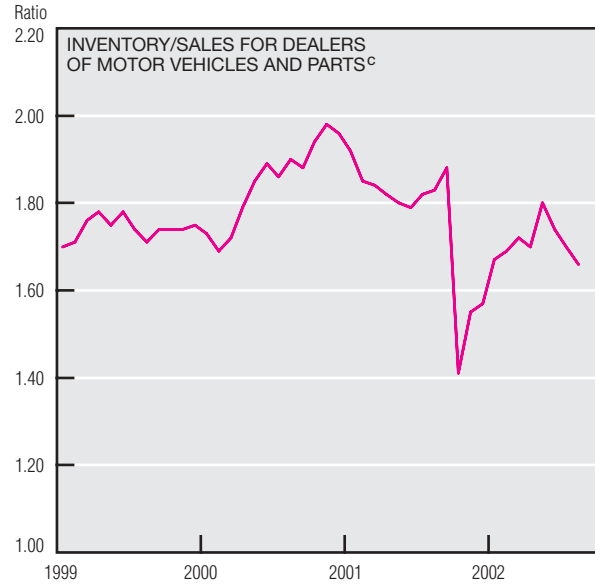
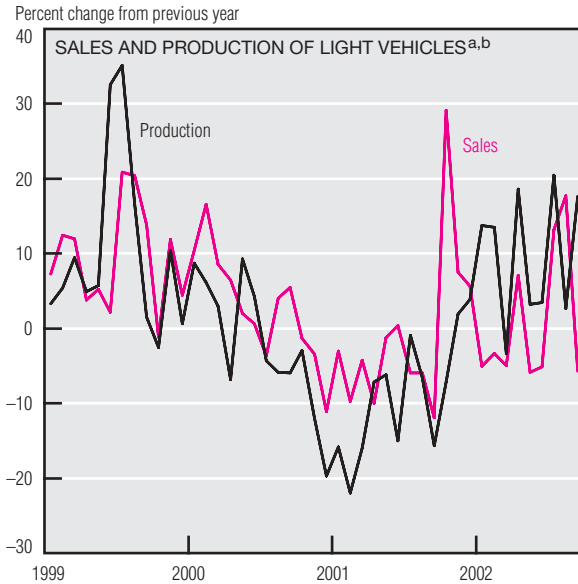


The Automobile Industry



- a. Light vehicles comprise cars and light trucks (less than 14,001 pounds).
 b. Sales combine domestically made and imported units. Production refers to U.S.-produced vehicles.
 c. Seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of the Census; Bloomberg Financial Information Services; and *Ward's Automotive Reports*.

The U.S. automobile industry has been experiencing considerable turmoil. A year ago, sales soared in response to widespread dealer incentives, primarily zero-percent financing, but since then consumers have come to expect such incentives and are less responsive to them. Although sales were sluggish this September, production has held up better in 2002 to date than in 2001. At this point, production and sales appear to be well balanced at the industry level; dealers' inventory-to-sales ratio has rebounded from last fall's abnormal

low to a level closer to the one they held over the 1999–2000 period.

Since 1999, after Chrysler merged with Daimler, General Motors, Ford, and DaimlerChrysler have lost market share to Toyota, Honda, and other producers. Despite this erosion, General Motors retains the lion's share of the U.S. market, followed by Ford and then DaimlerChrysler.

Over the last four years, automakers' financial performances have diverged much more than their market share. Beginning soon after its merger, DaimlerChrysler has underperformed the S&P 500. Ford's stock price has

fallen slightly more over this period. General Motors has managed to nearly match the S&P 500, but both Toyota and Honda have beaten this index. In response to profitability concerns, GM and Ford have had their credit ratings lowered in recent weeks. Factories have large fixed costs and union contracts that entitle workers to most of their pay even when laid off. These conditions seemingly leave the Big Three no alternative, in the short run, but to try to keep plants running by offering more dealer incentives.