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# Detroit Reels as Auto Sales Skid

*Monthly Figures Plummet Compared With Last January, Clouding U.S. Bailout Efforts*

By JOHN D. STOLL and ALEX P. KELLOGG

Sales by the Big Three U.S. auto makers plunged in January to the lowest levels in decades, raising fresh questions about the future of the companies and the viability of the government's bailout program.

Chrysler LLC's U.S. sales fell 55% compared with January 2008 to 62,157 vehicles. **General Motors Corp.**'s sales slid 49% to 128,198. **Ford Motor Co.**'s dropped 40% to 93,041.

The declines were steeper than anticipated and came against a backdrop of sluggish consumer spending for all types of goods. The auto makers blamed sharply lower purchases by fleet operators such as car-rental concerns, as well as the inability of many consumers to obtain car loans.

Overall, auto makers industrywide sold 656,976 cars and light trucks in January, according to Autodata Corp., down 37% from January 2008. It was the lowest total since December 1981 -- and the first time U.S. sales were lower than in China, where about 790,000 cars were sold last month, according to GM.

The sales translated into a seasonally adjusted annualized selling rate of 9.8 million vehicles, the lowest pace since June 1982.

GM and Chrysler together won \$17.4 billion in emergency funds from Congress in December as they were on the verge of running out of cash. Under terms of the loans, they must present the government with turnaround plans by Feb. 17 - plans that may be complicated by the dire January results.

Chrysler, the smallest U.S. car company, is considered to be in the most precarious shape. It is looking to an alliance with Italian auto maker **Fiat SpA** to secure its future. Fiat spokesman Gualberto Ranieri said Chrysler's January sales had no bearing on Fiat's plan to take a 35% stake in the company.

The numbers sparked renewed debate in Washington over the industry's future. Chrysler's business model is "not working," said Sen. Richard Shelby (R., Ala.), who fought against the U.S. bailout. "Barring a miracle, I don't see how they make it."

Sen. Bob Corker (R., Tenn.) said Tuesday's sales numbers make it "even more crucial" that GM and Chrysler make more substantive progress on restructuring that needs to be completed under conditions of the bailout.

"There really is no progress on the negotiations," Sen. Corker said, referring to concessions that need be taken by bondholders, unions and other stakeholders in the troubled auto makers.

Some allies of the Big Three acknowledge GM and Chrysler may need additional government money. "We're going to have to do more," said Rep. Sander Levin (D., Mich.), pointing to the January sales figures.

The Treasury Department declined to comment about the viability of the government bailout.

The Senate, in debating the economic-stimulus package Tuesday, voted to include a tax break for Americans borrowing money to buy a car in 2009. The amendment would allow consumers to write off their federal taxes any car-loan interest payments and excise taxes.

Sen. Barbara Mikulski (D., Md.) said the measure, which would add \$11 billion to the cost of the stimulus bill, would save some \$1,553 on a \$25,000 vehicle purchase. "Everyone wants to save auto manufacturers, but no matter how much government aid we give to the Big Three auto makers, they can't survive if consumers don't start buying cars," she said on the Senate floor.

The big declines illustrate the need by both Chrysler and GM to shutter more plants even after a string of closures in the past few years. Chrysler executives have told dealers the company may sell only about one million cars in the U.S. this year. But it has 11 auto assembly plants in North America -- enough capacity to produce 2.2 million or more vehicles annually.

In a conference call Tuesday, Chrysler Vice Chairman Jim Press said the company doesn't believe it needs to close more plants, although he added it may have to adjust output by eliminating shifts at some.

At a closed-door meeting Tuesday with Great Lakes-area car dealers, Mr. Press made an emotional plea for dealers to order vehicles from Chrysler. "He said if you don't order cars, how is the company going to make it?" said one dealer who attended the meeting.

The slow January sales are complicating the effort because many dealers have more vehicles than they need. Industry analysts estimate that dealers of all makes now have a five-month supply of vehicles sitting on their lots.

Cars also are piling up at Chrysler facilities. As of the end of the month, the company had a stock of 359,980 vehicles -- enough to last 151 days at the current sales pace. And that came after more than a month when its factories were shut for an extended holiday break.

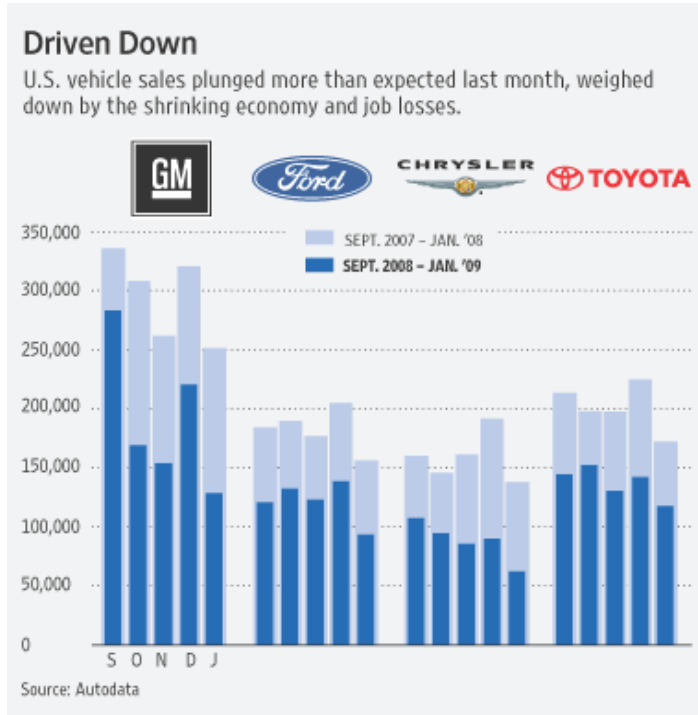
In a conference call with analysts and reporters, Mr. Press tried to put a positive spin on the company's January results. He said Chrysler's sales decline was magnified because it cut back on low-margin sales to rental companies and other fleet customers. Mr. Press said Chrysler sold about 9,000 vehicles to fleets, down 81% from 41,000 in January 2008.

"We actually had a pretty good month," he said, adding that it is much "healthier" for the company to sell the majority of its vehicles to individuals.

Chrysler is seeking \$3 billion more from the government on top of its original \$4 billion, but must submit a plan by Feb. 17 showing how it can become viable.

A big component of the plan is its proposed alliance with Fiat. The deal would allow Chrysler to focus on developing trucks, minivans and Jeeps, while outsourcing development of small and midsize cars to its Italian partner.

Closing the deal, however, requires Chrysler to meet the terms of its U.S. loans and receive the second tranche of \$3 billion, Chief Executive Robert Nardelli said in a recent internal video message to employees, according to people who



saw the video.

GM's 49% sales drop left some of its brands in the U.S. with declines of 60% compared to the prior January. GM said it will now build 57% fewer vehicles in the first quarter compared to the 2008 period, or 380,000 vehicles.

During a conference call, GM executives expressed confidence that sales should spring back above the annual pace of 10 million units in February and March because of increased fleet sales. However, fleet customers have given gloomy forecasts in recent weeks and are cutting costs.

On Tuesday, the auto maker said it is launching a Presidents Day sale that could spark demand by offering 0% loans and cash rebates on many of its more popular models.

Without stronger demand, GM will need a massive capital infusion in a matter of months, said Patrick

Anderson, chief executive of Anderson Economic Group, a Lansing, Mich., think tank that focuses on the auto industry. He said a such a loan would be a "much larger number than any company pre-2008 had ever asked the government for."

Based on GM's current production rate and its average vehicle price of \$27,000, GM will likely pull in only \$10.26 billion in North American revenue this quarter. That would be down 57% from the 2008 quarter.

Ford, meantime, maintains it doesn't need government help at this point, but its 40% drop in January sales raises new concern. A week ago it reported a \$5.9 billion loss for the fourth quarter, a period when it used up \$5.5 billion in cash. Ford has \$13 billion in cash remaining and said it would draw down the last \$10 billion from its credit lines.

Even foreign auto makers that tend to do better than the Detroit Three suffered major setbacks in January. [Toyota Motor Corp.](#) and [Honda Motor Co.](#) reported U.S. sales declines of 34% and 30%, respectively, while luxury brand Mercedes-Benz, owned by [Daimler AG](#), said its U.S. sales fell 43%.

One issue behind the slump is auto loans. Since September's meltdown on Wall Street, auto finance companies have tightened lending standards and all but stopped offering leases on vehicles. [GMAC LLC](#) on Tuesday reported it lent \$2.7 billion to finance new vehicles in the fourth quarter, down about 80% from a year earlier. GMAC auto loans were used for only 8% of new GM retail sales in the quarter, compared with 43% a year ago.

Charles Ogelsby, chief executive of [Asbury Automotive Inc.](#), a large dealership chain in Duluth, Ga., said subprime borrowers with blemishes on their credit records who once could qualify for loans are now essentially shut out. "That's a huge part of the market that used to be served," he said. "That's gone now."

—Kate Linebaugh and Jeff Bennett contributed to this article.

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