As Automakers Recover, Incentives Become Rare

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DETROIT (AP) — For years, Americans shopping for cars were treated to all sorts of deals and incentives, especially at the end of summer. Think Cash for Clunkers, which paid up to $4,500, or promotions that offered employee discounts to everyone.

Those days are over.

Deals are getting more scarce because automakers, newly lean and profitable, are holding the line on those profit-eating promotions. In July, they offered $1,000 less in incentives per car than a year earlier, according to Edmunds.com.

And with no one expecting the government to offer a repeat of the Clunkers program, get ready for fewer discounts on your next car.

"This may be as good as it gets, and get used to it," says Jeff Schuster, the executive director of forecasting for J.D. Power and Associates.

As a result, U.S. auto sales are at a standstill, with potential buyers waiting for more deals but automakers resisting. The industry expects this to be the worst August in 18 years, with sales barely over 1 million cars and trucks. Sales are expected to fall 3 percent from July, according to car-pricing website Truecar.com.

August usually sees strong sales as automakers offer deals to clear out the lots for new models. In August 2007, before the recession, automakers sold nearly 1.5 million new cars and trucks. Last August, when sales were at a 30-year low, the government came to the rescue. Cash for Clunkers, which paid buyers up to $4,500 per vehicle, boosted sales by about a third to 1.2 million.

But this year, the government is on the sidelines, and so are many buyers.

The standoff between buyers and car makers could continue through the rest of the year unless companies sweeten deals or there's some sort of government intervention, says Jesse Toprak, TrueCar's vice president of industry trends and analysis.

"We really need some sort of catalyst to take us up to a higher level," he says. Car sales are still far below normal levels because, with unemployment still high and home values sharply lower, consumers just don't feel confident enough to buy.

Others say a healthier economy — not incentives — is the only real driver for higher sales.

"Just lowering prices is not going to solve the problem," says George Pipas, Ford's top U.S. sales analyst. "The key is an improved consumer outlook."

Automakers have been vowing to cut back on incentives for years. But this time, they mean it.

In the last few years, Detroit automakers — and, to a lesser extent, their foreign rivals — have closed plants, cut tens of thousands of workers and aligned production with demand. Because they're producing fewer vehicles, they don't need to offer discounts to get rid of excess cars and trucks.

Since 2004, automakers have cut their North American production capacity by 18 plants and 2 million vehicles, Citi Investment Research auto analyst Itay Michaeli says. At the end of July, automakers had 52 days' supply of vehicles to sell, down from 69 days' in July 2008, according to J.D. Power and Associates. Automakers need a certain amount of cushion to assure that there are enough cars and trucks available, but anything above a 60-day supply is generally considered too high.

Without those capacity cuts, the current depressed market would have been a disaster for Detroit automakers, since they would be producing far too many vehicles. But General Motors Co. and Ford Motor Co. have been profitable this year and stand to make even more money when the market recovers.

Analysts believe that 14 million vehicles is a natural level for annual U.S. sales, based on population, the rate people scrap used cars and other factors. J.D. Power expects sales this year to be around 11.6 million, up from 10.4 million last year. Before the recession and bankruptcies, auto sales hit about 17 million, but that was partly because they were juiced by overproduction and generous incentives.

Some analysts think automakers should speed the recovery with an eye-popping — but not profit-busting — deal.

Michaeli says the biggest factor holding back sales is consumers' fear of layoffs, so he thinks automakers should offer to buy back cars if people lose their jobs.

Hyundai won customers last year by launching a bold program that did just that. The South Korean automaker's market share is up 38 percent since it began "Hyundai Assurance" in January 2009. That's proof such programs can work, Michaeli says.

Toprak thinks the government should guarantee car loans, charging buyers a small premium to cover the cost of any defaults. But so far, there's been no discussion of such a plan, or of a repeat of the $2.88 billion Cash for Clunkers program. Under that program, dealers offered customers government-funded rebates of $3,500 to $4,500 to trade in older models for new ones that got better gas mileage.

Deals are still out there on some models, and incentive spending for Asian automakers crept up this year after Toyota Motor Corp.'s safety recalls. But generally, automakers are not boosting incentives. In August 2008, GM offered an average of $4,053 per vehicle in incentives; this August, it's expected to spend

$300 less than that, according to TrueCar.

That leaves many buyers in limbo. Lori Pietryga of Ann Arbor, Mich., has a 2007 Honda CR-V with 10 months left on a four-year lease. She's considering buying a new CR-V, but only if the price is right.

Pietryga, 51, a medical equipment saleswoman, pays $450 per month. If she can get a dealer to buy out her lease and give her a CR-V for the same payment or less, she might sign the papers. But with only 40,000 miles on her current CR-V, she's able to wait if the dealers don't cooperate.

"If it's not a deal, I don't need to do it," she says. Pietryga plans to play dealers against each other to try to get a better deal.

Schuster says eventually cars will wear out and people will have to buy, regardless of the incentives. But in the meantime, he says, "it takes a while to get off the drug."

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