

# Car Dealers Fear Economy Could Scare Off Buyers

Tom Krisher, AP Auto Writer

STERLING HEIGHTS, Mich. (AP) — Jeff Swanson was in the market for a new car just a few weeks ago. Then the stock market went crazy.

So Swanson, 25, decided to keep his 10-year-old Pontiac Grand Prix for at least another year. gyrations in stocks and talk of a weakening economy rattled Swanson's confidence about taking on another payment, even though his new job running a home for mentally disabled people seems to be secure.

"Everywhere you turn, other people are saying 'Oh, I lost my job this week. I lost my job last week,'" says Swanson, who works for a non-profit that gets money from the state. "I want to be a little bit financially set in case something like that happens."

It's an increasingly common reaction among would-be car buyers that has dealers and automakers worried. In May, many believed sales would reach a healthy 13.5 million this year — halfway between their peak in 2005 and their 30-year low in 2009. Now, such forecasts seem overly optimistic. Analysts say the swoon in financial markets and economic uncertainty could reduce auto sales by a few percentage points, shrink earnings and delay hiring in an industry that has been a recent leader in job creation.

"If it keeps going this way, yes, it's going to hurt business," says Jerry Seiner, who runs a group of dealerships in the Salt Lake City area that includes General Motors, Nissan and Kia.

Any reduction in sales would be especially painful for Toyota and Honda dealers, who are just starting to restock their showrooms after months of shortages brought on by Japan's earthquake.

In a sign of how sensitive buyers have become to stock swings, showrooms are active on days the market is up, but empty when it's down, Seiner says. The Dow Jones industrial average has fallen 10 percent since July 22, with wild swings up and down along the way.

Gilbert Baldwin, 66, a retired auto worker from Ypsilanti, Mich., decided to wait for the market to stabilize before replacing his 2002 Ford Explorer. He was shopping for a new car last month, but now he's worried about higher gas and food prices and the possibility of Social Security cuts as Congress looks for ways to cut the deficit.

The lack of confidence isn't what car dealers want to hear, especially in August, usually a strong sales month as dealers clear lots of 2011 models to make room for 2012 cars and trucks. Carmakers report August sales in the U.S. on Sept. 1.

In the Washington, D.C., area, which is likely to be hit by government spending cuts,

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sales at Tammy Darvish's chain of about two-dozen dealerships fell by more than 2 percent in early August. She's worried the slow pace could continue for the rest of the month.

But dealers say sales likely won't collapse in the second half of 2011, as they did in 2009. That's because banks are lending more freely, and lease deals, which went away during the recession, are making a comeback. Also, older cars will still need to be replaced. The average age of a car in the U.S. is 10.6 years, up more than a full year from 2008, according to the research firm Polk.

Indeed, the turmoil in financial markets isn't scaring off everyone.

Jason Ashton, 38, of Shelby Township, Mich., plans to trade in his 2006 Dodge Ram pickup for a roomier SUV that will fit his wife, two kids and equipment.

"You've got to have room for the family," he says, trying to swing a deal for a Durango at Van Dyke Dodge in Warren, Mich.

But Ashton, who installs software for auto companies, will buy only if he gets a price low enough to keep his monthly payment steady. He also won't spend as much on options as in the past, forgoing leather seats, for example.

J.D. Power and Associates cut its 2011 sales forecast last week by 2 percent, to 12.6 million new cars and trucks. It cut its 2012 forecast by 3 percent, to 14.1 million. Ford Motor Co. is sticking with its sales forecast of around 13 million for the year.

"We're not getting back to what was considered normal or healthy as quickly as possible, but it's still a pretty strong progression," says Jeff Schuster, executive director of global forecasting for J.D. Power. Sales bottomed at 10.4 million in 2009.

Since that year, the U.S. auto industry has grown remarkably, adding jobs faster than the economy as a whole. The industry has added about 77,000 jobs since June of 2009. That's an increase of 12 percent, compared with a rise of 0.2 percent for the economy overall.

People looking to buy a car later this year could benefit from any reduced demand today.

Carmakers are likely to roll out sweeter deals, Schuster says, "just to keep buyers active and give them another reason to come in."

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