

## **Detroit Is Ready For Rising Gas Prices**

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DETROIT (AP) — Gas prices are spiking. But this time, Detroit is ready.

When prices soared in 2008, the city's three U.S. automakers were caught flat-footed. They didn't have competitive small cars and relied on trucks and SUVs for profits. When gas prices peaked at \$4.12 in July of that year, sales from the Big Three plummeted more than 20 percent. That same month, sales of the fuel-sipping Toyota Corolla jumped 16 percent.

Fast forward to February 2012. Overall U.S. auto sales rose 16 percent to 1.1 million last month, largely on the strength of Detroit's small cars. The annual sales pace hit 15.1 million, the best rate in four years.

This time, the Detroit Three saw a 13-percent sales increase. The difference: They have spent billions since 2008 to roll out new models such as the Dodge Dart and Chevrolet Cruze.

The timing is fortunate. Buyers are shifting to small cars again. Twenty-three percent of new-car sales were small cars in February, up from 17.9 percent in December, according to auto information site Edmunds.com.

So far, the shift isn't as dramatic as it was in 2008, when small-car sales leaped to 27 percent of the market in May as gas suddenly spiked to near \$4 per gallon. But prices have never been as high for this time of year. The price of a gallon of gas is up 46 cents this year to an average of \$3.74. Analysts say gas could hit \$4.25 by late April.

It bodes well for Detroit, which has a newfound confidence that it can weather the pain at the pump.

"We are very well positioned as a company to thrive in a world of escalating gasoline prices," Bill Ford, chairman of Ford Motor Co, told The Associated Press in a recent interview.

Sales of the Focus small car, which Ford rolled out last year, more than doubled to 23,350, making it the best February for the Focus in 12 years. The new Focus gets up to 40 mpg on the highway, seven miles per gallon better than the 2008 model. The company's sales were up 14 percent in February compared to the same month last year.

The story is the same at General Motors Co. In July 2008, Honda Motor Co. sold 12,266 Fit subcompacts, besting the Chevrolet Aveo by nearly 5,000 cars. But GM recently replaced the unappealing, underpowered Aveo with the sportier Sonic, which gets up to 40 mpg on the highway and has luxurious options like heated side

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mirrors. The company sold 8,000 Sonics in February, outselling the Honda Fit and Toyota Yaris combined.

Don Johnson, GM's U.S. sales chief, said that three years ago, just 16 percent of the cars and trucks GM sold got over 30 mpg on the highway. Now, it's close to 40 percent.

"We believe that this puts us in a very strong competitive position," Johnson said Thursday. GM's sales rose 1 percent in February.

Even Chrysler Group, whose lineup is weighted toward SUVs and big cars, will become a bigger player in the small car market this spring, when the new Dodge Dart goes on sale. In the meantime, its Fiat 500 subcompact had its best month ever in February, helping Chrysler's sales climb 40 percent.

Carl Galeana, who owns a Fiat dealership north of Detroit, said sales were flat in the first part of the month but picked up the last two weeks as gas prices jumped. Shoppers were constantly asking about the fuel economy of the 500, which can get up to 38 mpg on the highway, Galeana said.

"All of the sudden, boom! We're starting to sell Fiats," Galeana said.

Japanese carmakers are also benefitting. In 2008, they saw sales slide because they couldn't make their most efficient cars, like the Toyota Prius hybrid, quickly enough to satisfy demands. But this February, Toyota's sales rose, led by a 52-percent jump in the Prius hybrid. Honda's sales were also up, thanks to a 36-percent increase for the small Civic.

Bigger vehicles from both U.S. and Japanese automakers are also less vulnerable to gas spikes, since they get better gas mileage than they did in 2008. Ford's new Explorer SUV, which came out last year, sits lower and is more aerodynamic to save fuel. It gets up to 28 mpg on the highway; its 2008 predecessor didn't even get 20. Honda's new CR-V gets up to 31 mpg compared to 27 for the 2008 model.

But many buyers are still choosing to downsize. Dennis Beshear of Monument, Colo., recently bought a new Focus for his 100-mile round-trip commute to Denver. The advertising salesman now gets around 35 miles per gallon, up from just 21 mpg in the 2006 Nissan Murano crossover SUV he used to drive. He fills up the Focus every third day, compared with every day and a half with the Murano.

Gas prices were his main motive for buying.

"I had a feeling they were going to go up. They were just too good to be true," he said.

For automakers, there's tough competition ahead for small cars. They're trying to make them more profitable by loading them up with pricey features such as leather seats and navigation systems. As a result, prices are rising. Vehicles sold for an average of \$30,605 last month, up almost 7 percent from a year earlier, mostly due

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to more luxurious small cars, according to the TrueCar.com automotive website.

Companies that don't move fast enough in the small-car market will be hurt.

The Honda Civic, Chevrolet Cruze and Ford Focus all gained market share in the compact car segment last month, with some of the sales coming at the expense of Toyota's aging Corolla, said Jeff Schuster, senior vice president of forecasting for the LMC Automotive consulting firm. That's a very different story than 2008, when the Corolla was the runaway best-seller in the segment.

The shift to smaller cars is becoming a regular pattern. Buyers also leaned toward smaller cars at the beginning of last year, when gas prices jumped 80 cents between February and May before moderating in the summer. Last March, when gas prices reached \$3.74 per gallon, 23 percent of buyers purchased small cars. But they went back into bigger cars once gas prices eased.

Edmunds chief economist Lacey Plache said rising gas prices won't make car buyers hold off on purchases altogether. That's because they're more confident about the jobs market and because cars on U.S. roads are getting so old that they have to be replaced. She says people will simply put more emphasis on fuel economy and cut back on the miles they drive.

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