



NORTHWOOD
UNIVERSITY

Monthly Automotive Outlook

NORTHWOOD UNIVERSITY



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Introduction

As we enter the second month of 2011, the U.S. economy currently is moving in a positive direction as initial 4th quarter GDP for 2010 came in at 3.2%. We continue to be optimistic regarding the first half of 2011 based on continued strong automobile sales, the outlook for bipartisan cooperation, the extension of the Bush tax cuts, and a personal savings rate of 5.3%. We continue to be concerned about the mounting U.S. deficit, which is now greater than \$14.1 trillion and the mixed signals being sent from the Congress and The White House as to how to control the size and scope of government spending and the national debt. We are also concerned about the future value of the U.S. dollar, and the mixed signals being sent regarding future inflation by the price of oil, gold, and silver relative to CPI data.

Key December/January Data

Positive Signs

According to the latest Manufacturing ISM Report on Business, the manufacturing sector of the U.S. economy continued to grow in January as evidenced by the Purchasing Managers index which increased to 60.8%, its highest level since January, 2004. U.S. productivity remains near record levels while cash balances for non-financial based U.S. corporations is at 1.98 trillion dollars. The Dow Jones Industrial Average rose 221 points in the month of January, an increase of 1.9%, while the survey of consumers intending to purchase an automobile over the next 6 months remained positive in January. The January Conference Board Global Leading Economic Indicators report shows U.S., Europe, and China were positive, growing at 1.0%, .8%, and .5%, respectively. The U.S. savings rate continues at a strong pace, once again realizing a rate of 5.3% in January. Automobile, SUV and light truck vehicle sales were up 17.3% in January 2011,

over the same period in 2010. December and January suggest that inflation is running at an annualized rate of less than 2 percent. Pending home sales index was up 2% in December of 2010, but down 4.2% from December, 2009. The U.S. unemployment rate dropped to 9%, down .4% from December, 2010, with private sector employment increasing by 187,000 jobs from December, 2010 to January, 2011. The Conference Board report on consumer confidence showed a substantial increase of more than 7% in January.

Negative Signs

While the national unemployment rate made progress in December, falling by .4%, it still stands at a sobering 9%. The average 30-year fixed mortgage rate rose from 4.79% in December to 4.96% at the end of January, 2011. Gold surged in December but has retreated \$30.00, down to \$1340 per ounce in January, while silver increased \$1.40 from its end of December high, to close January at \$29.00 an ounce. The price movements in mortgage rates and silver, coupled with recent FED policy and the resignation of a key FED board governor gives us further reason to be concerned regarding future inflation. Unemployment benefits remain at record highs and will continue at these levels for at least the next 12 months. The U.S. dollar fell slightly against the Euro in January and saw little change against the Yen. Finally, we continue to be concerned over Egypt and the Middle East as well as the slow resolution of the U.S. mortgage crisis.

Current Issues

Cash Flow and Profits

Successful dealership managers are, by nature, profit-focused. We learn how to mix customers, products and people in the right combination to maximize profit and we hone those skills month after month. Through most of the

business cycle the ability to maximize profit is a “money” skill set. But when the business cycle changes direction, the ability to manage cash can become more important than the ability to manage profit.

A dealership that fails to earn a profit in a particular month usually gets a chance to try again next month. A dealership that runs out of cash is out of business. Game over.

Let’s examine a couple myths about cash:

1. I can sell my way out of a cash problem.

Generally not. To understand why not, think of the process of starting a dealership. Before I can sell anything, I invest cash in the store, then convert that cash to inventories. As I sell those inventories, I get some cash back, but I also create receivables (customer, rebates, warranty claims) and new inventories (trade-ins). Those receivables and inventories will eventually convert back to cash as I complete the sales cycle and, if my sales are stable, I eventually recapture my initial cash plus my gross profit (and less my expenses). If my sales rate declines, I can unwind my inventories and receivables, recapture cash and put it in the bank. But growing my sales rate means growing my investment in the non-cash part of the cycle. More inventory. More receivables. Growing my sales rate does not produce cash, it eats cash. While I can’t sell my way out of a cash problem, it’s possible to sell my way into one—a *genuine risk as sales recover from their recent slump*.

2. I can’t make money if I don’t make a profit.

Not necessarily. Operating profit is the difference between gross profit and expense. If my total gross profit last month was \$190,000 and my total expenses were \$200,000, my accountant will record that I lost \$10,000. But my expenses likely include some depreciation which is a *non-cash* expense. The assets I depreciate today were generally purchased and paid for in the past—I don’t write a check to pay for this month’s depreciation. If my total depreciation (and amortization) in this example was \$25,000, the remaining *cash expenses* of \$175,000 would have been covered by the \$190,000 gross profit. Some

managers use this analysis to get a rough assessment of cash flow and you can see it’s possible for that measure of cash flow to be positive even when profit is negative. When I bring money into the dealership faster than I pay it out, I know I’ve accomplished something important even though I haven’t satisfied an accountant’s definition of profit.

Running a dealership is challenging under any circumstances, but it becomes more so when the checkbook is dictating decisions as much as the managers. Diligent attention the cash implications of your actions can help keep management control where it belongs.

Conclusions

Those interested in more information regarding this publication can contact Dr. Timothy Nash at tnash@northwood.edu or (989) 837-4323. If you know of a student who is interested in earning a bachelor’s degree in Automotive Marketing, please contact the Texas Automotive Program Chair Steve Brazill at (972) 293-5413 or brazills@northwood.edu; the Florida Automotive Program Chair Tim Gilbert at (561) 478-5527 or gilbert@northwood.edu; the Michigan Automotive Program Chair Joe Lescota at (989) 837-4843 or lescota@northwood.edu. If you are interested in online automotive degree programs contact Kim Leach at (989) 837-4840 or leachk@northwood.edu. For information about the Automotive MBA, please contact Matt Bennett at (989) 837-4325 or mbennett@northwood.edu.

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