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Automotive Forecast 1996: An Eventful Year Ahead

By Jim Koscs

Nineteen ninety-six should see a repeat of last year's near-15 million new car sales, with continued growth in the sport-utility vehicle (SUV) and full-size pick-up truck segments, stability in minivans and family sedans, and a continuing decline of sporty cars. At the same time, more "niche" vehicles will enter the market, including car/SUV "hybrids" and some upscale roadsters from Europe. It promises to be an eventful year.

New Car Sales To Remain at 15 Million Through Decade

Last year's growing economy did not push car and light truck sales toward the 16 million mark, as some industry forecasters had initially predicted. Sales stalled in the spring and came in at _____ million (figure to be supplied to Star-Ledger by January 4). One analyst, Susan Jacobs of Jacobs & Associates in Rutherford, New Jersey, is predicting a further decline of about 200,000 units in 1996. Tom Webb, chief economist for the National Automobile Dealers Association (NADA), thinks 1996 sales will end up at the same as 1995 or just below. He told *Automotive Executive*, the NADA official magazine, that dealers can expect wide swings in month-to-month sales, however. Most carmakers and industry analysts agree that sales will hover around the 15 million mark for the remainder of the decade.

Jacobs bases her prediction on three factors: "First, the pent-up demand that drove sales up over the past few years is depleted," she says. "Second, new car prices have been rising at 2-3 times the rate of inflation for the past three years, and third, price escalation of new cars will drive more people into the used car market."

Improved quality has also contributed to the sales slow-down, according to Jacobs. "Cars are built better than they used to be. They're more reliable, so people don't feel the need to get a new one as often as in the past." Telecommuting, too, is probably taking a small toll. "If you're working at home and using your car less, it will last longer," she says.

Sport-Utility Sales Still Growing

Sales of sport-utility vehicles -- including all sizes and price segments -- will continue to grow in 1996, according to Jacobs. New "premium" models will enter the market this year, including the Acura SLX, Lexus LX450 and Mercury Mountaineer. All three are essentially rebadged and restyled versions of existing models -- the Acura is an Isuzu Trooper, the Lexus is based on the Toyota Land Cruiser and the Mercury is a more luxurious Ford Explorer.

Jacobs further predicts that production capacity will exceed demand for these vehicles over the next few years. That should put the brakes on price hikes, she says, and increase the likelihood of buyer incentives and special lease deals. John Rettie, editorial director

for J.D. Power & Associates, a Los Angeles-based marketing information firm, believes SUV sales will grow at a slower rate than they have been, but he adds that sales have not yet peaked.

Not Just For Work Anymore

Full-size pickup trucks have been gaining sales momentum rapidly, as well. Some 1.1 million were sold in 1991, and that increased to nearly 1.7 million in 1995. Ford's F-150 pickup has been the best-selling vehicle in the U.S. for 14 consecutive years -- 698,418 were sold last year. The American "Big Three" own the segment. Toyota is the only Japanese maker to offer a full-size pickup -- the T-100 -- but its sales are only a fraction of the Big Three.

Pickup truck popularity has been spurred by a broader range of available products, according to Jacobs. Extended-cabs, extra doors, more car-like interiors and amenities -- and, in the case of the Dodge Ram, more daring styling -- have spurred sales of big pickups, which were once seen only as work vehicles.

General Motors, Ford and Chrysler have all expanded production capacity to meet the increasing demand. GM, in fact, will stop making its Chevy Caprice and Impala, Buick Roadmaster and Cadillac Fleetwood so the Texas plant that builds can switch to pickup truck production. Ford will sell 1996 pickups alongside the just-introduced 1997 models until all of its plants can be switched over to build the new one.

Sales of compact pickup trucks, meanwhile, dropped in 1995 as some owners switched into SUVs or back into cars, according to Rettie. Overall, sales of SUVs and pickup trucks -- both compact and full-size -- account for about 43 percent of light vehicle sales nationwide. In some areas, that percentage is even higher. Trucks account for 60 percent of Warnock Chevrolet's business, according to General Manager Dan Eller.

Sports Cars Dying?

Sports cars were hot sellers in the 1980s, but are now disappearing. Japanese models, once the most popular, have been hardest hit. Toyota has dropped the MR2 from its U.S. line, Dodge has discontinued its Mitsubishi-built Stealth and Nissan will drop the 300ZX after this year. Mazda may replace the RX-7 with a less-expensive model. According to Jacobs, buyers for these cars disappeared when prices jumped from the low-to-mid \$20,000 range to over \$35,000.

So why did BMW just introduce its new Z3 sports car? And what do Porsche with its coming 986 "Boxster" and Mercedes-Benz with next year's SLK expect from U.S. buyers? Jacobs and Rettie believe all three will hit their annual sales targets, which are modest at about 10,000 per car. Jacobs says these roadsters are seen as lower-priced models in premium-brand families. The \$29,000 BMW Z3, she points out, is a bargain next to the \$72,000 840C coupe, the \$40,000 Porsche 986 will be some \$20,000 less than a Carrera and the Mercedes SLK will be roughly half the price of an SL500 roadster.

Rettie predicts that the SUVs -- including hybrids like the Toyota RAV4 -- will continue to siphon buyers from the sporty car segment, which includes cars like Ford Mustang, Chevrolet Camaro and Toyota Celica. He adds that the "mid-specialty" segment has been revived by three new coupes, the Chrysler Sebring, Dodge Avenger and Chevrolet Monte Carlo.

Japanese carmakers have found great success building their products in the United States for more than a decade. Now, German carmakers BMW and Mercedes, seeking to reduce production costs and build cars more attuned to American buyers, have set up factories here. BMW builds some 3-Series sedans and the new Z3 sports car in its South Carolina plant. Mercedes will complete a factory in Alabama this year, which will build a new SUV for the 1998 model year.

The Price Is Right

"New cars cost too much," is a common complaint from consumers. Some carmakers have been loading their models with more standard equipment that buyers don't necessarily want, according to Jacobs. She adds that other companies are wisely equipping their cars with "high priority" equipment like air conditioning and anti-lock brakes, and keeping things like cassette sound systems and power windows on the option list. They call this strategy "value pricing."

Warnock Chevrolet's Eller believes the strategy has been successful on cars like the Cavalier and the Lumina. "Both models are value priced, meaning they've got the standard equipment most people want at an already low price," he says. "Some people get confused between real value and 'the deal.' But if you see a car with a big rebate, it was probably priced too high to begin with."

Used Cars Upheaval

The used car market, meanwhile, is undergoing something of an upheaval. The growth of new car leasing (currently at about 30 percent of sales industry wide, according to CNW/Market Research in Bandon, Oregon) is feeding the supply of two- and three-year old cars in excellent condition. Many carmakers now offer "certified" used car programs, where these off-lease cars are reconditioned according to manufacturer guidelines, and then offered for sale or lease with extended warranties.

Perhaps more interesting is the entrance of non-automotive business entities to the used car world. Circuit City, a consumer electronics chain, has launched CarMax, used-car "superstores" with four locations so far (none in New Jersey yet). H. Wayne Huizenga, the man who took Blockbuster Video from a Dallas-based 19-store chain to 4,700 stores in 10 years, has entered the used car business with a new venture called AutoNation. Two Florida locations are planned for 1996. Carmakers are taking CarMax and AutoNation seriously -- Chrysler has even awarded a new car franchise to CarMax.