Auto industry smashed in head-on collision with collapse in income

by Anthony K. Wikrent

Retail sales of new cars for the first 10 days of November collapsed 23.1%, despite rebates of as much as $1,000 on some models, as the reality of physical economic collapse refuses to conform to the fantasies being spun by the PR myth masters of the Bush administration. The selling rate was a seasonally adjusted 5.6 million cars per year. Figures for the annual production rate have dropped every month since August, when it was 8.3 million, clearly indicating the economy's disastrous plunge. In the fourth quarter, the U.S. Big Three plan to build only 1,373,621 cars—the lowest since 1982—with top industry executives reportedly discussing even further cuts. General Motors is said to be planning to lop off fully 25% of its white-collar workforce.

Top U.S. executives are stressing the theme of "overcapacity," as a way of preparing public opinion for massive plant shutdowns and worker layoffs. U.S. automakers have already cut 50,000 jobs this year, with 15,000 lost during October alone, according to U.S. Labor Department figures. "There is substantial excess capacity—at least 20% more cars and light trucks than the consumer will demand," Harold Poling, the chairman-designate of Ford Motor Company, told the press after an awards ceremony in Washington, D.C. on Nov. 14.

Chrysler's Lee Iacocca was shown on national television Nov. 20, fretting that Chrysler may have to slash fixed costs by $1.5 billion by the end of 1990—rather than the mere $1 billion originally planned. Chrysler has already announced that it will shut down its Jefferson Avenue plant in Detroit, which produces Omni and Horizon, on Feb. 2, 1990, idling 4,000 workers, and will drop an entire work shift at its St. Louis No. 1 plant, which produces LeBaron and Daytona, eliminating another 1,900 jobs. A plant in Coleman, Wisconsin that produces wiring harnesses for engines will be shut down entirely by June, eliminating another 400 jobs. Chrysler says it will recall all the Jefferson Avenue workers when a new plant opens to produce "new, up-scale, four-wheel drive vehicles," in a year or so, but United Auto Workers Union leaders were so angered by the announced shutdown, that Iacocca dared not appear at their annual meeting, as he has for the past few years.

The *Wall Street Journal* reported Nov. 22 that GM is planning to drop 25,000 of its 101,000 white collar workers, after already cutting 40,000 since 1986. And more cuts are expected in the blue collar force, after layoff notices have already been sent to 2,500 workers at the huge Lordstown, Ohio plant, which produces Chevy Cavalier and Pontiac Sunbird, as well as full-size vans. Some 3,000 workers at the van plant in Scarborough, Ontario, and 2,200 workers at the Lakewood, Georgia plant were also given notices. GM has already idled its "model" plant at Fairfax, Kansas near Kansas City, which produces Grand Prix, laying off 3,200 hourly workers. GM is now operating at between 70 and 80% of capacity, producing 1.5 million fewer cars than it did 10 years ago.

The myth of transplants

The story being put out for public consumption is that the U.S. automakers are being hurt by factories which have been set up in the United States by Japanese auto makers, called transplants. This is blatant falsehood, intended to obscure the hard truth that the past 20 years' shift to a "post-industrial society" has so decimated real earnings of the American labor force, that the standard of living is now half of what it was 20 years ago.

The deception can be seen through by looking at the announced production targets for the fourth quarter. With sales collapsing, the Big Three plan to produce 313,923 fewer cars, while the transplants plan to produce 92,390 more cars, than last year, leaving an unmet gap of 221,533. The Big Three plan to produce 839,971 light trucks, 115,518 fewer than last year, while Nissan, the only truck transplant, plans to produce only 6,759 more light trucks this quarter, leaving another gap of 115,518. These figures show that singling out the transplants as the culprits is a complete sham. The production increases of the Japanese transplants do not even come close to filling the gap being left by the decreases of the Big Three plants. How then, to account for the gap of 337,051 cars and light trucks?

The real problem is the collapse in discretionary income of the U.S. workforce. For example, one recent study by the

TABLE 1

Retail car sales have dropped far below levels needed to replace one-eighth of the cars in use

	Total cars in use (millions)	Domestic retail sales	Import retail sales	Total retail sales	Total retail sales as % of cars in use	12.5% of total cars in use
1987	119.8	7.081	3.197	10.278	8.58	14.975
1986	117.3	8.215	3.245	11.460	9.77	14.663
1985	114.7	8.205	2.838	11.242	9.63	14.338
1984	112.0	7.942	2.439	10.390	9.28	14.000
1983	109.0	6.795	2.387	9.182	8.42	13.625
1982	106.9	5.759	2.223	7.982	7.47	13.363
1980	104.6	6.581	2.398	8.979	8.58	13.075
1975	95.2	7.050	1.587	8.640	9.08	11.900
1970	80.4	7.116	1.285	8.405	10.45	10.050
1965	68.9	8.763	.569	9.332	13.54	8.613
1960	57.0	6.142	.499	6.641	11.65	7.125
1955	47.1	7.408	.058	7.466	15.85	5.888

Source: *Statistical Abstracts of the United States*, Motor Vehicle Manufacturers Assocation.

In 1965, retail sales still surpassed a replacement rate of 12.5% (one-eighth) of cars in use. The replacement rate in 1982 was less than half *that of 1955, and even at the highest point of the 1980s did not reach 10%.*

U.S. National Bureau of Economic Research shows that from 1979 to 1987, earnings of recent high school graduates in the United States *declined* 17%, after adjusting for inflation. By comparison, earnings of recent high school graduates in Japan increased 13% during the same period.

This collapse is easily seen by comparing the three columns on the right of **Table 1.** In the 1950s and 1960s, before the insane polices of "post-industrialism" began to bloom, the U.S. labor force could afford to replace around 12.5% of the total cars in use, meaning that all cars would be replaced at least every eight years. As the shift out of real wealth-creating production began to take hold, the general labor force underwent a lawful process of impoverishment, clearly seen as the percentage of total cars replaced each year slid under 12.5% in the 1970s, and under 10% in the 1980s.

The end result is clearly seen in **Table 2**: The average age of cars in use has jumped from six years or less in the early 1970s, to 7.6 years by 1985, and the percentage of cars in use nine or more years old has more than doubled since 1970, from 15.7% to 35.6% in 1987.

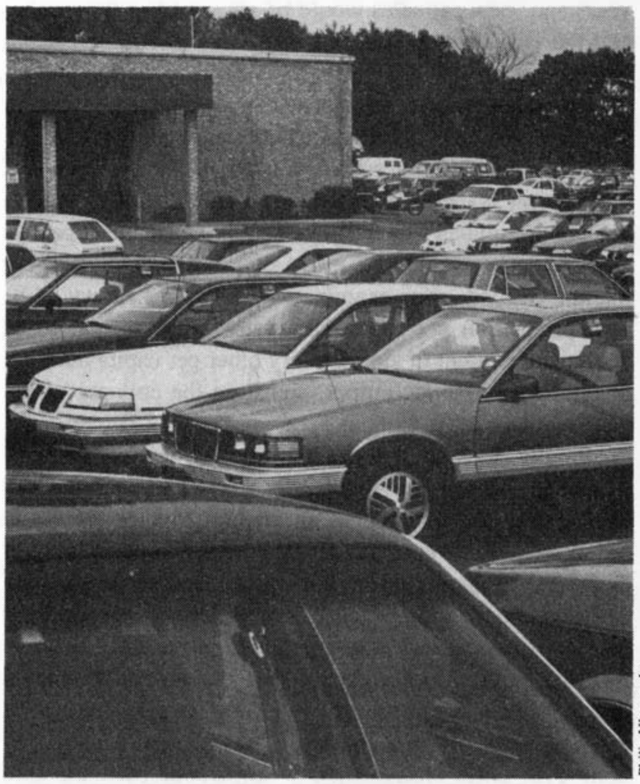
What this analysis of the aging of cars in use shows is

TABLE 2

Average age of cars in use has increased dramatically in past two decades

	Average age of cars in use	Percentage of total cars in use 9 years old or more
1987	7.6	35.6
1986	7.6	34.2
1985	7.6	33.3
1984	7.5	32.5
1983	7.4	32.9
1982	7.2	31.1
1980	6.6	25.9
1975	6.0	21.5
1970	5.6	15.7
1965	5.9	22.9

Source: *Statistical Abstracts of the United States.*



Philip Ulanowsky

If U.S. automotive manufacturers want to know why people can't afford to buy even the dwindling numbers of vehicles they produce, they ought to start by looking in the mirror.

TABLE 3
U.S. passenger car production per capita collapsed by two-thirds from mid-1960s levels

	U.S. passenger car production (millions)	Passenger car production per capita
1987	7.099	.0291
1986	7.829	.0324
1985	8.185	.0342
1984	7.773	.0328
1983	6.781	.0289
1982	5.073	.0218
1980	6.376	.0280
1975	6.717	.0311
1970	6.550	.0319
1965	9.335	.0481
1960	6.703	.0371
1955	7.950	.0479

Source: Motor Vehicle Manufacturers Association.

that there is no "overcapacity" in U.S. auto production, but rather a collapse in the ability of the American labor force to purchase new cars. This conclusion is strengthened by considering changes in new car loans: New car financing has increased from the three years of two decades ago, to five years today. If the U.S. car-buying public were replacing about 12.5% of the total cars in use each year, as it was 20 years ago, new car sales would be almost 15 million units, and the Big Three would probably have to double current production.

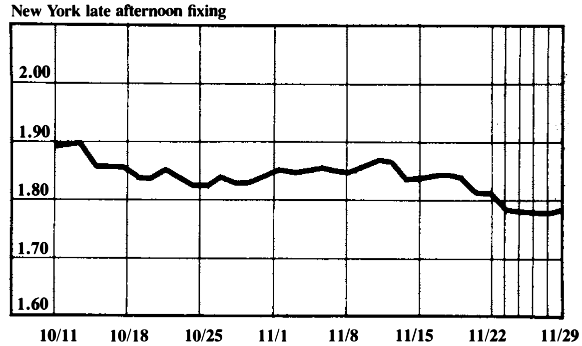
The argument that the increase in average age of cars in use reflects better built cars which last longer, does not suffice to explain this difference. On the contrary, the perception of most people is that U.S.-made cars aren't what they used to be, which explains why the more quality-conscious Japanese automakers have captured nearly a third of the U.S. new car market. Second, as an examination of **Table 3** shows, U.S. auto production per capita shows the same secular trend downward evident in almost every other per capita measure of physical economic output, signaling the collapse of the U.S. real economy.

Finally, look at what has happened to new car inventories since summer. In August, the Big Three were heavily discounting and rebating in an attempt to spur sales and reduce bloated inventories. Unsold car stocks were brought down to 59 days' sales, but at tremendous cost, with Chrysler, Ford, and GM each posting large losses on their core North American auto operations in the third quarter. And the rebates do not change the economic fundamental that the American work force is getting poorer. Inventories are now up again to a bloated 77 days' sale. Unless and until U.S. elites change their wrongheaded policies, auto retail sales will continue to reflect the reality of a breakdown crisis of the economy.

Currency Rates

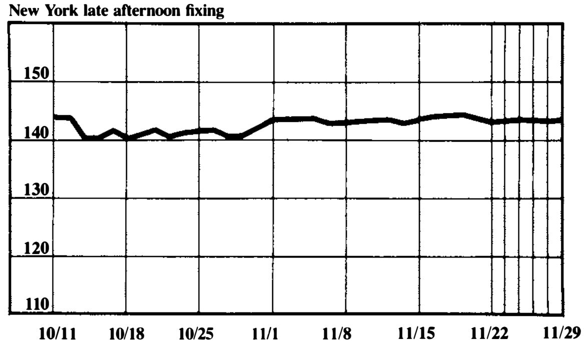
The dollar in deutschemarks

New York late afternoon fixing



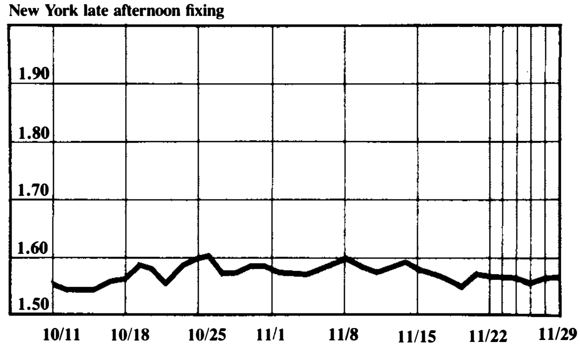
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing