Monthly Automotive Outlook

NORTHWOOD UNIVERSITY

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Introduction

At the beginning of 2011, the coming year promised to be one of growth, recovery, and progress. Now nearly half way through 2011, the U.S. economy has fallen far short of these expectations and instead a second recession is threatening the already fragile U.S. economic system. While a strong May savings rate, easing oil and gas prices, strong May light vehicle sales, and generally healthy corporate balance sheets provide us with hope of a strengthening economy, the majority of economic data paints a very pessimistic picture for the coming months. The reported 1.9% U.S. GDP growth in the 1st Quarter of 2011 is actually only .7%, as two-thirds of said growth is currently being held in inventory that has not been sold. Therefore, adjusted growth for the 1st Quarter of 2011, discounting for inventory, is a meager .25%. Gold and silver prices have been heralding the arrival of higher inflation and in May U.S. inflation jumped to 3.6%, which is its highest level since October 2008. With deficit negotiations in Washington at a near standstill, the August 2nd deadline for raising the debt ceiling seems to be approaching faster than effort to resolve it. Failure to take action would deal the U.S. economy a severe blow, with the consequences of said blow rippling across the globe. Equally as concerning is the current European debt crisis that likewise threatens global implications.

Key May/June Data

Positive Signs

U.S. productivity remains among the highest in the world while U.S. non-financial corporations' cash reserves remain at nearly $2 trillion dollars. The May Conference Board Global Leading Economic Indicators Report shows Europe and China as positive at .4% and .2% respectively, while the U.S. was down .8%. The U.S. savings rate remained strong at a notable 5.0% in May. Automobile, SUV, and light truck sales were healthy again in May. Nearly 3.5 million units have been sold during March, April, and May which is the largest three month cumulative level since the end of the Cash for Clunkers program in 2008. The U.S. dollar index increased 3.5% in May and is up roughly .5% in June. While housing starts are still very low, the index did increase to 55.6 in May which is its highest level since August 2010. After dropping 11.6% in April the pending home sales index rebounded in May, increasing 8.2%. Durable goods orders and shipments both rebounded in May increasing by 2.9% and .4% respectively, compared to May 2010.

Negative Signs

The Dow Jones Industrial Average has been on a steady decline since the beginning of May, dropping 619 points (4.8%). According to the latest manufacturing ISM Report on Business, the Manufacturing index of the U.S. economy fell to 53.5, breaking its streak of four consecutive months of being over 60.0. This is also its lowest value since September 2009. The unemployment rate was unchanged in May at 9.1%. President Obama's call for job-creation stimulus only promises to worsen the ongoing debt crisis. The U.S. remains one of the highest corporate tax rate countries in the world at an average rate of 39.27% with U.S. companies holding more than $1.2 trillion overseas as a result. Rumors of tax hikes to combat the ballooning national debt only create a bleaker outlook for the United States. Consumer Confidence fell 5.2 points in May down to 60.8, which is a six month low. Construction spending remained at rock-bottom levels in April, down nearly 10% from April 2010. While gold, oil and silver prices have eased recently, the possibility of a global inflationary cycle is still very real.

Current Issues

Fix What Your People Can't

contributed by Steve Brazill

Golfers observe that the quality of their play improves in a foursome with stronger players and declines in a round with weaker players. Free agent athletes often base signing decisions on the perceived quality of prospective

teammates in addition to the financial benefits of a contract. Most of us understand that, regardless of the endeavor, our opportunity to achieve improves when we surround ourselves with high achievers.

This principle holds in dealerships. Consider the salesperson. His (or her) opportunity to prosper is high in a showroom loaded with salespeople who create happy customers while delivering 12 to 25 units per month. Those stores put more cars on the road, create more walk-in traffic, and produce more repeats and referrals. Business begets business. But the real lift comes from something more powerful than just increased opportunity. When people work in an environment where everyone is serious about achieving, they are immersed in a learning laboratory. Every day is an opportunity to watch skilled people ply their craft, a chance to observe and learn something new and useful. Everyone is driven to continually sharpen their skills because no one wants to be the laggard on the team. This is the upward spiral of success.

In contrast, there are showrooms in which salespeople average 4 to 8 units per month and good deliveries are the result of luck rather than skill. Those stores put fewer cars on the road, create limited walk-in traffic and produce fewer repeats and referrals. Opportunity dwindles, but one thing is unchanged: Salespeople still learn from each other. In this case, instead of learning how to improve their game, they pass the day drinking coffee and smoking, blaming their shortage of sales on bad management, lack of advertising and lousy inventory. New hires learn quickly that effort and hard work is futile. This is the downward spiral of failure.

Similar scenarios can occur in every part of the dealership.

So how do you get this feature of human nature to work in your favor?

1. Recognize that just as you have expectations of your people, they expect you to be effective in your position.

2. Your people are responsible for their own performance, but their opportunity to perform can be limited by conditions beyond their control. They don't control the quality of management, advertising or inventory. If it's bad, they can't fix it. You can.

3. Your people can't control who their teammates are. You can. Hire carefully and communicate performance standards that are clear, concise and realistic. Teammates who consistently fail to perform to defined standards should be *re*trained, *re*assigned or *re*moved. Explain your high standards (unit sales, CSI, whatever) to potential new hires during the interview process, explaining that standards protect their future opportunity to achieve. If a prospective new hire is afraid of your reasonable standards, you might want to observe that before making the hiring decision.

Conclusions

The managers of professional baseball clubs are responsible for putting the best possible team on the field. They constantly review player performance and make difficult decisions about who is on the team and who is not. Those decisions are difficult, but making them is part of their job. Isn't it also part of yours?

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