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Workers on General Motors 'flex line' build automobiles in Oshawa, Ont., in this photo from June, 2011. Kevin Van Paassen/The Globe and Mail

Are hopes for the auto industry misplaced?

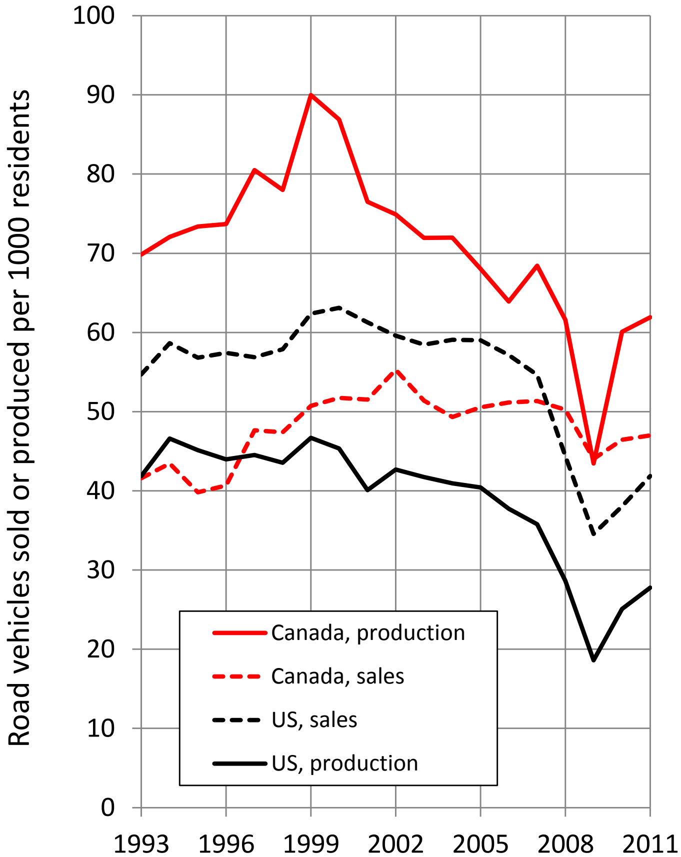
By Richard Gilbert
Globe and Mail Blog

Higher production and sales of automobiles early in 2012, compared with the same months of 2011, have infused the industry with hope that the *annus horribilis* of 2009 has been left behind.

In the United States, sales of light-duty vehicles in January and February, 2012, were up 14 per cent compared with 2011. At this rate of increase, the 2012 total could be above 14 million, a level not passed since 2007. U.S. production of light-duty vehicles appears to have increased even more. Canadian data for these months are not yet available.

The chart [on the next page] shows just how bad 2009 was for the auto industry in both the U.S. and Canada. On a per-capita basis, which is how the data in the chart are presented, U.S. vehicle production was actually lower in 2009 than in 1940-1941 and most of the years of the Great Depression of the 1930s.

The chart also shows that 2009 may have been no more than a temporary deepening of an industry slide that had begun a decade earlier. If U.S. sales do reach 14 million in 2012, some 47 vehicles will be purchased per 1,000 residents, well below the 2007 level and continuing the downward trajectory that began in 2001.



Reasons for the long-term slide in sales include increasing vehicle longevity, lower levels of driving by young people (because of rising insurance costs, graduated licensing schemes, and some disaffection with automobiles as status symbols), and aging populations that include relatively more non-driving seniors.

The new 2012 data have another feature of interest: sales of regular automobiles are up 22 per cent, while sales of the larger, gas-guzzling SUVs, passenger vans, and pick-ups are up only 6 per cent – almost certainly the result of rising gasoline prices. A differential impact on larger and smaller vehicles occurred during 2007 and 2008, when sales of larger vehicles began to fall first in response to rising gas prices. Then, as gas prices rose further, both began to fall, precipitating – by many accounts – the economic recession that followed.

Thus, we might expect that further rises in gas prices during 2012 could well reduce vehicle sales and plunge North America into renewed recession.

The chart is of particular interest from a Canadian perspective. Since 1999, Canadian production per-capita has averaged about twice the U.S. rate, and has fallen more or less with U.S. production. Canadian sales have not fallen as steeply as U.S. sales. Indeed, in 2008, Canadian sales per-capita exceeded those in the U.S. for the first time, and continue to do so.

Canadian vehicle production is largely controlled from the U.S. However, it did not suffer proportionately more than that of the U.S. during the recession of 2008-2010, perhaps the result of the participation by Canada and Ontario in the bailouts of Chrysler and General Motors.

The story could be different if there is another steep slump in vehicle production and a related recession. Then, with no prospects of further bail-outs by what are now deficit-overwhelmed governments, Canadian production could well be diverted to the U.S., for political or other reasons. A diversion would have profound consequences for the Ontario economy in particular. Are plans being developed to prevent or offset such damaging effects?

Richard Gilbert is a Toronto-based consultant who focuses on energy and transportation. His latest book is Transport Revolutions: Moving People and Freight without Oil*, written with Anthony Perl.*