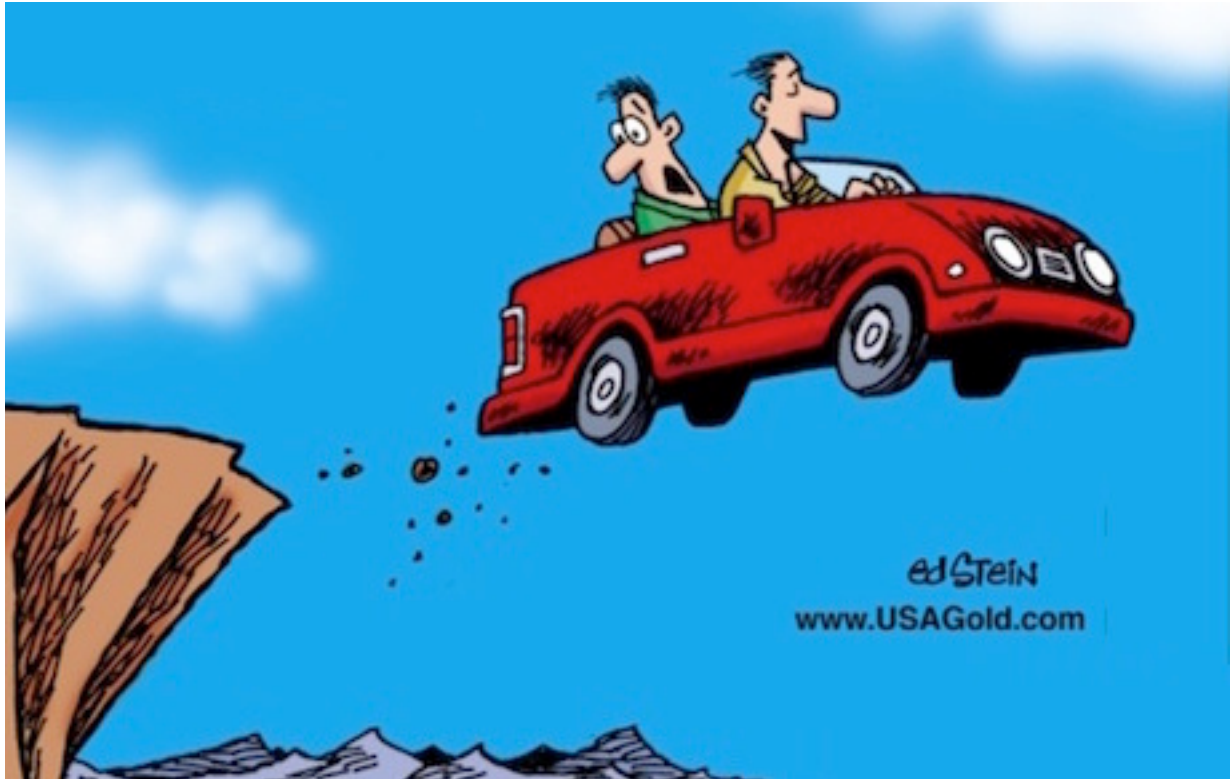




Auto Dealers Could Be Out of Trust

By John J. Pico, BA, JD

By new car showing this year, around September 2023, the auto industry should find many dealers, and perhaps a couple of manufacturers, having financial problems.

It has been over a decade and a half since the last "crisis" in the automobile business.

With the interest rates, flooring costs and consumer debt rising, and fake money and discretionary spending fading, operators will have to once again be dealers and the question will be: "Do they have the experience to operate a car dealership in a down market?"

There are a number of owners who purchased dealerships within the past two years, when the market was good and money was almost free. (In some cases, with the Paycheck Protection Program "PPP" loans, the money was free.)



Those new-bees, however, have never operated a dealership in tough times and, from all indications there will be tough times this year.

Stephanie Pomboy, founder and president of the economic research firm [MacroMavens](#) has, for two decades been analyzing financial data to forecast trends that the market does not recognize.

She foresaw the Great Recession of 2008, predicted the housing bubble's inflation before most, and warned of a coming stock market crash back in 2021.

In a May 23, 2022 interview, with ThinkAdvisors Jane Wollman Rusoff, entitled: "[The Big Economic Risk Wall Street Isn't Talking About: Stephanie Pomboy](#)," Pomboy stated:

There's the very real prospect of a profits recession. Yet nowhere on Wall Street is anyone forecasting this. It seems to be it's a no-brainer.

The relationship between [corporate] input costs and consumer prices is so integral to the outlook for the stock market.

...

And right now, the input costs have been far outpacing the ability of [corporations] to pass them on.

I'm looking at the difference between the two and seeing an implied margin squeeze for the average corporation. We've never seen a squeeze this huge other than in the 1970s.

Rusoff went on to ask:

But the consensus has been that the economy is strong. How do you reconcile that with what you're saying?

To which Pomboy responded:

One of the things the Fed and Wall Street have underestimated is the degree to which the strength of the economy that we saw in the last couple of years was entirely a function of the monetary and fiscal stimulus, which totaled roughly \$10 trillion.

We put \$10 trillion into the economy, but GDP grew only \$2.3 trillion. With inflation, you come up with \$600 billion real growth.

We agree with Pomboy that the wealth and health of the economy since the bailouts has been a deceptive wealth.

We have seen profitable dealers (dealers that would have been profitable without the PPP loans) take out millions of dollars in PPP loans that never had to be repaid. The PPP dollars were not earned dollars and, consequently, they contributed to an illusory success that, in our opinion, created a false sense of security in the economy.

(In my head I keep hearing John Denver's singing the verse: "Friends around the camp fire and everybody's high," from his song "Rocky Mountain High.")

In addition to the financial bubble in which we have been living, there is the question of the public's demand for Electric Vehicles (EVs).

I believe that Koji Sato, Toyota's new CEO has it right.

There is neither the infrastructure, nor the customer demand* to support all electric vehicles being sold en masse at this time.



Yet, most of the manufacturers have jumped with both feet, into the pond and are building EVs as though states like California reflect the country. They do not. --- What happens to all the EVs being built remains to be seen.

Mr. Sato is spot-on in his analysis of the market.

While he sees a future in EVs, it appears that he recognizes the old adage: "You crawl before you walk and you walk before you run." As a result, he is continuing Toyota's transition with hybrids and a limited number EVs.

Another advantage Toyota has is that, in the U.S., it has to build cars for half the dealers that Ford has and a quarter of the dealers that GM has.

In 2023, so far, Toyota has 1,270 dealers in 1,049 cities. Ford has 2,998, in 2,330 cities; and GM has 4,034 dealers (do not know the number of cities.)

In just five northern states (Idaho, Montana, Wyoming, North Dakota and South Dakota) GM has over 125 dealers.

How many people will buy EVs in those states? The last time I was in Fargo, I had to leave my engine running in the parking lot, while I ate dinner at a restaurant, or the battery would die.



In Wyoming, the legislature introduced a bill to outlaw EVs. Although the bill may not pass and, if passed, it may not withstand a court challenge, I believe just its introduction gives a good indication of the state's sentiment toward EVs.

Ford lost \$2 Billion last year, when the market was good; at the same time, GM's profits were down.

- Ford Motor annual net income for 2022 was \$-1.981B, a 111.04% **decline** from 2021
- General Motors annual net income for 2022 was \$8.915B, a 9.37% **decline** from 2021.

Tesla, with no dealerships and who builds cars only for people who want them, saw profits increase.

- Tesla annual net income for 2022 was \$12.583B, a 127.79% **increase** from 2021.

With the illusionary wealth dissipating, credit card debt increasing, and savings dropping, one should assume that discretionary spending will decrease correspondingly.

With discretionary spending decreasing, interest rates and debt increasing and the cost of cars increasing it is a good bet that EVs will not be as welcomed as tickets to a Talyor Swift concert. It would not even be close to such a demand.



I am not a stockbroker, but I have been consulting with dealers for 50-years, both as an attorney before I retired, and as a consultant since I retired. I value dealerships almost every day and I would like to know what the stockbrokers know that I do not know when they advise their clients to buy GM and Ford stock.



"And now round two of 'Justify It'.
We'll start with you."

They might be right; it may be a good investment.

Then again, they might be wrong. But, either way it would seem to me to be a "bet the company" kind of bet.

The game is not over, but watching it play out this year and anticipating which companies will be short of cash by September, should prove more interesting than betting on the outcome of the Super Bowl.

*See:

- [**You lose what? Ford F-150 Lightning cold-weather EV range loss, by Jill Ciminillo, December 2, 2022 and**](#)
- [**F-150 Lightning Range Complaints Growing, Particularly in Cold Weather, by Tom Quimby, Dec 15, 2022**](#)