

design. Several firms, e.g., Magna International, are also taking on assembly tasks. Whether this makes it less or more likely that assembly will move overseas remains to be seen.

### 5.1.3 *Volume*

As discussed at length in section 1.4, we anticipate a reduction in future North American sales (and production), especially in the U.S. Registrations are at an all-time high and especially very new vehicles abound after a sustained string of bumper sales years. Many industry observers rationalized the large Big 3 sales decline in the fall of 2005 as a mismatch between the gas-guzzling vehicles they produce and consumers' newly acquired taste for fuel-efficiency in the post-hurricane Katrina spike in fuel prices. It seems much more likely that the spectacular summer sales, fuelled by employee discount programs, were responsible. Over the summer, large SUVs had been the most successful market segment and the market is probably saturated<sup>66</sup>.

The increased durability of modern vehicles will make sure the current stock of vehicles will be around for quite some time. The large number of fuel-inefficient SUVs and other types of trucks sold in recent years make the fleet of second-hand vehicles less suitable for exporting to less developed economies, especially with the current high fuel price. Exporting new vehicles to keep assembly plants operating at full capacity seems also a very unlikely proposition, as discussed in section 3.5.

The large reorganizations, announced by GM on November 21, 2005 and by Ford on February 19, 2006, seem to suggest that these companies want to aggressively align their North American production capacity with their current production. Further erosion of their market share can then be used to build up some spare capacity to respond to sales opportunities. At the same time, through investments in flexibility OEMs will try to operate their existing capacity much more intensively than before.

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<sup>66</sup> The incentive to switch your purchase decision between time periods to chase after a temporary discount is clearly larger for more expensive vehicles.