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Losing bucks on clunkers

You may be better off waiting to trade in your old car

By [Jennifer Waters](#), MarketWatch

CHICAGO (MarketWatch) -- The cash-for-clunkers program has been so successful at spurring owners of older models to trade in for new cars that many of them may be unwittingly costing themselves money, auto analysts say.

Because many of the consumers who are tempted by the government's offer of up to \$4,500 on a clunker trade in don't actually qualify for the program, their presence in the market may be helping to inflate prices that will only tumble once the cash-for-clunkers program ends.

"Oftentimes people buy cars and don't know the difference between a good deal and a bad deal," said Jeremy Anwyl, chief executive of Edmunds.com. "It's perception versus reality. If the consumer believes the perception is strong enough, it overwhelms the reality."

On Friday, President Barack Obama signed into law the bill that ups the ante on the Car Allowance Rebate System by \$2 billion, an amount the government thinks can keep the program rolling until Labor Day.

Tesla charges up electric cars

Wondering what it's like to buy a luxury electric car? MarketWatch's Steve Gelsi heads to the Tesla showroom in New York City to find out.

The first \$1 billion leg of the program rang up more than 220,000 auto sales and some \$920 million in rebates in less than two weeks. Eventually the program is anticipated to take anywhere from 500,000 to 750,000 clunkers off the road.

It's also had a dramatic impact on auto sales, with many consumers who don't qualify for the program rushing out to buy new and even used cars just because they think the time is ripe for good deals, Anwyl said.

Why you might want to hold off

Alec Gutierrez, senior market analyst at Kelley Blue Book, believes the cash-for-clunkers program is creating a bubble that will burst when the dollars are all spent.

Here's his scenario: Dealers stock up on inventory and hike car prices -- what Anwyl said dealers are "supposed to do, optimize their margins" -- to keep pace with demand now.

"When cash for clunkers leaves the system, all of a sudden the demand is gone and dealers start slashing prices," Gutierrez said. "It drives the values right back down and the net effect is we end up where we started, at best."

That means those who do not qualify with a so-called clunker car may be better off waiting to trade in until later this year when they can get a better deal.

Plus, because the clunkers that do qualify and get turned in end up in the scrap yard instead of the used-car lot, that is putting a considerable dent in the market for cars priced at \$4,000 and below, squeezing out a significant segment of car buyers, what the industry refers to as "buy here, pay here," or subprime.

"A lot of these vehicles that are now deemed clunkers would've gone to dealers who specialize in the deep subprime market," said Tom Webb, chief economist at auction house Manheim.

Not everyone agrees with that sentiment. Manheim's Webb said that he believes the effect of the cash-for-clunkers program is that it is accelerating used-vehicle demand as well, boosting nearly all of the industry.

Though he believes there will be some "payback," an industry term that refers to the tumble in business after an aggressive sales promotion, he doesn't think it will be to the magnitude that the onset of 0% financing and employee discounting programs did earlier this decade.

"Any time there's a big incentive, you pull some sales forward," he said, meaning that consumers who are buying now would have purchased something in October or November anyway.

"It may not be as dramatic this time," he said. "Many of the customers you are bringing in now would not have been in the market absent this program."

Pricing pressures

Though Ford Motor Co., General Motors Co. and Chrysler Group are all considering stepping up planned output on new cars, the pullback the trio took earlier this year -- Chrysler and GM actually shut down lines and entire plants -- is putting pressure on the supply, particularly for the more fuel-efficient cars. Some dealers are rushing to auction houses to insure that there is inventory when the cash-for-clunker consumers, whether their cars qualify or not, come through the door

"The real sales spike around the cash for clunkers has pushed sales toward fuel-efficient cars," Anwyl said. The online automotive source estimates that those consumers who participated in the program now earn an average fuel efficiency of 24.3 mpg compared with the 21.8 mpg average fuel efficiency of cars purchased in May and June.

As a result, prices on all cars are going up, Anwyl said. "Everything's connected," he said. "As pricing for more fuel-efficient cars jump up, it raises the prices on less fuel-efficient cars because that demand is climbing too.

"With increased demand and decreased supply, even clunker prices are shooting up," he said.

Couple that with the rising prices on the used-car inventory that's left, and a number of consumers won't be able to find cars within their tight budget.

"There is a detrimental effect for those who can't afford anything more than a clunker," said Kelly Blue Book's Gutierrez.

It's also hurting the car-repair business, according to Barb Moran, chief executive of Moran Industries. "They're not clunkers, they're vehicles they're taking off the road that could potentially be business for those in the repair business." And they could potentially be resold to low-income consumers.

"Just because it's a clunker doesn't mean it doesn't have some intrinsic value," Gutierrez said.

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