

THE BIG 2.5 ON MAIN STREET

I've been talking about the bloat among the ranks of the American manufacturers' car dealerships in just about every post I do on the auto crisis. My premise is two-fold. First, one of the big problems the Big Two and a Half have in restoring their brands to credibility—even though the quality of their cars now matches the Japanese—is that there are too many dealerships out there given the number of cars being sold. This means that dealers have been discounting for years, cheapening the cars and leading consumers to expect deep discounts every time they buy American. This has cut into profit.

Then there's the recent credit problems that exactly parallel the credit problems of the country as a whole and the manufacturers themselves: Car dealers buy their wholesale every month using credit. So if they can't get credit, they can't get new cars to sell. And if they're stuck paying interest on a bunch of big trucks they can't sell (as happened in August), then they're paying into a black hole.

Any return to profitability for the Big Two and a Half is going to have to be accompanied by a gradual decrease in the number of dealers. But this excellent profile shows how dealers are disappearing much more rapidly than that—and with them, thousands of jobs.

Top executives of the Big Three automakers are preparing to return to Washington this week with business plans they hope will lead to a federal bailout. But any government help will probably come too late for thousands of dealers like Mr. Thomas who sell American brands.

They have been struggling for years, as Detroit's fortunes waned, but what remains of their sales is evaporating

along with consumer confidence and credit.

The National Automobile Dealers Association predicts that roughly 900 of the nation's 20,770 new-car dealers will go out of business this year, and automobile analysts say the number of failed dealerships could rise into the thousands next year.

The article puts a scale on the importance of dealerships in smaller towns for good-paying retail employment.

In October alone, 20,000 employees of auto dealerships lost their jobs nationwide, more than half of those who were newly unemployed in the retail trade, according to the Labor Department.

The auto dealers association estimates that new-car dealers produce a \$54 billion annual payroll for 1.1 million workers and **nearly 20 percent of the retail sales and sales taxes in small and large communities** alike. [my emphasis]

Read the whole article to get a sense of the further effects this has locally.

A Big Two and a Half bailout will help in one way—because it'll get credit flowing again to dealers and to consumers. But consumer spending—especially on big ticket items like cars—is down significantly. Until people are buying cars in big numbers again, dealers are going to continue to go under.

I'll be curious to see this week whether a couple of weeks back home watching dealerships struggle will help convince Congress that this crunch will affect more than just Michigan and Ohio.