

## Lack Of Credit May Hurt Parts Makers When Autos Recover

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BIRMINGHAM, Mich. (Dow Jones)--Auto parts makers may find themselves left in the lurch next year when the world's vehicle markets are expected to begin their recovery, as jittery lenders continue to shun the troubled industry.

The auto supply base, particularly in the U.S., remains largely cut off from capital funding needed to finance new vehicle programs and ramped-up production schedules, said Brad Coulter, director of turnaround firm O'Keefe & Associates.

Launching new production is capital-intensive for suppliers, which typically require millions of dollars in specialized machinery for each new vehicle program.

Banks, still hurting from the U.S. economic meltdown, are looking to lend to more stable and predictable industries. Some lenders, Coulter said, actively tout that their business strategy includes a pullback from the auto industry.

So when car makers show signs of new life, many suppliers could find it difficult to cash in. In the end, that could mean trouble for auto makers if they can't get parts necessary to build cars and trucks.

"The question is will suppliers be able to get the credit they need to ramp up when the time comes?" said Coulter, speaking at an automotive forecasting conference. "Banks right now do not want to make term loans to finance new vehicle programs."

The next five to 10 months could prove tough for the supply industry. In part, Coulter said, that's because many weaker suppliers were kept afloat artificially by the U.S. government's bailout of auto makers and suppliers.

Government funding of bankruptcies at General Motors Co. and Chrysler Group LLC allowed the companies to make all their payments to suppliers. A typical Chapter 11 scenario would have shortchanged suppliers and likely forced many out of business.

"There was no supplier bloodbath, but is that good news?" Coulter said. "From a credit market perspective, not necessarily."

The looming trouble is emerging as the overall global auto industry shows signs of recovery.

J.D. Power & Associates predicts worldwide sales will reach 63.8 million cars and trucks in 2010, a 1.4% increase from 62.9 million sales expected in 2009.

By 2011, global industry sales will return to the 70 million range seen before the economic downturn, according to J.D. Power. Production should hit 80 million cars and trucks by 2013, up from 60 million in 2003, with most of that coming from Asia.

"I don't think we're quite ready to call the heydays back," said Jeff Schuster, executive director of global forecasting for J.D. Power. "But there is improvement."

In the U.S., the firm is sticking with its forecast of 11.5 million for 2010.

Earlier Wednesday, forecasting firm CSM Worldwide predicted U.S. auto sales will hit 11.8 million next year, up from an earlier forecast of 11.2. By the fourth quarter, CSM said, sales will hit 13.5 million on an annualized selling rate. A senior analyst for the firm said the move reflects "cautious optimism" the industry is beginning a comeback.

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