



Rodney's Take

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Can Ford Make It Up in Volume?

With special interest groups to placate and billions of subsidies on offer, Ford dove headfirst into the electric vehicle (EV) pool without asking the obvious questions. Can we build them, and will people buy them? The carmaker's quarterly earnings answer both questions, and its experience should be a lesson to others.

To say that Ford had a tough quarter is an understatement. The carmaker estimates the UAW strike cost it \$1.3 billion in production, or about 80,000 vehicles, to date, and restarting the line is very expensive. Still, the company earned 30 cents per share and banked \$1.2 billion in net income, but looking under the hood shows the real pain has nothing to do with the strike.

Since Ford breaks out EV numbers, we know the carmaker produced around 21,000 vehicles and lost an average \$36,000 per car. While the company sold 14,824 Mustang Mach-E models, sales of the F150 Lightning are swirling the bowl. The company has a problem with quality, but it could be a different issue. It's possible that people want trucks that can, you know, do truck things, like pull trailers or haul things without losing half their range.

On the earnings call, Ford CFO John Lawler said that the company will delay its \$12 billion investment in EVs, including a second battery plant in Kentucky. Lawler pointed out that consumers appear reluctant to pay a premium for EVs over internal combustion engine vehicles, so the space is going through a slump. Yep, that sounds about right. We don't want to pay

more for something that gives us less (range) while we also have to mess with it consistently in the garage or driveway.

Today, we're looking for ways to spend less on cars, not more.

In September 2013, a full 10 years ago, the U.S. Bureau of Labor Statistics (BLS) New Car index stood at 145.871. This is not a price, it's an index. In January 2020, the index had gone basically nowhere, climbing a mere 1% over seven years to 147.253. Since then, the index has jumped 22%. To make it worse, this is the index of all car prices. From 2019 to 2023, the average car price paid jumped 32%. This is where inflation hits consumers between the eyes, when they shop for something that they buy infrequently.

The BLS estimates that the price of a new car makes up 4.246% of your annual budget, and used cars make up 2.715% of your budget. But we know that's not how we buy vehicles. Americans buy around 40 million vehicles each year. There are 240 million adult Americans. Many live in big cities so they don't have cars, but others trade for new ones every other year. On average, we buy a new (or new to us) vehicle every six years. Car prices started zooming to the moon in late 2020 and 2021. We still have several more years of consumers having their eyes bulge out from sticker shock before we've been through a full cycle of people replacing their current rides.

This is not to say that we won't replace our private fleet of gas-powered vehicles with electric (or even hydrogen) cars and trucks, eventually. But when we try to jam change down the throats of consumers instead of enticing them, things go badly. Tesla showed that EVs had a place in our national fleet and that given enough time and money, a car company could sell such vehicles. But Tesla did not show that EVs could gobble up 30% to 50% of our new vehicle sales in a very short time or build out a service structure that could replace the ease of the corner gas station. Plug-in hybrids would have been a much better interim step.

Maybe Ford has a plan that will get the carmaker quickly back on track. I hope it's not to make up the losses on volume. We've seen who ends up picking up the tab: taxpayers.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.