

DAIMLERCHRYSLÉ

Outlook for the Auto Industry

FTA Revenue Estimating Conference

October 10, 2005

Economic Environment

- U.S. economic growth was above trend with modest signs of slowing before Hurricane Katrina/Rita.
- The Federal Reserve was on track to raise the federal funds rate to 4.0% by year end and 4 ½ - 5% next year.
- The spike in energy prices post Katrina/Rita has caused consumer sentiment to fall sharply.
- U.S. GDP growth in 2005 is now expected to be 3.5% compared to a forecast of 3.7%. Growth in 2006, however, will benefit from Federal rebuilding efforts. The current forecast for GDP growth in 2006 is 3.7%.
- Longer term the cumulative effect of volatile and rising gas prices in each of the past three years and a barrage of news stories is causing consumers to reevaluate the importance of fuel economy.

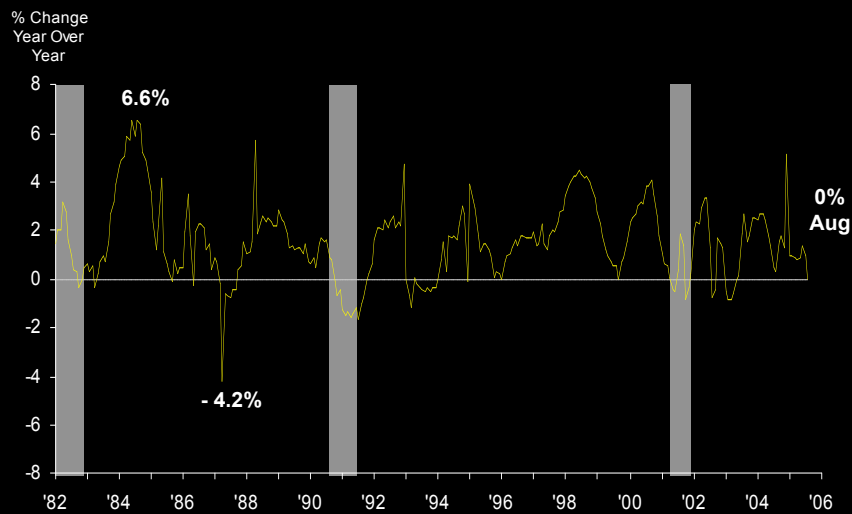
Auto Industry Leading Indicators

Ability To Buy

	<u>Aug '05*</u>	<u>Oct '05</u>
Disposable Income	Green	Yellow
Household Debt	Green	Green
Yield Curve	Green	Yellow
Inflation	<u>Green</u>	<u>Yellow</u>
Composite	Green	Yellow

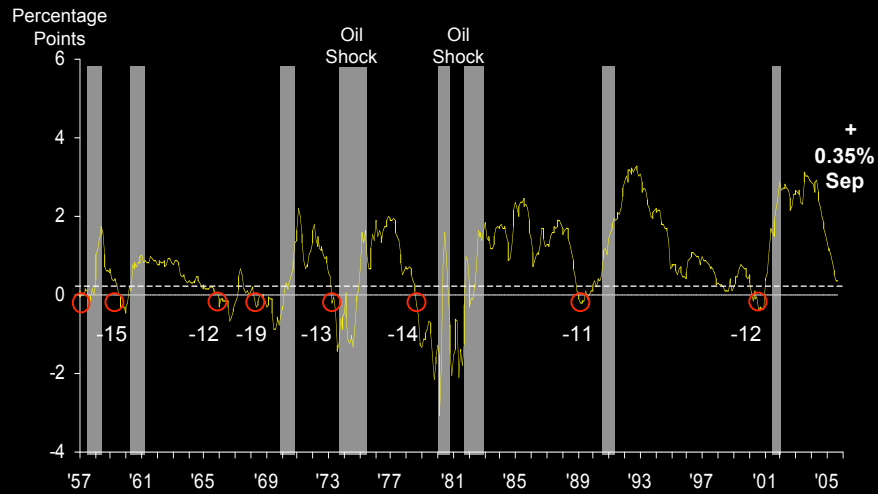
* Pre-Katrina/Rita

Real Disposable Income Per Household



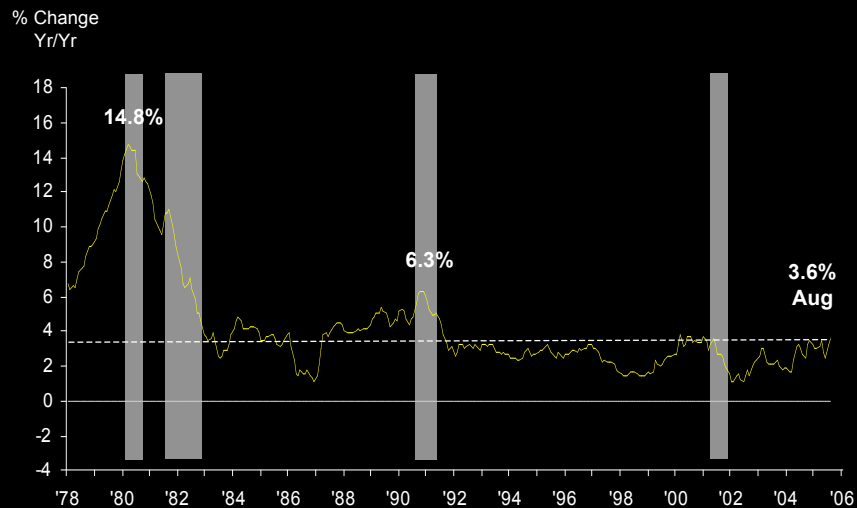
The Yield Curve and Recessions

Yield Curve: 10 Yr Minus 1 Yr Treasuries



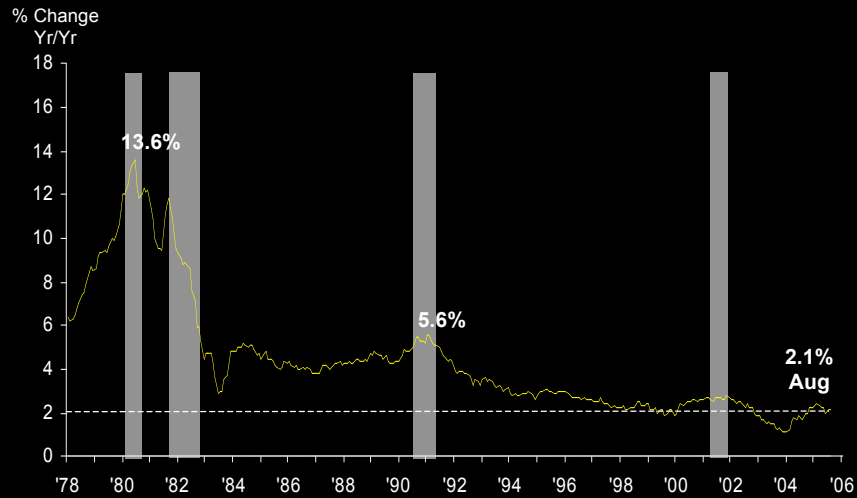
Consumer Prices

All Items, Not Seasonally Adjusted



Consumer Prices: Core Inflation

All Items Less Food & Energy, NSA



Auto Industry Leading Indicators

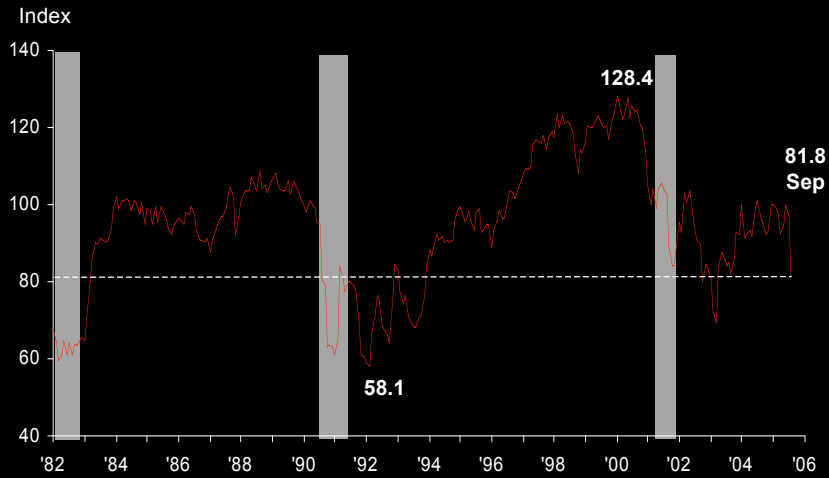
Willingness to Buy

	<u>Aug '05*</u>	<u>Oct '05</u>
Consumer Attitudes	Green	Red
Unemployment Claims	Green	Red
Workweek	Yellow	Yellow
Stock Market	<u>Green</u>	<u>Green</u>
Composite	Green	Red

* Pre-Katrina/Rita

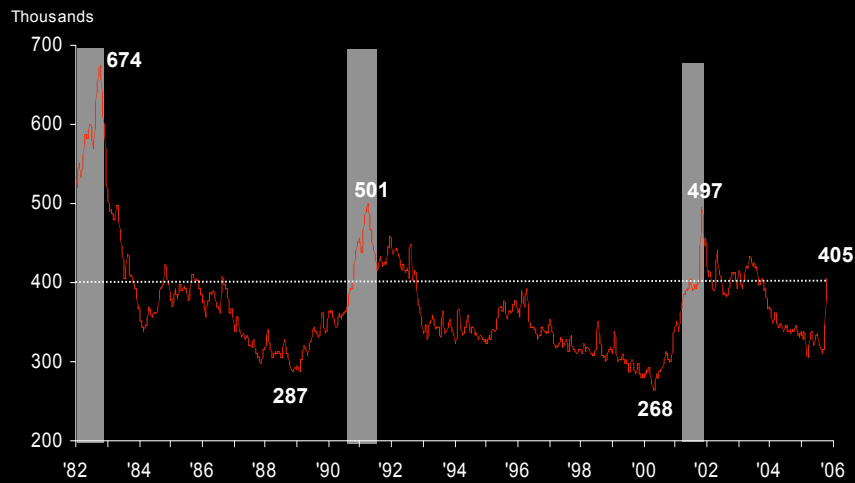
Consumer Attitudes

Average of U of M & Conference Board



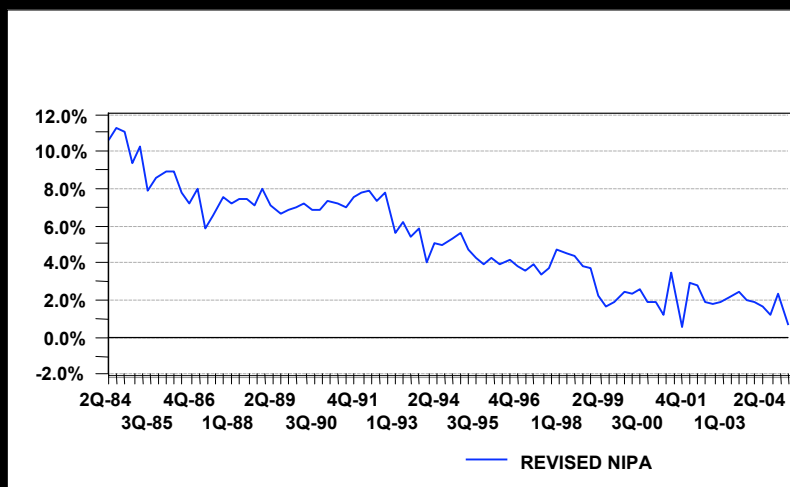
Initial Unemployment Claims

4 Week Moving Average



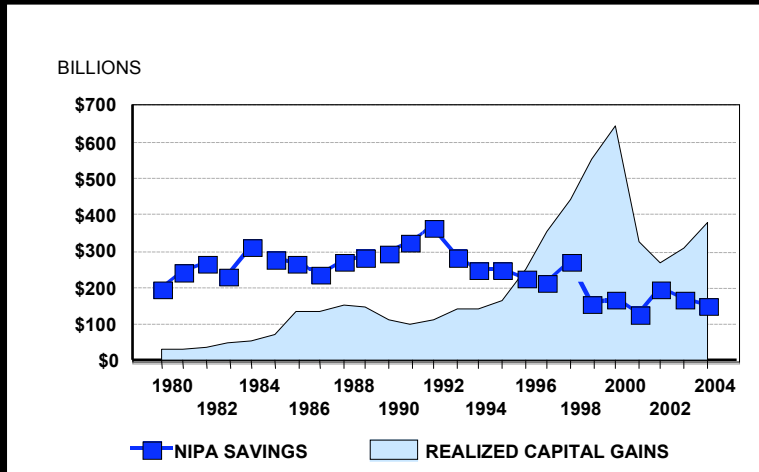
Debt

Savings Rate as Published

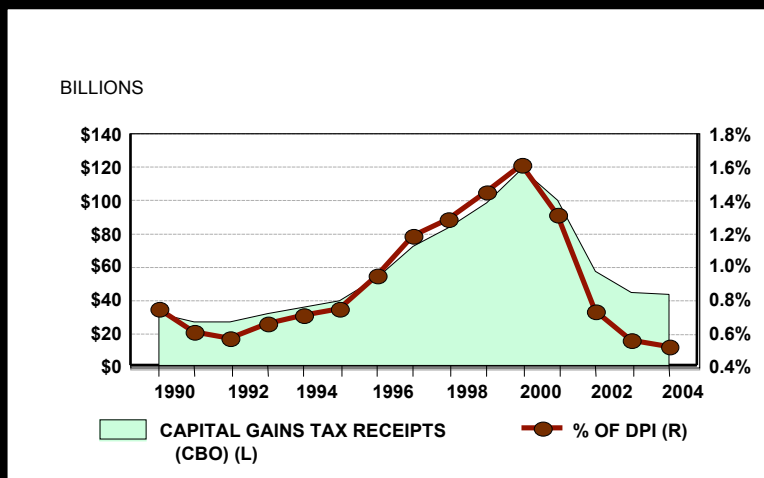


Source: Economic Analysis Associates, Inc.

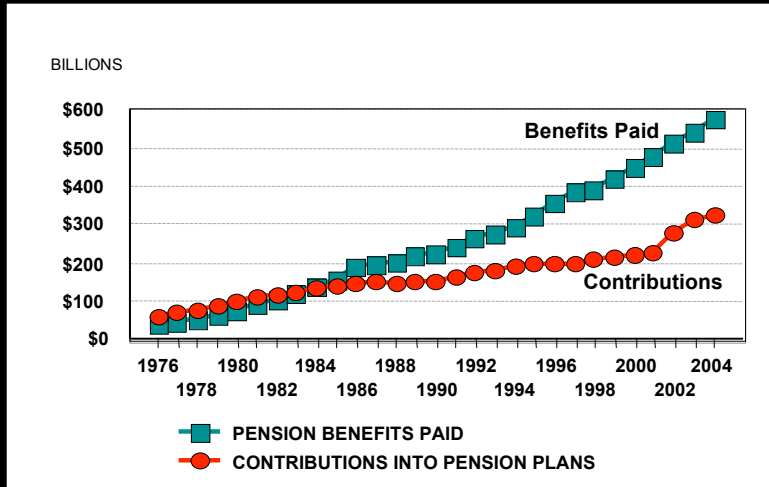
Savings & Realized Capital Gains



Capital Gains Tax Receipts excluded from Disposable Income

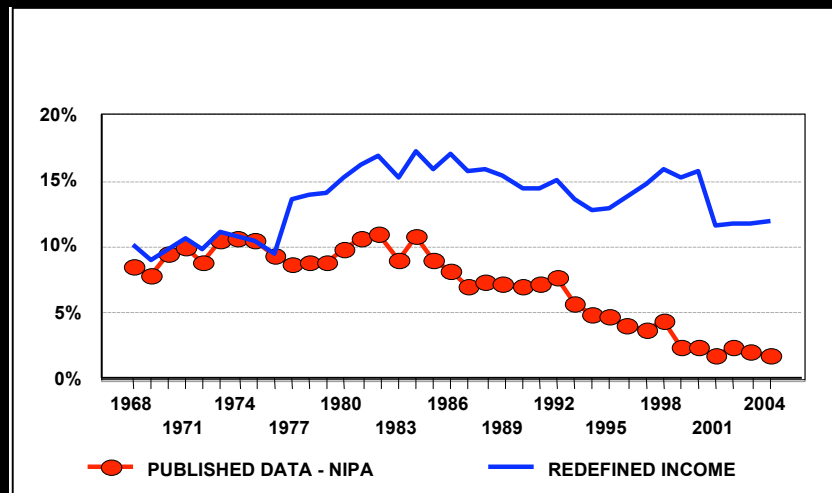


Treatment of Pensions



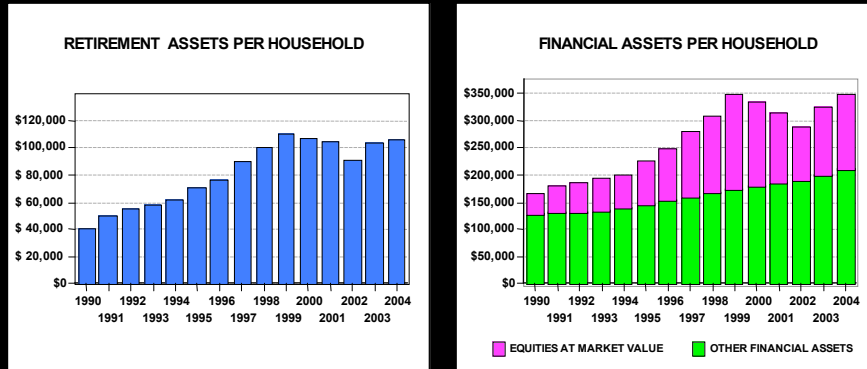
Source: Economic Analysis Associates, Inc.

Savings Rates – Two Definitions



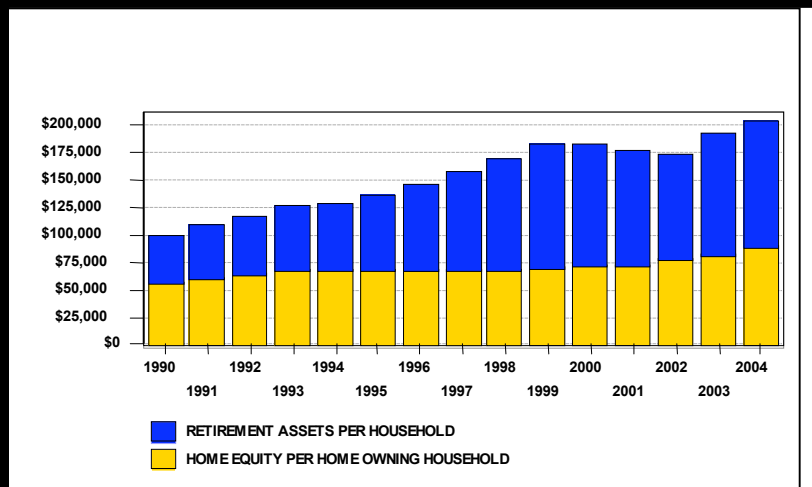
Source: Economic Analysis Associates, Inc.

Retirement & Financial Assets per Household



Source: Economic Analysis Associates, Inc.

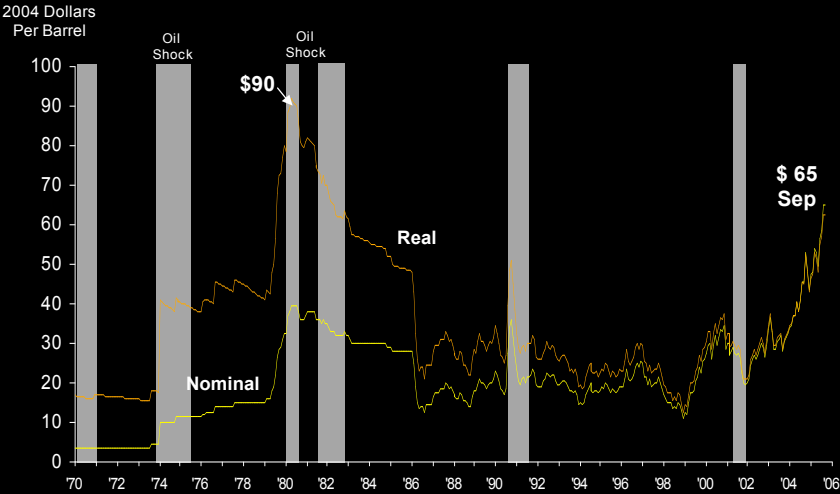
Housing Equity and Retirement Savings



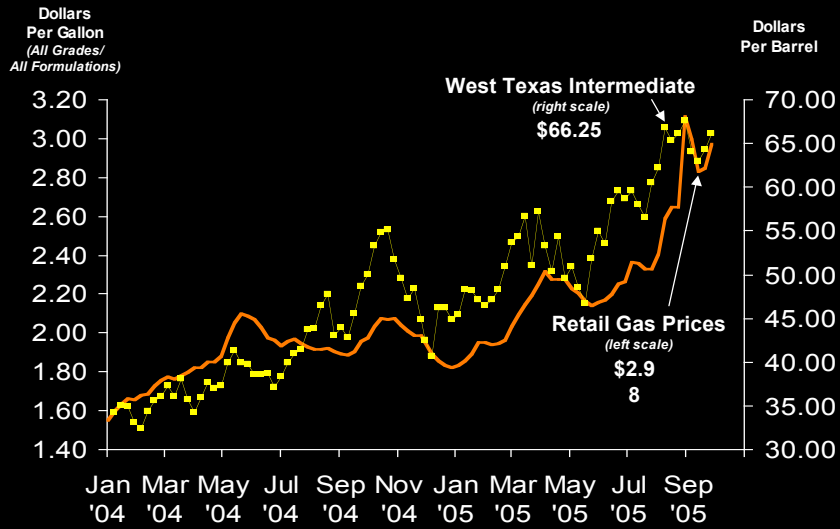
Source: Economic Analysis Associates, Inc.

Oil and Gas Prices & Vehicle Sales

Oil Prices

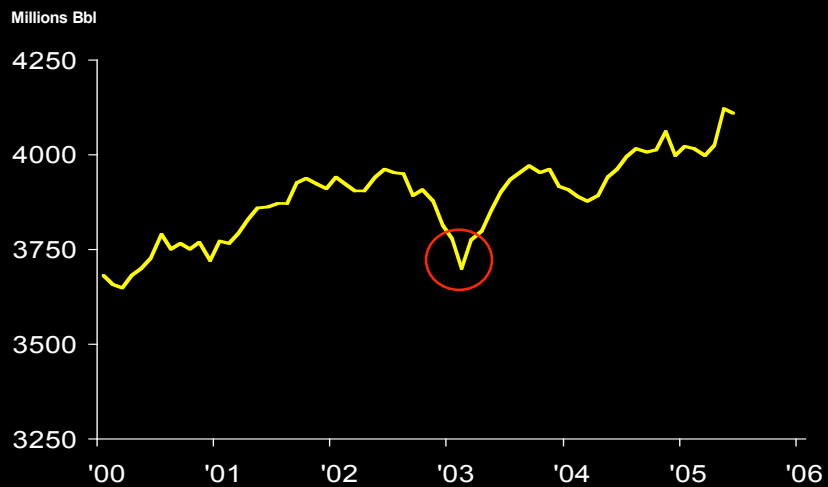


Oil & Gasoline Prices



Oil Inventories

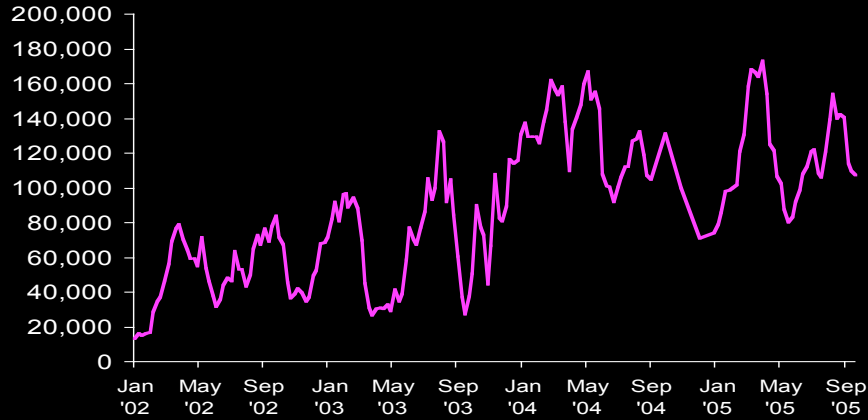
Industrialized Countries



Oil Futures Speculation

Crude Oil, Light Sweet

Non-Commercial
Long Positions
of Contracts



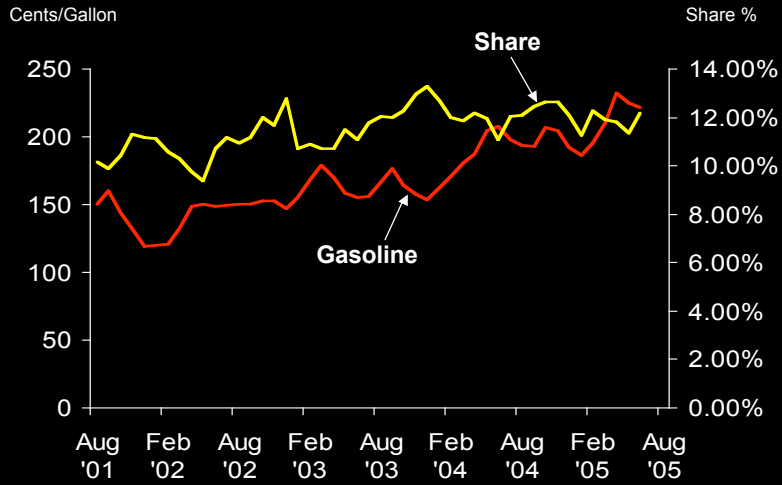
Oil Prices

West Texas Intermediate, \$/bbl

	Actual		Forecast*		
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Global Insight			58.09	59.08	49.00
Macro Advisers			55.20	68.52	66.09
PIRA			56.95	52.85	50.00
Average	31.10	41.47	56.75	60.15	55.03

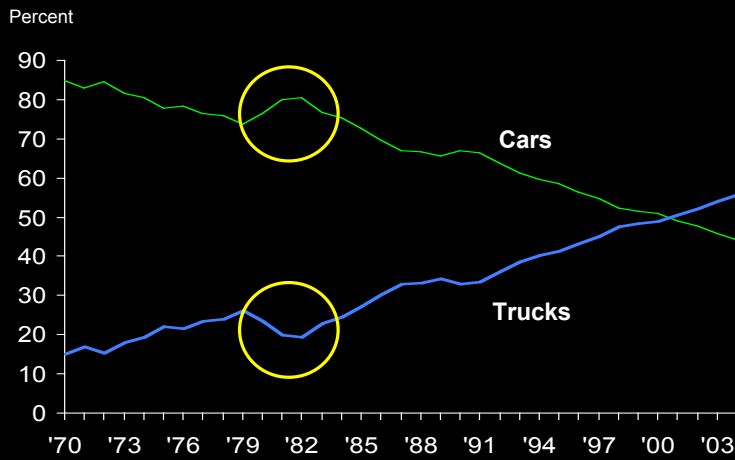
* October '05 Forecast

Full Size SUV Segment & Gas Prices Share of Industry



Car/Truck Mix

U.S. Light Vehicle Industry

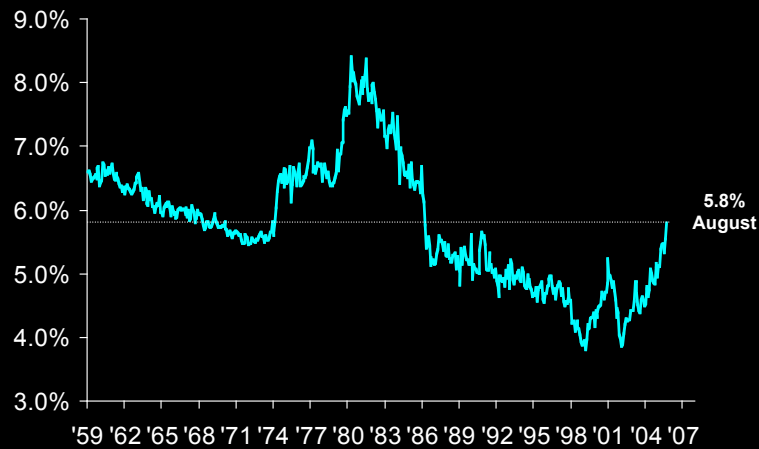


Fuel as Percent of Ownership Cost

	<u>\$2.50 / Gallon</u>	<u>\$3.50 / Gallon</u>
Compact	19.1%	24.8%
Large SUV	20.6%	26.6%
Full Size SUV	20.7%	26.7%
Minivan	20.6%	26.7%
Large Pickup	23.3%	29.8%

Consumer Spending

Energy Goods & Services



Impact of Gasoline Prices on

Sales/Mix

- Through July there was no discernable impact on industry sales mix. Cars, particularly compact and midsized cars did gain share in August at the expense of trucks, especially large SUV's and Large Pickups
- The spike in gasoline prices post Katrina has frightened consumers. This effect is likely to be temporary and only a couple of months in duration if Rita is not a repeat of Katrina. The big risk was a 1970's like supply shock with gas lines and rationing. This has not occurred.
- Fuel economy has risen in rank from the 22nd most important reason for choosing a particular vehicle in 2001 to 9th in 2005.
- Longer term the cumulative effect of volatile and rising gas prices in each of the past three years and a barrage of news stories is causing consumers to reevaluate the importance of fuel economy. This change could be long lasting if prices stay high.
- Consumers won't rush to turn in SUV's prematurely, but will alter behavior at trade-in time.

Conclusion

- Hurricanes Katrina/Rita have had a major, if temporary impact on the entire US economy.
- The impact has been both direct (employment) and indirect (energy prices).
- The spike in energy prices post Katrina/Rita has caused consumer sentiment to fall sharply.
- Consumer debt is less of a problem than the statistics imply.
- US economic growth in 2006 will benefit from Federal rebuilding efforts. The forecast for GDP growth in 2006 is 3.7% - higher than before the hurricanes.
- The effect on the auto industry could be longer term in nature as consumers reevaluate the importance of fuel economy.

Economic & Vehicle Sales Summary

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>GDP Growth</u>					
U.S.	4.2	3.4	3.5	3.7	3.3
Canada	2.8	2.7	2.9	3.0	2.9
Mexico	4.4	3.5	3.5	4.0	4.3
<u>Oil (WTI)</u>	\$42	\$58	\$56	\$50	\$45
<u>Inflation</u>					
U.S.	2.7	3.3	3.0	2.3	2.3
Canada	1.8	2.1	2.2	2.1	2.1
Mexico	4.8	4.5	4.3	4.3	4.3
<u>Vehicle Sales</u>					
U.S.	17.3	17.4	17.3	17.5	17.7
Canada	1.6	1.6	1.6	1.6	1.6
Mexico	1.1	1.1	1.1	1.2	1.3

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