

As cheap gas shifts car buyers' habits, automakers power on

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The Chevrolet Bolt EV electric concept vehicle is driven onto the stage at a presentation during the North American International Auto Show, Monday, Jan. 12, 2015, in Detroit. (AP Photo/Tony Ding)

Inside the auto show here, automakers are showing off electric and other vehicles designed to cut our dependence on fossil fuels. Outside, car buyers are paying the lowest prices in years for carbon-based fuels.

That dichotomy has the industry scrambling to sell alternative vehicles and buyers making choices that seemed impractical just a short time ago.

Some of the cars that will tease visitors to the North American International Auto Show include a new all-electric Chevrolet Bolt, hybrid and plug-in versions of the Hyundai Sonata and other vehicles aimed at easing pain at the fuel pump.

But cheap gas prices across the country, driven by a surprising plunge in oil prices, are tempting potential buyers away from the small and economical and toward comparatively more gas-guzzling trucks and SUVs. That's leading automakers to take the long view, adjust production and hope big research and development bets still pay off on better mileage to meet stricter government emissions standards. They also want to appeal to consumers, who once were anxious about high gas prices.

The plummeting pump prices—now pegged by AAA at \$2.13 per gallon on average, compared with \$3.31 a year ago—have had an "immediate impact on consumer psyche," according to Edmunds.com senior analyst Jessica Caldwell. According to the car-shopping site, SUVs and pickups outsold cars in 2014 for the first time in a decade. It helps that SUVs are now built on car rather than truck platforms and have vastly improved fuel efficiency compared with their forebears.

"People want to buy these cars and low gas prices give them the justification they need to do so," Caldwell said.

High gas prices and stricter fuel-economy rules forced the industry to improve existing gas-powered engines—and to develop new vehicles that relied less on carbon for power, or not all. Hybrids came to prominence at the turn of the millennium with the Toyota Prius. But last year sales of Prius models dropped 11.5 percent, compared with the previous year.

It's tough to predict a turnaround. The lower gas goes, the longer it will take to make the purchase pay off for a higher-priced, better-mileage

Prius instead of, say, a Corolla.

The Prius costs approximately \$4,300 more than a comparable gas-powered vehicle. Back in July, when gas was around \$3.60 a gallon, a Prius buyer could expect it to take about 8 years to recoup the extra cost in the form of gasoline savings. At current prices, the payback doesn't come for nearly 14 years.

Still, not all small cars have suffered. Caldwell says falling gas prices have given first-time buyers and others more comfort and confidence to buy a new car. Sales of the redesigned Honda Fit subcompact were up 40 percent in December, for example, while sales of the Nissan Sentra small car rose about 43 percent.

Alec Gutierrez, a senior market analyst for Kelley Blue Book, said temporarily cheap gas isn't enough to convince buyers to make extreme moves, like trading in a subcompact for a large SUV. But low prices are prompting buyers to kick the tires of something a little larger. People shopping for a small SUV like the Toyota RAV4 are now also considering the larger Toyota Highlander, for example.

Kristen Parker of Delta Township, Michigan, said her 2002 Pontiac Bonneville is on its last legs and she'll likely replace it with another sedan. But she's at least considering a smaller SUV.

"Had it been a year ago there is no way I would have looked at an SUV," said Parker, a public relations professional and mother of three whose other car is a minivan. "I thought if I can get myself into an SUV while the gas prices are lower ... I'm going to do it now."

Automakers, however, have to think longer term. General Motors CEO Mary Barra told reporters Thursday the lower gas prices won't change the automaker's strategy to push for fuel-efficiency across its lineup but

instead will adjust production to sales. And, she added, GM is prepared to make more trucks if necessary.

Caldwell said automakers learned their lesson when gas prices spiked in 2008. Many had focused more on trucks and SUVs. Most now have a complete lineup and a more flexible manufacturing process.

"It's insane for them to make a long-term strategy based on current gas prices," she said

Ford Motor Co. benefits from low gas prices now by selling more Escape and Explorer SUVs. But CEO Mark Fields says [gas prices](#) will rise again, so automakers must stay focused on fuel economy.

"This doesn't change our planning," he said. "It's really important to make sure we don't just live in the day."

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