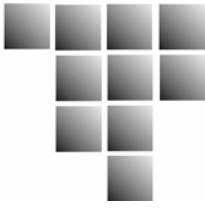


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There Really Are No Free Lunches

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Sales of new cars soared in May and June. This was a direct result of new sales promotion programs by the automakers, announcing significantly lower sticker prices.

Each automaker has their own name for their program, such as “employee discounts”, or “our price is your price” – well, you have heard them all. And lower prices have had the predictable result: higher sales. But this time the strong response to lower prices is a bit surprising, since gasoline prices have increased dramatically and are headed higher. The price cuts apparently were more powerful than the increase in gasoline prices.

Although list prices for automobiles came down significantly, it is always useful to remember that there are no free lunches. In other words, simply because the list price of a car or truck was reduced, that does not necessary translate into an all-around better deal for purchasers. In fact, unless you buy your car with cash, or get a car or truck loan from somewhere other than the dealership, the lower sticker price may not mean a lower overall cost to purchase the vehicle.

Here is how it works. The new discounted prices typically lower sticker price by about 15-20 percent. This is a substantial discount. However, it is not as big a price break as it seems, because sticker prices are typically discounted by 5-10 percent anyway. The biggest offset to the new discount pricing comes at the trade-in. Most people who purchase a new vehicle trade in an existing vehicle. The newly discounted prices caused sales to jump up, resulting in an increased supply of used vehicles. And – surprise, surprise – the dealership is no longer willing to pay as much for the trade-in. The drop in trade-in allowances range from 10-15 percent, so customers trading in an existing car when they make their new purchase are actually no better off with an employee discounted price than they were before the sales program began.

Which reminds me of the old adage in economics: there are no free lunches. The lower car prices are largely offset by the reduced trade-in allowances. The

“lower prices” really only work if you plan to pay cash and not offer a trade-in. Since the purchase of a vehicle is the second largest single purchase most people make in their lifetimes, it is important to consider this phenomenon when, or if, you are in the market for a vehicle.

This is Hank Fishkind for 90.7 FM, WMFE News.