

DAIMLERCHRYSLER

**Strategies to Succeed and
Grow in a Very Challenging
Environment**

Federal Reserve Bank of Chicago

December 2, 2005

The automotive industry remains a principal driver of the world economy

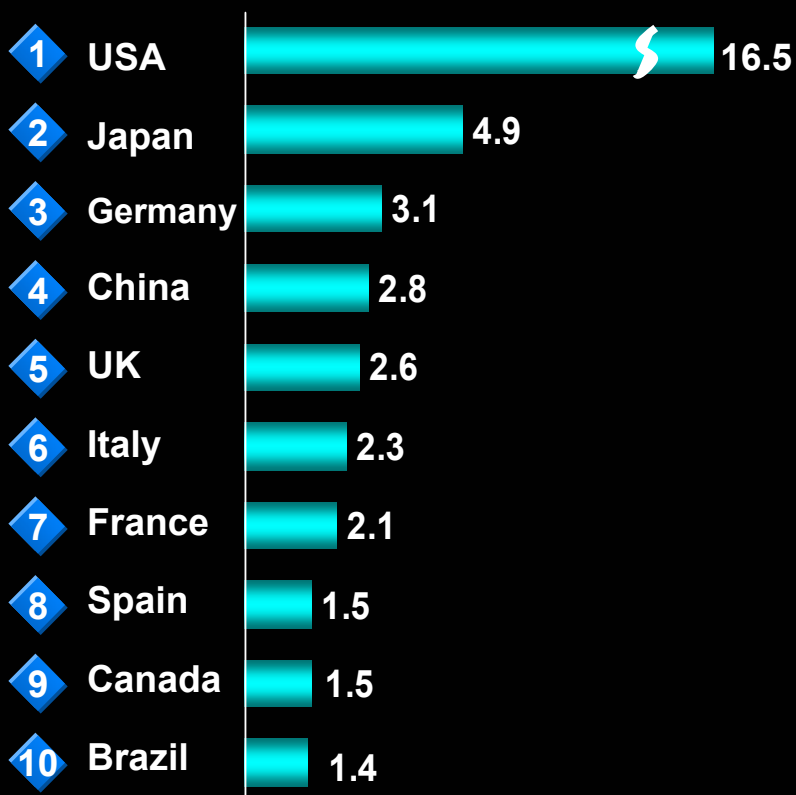
The global automotive industry

- ... regarded as a country of its own, its total annual turnover of \$2 trillion would make it the **6th largest economy** in the world.
- ... **directly employs almost 8 million people**, which is more than 5% of all those employed in manufacturing.
- ... **indirectly supports millions** more jobs.
- ... invests **\$90 billion per year in R&D**.
- ... generates a **tax revenue far in excess of \$620 bn**.

TOP 10 passenger and commercial vehicle markets 2004

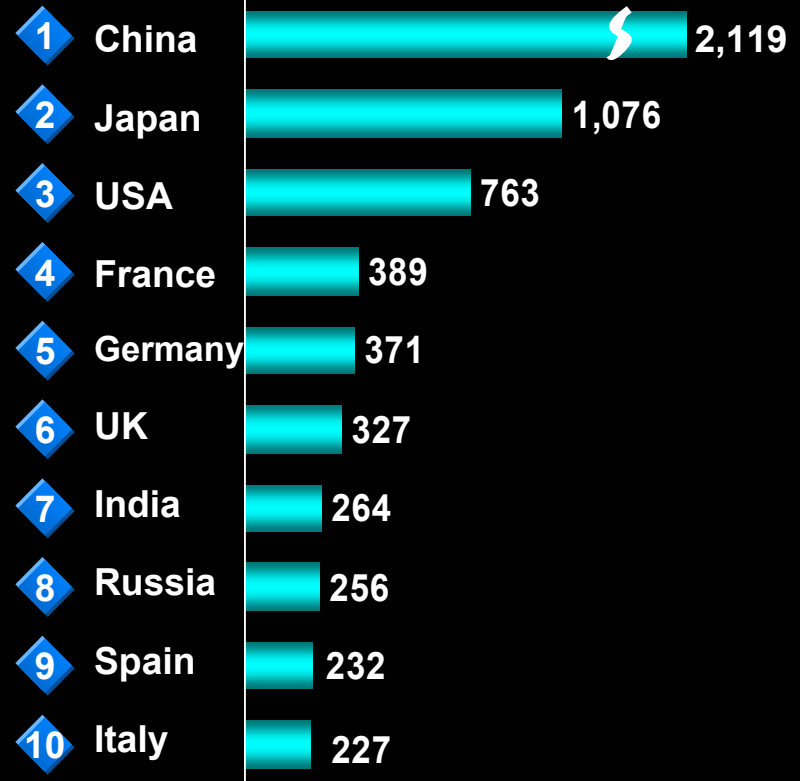
Passenger Vehicles *

Millions of Units

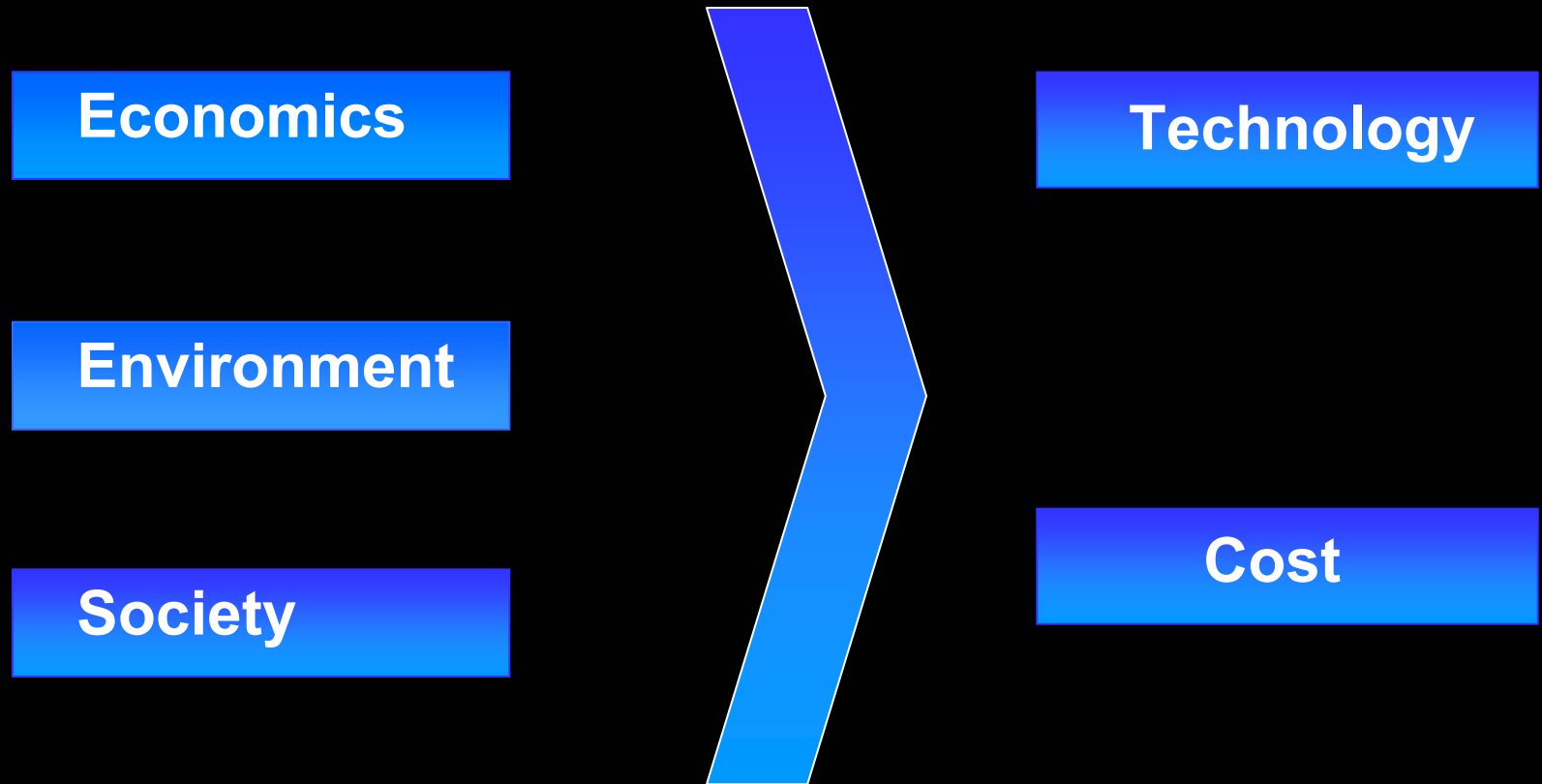


Commercial Vehicles

Thousands of Units



Future Challenges: Overview



Economic Challenges

- **Oil Prices**
- **Exchange Rates**
- **Overcapacity / Incentives**

Environmental Challenges

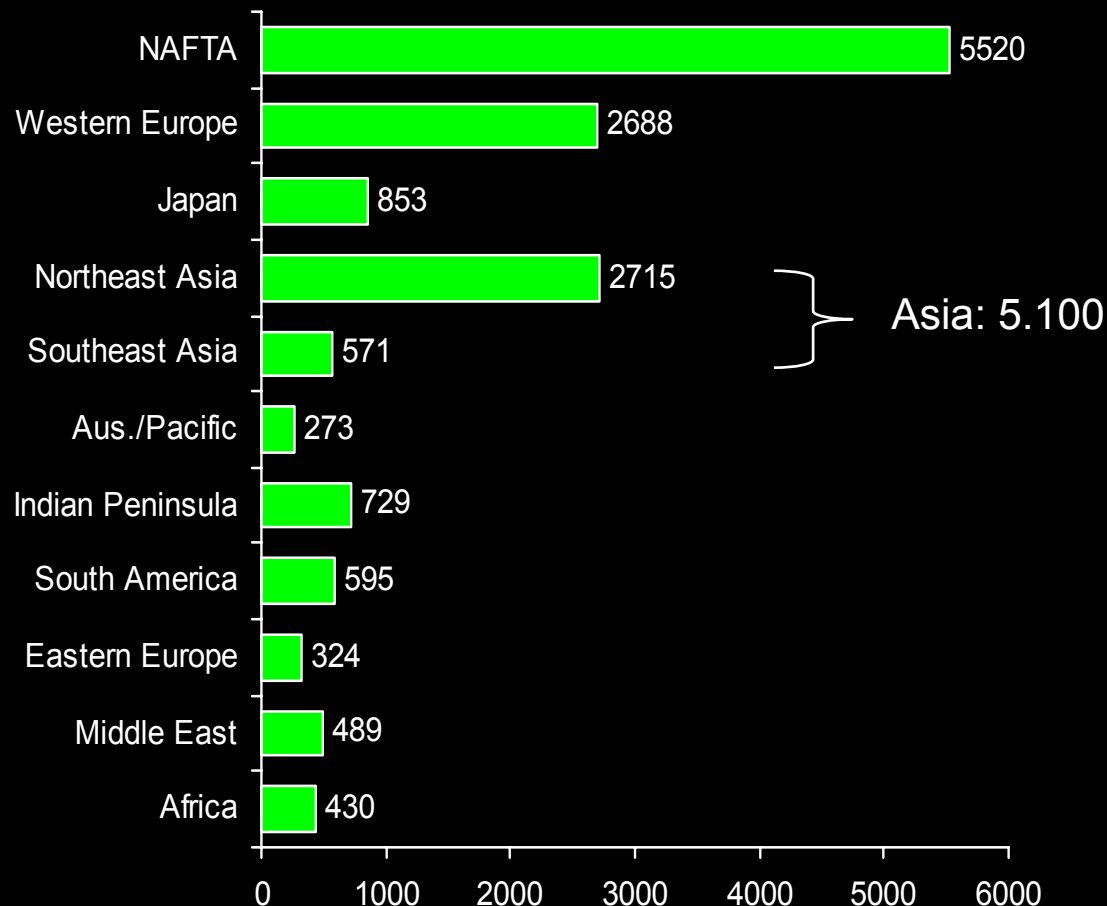
- **Emissions**
- **Fuel Economy**

Social Challenges

- **Safety**
- **Demographics and population growth**

Emerging markets increase in importance, but NAFTA continues to experience the most growth

Purchasing power increase until 2015 (in bn USD)

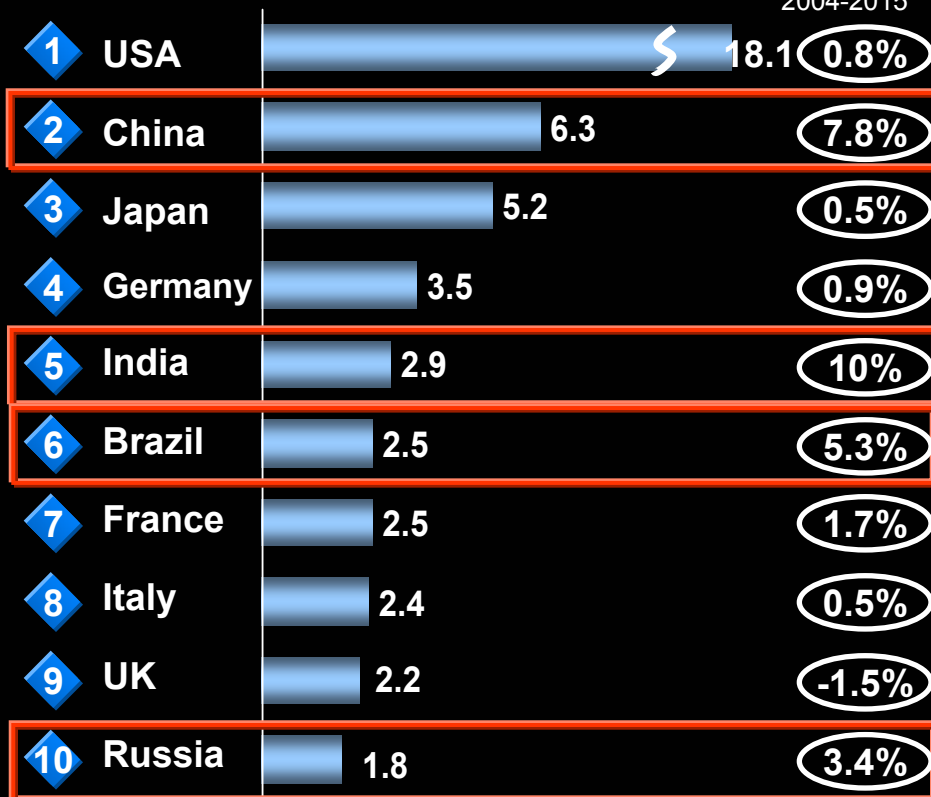


Economics: Rising importance of emerging markets

Total vehicle sales in 2015*

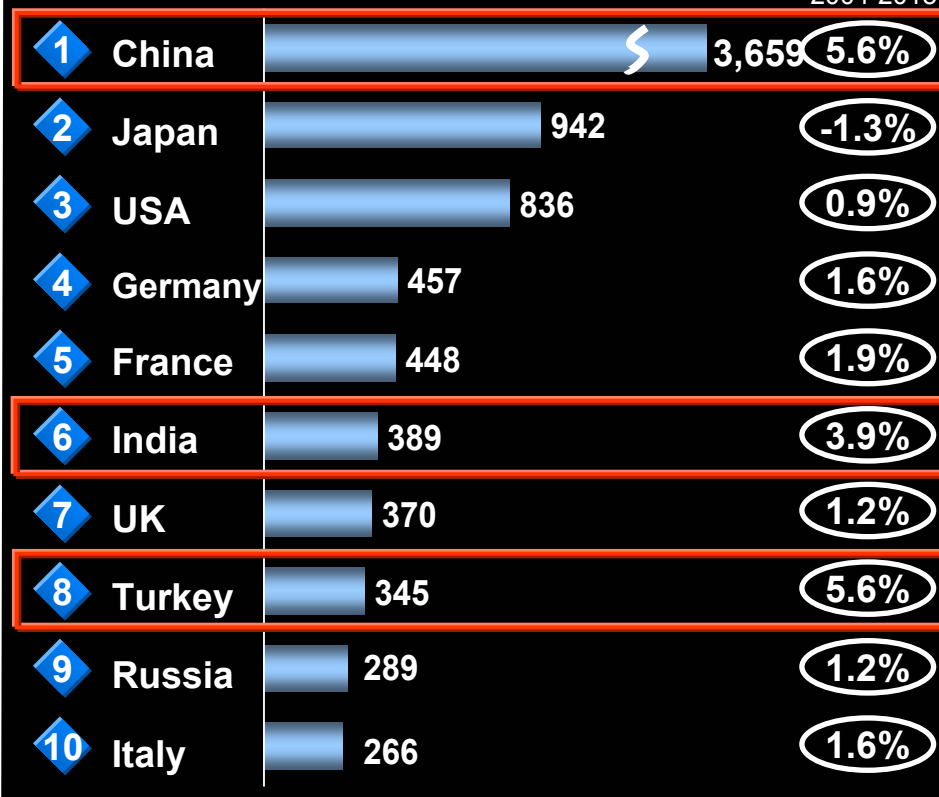
Passenger Vehicles

Annual growth rate 2004-2015



Commercial Vehicles

Annual growth rate 2004-2015



Speed Synergies between Mercedes and Chrysler

- **Leverage technological excellence**
- **Engineering capacities on both sides of Atlantic**
- **Take advantage of own huge purchasing power**

Differentiate Chrysler/Jeep/Dodge from Other Legacy OEMs

- **Product: Affordable, efficient product development plan which allows more new products and the right cadence for each segment**
 - *40% reduction in net assets since 2000*
 - *1/3 reduction in spending plans with more new products – derivatives/top hats, more flexible manufacturing plants*
 - *Distinctive, not part of the crowd, design*
- **Cost: 20% increase in productivity in last three years – goal is Toyota**
 - *MCM*
 - *Commonization of components where smart*
 - *Health care – savings accounts, prevention*

Differentiate Chrysler/Jeep/Dodge from Other Legacy OEMs

- **Quality / Customer Experience**
 - *40% reduction in warranty expense since 2000*
 - *7% per year reduction in Warranty C/100*
- **Fuel Economy**
 - *World Engine*
 - *Diesels – Fuel Cells – Hybrid Agreement*
 - *Caliber and derivatives – World Engine, CVT*
 - *Product Plan Goals*
- **Safety – Public Commitment – Side Airbags standard 2009**

Demographics – Asia is where growth is occurring

- Mercedes Benz passenger cars and vans in China
- 300C Beijing
- Minivan in Taiwan and China
- FUSO

Exchange Rates

- **Logic of merger**
- **Balance revenue and cost**
- **Pressure to end currency manipulation by China, Japan, and Korea**

Short Term Outlook

Pay Back Analysis

Million Units

	<u>Seasonally Adjusted Annual Rates</u>	
	<u>2001</u>	<u>2005</u>
Peak Month	21.6	21.3
Prior 6 MMA	16.8	17.4
% Higher 6 MMA	+ 29%	+ 22%
Average 3 Month Decline from Peak	- 20%	n/a

Average 3 Month Pay Back from Programs back to 1986 = 8%

August through October 2005 average 16.3 million units SAAR , down 23% from July

U. S. Auto Industry

2005 Likely Payback from Employee Price

- **For the year to finish at 17.4 million units would require a decline from the peak of 22% - 23%.**
 - **This means the fourth quarter could still average a SAAR rate as low as 16.1 million units.**
 - **An October SAAR of 15.3 is consistent with a 23% pay back of the July peak.**
- **Duplicating “Keep America Rolling” would have resulted in a total year of 17.6 million units or a 20% decline.**

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

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>Yellow</u>
Composite	Green	Red

* Pre-Katrina/Rita

Auto Industry Leading Indicators

Ability To Buy

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

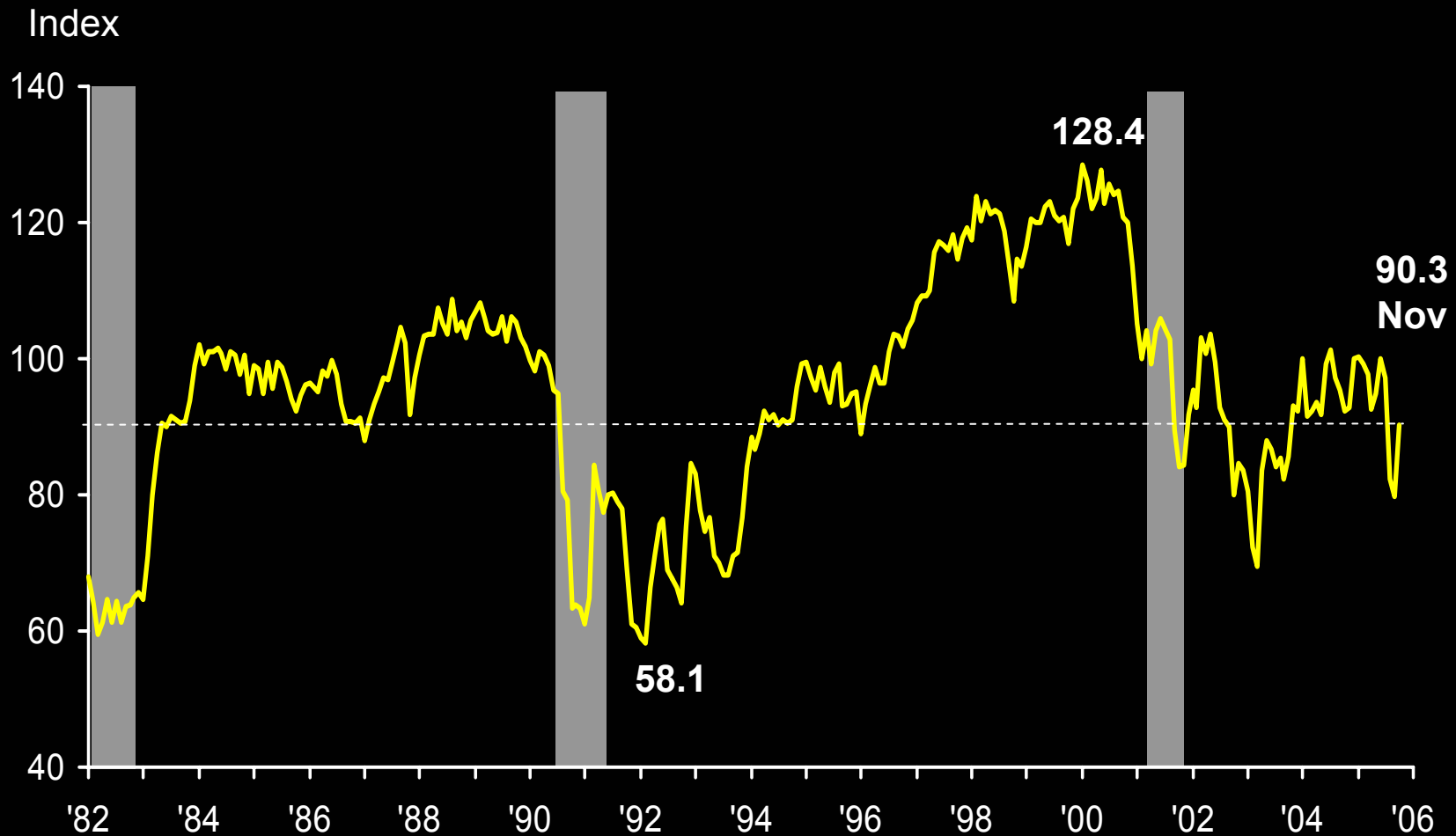
Auto Industry Leading Indicators

Willingness to Buy

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

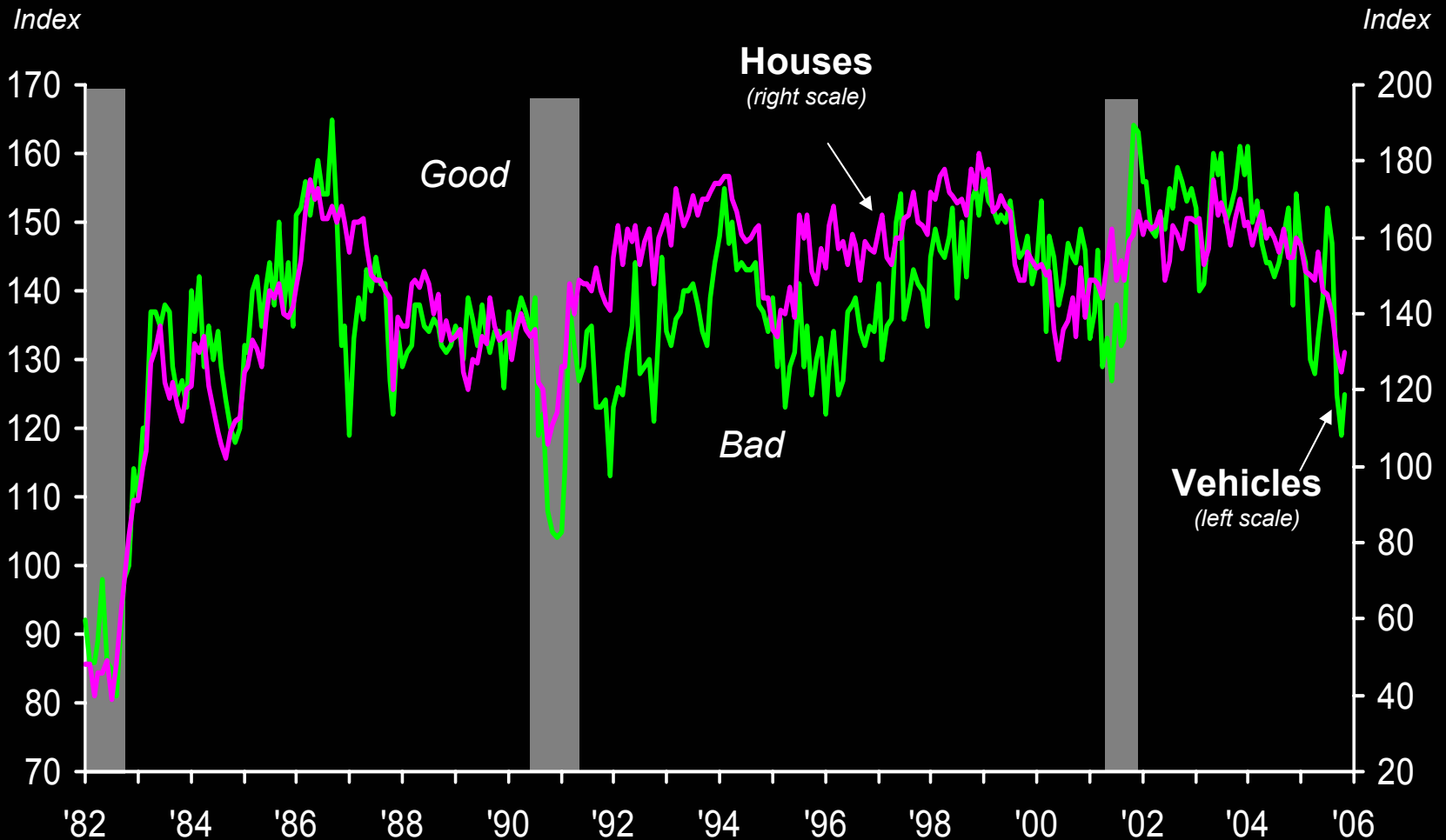
Consumer Attitudes

Average of U of M & Conference Board



Buying Conditions for Vehicles and Houses

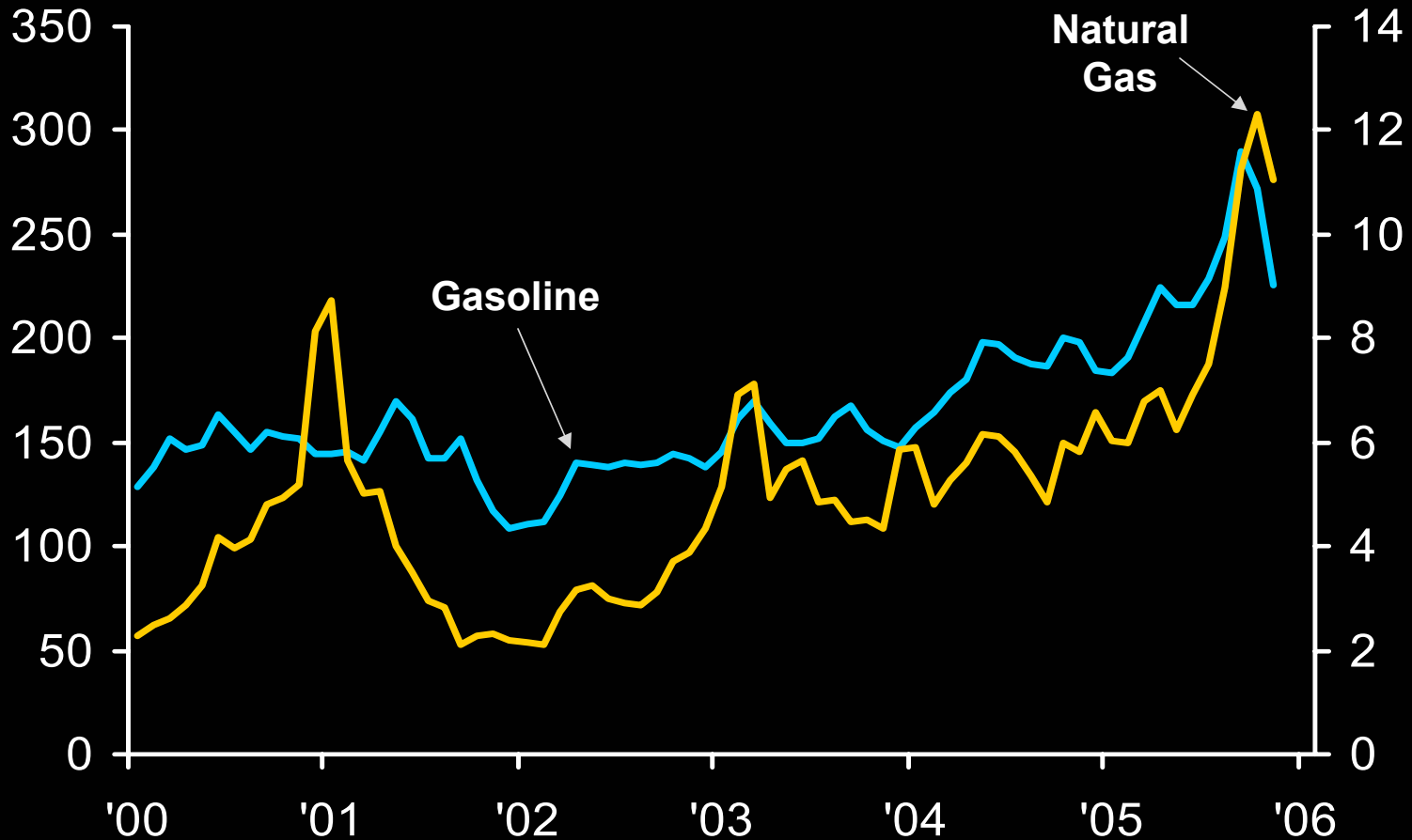
During the Next 12 Months



Gasoline & Natural Gas Prices

Regular/All Formulas
Cents/Gallon

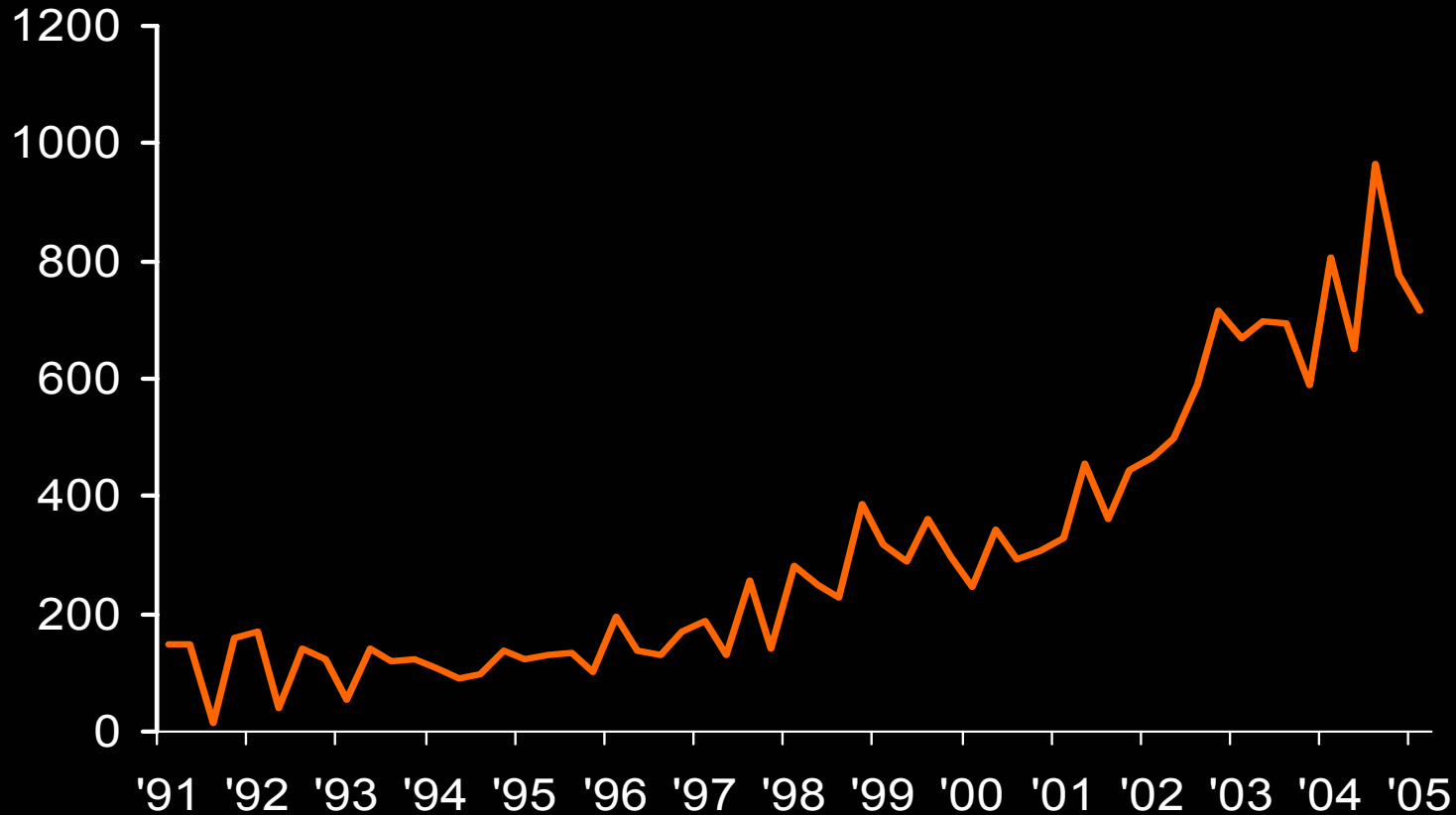
Spot Wellhead Price
\$/MMBTU



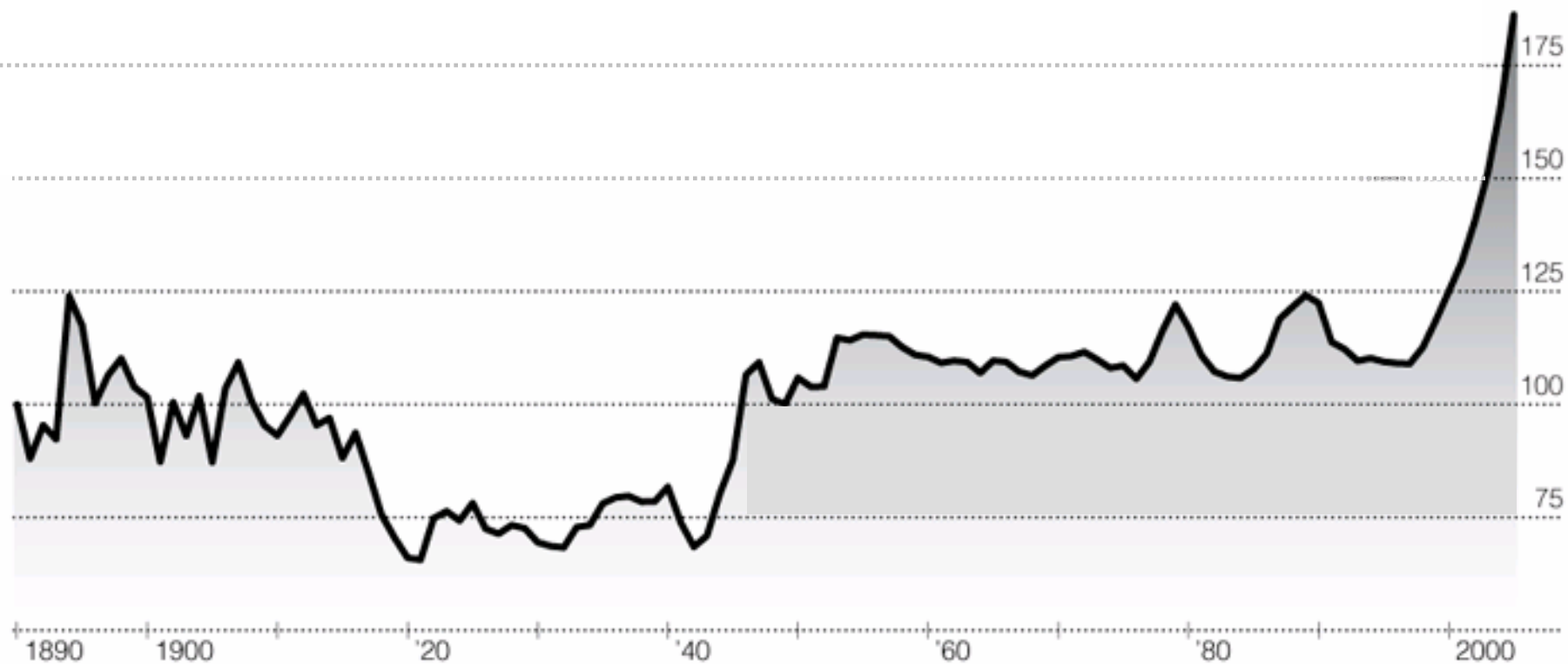
Mortgage Equity Withdrawal

“Home Equity Extraction”

Billions of Dollars



U.S. Real Housing Prices Index

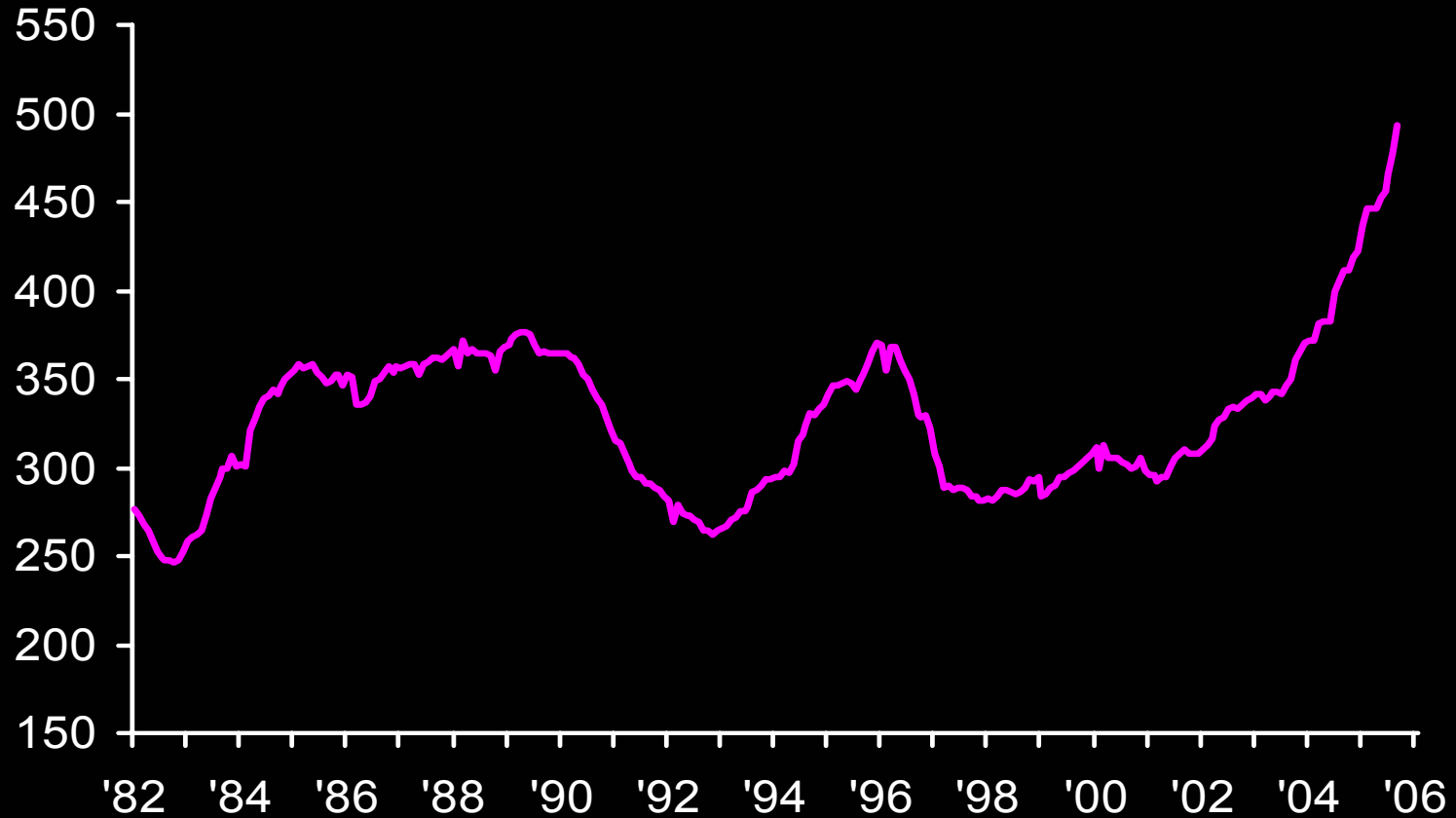


Source: "Irrational Exuberance," Robert J. Shiller

Backlog of Unsold Houses

(New Houses for Sale)

Thousands of Units



NAFTA GDP Outlook

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2005-2015</u>
U.S.	4.2	3.6	3.4	3.2
Canada	3.0	2.8	3.0	3.1
Mexico	4.4	3.9	3.5	5.0

NAFTA CPI Outlook

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2005-2015</u>
U.S.	2.7	3.6	3.5	2.2
Canada	1.8	2.3	2.3	2.0
Mexico	5.2	4.5	4.3	4.0

Auto Industry Outlook

Million Units

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2015</u>	2005-2015 Growth <u>Rate</u>
U.S.	17.3	17.4	17.3	19.0	1%
Canada	1.6	1.6	1.6	1.7	0.8%
Mexico	1.1	1.1	1.1	1.7	4%

DAIMLERCHRYSLER