

Not exactly recession-proof

Economic uncertainty and Chinese tariffs combined to dramatically curtail domestic tire shipments in 2009

By Bob Ulrich

Last year at this time, the United States was in a recession. We enter 2010 in what economists like to call an “expansionary period.” That is, the recession is over.

How do we know? Economics is not an exact science, and there is no universal definition of recession, even among economists. There are signs that seem to satisfy any definition, however.

Gross domestic product, the value of all goods and services in the U.S., rose in the third quarter of 2009, the first quarterly rise since 2008. Also, unemployment claims and the number of available houses were trending downward — positive indicators of economic recovery.

Economists seem to agree on one thing, however. Patience is required following a recession.

“Recovery is not synonymous with recovered,” says Dr. Ken Mayland, president of ClearView Economics LLC. “It’s going to take a few years to get back (what was lost).”

According to the National Bureau of Economic Research, there also may be “brief reversals in economic activity” in an expansion.

The recession was not the only event that dramatically affected the tire trade last year. The imposition of an additional

35% tariff on consumer tire imports from China suddenly made them more expensive, and directly led to a decrease in entry-level tires in the marketplace. As a result, domestic inventories at all levels were reduced.

President Barack Obama imposed the tariff on Sept. 26 based, in

part, on the recommendation of the U.S. International Trade Commission (ITC). Both the president and ITC concluded that a 215% increase in Chinese consumer tire imports from

2004-2008 caused a “market disruption” that required three years’ worth of tariffs.

The tariff, which decreases to 30% in year two and 25% in year three, was in addition to the 4% general rate of duty on radial passenger and light truck tire imports.

So for many in the tire industry, 2009 couldn’t have ended soon enough. Half of the independent tire dealers suffered double-digit drops in tire sales, according to *Modern Tire Dealer*. Nearly all of the domestic tire manufacturers recorded, at the very least, decreases in sales and, at most, net losses.

And tire suppliers and importers who were dependent on Chinese-made tires were scrambling for supply that was artificially restricted by the tariffs. (For an in-depth report

on the controversial decision, read “How our world changed in five months” in the October 2009 issue of *MTD*. The article and related news is posted on www.modern-tiredealer.com.)

Domestic replacement passenger, light

truck and truck tire shipments were down 8.3% in 2009 compared to 2008. Original equipment shipments were down 39.3%. What was a \$30.1 billion market in 2008 became a \$26.6 billion market (see Chart 1).

The good news is that we appear to have hit rock bottom. The Rubber Manufacturers Association (RMA) predicts an increase in consumer and commercial tire shipments in 2010.

Mayland says domestic light vehicle production will rise, but not to previous levels. “Consumers have not gone back to their old ways of car buying.”

As a result, they will pay to keep their vehicles in working order longer.

He adds that tire dealers also will benefit from pent-up tire demand in the near future.

MTD’s 44th annual *Facts Issue* not only analyzes what happened in our industry in 2009, but also offers some insight into what you can expect to see in 2010. We hope it will help you run your businesses more profitably.

All figures in the 15-page *Facts Section* are Modern Tire Dealer figures unless otherwise noted.

Chart 1
2009 U.S. REPLACEMENT TIRE SALES
(A \$26.6 billion industry)

Passenger tires:	\$18.0 billion
Light truck tires:	\$3.6 billion
Truck tires:	\$4.2 billion
Farm tires:	\$487 million
OTR tires:	\$326 million



More than half of all independent tire retailers reported unit sales were down by an average of 15% through three quarters of 2009.

DOMESTIC TIRE SHIPMENTS

Passenger, light truck and truck tire shipments in the U.S. were down significantly for the second consecutive year in 2009. After a 9% decrease from 2007 to 2008, shipments dropped another 13.3% last year. That's 21.1% over the last two years, or 66.7 million units.

Replacement shipments were down 14.3%, or nearly 37 million units, from 2007 to 2009. Last year, they decreased 8.3% compared to 2008.

Original equipment shipments were down 51.4%, or 29.8 million units since 2007. In 2009, they decreased 39.3%.

Here's the comparative 2008-2009 breakdown by tire type (for replacement and OE unit totals, see Chart 2).

Segment	Replacement	OE	Total units
Passenger:	down 6.6%	down 40%	down 28.6 million
Light truck:	down 13.3%	down 13.3%	down 4.4 million
Truck:	down 19.3%	down 51.1%	down 5.2 million

Overall, replacement consumer (passenger and light truck) tire shipments were down 7.5%. OE consumer shipments were down 38%.

Those are the numbers. Why are they down so much? Americans drove an estimated 7 billion more miles in 2009 versus the previous year., more than 2.9 trillion miles total.

Also, the price of gasoline averaged \$2.40 a gallon in the U.S. in 2009, compared to \$3.30 a gallon in 2008 (see sidebar). The price of diesel also dropped, from \$3.81 a gallon to \$2.46, based on the latest figures from the U.S. Energy Information Administration.

Not coincidentally, the price of oil, which broke the \$140 a barrel mark in June 2008, ended the year averaging \$71 a barrel.

According to the RMA, the decrease in shipments "reflects the difficult economic environment for automotive manufacturers over the past year, continued low consumer confidence and high unemployment."

From an OEM perspective, plant shutdowns led to a 35% year-to-year decrease in U.S. light vehicle production, to 5.5 million vehicles. U.S. light vehicle sales were down 21%, to 10.4 million vehicles; the government's "Cash for Clunkers" stimulus program accounted for 690,000 of those units.

There was no such incentive program for tires, as consumers affected by the recession chose to wear them down farther than they usually would. The subsequent pent-up demand for tires bodes well for tire dealers in the near future.

Saul Ludwig, a tire industry analyst for KeyBank Capital Markets, estimates the replacement and OE consumer tire markets will grow 2.6% and 10.7%, respectively, in 2010. Medium/heavy truck tire shipments will increase 5.5% at the replacement level, and 16.6% at the OE level. Combined, the four segments will total 267 million units.

"Of course, the price of oil is critical," he says. "Any surge back to the \$100 a barrel level would put all of my projections in jeopardy."

Projecting long-term replacement demand is more predictable, according to Ludwig. A recent study by KeyBank Capital Markets estimates consumer tire shipments will grow 3.5% a year over the next four years.

"Forecasting short-term replacement tire demand is a very complex task because several factors determine how many tires are sold during any given year," says the study, co-authored by Ludwig, Eric Swanson and Ivan Marcuse. "Replacement tire sales are a function of total tire miles required by vehicle owners versus tire miles provided by the tire manufacturers. In the long term, tire miles provided will approximate the miles required."

The RMA, which estimates total tire shipments in 2009 totaled 245.4 million units, also predicts overall shipments will increase nearly 6% to the 260 million unit level in 2010, based on research from its Tire Market Analysis Committee.

"Vehicle miles traveled is on par with 2008 levels as the domestic economic conditions for both the consumer and commercial sectors appears to have stabilized and are poised for a rebound in 2010," says the association.

Chart 2 DOMESTIC UNITS SHIPPED (in millions)		
Year	Replacement	OE
PASSENGER TIRES		
2009	182.0	23.4
2008	195.0	39.0
2007	205.0	48.0
2006	199.1	49.0
2005	205.8	53.0
LIGHT TRUCK TIRES		
2009	26.0	2.6
2008	30.0	3.0
2007	35.7	4.9
2006	35.0	5.2
2005	36.6	7.0
MEDIUM/HEAVY TRUCK TIRES		
2009	12.5	2.1
2008	15.5	4.3
2007	16.7	5.0
2006	17.6	7.1
2005	17.8	6.6

Regular gas: under \$3 a gallon

The first time I purchased gas in 2009 was on Jan. 2. I paid \$1.879 a gallon for approximately 7.94 gallons of regular gas at a station in Akron, Ohio. My total cost was \$14.92.

The last time I purchased gas in 2009 was on Dec. 29. At the same station, I paid \$2.699 a gallon for approximately 8.2 gallons. My total cost was \$22.15.

My pricing increased 43.6% over the course of the year. That's in-line with AAA East Central's Northeast Ohio Fuel Gage, which tracked pricing at 20 cities (excluding Akron) throughout Northeast Ohio.

Nationwide, the average price for a gallon of self-serve regular grade gas rose 61% in 2009, from \$1.62 to \$2.608. According to AAA (American Automobile Association), the high-water mark last year was \$2.695 a gallon versus \$4.054 on July 14, 2008. — Bob Ulrich

Chinese consumer tire imports

Imports accounted for 48.7% of all domestic consumer tire shipments in 2009; imports from China accounted for 19.3% by themselves.

Through the first nine months of the year — prior to the new tariffs — Chinese consumer tire imports came in at a record pace. That was misleading, however, because many domestic marketers brought in extra inventory during the summer months in case the tariff decision (see page 22) went against them.

Year	Units	Yr./yr. change
2009	45.3	-1.5%
2008	46.0	22%
2007	40.5	50%
2006	27.0	28%
2005	21.0	44%

Source: U.S. government, MTD figures

PASSENGER TIRE (Based on 182 million units)		LIGHT TRUCK TIRE (Based on 26 million units)	
Brand	% of total	Brand	% of total
Goodyear	14.5%	Goodyear	12.0%
Michelin	8.5%	BFGoodrich	9.0%
Bridgestone	7.5%	Bridgestone	8.0%
Firestone	7.5%	Michelin	7.0%
BFGoodrich	5.0%	Cooper	6.0%
Cooper	4.5%	Firestone	6.0%
Hankook	4.0%	Multi-Mile	5.0%
General	3.5%	Toyo	4.0%
Kumho	3.0%	General	3.5%
Uniroyal	3.0%	Yokohama	3.5%
Falken	2.5%	Hankook	3.0%
Toyo	2.5%	Cordovan	2.5%
Yokohama	2.5%	Kumho	2.5%
Continental	2.0%	Uniroyal	2.5%
Dayton	2.0%	Kelly	2.0%
Dunlop	2.0%	Mastercraft	2.0%
Hercules	2.0%	Dayton	1.5%
Multi-Mile	2.0%	Hercules	1.5%
Cordovan	1.5%	Pirelli	1.5%
Mastercraft	1.5%	Big O	1.0%
Pirelli	1.5%	Continental	1.0%
Sigma	1.5%	Delta	1.0%
Big O	1.0%	Dunlop	1.0%
Delta	1.0%	Falken	1.0%
Douglas	1.0%	Laramie	1.0%
Fuzion	1.0%	Maxxis	1.0%
Kelly	1.0%	Sears	1.0%
Nitto	1.0%	Sigma	1.0%
Sears	1.0%	Others	10.0%
Sumitomo	1.0%	* Because numbers are rounded to the nearest one-half percent, the total may not equal 100%.	
Others	10.0%		

For example, passenger tire shipments, which make up 86% of the consumer tires imported from China, were down 10% after the first quarter of the year, and still down more than 4% after the first half. After nine months, they were up 6%.

For the full year, Chinese passenger tire imports totaled an estimated 39.8 million units, down less than 1% compared to 2008. Overall, Chinese consumer tire imports were down 1.5%, from 46 million units to 45.3 million (see Chart 3).

China is the top exporter of passenger tires to the U.S., followed by Japan, Canada and South Korea. Canada is number one in light truck tire exports to the U.S., followed by China, Japan and South Korea.

The large importers of consumer tires from China included the usual suspects, like Hercules Tire & Rubber Co., American Omni Trading Co., Tireco Inc., American Pacific Industries, Tyres International Inc., China Manufacturers Alliance LLC, Sentaída International Inc. and Del-Nat Tire Corp.

Manufacturers and marketers alike import and sell brands such as Acelera, Blue Streak, Capitol, Concurs, Deestone, Delinte, Durun, Finalist, Gerutti, Jinglun, Jinyu, Leopard, Lexani, Linglong, Maxtrek, Negotiator, Sonny, Supermax, Triangle, Wanli, Westlake, Winrun, Yartu and Zeetax, to name a few.

The three largest tire manufacturers in North America do not directly import large amounts of tires from China.

No more than 2% of Michelin North America Inc.'s tire shipments in the U.S. are imported from China. Less than 2% of the tires sold in North America by Goodyear Tire & Rubber Co. come from China.

Bridgestone Americas Inc. does not import any Chinese consumer tires, although it buys the Primewell brand from GITI Tire (U.S.A.) Ltd., which does import it from China.

BRAND SHARE IN THE U.S.

There were more than 150 different consumer tire brands sold in the U.S. aftermarket in 2009. Brands with at least 1% of the market accounted for close to 90% of the consumer tires shipped (see Chart 4).

The full effect of the 35% tariff on Chinese consumer tire imports on the "Others" category will not be felt until the end of this year.

However, because supply was greater than demand as 2009 wound down, both dealers and suppliers were forced to reduce their inventories.