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Impact of unsuccessful Automaker Bankruptcies on U.S. Economy is major, according to Center for Automotive Research new estimate

ANN ARBOR, Mich., May 26, 2009 – Unsuccessful bankruptcies would reduce employment in the United States by more than 1.3 million jobs by December 2009 according to a new analysis, released by the Center for Automotive Research (CAR) in Ann Arbor, Michigan. CAR researchers estimate the impact on the U.S. economy of the bankruptcy of Chrysler and the potential bankruptcy of General Motors considering the short-term, economic cost of unsuccessful bankruptcies of the two firms compared to the public cost of initiating successful bankruptcies. Over 1.3 million jobs would be lost in the first year if the bankruptcies prove to be lengthy and disorderly given this will disrupt the supply chain and lead to a potential loss of market share. A 90 percent reduction in the operations of the two Detroit companies could result.

“Our model estimates that a successful bankruptcy process for both GM and Chrysler would have a major impact on the U.S. economy in terms of the maintenance of wages, social security receipts, personal income taxes paid, and a reduction in the need for transfer payments,” said Sean McAlinden, CAR chief economist and the study’s leader. “This estimation should be a valuable input into the decision by government authorities to ensure the successful restructuring of GM and Chrysler into viable stand-alone motor vehicle firms. In the case of unsuccessful bankruptcies where the companies do not re-emerge, the government stands to lose revenue on the level of \$37 billion in the first two years alone.”

The research analysis, available at CAR's website (www.cargroup.org), is the result of an economic modeling effort to demonstrate what could potentially happen if GM and Chrysler gradually fail in the U.S. automotive market. CAR has conducted the majority of national level automotive economic contribution studies completed in the United States since 1992.

The CAR modeling effort assumes Ford Motor Company and the international automakers located in the U.S. would lose 50% of their production in the first year due to parts shortages or fire-sales of GM and Chrysler inventories. In the second year, however, these automakers resume full production and replace 30% of GM and Chrysler output (with the balance going to imports) and U.S. job loss falls to about 440,000.

To obtain a copy of the research memorandum, or for more information on CAR, please visit www.cargroup.org

The Center for Automotive Research, a nonprofit organization, is focused on a wide variety of important trends and changes related to the automobile industry and society at the international, federal, state and local levels. CAR's mission is to conduct research on significant issues related to the future direction of the global automotive industry, as well as organize and conduct forums of value to the automotive community.

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