Clunker Flunker? An Observation In Hindsight

Posted by Gail the Actuary on October 15, 2009 - 10:15am
Topic: Demand/Consumption
Tags: cash for clunkers, morgan downey [list all tags]

This is a guest post by Morgan Downey, author of Oil 101.

The US cash for clunkers program was designed to stimulate economic growth through the auto industry by encouraging individuals to trade in old vehicles for more fuel efficient models. The US$3 billion program ran from July 24 through August 24, 2009. The program resulted in an additional 690,114 cars being traded in. The average fuel efficiency of trade ins was 15.8 mpg and the average for the replacements was 24.9 mpg. Those receiving the clunker subsidy are supposed to be taxed on that benefit so the entire US$3 billion is not lost.

If you do the math, the saving in oil spending over the lifetime of the new vehicles could be great enough to justify the US$3 billion of taxpayer money spent. However, critics point out that the taxpayer is out of pocket for donating this one off efficiency saving to fortunate clunker owners without any benefit in return.

Now that the program is over, the data shows that there may be some additional unexpected long-lasting benefits.

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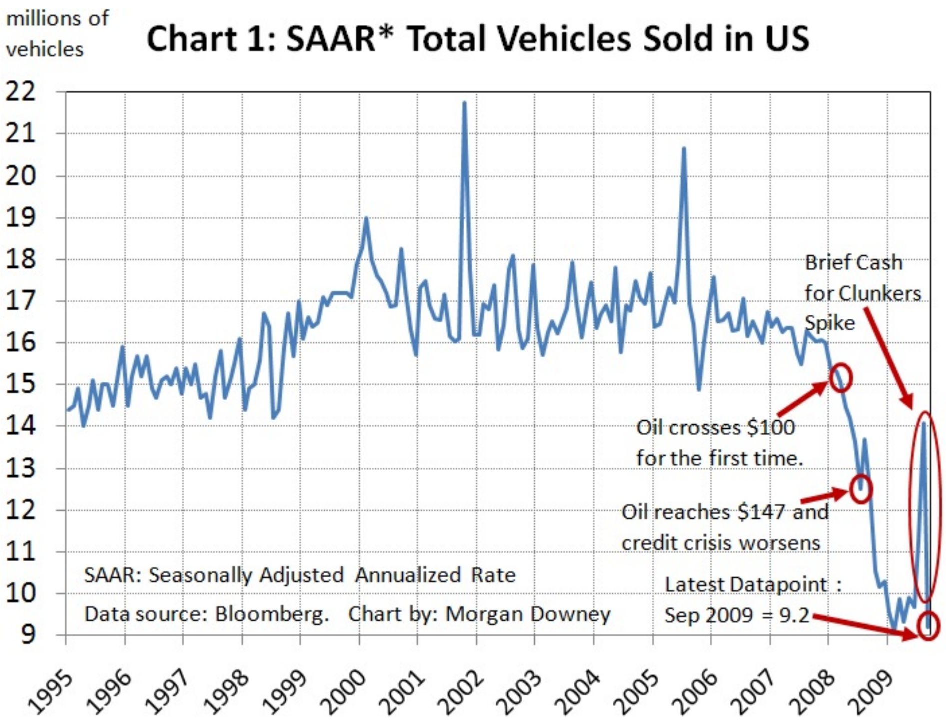
Now that the program is over, the data shows that there may be a single unexpected lesson.

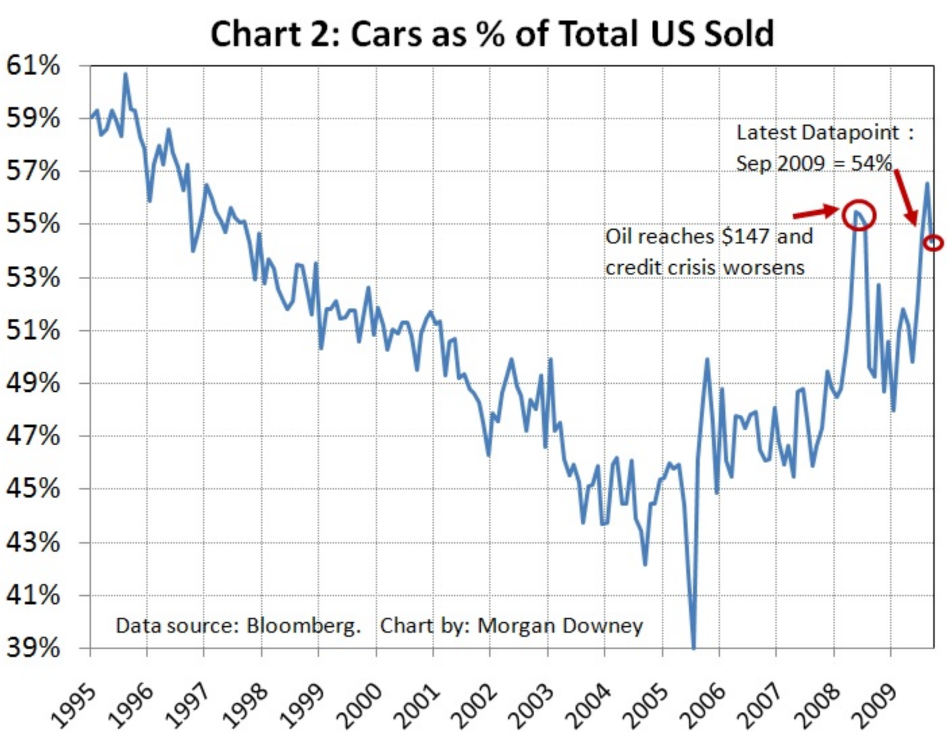
The month after the clunker program ended, consumers continued to purchase more cars and small vehicles rather than larger light trucks and SUVs. Perhaps vehicle dealers realized that efficiency is the new best selling point - particularly as US consumers are in an increased saving mode following the severe recession? Maybe it took the surge in efficient vehicle sales during the clunkers program for this realization to become widespread? This efficiency trend, if it persists, will help the US economy better survive future oil price spikes.

Let's take it to the charts. Chart 1 shows the brief recovery in US auto sales during the short lived clunkers program.



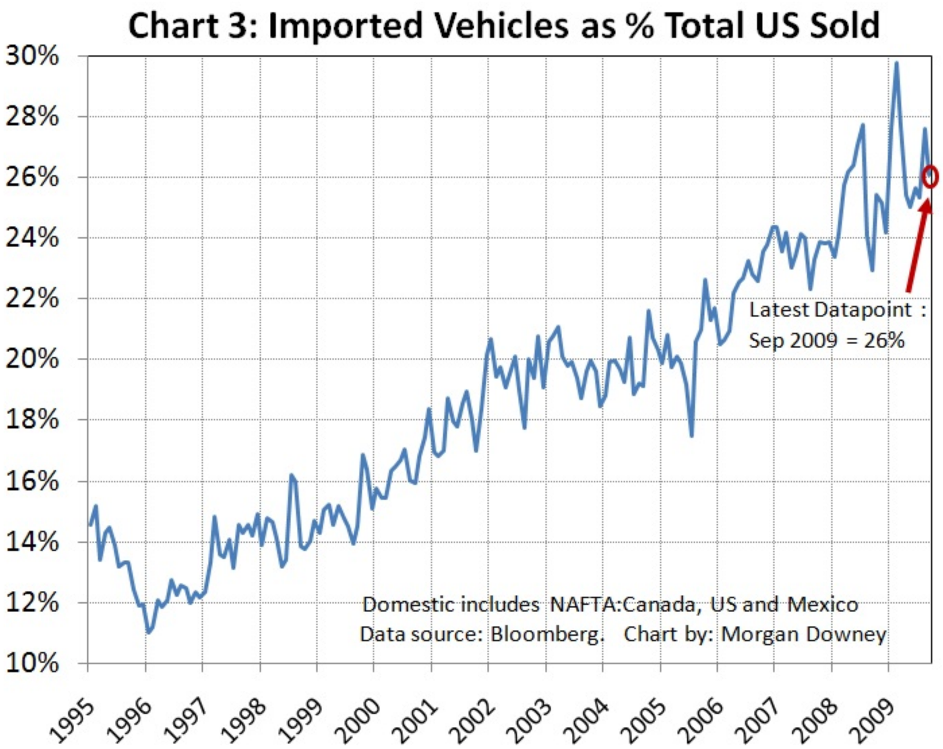
(click to enlarge chart)

Chart 2 below shows the numbers of cars sold in the US as a percentage of total. The clunkers program achieved what US$147 per barrel could not: 57% of vehicles sold during August 2009 were cars rather than SUVs/Light trucks. This exceeded the 55% number of May08-July08 as oil prices hit record highs. What is most interesting is that the share of car sales has not collapsed to pre-clunker program levels: in September 2009 car sales accounted for 54% of total US sales.



(click to enlarge chart)

Another criticism of the clunkers program was that it encouraged the purchase of imported vehicles rather than domestic. Chart 3 clearly shows that the trend toward sales of imported vehicles has been in place for a long time and that the clunkers program barely made a difference to the trend.



(click to enlarge chart)

Conclusion: While the benefit to taxpayers may not be immediately significant, the cash for clunkers program appears to have had a halo effect on efficient vehicle sales in the US. This efficiency will strengthen the US economy against future oil price shocks and if the trend continues it is a welcome unintended benefit of the clunkers program.