

## Hybrids' Future Likely To Lie In Trucks And SUV's

Researchers say Americans won't give up their big vehicles but will choose the ones with improved fuel consumption.

By Rick Popely

Knight Ridder News Service Sun, Dec. 28, 2003

Instead of steering Americans toward smaller, fuel-sipping cars such as the Toyota Prius, hybrid technology is more likely to encourage them to stick with what they love most: trucks.

The three current gasoline-electric hybrids in the United States are cars: the compact Prius and Honda Civic Hybrid; and the Honda Insight, a smaller two-seater.

A wave of SUVs and pickups with hybrid power are coming in the next few years, some of which will provide only nominal fuel-economy improvements.

Nevertheless, industry forecaster J.D. Power & Associates predicts that, by 2008, two-thirds of hybrid vehicles sold in the United States will be trucks, including SUVs, pickups and vans.

"You're not going to get people out of trucks unless they're outlawed. That's what they want," Walter McManus, Power's global forecasting director, said.

Hybrid-powered SUVs are scheduled to begin rolling out next fall, with the Ford Escape, Lexus RX330 and Toyota Highlander.

In 2005, General Motors Corp. will add "mild hybrid" versions of its full-size pickups with an integrated alternator/starter system that increases fuel economy 12 percent to 15 percent. Dodge plans a hybrid Ram pickup called the Contractor Special with an onboard generator.

GM will add a hybrid Saturn Vue in 2006 with 12 percent to 15 percent better fuel economy than its 23 m.p.g. now. Like the Lexus, Toyota and Ford SUVs that will get hybrid systems, the Vue is based on a car platform.

GM says that in 2007 it will offer hybrid versions of the Chevrolet Tahoe and GMC Yukon full-size, truck-based SUVs, with 25 percent to 35 percent higher fuel economy than their current 16 m.p.g.

GM will put the same system on its full-size pickups in 2008.

Toyota says its hybrid midsize SUVs will have the fuel economy of compact cars - about 35 m.p.g., up from 21 m.p.g. now - although it will stress the performance boost provided by the electric motors in those vehicles.

Thad Malesh, a partner in Automotive Technology Research Group, a California firm that specializes in hybrids and diesels, said he thought that was the right strategy.

"Consumers are reluctant to buy a hybrid because they're afraid they will have to sacrifice performance to be green," Malesh said. "You have to have both. If they have to make a choice, they will not give up performance."

He said hybrid technology did not have to deliver 50 m.p.g. to attract buyers, but it had to provide tangible benefits.

"Consumers want to see relative improvement in their fuel economy," Malesh said. "They will not give up what they drive now to get it, but if you can go from eight to 10 miles per gallon up to 12 or 14, that's tremendous."

Research and polling firm RoperASW said SUVs were the vehicle of choice for the "influentials," better-educated, leading-edge opinion leaders among consumers who tend to be early adopters of new technology.

One of four influentials owns an SUV, which are at the top of their shopping list for their next vehicle. However, they want better fuel economy.

"They feel SUVs are practical and safe, but one problem they see is fuel efficiency," said Jonathon Berry, RoperASW's senior research director. "When you put these findings together, hybrids could address the major complaints the influentials have against SUVs. If you can address the major problem, they're bound to attract more people."

Influentials are intrigued by the fuel-saving aspects of hybrid technology, but wary of how long it will last compared with a conventional engine. Their main concerns are reliability and safety, overshadowing their desire for an environmentally friendly vehicle.

"A car has to deliver on the other priorities first," Berry said.

McManus, J.D. Power's global forecasting director, said hybrid trucks with modest fuel economy gains had greater growth opportunity than smaller cars with eye-popping mileage.

"If people only wanted better fuel economy, [carmakers] could sell more small vehicles, but people don't want just one thing," he said. "They have a diversity

of needs, and they want a vehicle with four doors, room for six people, and cargo space.

"It makes sense to apply the technology to vehicles people want, if you can do it without changing the performance and other things they like."

Even with the gas/electric technology spreading to SUVs and pickups, McManus said he did not see hybrids becoming big sellers in the next five years.

Power recently lowered its sales projection to 350,000 vehicles per year by 2008 from an earlier forecast of 500,000. Toyota and Honda will sell fewer than 45,000 hybrid models in the United States this year.

McManus cited the high cost of the technology and limited consumer demand in predicting that hybrids would grow to just 2 percent of new-vehicle sales in 2008.

Power issued its forecast before GM announced it would offer hybrid technology on full-size SUVs and pickups by 2008. Power will revise its hybrid forecast in January.

"They're putting it in the right vehicles," McManus said of GM's plans. "This obviously could make a big difference in sales."

Automakers do not disclose their costs, but McManus estimated that hybrid technology ran as high as \$4,000 on the Escape, \$3,000 on the Prius and Civic, and as little as \$1,250 for GM's alternator/starter system.

The cost will not drop significantly until higher sales volume produces economies of scale.

"It's a chicken-and-egg thing," McManus said. "To get volumes up, you have to get the cost down. To get the cost down, you have to increase the volume. It's not going to become mainstream unless they get the cost down."

At \$20,650, the Civic Hybrid is priced about \$2,300 more than a comparably equipped Civic EX. The Prius is not based on a conventional car, but, at \$19,995, it is in the same range as a Camry LE sedan. Industry analysts say Honda and Toyota, two of the most profitable automakers, are eating part of the cost of the hybrid technology.

Power's lowered expectations for hybrid sales conflict with Toyota's plans, announced two years ago, to sell 300,000 hybrid vehicles worldwide by 2005, more than half in North America, its largest market.

As automakers add hybrid models, the federal government is reducing its incentive to buy one.

A tax deduction that applies to hybrids drops to \$1,500 on Jan. 1 from \$2,000. That means a consumer in the 28 percent tax bracket can claim a \$420 deduction for buying a hybrid vehicle in 2004.

A bill before Congress would provide tax credits of up to \$2,400 on hybrids, but the bill was tabled in the Senate until next year. The bill would limit the tax credits to the first 80,000 hybrid vehicles sold by each manufacturer.