

Weak earnings expected to pile on the trouble at GM

By Dee-Ann Durbin

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DETROIT (AP) — A few months ago, everything seemed to be going GM's way: the company had just struck a cost-saving labor deal, its new Chevrolet Malibu was winning plaudits and it still occupied the rank of the world's top-selling automaker.

Now General Motors Corp. faces a weak U.S. market, a strike at a major supplier, plummeting sales of sport utility vehicles and pickups and what are likely to be limp first-quarter results.

Several analysts were predicting poor results ahead of GM's earnings announcement Wednesday, citing a two-month strike at supplier American Axle and Manufacturing Holdings Inc. which has affected 30 GM plants. They also pointed to weak results at GMAC Financial Services, in which GM holds a minority stake.

GMAC said Tuesday it lost \$589 million in the first quarter, due mostly to its residential mortgage division.

"The first quarter is probably going to look a little soft," said Erich Merkle, vice president of auto industry forecasting for the consulting firm IRN Inc. in Grand Rapids. Merkle noted that GM books revenues every time a vehicle leaves a plant, so the company will take a hit because of American Axle-related cuts in truck and SUV production.

That problem comes on top of other grim news for Detroit-based GM, which lost its global sales lead to Toyota Motor Corp. in the first quarter as record sales overseas were dragged down by losses in North America. And this week, GM announced it would cut pickup and SUV production at four U.S. plants because of dwindling demand, resulting in more than 3,500 layoffs. Jesse Toprak, chief industry analyst for the auto information site Edmunds.com, said GM will lose about \$4.4 billion in gross sales because of those production cuts alone.

Joseph Amaturio, an analyst for the Buckingham Research Group, said GM's most significant problem is its continued reliance on full-size trucks as gas prices continue to rise and demand for the vehicles falls. Even if demand picks up when the economy improves, he said, Ford Motor Co. and Chrysler LLC will be tough competitors with new models out this fall.

Still, some analysts remain bullish on the automaker. David Kudla, chief investment strategist at Mainstay Capital Management, said GM has been experiencing explosive growth in emerging markets like India, Russia and Brazil.

"Despite a slowing U.S. economy, we expect overall earnings improvement going forward, largely driven by strong performance in emerging markets and continued reductions in structural costs in North America," Kudla said Tuesday.

Bruce Clark, an analyst with Moody's Investors Service, said GM is vulnerable to headline-grabbing issues such as the American Axle strike and ongoing troubles at supplier Delphi Corp., which is trying to emerge from bankruptcy. But he said GM has \$34.6 billion in cash and credit facilities to deal with those issues.

"This is going to be a very difficult financial and operating year for both Ford and GM. Both of them realize that. That's why both of them have built up this liquidity," he said.

For its part, GM last week predicted record gas prices could drive second-quarter U.S. sales below first-quarter levels, and said it has aggressively raised its internal forecast for fuel costs.

"This is clearly a headwind that we didn't anticipate to be at this level," said Mike DiGiovanni, GM's executive director of global markets and industry analysis.

But DiGiovanni said GM is still predicting a recovery in the second half of 2008 as the federal government's economic stimulus checks and interest rate cuts take full effect.

Merkle believes that's too optimistic and said GM should be more cautious in its outlook. Ford, he said, is doing a better job managing expectations, such as warning investors last week that its first-quarter profit would not be sustainable.

"GM would be better suited to not provide too much wishful thinking to the market and start taking a more realistic view that sales are going to be really tough," he said. "I'm not saying you've got to give everybody a doomsday scenario, but I think you have to be fair and accurate in your forecast. I think 2008 will probably represent the bottom of a trough."

GM shares fell 74 cents, or 3.4 percent, to close at \$21.20 Tuesday.