

Strike, gas prices hurt GM earnings

Posted by Rick Haglund

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DETROIT -- General Motors Corp. says it doesn't want to get involved in settling the 2-month-old strike at American Axle and Manufacturing Holdings Inc., even though the strike has cost GM \$800 million in lost profits.

The automaker said Wednesday the Feb. 26 walkout by the United Auto Workers union also has resulted in the production loss of 100,000 pickups and sport-utility vehicles.

Overall, GM reported a \$3.3 billion loss for the first three months of this year, mostly because of declining U.S. sales, high gasoline prices and a weak domestic economy.

GM also downgraded its sales forecast for the year Wednesday by 500,000 vehicles to about 15.3 million cars and trucks.

Excluding a variety of special charges for costs at Delphi Corp. and the GMAC finance unit, GM lost \$350 million in the first quarter, less than market analysts expected.

GM's stock closed Wednesday at \$23.20, up \$2 from Tuesday's closing price.

The company's automotive operations were profitable in every region of the world in the January-to-March period except North America, where it lost \$611 million.

"The challenges we're seeing in the U.S. market we aren't seeing in these other markets," Ray Young, GM's chief financial officer, said in a conference call Wednesday with analysts and reporters.

American Axle supplies axles and other parts for all of GM's full-size pickups and most SUVs. The strike has forced GM to stop production of those vehicles and idle operations at 30 plants.

GM has adequate inventories of the high-profit vehicles, whose sales have slowed dramatically because of high gas prices.

But the strike has cut GM's revenues and profits because the automaker books sales revenue when vehicles are delivered to dealers, not consumers.

Nevertheless, GM executives say they are reluctant to get involved in the labor dispute.

"We really do not want to be involved," GM President Fritz Henderson said in a conference call. "We think it would be good for American Axle and the UAW to reach a settlement at the bargaining table."

American Axle is a former GM subsidiary that was spun off by the automaker in 1994. Some analysts say GM may have to fund worker buyouts at American Axle to settle the strike.

The UAW is balking over American Axle's demand that wages be cut in half, from \$28 an hour to \$14 an hour. American Axle Chairman Richard Dauch says his company needs the wage cut to match labor costs at Dana Corp. and other competitors.

GM already has spent \$8.3 billion to help Delphi reorganize under bankruptcy court protection.

The automaker said Wednesday it will advance Delphi, a former GM parts division, another \$680 million this year to help it exit bankruptcy.

A financing deal that would have taken Delphi out of bankruptcy fell apart last month when investor Appaloosa Management LP pulled out of the deal.

"The Delphi situation has gone from bad to worse," said JP Morgan analyst Himanshu Patel.

GM is enjoying rising sales and profits in China, Russia, Brazil and other markets.

But it continues to struggle at home, where GM generates roughly half its revenues.

"Losing \$600 million in North America is not an acceptable result at all," Henderson said.

The American Axle strike could have an even bigger financial impact on GM's second quarter, one expert said, because it already has lasted through April.

"It is key that the strike gets resolved," said David Kudla, chief executive officer of Mainstay Capital Management, a Grand Blanc-based investment management firm.