REUTERS

Chrysler shuts plants, Bush weighs bailout pleas

By Poornima Gupta and Chang-Ran Kim
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DETROIT/TOKYO, Dec 17 (Reuters) - Embattled U.S. automakers General Motors Corp and Chrysler LLC both announced steps to shore up their dwindling cash on Wednesday as they awaited word on whether the White House would grant them billions of dollars in emergency loans.

GM said it was suspending work on construction of an engine plant in Flint, Michigan where it planned to build a new small engine vital to its effort to reinvent itself as a maker of fuel-efficient and all-electric cars.

Chrysler said it would shut down all of its production for at least a month, effective from the last shift on Friday.

The No. 3 U.S. automaker, considered the weakest player in an embattled industry, also said its U.S. dealers were losing up to a quarter of all potential sales because of the difficulty in securing consumer loans.

In another move underscoring the deepening of the crisis, Chrysler said its financing arm might have to suspend loans to its dealers which they use to carry inventory of unsold vehicles. The move would potentially cut off trade credits that U.S. auto retailers depend upon to stay in business.

President George W. Bush said a decision on the emergency loan requests needed to be made "relatively soon," but suggested he was still thinking through basic questions on how the aid should be structured.

"I'm looking at all options," Bush said in an interview with Fox News Channel.

United Auto Workers President Ron Gettelfinger said time was running out for the Bush administration to come to the aid of the struggling industry.

"We're just appealing to the administration to take action as quickly as possible to relieve the fears that exist out there. And then we've got to get the credit market loosened up to where consumers can take advantage of credit," Gettelfinger said in a CNN interview.

GM has said it could run short of cash by early January without a federal loan. Chrysler has said it has only slightly more time absent a bailout.

Both automakers and Ford Motor Co, which is not seeking emergency funding, have warned that the failure of one of Detroit automaker could topple others by triggering a cascade of failures among the cash-strapped suppliers that provide components across the industry.

Earlier, Honda Motor Co issued its third profit warning this year, slashing its operating forecast by two-thirds because of slowing sales and a soaring yen.

The deeper-than-expected revision at Japan's No.2 automaker could touch off similar moves at domestic rivals Toyota Motor Corp and Nissan Motor Co, also reeling from the dollar's plunge to 13.5-year lows against the yen.

Shares of Honda opened down almost 5 percent in Tokyo after its U.S.-traded shares tumbled 7 percent.

One analyst said he expected the Bush administration to provide the aid after showing that it understood the objections to a bailout raised by Republican lawmakers.

"The administration has said that the auto industry cannot be allowed to fail, and while there's going to be some political posturing, in the end that's where they'll be," said David Kudla, chief executive at investment advisory firm Mainstay Capital Management.

DOWNTURN HITS HONDA HARD

Just two months ago, Honda had been expected to weather the downturn better than its rivals with its fuel-efficient fleet, but demand has fallen across-the-board since Lehman Brothers collapsed in September and credit tightened.

"The situation is worsening by the day and is showing no sign of recovery," Honda Chief Executive Takeo Fukui told a news conference.

Honda, also the world's largest motorcycle maker, said it now expected an operating profit of just 180 billion yen ($2 billion) in the year to March, down 67 percent its forecast in October. The new target is more than 80 percent below last year's 953 billion yen operating profit.

Investors said the brutal downgrade may still not go far enough because of the stronger yen.

"The new earnings projections are worse than expected but still look tough to meet," said Toshiyuki Matsushita, chief investment officer at Bluebear Investment Managers.

Honda revised its assumption for the dollar to average 95 yen in the second half. That is down 100 yen in October, but still well above the current rate of 87 yen.

Every 1-yen drop in the dollar cuts Honda's annual operating profit by about 20 billion yen ($220 million), reducing overseas earnings when translated back into yen.

In response, Honda said it would cut capital spending, delay plants and products and reduce its third-quarter dividend. It will also review bonus payments for directors and cut their salaries.