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Rough economic road ahead for Detroit 3? How well are they prepared?

By Greg Gardner (excerpt)
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Anyone who has spent more than a decade in the auto business knows the cycle will turn, and after a six-year renaissance from near death we may be approaching such a point.

But don't hit the panic button. …

…On Tuesday, General Motors and Fiat Chrysler report third-quarter earnings. Ford follows on Thursday. The numbers will provide important clues as to whether the U.S. market is softening or merely settling into a healthy plateau. But there are compelling reasons to believe that automakers and suppliers can easily manage any potential down cycle much better than they have in the past. Among them:

The broader economy is growing slowly, but steadily.

Nearly 200,000 jobs have been created each month in the U.S. since early 2010, according to the Center for the Budget and Policy Priorities. The government releases the October jobs report on Nov. 4.

A year ago, the industry posted its very best months in September, October and November. So on a year-over-year basis expect some declines in the near future.

The average vehicle on our roads is still more than 11 years old, meaning many will be replaced soon.

The Federal Reserve, even if it hikes rates by a quarter point by year's end, is committed to keeping the cost of borrowing affordable for the foreseeable future. …

… Automakers have entered a period when they can prove the lessons learned from the traumatic 2008-09 implosion are fresh in their minds. Or they can revert to the old habits of artificially propping up sales to keep production at full capacity.

Another round of consolidation could be here. Thursday, Nissan said it was spending $2 billion to purchase a controlling stake in Mitsubishi Motors, bringing the smaller Japanese automaker into the Renault-Nissan alliance that was formed in 1999. …

… David Kudla, CEO of Mainstay Capital Management in Grand Blanc and an investor in most automakers, is betting that the U.S. market will level off near the present robust level.

“The structural change in the industry will make the next downturn easier," Kudla said. "Most automakers can make money at lower sales."

Structural changes, such as the plant closings forced through the GM and Chrysler bankruptcies, and automakers' ability to engineer more vehicles from common underpinnings have saved billions of dollars over time. …

…The problem is that if this post-recession discipline keeps near-term profits above Wall Street's expectations, investors are in no mood to reward them. Today, shares of all three are trading well below their two-year highs reached in March 2015.

"If they beat expectations investors still say 'we’re at the peak of the auto cycle,'" Kudla said. “Our concern now is if we get any surprise on the down side."