GM 2Q Profit Falls As CEO Promises Fixes

Tom Krisher, AP Auto Writer

DETROIT (AP) — The engine that powers General Motors is running rough. And if the company doesn't tune it up soon, GM's comeback from bankruptcy is in danger of stalling.

The Detroit automaker said Thursday that its second-quarter net profit fell 41 percent on a big loss in Europe. And there are signs that North America, GM's main income source, also is slowing. Profits there have fallen for two straight quarters, the first time that's happened since the company left bankruptcy in 2009.

The results are another sign that the U.S. auto industry, a bright spot in the economy for two years, is heading into a rough patch.

GM's profit from April through June dropped to $1.5 billion, $1 billion less than the same quarter a year earlier. It had a $361 million pretax loss in Europe and $19 million of red ink in South America. In North America, pretax profits fell nearly 13 percent to about $2 billion. International profits, including Asia, also dropped, by 3 percent to $557 million.

The company is predicting lower third-quarter profits in North America as it incurs manufacturing and advertising costs for new models. Also troubling was GM's market share. It fell in all four of the company's regions, including nearly a two-point drop in the U.S. to 18.2 percent.

CEO Dan Akerson told analysts that GM's performance was worse than last year in most key areas.

"That's not acceptable with this leadership team, and we're going to underscore that fact with our teams to keep everyone on point," he said.

The company's shares dropped 52 cents, or 2.6 percent, to $19.14.

GM isn't the only automaker with European troubles or slowing growth in North America. Last week, Ford reported that its second-quarter net income fell 57 percent, largely because of a loss in Europe. And Chrysler's U.S. sales growth has started waning. Sales were up 13 percent in July over last year, but they grew more than 30 percent during the first six months.

"North American growth is going to slow a bit and will hit the auto manufacturers," said Bill Selesky, an auto industry analyst with Argus Research, who predicts a rebound early next year.

Chief Financial Officer Dan Ammann attributed the second-quarter drop in North American profits to a $200 million cut in pension investment income. GM recently switched the liability for its salaried worker pensions to an insurance company, costing the pension fund $29 billion.

Akerson and other GM executives say they're in the process of fixing the company's problems. Akerson expects a new agreement with German labor unions by the fall that could help GM run its factories more efficiently and profitably. But GM wouldn't predict when it would make money in Europe, where it's posted 12 years of losses. The company has replaced its European CEO, is working to control costs in South America, and will update or revamp 70 percent of its North American model lineup by the end of next year.

GM already has rolled out new versions of the Chevy Malibu midsize car and the XTS, a new Cadillac full-size sedan. The Cadillac ATS small sports sedan, aimed at competing with the BMW 3-Series, comes out this summer, and new Chevy and GMC big pickup trucks hit showrooms next year.

Indeed, GM is a much stronger company than it was before bankruptcy, where it shed billions of debt, closed factories and cut its work force to slash costs. GM has a strong balance sheet. It's sitting on $38.5 billion in cash and credit lines. And the company still expects industry-wide U.S. auto sales to total 14 million to 14.5 million this year, far above the 10 million level needed for GM to break even.

Still, the company's U.S. sales are only up 3 percent this year while the market is up 14 percent. Advertising hasn't taken hold. Sales of the Chevy Cruze, a promising new compact car, were huge last year, but have faltered as Honda and Toyota recovered after an earthquake hobbled their factories. Cruzes are starting to pile up on dealer lots as car buyers opt for Civics and Corollas. Sales were down almost 40 percent last month.

Yet Itay Michaeli, an analyst with Citi Investment Research, said there's cause for optimism at GM if the company properly executes its plans. GM has kept its U.S. costs in line and hasn't resorted to wild cash incentives to juice sales. Its new pickups should hit showrooms next year as pent-up demand pushes up sales, he said.

But the company, he said, has to make its brands more identifiable to customers, and it still has to find a way to reassure jittery consumers so they have enough confidence to buy again.

GM's statements about fixing problems, Selesky said, show that it's dealing with them rather than just hoping for change like the old GM management.

"What Akerson wants to portray is that GM is completely different than it was before and will take actions quickly to change things," Selesky said.

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