European Recession Hits Major Car Makers

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FRANKFURT, Germany (AP) — Europe's stubborn recession cut deeply into profits at major automakers Ford, Volkswagen and Daimler, first-quarter results showed Wednesday as the industry began reporting earnings.

Germany's Volkswagen AG said its first-quarter net profit fell 38 percent to 1.95 billion euros ($2.5 billion), while Daimler AG's was down 60 percent at 564 million euros.

U.S.-based Ford Motor Co. lost $462 billion in Europe and called the outlook there "uncertain," although the company's global earnings rose 15 percent to $1.6 billion.

Ford last year announced it would close three plants to shed excess manufacturing capacity in Europe and is bringing new models to market to try and turn the business there around. But the company still said it expected to lose a painful $2 billion in the region over the course of this year.

French manufacturers Renault and PSA Peugeot Citroen, meanwhile, reported steep drops in sales.

Still to come in the next few days are earnings reports for General Motors Co., Fiat, which holds a controlling stake in Chrysler, Toyota, Honda, and BMW AG.

European car sales have fallen for 18 consecutive months as the continent's economy wilted during its financial crisis over too much government debt. Governments have been spending less and raising taxes to reduce that debt. That has weakened the economy and worsened unemployment, which is at 12 percent in the 17-country bloc that uses the euro. Afraid for their jobs or unemployed, consumers are putting off large expenses like car purchases.

The eurozone economy contracted in the fourth quarter last year and economists expect it to shrink again in the first quarter. European officials expect a gradual recovery in the second half of the year, but recent indicators suggest that forecast may be optimistic.

Most worrying for the automakers is that the slump in car sales has spread from indebted countries such as Greece, Spain and Italy to the traditionally stronger ones, like Germany, the continent's biggest economy. Sales there fell 13 percent in March despite low unemployment.

Ford's chief financial officer, Bob Shanks, expressed some cautious optimism that things might turn around later this year. He said there were indications that five of the hardest-hit markets — Ireland, Portugal, Greece, Italy and Spain — may have finally hit a bottom.

"So I think, hopefully, that we might be running along the bottom right now, and then waiting to start to — very, very modestly — pull out later in the year or maybe early next year," Shanks told reporters at Ford's headquarters in Dearborn, Michigan.

Daimler, which is based in Stuttgart, Germany, said it expected the U.S. and Chinese markets to grow but warned that European car sales would decline further this year and would remain "around 20 year lows." It cut its profit forecast for this year, saying it would not meet last year's earnings before interest and taxes of 8.1 billion euros.

The company said that even its home market in Germany "cannot detach itself from this development and is expected to fall significantly short of the previous year's level."

Daimler said the market for trucks — a major business for the company — would fall 5 percent due to the slow economy. The company's flagship Mercedes brand also saw sales fall in the key Chinese market as it reorganized its sales operation there. High spending of 1.6 billion euros on new plants and equipment also hurt earnings for the quarter.

Volkswagen, which is based in Wolfsburg, Germany, and includes the Audi, Porsche, Skoda and Seat brands, blamed weak European demand for a 1.6 percent drop in first quarter sales. It did better in North America and Asia, where deliveries rose.

PSA Peugeot Citroen, the parent company of Peugeot and Citroen brands, reported a 10.3 percent drop in sales at its automobile division, to 8.7 billion euros for the January to March period. Unlike its German counterparts, which until 2012 were still enjoying big profits on sales in China and the U.S., the French car maker has been cutting costs aggressively to recover from a 5 billion euro loss last year.

Renault's sales dropped even more, by 12.6 percent to 7.74 billion euros ($10.1 billion) from 8.85 billion euros a year earlier.

Peugeot Citroen's results were not as bad as investors had feared and the stock jumped 8.9 percent in afternoon trading in Europe, while Renault shares rose 2.1 percent. Daimler shares were down 0.8 percent, Volkswagen was up 3.0 percent and Ford was down 0.8 percent.