A not so happy birthday for General Motors
Ber*nard Simon*

Automobiles, Carmaker reports $15.5bn loss, Sales take 27% dive in core market

General Motors will mark its 100th anniversary in coming weeks but it had little to celebrate yesterday.

The Detroit carmaker posted a towering $15.5bn loss for the second quarter, and reported a 27 per cent dive in July sales in its core US market. GM is also set to lose its crown to Toyota this year as the world's biggest vehicle manufacturer.

The cost of default protection on GM debt jumped to a new high and a level indicating that the credit markets are expecting an 80 to 85 per cent chance that it will default on its debt in the next five years. Shares were 4 per cent lower at $10.61 in mid-afternoon trading.

The scale of GM's distress may overshadow its rivals, but it is not alone. Toyota posted a 12 per cent drop in US sales last month compared with July 2007. Ford Motor was down 15 per cent.

Jim Farley, Ford's marketing chief, said: "The industry is plumbing sales levels that we haven't seen in more than a couple of decades."

Tightening credit was one of the most pressing issues. "There's a lot more creativity that has to take place in the financing and insurance office to sell a car now."

Besides a fall in demand, the industry is struggling to adjust to a shift from pick-up trucks and sport-utility vehicles to more fuel-efficient but less profitable cars.

Sales of GM's Chevrolet Silverado pick-up tumbled by almost a third in the year to July. Demand for the giant Hummer SUV is down 62 per cent. By contrast, Ford said retail sales of its small Focus sedan had soared 46 per cent.

The glut of used SUVs and pick-ups has hurt carmakers' financing arms by forcing them to sell off-lease vehicles at prices well below contracted residual values.

Impairments in the value of leased vehicles cost GM $2bn in the second quarter, including its share of writedowns at GMAC, its 49 per cent-owned financial services arm. Fritz Henderson, GM's chief operating officer, said that "industry conditions are driving up both the costs and the risks associated with leasing".

Chrysler said last week that its financing arm was pulling out of leasing, Carmakers have unleashed an array of sales incentives. Chrysler has offered a $750 discount to customers exchanging a returned lease vehicle for a new one. It is also giving a $2,000 rebate on purchases financed through Chrysler Financial.

GM's second-quarter revenues fell to $38.2bn from $46.7bn, because of lower North American business. Revenues at GM's healthier overseas operations rose by $1.7bn to $20.8bn.

"The most important thing we need to do is to rebuild our revenue base", Mr Henderson said. Its strategies for doing so include stepping up passenger car capacity by adding shifts at some assembly plants. GM has high hopes for the Chevrolet Traverse crossover vehicle, to be launched soon.

Ray Young, chief financial officer, was optimistic that the dip in oil prices would staunch the slide in truck sales. "In some respects, we've been seeing some panic in the truck segment in the past couple of months. I think the truck market will stabilise."

Leila mains:

Equities hit by jobs data and $15bn loss at GM
Jeremy Lemer

Wall Street stocks fell for a second session yesterday, and trimmed already modest weekly gains, as investors wrestled with downbeat jobs data, poor results from General Motors and a bump in the price of oil.

The latest employment report from the Labor Department showed that the US economy shed jobs for a seventh successive month in July, although the decline was slightly smaller than expected. The unemployment rate rose from 5.5 per cent in June to 5.7 per cent -the highest level since March 2004.

Poor results from GM, the largest automaker in the US, added to the losses. The company said it had made a second-quarter loss of $15.5bn, four times larger than analysts expected, because of the cost of labour disputes and a slump in domestic sales.

A bump in the price of oil added to the pressure. GM shares fell 6.1 per cent to $10.35. Ford shares dipped 3.1 per cent to $4.65.

By mid-afternoon in New York, all 10 leading industry groups were in the red, dragging the benchmark S&P 500 down 0.6 per cent to 1,259.48 points. The Dow Jones Industrial Average lost 0.6 per cent to 11,308.82 points. The Nasdaq Composite dropped 0.7 per cent to 2,310.15 points.

Over a volatile week, the Dow edged down 0.2 per cent, the Nasdaq held its ground and the S&P 500 rose 0.2 per cent due to mixed second-quarter earnings, a decline in the price of oil and some weak data on growth, home prices and employment.

Stu Schweitzer, global markets strategist at JPMor-gan Private Bank, said: "You could be asking why markets are holding up as well as they are in the face of all of this... the S&P 500 was down around 1,200 a few weeks ago and here we are at 1,250 or so. I think a lot of the bad news is already discounted in the market."

S&P 500 company second-quarter profits have fallen 20 per cent on average compared to a year before, according to Bloomberg data. Profits have slumped about 82 per cent at financials and more than 100 per cent at consumer discretionary companies while energy company profits have grown by 18 per cent. Excluding financials, average earnings on the S&P 500 rose 3 per cent.

Yesterday, financials were among the biggest fallers. NYSE Euronext, the stock exchange operator, slid 14.8 per cent to $40.24 after it posted second-quarter profits that undershot ambitious analyst estimates.

The shares in CME, another exchange operator dropped 8.5 per cent to $329.47 after it said that July daily average trading volume had fallen compared to a year ago.

The financial sector as a whole lost 0.4 per cent on Friday, but gained 3 per cent over the week after Merrill Lynch announced asset sales and capital raising and the markets concluded that the results season had averted worst-case scenarios.

Analysts at Barclays Capital said: "Overall, the US banks reported weak but not disastrous second-quarter results, and the markets breathed a sigh of relief."

For much of the session the energy sector was the only one to advance yesterday, but a series of disappointing results from Chesapeake Energy, an independent natural-gas producer, and Chevron, the oil producer, eventually took their toll. Chesapeake lost 1.8 per cent to $49.24, Chevron dipped 0.5 per cent to $84.17, and the sector climbed 0.3 per cent.

Metals stocks led the materials sector down 1.4 per cent. Titanium Metals dropped 5.6 per cent to $10.63, Nucor fell 5.3 per cent to $54.17 and Freeport-McMoEan Copper & Gold lost 4.9 per cent to $91.98.

In healthcare, renewed safety concerns about Biogen Idec's multiple sclerosis drug healthcare weighed on the sector. Biogen slumped 26.7 per cent to $51.14 while the healthcare sector gave up 1 per cent.

In technology, Sun Microsystems said profit fell 73 per cent. Shares retreated 12.3 per cent to $9.32. The sector dipped 0.9 per cent.

Thinkorswim

Share price ($)

Source: Thomson Datastream

▲ Thinkorswim Group shares jumped 18.1 per cent to $9.48 after the online brokerage and investor education company said it would buy back as many as 5m shares after reporting second-quarter revenue that beat consensus analysts' estimates

Key indicators

S&P 500	Closing price	Day's change	Day's chge %
Rises			
MBIA Inc	7.16	+1.23	+20.7
MGIC Inv Cp	7.20	+0.80	+12.5
NationalCity	5.03	+0.30	+6.3
Int Paper	29.06	+1.34	+4.8
Weyerhsr	55.91	+2.45	+4.6
Falls			
Biogen	52.06	-17.70	-25.4
NYSE Euronext	40.55	-6.69	-14.2
SunMicro	9.31	-1.32	-12.4
CME Group Inc	330.31	-29.82	-8.3
PPL Corp	43.31	-3.65	-7.8

Indices	Close	Day's change
S & P 500	1260.46	-6.92
DJ Industrials	11322.33	-55.69
Nasdaq Comp	2299.57	-25.98
Russell 2000	712.85	-1.67
VIX	22.80	-0.14
US 10 yr Treas Bd	3.96	–
US 2 yr Treas Bd	2.52	+0.01
CDX HiVol	692.75	3.51

Fonte: Financial Times, London, August 2/August 3 2008. Companies International. p.10 e 14.