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Dakotas, SLTs and other Dodge vehicles line a lot of the State Fairgrounds in Detroit, a holding area for excess Chrysler inventory. A consumer shift from trucks and SUVs has stung the division.

Chrysler stalls; big loss looming

Automaker expects $600 million loss in third quarter; sees rebound with new cars.

Josee Valcourt / The Detroit News

The Chrysler Group is officially in the breakdown lane after three years of solid profits and is counting on a flurry of new cars and trucks coming later this year to get back on track.

No longer immune from the troubles plaguing its hometown rivals, the Auburn Hills-based division of DaimlerChrysler AG on Thursday reported a $65 million profit in the second quarter, down 91 percent from a year ago, and said it would lose up to $600 million in the third quarter.

Chrysler's poor performance was offset by the resurgent Mercedes-Benz division, which helped DaimlerChrysler post a solid $2.37 billion second-quarter profit. The results continue a troubling pattern for the German-American auto giant formed in 1998 -- when Mercedes rebounds, Chrysler falters, and vice versa.

To regain its footing, Chrysler said it will slash production and work to lower sky-high rebates. Chrysler's goal is to swing back to a profit in the fourth quarter as it launches eight new vehicles.

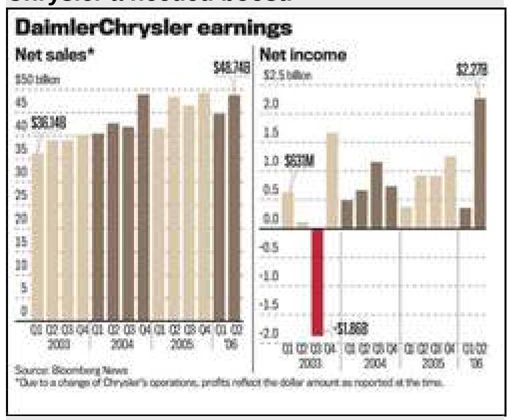
"As we look at new products and taking incentives down, we think we can see improvements overall," said Chrysler CEO Tom LaSorda during a conference call Thursday with analysts and reporters.

LaSorda also did not rule out buyouts and early retirement offers to hourly workers, similar to attrition programs at General Motors Corp. and Ford Motor Co.

"We're going to study all of our alternatives to reduce cost," he said.

Chrysler had been a bright spot for Detroit's auto industry in recent years, riding the success of the Chrysler 300 sedan and Hemi engine to solid profits as crosstown rivals Ford and GM posted big North American losses.

The redesigned Sebring midsize could give Chrysler a needed boost.



Including Thursday's earnings announcement, the automaker has posted 12 straight quarterly gains.

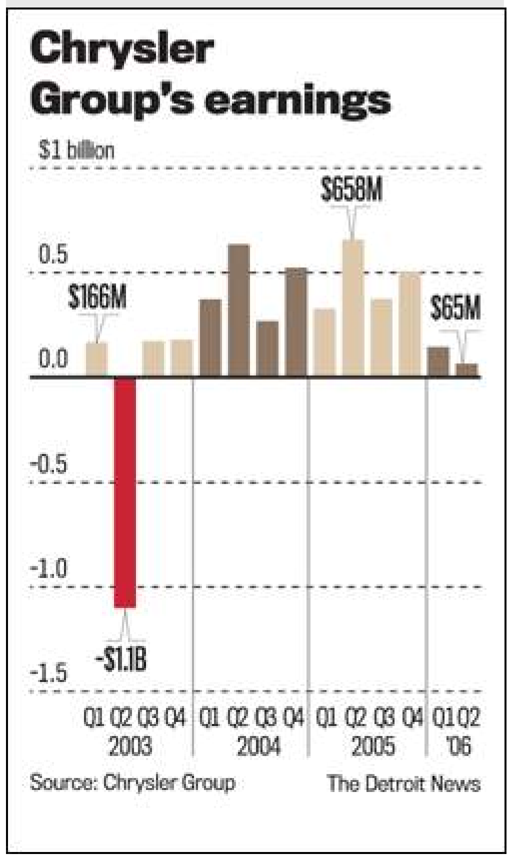
But the dramatic consumer shift away from gas-guzzling trucks and SUVs, a staple of Chrysler's Jeep and Dodge brands, has taken its toll.

"Chrysler has the highest share of light trucks of the total sales compared to the competitors," said Dieter Zetsche, CEO of DaimlerChrysler and former Chrysler CEO. "And therefore changes in this shift definitely have a higher impact on us than other companies."

Zetsche: Room to improve

Zetsche said Chrysler is in better shape than it was six years ago, but still needs to improve.

"We are definitely not happy about the forecast we made for the third quarter," he said. "And we definitely have to intensify our effort and the speed in order to build a sustainable and robust business system."



LaSorda said the company plans to cut production of its truck-based products by 65,000 to 75,000 units or about 10 percent this year. He said the company has scheduled the cuts, but he did not identify specific plants.

But many Chrysler workers are experiencing longer-than-usual summer layoffs. According to a letter sent to The Detroit News that was distributed to members of the United Auto Workers, the Warren pickup truck plant has been idle since July 7 and workers won't return until Aug. 14.

Chrysler dealers, who have complained about bloated inventories of cars and trucks, said the company's decision to lower production comes in welcome relief.

Chrysler and its dealers are carrying a 91-day supply of vehicle compared to 75-day supply a year ago and the industry average of between 60 and 65 days. Chrysler has been forced to park hundreds of new vehicles in spillover lots throughout Metro Detroit.

"Our inventories are still too big for us to order cars," said Brian Ackerman, a sales manager at Mike Riehl's Roseville Chrysler-Jeep. "I can't really imagine any dealers really putting in orders for 2007 models because inventory levels are huge."

Chrysler has been reluctant to cut production, which has a direct impact on profits, but was left with no choice as even huge discounts failed to halt a sales slide.

"This is a strategy we have to do," LaSorda said. "The dealers don't want to carry much inventory."

Fleet sales are a factor

Another factor hurting Chrysler has been its reliance on less-profitable fleet business. More than one-third of Chrysler sales in the second quarter came from rental car agencies and other fleet customers.

Analysts said Chrysler's weakening performance didn't come as a shock.

"The (second-quarter) results were weak and the forecast for the third quarter is obviously disappointing," said Craig Hutson, an automotive industry analyst for Gimme Credit. "But I don't think it's terribly surprising, considering the inventory reduction that they plan on going through and the launch costs associated with new vehicles.

"We don't view this as all of a sudden there's a big chink in the armor or crack," Hutson said.

Not all the news is grim for Chrysler. The Dodge Caliber hatchback launched earlier this year is off to a strong start. And the Jeep Compass, a small, fuel-efficient SUV, is reaching showrooms now.

LaSorda said a raft of new 2007 cars and trucks including the entry-size Dodge Nitro SUV and four-door Jeep Wrangler should help Chrysler lower profit-eating discounts. In June the automaker's per-vehicle incentive averaged $4,045, compared with GM's $3,117 and Ford's 3,589. The industry average was $2,613, according to car buyers Web site Edmunds.com.

The automaker will need the new vehicles to do well as high gas prices have caused many consumers to move from large vehicles into fuel-efficient cars.

"It's pretty brutal out there right now," said Chrysler spokesman Jason Vines. "We need to make a correction so we can have a very good fourth quarter."

LaSorda said the automaker will intensify talks with the UAW in an effort to win health care concessions and similar pattern bargaining agreements that the union has made with Ford and GM.

"We need to get a resolution this quarter and no later than the fourth quarter," he said. "We will be meeting in the next few weeks."

LaSorda looked ahead to next year, when Chrysler will launch new versions of its popular minivans in the summer.

"The minivan for Chrysler is like the F-series for Ford," said Erich Merkle, an analyst with Grand Rapids-based IRN Inc.

Chrysler's second-quarter result puts the automaker's woes into the spotlight. But the new products should help turn the business around, said David Kudla, chief executive officer of Mainstay Capital Management.

But what isn't expected is a blockbuster like the Chrysler 300C large sedan. "The 300C was such a hit that the industry and consumers are looking at Chrysler " said Jeff Schuster, a global and saying 'Which product will be the next 300C?' forecasting analyst with J.D. Power and Associates. DaimlerChrysler's stock rose 60 cents to $50.12 at the close of trading Thursday on the New York Stock Exchange.

Mercedes accounted for a 6 percent sales increase, or 325,000 vehicles sold in the second quarter. The luxury division earned $1 billion, compared with $15 million the same quarter in 2005.

DaimlerChrysler's Truck Group and its Financial Services also improved operating profit, while the Smart unit sales were flat.

Separately, DaimlerChrysler's supervisory board extended LaSorda's contract by years through April 30, 2012. His current contract expires in April.

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