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GM loss 4th biggest in U.S.

Analysts concerned about automaker's outlook

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General Motors Corp., the world's largest automaker, reported a $39-billion third-quarter loss on Wednesday -- the biggest loss for an automaker and the fourth-largest quarterly loss by a public U.S. company.

GM had said Tuesday after stock markets closed that it would take a $39-billion noncash charge related to a tax rule.

GM's third-quarter loss, equivalent to $68.85 per share, was far greater than the 25-cents-per-share loss that analysts had expected before the Tuesday announcement. In the same quarter last year, GM lost $147 million, or 26 cents per share.

After getting past the mammoth charge, the bigger concern to analysts was the company's seemingly sluggish outlook for the future of its North American market, despite key car launches and its new cost-cutting labor contract with the UAW.

The loss was a setback for the automaker that has been working to improve its financials and reputation with a sweeping corporate restructuring since 2005.

The $38.6-billion tax accounting charge was the biggest driver of the historic loss, but GM also pointed to reduced demand for new cars in North America and Europe, as well as problems in the U.S. housing market for its losses.

"The tax loss adjustment is not a big deal," said Peter Morici, a business professor at the University of Maryland. "Losses per vehicle in North America were much larger than expected, and that is why GM did not hit analysts' expectations. These losses cannot merely be tagged to a tougher operating environment, and appear to transcend the gains made in the new UAW contract. All this raises questions as to whether GM's North American operations will become viable, or just less sick, with the new labor agreement."

The labor agreement, ratified in October by about 65% of GM's UAW workforce, allows the automaker to relieve itself of a $47-billion hourly retiree liability in 2010 and lower its labor costs through the establishment of a lower-paid category of new workers.

GM Chief Financial Officer Fritz Henderson said the new contract will require some up-front costs -- to establish a health care trust and entice higher-paid workers to leave -- but ultimately gives the automaker the opportunity to cut more costs.

Henderson said the company's third-quarter results do not change its view that the company's long-term automotive financial outlook is improving.

GM, he said, continues to believe that its new product introductions and new labor agreement, once fully implemented, "will significantly improve GM's competitive position in the U.S."

Problems remain

The $38.6-billion charge is the result of GM's compliance with a complex accounting procedure that allows companies to use deferred tax assets -- credits the company accrued as it lost money over the years -- when they become profitable. Those credits were counted in the book value of the company.

GM said an accounting standard required the automaker to stop counting those credits as an asset this quarter because its three-year historical financial results, combined with massive losses at its GMAC unit and softening U.S., Canadian and German automotive markets, make it "more likely than not" that the company will continue to lose money.

Analysts said Wednesday that by removing the credits from its paper value, GM basically was acknowledging that problems remain in key segments of its business that make it unclear when the automaker will achieve sustainable profit.

Without evidence of impending profit, the automaker can no longer count the tax credits as an asset because -- at least in the near term -- there's no evidence they have value.

GM points out, however, that the credits do not expire and it anticipates using them in the future.

Challenging markets

Excluding its noncash accounting charge, GM reported a $1.6-billion, or $2.80 per share, loss for the quarter, which compares with adjusted income of $497 million, or 88 cents per share, in the same quarter last year.

Automotive operations earned net income of $122 million, up from a loss of $455 million a year ago. The gain was led by a $340-million profit in the Latin America, Africa and the Middle East division and a $138-million profit in GM's Asia Pacific division, offset by losses in Europe and North America.

"It's not something we would consider to be acceptable," Henderson said. "We weren't pleased with our financial results."

Henderson warned in a conference call that the markets in North America and Europe continued to be challenging.

Those concerns -- not the massive charge related to tax accounting -- led Moody's Investment Services to lower its ratings outlook for GM from positive to stable on Wednesday.

"The recent and continuing erosion in U.S. market conditions will likely result in GM's performance during 2008, and possibly into 2009, being weaker than originally anticipated," Moody's said.

Bear Stearns analyst Peter Nesvold said, "Things are bad and getting worse," in a note to investors Wednesday morning.

"While we clearly don't expect quarterly $69 per share losses to recur, we simply aren't inclined to look through the root cause as just 'non-cash, non-recurring' items," Nesvold wrote. "Fundamental pressures appear to be coming on even faster and stronger than we thought."

Lower pay rates

To get the most out of its new UAW contract, GM needs to replace higher-paid senior workers in noncore jobs with new hires who are paid half as much and get less in benefits.

Local union leaders have said they expect targeted incentive offers for buyouts and retirement at some plants yet this year and a widespread program in March.

David Kudla, an industry analyst at Mainstay Capital, said the new contract, along with GM's other efforts, will help GM continue "to show steady improvement" even though some of the gains will not be realized until late next year.

Shares of GM stock closed at $33.95 on Wednesday, down $2.21, or 7%, from Tuesday's close.