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GM to cut more after $3 billion loss

Hurt by strike, mortgage mess, it lowers U.S. sales outlook

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General Motors Corp. on Wednesday provided further proof that the company's painful downsizing in the United States isn't over, posting a first-quarter loss of $3.25 billion, the third-straight quarterly deficit that included widening losses in its home region.

The No. 1 U.S. automaker has spent the past two years slashing jobs, closing factories and axing unsuccessful vehicles. But GM still isn't lean enough to make money in its critical North American operations, where it lost $812 million in the first three months of the year.

"All the things we've done were necessary and important, but we can't just stay static and say ‘We’ve done it all,’ " GM Chief Operating Officer Fritz said during a conference call Wednesday. "You've got to do more."

The automaker, after months of holding out, on Wednesday conceded that U.S. vehicle sales are likely to fall further this year than it initially expected. The coming months will bring widespread production and job cuts at a company that since 2006 already has ushered out 35,000 hourly employees, shuttered factories around the country and cut $9 billion in annual costs.

On the product side, Henderson said Wednesday, GM needs "fewer, better" cars and trucks in each of its eight brands.

"They're not out of the woods with their turnaround," said David Kudla, chief investment strategist at Mainstay Capital Management LLC. "But they're continuing to make progress."

Record-breaking oil prices and an economy teetering on recession have eaten into sales in the automaker's largest and home market.
Hardest hit are the big trucks and SUVs that have historically driven profits for Detroit's Big Three.

Given the troubles, GM cut its U.S. sales outlook for the year, one of the last automakers to do so.

GM now expects total U.S. sales in the high 15 million range, down from the low 16 million range it had predicted at the beginning of this year.

"We want to run our business conservatively," said GM Chief Financial Officer Ray Young. "We want to be realistic."

Losses go beyond company

GM's revenue in North America was down $3.6 billion to $24.5 billion in the first three months of the 2008 compared with the same period a year ago. Its quarterly loss of $812 million this year far surpasses the $208 million it lost in the first quarter of 2007.

Much of GM's first-quarter red ink was driven by factors outside of its control, from the national mortgage mess to an ongoing strike at a key parts supplier.

The 2-month-old walkout at American Axle & Manufacturing Holdings Inc. cost GM $800 million in the first quarter. Also, GM will pay about $1.5 billion because of a charge related to GMAC LLC, the troubled finance company it partly owns. Another $731 million will go to bankrupt spinoff Delphi Corp.

GM's first-quarter loss of $5.74 per share compares with a net loss of $42 million, or 7 cents per share, in the same period last year. Excluding special items, GM lost $350 million, or 62 cents per share.

The company's first-quarter pretax operating profit from continuing operations, excluding special items, was $392 million, up $161 million from a year ago.

GM's performance outside one-time charges, bolstered by higher revenues in every region outside of North America, handily exceeded expectations on Wall Street and sent GM's stock price soaring. GM shares closed at $23.20 on Wednesday, up nearly 10 percent from Tuesday's close and 15 percent from a month ago

"Internal cost structure is a lot better than people thought it was," said David Cole, chairman of the Center for Automotive Research in Ann Arbor. "They've made cost cuts that are very substantial but not as visible at the surface. GM is pretty close to where it needs to be."

Major scaling back of output

But problems persist within the critical North American operations.

About 3,500 hourly workers in the United States and Canada will be laid off starting this summer when GM carries out a massive production cut announced earlier this week.

The automaker will build 140,000 fewer trucks and SUVs in the second half of the year than initially planned -- a cut that's needed even though GM built 100,000 fewer vehicles in the first quarter because of the American Axle strike. The company said it will cut shifts but not close factories.

"This latest move marks another step by GM to trim its higher-cost union work force and even raises the prospects of increasing buyout opportunities from fearful employees," CSM Worldwide analysts Joe Langley and Mike Jackson wrote in a research note.

GM also is in the midst of a second sweeping buyout program for its hourly U.S. work force. All of GM's 72,000 hourly employees will receive a buyout offer or retirement incentives in packages being rolled out this month. The goal is to have the program, part of GM's labor pact with the United Auto Workers, wrapped up by July 1. Significant cost savings from the contract start kicking in around 2010.

GM's Henderson said the truck reductions are likely permanent in what appears to be a lasting shift from fuel-thirsty large trucks and SUVs.

Ford Motor Co., also struggling with declining sales and a truck-heavy product lineup, eked out a surprise $100 million first-quarter profit.

GM's goal will be to increase sales of more fuel-friendly alternatives, such as the popular Chevrolet Malibu and its trio of crossover SUVs.

GM has no immediate plans to increase production of those vehicles, he said.

"We need to learn to make more money on cars, we need to make more money on crossovers and we need to learn to tighten our belt," Henderson said. "We have no other choices."