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Automakers continue to struggle

Profit outlook lackluster for Chrysler, Ford; GM to shine

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While **General Motors Corp.** is expected to show progress despite a big second-quarter loss, other Detroit automakers could have a rougher time when they report financial results this month.

GM, which lost almost $1 billion in last year's second quarter, will lose money again after taking a roughly $3.8-billion charge to account for a major attrition package.

But, aside from that one-time cost, the automaker is expected to earn about $250 million, which can be seen as a sign of progress in GM's North American turnaround plan.

Ford Motor Co., which is to report earnings Thursday, is expected to have less to show for its turnaround plan. Ford also is expected to make about $250 million, excluding one-time items, in the second quarter, **Thomson Financial** says. But that's less than its $956-million net profit in the second quarter last year.

Late last week, **Moody's Investor Services**, a New York-based credit rating service, dropped its rating of Ford further into junk-bond status. While new Ford cars, such as the Fusion and Zephyr, are doing well, those cars can't make up for the continued slide in the SUV market, Moody's said.

"This market shift is really hurting Ford and is pushing out the time frame during which the restructuring plan might contribute to any meaningful improvement in its credit ratios," said Bruce Clark, a Moody's senior vice president, in a note with the new rating.

DaimlerChrysler AG, scheduled to report earnings late next week, should make about $1 billion before one-time items. In the second quarter of last year, DaimlerChrysler earned a total of $900 million. Those results are likely to be driven by a strong performance from **Mercedes Car Group**, which was a drag on profits last year.

The company's **Chrysler Group** could struggle in the second quarter as it continues to use incentives to keep sales from sliding further. Chrysler Group executives have said sales should improve as they launch a host of new vehicles in the second half of the year.

"If we look at it in the context of a longer time frame, they're probably in the better shape of the Big 3 domestic producers," said David Kudla, chief executive and chief investment strategist for **Mainstay Capital Management LLC** in Grand Blanc. "They have a fresher lineup."

GM, though, has captured the attention of the industry with its aggressive moves.

The company lost $10.6 billion last year. But GM rebounded in the first quarter with a surprising $445-million profit -- after it restated those earnings, using a different accounting method for charges related to a new health-care fund.

Accounting changes or not, GM is headed in the right direction, said David Healy, an analyst with Burnham Securities. GM CEO Rick Wagoner laid out a plan for returning the company to profitability, and GM is hitting its targets.

The company's buyout program exceeded estimates and met the goal two years ahead of schedule. GM executives said they were backing off incentives and focusing on selling cars and trucks at a profit. For the most part, GM has stayed closer to the sticker price than Ford and Chrysler.

"There's still a lot of dying stuff in their product line, but they're sacrificing volume for profitability," Healy said. "They're biting the bullet on this thing."

GM also has new vehicles on the way. Merrill Lynch's annual "Car Wars" report cited a strong product pipeline for GM for the next four model years. For the 2007 model year, GM will launch a redesigned full-size pickup, new Saturn Aura sedan and new GMC Acadia midsize SUV.

"As a result, we believe there is potential upside to our estimate of GM's profitability and, more importantly, to the market's expectations," Merrill Lynch said in its "Car Wars" report.

GM has challenges ahead. Its U.S. sales are falling. **Delphi Corp.**, its largest parts supplier, is in bankruptcy court. And it remains to be seen whether the new cars will do well.

But the recent successes make the alliance talks with Renault-Nissan puzzling, said Kudla with Mainstay.

"The timing of it is somewhat surprising, given the recent string of successes Rick Wagoner and the GM management team have had," Kudla said. "They seem to be on a pretty good track."

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Automakers' earnings preview

• GM's bottom line could look bad with a $3.8-billion charge for employee buyouts and early retirements, but the company is expected to show progress toward becoming more profitable long-term.

• Ford has taken a less dramatic approach with its Way Forward plan. It's expected to do worse this quarter than the second quarter of last year.

• Chrysler Group could have disappointing numbers, but DaimlerChrysler's Mercedes Car Group is expected to continue its turnaround.

• Suppliers continue to be hurt by high raw-material prices. Heavy reliance on GM, Ford and Chrysler, which have seen sales drop this year, is hurting some suppliers. Johnson Controls, thanks largely to an acquisition, and BorgWarner are expected to show improvements.