Detroit Free Press

Higher GM Q1 earnings are expected

By Greg Gardner
April 20, 2016

The consensus of analysts surveyed by FactSet is that General Motors will show earnings of $1 per share for the three months ended March 31. That would be up from 86 cents in the year earlier quarter.

GM is expected to post improved earnings for the first quarter Thursday morning largely because U.S. sales continue to be strong and profitable, offsetting weakness in South America and a tamped down growth rate in China.

Tuesday the automaker disclosed first-quarter global sales of 2.36 million vehicles, a 2.5% decline from a year earlier. But that reflects a 26% drop in South America, where the Brazilian economy is in a funk with the gross domestic product shrinking by 3.8% last year and another contraction expected for this year.

As has been true for the last several years, a robust recovery in North America is covering up the trouble spots elsewhere.

"In the U.S., the average age of vehicles on the road is still more than 11 years, so demand remains strong," said David Kudla, an analyst and fund manager with Grand Blanc-based Mainstay Capital. "They've been reducing sales to rental fleets and growing retail sales so that should help improve their profit margins at home."

Kudla estimates that GM has spent nearly $4,000 on incentives per vehicle in the U.S., but the average selling price was $35,800 for the company in the first quarter, or about $5,000 more than the industry average.

Investors also will be looking closely at GM's results in Europe, where it expects to turn a profit by the end of 2016 for the first time in 17 years.

In Asia, growth is slowing in China, but GM has seen continued growth in sales of its most profitable brands, Buick and Cadillac.

There may be a special accounting charge of about $250 million, Kudla said, to cover the cost of early retirement packages for UAW members. Those buyouts were agreed to last fall in GM's new labor agreement with the UAW.

Skeptical investors remain concerned that the industry's 7-year growth cycle in the U.S. may peak or even begin declining later this year or in 2017, but evidence of a slowdown in the U.S. has not yet surfaced in monthly sales reports.

Low interest rates, moderate gas prices and sustained job creation likely will keep the industry on track to surpass last year's record new vehicle sales of 17.5 million.