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Caution slips into carmaker optimism

Good times keep rolling though car, truck sales level off

BY DANIEL HOWES (excerpt)

Car and truck sales are plateauing in the lucrative U.S. market, but you wouldn't know it from the big jump in profits and other financial metrics.

General Motors Co. exceeded Wall Street expectations Wednesday with record net income of $2.8 billion in the third quarter. And Fiat Chrysler Automobiles NV demonstrated that the price for exiting small-car production may not be as high as originally feared.

Bottom line: the good times are not yet over for Detroit's automakers or their foreign rivals operating in the United States. This town's auto leaders are just more cautious and more disciplined, determined to avoid past mistakes and show investors that Old Detroit is gone for good. …

…Yet another quarter of gangbuster performance still is not, however, enough for investors to jump into the sector. The Dow Jones Industrial Average closed trading Wednesday down a slight 0.3 percent, but shares in GM slid 4.18 percent to close at $31.60; Ford Motor Co. — set to report its third quarter Thursday — closed at $11.85, down 1.58 percent.

"It's just amazing how under-owned and under-loved the domestic automakers are," David Kudla, CEO of Grand Blanc-based Mainstay Capital Management LLC, said in an interview. "We do believe the peak auto cycle is here. The best we can hope for is this plateau."

He continues: "They're all operating at structural costs that are a lot lower than the last cycle. The margins are pretty incredible for the autos than where they've been before." …

…As impressive as their post-meltdown rebound may be, Detroit's three automakers are burdened by a legacy of denial, mismanagement and capital destruction. And that's complicated by the indelible fact that theirs is a cyclical industry.

History doesn't help. But each passing quarter delivers more evidence that these are very different companies led by different executives working in a different world delivering refreshingly different numbers, almost routinely. …

…This year should be as strong for GM as last year. FCA upgraded its estimates for net revenue, adjusted pretax earnings and adjusted net profit for the year. The Italian-American automaker also said its realignment of U.S. production capacity to Ram pickups and Jeep SUVs should deliver "double-digit margins" by 2018.

"The transformation should allow us to achieve best-in-class margins," CEO Sergio Marchionne said. "It continues to be the single largest shortcoming this house has against the competitor class and it has to be overcome."

Meantime, expect Detroit's automakers and their foreign-owned rivals to take advantage of steady market demand, low interest rates and cheap gas for as long as they can — because it's a virtuous cycle that cannot last forever.