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Car Makers Stabilize Year After Bailouts

By SHARON TERLEP And JEFF BENNETT

DETROIT—Nearly a year after two big U.S. auto makers were bailed out by government-engineered bankruptcies, both offered tentative signs of a turnaround, with General Motors Co. repaying $6.7 billion to the U.S. government ahead of schedule and Chrysler Group LLC reporting a first-quarter operating profit and boosting its cash reserves.

The companies and the Obama administration seized on the news to argue that the controversial bailout plan, is taking hold, helped by a surge in consumer spending. GM, keenly aware of the bailout stigma that it sees as a major hurdle to a recovery in the U.S., launched a series of new television ads featuring Chairman and Chief Executive Edward E. Whitacre Jr. touting the loan repayment.


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CEO Edward E. Whitacre Jr., at a GM plant in Kansas Wednesday, announces GM's early repayment of a U.S. loan.

"This continued progress is a positive sign for our auto investment—not only more funds recovered for the taxpayer, but also countless jobs saved and the successful stabilization of a vital industry for our country," Treasury Secretary Tim Geithner said in a statement.

The two auto makers still face substantial challenges. GM's repayment was a fraction of the $50 billion that the company received from the U.S. government last year. The big payback won't come until GM goes public and the U.S. can begin to sell off its 60% stake in the company.

And Chrysler, while upbeat, still said it has posted losses of nearly $4 billion since leaving Chapter 11 bankruptcy protection last year.

A senior Obama administration official on Wednesday said GM and Chrysler have yet to prove they can become viable in the long term, but that the companies are on the right track. The administration remains hopeful GM will go public this year, the official said. Mr. Whitacre backed off an earlier timetable to go public in this year.

The administration reiterated that the government is unlikely to recoup all of the bailout funds extended to the auto industry.

Still, a year after predictions that the industry and its suppliers could face a drastic decline, the situation has clearly stabilized. In the past three quarters, the U.S. auto industry has added 45,000 new jobs, making it the strongest nine-month period for auto-industry job growth since 2000, according to the Bureau of Labor Statistics.

Most of those jobs have been added by parts suppliers, which account for a majority of the jobs in the industry. Gregg Sherrill, chief executive of Tenneco Inc., a maker of emission controls for GM and Chrysler, said many suppliers were able to use the industry's downturn to restructure themselves into lean operations, and now need more workers as auto sales come back.

"The whole [supplier] industry has restructured to such a point that we don't have to have super high [production] volumes to be profitable," he said in a recent interview.

Both GM and Chrysler have made aggressive forecasts for the rest of the year. Mr. Whitacre predicted Wednesday that GM will surprise industry observers next month when it reports financial results for the first quarter of 2010.

"This is the new pace at GM," he said to a crowd of factory workers and government leaders at a plant in Kansas City. "GM's ability to pay back loans is a sign our plan is working."

Mr. Whitacre said that GM, since exiting bankruptcy, has invested $1.5 billion in U.S. and Canadian factories and added 7,500 production jobs. The company's main focus now is improving its sales performance in the U.S., cutting reliance on costly incentives and implementing more cost cuts.

"This will raise a lot of eyebrows in a positive sense," said Tammy Darvish, vice president of Dar-cars Automotive Group, based in Silver Spring, Md., which owns a Chevrolet dealership. "I have many customers who have sent us letters that say, 'As long as they have government money, we're not going to support them.' "

Chrysler recorded a loss of $197 million during the first quarter and $3.78 billion for the period covering June 10 through Dec. 31, after the company had exited Chapter 11 bankruptcy protection. Last year's loss included a $2.1 billion charge for Chrysler's payment into the United Auto Workers' health-care trust fund.

But the auto maker's operating profit of $143 million for the first quarter, compared with a loss of $895 million for the June-through-December period in 2009, bolstered Chief Executive Sergio Marchionne's claim that the auto maker will break even by the end of the year.

The company credited cost-cutting and the introduction of the new Ram Heavy Duty pickup truck for the positive results. "The fact that we are able to post a $143 million operating profit in this environment shows how low we have lowered Chrysler's break-even point," Mr. Marchionne said. It was the first time he has disclosed Chrysler's financial figures since taking over as chief executive in June after the majority of Chrysler's assets were merged with Fiat.

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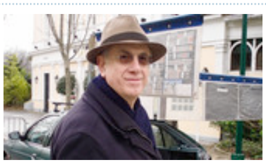

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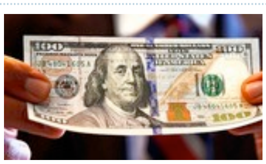

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