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Dark clouds linger as GM, Chrysler race to meet U.S. aid deadlines

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Patrick Anderson, CEO of the East Lansing-based Anderson Economic Group LLC, does not have reassuring words when it comes to the unrelenting stress that Michigan families will face in the next two months, as General Motors Corp. and Chrysler LLC attempt to avoid Chapter 11.

"There's no way to forecast Michigan dodging this land mine," Anderson said.

Many consumers shut down spending last year as the bailout talk for the auto industry heated up in Washington. Few are likely to open their wallets soon after the Obama administration basically handed out shut-off notices to GM and Chrysler.

'No one has any certainty'

Talk about putting spring spending on ice.

"People do rational things; they sit on their hands and wait," said David Littmann, senior economist at the Mackinac Center for Public Policy.

"The economy suffers because no one has any certainty or confidence. Everybody has gone into shelter mode."

GM has 60 days to restructure on its own, and Chrysler has until April 30 to complete a merger with Italian automaker Fiat or face losing taxpayer assistance. Obama said unions must make concessions. How it all plays out no one really knows.

Littmann is forecasting that auto sales will level off, as consumers take advantage of incentives.

For 2009, Littmann estimates that new vehicle sales could average about 9 million cars and light trucks. That compares with 16.1 million in 2007 and 13.2 million in 2008.

The added uncertainty, though, will likely hold down housing values -- and put a clamp on lending, too.

Credit will remain very tight throughout Michigan and the Midwest, according to Mark Zandi, chief economist at Moody's Economy.com.

"Banks and other creditors will remain very reluctant to lend in the region due to the very depressed economy and housing markets," he said.

He noted that banks in the Midwest also remain under financial pressure, making it difficult for them

to extend credit.

'On a death watch'

Job losses in the auto industry are likely to happen quickly in the next six months or so, rather than being extended a few years if the Obama administration is serious about cutting off more aid.

"The government is saying they're not going to be there for them," Zandi said.

Littmann predicts that Michigan's jobless rate could hit between 15% and 20% by year's end.

Michigan's unemployment rate reached 12% in February -- the highest jobless rate that the state has had to deal with since January 1984.

Littmann maintains that the economy would have been far better off if GM filed for Chapter 11 four months ago instead of delaying a process that he says is inevitable.

Anderson said the Obama administration dealt a bad blow to Chrysler when it stated that Chrysler is not viable as a stand-alone company and had only 30 days to complete a merger.

"They've essentially put Chrysler on a death watch," Anderson said.

What happens next spring? Even with today's dark clouds, some see a turnaround. Zandi predicts that this time next year, the worst could be over for the U.S. economy.

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