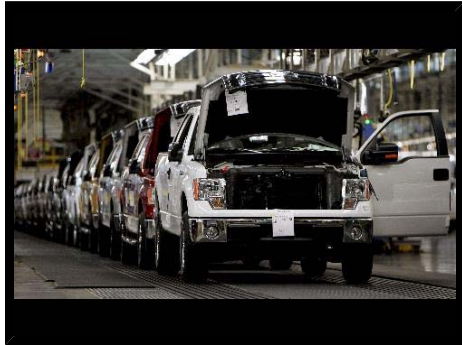


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## U.S. Automakers' Survival Plans May Deepen Recession (Update1)

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By Alex Ortolani



Dec. 8 (Bloomberg) -- U.S. automakers' pledges for more payroll cuts to win federal aid may deepen the recession after they eliminated more than 100,000 jobs in the past 3 years.

While the loans may spare **General Motors Corp.**, **Ford Motor Co.** and Chrysler LLC from collapse, shrinking their workforces would sap an already weak economy, said **Paul Ballew**, chief of consumer insight and analytics for Nationwide Mutual Insurance Co. in Columbus, Ohio, and an adviser to the Federal Reserve.

"The degree of restructuring is much broader and much deeper than people assume," said Ballew, a former GM sales analyst.

The industry has endured "a tough slog for the past few decades, and this is the next phase of restructuring that is probably going to be more severe."

Even a successful industry rescue of the automakers would hurt suppliers and dealers along with governments and industries as disparate as railroads that haul autos and broadcasters dependent on car ads.

"Sometimes you have to sacrifice a piece to save the whole," said **Kim Rodriguez**, a principal at accounting firm Grant Thornton LLP. "Regardless of the funding you're going to have major plant closures, major brand cuts, and there is unfortunately going to be a loss of jobs."

Automakers say a bankruptcy would cause a domino effect in which the failure of one company likely would topple the others. GM has said it needs **\$4 billion** to keep operating through the end of this year.

### Aid Plan

Congress and the Bush administration are now working on a package of at least the \$14 billion in loans that GM and Chrysler say they need to keep operating through March 31. GM, Ford and Chrysler requested \$34 billion last week in exchange for retrenching to stem losses amid a **dwindling U.S. market**.

The rescue plan as outlined may do little to revive auto sales, which exceeded 15 million a year from 1996 to 2007. U.S. sales probably will total 13.3 million in 2008, Standard & Poor's said on Nov. 24. Annual totals may not reach 13 million over the next four years, according to GM's worst-case scenario.

"Even if the companies succeed in getting a bailout plan enacted, the restructuring is going to be costly in terms of jobs lost," said **Robert Scott**, an economist at the Economic Policy Institute, a Washington-based research group aligned with unions.

Because the industry's employees are among the best-paid in the U.S., the elimination of one auto worker amounts to erasing 1.7 jobs because of the loss of purchasing power, Scott said.

GM told Congress it projects trimming its **workforce** by as many as 30,000 employees by 2012, or 33

percent. Dealers for the biggest U.S. automaker would fall to 4,700 from about 6,500.

#### 'Local Economies'

Job losses at the dealerships might be 100,000, Scott said. "That will hit a lot of local economies, including money dealers often give to local institutions."

The motor-vehicle and parts industry **employed** about 827,700 people as of November, down 15 percent from a year earlier, according to the **U.S. Bureau of Labor Statistics**.

Ford and Auburn Hills, Michigan-based Chrysler didn't project future employment in their survival plans. Dearborn, Michigan-based Ford said it expects \$1 billion in operating-cost reductions in 2009, while Chrysler Chief Executive Officer **Robert Nardelli** told Congress the third-largest U.S. automaker has pinpointed \$4 billion savings from its restructuring.

Senator **Christopher Dodd**, a Connecticut Democrat who is chairman of the Senate Banking Committee, said yesterday that GM CEO **Richard Wagoner** should be replaced as a condition for federal aid and Chrysler may have to merge to survive.

"You've got to consider new leadership," Dodd said on CBS's "Face the Nation." Wagoner, he said, "has to move on."

#### 'Nothing Obvious'

Television stations and advertising agencies likely would suffer from GM's strategy to focus on just four of its eight brands and Ford's push to emphasize its namesake nameplate.

"If the dealers go out, that is the biggest local advertiser in virtually every market, with nothing obvious to replace it," said **Kip Cassino**, research director at consulting firm Borrell Associates in Williamsburg, Virginia.

Local television stations get 25 percent or more of their advertising from automakers, dealers, and dealer associations, Cassino said.

Fewer brands and models will translate into more pressure on suppliers' employment, which fell 18 percent through June to 590,000, according to the Motor & Equipment Manufacturers Association. Ford, the second-largest U.S. automaker, wants to pare its global purchasing base to about 750 companies from 1,600.

"You're either a consolidator, you get consolidated, or you're going to be eliminated," said Grant Thornton's Rodriguez, who leads the firm's automotive restructuring group.

#### Railroads, Governments

Cutbacks already are being felt at **railroads** such as **Norfolk Southern Corp.**, the biggest U.S. carrier of vehicles and parts. Auto shipments by rail are down 20 percent in 2008, according to a Dec. 5 note from **Art Hatfield**, a Morgan Keegan & Co. Inc. analyst in Memphis, Tennessee.

U.S., state and local tax revenue will tumble along with auto payrolls under the companies' survival plans. At the same time, demands on government budgets will rise for jobless benefits.

An industry restructuring would chop federal tax receipts by \$8.8 billion and state revenue by about \$2.3 billion, according to a report today by consulting firms BBK Ltd., based in Southfield, Michigan, and Anderson Economic Group LLC.

"Even under the bridge-loan scenario, we expect significant reductions in employment and income, with resulting reduction in state and federal tax revenues," wrote CEO Patrick Anderson of East Lansing, Michigan-based Anderson Economic Group.

"When states are being stressed, anything that further undermines their revenue base would be unfortunate and would be a concern," said **Arturo Perez**, an analyst with the Denver-based **National Conference of State Legislatures**.

The worst-hit states would be those with the highest levels of automotive employment, led by Michigan, Ohio, and Indiana.

"This city is very dependent on GM and Chrysler," said James Fouts, the mayor of Warren, Michigan, which depends on tax revenue related to the carmakers for 15 percent of the municipal budget. "It would complicate an already dire situation."

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