

GM or Ford bankruptcy could have devastating domino effect

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AP PhotoCar-Transport Tom

Landwehr of Murfreesboro, Tenn., loads new 2009 Chevrolet Traverse vehicles at the General Motors Spring Hill Manufacturing Plant in Spring Hill, Tenn., earlier this month.

DETROIT -- General Motors Corp. and Ford Motor Co. were already trying to keep their balance sheets afloat before a financial tsunami swept across the globe this week.

It's no wonder, then, that analysts are uttering the dreaded b-word -- bankruptcy -- regarding the two U.S. automakers, especially cash-strapped GM.



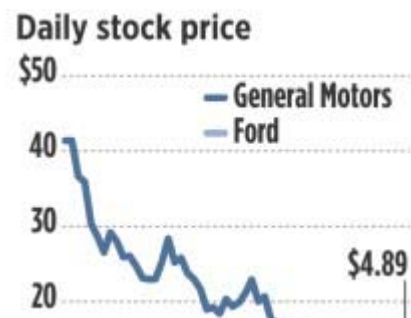
"You can't rule it out," said Erich Merkle, an auto industry analyst in the Grand Rapids office of accounting and consulting firm Crowe Horwath LLP.

Ford, GM and Chrysler LLC all issued statements Friday, denying they were considering filing for bankruptcy. They know consumers won't buy cars and trucks from bankrupt automakers.

GM wouldn't comment on reports that it might announce more production cuts and plant closings as early as next week.

But the worldwide credit crunch has stalled car sales, made it virtually impossible for GM and Ford to borrow money and plunged their stock prices to near pocket-change levels.

Privately held Chrysler says it is hitting its financial targets and is in better shape than Ford and GM. But bankruptcy talk is enveloping Chrysler, as well.



GM's stock recovered a bit from its 58-year low Thursday, closing at \$4.89. Ford shares closed Friday at \$1.99, less than the price of a latte at Starbucks.

Collapsing auto stock prices are frightening news for Michigan, which has been losing jobs for the past eight years and has the highest unemployment in the nation at 8.9 percent.

"It's really a bad shock to a state that's already in trouble," said Patrick Anderson, a principal in the economic consulting firm Anderson Economic Group in East Lansing.

The automakers' plunging stock prices reflect investor concerns that they could run out of cash before 2010, when a union-run retiree health care trust fund kicks in. The fund, known as a VEBA, is expected to save automakers billions.

Ford coffers are a little fuller than GM's. The Dearborn automaker hocked virtually all its assets, right down to its iconic blue oval logo, for \$23 billion in loans in 2006.

GM is trying to raise \$15 billion to improve liquidity by cutting costs and selling assets. Analysts say GM is burning through a worrisome \$1 billion a month in cash.

Even if the domestic automakers manage to escape bankruptcy, experts say rapidly declining auto sales will inflict more pain on the state's economy.

Michigan's unemployment rate could hit 12 percent before the nation's financial crisis subsides, said Sean McAlinden, chief economist at the Center for Automotive Research in Ann Arbor.

And no one knows when that will be.

Earlier this week, J.D. Power and Associates lowered its U.S. forecast, saying it expects automakers will sell 13.6 million vehicles this year, down 16 percent from 16.1 million vehicles in 2007.

"I think you're going to see sales down 30 percent for the rest of the year," McAlinden said.

What if falling sales and a continued seizing of the credit markets throw one or more of the Detroit Three in bankruptcy?

Analysts say other employers -- suppliers, dealerships and other businesses that depend on the automakers' spending -- would fall like dominoes.

A bankrupt automaker also would likely ask the court to allow it to sever union contracts and dealer franchise agreements.

"There would be a massive shedding of jobs," Merkle said. "Lots of suppliers would go out of business. It would be a very ugly situation."

Merkle thinks it's more likely automakers will use the real threat of bankruptcy to force workers, suppliers and other creditors to take financial concessions.

In essence, we might see one or more of the Detroit Three do a Chapter 11-style reorganization outside of the bankruptcy court.

Naturally, all this talk is unsettling to dealers, whose livelihoods depend on confident consumers coming through the doors of their dealerships.

Grand Blanc-based mega dealer Joe Serra acknowledges times are tough in the car business.

But the world hasn't come to a halt. Serra says his new-vehicle sales are down, but used-car sales are up.

Buyers with good credit can still get loans. Those with bad credit, who shouldn't have been able to get loans in the past, but did, no longer can.

"I'm going to stay focused on the things I can control," Serra told me. "I probably going to have to work harder, but that's what needs to be done."

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