GM cuts 2018 profit forecast, says trade war hit to car sales

July 25 2018, by John Biers

General Motors is cutting its earnings forecast for the year, in part because of higher commodity costs

General Motors cut its full-year profit forecast on Wednesday, in part

due to higher commodity costs as it amplified its warning that mushrooming trade conflicts could dent US and global car sales.

GM trimmed its earnings forecast from its prior range of $5.52 to $5.82 per diluted share to approximately $5.14 per share.

The company cited a "significant" increase in commodity costs, as well as the sinking valuation of the Argentine peso and Brazilian real that have marred its sales outlook in those markets.

These two effects will add $1 billion to GM costs in 2018, the company said.

"It appears that the trade war President Donald Trump has brought on the auto industry—and General Motors specifically—has impacted earnings," said a note from Briefing.com.

"Announced tariffs on steel and aluminum imports caused GM's raw materials costs to increase, and thus, an increase in the price of the finished product."

GM continues to see US auto sales coming in above the solid level of 17 million vehicles for all of 2018 but views the outlook for 2019 as up in the air in light of trade policy uncertainty, said Chief Financial Officer Chuck Stevens.

"We're not expecting a tariff impact to impact the US industry in 2018," Stevens told reporters.

"What happens beyond 2018, I think there's a lot of uncertainty in this space at this point in time. We're going to have to see where it lands and how ultimately that impacts the US industry and the global industry frankly."

Executives told financial analysts on a conference call that they had raised prices on some vehicles in the US to account for higher costs but that the market was "challenging" because of competitive pressures.

Like other leading automakers, GM has been a vocal critic of President Donald Trump's proposed tariff of up to 25 percent on foreign vehicles and parts, joining a chorus of industry officials in blasting the idea at a hearing last week.

The US giant has warned that the tariffs could "lead to a smaller GM."

The Commerce Department has collected public comments on the proposal and is not expected to present its findings to the White House for about two months.

Higher costs

The biggest US automaker reported second-quarter profit of $2.4 billion, which was up 44 percent from the year-ago level following car sales increases in North America and China.

Revenues were $36.8 billion, down 0.6 percent from a year ago.

GM's North America sales continued to benefit from a strong performance in sport utility vehicles, pickups and other large vehicles, with key vehicles scoring double-digit increases in sales in the United States.

GM also reported another round of strong sales in China, where its unit delivered more than 858,000 vehicles in the second quarter.

Several other industrial companies including Whirlpool and Alcoa have cited higher costs for metals and oil-related commodities as a drag in the

second quarter.

One factor has been US tariffs on imported steel and aluminum. Stevens said most of GM's steel and aluminum was sourced in the US.

In South America, GM has been able to raise prices because of currency hits in Argentina, which has a "hyperinflationary environment," but not in Brazil. The hope is that Brazil's situation will stabilize after elections in October, executives said.

Stevens said GM's performance in China bested expectations in the first half of 2018 but that the second half of the year would be tougher due to more pricing pressure from competitors and the lower valuation of the Chinese yuan. Without these efforts, the hit would have been $2 billion, they said.

Shares of GM sank 7.1 percent to $36.69 in midday trading.

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Citation: GM cuts 2018 profit forecast, says trade war hit to car sales (2018, July 25) retrieved 17 April 2024 from https://phys.org/news/2018-07-gm-profit-war-car-sales.html

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