US auto profits soar as sales slowdown threatens more layoffs

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Sales of US-based automakers declined again in the month of April continuing a four-month trend. After rising for seven straight years, car sales appear to have a hit a peak and are falling back, raising the prospect of significant layoffs.

Despite this both General Motors and Fiat Chrysler reported record profits in the first quarter of 2017, with GM earnings up 34 percent to $2.61 billion and Fiat Chrysler rising 34 percent to $698 million. Ford posted a 35 percent year-over-year decline, but still took in a hefty $1.6 billion.

Higher earnings are not translating into job security for production workers. General Motors has already carried out job cuts this year, including the elimination of shifts at its Lordstown, Ohio Assembly plant, Lansing Grand River and Delta Township factories and Detroit-Hamtramck facility. This week it is being reported that GM plans to slow down production at its Spring Hill, Tennessee manufacturing complex, raising the possibility of layoffs. The plant is currently running three shifts with some workers on seven-day, 12-hour schedules.

Ford has meanwhile announced production cuts at its Avon Lake, Ohio plant, which builds the F-650 and F-750 pickup trucks. The company said it is eliminating 130 jobs and cutting production at the facility due to lower demand for the previously hot selling cargo vehicles.

Meanwhile, auto parts supplier Gestamp has announced layoffs. The Spain-based company is cutting 84 jobs at its plant in Lapeer, Michigan. The company builds metal stampings and assemblies and will phase in the cuts through July.

Industry-wide, US car sales came in at an annualized rate of 16.88 million vehicles, the second straight month where sales were below the 17 million level. Sales figures were in most cases significantly lower than earlier projections. General Motors sales fell 5.8 percent in April while both Ford and FCA reported sales down by 7 percent or more. Japanese automakers Toyota and Nissan saw their sales fall by 3.5 percent and 2 percent respectively. Honda's sales fell 7 percent.

The surge in auto profits, despite declining sales, demonstrates once again the treacherous role of the United Auto Workers (UAW) union, which has helped the auto companies slash wages and benefits while increasing the number of low-cost temporary and part-time workers. The increased use of temporary workers sanctioned in the UAW sellout agreement in 2015 has allowed the Detroit automakers to slash jobs without paying out supplemental unemployment benefits (SUB). Further, the 2015 agreement removed the cap on lower-paid tier-two workers, whose SUB benefits are capped at 26 weeks and only provides 74 percent of their pay. The deal also permits additional overtime, allowing management to use existing workers to take up production shortfalls without re-hiring workers.

Altogether these measures mean that autoworkers are increasingly a disposable workforce. Unlike in previous downturns, there are few significant cost restrictions on the auto companies' ability to slash jobs.

For its part the UAW has sanctioned layoffs, saying they are justified due to "market conditions."

A tier-two worker at the Fiat Chrysler Jefferson Assembly plant contacted by the *World Socialist Web Site Autoworker Newsletter* said, "They are increasing overtime. During our lunchtime, they can mandate two crews to work and we have one mandatory Sunday every month. At the same time, they have announced a one-month shutdown in July. We haven't had a shutdown in seven years."

She said that while some autoworkers may have initially had illusions in the Trump administration, with the recent spate of layoffs and the attack on health care being orchestrated by the US Congress, "at this point it is beginning to sink in that we are in danger.

"I don't feel there is any real job security. We are basically being told by the UAW to look out for ourselves. Everyone knows they could be laid off any day."

The slowdown in sales is being reflected in higher inventories of unsold cars, which now stand at a level of 75 days across the industry. A 60-70 day supply is considered normal.

For its part, GM had a 100-day supply of inventory on hand at the end of April, up from 98 days at the end of March. GM says it is stockpiling cars in advance of the closure of several plants later this summer for re-tooling. Nevertheless analysts say there are likely to be more temporary layoffs this summer, especially for plants that build slower-selling models.

One factor in the sales decline is rising interest rates. The average interest on new car loans rose above 5 percent for the second month in a row in April. There is also a shift in consumer preference away from smaller sedans toward light trucks and SUVs that generally cost more money. For example, sales of GM's Chevrolet brand fell 10.4 percent in April and sales of its subcompact Chevrolet Sonic were down 67.8 percent.

However, the sales slump is hitting more popular brands too, with April sales of GM company's top-selling Silverado pickup falling by 19.7 percent.

The market has been glutted with large numbers of previously leased vehicles being offered for sale. In addition, auto industry experts are concerned about the increase in the number of sub-prime auto loans and the rise in the number of past due loans.

The *New York Times* quoted a manager at a Honda dealership in Massachusetts who said, "The market is tapped out. It is no longer expanding at the rate manufacturers thought it would." He said rising consumer sentiment "hasn't translated into what's happening in dealerships where we are trying to sell cars."

Despite its surge in profits, GM's stock values have been relatively flat over the past year. Neither has the recent multi-billion-dollar stock buyback program instituted at the insistence of major shareholders led to higher share prices. In fact, auto start-up Tesla Motors, which builds fewer more than 100,000 electric vehicles per year, has a market capitalization of $49.3 billion, larger than Ford and nearly on a par with GM's $50.87 billion.

This has led to calls for a stock reorganization at GM to funnel even more cash into the pockets of wealthy investors regardless of its impact on the overall financial health of the company. General Motors has already put billions into the pockets of investors through increased dividend payouts.

However, hedge fund Greenlight Capital, which owns over 2 percent of GM stock, wants the company to implement a dual stock plan. Under this arrangement some stock would be dividend-paying and the rest "growth" stock. GM management has opposed the proposal, saying it would undermine the company's credit rating. UAW executives who control the largest ownership stake in GM, through union-controlled retiree health funds, have not commented on the dispute yet.