

# Hobbled by chip, other shortages, GM profit slides 40% in Q2

July 26 2022, by TOM KRISHER

---



A General Motors sign is seen at its facility in Langhorne, Pa., on Oct. 16, 2019. General Motors' second-quarter net income fell 40% from a year ago as computer chip and parts shortages hobbled factory output and drove the company's U.S. sales down more than 15%. The Detroit automaker said it made \$1.67 billion from April, 2022, through June, 2022, in part because it couldn't deliver 95,000 vehicles during the quarter because they were built without one part or another. Credit: AP Photo/Matt Rourke, File

General Motors' second-quarter net income fell 40% from a year ago as computer chip and parts shortages hobbled factory output and drove the company's U.S. sales down more than 15%.

The Detroit automaker earned \$1.67 billion from April through June, in part because it couldn't deliver 95,000 vehicles because they were built without one part or another. A year ago, it made \$2.79 billion.

Although the company said it's preparing for an economic downturn, it stuck to its prior earnings guidance for the full year.

Unlike Walmart, which on Monday lowered its profit outlook for year and said that consumers are cutting back on discretionary spending, GM said demand remains strong for its vehicles.

"Right now, we can't build enough full-size trucks and SUVs," CEO Mary Barra told analysts Tuesday. "A lot of these vehicles, we have customers waiting for them."

And even when pent-up demand starts to wane, Barra said GM still has to build inventories more toward normal levels. The company has a only a 10- to 15-day supply on dealer lots, when automakers used to target having 60 days. Barra said GM will restore inventories, but not to traditional levels as it tries to move more toward a customer-ordering model.

GM expects full-year sales to dealers to rise 25% to 30% over last year as the supply of semiconductors improves through the year and into 2023.

But it's not certain that the year will go exactly as planned. Barra said there are economic concerns, so GM is taking steps to manage costs, including reducing discretionary spending and limiting hiring to critical

positions needed to support growth. "We also have modeled many downturn scenarios and we are prepared to take deliberate action when and if necessary," Barra said in a statement.

Chief Financial Officer Paul Jacobson said the company already has started to clear out vehicles that were built without some components and would have them all sold by year's end.

He said the company restructured years ago, so it doesn't foresee any layoffs like Tesla, Rivian and other automakers. Crosstown rival Ford reportedly is [considering salaried worker cuts](#) to help fund the transition to electric vehicles.

Despite the profit drop, GM held its full-year net income guidance steady at between \$9.6 billion and \$11.2 billion. The company still expects pretax income of \$13 billion to \$15 billion.

Shares of GM fell 2.4% in early trading Tuesday.

The company reported an adjusted profit of \$1.14 per share, falling short of Wall Street expectations for \$1.27. Revenue for the quarter was up 5% to \$35.76 billion on strong pricing, beating estimates of \$33.9 billion, according to FactSet.

J.D. Power estimates that the average sales price of a new vehicle for the first six months of the year [hit nearly \\$45,000](#), a record that is 17.5% higher than a year ago.

Like other automakers, GM has been forced to slow its factories since late in 2020 largely due to a global shortage of semiconductors, but GM was hit particularly [hard in the second quarter](#).

GM made \$2.3 billion before taxes in North America, its most profitable

market, a 21% tumble from a year ago. The company said strong demand, coupled with production cuts, continues to limit dealer inventory.

The company reported a \$100 million equity income loss during the quarter from its joint venture in China, largely driven by pandemic-related lockdowns. But GM said production began to recover in June.

The company's liquidity, measured by cash and available credit lines, fell by more than 10% since the end of the year to \$33 billion.

Jacobson said the cash burn was temporary, much of it caused by timing of expenditures, including increased capital investment. The company started the quarter thinking it would produce more vehicles than it did, he said. "Essentially all of those vehicles will come back in the second half," he said.

More patience will be needed before GM shares, which are down over 40% this year, turn a corner, wrote CFRA Analyst Garrett Nelson.

"We now see full-year results coming in at the lower end of guidance as it struggles with inflation, supply chain issues, and weaker volumes than a year ago," Nelson wrote.

Also Tuesday, GM announced that it has commitments for all the raw materials needed to reach its goal of building 1 million electric vehicles per year by the end of 2025.

The company also said it has a deal with LG Chem to supply nickel, cobalt, manganese and aluminum to make electric vehicle battery cathodes. LG Chem will supply over 950,000 tons of material during the next eight years. The two companies will explore a cathode materials production facility in North America by the end of 2025, they said in a

statement.

GM also announced a contract with Livent to supply battery-grade lithium hydroxide from a brine operation in South America over a six-year period starting in 2025. The Philadelphia company's lithium also will be used in cathodes.

Cathodes are the negative terminal of a battery.

© 2022 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed without permission.

Citation: Hobbled by chip, other shortages, GM profit slides 40% in Q2 (2022, July 26) retrieved 28 May 2023 from <https://techxplore.com/news/2022-07-hobbled-chip-shortages-gm-profit.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.