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GM sidesteps economic headwinds; Q3 profit jumps nearly 37%

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A 2024 Chevrolet Equinox EV 3LT is shown in Warren, Mich., Aug. 30, 2022. General Motors earnings will be reported on Tuesday, Oct. 25, 2022. Credit: AP Photo/Paul Sancya

General Motors' third-quarter net profit rose 36.6% as vehicle sales began to rebound from persistent supply chain troubles.

The Detroit automaker on Tuesday reported earnings of $3.3 billion from July through September, compared with $2.42 billion a year earlier.

The increase was fueled largely by a 24% sales increase in the U.S., GM's most profitable market. The company said it is seeing improved supplies of computer chips and other parts, allowing it to build more vehicles and increase inventory on dealer lots.

It's also selling more expensive pickup trucks and large SUVs. That boosted revenue for the quarter by 56% to a record $41.89 billion, though that's still short of the $42.1 billion that Wall Street had expected, according to a survey by FactSet. More than 80% of GM's revenue came from North America.

Excluding one-time items, GM made $2.25 per share, beating estimates of $1.88.

GM reiterated its full-year net income guidance between $9.6 billion and $11.2 billion. GM still expects pretax income of $13 billion to $15 billion.

Chief Financial Officer Paul Jacobson said the company isn't seeing any sign that demand for new vehicles is slowing despite higher interest rates and inflation. "Pricing remains strong, demand remains strong for our products," he told reporters early Tuesday.

Shares rose 2% after the opening bell.

GM finished and shipped about 75% of the 90,000 vehicles it built without one part or another in the second quarter. Dealer inventory as of

Sept. 30 rose to 359 million, up from 248 million in the second quarter.

"Overall chips are getting better than certainly where they were a year ago," Jacobson said.

The company has not seen any signs of a recession, but it's continuing to watch the economy, Jacobson said. It has no plans to cut any workers, but is being selective in hiring, he said.

Yet rising interest rates and high gasoline prices, coupled with persistent inflation, could hurt GM from now into 2023. Edward Jones analyst Jeff Windau wrote in a note to investors that although sales have improved, they have yet to reach pre-pandemic levels.

It's hard to predict how interest rates and inflation will affect consumer spending in the coming year, he said in an interview. Historically, rising interest rates present difficulty for automakers. "Consumers have higher costs, and they tend to maybe pull back on purchases, look for cheaper alternatives," Windau said.

Auto prices, he said, may have to drop "as consumers become more focused on their financial situation and what they're willing to bite off from a payment perspective."

The entire auto industry has been hit hard by shortages of computer chips and other parts since the start of the coronavirus pandemic. The industry shuttered plants early in the pandemic, but they came back faster than expected, and by then, the semiconductor industry had switched to making chips for computers, games and other consumer electronics.

The auto industry has been trying to get more chips ever since. Windau wrote that the virus is still affecting the supply chain and could cause further issues.

GM CEO Mary Barra told analysts that although parts supplies are improving, the company faces challenges to get chips and other parts. "It's still very tight," she said. "Even a small hiccup usually has an impact."

GM's joint venture in China is recovering from pandemic lockdowns, with about $330 million in equity income versus $270 million last quarter.

The company's Cruise autonomous vehicle unit lost nearly $500 million as it expands a self-driving ride-hailing service from San Francisco into Austin, Texas, and Phoenix. There also was an accounting change for employee stock compensation. The company said it expects Cruise to generate $1 billion in revenue in 2025.

Barra said buyers of GM's electric vehicles should be eligible for half of a $7,500 federal tax credit in the Inflation Reduction Act as early as January. The law requires that batteries and vehicles be made in North America, which GM already meets. But 40% of the battery metals have to be mined or recycled on the continent, and those rules become more strict over time. "We'll ramp up to have full qualification in the next two to three years, getting to the full $7,500," Barra said.