



Automakers: Transform and Roll Out!

Over the years, US car manufacturers have been progressively losing headway to their Japanese rivals as motorists' preferences shifted from pickup trucks and sports utility vehicles to smaller, more fuel-efficient cars. The 'Big-Three' US automakers' market share has declined from 70% in 1998 to 53% in 2008. Besides failing to keep up with what their customers want and the economic downturn, the car companies have been footing the bill for the pensions and healthcare costs of many former workers in addition to the cost of existing employees.

The struggling automakers have been kept afloat so far this year with massive amounts of government loans. GM has received \$US 13.4 billion and Chrysler \$US 4 billion. To date, of the 'Big-Three' automakers, the lone manufacturer to refuse loan assistance from the government has been Ford Motor Company. At the close of the first quarter of 2009 President Barack Obama rejected providing further financial aid on the grounds that his regime found the restructuring plans to be unacceptable. He has further indicated to the carmakers that bankruptcy may prove to be the best road towards their restructuring.

The announcement came on the heels of the US government forcing GM CEO Rick Wagoner to resign. At GM, president and chief operating officer Fritz Henderson will take over as CEO. Moreover, new directors are to comprise the majority of GM's board. Following Wagoner's resignation and a shake-up in GM's board, the Obama administration is to provide GM 60 days worth of operating expense coverage to give them time to develop an acceptable restructuring plan or face imminent bankruptcy.

The Obama-led regime also gave Chrysler 30 days to merge with Italy's Fiat SpA. Chrysler and Fiat are currently engaged in negotiations, but the Obama administration is keen on expediting the matter. As an incentive, Chrysler has been promised up to \$US 6 billion in government financing if it completes the alliance with Fiat within 30 days. If a Chrysler-Fiat agreement cannot be met, state assistance will be terminated leaving Chrysler facing a total sell-off as they have no other financing options. The proposed deal with Fiat would give the Italian carmaker a 35 percent stake in US automaker Chrysler and entry into the US market. Chrysler in return, would receive much needed technology and expertise for developing smaller cars.

To improve their performance US automakers need to contain labour and health care costs. Operations need to be modernized especially through installing more flexible assembly production lines that employ more robots, to allow manufacturers to quickly switch output from brand to brand. US carmakers also need to cut back on the number of less profitable brands and models they carry. US automakers also need to significantly reduce their dealer networks, which are bloated and far less profitable relative to foreign competitors. GM has some 4,000 dealers, compared to Toyota, which has 1,200.

Either way, whether the US industrial giants handle their own restructuring or have it imposed upon them by state order, the auto workers, GM and Chrysler creditors, their giant supply chains and car dealerships all stand to suffer severe financial hits. The two companies together employ about 140,000 workers in the US. Furthermore, thousands of more jobs stand to be in jeopardy in related industries and businesses.

GM has been granted a limited grace period to negotiate more favourable deals with the United Auto Workers (UAW) union and write off debt to bondholders and other stakeholders. Chrysler is also attempting to cut its debt by two-thirds. GM and Chrysler have been lobbying for the UAW to accept their companies' shares in exchange for half of the payments into a union-run trust fund for retiree health care. The US car companies would like to have labour costs within the union brought to comparable or even lower levels than wages paid by their Japanese counterparts with operations in the US.

Estimates place GM's indebtedness to bondholders at \$US28 billion with Chrysler owing about \$US 7 billion. GM also owes about \$US 20 billion whilst Chrysler owes \$US10.6 billion to their respective retiree health care trusts.

US automakers have been constantly re-inventing and promoting themselves over the past few years. In 2007 for instance, GM spent millions to promote and market its "Transformers" tie-ins featuring the company's vehicles as movie heroes. The 'Autobot' line-up included a Chevrolet Camaro (as 'Bumblebee'), Pontiac Solstice (as 'Jazz'), GMC TopKick (as 'Ironhide') and Hummer H2 (as 'Ratchet'). GM's earlier bids to reach younger car buyers had been met with less than desired results so they were hoping to draw the 18-to-34 year old age bracket to its showrooms with the vehicles' presence in the film. Amidst the diminishing US automotive market and stiff competition from overseas rivals, GM was banking on the exposure translating into sales. To date, marketing measures overall have not been effective.

To avoid forced bankruptcy, US car manufacturers need to act swiftly to restructure their operations and roll out better product offerings. The US government's ultimatum is clear- Automakers: Transform and Roll out!

Current Happenings in Local and International Markets:

- RBC CEO: Find alternatives to retrenchment, redundancy
 - CariCRIS re-affirms the "high creditworthiness" ratings for Eastern Caribbean Home Mortgage Bank
 - Finance Minister: T&T managing well, economy looking better
 - U.S. Aims to Release Bank Stress-Test Results May 4
 - AIG to Sell U.S. Auto Insurance Unit to Zurich Financial for \$1.9 Billion
 - JPMorgan Profit Beats Estimates on Record Revenue
 - General Growth Seeks Chapter 11 Bankruptcy Protection
 - China's Economy Grows 6.1%, Slowest Pace in Almost a Decade
 - Goldman 1Q earnings surpass Wall Street estimates
 - US SEC chief calls for oversight of rating firms
-

Table 1: Regional Market Performance (as at 15 April 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	808.94	-0.73	-2.02	-4.03	-22.79
All Trinidad	1,103.39	-0.98	-2.15	-4.45	-17.06
JSE Index	79,740.73	0.85	-1.34	-0.51	-26.70
JSE Select	1,720.81	2.82	-2.70	-13.30	-42.60
All Jamaica	63,822.50	1.99	-1.33	-13.75	-41.66
BSE Composite	875.63	0.24	0.35	-4.81	-14.53

Table 2: International Market Performance (as at 15 April 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	852.06	3.26	12.62	-5.67	-36.15
Nasdaq Composite	1,626.80	2.27	13.64	3.16	-28.84
Dow Jones Industrial	8,029.62	2.46	11.15	-8.51	-35.05
German Dax	4,549.79	4.40	15.08	-5.41	-30.91
FTSE 100	3,968.40	1.09	5.72	-10.50	-32.82
Nikkei 225	8,742.96	1.72	15.51	-0.05	-32.70
Hang Seng	15,669.62	8.25	25.10	8.91	-34.44
DJ Eurostoxx	2,262.96	3.48	14.90	-7.69	-38.69

DISCLAIMER

The information contained in this documentation is for your information only. All information contained in this documentation has been obtained from and is based on sources, including but not limited to, newspaper and magazine articles that CMMB believes to be accurate and reliable. However such information, facts, calculations, methodology, assumptions and estimates contained in this documentation have not been verified by us. All opinions and estimates constitute the Author's judgment as of the date of the documentation which are subject to change; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this documentation is given or made by CMMB in any form whatsoever. Consequently, CMMB assumes no liability for the accompanying information, which is being provided to you solely for general information.