

GM Closure News Signals Hard Times Ahead for Auto Industry

By Andrew Wallender

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- Auto sales likely to decrease in near future, analysts say
- Experts: GM's decreased capacity means long-term manufacturing job losses

GM's announcement of plant closures and layoffs Nov. 26 caught workers by surprise, but industry experts told Bloomberg Law that the cost-cutting measures are the latest signal of American automakers struggling with long-term viability.

Former General Motors Co. worker Tommy Wolikow was among those surprised by the announcement. He was laid off in January 2017 after experiencing other short layoffs in his time with GM. He's waited for a chance to be rehired at the GM plant in Lordstown, Ohio, but now has started applying for jobs elsewhere at GM and as a commercial driver after going back to school last year.

With the new round of layoffs, Wolikow's likely to be low seniority on re-hire lists, making it unlikely he'll be back at GM.

"There's no glimmer of hope," Wolikow told Bloomberg Law Nov. 26.

Industry experts say the GM announcement confirms suspicions that the auto market is facing a downturn. After years of high revenue, the U.S. auto industry is seeing declining demand and increasing costs, which means that automakers will be cutting production capacity, reducing staff, and streamlining operations to keep turning a profit.

"I give Mary Barra a lot of credit because she's coming out early," Georgetown University Adjunct Business Professor David Dunahay said of the GM CEO. "The pipeline is long and it takes time so she's coming out now as opposed to possibly later when GM and the other manufacturers have a lot of inventory on the ground. So the market is basically slowing down."

Peak Auto Sales Have Passed

The U.S. auto market saw sales peak about two years ago and are now on the downside of a sales cycle, according to University of Michigan Senior Economist Ellen Hughes-Cromwick. She formerly served as chief economist at Ford Motor Co. and the U.S. Department of Commerce.

"These companies like GM have to really start aggressively restructuring in order to put themselves in a position for their longer-run viability, frankly," Hughes-Cromwick said.

GM will save about \$6 billion by closing five North American plants, adjusting product development, and reducing salaried and contract staff by 15 percent, according to a company statement.

Ford made a series of similar announcements this year. The company said in April that it would stop making most of its sedans and smaller vehicles to focus on its lineup of trucks and SUVs. It also announced in October that it would cut salaried jobs by the second quarter of 2019.

Automakers also are dealing with increased costs from U.S. steel and aluminum tariffs and lower-than-anticipated growth in auto sales after tax reform was passed by Congress last year, Dunahay said.

GM presented the changes to investors Nov. 26; the final slide summarized its motivators as “intense focus on cash generation and cost discipline,” “increased downturn protection,” and a desire to “capitalize on growth opportunities.”

Goodbye Sedans, Hello SUVs

U.S. consumer demand for passenger cars is waning as drivers flock toward larger vehicles such as SUVs, trucks, and crossovers. As vehicle tastes change, auto companies are racing to keep up and cut out inventory that’s slow to sell.

GM will take six models from its various brands off the U.S. market in the coming year, including the Chevrolet Volt, the Chevrolet Cruze, the Chevrolet Impala, and the Cadillac XTS.

The savings from idling plants and ending some vehicle production will likely be used to invest in emerging technology such as electric vehicles, according to Bloomberg Intelligence Senior Auto Analyst Kevin Tynan.

“This is their tipping point that says we can either be involved at volume in sedans and coupes that are going to be money losing and declining volume or we can put in a little more investment,” he said. “And if we’re going to lose money in electric vehicles, at least it’s a drivetrain technology we see increasing in volume.”

Long-Term Labor Effects

The changes at GM don’t necessarily represent a shift from manufacturing jobs to technology-focused jobs, according to Georgetown’s Dunahay. The emphasis is on automation, and electric vehicle production has been gradually growing. The company’s restructuring is more a move to address overcapacity than to pivot fully to automation and electric, he said.

But decreasing capacity will come at a long-term cost to manufacturing jobs, Tynan said. Gains in truck and electric vehicle sales won’t be enough to offset job losses from decreased car production, he added.

Former GM worker Wolikow said he still has dreams of a new GM product one day being built at his former Lordstown plant and putting him back to work.

"I'm still holding onto hope that a new product can come, but it's really hard to just keep holding onto something that just seems it's not going to happen," he said.

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