https://www.wsj.com/articles/gm-makes-the-most-of-a-bad-business-11596043304

HEARD ON THE STREET

GM Makes the Most of a Bad Business

Aggressive cost control helped Detroit's largest car maker keep second-quarter losses to a minimum, but Ford might have more scope to surprise investors

GM delivered 62% fewer vehicles to North American dealers in the second quarter than a year-earlier. A GM assembly plant lot in Ontario last year.

PHOTO: CHRIS HELGREN/REUTERS

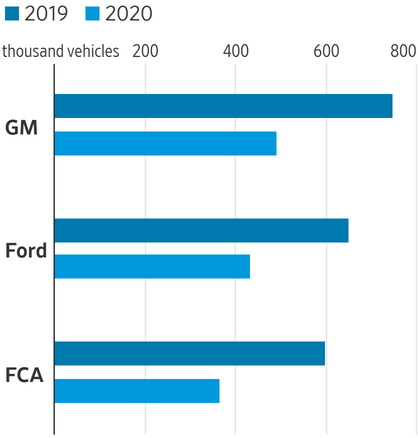
By Stephen Wilmot
July 29, 2020 1:21 pm ET

The second quarter could have been much worse for General Motors. GM -1.67% ▼ Yet the Detroit car maker most likely to give investors a lift this earnings season is, surprisingly, Ford. F -1.28% ▼

Lockdowns to control the new coronavirus made it the most difficult period for car sales in decades, and an even more difficult one for car production. GM said Wednesday that it delivered 62% fewer vehicles to dealers in its all-important North American market than in the same three months last year, thus generating 60% less revenue.

Car Crash

Second-quarter vehicle sales



Source: Edmunds

Yet the company made an adjusted operating loss of only $536 million, which was far less than the $2.8 billion analysts had expected. That reflected two factors: an aggressive clampdown on costs and surprisingly strong vehicle prices. Because of last year's strike followed by this year's factory shutdowns, GM's dealers have been short of inventory. This may have constrained sales at the retail level—they were down by 34% year over year for GM brands such as Chevrolet and GMC, according to data provider Edmunds. But it helped to rein in the discounts that vehicle manufacturers offer to their customers.

Meanwhile, the cost reductions came from halting advertising spending, furloughing employees and deferring pay. Most of these apparent gains will reverse as GM ramps production back up in the second half. Even so, the second-quarter performance does show that the company's operations are more flexible than they used to be in an industry infamous for its high fixed costs.

GM has consistently outmaneuvered Ford in recent years, but this could be one quarter where the smaller company fares better—at least relative to dire expectations. Three months ago, Ford said it would lose a staggering $5 billion in the second quarter. Yet its sales performance has been relatively strong, with market-share gains and an average U.S. selling price in the second quarter of $45,121, according to Edmunds, up 9.2% year over year. The question will be whether it, like GM, managed to rein in costs. Ford reports after the bell on Thursday.

GM shares fell slightly in morning trading Wednesday in a sign that investors already had high hopes for its capacity to control its costs. Sensibly, they seem to be paying little attention to analysts' forecasts at the moment, which range wildly in a guidance vacuum.

Even as production schedules normalize in the second half, Detroit's car makers face formidable challenges. Vehicle sales slipped in mid-July, according to J.D. Power, as the pandemic flared up again in some states. U.S. unemployment, which typically weighs on demand for big-ticket items such as cars, remains high.

Above all, Tesla's market valuation has ballooned, highlighting the need to keep spending money on electric vehicles and other new technologies with little immediate prospect of making decent returns. GM expects to spend more than $20 billion on its electric and automated-driving programs over the next five years.

Even normal times, whenever they finally come, won't be easy for Detroit.

Write to Stephen Wilmot at stephen.wilmot@wsj.com