



GM's Long Decline May Make Bankruptcy 'Irrelevant' to Economy

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By Michael McKee

June 1 (Bloomberg) -- **General Motors Corp.** once mattered so much to the U.S. economy that a two-month strike in 1970 helped trigger a 4.2 percent drop in gross domestic product for the fourth quarter, as national auto **production** fell 82 percent.

Then, GM accounted for about half the cars and light trucks sold in the country. Now, GM controls just 20 percent of the market, and analysts say its bankruptcy filing will barely register in the broader economy.

GM's drawn-out restructuring, an increase in U.S. manufacturing by foreign carmakers and the recession-induced decline in auto **sales** all have meant more to the economy than today's legal filing.

"Bankruptcy now is irrelevant in terms of the economic consequence of what's happening to GM," said **Mark Zandi**, chief economist at Moody's Economy.com in West Chester, Pennsylvania. "Either way, it's going to be a shadow of what it was, in terms of jobs and income."

GM has been reducing payrolls for three decades. Its U.S. employment peaked in 1979 at 618,365, when it was the nation's largest private employer and auto manufacturing accounted for 4.1 percent of GDP. At the end of this year's first quarter, autos were 1.5 percent of the economy, and GM had 88,000 U.S. workers.

Cuts Already Planned

Such job losses dwarf the additional 21,000 in cuts GM was already planning, whether it entered bankruptcy or not. GM's firings also will occur gradually over the next few months as it closes 11 more plants and idles three others.

The planned cuts are equivalent to roughly "two days of job losses in the month of February," when overall U.S. payrolls shrank by 681,000, said **Diane Swonk**, chief economist at Mesirow Financial in Chicago. "The difference of bankruptcy or not is very small because of the way they structured it, how stretched out it is."

More jobs -- 58,300 according to the National Automobile Dealers Association -- will be lost at the 1,100 dealerships GM is jettisoning than in GM plants themselves. Those losses will also be stretched out, with most closings happening in 2010.

An outright collapse of GM, which the bankruptcy filing aims to avert, would have taken with it hundreds of companies that supply parts not only to GM but also to **Ford Motor Co.**, Chrysler LLC, and other automakers. Even with GM's survival, parts makers remain vulnerable.

'Bottom-Up' Collapse

"Our concern right now is probably more for a collapse of the industry from the bottom up, given the fragility of the suppliers," **David Cole**, chairman of the Center for Automotive Research in Ann Arbor, Michigan, said in an interview on Bloomberg Radio. "You take a couple of key suppliers out and it threatens the entire industry."

So far, 40 parts makers have sought bankruptcy protection in 2009, including filings last week by **Visteon Corp.**, the former parts-making unit of Ford, and chassis manufacturer Metaldyne Corp., a unit of Japan's Asahi Tec Corp.

To cushion the impact of its own bankruptcy, GM has accelerated payments to suppliers, and is participating in a U.S. Treasury program that guarantees or immediately pays bills from parts makers. That should limit the damage, particularly if GM can exit bankruptcy quickly, said **Jim Gillette**, director of supplier analysis for CSM Worldwide, a Grand Rapids, Michigan, consultant.

"General Motors and their suppliers are in perhaps better shape going into bankruptcy than Chrysler," he said.

Broader Market

Suppliers also have a broader market today, with Honda Motor Co., Toyota Motor Corp., Daimler AG and Bayerische Motoren Werke AG all operating plants in the southern U.S. That's helped stabilize employment after parts makers saw payrolls fall by about half from a peak of around 800,000 in 2000. "In recent years, you lose a job in Michigan, you gain a job in South Carolina," Gillette said.

GM's job cuts will take a toll on some states and local communities. "Clearly, it's going to be devastating for Michigan," where unemployment is at a national high of 12.9 percent, said **Iihan Geckil**, a senior economist covering the auto industry for Anderson Economic Group in East Lansing, Michigan.

Allen County, Indiana, near Ft. Wayne, is hurting after GM temporarily closed a plant that makes Chevrolet Silverado pickup trucks. Unemployment in the county was already 9.5 percent in April, according to state government figures, before the closure idled workers at GM and nearby suppliers.

"Obviously we're going to take a hit," said **Scott Harrold**, senior economic development specialist for Allen County.

The recession already was taking a toll as demand for autos dropped.

Car and light truck **assemblies** fell to an annual rate of 4.88 million in April, the Federal Reserve reported, down from an 8.45 million monthly average rate in 2008. GM said last month it would build 390,000 vehicles in North America during the second quarter, down 53 percent from a year ago.

"By the time they go to court, bankruptcy's impact on the overall economy won't be that big," Geckil said. "The impact has already happened."

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