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Carmakers Tripped Up by Choppy Present as They Chase an EV Future

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6–8 minutes

Automakers are warning of profit pressures in their traditional car businesses, a fresh worry that adds to the challenges already posed by the industry's costly transition to electric vehicles.

Ford Motor, Tesla and Jeep-maker Stellantis last week saw their share prices hammered after posting results that fell short of Wall Street's expectations. General Motors beat estimates and raised its full-year profit outlook, but its shares also sank.

Reasons for the pressure on profits ranged from warranty expenses and bloated vehicle inventory to trouble in overseas operations. Taken together, they signaled to investors that carmakers—while pushing toward a transformation to tech-infused electric vehicles—are facing speed bumps.

One particular concern among auto investors has grown louder: The strong pricing power that carmakers have enjoyed in the pandemic era is slowly fading. Several auto executives warned that in the second half of the year, they expect the average price paid by customers will edge lower.

"The results of our competitors are not demonstrating that price pressure is going to vanish," said Carlos Tavares, chief executive of Stellantis STLA -0.87%decrease; red down pointing triangle▼, which also makes Ram vehicles.

Car companies for years have made the case that they are ready to become technology companies, with plans to transform cars into battery-powered smartphones on wheels. Those ambitions, coupled with an unprecedented run of profitability fueled by stout pricing, lifted stocks.

Wall Street's enthusiasm for that vision has faded, as U.S. electric-vehicle demand hasn't taken off as expected. Now, with signs that pricing is losing steam as the American car buyer grapples with high interest rates, investors are looking for reasons to stick around.

"The overarching feeling for the auto industry is that the good times can't last," said Martin French, managing director at auto consulting firm Berylls Strategy Advisors.

Pointing to brighter future

Automotive CEOs tried to persuade Wall Street to look beyond the emerging trouble spots in their current operations to focus on the promise of their future bets.

Tesla TSLA 4.19%increase; green up pointing triangle▼ last week posted a second straight quarterly profit decline as earnings fell short of analysts' forecasts, hurt by pricing pressure on EVs, especially in China. Chief Executive Elon Musk reiterated his view that Tesla's future is tied to autonomous cars and humanoid robots, rather than screwing together cars.

"The value of Tesla overwhelmingly is autonomy," Musk said in response to a question about whether Tesla's EV business would be hurt if EV-related tax subsidies in the U.S. were curtailed. "These other things are an annoyance relative to autonomy."

Tesla's stock price fell 12% the next day and finished the week down 8%.

Ford badly missed profit forecasts largely because of costs related to safety recalls and other fixes on older models. On a call with analysts, Chief Executive Jim Farley tried to steer the conversation back to Ford's software for commercial fleets and the company's plans to develop low-cost EVs.

Wall Street remained fixated on the unexpected profit shortfall, sending shares down 18% the next day, the biggest one-day drop in more than 15 years.

"The market is not ready to give the company credit for these new and exciting projects," Morgan Stanley analyst Adam Jonas said.

'Not without growing pains'

Automakers have touted bold makeovers before, only to see their visions fade and return to their industrial, low-margin roots. Many automakers invested heavily in driverless cars and vehicle-sharing ventures in the mid-2010s, for example, only to unwind those projects after they hit technical hurdles or the business case didn't materialize.

Executives from the traditional automakers say they aren't abandoning their push into electrics, although some continue to curtail investments in new factories and EV models. Government crackdowns on tailpipe emissions and the expanding threat from Tesla and Chinese EV makers are creating a sense of urgency.

Those massive investments are pressuring legacy carmakers to wring every penny from their traditional combustion-engine businesses. The record sums American shoppers have been paying in recent years have helped, driven by pandemic-related vehicle shortages that created a seller's market.

Analysts say that if pricing reverses too much, it will eat into the profits the automakers are counting on to help fund that EV transition.

Last week GM said it expects to spend more on discounts to keep buyers interested, a move that will likely ding its bottom line by about $1 billion in the second half of the year. That was enough to rattle investors, despite GM's record second-quarter pretax profit of $4.4 billion.

Higher car prices have stuck around longer than many analysts expected, even as the number of vehicles available on dealership lots has rebounded steadily this year. But analysts and auto executives are factoring in more pricing pressure in the months ahead.

Some analysts point to Stellantis' hefty backlog of Ram pickup trucks and Jeep SUVs. Tavares said the company is considering deals and price adjustments to clear inventory, but also said it might curb vehicle output to tamp down its surplus of cars. Stellantis shares sank 10% over two days following its earnings report.

"Investors are concerned that Stellantis' elevated inventory could eventually lead to aggressive discounting" that would spill over to GM, Ford and other rivals, Barclays analyst Dan Levy said.

That sort of price battle—once a hallmark of the car business—

hasn’t happened since before the pandemic’s onset in early 2020.

Ford’s Farley summed things up this way while explaining the rough quarter to investors: “The remaking of Ford is not without growing pains.”

Ben Glickman contributed to this article.

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