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Ford Reels as Truck Sales Plunge

Soaring Gas Prices Force New Production Cuts; Big Three Facing a Cash Drain

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Ford Motor Co. announced cuts in production for the second time in two months and gave up on ending its losses by next year, as the scramble by all three Detroit auto makers to switch to smaller cars began to raise questions about how they'll get enough cash to ride out the storm.


Alan Mulally

Ford said the plunge of U.S. truck and SUV sales due to record-high gasoline prices was forcing the new cuts, and even pushing back the launch of its redesigned F-150 pickup truck that once was expected to drive the company's recovery. The moves suggest the company is bracing for a greater loss in 2008 than its $2.7 billion loss last year, and Ford said it no longer expects to break even by 2009.

In the past few days, it has emerged that both Ford and **General Motors** Corp. are seeking ways to raise new capital, while Chrysler LLC is slashing costs to conserve cash. GM Chief Executive Rick Wagoner has said the company has enough cash for 2008 but declined to elaborate beyond that.

In a telephone interview Friday, Ford Chief Financial Officer Don Leclair said the company has enough liquidity to carry it through. But earlier this week Chief Executive Alan Mulally met with billionaire investor and major Ford shareholder Kirk Kerkorian and the two discussed Ford's likely need for more capital, a person familiar with the matter said.

Beyond the next 12 months, it's uncertain what cash the three car makers will have, said Bruce Clark, an analyst at Moody's Investors Service. "We're looking at 24 months that could stress the liquidity positions," he said. "There could be an unabated burn for every quarter for the next eight, nine, or 10 quarters."

Credit-ratings firms Friday warned of impending downgrades of the Detroit Three, raising further concerns about their future cash positions. Standard & Poor's Ratings Services said it was likely to cut ratings on Ford, GM and Chrysler, while Moody's Investors Service put Ford and Chrysler on the path for a downgrade.

GM and Ford led the market down Friday to its lowest close since mid-March. The Dow Jones Industrial Average slid more than 220 points, or 1.8%, in a broad market rout.

Ford fell 51 cents, or 8.1%, to $5.81, and is down more than 36% in the last year. GM dropped $1.00, or 6.8%, to $13.79 -- its lowest close since 1982.

Ford as of March 31 has cash reserves of $33.8 billion and GM $23.9 billion, but both companies are burning cash and spending billions to develop new models. Greater-than-expected losses this year and next would tighten their cash positions.

Making matters worse, Ford and GM's credit arms, which buoyed the auto makers in the past, are now suffering losses on truck loans and leases as a result of declining values for used vehicles.

Shelly Lombard, a high-yield analyst at Gimme Credit, estimates Ford has a cash cushion of between $7 billion and $9 billion, after accounting for obligations and expected losses. If Ford's losses increase, its cushion will decline, which could put the company in a tough position. "Everyone has a plan until they get punched in the face and a $4 gas price is a punch in the face," Ms. Lombard said.

Ford executives say the company has cash for at least a couple of years, and that despite the current problems, the company will rebound. They believe at least some buyers will come back to trucks after this year, including the F-150. Ford plans to increase passenger car production by 15% in the third quarter. Ford also is working to bring small cars from its European unit to the U.S., and is looking at converting at least one U.S. truck plant to car production.

Like Ford, GM is slashing production overall to try to stave off a revenue implosion from fast-falling U.S. sales of pickups and sport-utility vehicles, which generate a huge chunk of Ford and GM's revenue and profits. So far this year Ford's truck sales are down 14% and GM's 22%, and both are seeing much steeper drops in the last two months.

Chrysler, which as a private company no longer reports earnings, faces similar issues and is looking closely at additional cuts to its truck production. A spokesman said the company is sticking to its plan to launch a new Dodge Ram pick up this fall. But a person familiar with the matter said Chrysler has planned for a deep drop

Tough Sell

Sales of some of Ford's top trucks and SUVs, through May

Model	2008 sales	Pct. change from '07
Expedition	28,686	–30.6%
Explorer	43,116	–28.7
F-Series	235,924	–18.7

Source: Autodata

in vehicle sales in 2008.

Each of the Big Three is likely to report big declines in sales in June. GM, the leader in the U.S. market for decades, could fall behind Toyota Motor Corp. for the month for the first time, according to a report by J.D. Power & Associates on sales in the first half of the month.

On Friday Ford said it is delaying the much-anticipated F-150 launch for two months, until November. It also said it no longer expects to break even in 2009. In April Mr. Mulally said the company expected to make money next year, and in May, after the drop in truck sales worsened, scaled that back to break even.

The retreat represents a black eye for Mr. Mulally. He had appeared to have the company heading in the right direction when Ford surprised investors with $100 million in net income in the first quarter. Now the former Boeing Co. executive is working on a crash effort to cut its cash outflow and ramp up production of more fuel-efficient vehicles like cars and crossovers.

"Clearly, we are working our way through changes in the marketplace," Mr. Mulally said in an interview. "We're trying to give the best guidance we can."

The rise of gas prices set off a dramatic shift among U.S. car buyers. Trucks that used to be strong sellers suddenly piled up in dealer inventories and consumers started flocking to small cars. Those had traditionally appealed to a smaller segment of the market dominated by Toyota and Honda Motor Co., which had already battered the U.S. makers with their lower cost structures, higher margins and rising sales.

A few years ago both Ford and GM faced questions about whether filing for bankruptcy protection was a real possibility, but such speculation is now revving up again. It comes just months after the auto makers signed new union contracts that are expected to bring Detroit's labor costs in line with those of their Japanese rivals. But the sharp rise in gas prices this year has hit the Big Three hardest because of their heavy reliance on trucks for most of their sales and profits.

"Their wiggle room right now is almost nonexistent," said Tad Howard, president of financial consulting firm Nassau Financial LLC in Potomac, Md. "I think it's a hopeless situation short of two things -- a government bailout or additional cooperation from the [United Auto Workers union]. So in some ways, bankruptcy may be an attractive alternative."

In addition to funding ongoing operations, each of the Big Three has agreed to put billions of dollars into a trust fund over the next few years to cover the costs of health care for their retired UAW workers.

Company spokesman Mark Truby said Ford doesn't believe the company is at any risk for bankruptcy.

GM has been burning through about $3 billion in cash on a quarterly basis. Negative cash flow is usually worst in the third quarter when auto makers shut down plants for a two-week summer vacation. A person close to GM's financial situation estimates the auto maker could run through at least $5 billion in the second half of the year.

Getty Images
Country music singer Toby Keith, left, talked to Ford Americas President Mark Fields during the introduction of the 2009 Ford F-150 at the North American International Auto in January.

"Liquidity is the company's biggest concern right now," one large investor said Friday. "They need to come up with a funding plan, and need to prove to Wall Street they have a strategy to back that plan up.

In recent weeks, GM has said it will shutter four truck and SUV assembly plants by 2010, and cancelled development of new pickups and SUVs slated to hit the market in about 2012.

GM has about $7 billion in credit lines it can tap for working capital, but analysts fear that accessing those loans would send a signal to Wall Street that it is out of options. The auto maker is looking at ways of raising more financing, possibly by issuing new equity or a convertible debt offering, or pledging assets for loans, people familiar with the matter said.

On Friday Ford said it now expects to produce about 265,000 trucks in the third quarter, down from a forecast of 330,000 in May. In the third quarter of 2007, it made 455,000 trucks. The deep cuts mean one plant in Dearborn, Mich., that makes the F-150, for instance, will be shut down for 11 of the 13 weeks in the third quarter. A substantial cut in truck production also is scheduled for the fourth quarter.

Ford is pushing back the F-150 launch in part to gain more time to clear out its inventory of current model-year trucks. Ford is struggling to sell the 2008 versions with consumers fleeing to cars and crossovers. Even a move this month to offer "employee pricing," the discounts the company gives it employees, has not helped move F-150s out of the dealerships. "It's been a blip on the radar screen," Carlos Garcia, a sales manager at North Country Ford Lincoln Mercury in Coon Rapids, Minn., said this week of the incentive program.

Consumers' shift from trucks to cars comes as total vehicle sales already are slumping to lows not seen in decades. In the first half of June, normally a strong month, U.S. light vehicle sales were running at an annualized rate of just 12.5 million, down from 16.4 million a year ago, according to J.D. Power.

--Neal E. Boudette contributed to this article.