US: Ford posts record quarterly loss

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29 July 2008

Ford, the second largest US carmaker, reported an $8.7 billion loss for the second quarter of 2008, the largest one quarter deficit in the company's history. The loss comes amidst a collapse in demand for large trucks and sport utility vehicle—on which the company has been heavily dependent—due to surging gas prices.

While a large portion of Ford's loss reflected non-cash write downs in the value of plants, equipment and unprofitable leases, the company is in deep financial crisis stemming from plummeting sales of its larger, more profitable vehicles. According to one estimate, Ford is using up $700 million in cash per month. Like its larger counterpart, General Motors, Ford faces the very real possibility of being forced into bankruptcy in the next period.

Some $2.1 billion of the loss reflects the drop in value of leases due to the huge decline in the resale value of trucks and SUVs, which have lost about 25 percent of their resale value since last year. Another $5.3 billion reflects a write down in the value of plants and equipment producing large, fuel-inefficient vehicles.

It is considered likely that GM will also be forced to take a big write down in the value of its leases when it reports its quarterly earnings.

Following the report of its loss, shares of Ford stock fell 15 percent. The firm's market capitalization now stands at around $13-14 billion, less than one tenth the value of Toyota. Ford recently indicated that the continued decline in vehicle sales makes it impossible for the company to fulfill its plans to return to profitability in 2009. Ford sales fell 28 percent in June and SUV sales fell 55 percent. Overall US auto sales are at their lowest level in 15 years.

Rising fuel, steel and other raw material prices and falling sales due to the slowing world economy are also hitting European automakers. Germany's Daimler AG reported a 26 percent decline in profits for the second quarter. French car maker Renault reported a 12 percent profit increase, but cut its sales forecast for next year by 10 percent. Media reports say the number two French carmaker may lay off as many as 7,000 workers.

A report in the July 25 edition of the *Wall Street Journal* cast doubts on the ability of Ford to reverse its decline by converting its factories from truck production to the smaller, more fuel-efficient car models it now produces only in Europe. "Will Ford have enough cash to keep going until the new European models arrive, and will it sell enough of those vehicles to make a healthy profit?

"Liquidity is a critical issue. In the first half of the year, Ford used up $8 billion in cash, leaving its gross cash reserves at $26.6 billion."

Ford is planning to convert three of its truck plants to small car production. It plans to bring six of its European models to the US by 2012.

A finance professor from New York University's School of Business projected that Ford and GM have a 46 percent chance of default within the next five years. "Both are in serious shape and the markets show that." He went on to say that the mathematical model he uses to calculate bankruptcy risk indicates the two companies are "on the verge of bankruptcy."

Ford expects sales to fall even further this year, leaving it with just a 14 percent US market share. It had a 14.7 percent market share in the first six months of 2008. Ford recorded combined losses of $15.3 billion for 2006 and 2007.

In 2006 Ford mortgaged virtually all its plants and equipment in order to raise $18 billion for a restructuring that involved the elimination of more than 40,000 jobs.

Ford, which marked its 105th anniversary in June of this year, is the oldest of the three surviving US-based automakers. Its financial troubles, along with those of GM, are a telling indication of the decline of American capitalism.

The company's founder, Henry Ford, pioneered the assembly line method of mass automobile production that established the United States as the world's foremost industrial power and made Detroit the world automotive capital. As late as 1979 US automakers accounted for 90 percent of US car sales. In 2007 their share of US car sales dipped below 50 percent for the first time.

As Ford and other US automakers move deeper into crisis they are intensifying their demands for sacrifice from workers. Ford is stepping up its attempts to slash jobs and reduce costs with a new round of job buyouts. Beginning July 28 it is offering buyouts to workers in Ohio and Michigan whose plants have temporarily shut down or that are eliminating shifts. The facilities affected include truck and sports utility vehicle assembly plants as well as stamping plants and parts plants. Workers at plants in Indiana and Kentucky are also being included in the buyout offer.

Ford can replace senior workers who choose to take buyouts with new hires earning $14 an hour, about one half of standard wages. New hires also receive substantially lower benefits. Under special terms agreed to by the United Auto Workers union, Ford can use lower-paid new hires for any job, not just so called non-core positions.

The new buyouts are in part motivated by the fact that fewer workers than expected took buyouts offered by the company earlier this year. Ford is also seeking to cut one third of its salaried workforce.

An analyst quoted in an Associated Press report said, regarding the new round of buyouts, "This is now to try to get expensive workers out and less expensive workers in."

In the wake of Ford's announcement of a massive second quarter loss UAW President Ron Gettelfinger issued a statement indicating the UAW's willingness to hand over even more concessions. While denying that he planned to reopen the 2007 contract, he told a Louisville newspaper, "We're looking at moving forward to help the company, wherever we can."

A bankruptcy filing by Ford could put in jeopardy the billions in dollars in cash and securities Ford is scheduled to turn over to a UAW-administered retiree health care trust fund, the Voluntary Employees Beneficiary Association (VEBA), established as part of the 2007 contract talks. Ford pledged to contribute $13.2 billion in cash and securities to fund the VEBA in exchange for offloading its $22 billion in retiree health care obligations. The deal will make the UAW a major shareholder in both Ford and GM, thus binding the interests of the union bureaucracy even more closely with those of management.

However, given Ford and GM's dire financial condition, the future value of the stock and other financial instruments pledged to fund the VEBA are open to question, raising the specter of the collapse of the entire project.