Ford cuts production -- McTevia tells Associated Press that industry will echo Ford's moves

Ford cuts North American production, cuts profit goal

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DETROIT (AP) — Fast-rising gas prices claimed their latest victim Thursday: Ford Motor Co., which dropped its goal of becoming profitable by 2009 and said it will cut production of trucks and sport utility vehicles through the rest of this year. It was a warning shot to the rest of the beleaguered U.S. auto industry, which is facing its worst sales in more than a decade.

Dearborn-based Ford didn't rule out layoffs or plant closures as it retrenches in a slumping industry, saying it would release more detail about its cost-cutting efforts in July. Ford cut its forecast for U.S. light vehicle sales this year to between 14.7 million and 15.1 million, down from 17 million as recently as 2005. If sales drop as low as 14.7 million, it would be the slowest year for U.S. vehicle sales since 1993, according to Ward's AutoInfoBank.

Ford said it will cut North American production by 15 percent in the second quarter, 15 to 20 percent in the third quarter and 2 to 8 percent in the fourth quarter. The cuts will primarily affect pickups and sport utility vehicles, which have seen sales plummet in recent months due to rising gas prices, the weak economy and the slowdown in new home construction.

Production cuts hurt automakers' revenues because the companies book vehicles as sold when they leave the factory.

"We all would like the basic business environment to not have deteriorated, but clearly the most important thing we can do for the long-term success of the Ford Motor Company is deal with this reality," Ford President and Chief Executive Alan Mulally said in a conference call Thursday.

Mulally said the company expects a longer and slower recovery than it did several weeks ago and won't immediately set a new profitability target. Ford predicts gas prices will be in the $3.75 to $4.25 range for the remainder of the year.

It was a stunning turnaround from last month, when Ford posted a surprise first-quarter profit of $100 million and billionaire investor Kirk Kerkorian announced plans to buy up to 20 million shares of Ford stock because of his confidence in the company's direction. Ford said Thursday its board voted to remain neutral on Kerkorian's offer.

Ford shares dropped 65 cents, or 8 percent, to $7.15 in late afternoon trading.

Still, some analysts cheered Ford's actions, saying the company is adequately responding to the challenging market.

"Ford has been very cautious on production already, and I think they want to prevent inventories from building up at the dealers," said Burnham Securities auto analyst David Healy. "They're pretty clear-sighted and they wanted to lay it all out."

James McTevia, a Detroit-area turnaround specialist, said the U.S. market isn't likely to improve this year, so Ford's moves will likely be echoed throughout the industry.

"Ford is doing the right thing. I expect other manufacturers will follow and I expect other manufacturers will continue to focus on the offshore consumer, which is where most domestics are focusing right now," he said.

General Motors Corp. cut its forecast for U.S. sales last month and has said it would cut second-quarter production in North America by 5 percent. But GM is under less pressure to make further cuts because of a nearly three-month strike at supplier American Axle and Manufacturing Holdings Inc., which affected more than 30 GM plants and cost the automaker more than 100,000 vehicles, mostly trucks and SUVs. GM spokesman Chris Lee wouldn't say whether GM plans additional cuts.

Chrysler LLC quietly cut North American production by 16 percent in the first four months of this year, but won't say how much more it might cut, spokesman Ed Saenz said. Toyota Motor Corp. and Nissan Motor Co. said they also have cut North American production to meet lower demand.

Bruce Clark, an auto analyst with Moody's Investors Service, affirmed Ford's credit ratings and said the automaker is in the best position of any U.S. automaker to weather the storm because of its gross liquidity, which stood at $40.6 billion as of March 31.

Clark said the greatest challenge for Ford will be maintaining its U.S. market share at 14 percent, successfully launching new cars and crossovers and making those smaller vehicles more profitable.

"Absent evidence of steady progress in these areas, Ford's rating could come under pressure later in 2008," Clark said.

Ford said it will increase production of cars and crossovers through additional shifts and overtime.

As recently as 2004, trucks and SUVs accounted for 70 percent of Ford's sales volume, according to

George Pipas, Ford's top U.S. sales analyst. That has reversed completely: Retail sales of trucks and SUVs accounted for just over 30 percent of sales in April, he said. Ford's smallest offering, the Focus sedan, saw sales jump 29 percent in the first four months of this year.

But Ford remains heavily reliant on the kinds of large vehicles that have been struggling in the current market. Ford's F-series trucks, long the best-selling vehicles in the U.S., were down 16 percent through April. Sales of the Ford Expedition, the brand's largest SUV, fell 27 percent.

Still, Mulally said the company is not considering dropping any trucks or large SUVs from its lineup. Instead, it is working on improving fuel economy.

"There's always going to be a market for the truck-based platforms for their capability to tow and haul," Mulally said.

Ford also plans to accelerate the North American introduction of some of its small cars from Europe and South America. Mulally gave no details on what vehicles might come to the U.S., but did say Ford can't get the subcompact Ford Fiesta to the U.S. any faster than 2010. That puts Ford at a disadvantage to Toyota, Honda Motor Co. and others with subcompacts, which saw sales shoot up 33 percent through April.

"We're also really trying to understand what the real demand is going to be from this point forward," Mulally said.