

Ford woes may color UAW talks

Union may put focus on weakest of Big 3

By Rick Popely | Tribune staff reporter
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Analysts expect Ford Motor Co. to report its eighth quarterly loss in a row Thursday, though Ford's plight could help the three domestic auto manufacturers build a stronger case for concessions in negotiations with the United Auto Workers union.

Ford lost \$12.6 billion last year and doesn't expect to show a profit until 2009, putting it in the most precarious position of the domestics. General Motors Corp., which will report second-quarter results Tuesday, is the only one expected to make money this year.

The UAW kicked off negotiations for a four-year national contract Friday and traditionally targets the most profitable company to set a pattern for the others. This time, David Cole, chairman of the Center for Automotive Research, sees Ford as the target.

"They will very likely go to Ford first so the pattern doesn't kill the weaker company," Cole said. "The union is very aware of the financial issues, and it will be a different kind of negotiations. They can't do anything to hurt the weakest company when it's so close to the edge of the cliff. They have to do something that helps keep Ford in the game."

Ford's fragile condition, he said, "reinforces the urgency" that the UAW needs to make more concessions on issues such as health-care costs and retiree benefits. The domestic carmakers contend that those benefits are the main reasons their manufacturing costs of about \$75 an hour are \$30 more than those at Japanese plants in the United States.

If Ford's situation were to worsen, that would only cost more union jobs, Cole said. More than 80,000 UAW members have retired or taken buyout offers from the domestics the last two years, lowering membership to a little over 500,000. At its peak in 1979, the union had 1.5 million members.

UAW President Ron Gettelfinger said the union hasn't selected the lead company for negotiations. He said, however, that the union has made several concessions the last two years, including on health benefits.

Cole, however, said he thinks the UAW will make more concessions and could agree to take over retiree health-care benefits, removing a \$90 billion liability from the automakers.

"There needs to be significant improvement in health-care costs," he said. "It can't be business as usual."

Ford no longer gives financial guidance, but the consensus among 15 analysts surveyed by Thomson Financial is that it lost 36 cents a share in the second quarter on an operating basis, compared with 3 cents a share a year ago. Ford lost 9 cents per share in the first quarter before charges.

Burnham Securities analyst David Healy said he thinks Ford's biggest problem remains declining sales of large sport-utility vehicles, such as the Explorer and the Expedition. Those models no longer generate gross profits of \$5,000 to \$10,000 per vehicle as they did in the late 1990s, and neither do the new crossovers such as the Ford Edge and Lincoln MKX, he said.

"The steep sales decline [of large SUVs] crunches their profit margins, and the price competition is now tougher," Healy said. "The new models are profitable, but they don't compare with the good old days."

Ford has reduced annual costs by \$2 billion through job cuts, plant closings and streamlined operations, but Healy said increasing revenue will be tougher in the face of declining sales and stiff competition. Ford's U.S. sales are down 11 percent this year, and it is likely to cede second place to Toyota this fall, behind GM.

"I think there's a recovery coming, but their cost-cutting programs will be more successful than their new products. You can't just order up profitable new models," he said.

Ford is shopping its three European brands, Jaguar, Land Rover and Volvo, for possible sale.

GM looks healthier by comparison. The analysts' consensus is that it will post earnings of \$1.14 a share in the second quarter, down from \$2.03 a year earlier. GM, which also doesn't give guidance, had a \$2 billion net loss last year because of restructuring charges but earned 11 cents a share in this year's first quarter.

The Chrysler Group, which lost \$2 billion in the first quarter after restructuring charges, will soon separate from German-based DaimlerChrysler AG. Private-equity group Cerberus Capital Management said in May it would buy an 80 percent stake in Chrysler for \$7.4 billion, and the deal is expected to close in early August.

Because of the pending sale, Daimler did not include Chrysler's results in its second-quarter earnings report Wednesday. Operating profit jumped 75 percent at Daimler's Mercedes car group, to \$1.63 billion, and 3 percent at the commercial truck division, to \$813 million. Full results, including Chrysler's, are due Aug. 29.

Cole called Cerberus a "wild card" in the UAW negotiations because it is known for cost cutting to quickly turn a profit.

"They aren't known for their benevolence toward employees. They're in this game for one reason," he said. "Cerberus is going to do whatever it takes to make the company profitable."

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