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## Ford May Seek U.S. Help as Economy Imperils Sales (Update3)

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By Keith Naughton



Jan. 12 (Bloomberg) -- **Ford Motor Co.**, the second-largest U.S. automaker, may have to abandon a plan to forgo federal loans as the weakening economy threatens to drive domestic sales 10 percent lower than the company's forecast.

Ford predicts that **U.S. light-vehicle sales** will reach 12.2 million units this year, almost 2 million more than the annualized sales rate over the last 3 months. Chrysler LLC forecasts that sales may reach 11 million, while **General Motors Corp.** projected a range yesterday of 10 million to 11 million.

"The market will not reach 12.2 million units this year, no way, no how," said **John Wolkonowicz**, an IHS Global Insight analyst. The Lexington, Massachusetts-based consulting firm trimmed its 2009 sales estimate last week to between 10 million and 10.5 million.

Sales at that level would trigger the need for as much as \$13 billion in loans, Ford told Congress last month. That would undercut the company's attempt to win customers by portraying itself as Detroit's healthiest automaker, after GM and Chrysler both sought federal financial aid.

The U.S. automakers and industry analysts agree that domestic sales will fall again this year after tumbling 18 percent in 2008 to 13.2 million vehicles, trailing the annual average of about 16 million over the past decade. The size of the plunge is the only dispute.

Citigroup Global Markets Inc. predicts 2009 U.S. sales will be 10.8 million, while Goldman, Sachs & Co. projects an 11- million vehicle market. Automotive consulting firm CSM Worldwide estimated today that sales would be 11.5 million units.

### Comeback Predicted

"We will gradually start to come back in the second half," Chief Executive Officer **Alan Mulally** said today in a Bloomberg Television interview from the Detroit auto show. "We clearly believe we will not see the worst case" for industry sales. Should deliveries slide to 10 million, "we would definitely need to think about recapitalizing," he said.

Chairman **William Clay Ford Jr.** told reporters yesterday that Ford's "game plan is to keep going on our own" and not seek federal loans unless "the world implodes as we know it."

Ford fell 3 cents to \$2.60 at 9:41 a.m. in New York Stock Exchange composite **trading**. The shares rose 15 percent this year through Jan. 9.

Promoting its strength versus domestic peers helped Ford boost market share late last year, as consumers avoided GM and Chrysler out of fear they might go bankrupt, according to a survey conducted by CNW Marketing Research of Bandon, Oregon.

2006 Borrowing

As GM and Chrysler teetered on the verge of financial collapse in late 2008, requesting federal aid as they burned through cash, Dearborn, Michigan-based Ford was able to maintain sufficient **liquidity** thanks to \$23 billion in private borrowing in late 2006. Ford is using the loans to pay for developing new models and shutting factories while weathering losses.

The automaker is scrutinizing its forecast, Chief Financial Officer **Lewis Booth** said in an interview yesterday at the **North American International Auto Show**.

"The longer the bad months continue, the more we wonder about when the recovery will happen," Booth said. "We look at it every month, and we will very quickly react to the reality."

Under its scenario for a U.S. auto market of more than 12 million vehicles, Ford is seeking a line of credit of at least \$9 billion from the government as a financial backstop.

"We're comfortable with where we are, but we have asked for a line of credit, just in case," **Bill Ford** told reporters yesterday.

#### Betting on Stimulus

Ford's assumptions are based on the belief that President-elect **Barack Obama's** economic stimulus efforts will begin bearing fruit by the second half of the year, Booth said.

**Emily Kolinski Morris**, Ford's senior U.S. economist and one of the main authors of the company's sales projection, said most forecasts are "below us right now." Those estimates discount positive effects of the government's efforts to stimulate the economy, she said.

They are "a little extreme," she said. "I don't want to use the term 'depression,' but those forecasts suggest that all these positive things are taking place on paper and that people don't respond."

Americans are likely to start buying again as the average age of cars on the road tops nine years, boosting repair costs, Kolinski Morris said.

#### 'Replacement Demand'

"There is replacement demand out there that is being put off," she said. "There is an economic cost to operating an older vehicle."

Should the worst-case scenario play out, Ford's finances may make it complicated to accept government money.

Under the terms of the 2006 borrowing, those creditors must be paid off first in the event of a bankruptcy. As part of the aid package for GM and Chrysler, the federal government told the automakers to put taxpayers at the front of the line for payment in that situation.

"We could be put in default," Mulally told Congress when asked about what would happen were Ford to take the step required of GM and Chrysler. "But having said that, there just has to be a way -- I'd be committed to figuring out the way -- to get us all together to figure out a way to protect the taxpayer."

No resolution to that issue has been found, because Ford hasn't requested a government loan and doesn't plan to do so, spokesman **Mark Truby** said.

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