Ford's 3Q Profits Might Slip On Higher Costs

DEARBORN, Mich. (AP) — Ford Motor Co. is set to report its third-quarter earnings before the market opens on Tuesday.

WHAT TO WATCH FOR: Ford is expected to report its sixth straight quarterly profit. The Dearborn, Mich., automaker has made the biggest U.S. market share gains of any automaker this year. It's been helped by a strong product lineup — the Ford Edge and Ford Fiesta are among its new products — and missteps at its rivals, including a series of safety recalls at Toyota. Ford has also benefited from goodwill for not taking government bailout money, as General Motors and Chrysler did. In the first nine months of 2009, Toyota held 16.6 percent of the U.S. market and Ford held 15.2 percent; this year, those numbers are reversed.

Still, Ford Chief Financial Officer Lewis Booth warned in the spring that subsequent quarters wouldn't be as strong as the first and second quarters, when Ford earned $2.1 billion and $2.6 billion, respectively. Analysts are predicting a 10 percent decline in revenue from the third quarter of last year. Commodity costs have increased as the global economy improves. Ford has said it's expecting $1 billion in price increases this year for commodities such as steel and copper. Profits from Ford Credit also are expected to dip — fewer cars sold during the recession means fewer payments to collect. And automakers typically produce fewer cars in the fall, which affects profits.

Barclays Capital analyst Brian Johnson wrote in a note to investors that he expects Ford's third-quarter results to be "meaningfully higher" than the same quarter of last year. But he expects a decline from the second quarter due to lower production in North America and Europe.

Pickups could be strong for Ford because buyers are option for more large pickups, Johnson wrote. Larger pickups generally are more expensive and bring in higher profits. Also, light commercial vehicle sales may drive stronger-than-expected results in Europe and South America, he wrote.

But Joseph Amaturo, an auto analyst with Buckingham Research, said in a note to investors that he's concerned about the large pickup segment, where Ford's F-150 is the best-seller. Amaturo said if GM and Chrysler, which have too much inventory, become aggressive with incentives that could impact Ford's pricing on its pickups. He also is expecting a loss at Ford's European operations, where the economy has dampened sales.

Ford also may report the costs of discontinuing its Mercury brand, which is scheduled to end production at the end of the year. And it will have to show investors that it's continuing to eliminate its substantial debt, which stood at $27.3 billion at the end of the second quarter.

WHY IT MATTERS: Car sales are an indicator of the health of the economy, since they are closely aligned to consumer confidence. The U.S. auto industry is recovering from 2009, when sales hit a 30-year low, but the recovery has been halting. Ford has already cut its forecast for full-year U.S. sales, and is now hoping a recovery will remain on track this fall. Automakers have made painful cuts in order to make profits at the lower level of sales, but they may have to cut further if sales don't recover.

WHAT'S EXPECTED: Analysts surveyed by Thomson Reuters are forecasting earnings of 38 cents per share on revenue of $27.8 billion. Barclays' Johnson, though, wrote that he's confident in his prediction of 44 cents per share.

LAST YEAR'S QUARTER: In the third quarter of 2009, Ford earned 26 cents per share on revenue of $30.9 billion.

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