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The 2019 Automotive Outlook: Trade & Labor Relations Issues

Kristin Dziczek – Vice President, Industry, Labor, & Economics (ILE) Group

26th Annual Automotive Outlook Conference

Federal Reserve Bank of Chicago – Detroit Branch

31 May 2019

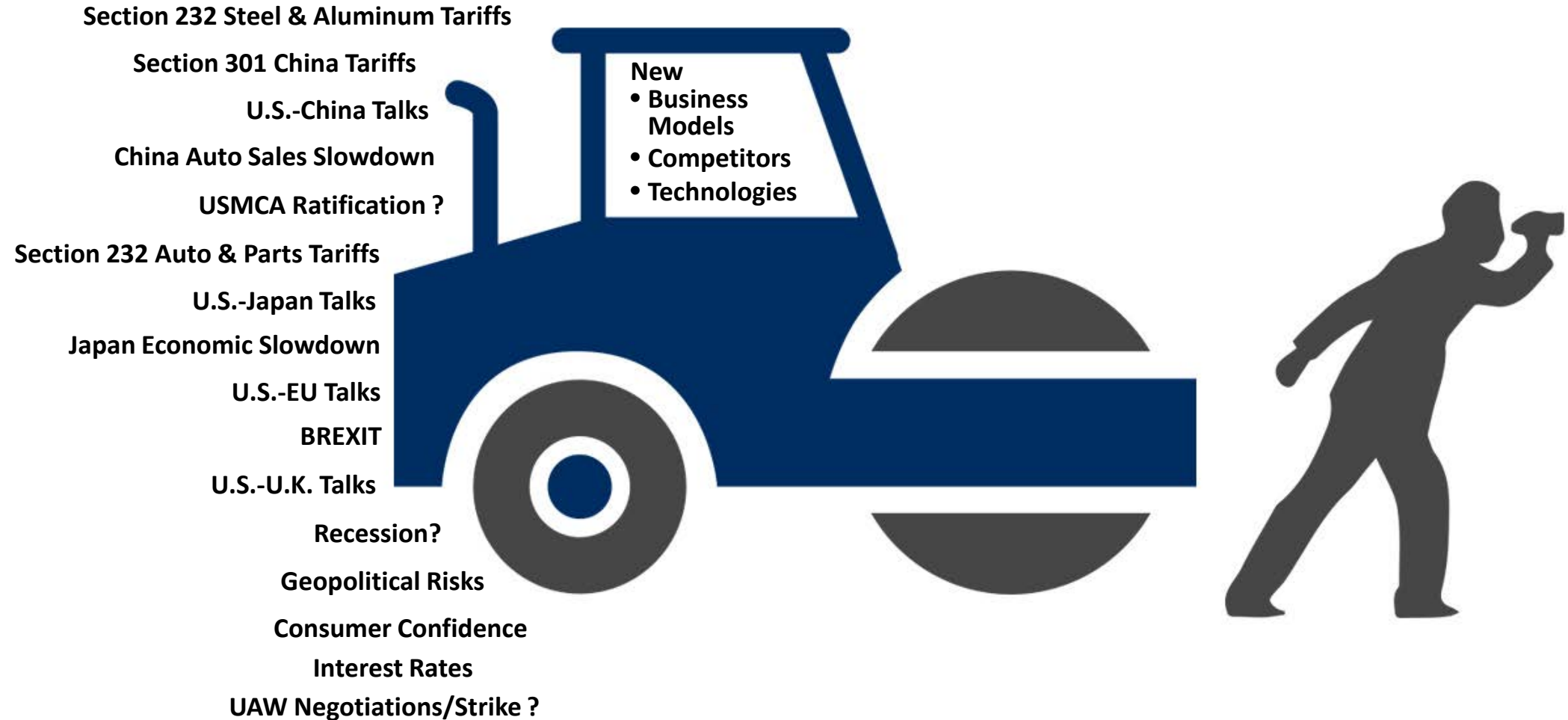
AGENDA

- Sales & Production
- Automaker Investments
- Automaker Announcements
- Trade Update
- UAW Discussion

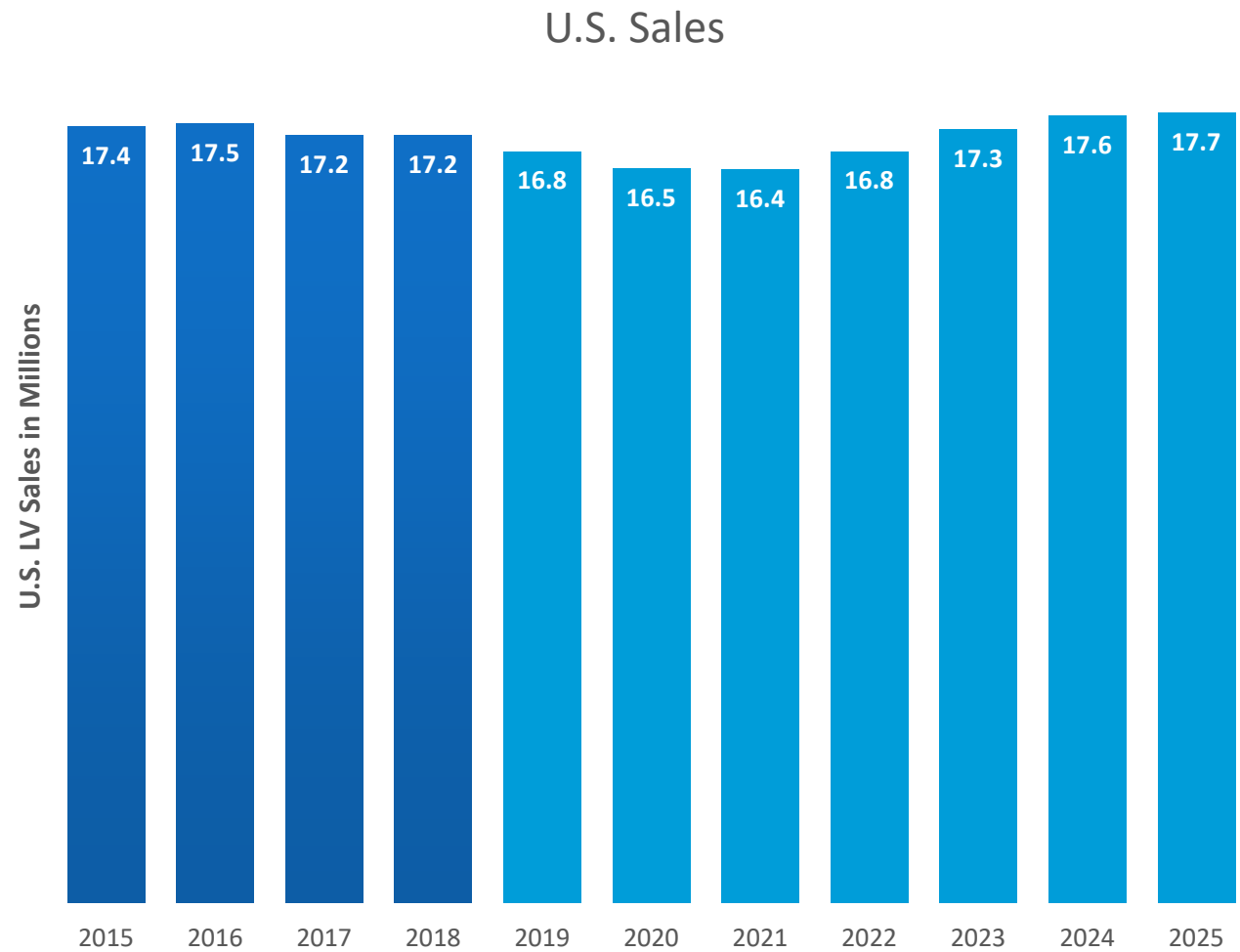
Positive Factors in the CAR Forecast:

- Projected moderate U.S. economic output growth in 2019
- Historically low U.S. unemployment rates
- Relatively low oil prices continue through 2020
- Underlying nominal wage growth continues
- High levels of consumer confidence were reached in Q4 2018, and
- Solid new housing starts and home prices rebounding to pre-recession levels

There are Some Risks to the Forecast that are Difficult to Model...

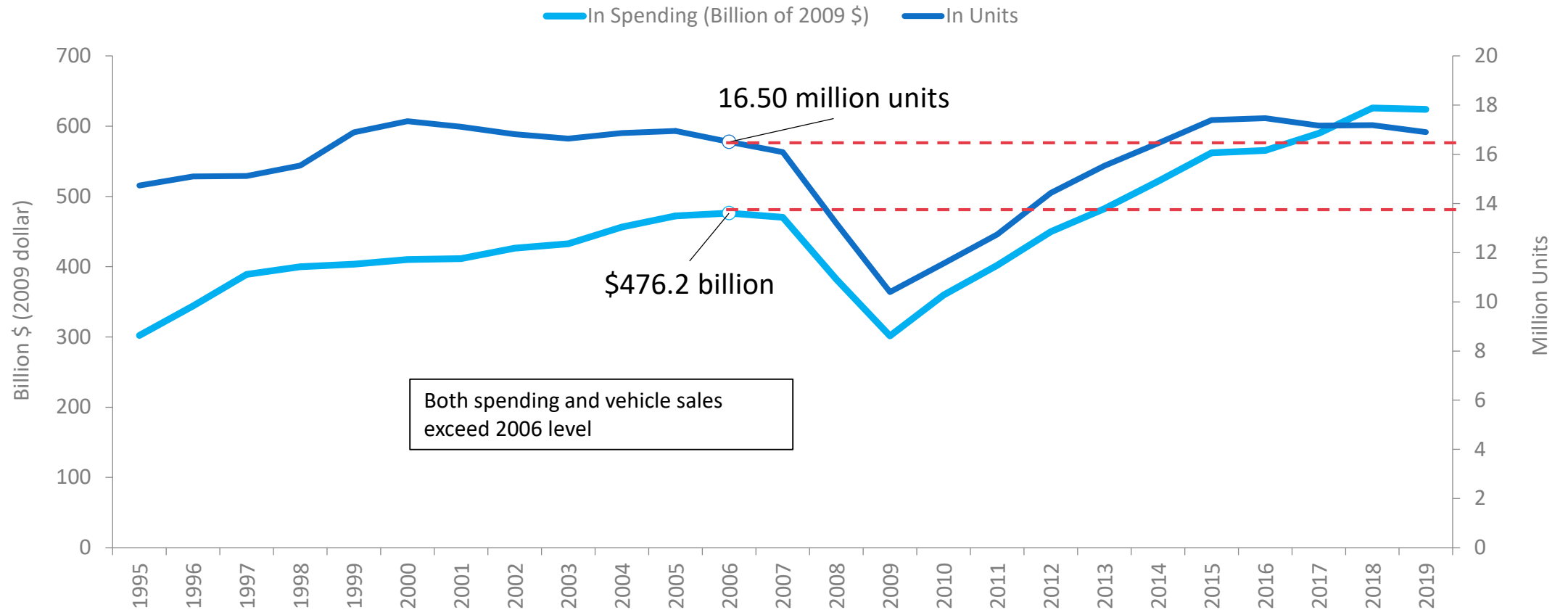


CAR's U.S. Light Vehicle Sales Forecast 2019-2025



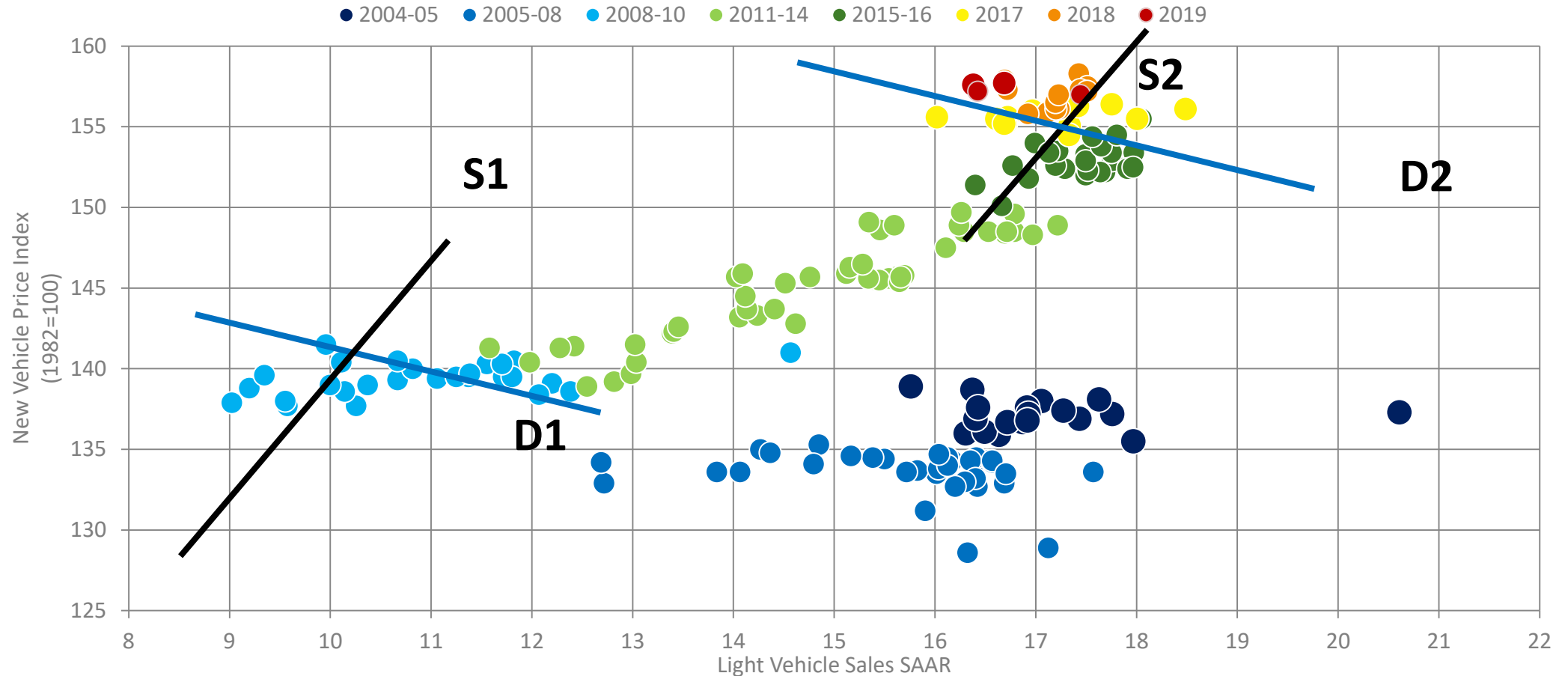
Are Sales Back?

1995 – 2019 YTD (March)



There's been a price shift.

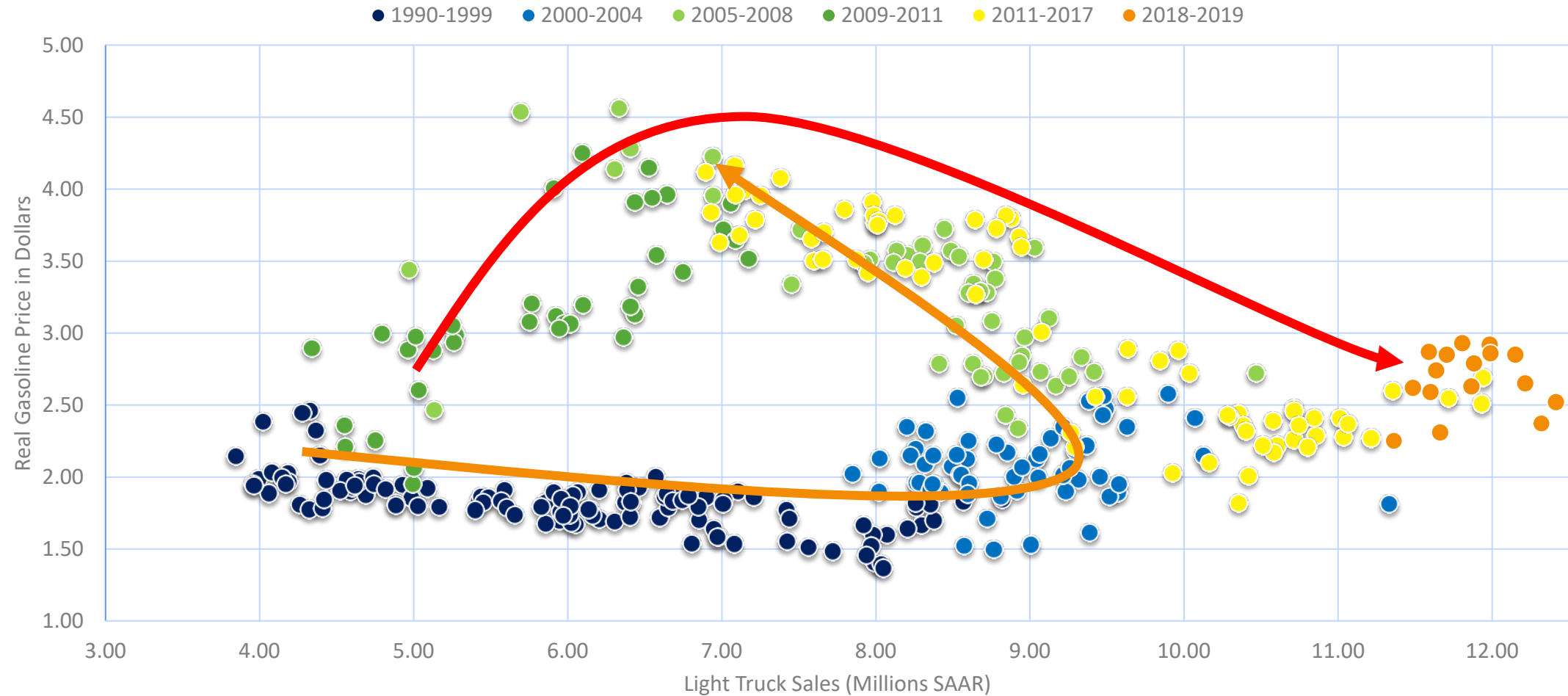
Light Vehicle Sales and New Vehicle Price Index; January 2004 – March 2019



S1: Average sales of Jan '08 – Dec '09
S2: Average sales of Jan '12 – Dec '12

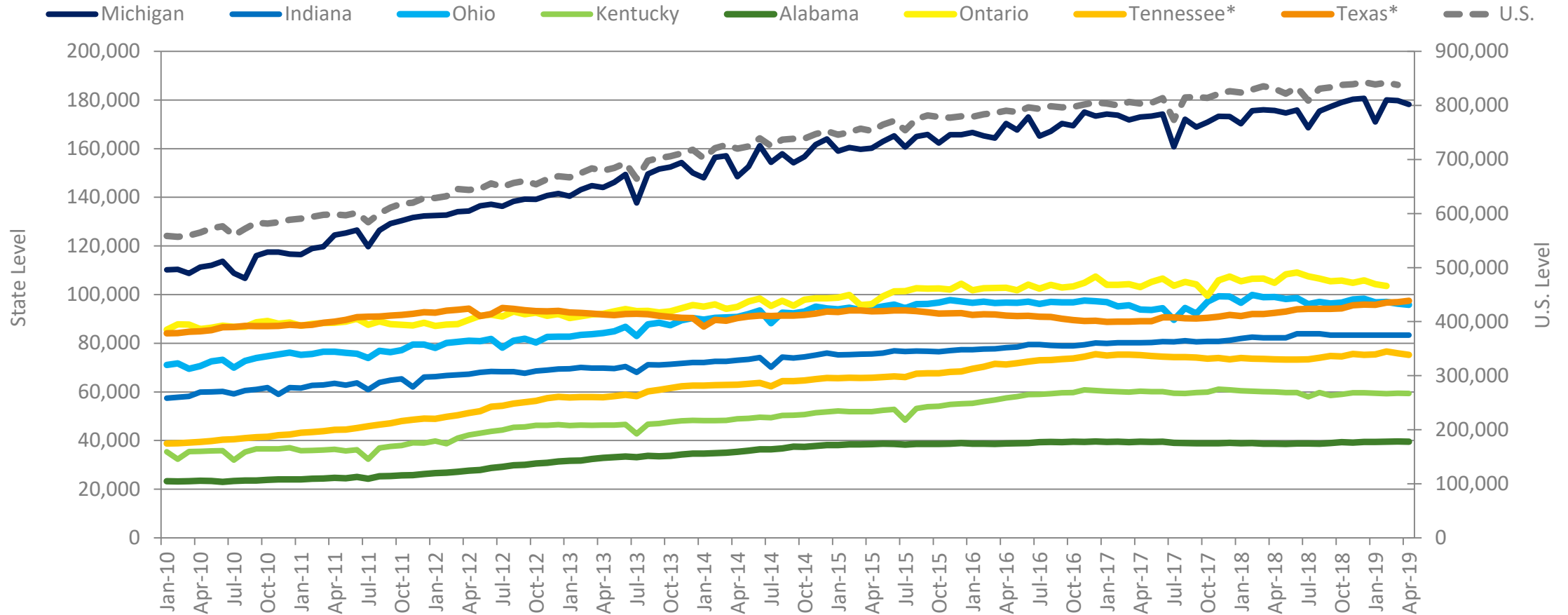
And a pronounced move toward light trucks – enabled by relatively low fuel prices.

Light Truck Sales & Real Gasoline Prices; 1990 – March 2019



U.S. automotive employment growth is slowing.

Motor Vehicle & Parts Manufacturing Employment; January 2010 – April 2019

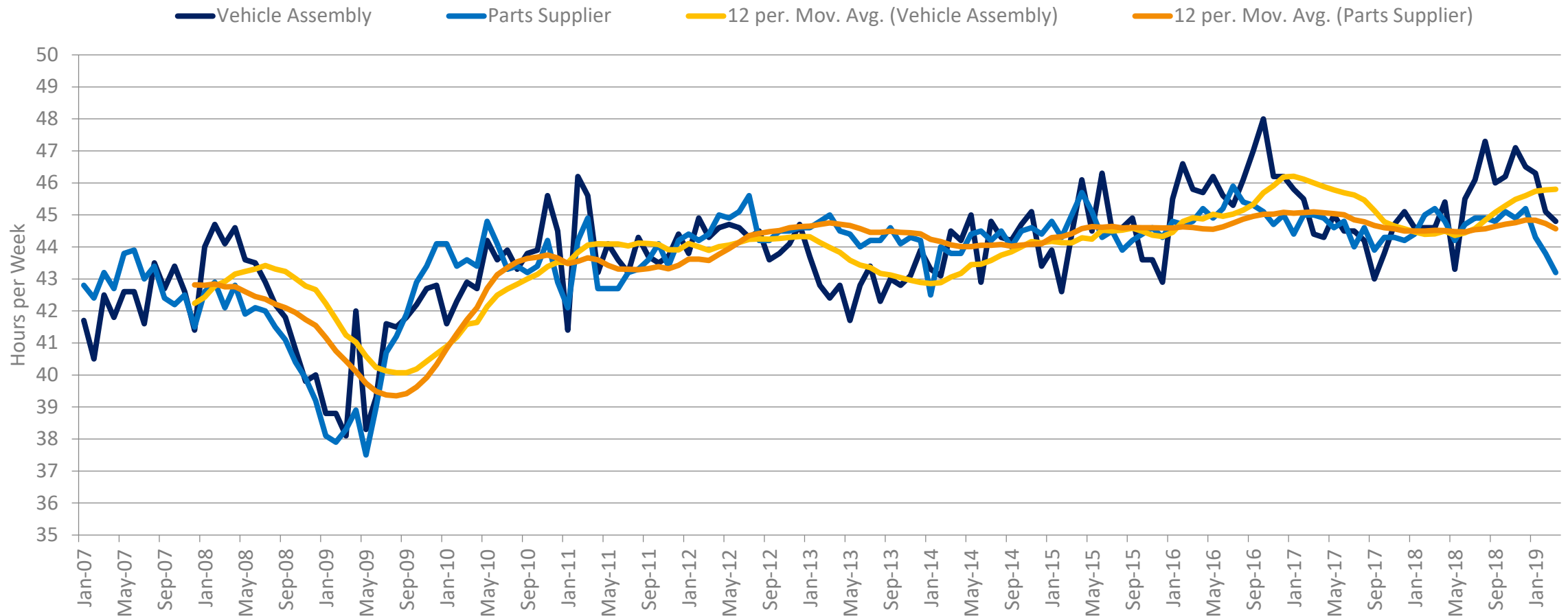


*Transportation Equipment Manufacturing Employment

**National data follows one month behind State data. Indiana employment is estimated.

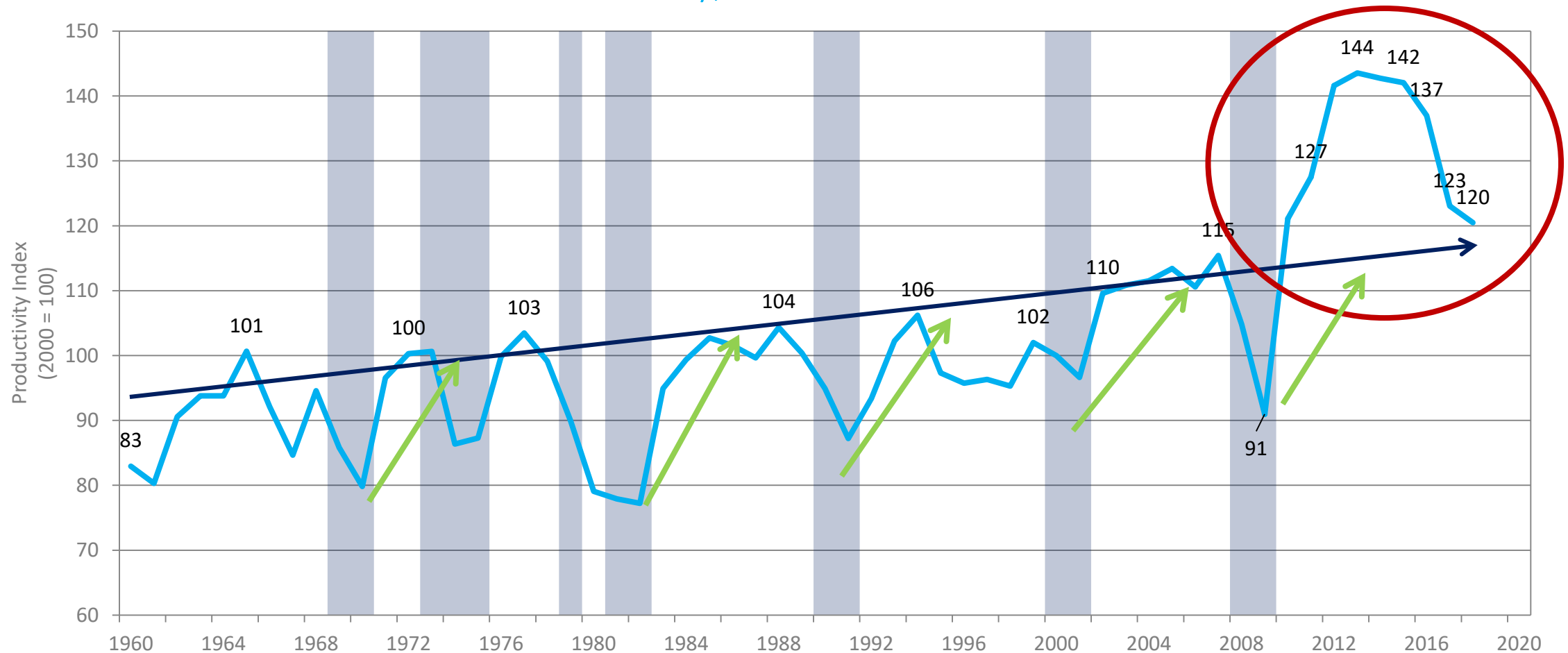
Assembly & supplier overtime hours are steady.

Average Weekly Hours of Production and Nonsupervisory Employees; 2007 – March 2019



Automotive labor productivity falls before (and during) a recession.

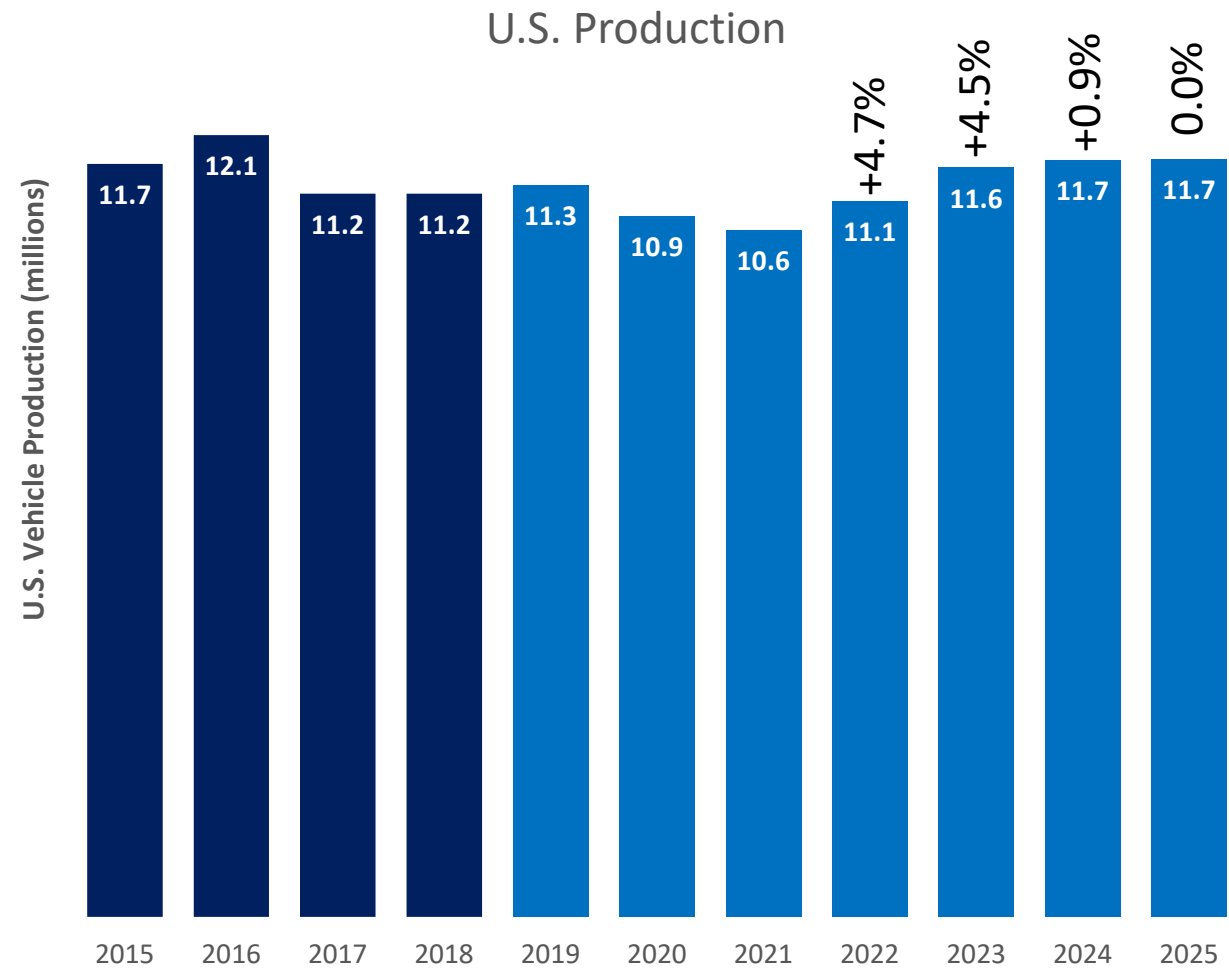
Recessions & U.S. Automotive Productivity; 1960 - 2018



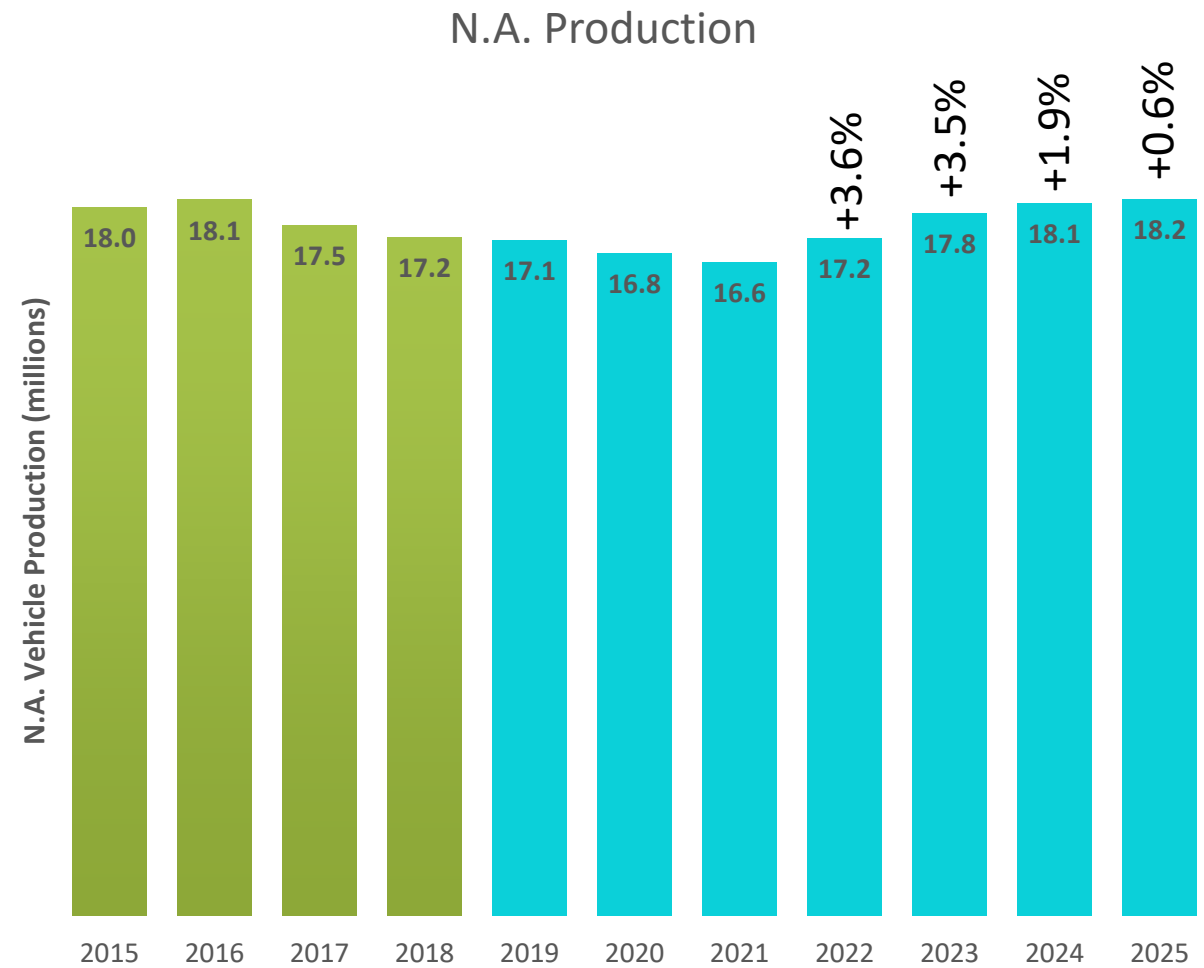
*Automotive Productivity Index consists of SIC 3711/3714 and NAICS 3361/3363. 2000 is the base year.

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CAR's U.S. Light Vehicle Production Forecast 2019-2025



CAR's N.A. Light Vehicle Production Forecast 2019-2025

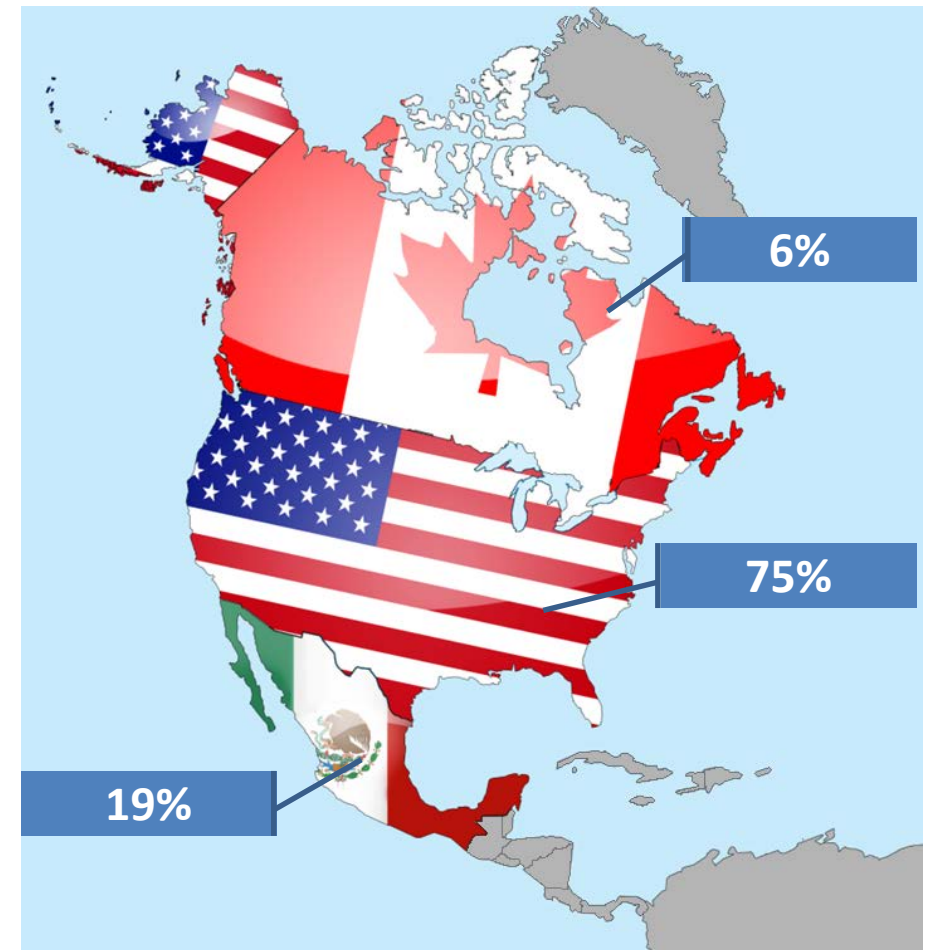


N.A. Announced Automaker Investment by Region

2009 to Q1 2019

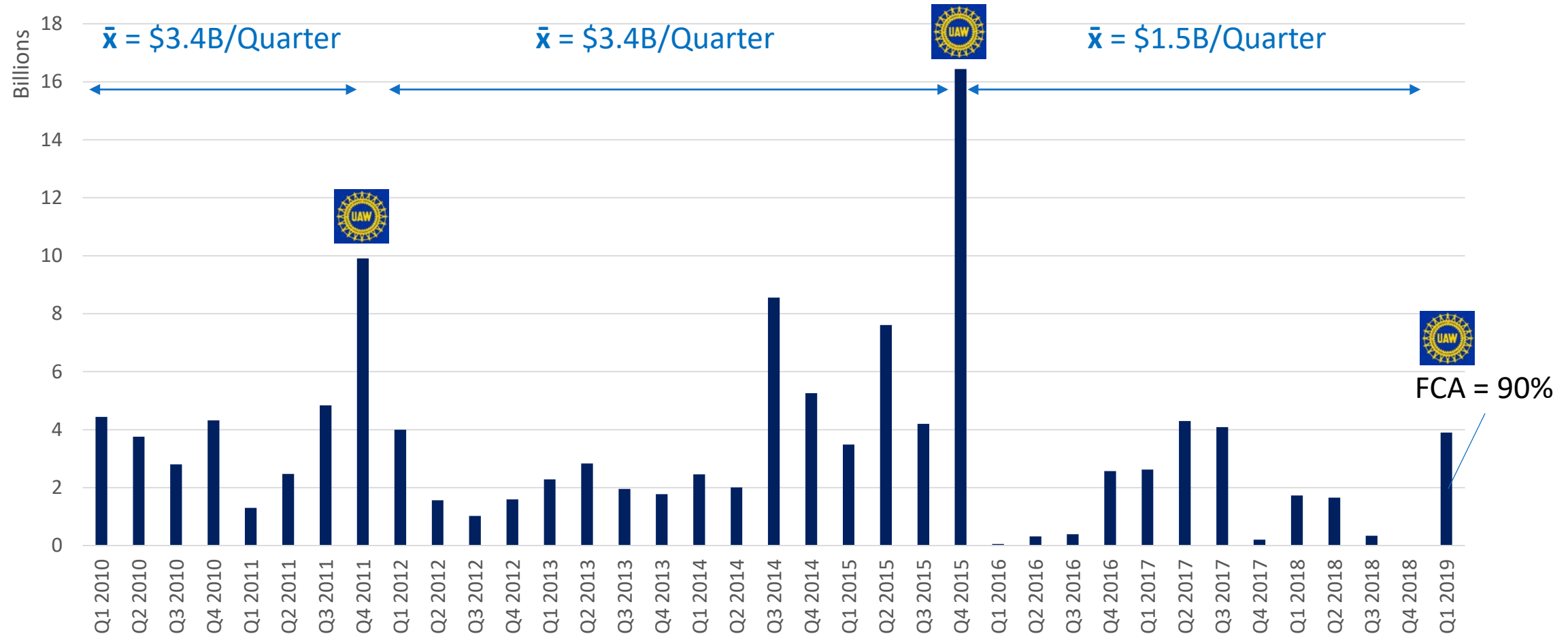
Region	Investment Amount (\$USD)
Canada	\$8.2B
United States	\$98.2B
<i>U.S. Great Lakes</i>	\$63.1B
<i>Michigan</i>	\$32.8B
<i>South</i>	\$22.3B
Mexico	\$24.8B
Total	\$131.2B

Note: U.S. Great Lakes includes: IL, IN, KY, MI, MO, and OH
 South includes: AL, FL, GA, MS, SC, TN, and TX



Automotive investment announcements peak every four years, & have been slower between Q4 2015-Q1 2019.

Quarterly Automaker Announced U.S. Investment; 2010 to Q1 2019



FCA Announcements

FCA Q1 2019: \$3.5 Billion (6 announcements)

- Mack Ave Engine: \$1.6B
- Jefferson North: \$900.0M
- Warren Truck: \$500.0M
- Sterling Heights/Warren (Stamping): \$400.0M
- Dundee Engine: \$119.0M
- Auburn Hills (Components Plants): \$12.6M

FCA-R Merger?

Ford Restructuring

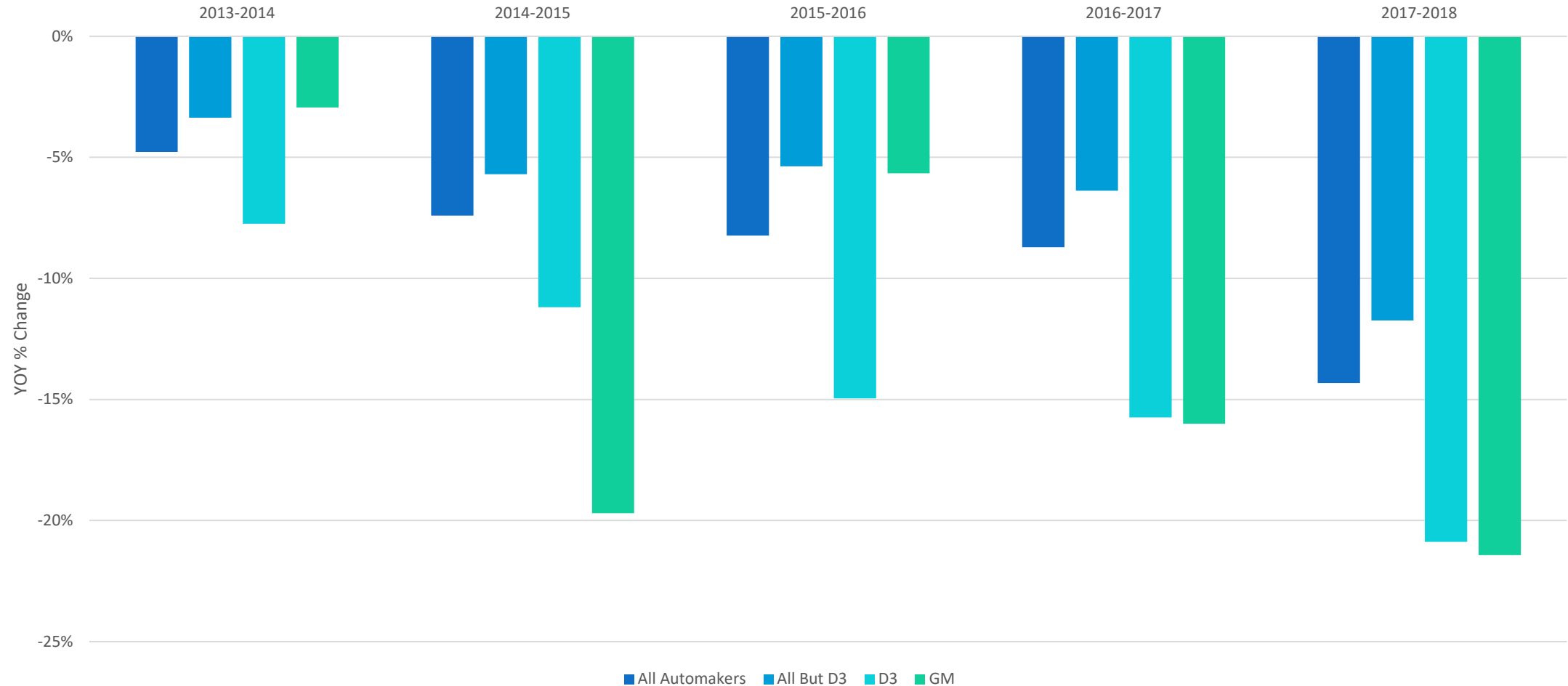
Ford: eliminating about 7,000 salaried positions (10% of global salaried workforce) by the end of August

- In North America:
 - 500 employees will leave involuntarily this week; majority of cuts completed by May 24th
 - Ford expects 800 total layoffs by the end of June 2019
- Globally:
 - Restructuring process expected to be completed in Europe, China, South America, and International Markets Group by the end of August

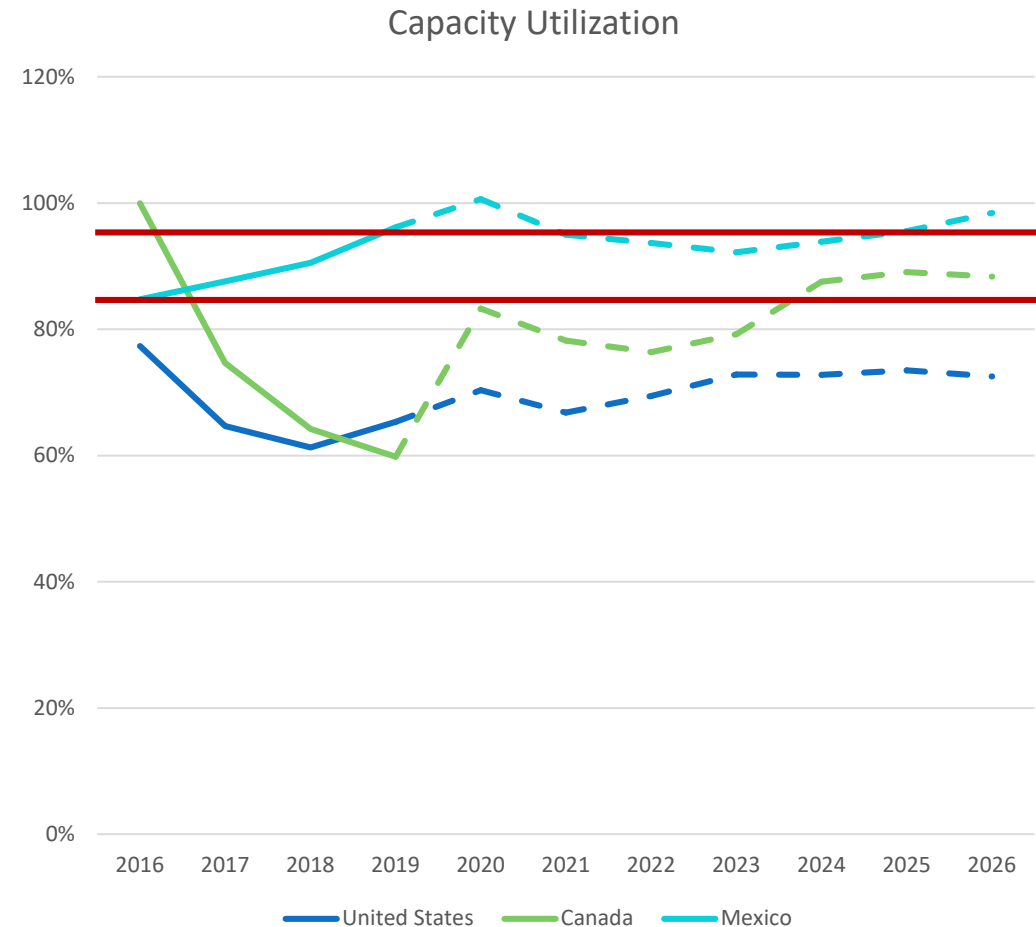
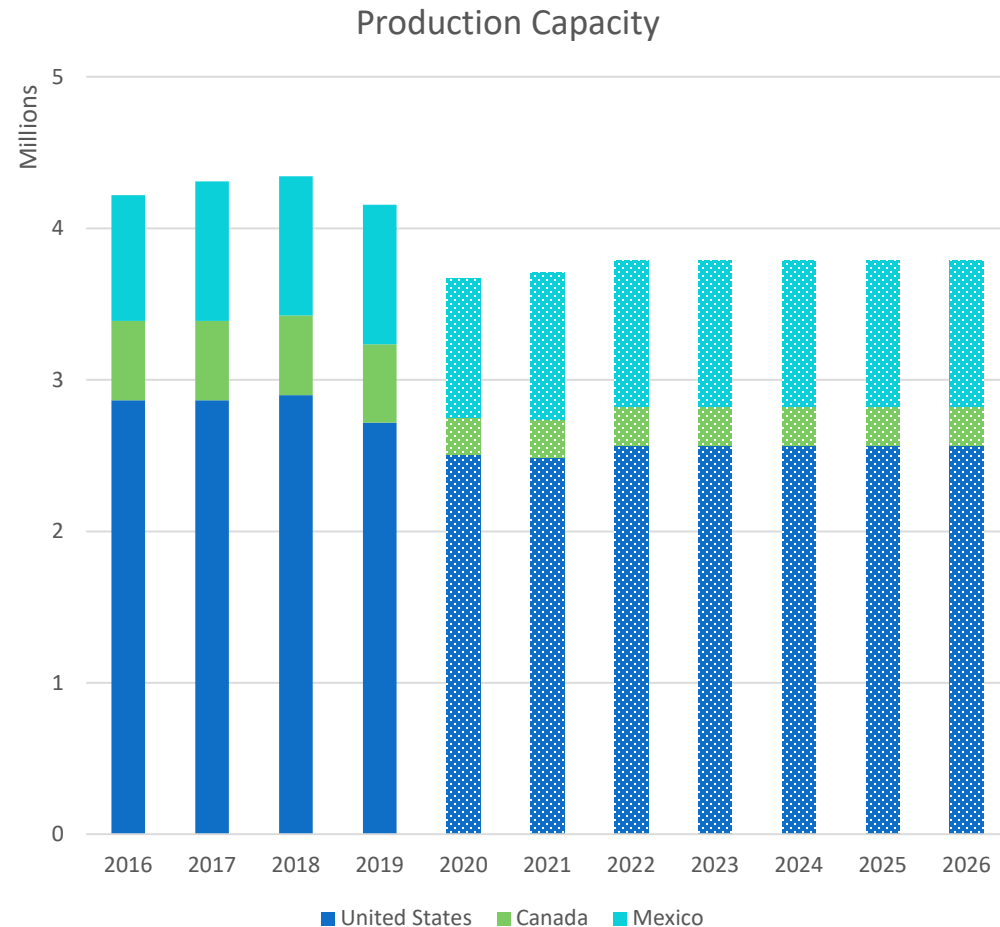
GM Announcements

Plant	Products	End of Production	Employment	Union Local
Detroit/ Hamtramck	LaCrosse, Volt, CT6, Impala	June 1, 2019 January 2020	1,542	UAW Local 22
Lordstown	Cruze	March 1, 2019	1,618	UAW Local 1112
Oshawa	Impala, XTS, Silverado, Sierra	Q4 2019	2,900	Unifor Local 222
Warren Trans.	6 Speed Trans	August 1, 2019	335	UAW Local 909
Baltimore Ops.	Pickup transmissions	April 1, 2019	310	UAW Local 239

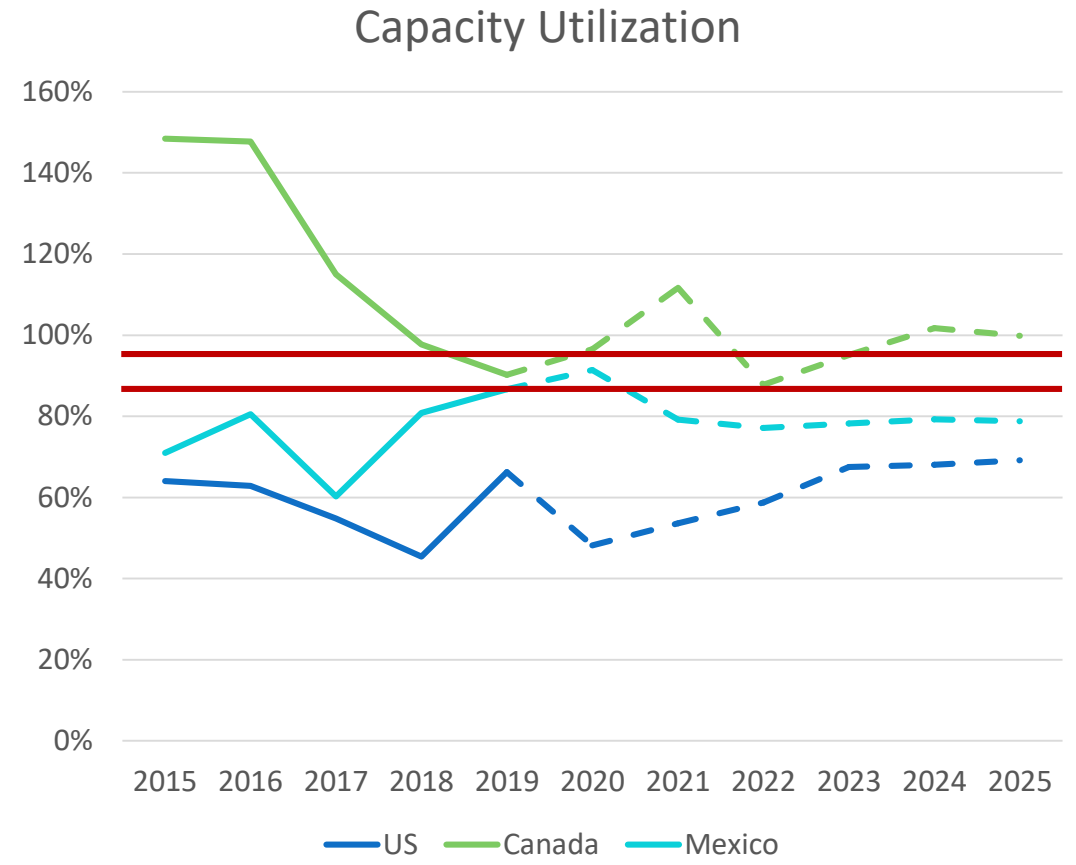
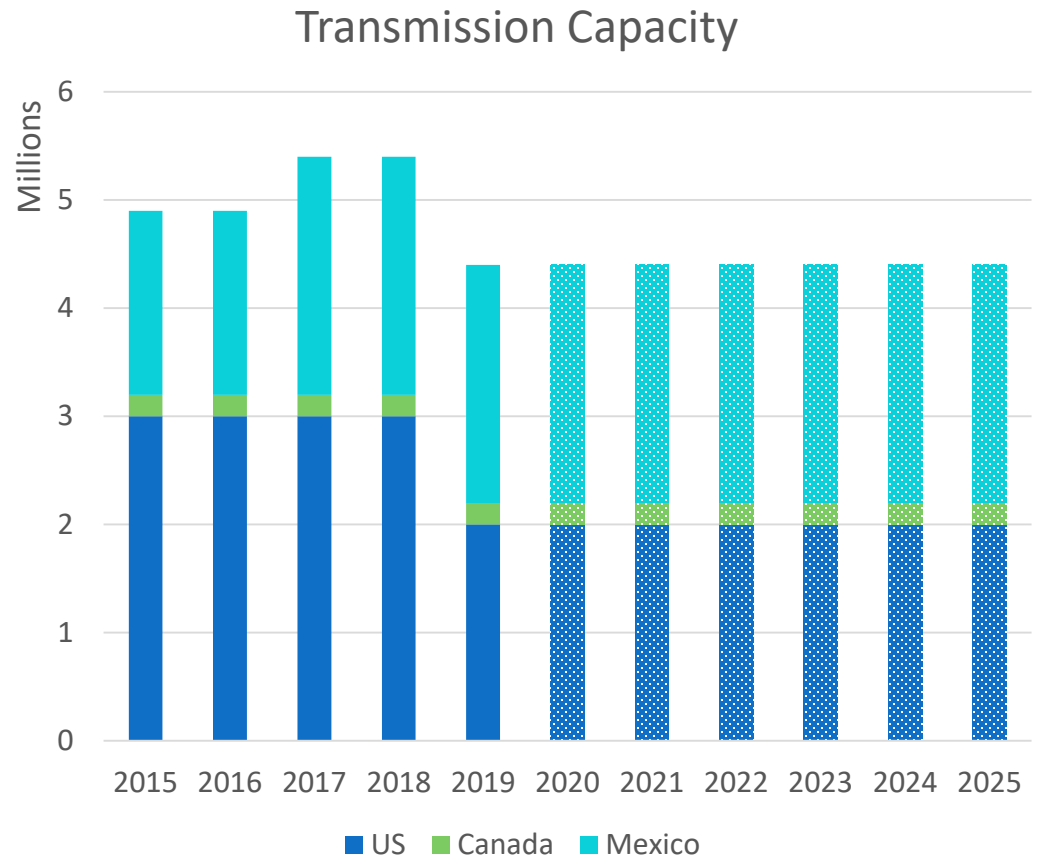
YOY Change in U.S. Passenger Car Market Shares 2013 – 2018



GM Vehicle Production Capacity and Capacity Utilization by Country, 2015-2018, 2019-2025(f)



GM Transmission Capacity and Capacity Utilization by Country, 2015-2018, 2019-2025(f)



GENERAL MOTORS LLC

October 25, 2015

Mrs. Cynthia Estrada
Vice President and Director
General Motors Department
International Union, UAW
8000 East Jefferson Avenue
Detroit, Michigan 48214

Dear Mrs. Estrada:

Subject: Plant Closing Moratorium

As a result of your deep concern about job security in our negotiations and the many discussions which took place over it, this will confirm that during the term of the new Collective Bargaining Agreement, the Company will not close, idle, nor partially or wholly sell, spin-off, split-off, consolidate or otherwise dispose of in any form, any plant, asset, or business unit of any type, beyond those which have already been identified, constituting a bargaining unit under the Agreement.

In making this commitment, it is understood that conditions may arise that are beyond the control of the Company, (i.e. market related volume decline, act of God), and could make compliance with this commitment impossible. Should such conditions occur, the Company will review both the conditions and their impact on a particular location with the Union.

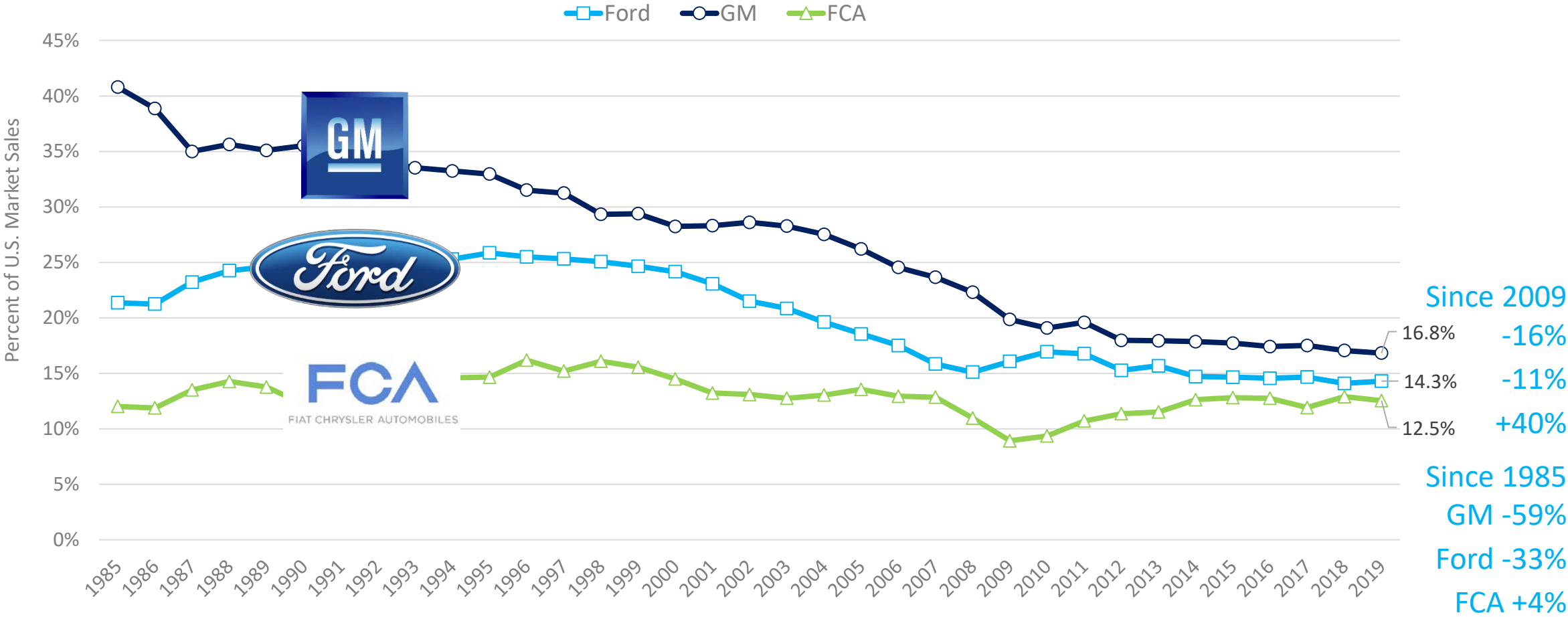
Should it be necessary to close or idle a plant constituting a bargaining unit consistent with our past practice, the Company will attempt to redeploy employees to other locations and, if necessary, utilize Attachment A of Appendix K of the GM-UAW National Agreement or other incentivized attrition programs as agreed to by the National Parties.

Very truly yours,

Catherine L. Clegg
Vice President
North American Manufacturing
and Labor Relations

Since 2009, GM & Ford have lost share & FCA has gained.

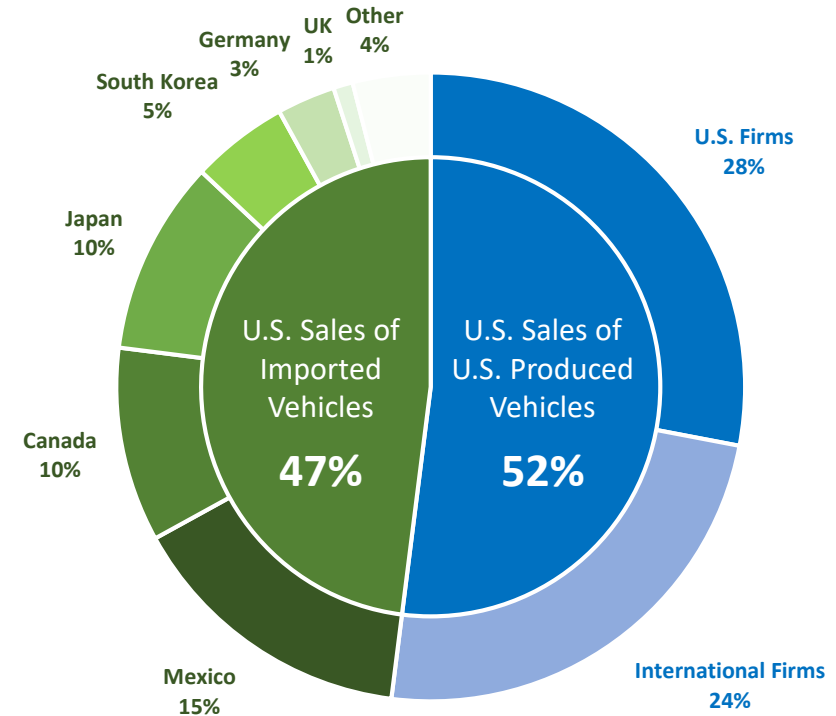
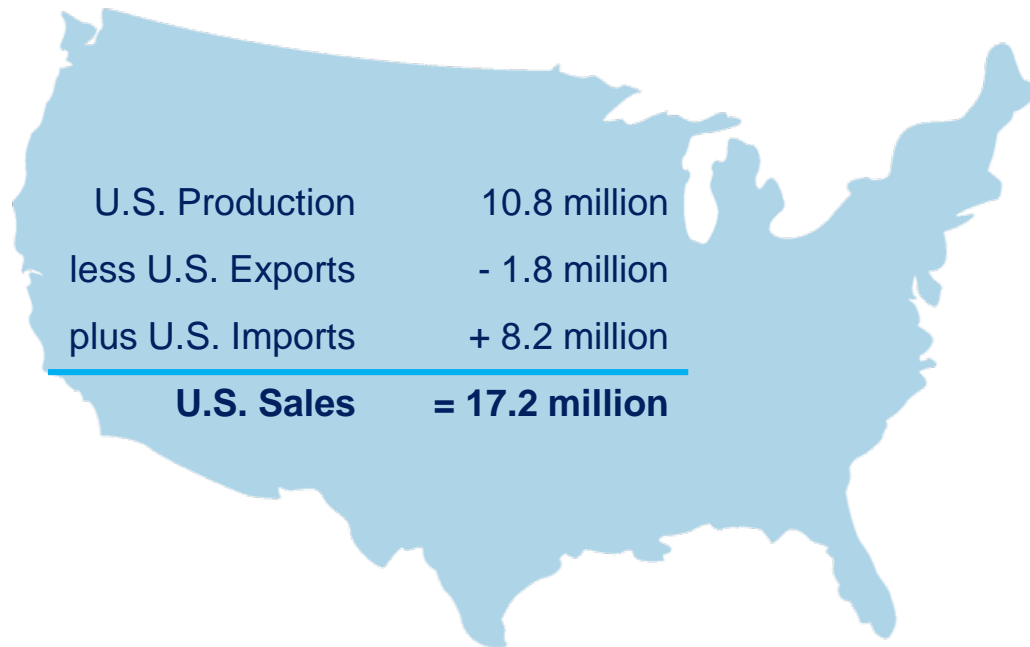
Detroit 3 U.S. Market Share; 1985 – 2019 YTD Through April



Source: Automotive News; Wards Auto (2012 and on); CAR Research

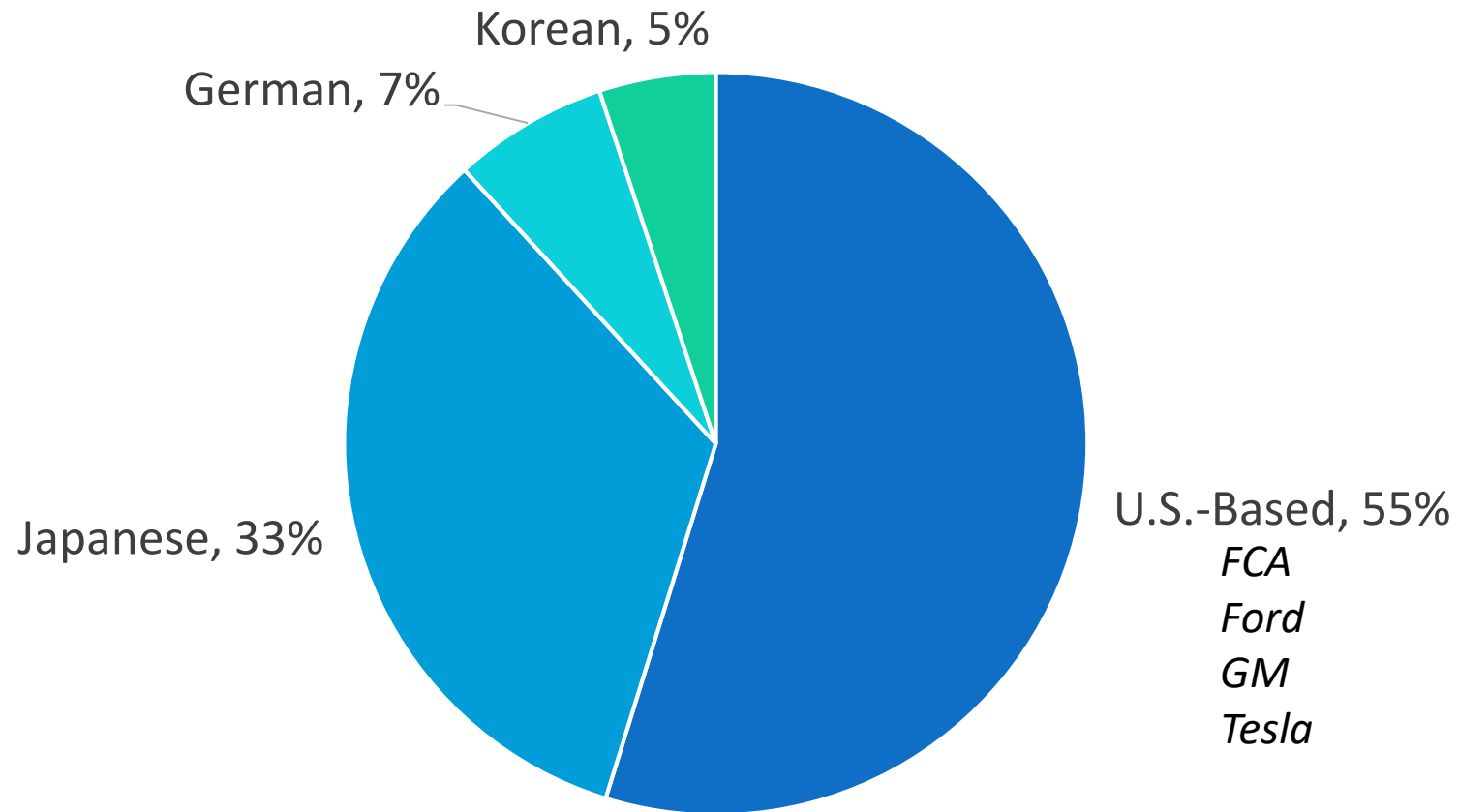
The United States cannot currently self-supply the vehicles American dealers sell to U.S. consumers.

Sourcing of U.S. Light Vehicle Sales
2018



FCA, Ford, & GM Represent 43% of Canada & Mexico Imports

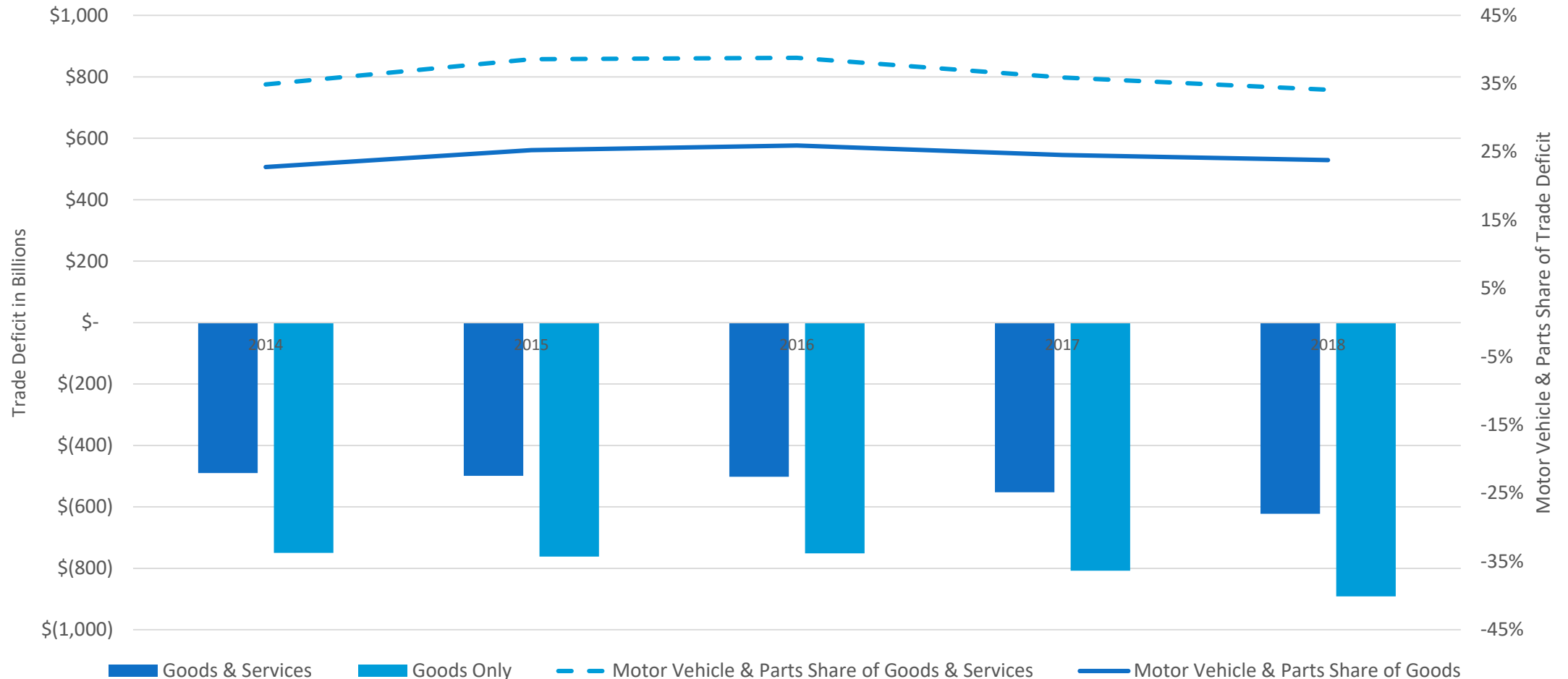
2018 U.S. production is 55% U.S.-based firms, 33% Japanese firms, 7% German firms, & 5% Korean firms.



*U.S.-Based = 42% if subtract FCA

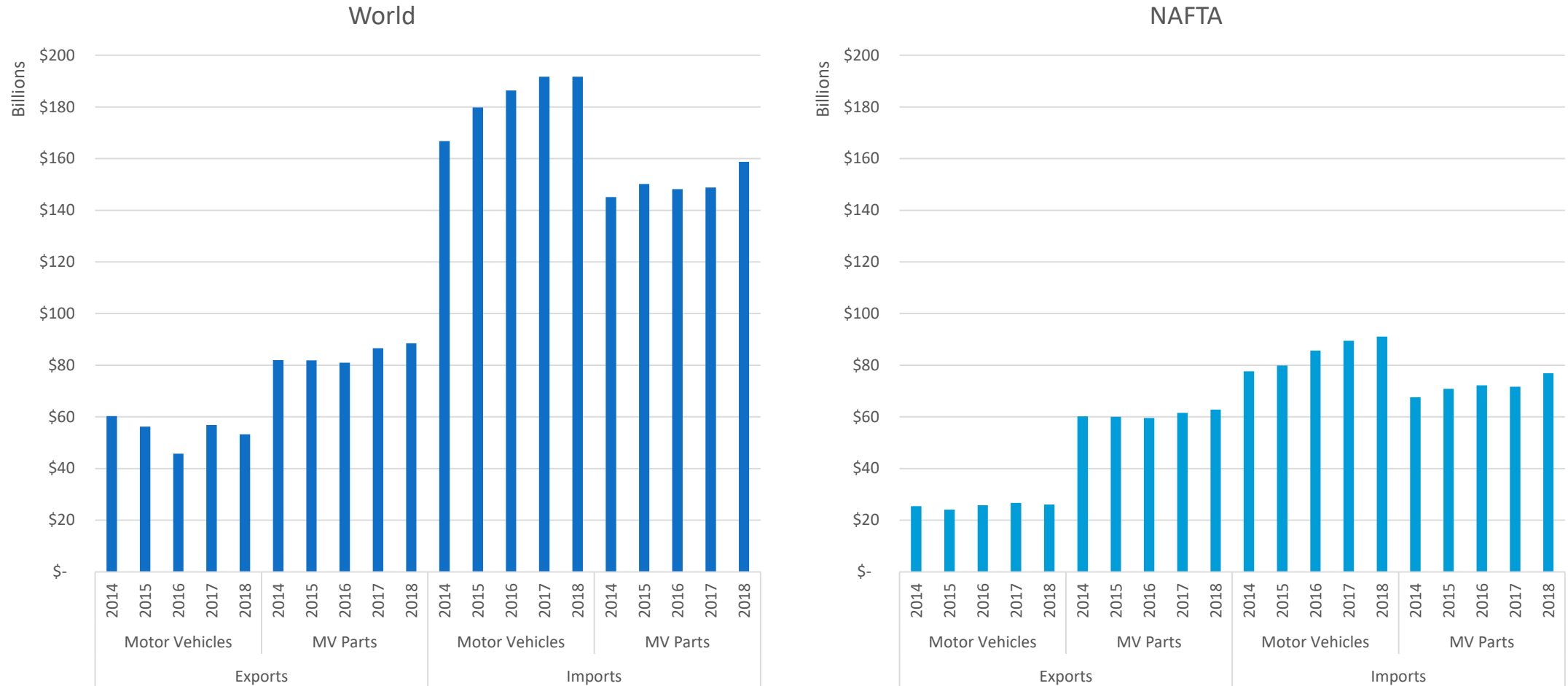
MV & parts trade comprise a large share of the U.S. trade deficit.

Nearly One-third of Goods & Services Trade Deficit and Almost One-quarter of the Goods-Only Trade Deficit

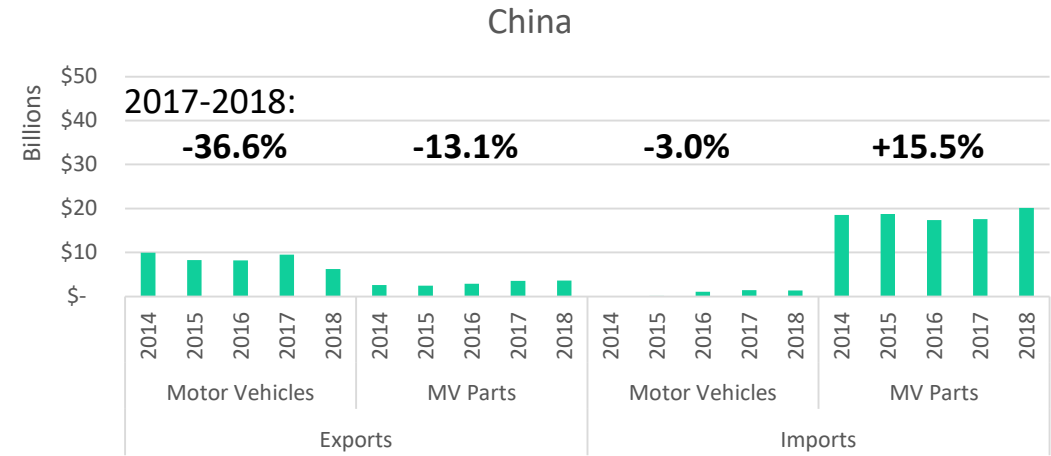
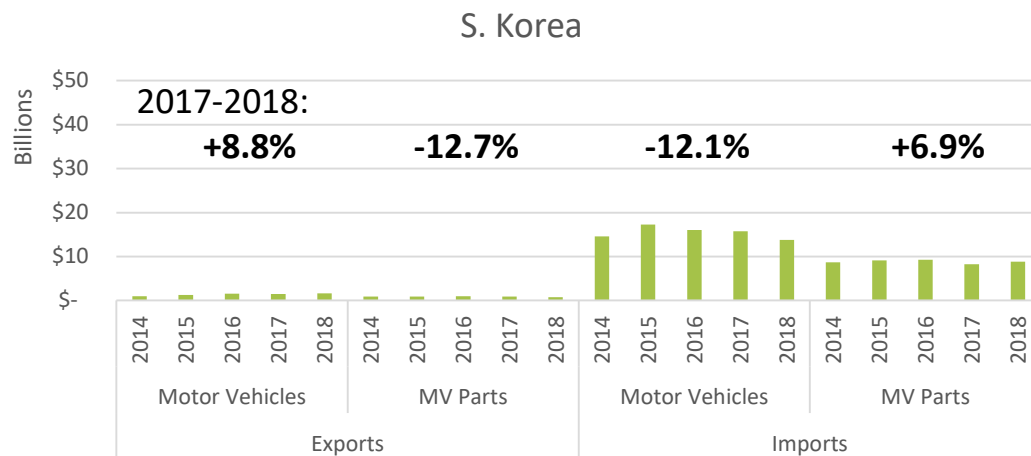
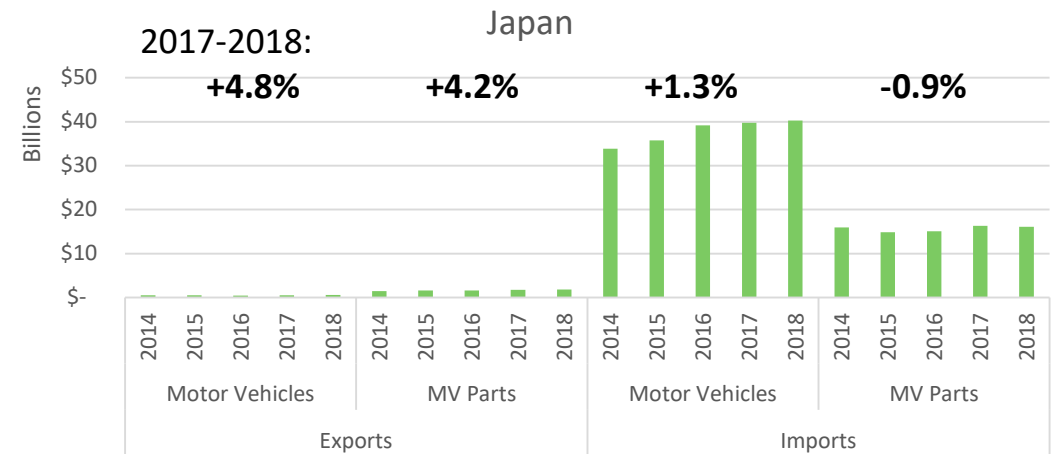
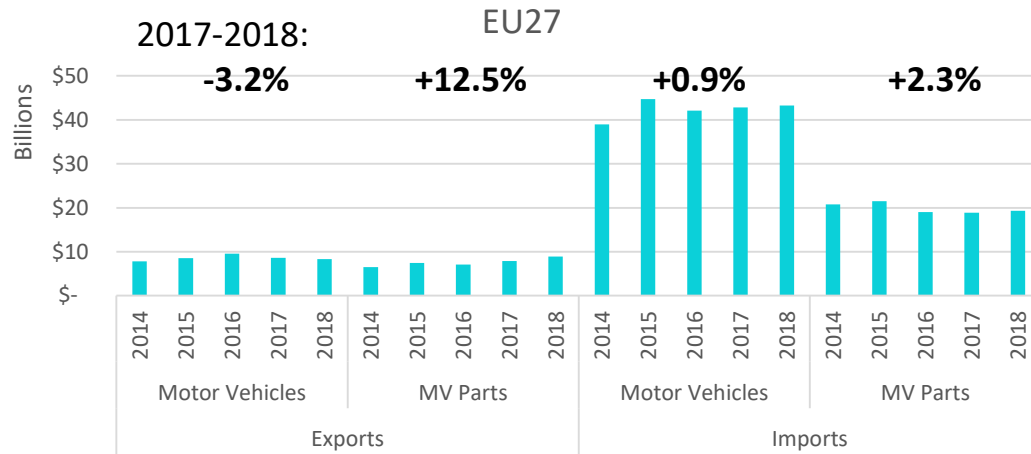


The bulk of U.S. motor vehicle & parts trade is within NAFTA.

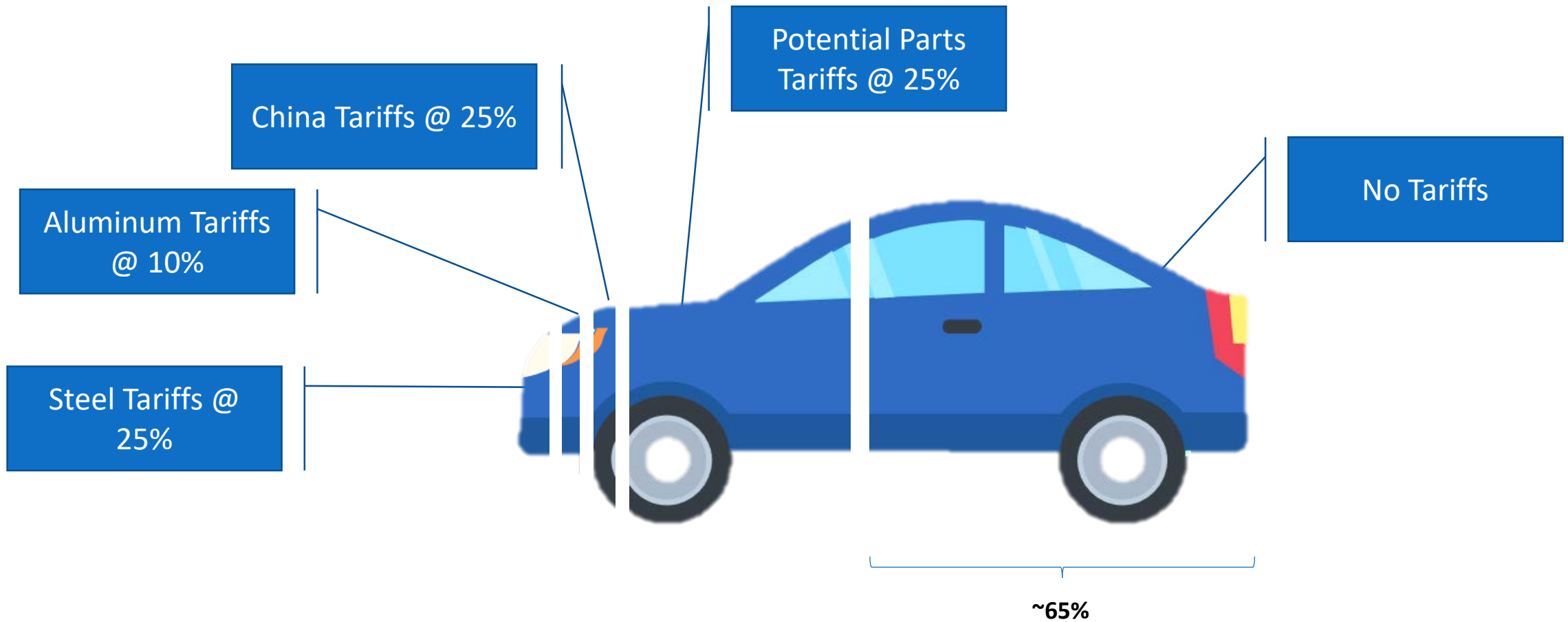
Almost Half of Vehicle Exports & Imports, Parts Imports; Over 70% of Parts Exports



In addition to Canada & Mexico – EU, Japan, South Korea, & China are the U.S.'s major motor vehicle & parts trade partners.



Tariffs are piling up on light vehicles



U.S. Consumer & Economic Impacts of U.S. Automotive Trade Policies

- Assume:
 - USMCA is ratified,
 - Section 232 tariffs on steel & aluminum remain in place on all current countries,
 - Section 301 China tariffs remain at current levels, and
 - Section 232 auto & parts tariffs are levied at 25% on all trading partners except Canada, Mexico, & South Korea

Impact of USMCA, Section 232 Steel & Aluminum Tariffs, Section 301 China Tariffs & Potential Section 232 Auto & Parts Tariffs



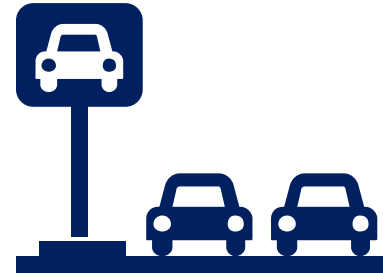
+\$2,750 average
+\$1,900 U.S.-built
+\$3,700 imports



-366,900 jobs



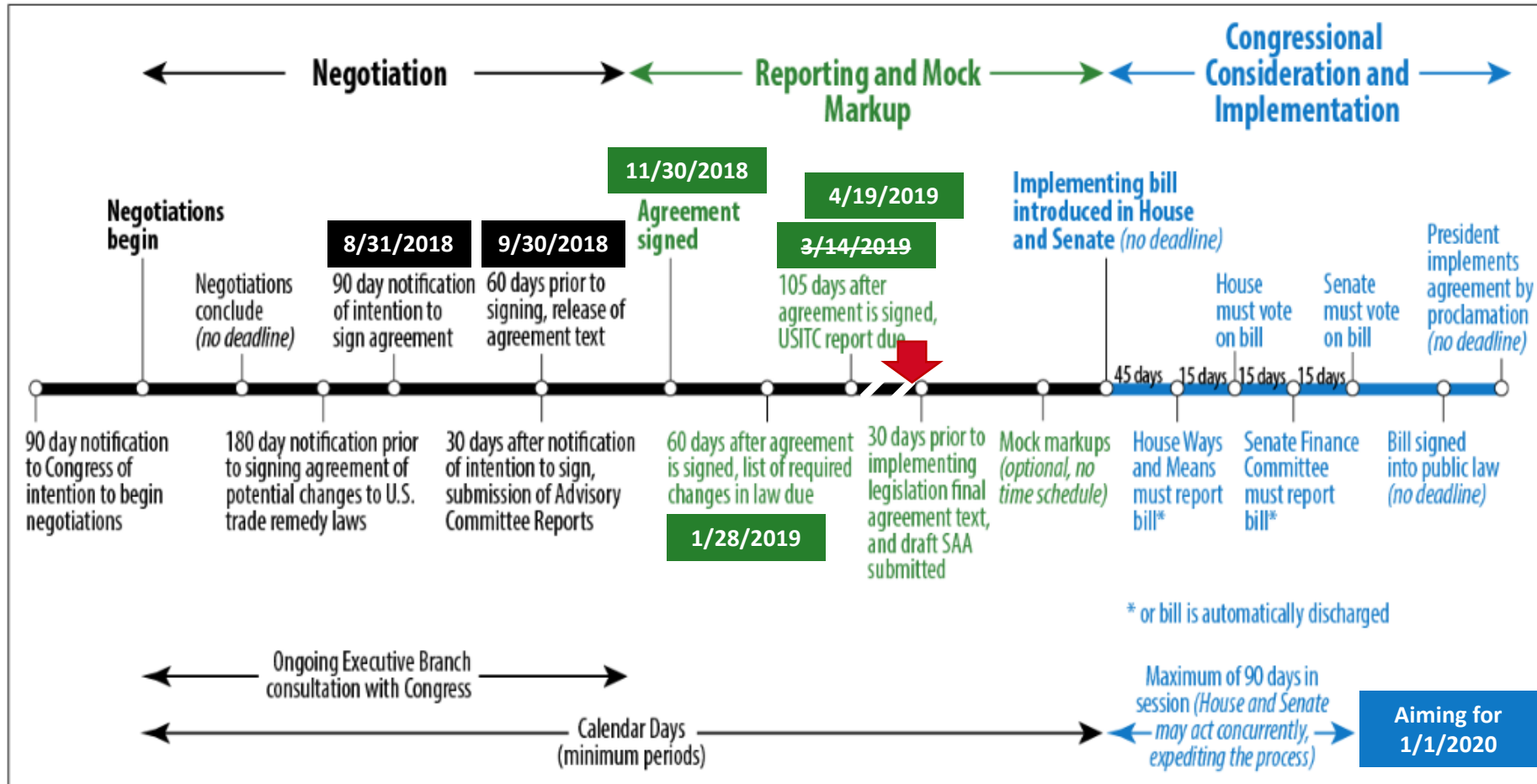
-\$30.4B GDP



-1.3M fewer U.S. sales
-\$43.6B dealership revenue
-77,000 dealership jobs

NAFTA Timeline Under Trade Promotion Authority

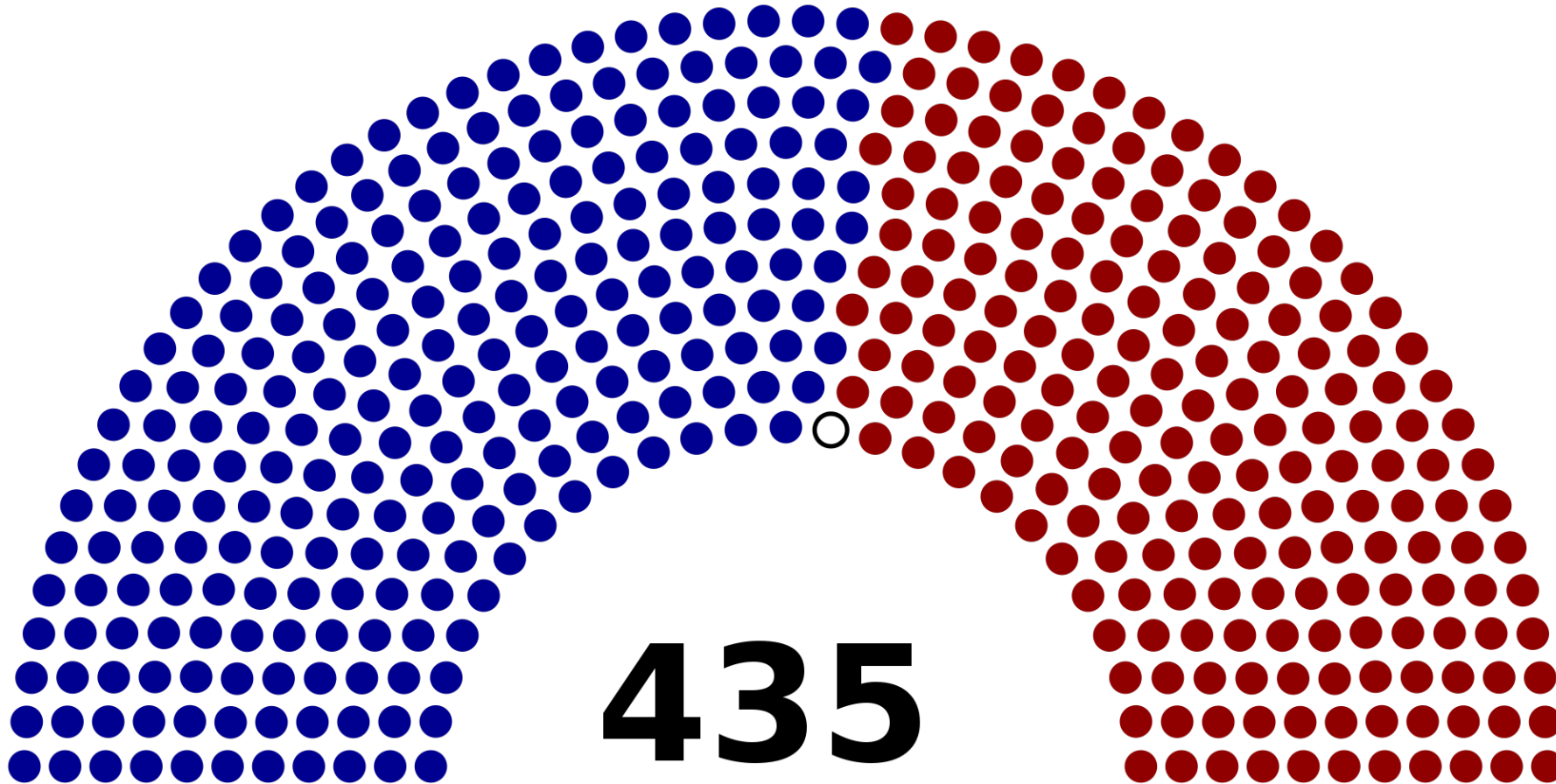
Figure I. Congressional Timeline



Source: CRS.

USMCA Passage is not certain.

AFL-CIO
UAW
Steelworkers
Machinists



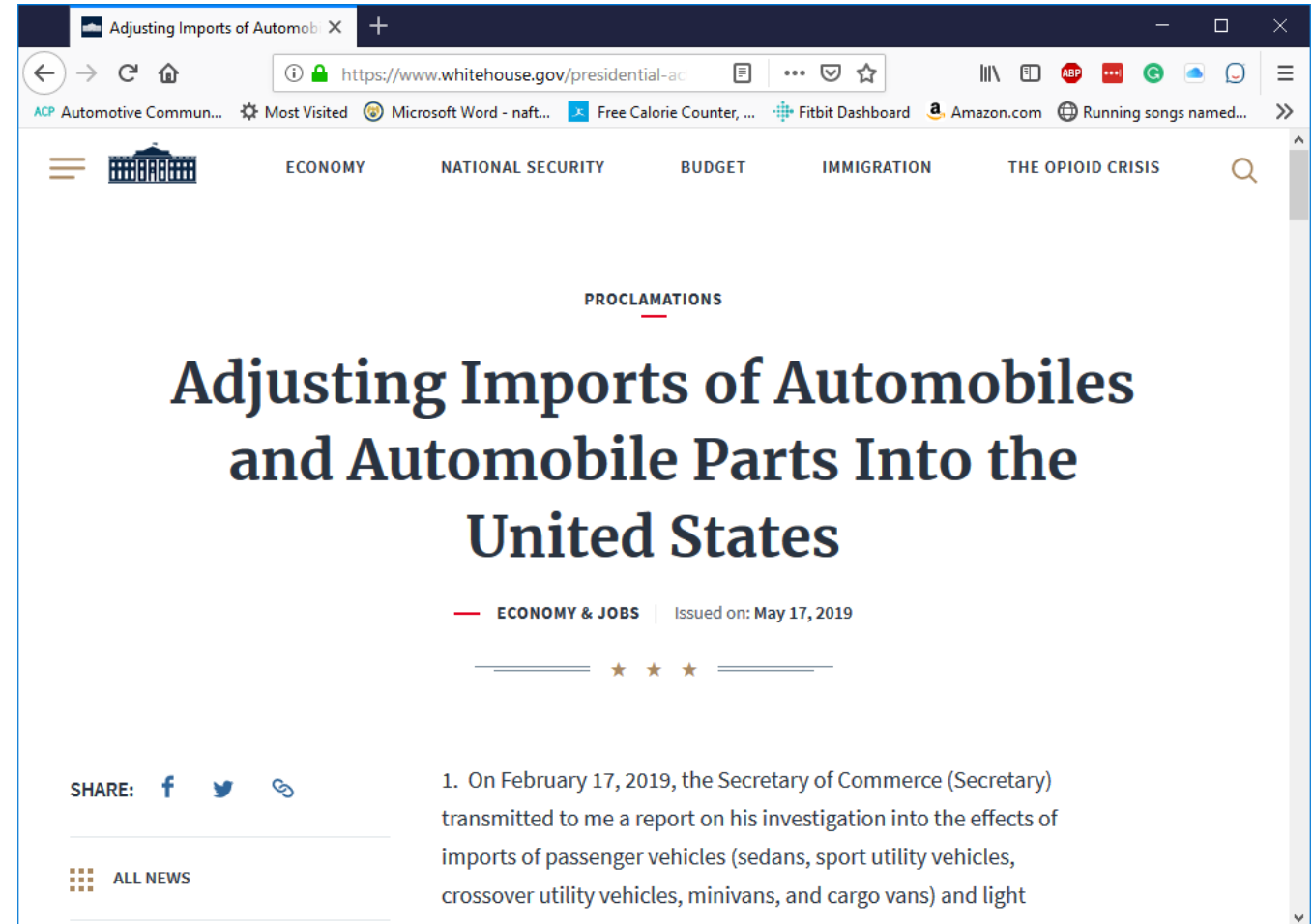
Presidential Proclamation on Canadian & Mexican Steel & Aluminum Imports

- Clears a hurdle to passing the USMCA
- Removes 25% steel and 10% aluminum tariffs on Canada & Mexico
- Removes retaliatory tariffs placed by Canada & Mexico
- Monitoring transshipments and subsidized/dumped steel & aluminum
- No hard quotas, but...
U.S. can re-impose tariffs if imports “surge” above historical levels &
Canada/Mexico can only retaliate in steel or aluminum



Status of Section 232 Auto & Parts Import Tariffs

- Tariffs delayed until 13 November 2019
- Only Ford & GM are considered “U.S. firms”
- Focused on how imports harm ability to do R&D needed to support national security
- Targeted at Japan, EU, and “any other country the Trade Representative deems appropriate”
- Commerce report still has not been made public



Brief China Trade Update

U.S. raised tariffs from 10% to 25%
– includes all automotive goods

U.S. moves to impose tariffs on
nearly all Chinese imports –
including consumer goods

China retaliates with tariffs on
\$60B U.S. imports (rates increase
from 5-10% to 20-25%)

Average increase in cost due to
tariffs/U.S.-built vehicle = \$190



2019 Negotiations



FIAT CHRYSLER AUTOMOBILES



Thank You

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