



Detroit – Washington D. C.

A light grey, semi-transparent world map is centered in the background of the slide, showing the outlines of continents and major landmasses.

North American Automotive Outlook The Suppliers' Perspective

FEDERAL RESERVE BANK *of* CHICAGO

June 3, 2011

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OESA Membership: Benefits, Services and Resources



Executive Peer Group Councils



Member Surveys
Sharing of Information and Best Practices



Industry Studies
Benchmarking, trends, analysis, best practices



OEM Communication
Interface & open dialogue



OESA Events
Meetings, Seminars, Webinars



Advocacy & Voice in DC
Lobbying and interface with Legislators and Regulators



OESA Staff
Resources, connections, Information, assistance



Global Relationships and Connectivity



The OESA Supplier Network

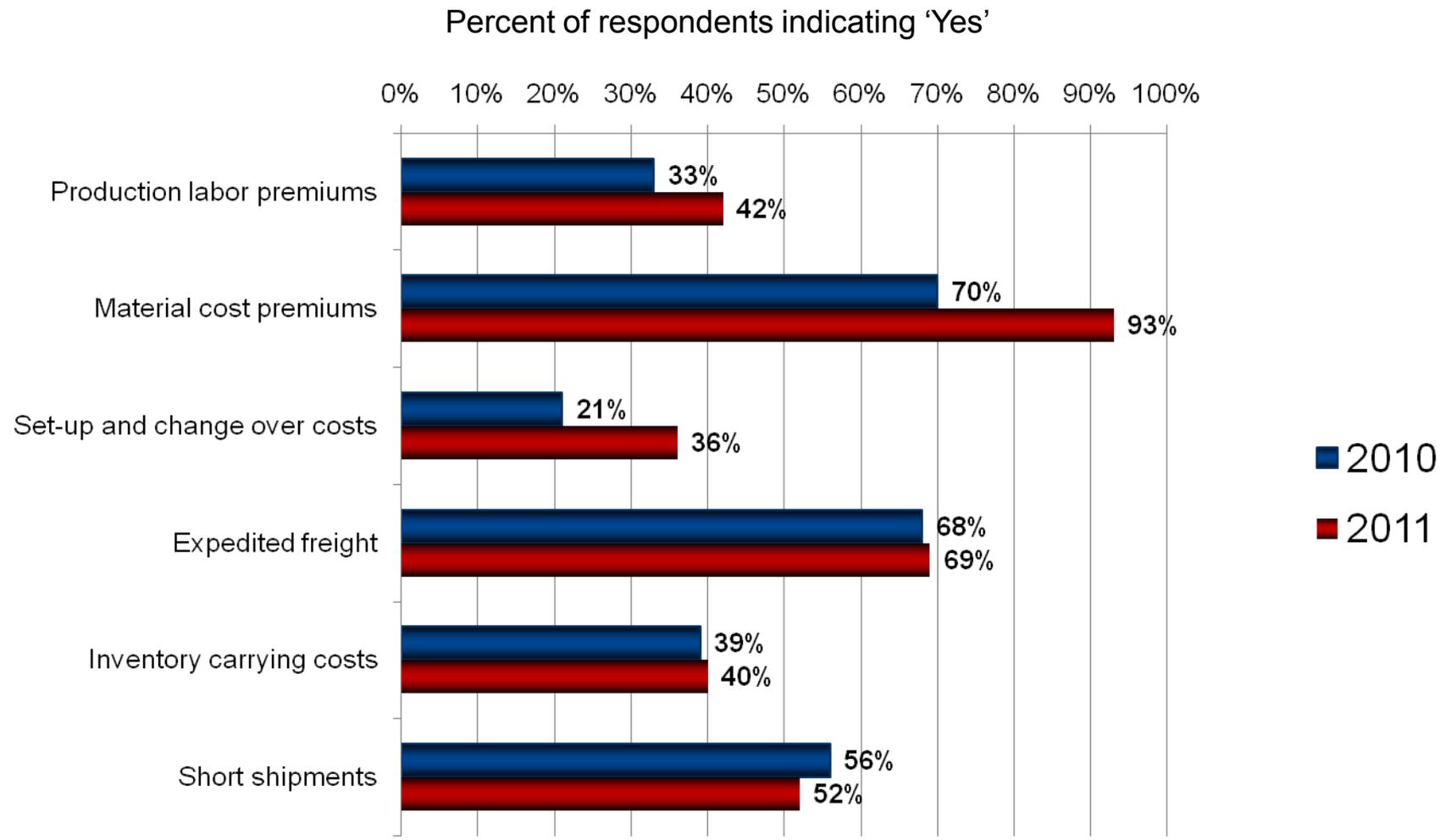


Top Supplier Industry Challenges (and by the way, the OEMs too)

- Material and Component Costs and Availability
- Attracting and Retaining High Quality Personnel
- Capacity to Meet Production Demands
- Maintaining Lean Structure While Supporting Growth
- Dealing with OEM Warranty Sharing Programs and Terms and Conditions
- Cost Reduction Demands and Challenges
- Government Legislation and Regulation
- Currency Fluctuations, Exchange Rates
- Reality of Production Volume Schedules and Forecasts
- The Technology Roadmap

Pressures Across the Board are Increasing

Question: In the last 2 months, have you experienced INCREASES in any of the following?



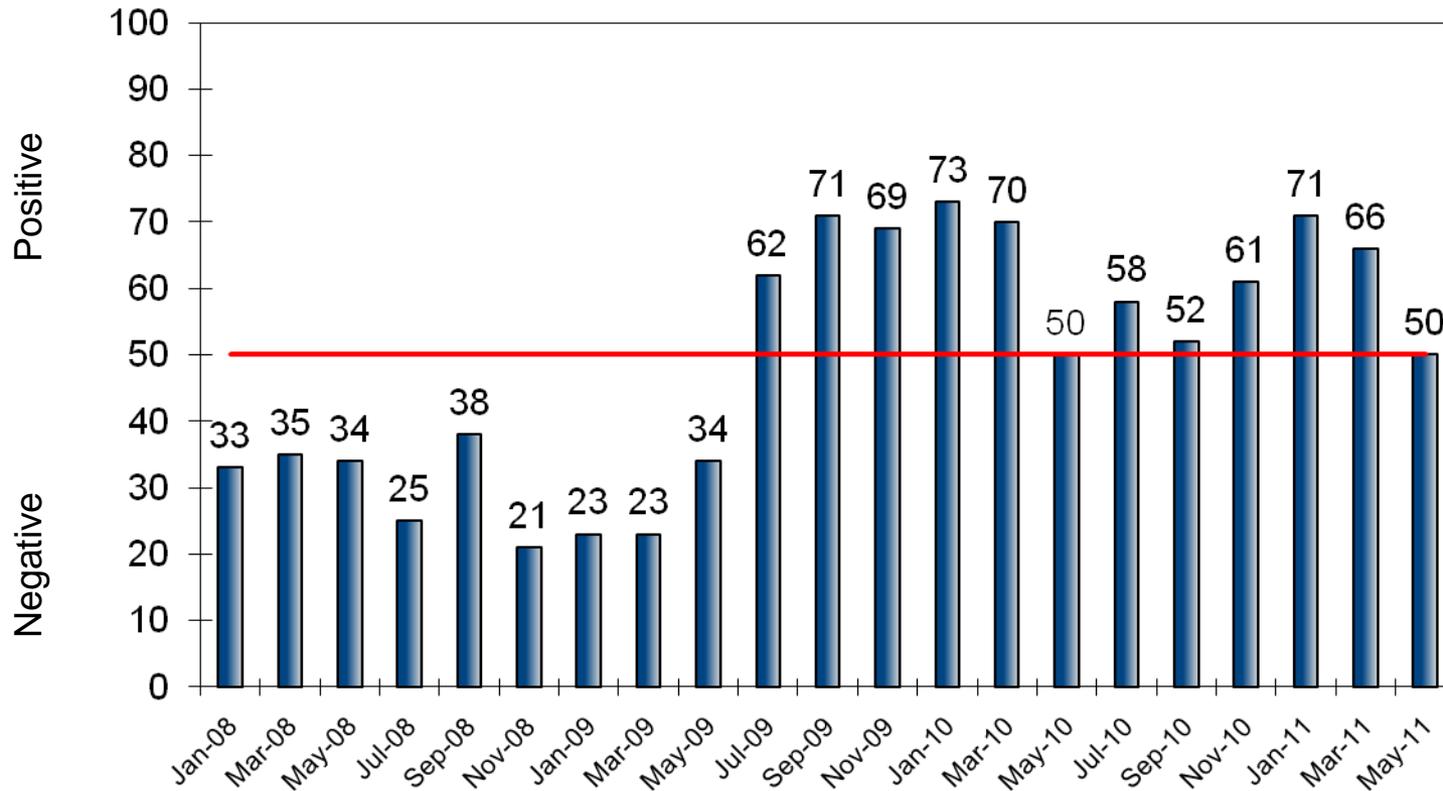
No. of Responses = 107



Japan Crisis, Fuel Prices (Read: Volume and Mix), and Material Costs Dampen the 12 Month Outlook

Supplier Sentiment Index

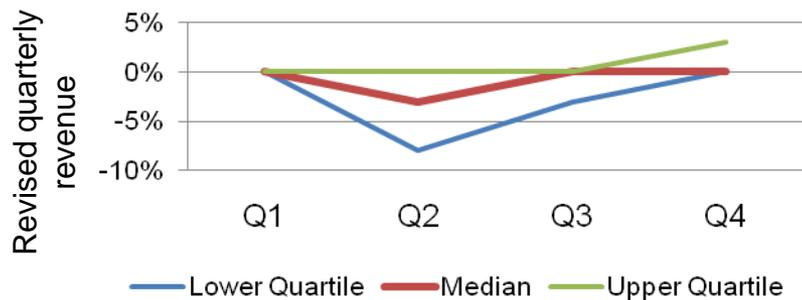
Compared to two months ago, how has your 12 month outlook changed



No. of Responses = 113

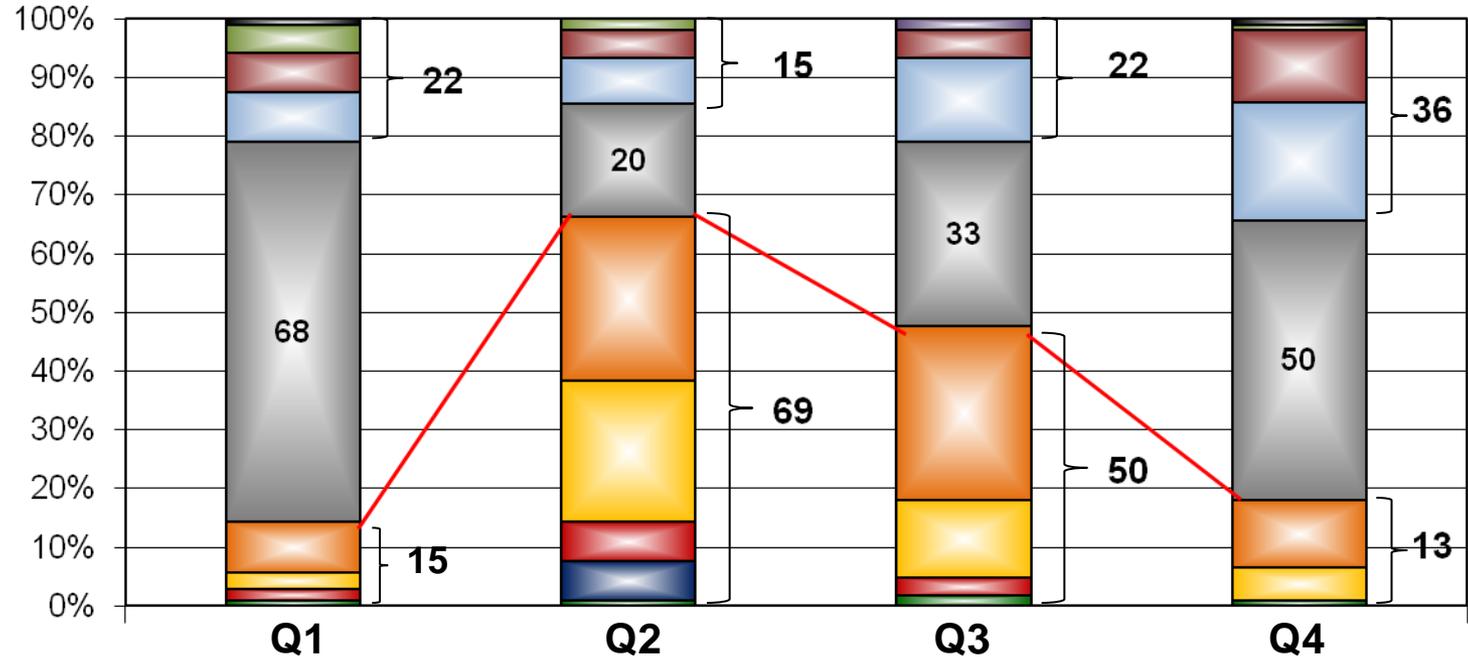
Revised Revenue Outlook to Budget For Suppliers Will Rebound in 4Q After Decline in 2Q and 3Q

	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Upper Quartile	0	0	0	3% incr.
Median	0	3% decr.	0	0
Lower Quartile	0	8% decr.	3% decr.	0



assumes mid-point for each range

- Increase > 20%
- Increase 16-20%
- Increase 11-15%
- Increase 6-10%
- Increase 1-5%
- No Change
- Decrease 1-5%
- Decrease 6-10%
- Decrease 11-15%
- Decrease 16-20%
- Decrease > 20%

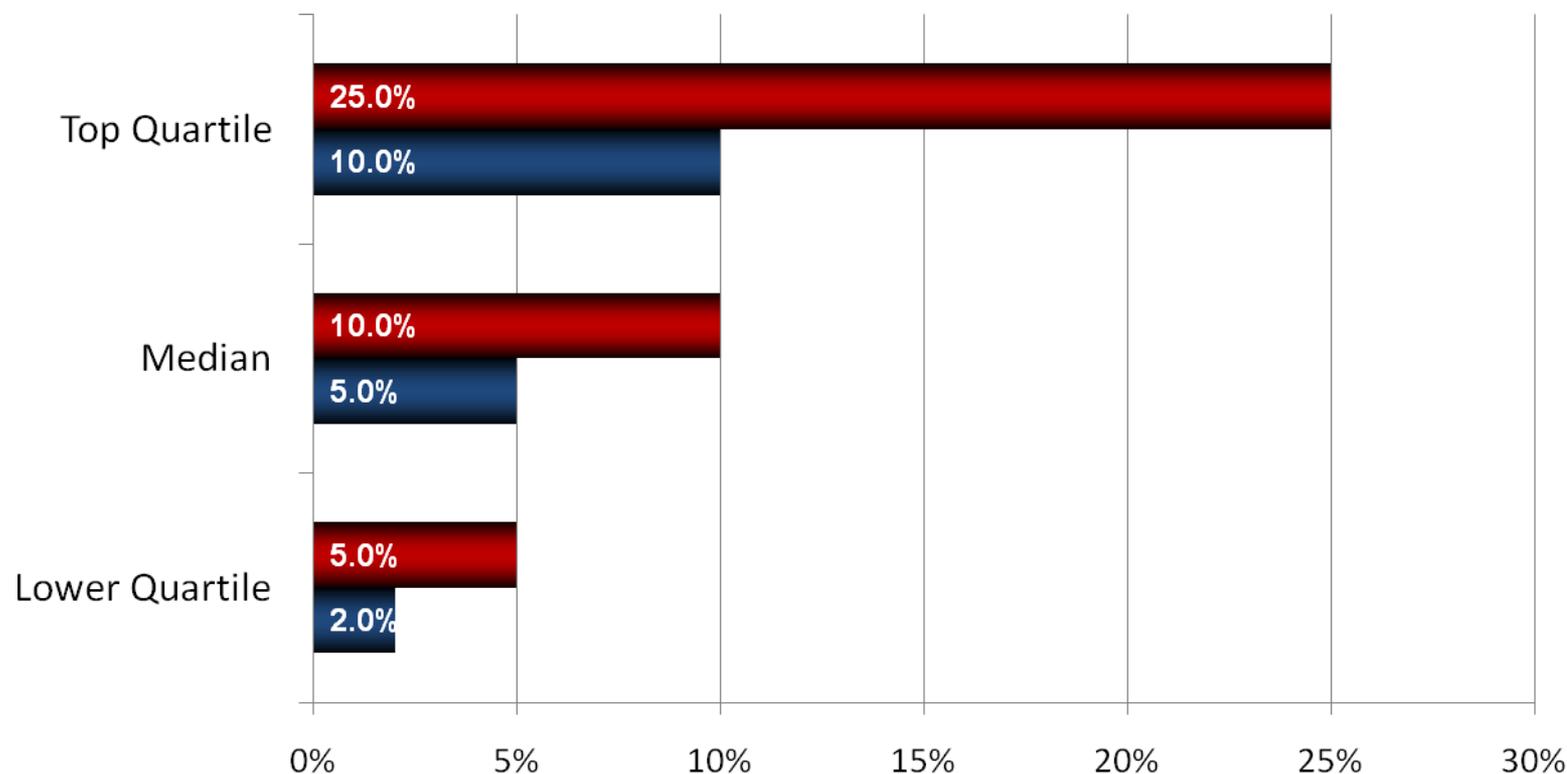


No. of Responses = 105



The Average NA Supplier is Dependent Upon the NA Market – Advantageous In Times of International Supply Chain Turmoil; But Limits Export-Led Employment Growth

- N.A. Production Material Costs Purchased Outside of NAFTA (% Dollar Value)
- N.A. Production Parts Exported Outside of NAFTA (% Dollar Value)



No. of Responses = 105

General Observations on Japan: For NA, We Are in the Trough With a Full Recovery in 12 months

- The second quarter will be about supply chain risk mitigation – **recovering capability**
- The third quarter will be about value chain stabilization – **restoring capacity**
- The fourth quarter will be about getting back on plan – **recouping lost units**
- For North America, industry wide production units lost will likely be in a range of 1 to 2 percent (in January, OESA members' average 2011 planning volume was 12.5 million units; independent forecasts were closer to 13 million units)
- Like all production planning it will play out significantly different supplier by supplier depending on customer mix, global supply chain flexibility and individual plant product production balance
- Michigan assembly plants and, in turn, suppliers in proximity, appear to be high on the OEM triage list
- The end result may be a deepening of regional supply bases – that is, an increase of tier two and threes in each region

North America

2011-2013 Production Forecast Comparison

(Volumes represent NA Car, Lt Truck class 1-5)

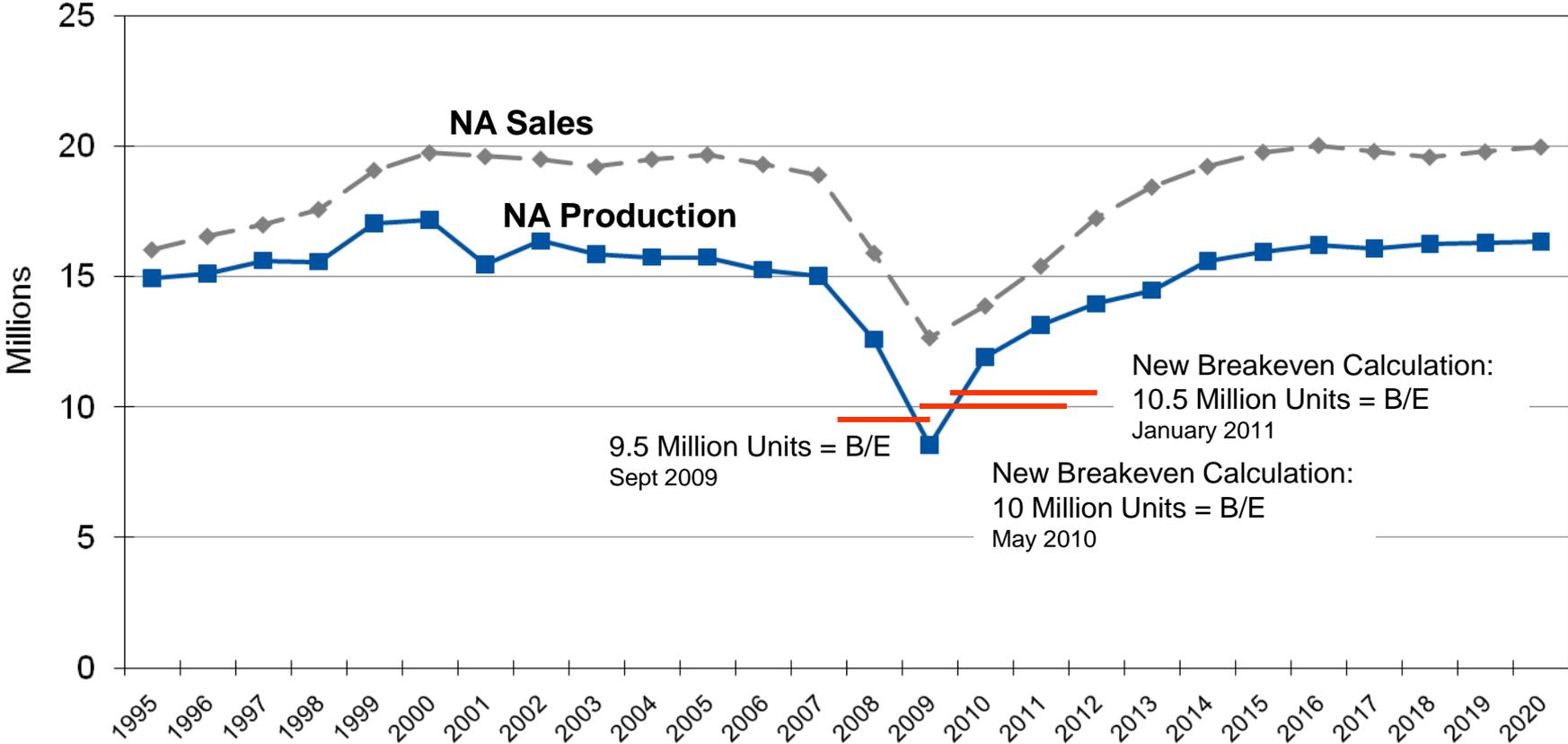
(in millions)	2011					2012 Forecast	2013 Forecast
	1Q Actual	2Q Forecast	3Q Forecast	4Q Forecast	2011 Forecast		
	3.37	3.34 Δ0	3.16 ↑Δ0.1	3.12 ↑Δ0.18	12.99 ↑Δ0.39	13.59 ↑Δ0.22	14.31 ↑Δ0.18
	3.35	2.96 ↓Δ0.39	3.16 ↑Δ0.02	3.37 ↑Δ0.25	12.87 ↓Δ0.07	14.26 ↑Δ0.34	14.86 ↑Δ0.12
	3.36	2.99 ↓Δ0.37	3.15 ↑Δ0.13	3.55 ↑Δ0.41	13.06 ↑Δ0.26	13.91 ↑Δ0.03	14.48 ↓Δ0.22
	3.36	3.01*	3.16*	3.29*	12.82 ↑Δ0.07	13.92 ↑Δ0.07	14.73 ↓Δ0.04
	3.37	3.11*	3.09*	2.95*	12.51*	13.47*	14.56*
Forecast Average Forecast Spread	3.36	3.08 0.38	3.14 0.07	3.26 0.60	12.85 0.55	13.83 0.79	14.59 0.55
Reference: 2010 Actual Average	2.90	3.08	2.96	2.96	11.90		

Δ compares prior reported forecast volume

* No data provided Feb 2011 for a Δ

Discipline is Keeping the Supply Base Competitive: Break-even Points are Rising Slower than Planning Volumes are Increasing

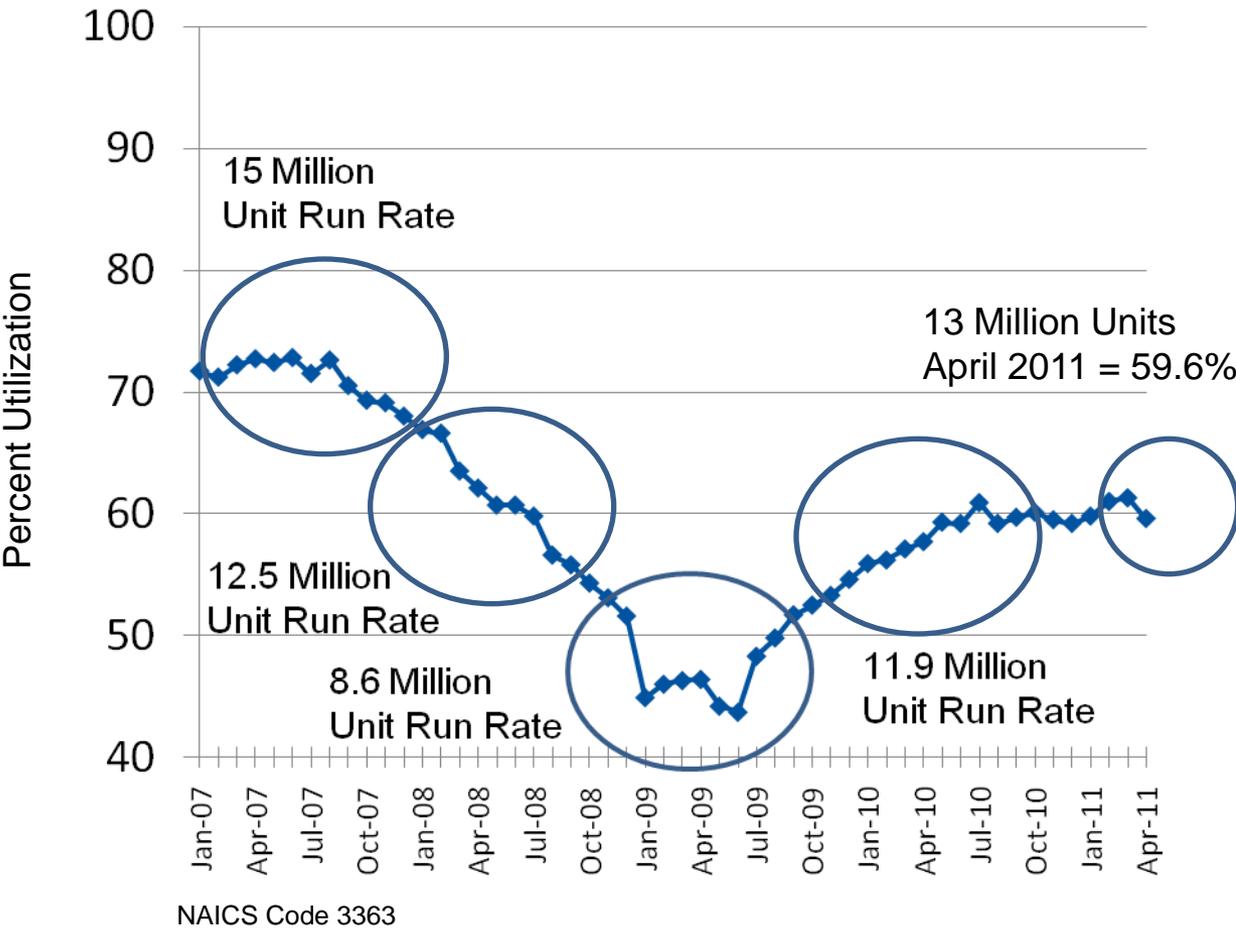
North American Light Duty Sales, Production and Breakeven



Sources: IHS Automotive (April 2011) and OESA Jan 2011 Automotive Supplier Barometer



U.S. Auto Parts Manufacturing Capacity Utilization is Not Following the Bounce in Production Volume

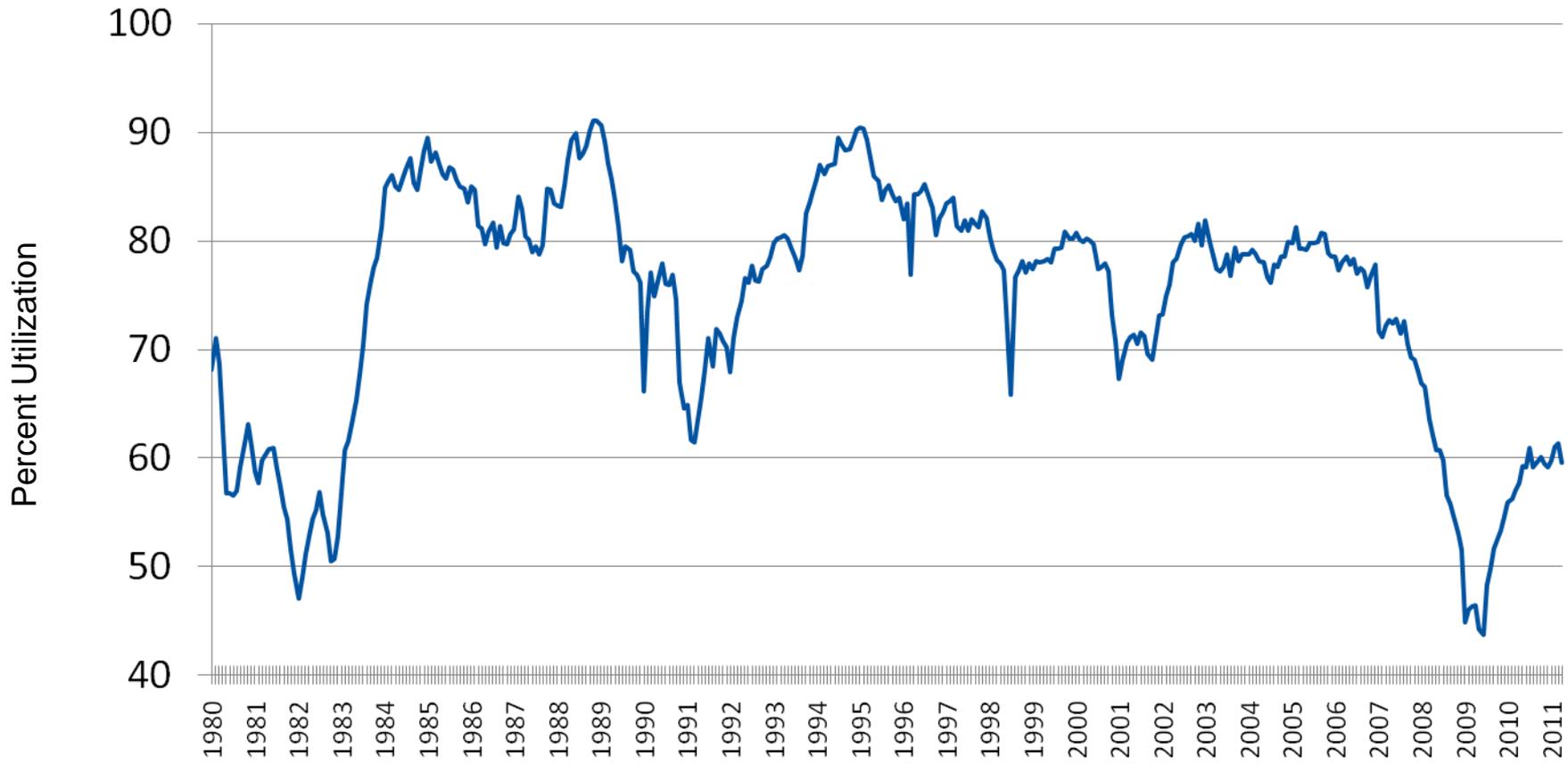


- Suppliers are running at 60 percent capacity utilization
- Credit availability is thawing through the supply chain; tooling funding remains an issue at the bottom
- To meet production schedules suppliers are incurring overtime premiums, material and component shortages, and expedited freight costs
- There are concerns over retaining critical skilled personnel as the overall economy recovers
- But, why has utilization rates leveled off with the increase in production

Source: U. S. Federal Reserve Board of Governors



Research Question: Is the Short-Term Utilization Pattern Matching Up the 6-Year Recovery Cycle?



NAICS Code 3363

Source: U. S. Federal Reserve Board of Governors



Does the Neutron Bomb Have Something to Do With the Likely Recovery Pattern?

Number of supplier plants Only a modest decline 2006-09

- 2009: 3,984 plants
- 2006: 4,265 plants -6.6%

[Klier & Rubenstein/ELM Intl]

Compare to higher job loss 2006-09

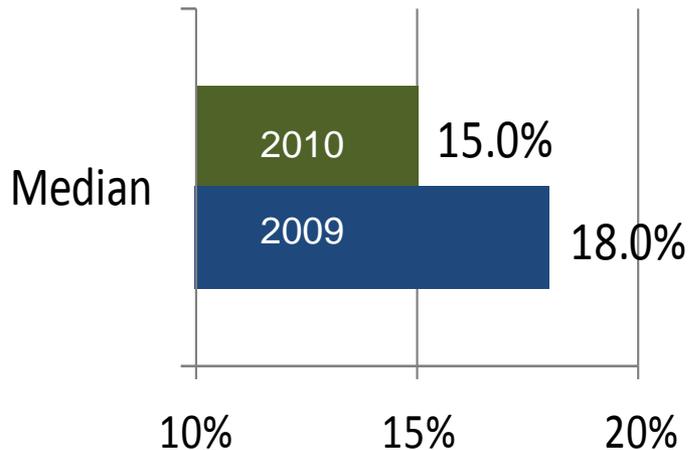
- Parts: -37.1% * Assembly: -39.7%

[BLS CES]

The Industry Conundrum: Capacity Still Needs to be Taken Out While Shortages Exist in the Supply Chain

Estimate how much more capacity needs to come out to achieve full capacity utilization in a 15 million unit N.A. production year.

Additional Rationalization Needed for Breakeven

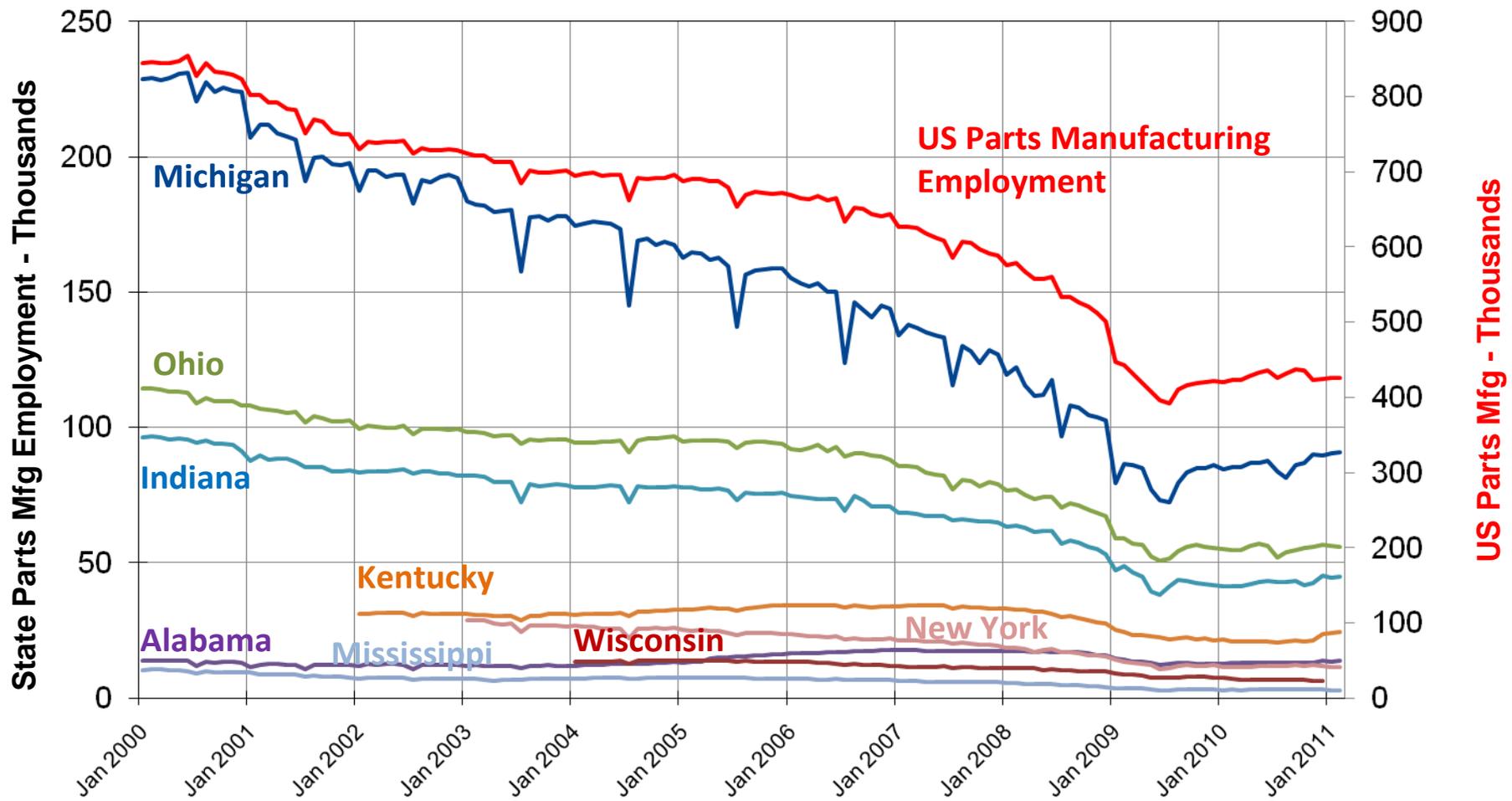


No. of Responses = 80

Why are capacity shortages showing up and where are there concerns?

- Suppliers that went into hibernation are now adding back shifts but it requires investment
- Suppliers dramatically reduced inventories to save cash now are expediting material to meet schedules
- Critical industries like electronics, steel and resins that shut capacity in 2009 now are evaluating how fast and when to bring back capacity
- Emerging markets and other sectors are growing and may be more profitable than auto, so less product is being allocated to auto
- So, while the supplier sector is operating at only 60% capacity utilization, there are shortages of electronics, specialty-alloy steels, precision machined components, rare earth materials, etc. that put pressure on maintaining assembly plant schedules

From July 2009 Trough: Parts Employment Has Crawled Back by 34,000 Persons – 18,000 in Michigan



Updated to include Feb. 2011 data

Source: US Bureau of Labor Statistics
Includes only the narrow NAICS 3363 Code.



Employment Trends Counter Supplier State Business Climate Perceptions

State Ratings by Current Business Climate

State	Current business climate rating (weighted average on a scale 1-7)	Total number of company employees identified	Number of survey respondents
South Carolina	5.50	6,120	6
Kentucky	5.20	3,907	10
Alabama	5.14	2,050	7
Tennessee	4.91	4,185	11
Indiana	4.89	13,297	19
Ohio	4.00	6,214	12
Michigan	3.70	31,257	45
Wisconsin	3.67	5,807	6
Illinois	3.11	5,500	9

Notes: All states included with >5 respondents
 Rating scale 1-7 ;1=very poor, 7=very good

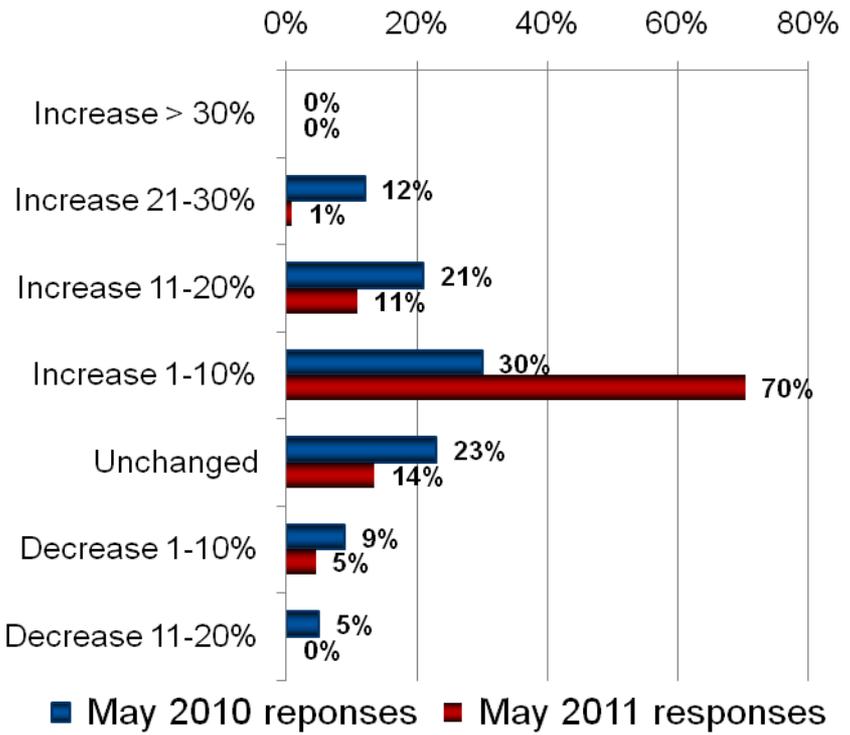
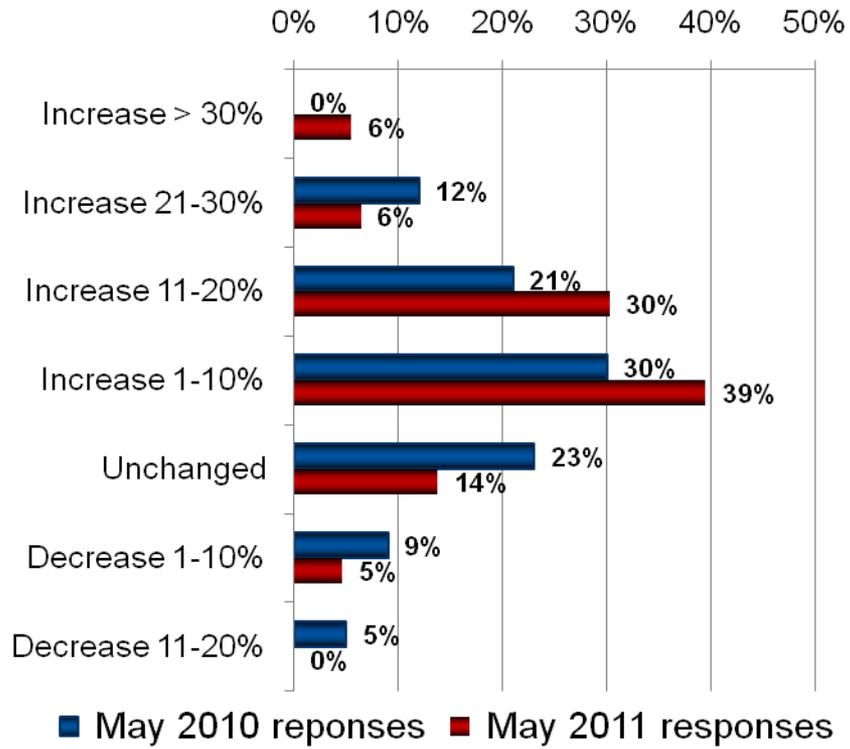
Source: OESA Member Company State Survey, April 2011



Employment Expansion Plans Exist – But are Very Conservative

Median change in number of hourly employees current year compared to prior year = 5% increase. May 2010 also indicated a 5% increase from prior year. (assumes mid-point for each range)

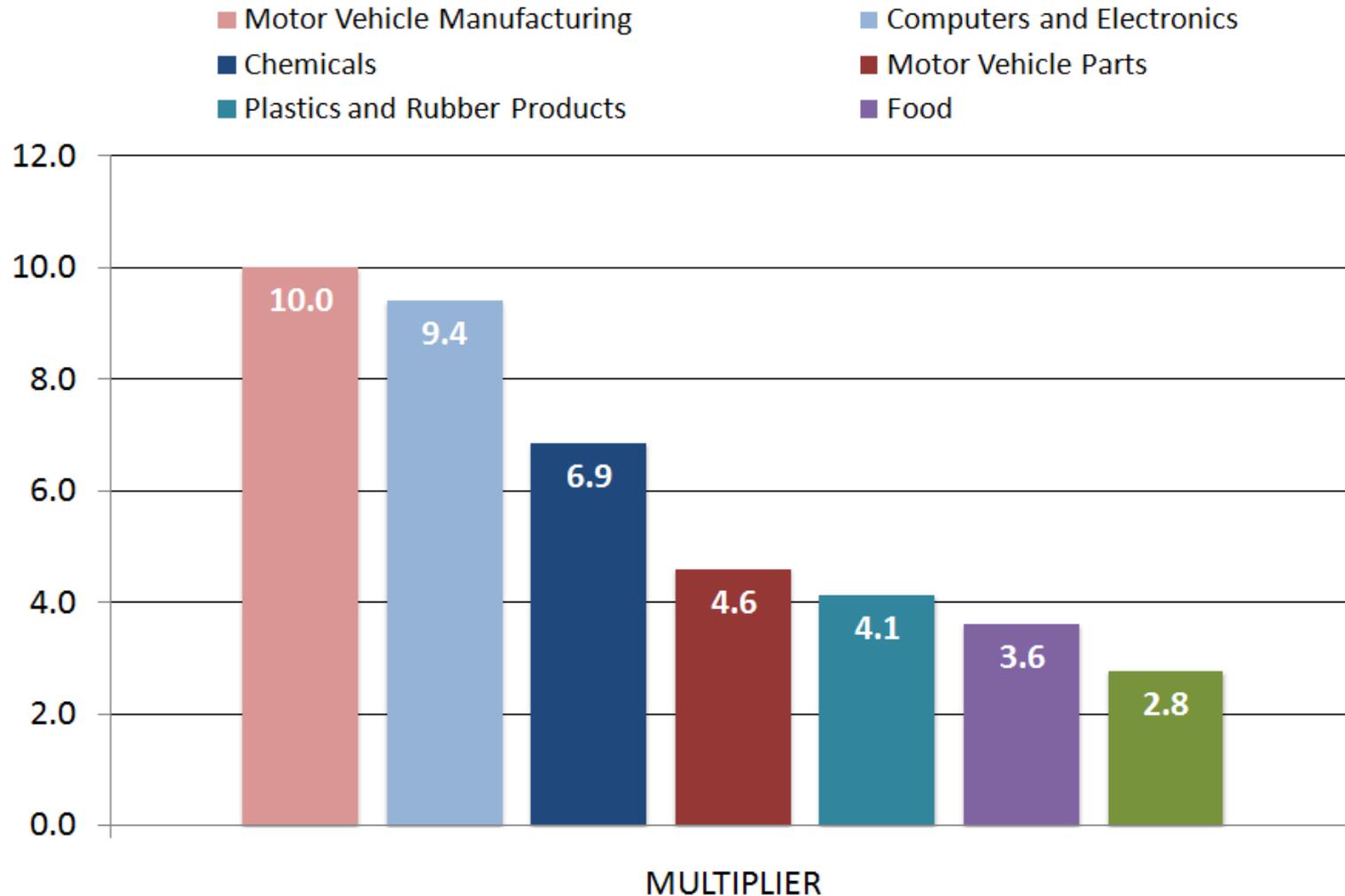
Median change in number of salaried employees current year compared to prior year = 5% increase. May 2010 also indicated a 5% increase from prior year. (assumes mid-point for each range)



No. of Responses = 109



As a Top 4 Employment Multiplier – Slow Growth in Auto Employment Means Slow Employment Growth For the Nation



Credit Availability Is Increasing Down Through the Supply Chain

Question: Considering your lead commercial bank, over the PAST twelve months, how have the terms of your commercial loan or credit line applications changed?

	Tightened Considerably		Tightened Somewhat		Basically Unchanged		Eased Somewhat		Eased Considerably	
	Jan 2010	Jan 2011	Jan 2010	Jan 2011	Jan 2010	Jan 2011	Jan 2010	Jan 2011	Jan 2010	Jan 2011
Maximum Size of Credit Lines	5%	1%	16%	6%	72%	55%	4%	29%	3%	9%
Cost of Credit Line	9%	2%	16%	12%	71%	52%	3%	25%	2%	9%
Maximum Maturity of Credit Line	2%	1%	6%	9%	87%	71%	4%	16%	1%	2%
Maximum Size of Commercial Loan	3%	1%	12%	6%	79%	61%	5%	29%	1%	2%
Commercial Loan Interest Rate	6%	2%	16%	6%	75%	59%	3%	29%	1%	3%
Commercial Loan Covenants	3%	2%	14%	11%	76%	62%	5%	22%	2%	2%
Commercial Loan Collateralization requirements	6%	3%	14%	6%	77%	77%	2%	14%	1%	0%
Maximum Maturity of Commercial Loans	3%	1%	7%	7%	87%	76%	2%	14%	1%	1%

No. of Responses = 85-89



Supplier Confidence Is Increasing In Business Options

Question: Over the NEXT three months, do you have confidence that you will be able to access required levels of capital at appropriate costs for the following uses?

	Significantly Confident		Moderately Confident		Neither Confident or Unconfident		Moderately Unconfident		Significantly Unconfident	
	Jan 2010	Jan 2011	Jan 2010	Jan 2011	Jan 2010	Jan 2011	Jan 2010	Jan 2011	Jan 2010	Jan 2011
Program Consolidation Opportunities	27%	33%	33%	27%	29%	36%	9%	2%	2%	2%
Inventory Financing	46%	61%	37%	25%	15%	12%	1%	0%	1%	2%
Plant and Equipment Investment	31%	51%	35%	34%	17%	12%	15%	2%	2%	2%
Other Working Capital Needs	38%	55%	33%	29%	22%	14%	6%	0%	1%	2%
Off-shore manufacturing operations	N/A	33%	N/A	27%	N/A	33%	N/A	5%	N/A	2%
Merger & Acquisition Opportunities	18%	24%	29%	23%	27%	29%	19%	9%	7%	5%

No. of Responses = 88-100

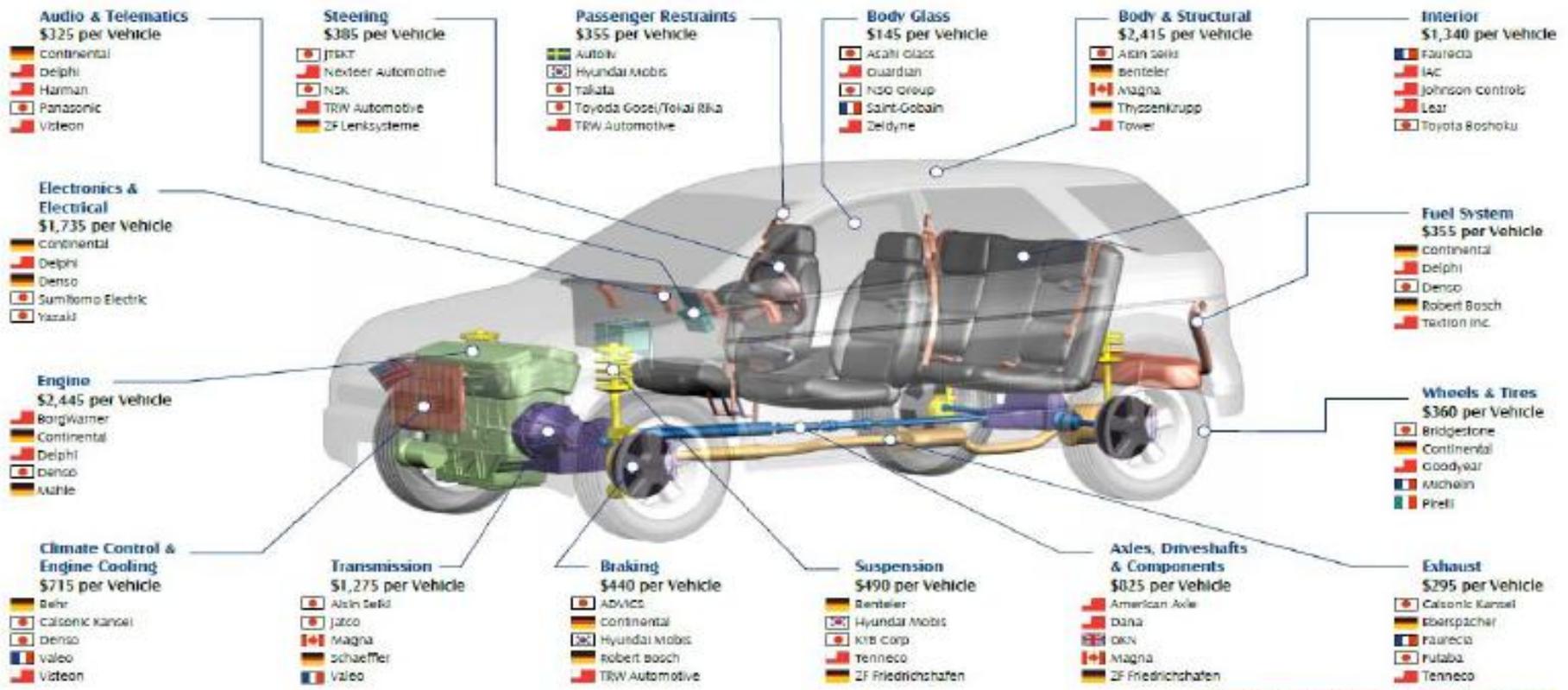


And the Supply Base Is At the Heart of All Technology Development and Value Added

Who Makes the Car - 2011



Major Component System, Estimated Content Per Vehicle and Key Global Suppliers



Total Global Average Content Per Vehicle = \$13,900*

* Excludes ODM final assembly cost (prepared Mar 2011)

Source: DelA Merrill Lynch Global Research



Conclusions

- Industry growth and opportunities are abundant even in the face of demands and challenges that suppliers are addressing
- The industry is in transition, finding balance in expansion during uncertainty
 - Shifting markets and customers
 - Capacity reduction and restructuring
 - Technology innovation and sharing

Thank You

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