



Detroit – Washington D. C.

# The Auto Suppliers' Outlook: Managing Growth in North America and Uncertainty in Europe

FEDERAL RESERVE BANK *of* CHICAGO

Automotive Outlook Symposium  
May 31, 2013

**Dave Andrea**  
Senior Vice President  
OESA – Original Equipment Suppliers Association

# OESA Mission – Serving 446 Members

## Mission

OESA advances the business interests of automotive original equipment suppliers by:

- ✓ ***providing a forum*** to address issues of common interest
- ✓ ***serving as a resource*** for industry information and analysis
- ✓ ***promoting the interests*** of the OE supplier community
- ✓ ***serving as a voice and positive change agent*** for the industry

OESA is an affiliate of the Motor & Equipment Manufacturers Association

# How We Gain Our Perspective at OESA:

446 members, 55 council meetings with 672 executives, 38 events with 5,800 participants, 61 member surveys and 14 staff



**OEM Communication**  
Open & productive dialogue on behalf of suppliers



**Peer Group Councils**  
Member-driven agendas & roundtables

**Industry Studies**  
Benchmarking, trends, analysis, best practices



**Member Surveys**  
Industry trends & supplier best practices




**OESA Events**  
Thought leadership on critical topics

**Advocacy & Voice in DC and the States**  
Lobbying and interaction with legislators and regulators



**OESA Staff**  
Resources, connections, information, assistance



**Global Relationships and Connectivity**  
Access to global associations & government agencies




# Suppliers Will Support NA's 16 Million Unit Production Demand in 2013 And, With Investment and People, 17 Million in 2015

**The Short-Term Question is:** How Do Suppliers Get There Without Destroying Margins?

**The Long-Term Question is:** Can Suppliers Remain Disciplined to Full Capacity Utilization, Cash Flow Optimization and Program ROI Without Closing Assembly Plants?

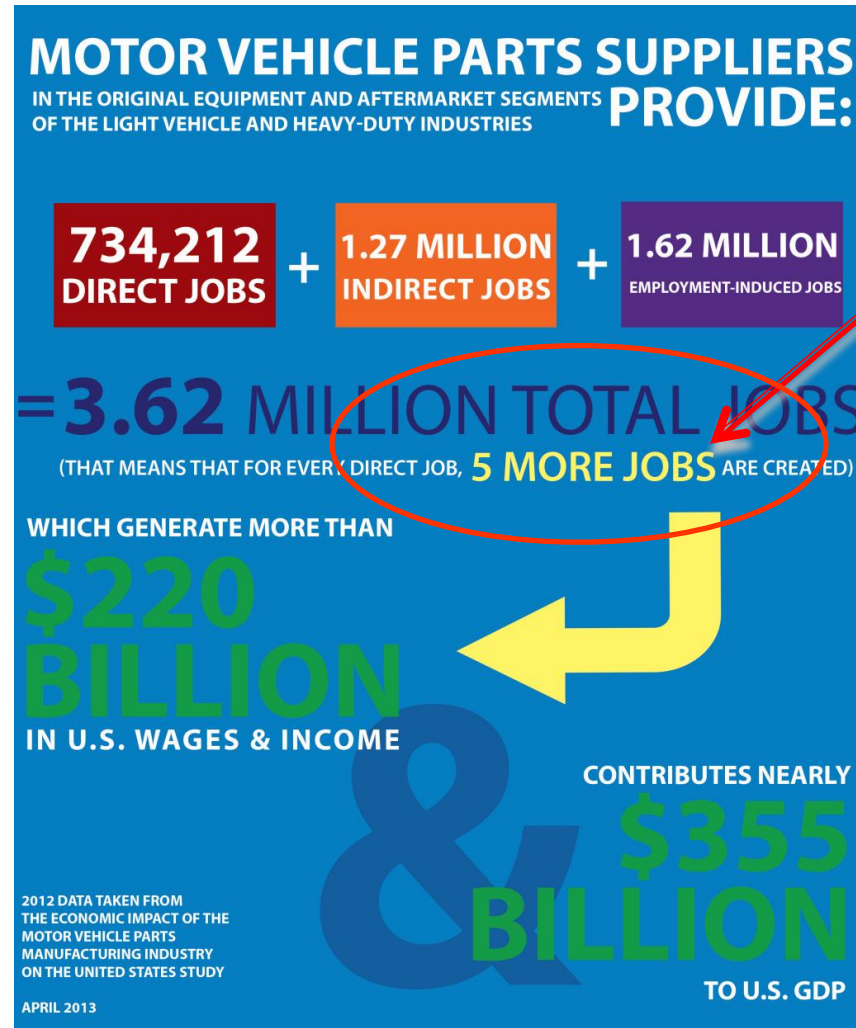
# Outline

- Today's Environment
- Flexing Up
- Going Forward

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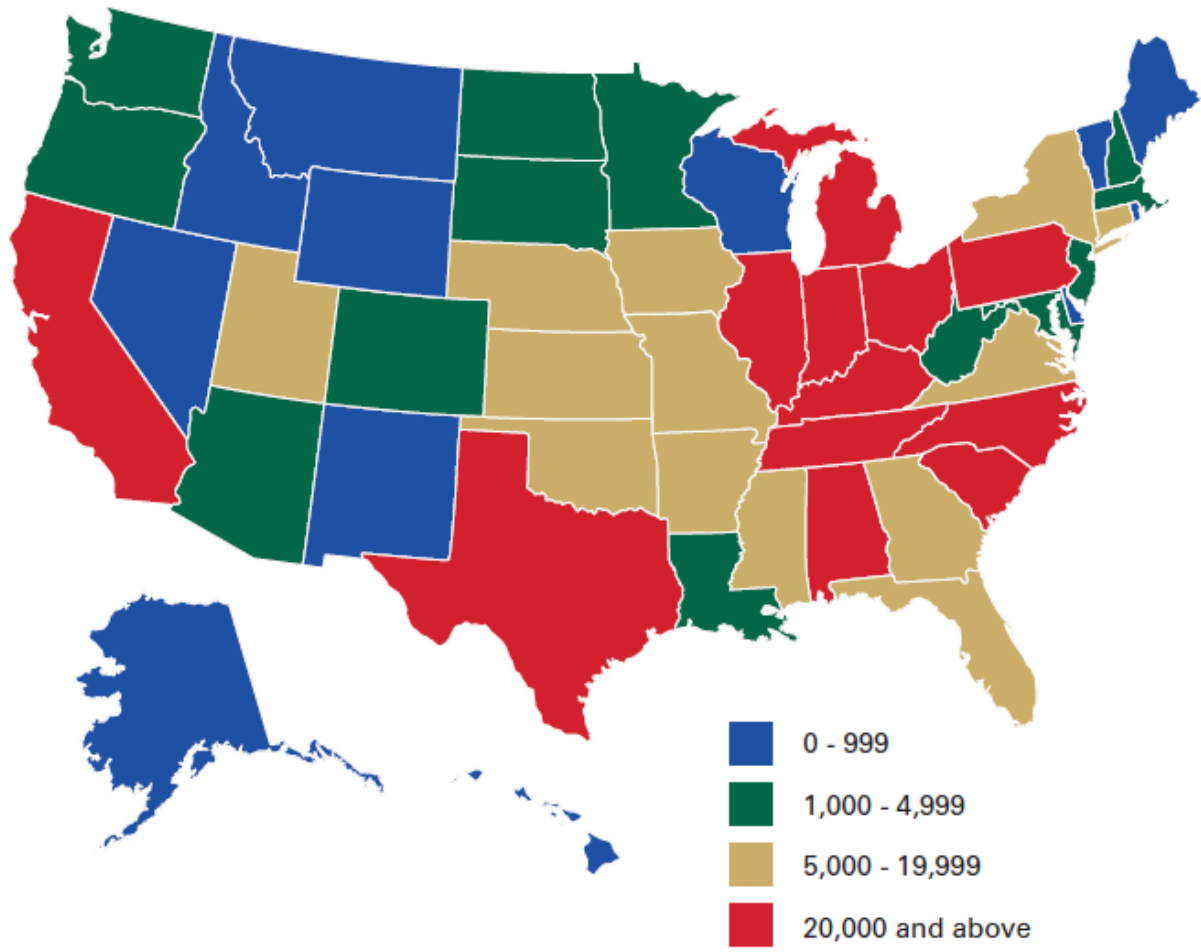
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# The Economic Significance of the U.S. Supply Base



**Jobs  
Multiplier:  
4.93**

# U.S. Motor Vehicle Parts Manufacturing: 11 States Have More than 20,000 Direct Employment

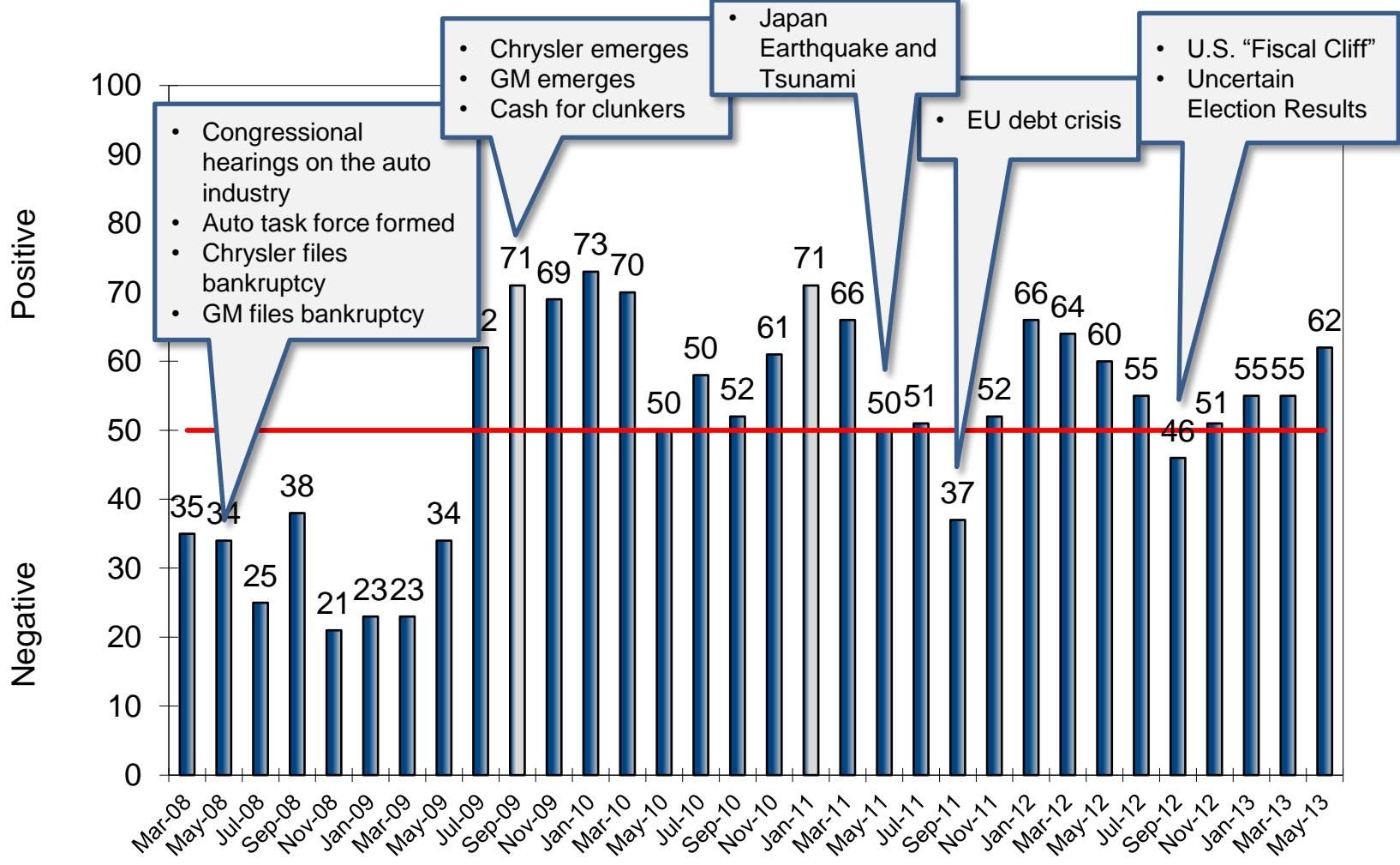


Source: IHS/MEMA 2013 Economic Impact Study





# 12 Month Supplier Sentiment Index Is Increasing . . . As Long as You Ask About NA and Not Europe



# North America

## 2013-2015 Production Forecast Comparison

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



(in millions)	2013					2014 Forecast	2015 Forecast
	1Q Actual	2Q Forecast	3Q Forecast	4Q Forecast	2013 Forecast		
<b>Autofacts</b>	4.02	4.17	3.85	3.94	15.98	16.26	17.02
	4.01	4.17	3.95	4.01	16.14	16.32	17.01
	4.00	4.10	3.90	3.90	15.90	16.50	17.30
	4.03	4.13	3.80	3.92	15.88	16.29	16.62
	4.01	4.21	3.76	3.63	15.62	16.19	16.43
<b>GUGGENHEIM</b>	4.00	4.11	3.81	3.91	15.83	15.92	15.42
<b>Forecast Average</b>	4.01	4.14	3.85	3.89	15.89	16.25	16.63
<b>Forecast Spread</b>	0.03	0.11	0.19	0.38	0.52	0.58	1.88
<b>Reference:2012 Actual Average</b>	3.96	3.99	3.67	3.82	15.43		

Last Updated: May 2013







# Europe

## 2013-2015 Production Forecast Comparison

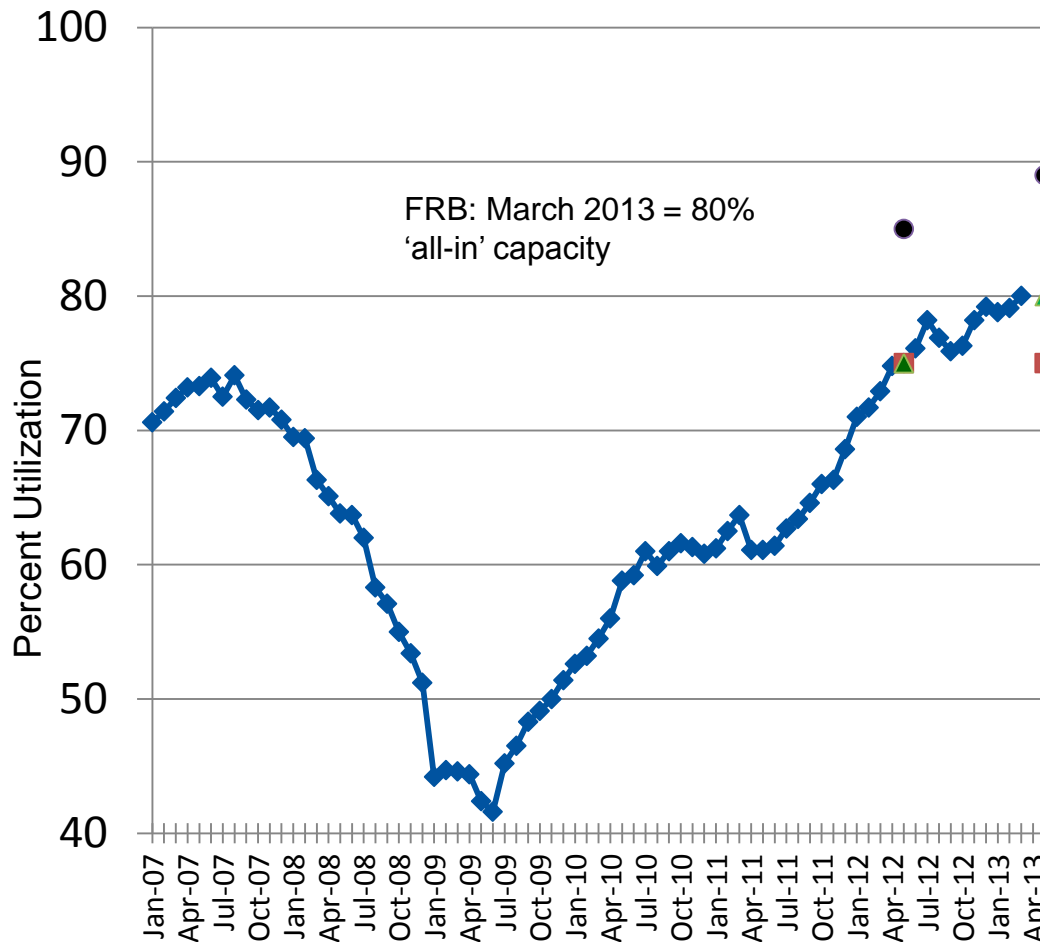
(Volumes represent EU Car, Lt Truck class 1-5)



(in millions)	2013					2014 Forecast	2015 Forecast
	1Q Actual	2Q Forecast	3Q Forecast	4Q Forecast	2013 Forecast		
	4.72	4.75	4.07	4.92	18.46	19.57	21.21
	4.72	4.83	4.16	4.57	18.27	18.93	19.74
	4.70	4.70	4.20	4.70	18.30	18.60	19.60
	4.60	4.80	4.20	4.60	18.20	19.51	21.07
<b>GUGGENHEIM</b>	4.70	4.70	4.11	4.47	17.96	18.53	19.57
<b>Forecast Average</b>	4.69	4.76	4.15	4.65	18.24	19.03	20.24
<b>Forecast Spread</b>	0.12	0.13	0.13	0.45	0.50	1.04	1.64
<b>Reference:2012 Actual Average</b>	<b>5.15</b>	<b>4.93</b>	<b>4.21</b>	<b>4.59</b>	<b>18.88</b>		

# The Supply Base Did Reduce Capacity in 2008-10

## Bottlenecks Exist Throughout the Supply Chain



Capacity Utilization data from the OESA Automotive Supplier Barometer May 2012 and May 2013:

- **Supplier Current Running Capacity (89%)**
- ▲ **Current + Warm-idled capacity (80%)**
- **Current + Warm + Cold-idled capacity (75%)**

- When asked about utilization rates, the upper quartile of companies are running at 95%; 85% including their warm and cold-idled capacity– and this is at a 16 million unit run rate

- The lower quartile companies are operating at 80%; 65% including all available capacity

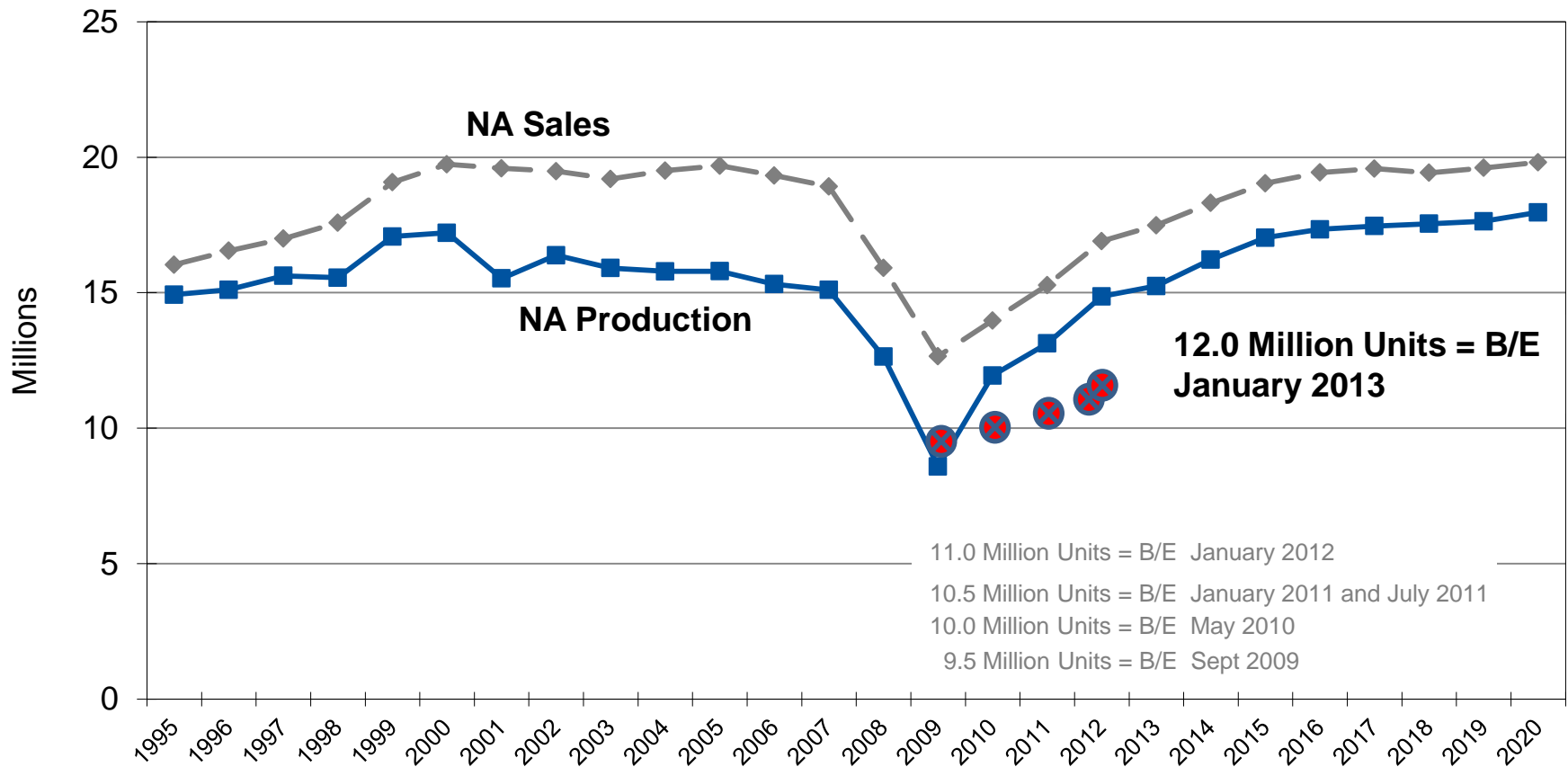
NAICS 3363 capacity utilization corrected in March 2013 to reflect updates in FRB dataset

Source: U. S. Federal Reserve Board of Governors



# Capacity is Tight: Supplier Break Even Points Can be Tested to a 12 Million Unit Level - Or a 25% Decline from Forecast

## North American Light Duty Sales, Production and Breakeven



Production will increase by 85 percent between 2009 and 2013 (using a 15.9 million projection) while break even levels will increase by just 26 percent.

# Suppliers Will Launch A Record Number of New Part Program Numbers to Keep Pace With New Vehicle Launches

Over the next 12 to 24 months, estimate how many all-new part number programs your company will be launching in North America.

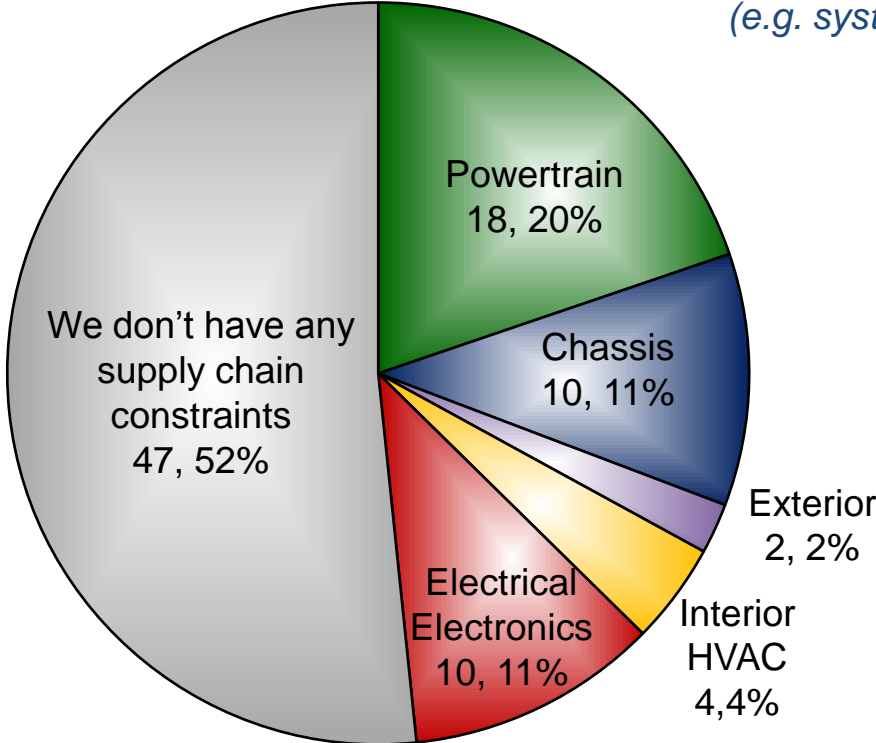
Global Auto Revenue	Lower Quartile Value	Median Value	Upper Quartile Value	Range	# of responses
More than \$500 million	8.5	18.5	57.5	0-1000	38
\$151-\$500 million	12	20	40	0-136	20
\$150 million or less	4.5	20	30	0-500	24

*(A part number program is defined as a new base level part, not including complexity for trim levels etc.)*



# Systems Facing the Greatest Concern of Supply Chain Constraints Down Through the Supply Chain

Please describe in more detail your response selection above.  
(e.g. system, component, material, process and concern)



### Powertrain Comments

- Machined components- it can be difficult to find competent suppliers.
- Limited casting/forging capacity in the market.
- Castings and forgings.
- Component supply of complex mechanicals.
- Raw material.
- Simple iron casting and machining constraints and lack of basic capability.
- Local sourcing constraint due to product specification gap between Japan and NA.
- Under hood components.
- Raw materials.
- Raw compounds.
- Long lead-time.
- Lead-time problems related to demand spikes. Inside the lead-times necessary to obtain raw materials (base polymer).



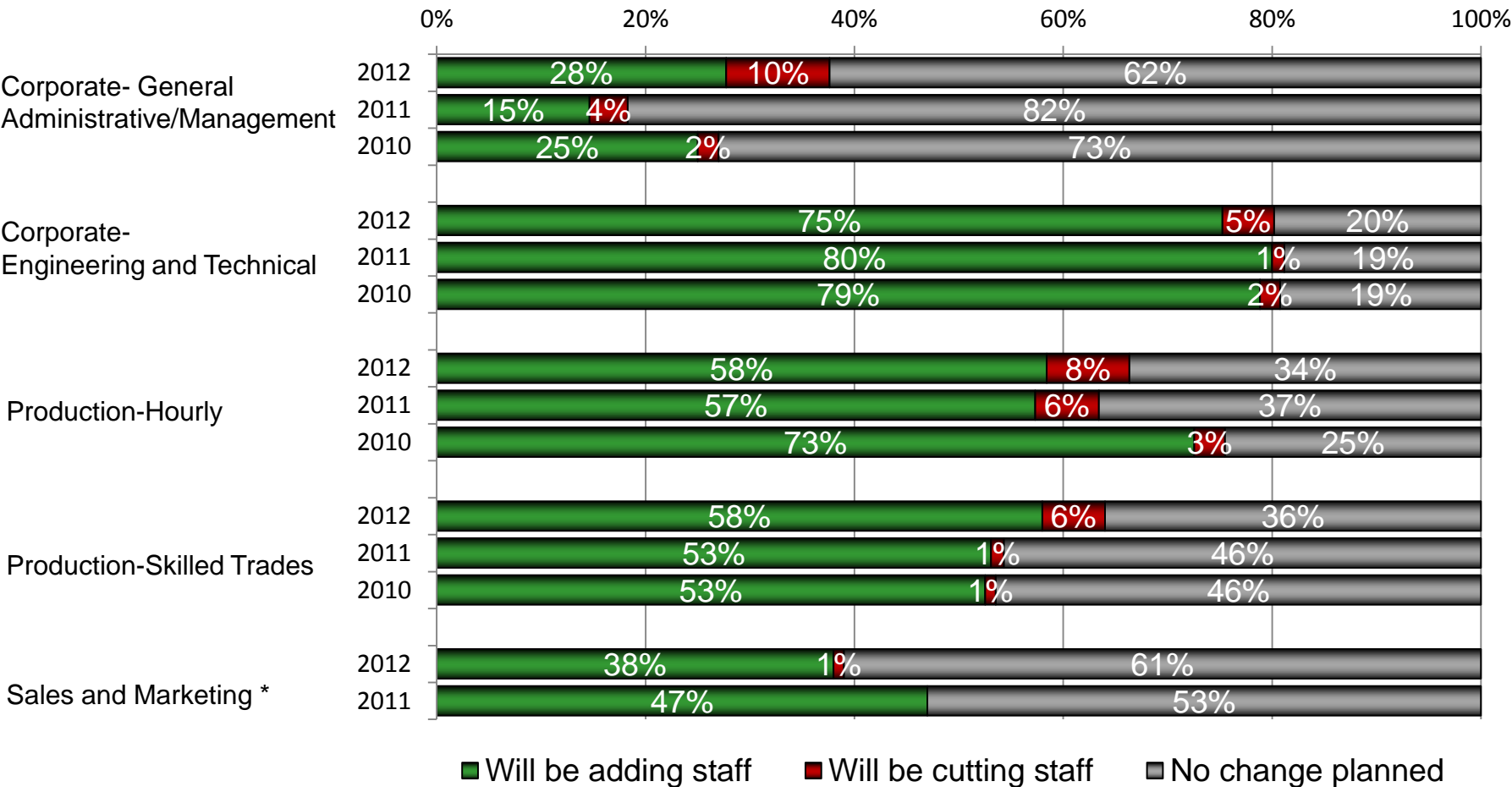
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# OESA Members Are Looking To Expand Workforces . . .

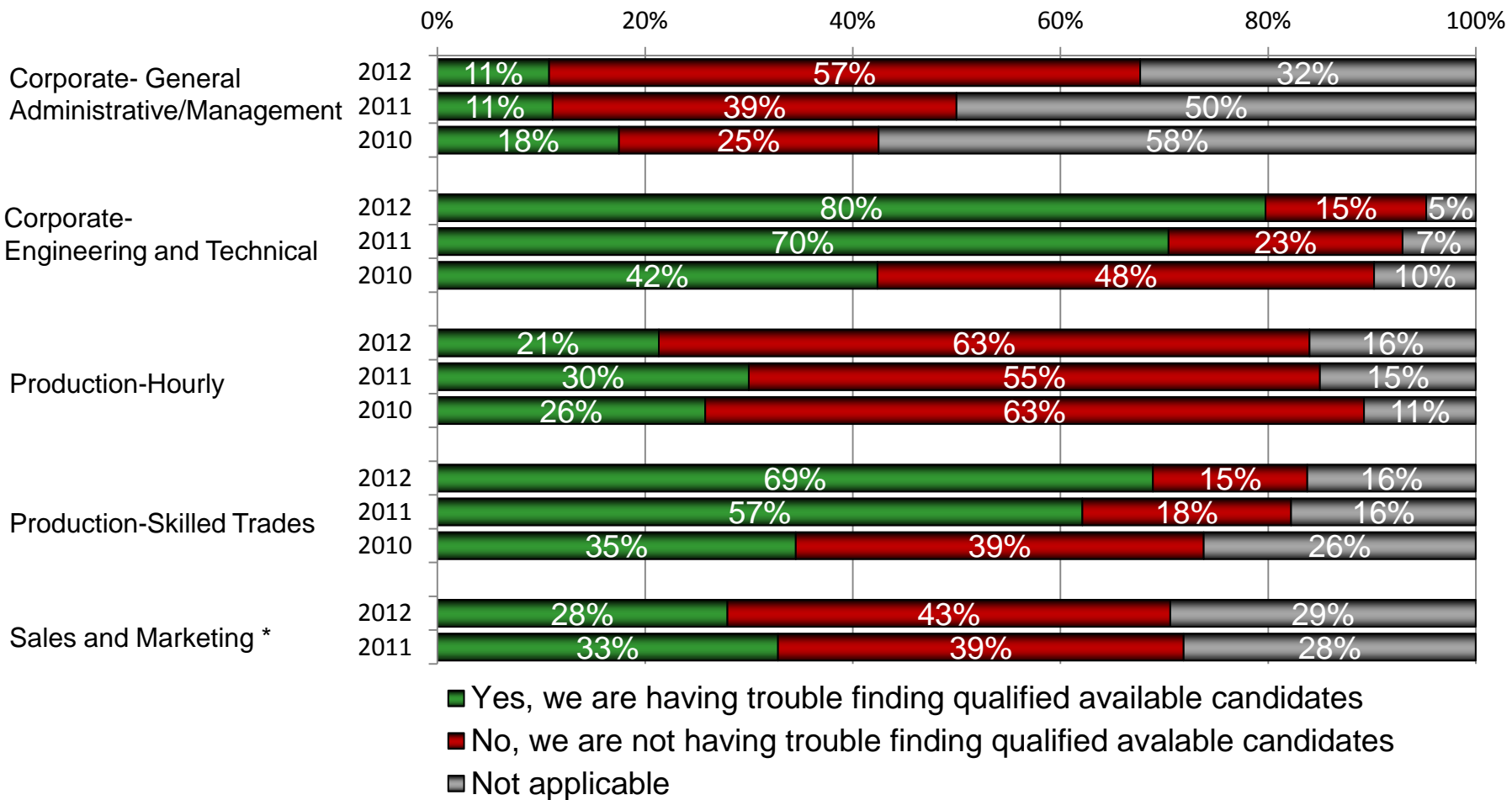
## Will you be expanding your workforce in the next 6 months?



\* 2010 data not available. Was not a category in Nov. 2010 survey



# OESA Members Are Hiring But Are Increasingly Finding It Harder to Find Qualified Candidates

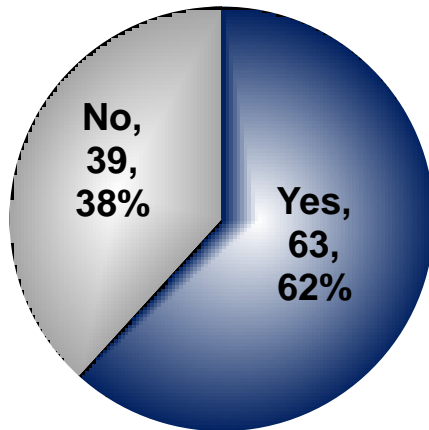


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# Suppliers are Flexing Up to Match OEM Production Schedules

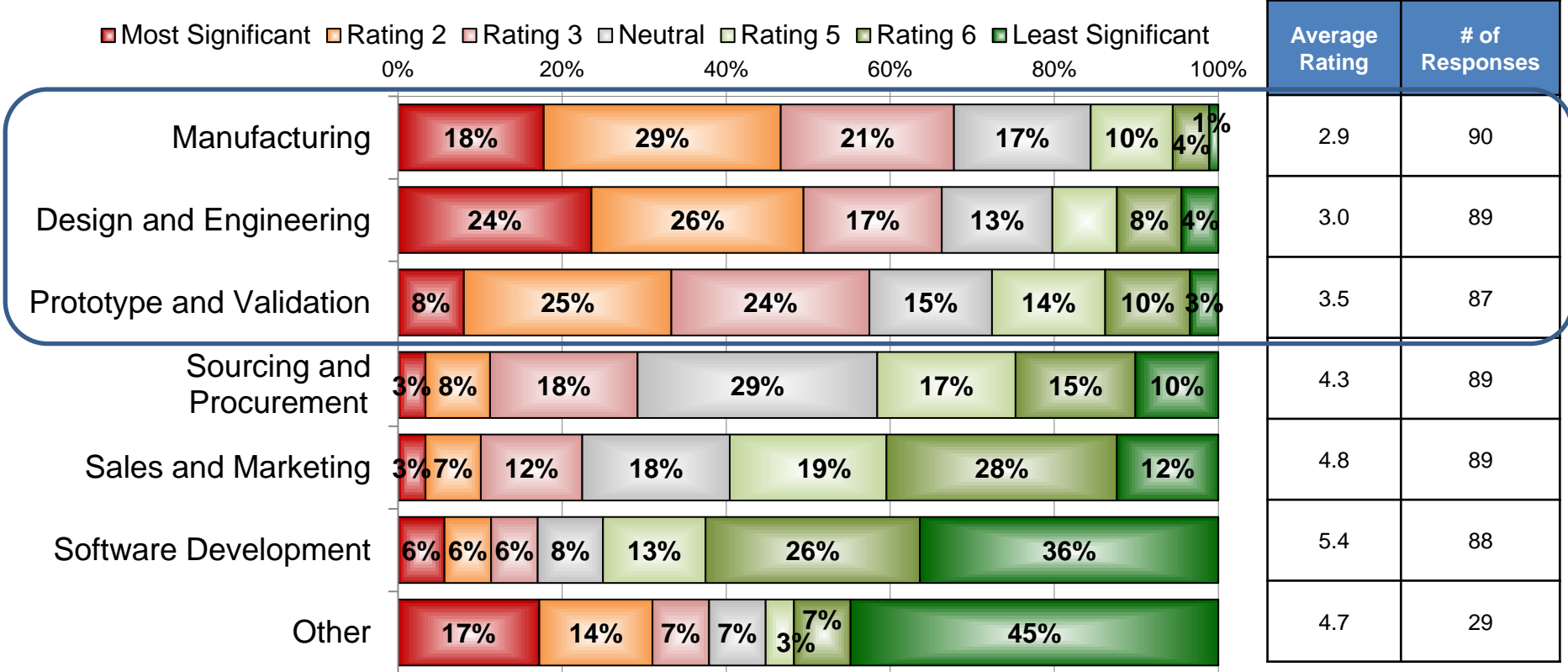
Are you running alternate schedules to increase productivity or flexibility to meet customer demands (i.e. 4-10 hour shifts, 3 crews/2 shifts, etc.)?



## If yes, please describe and comment on the work arrangement.

- Three Shift Operations
- Three Crew Operations
- 4 - 10 Hour Shifts
- 12 Hour Shifts
- 24/7 Operations
- Overtime

# Rank in order of significance the organization issues you face in launching these new parts.

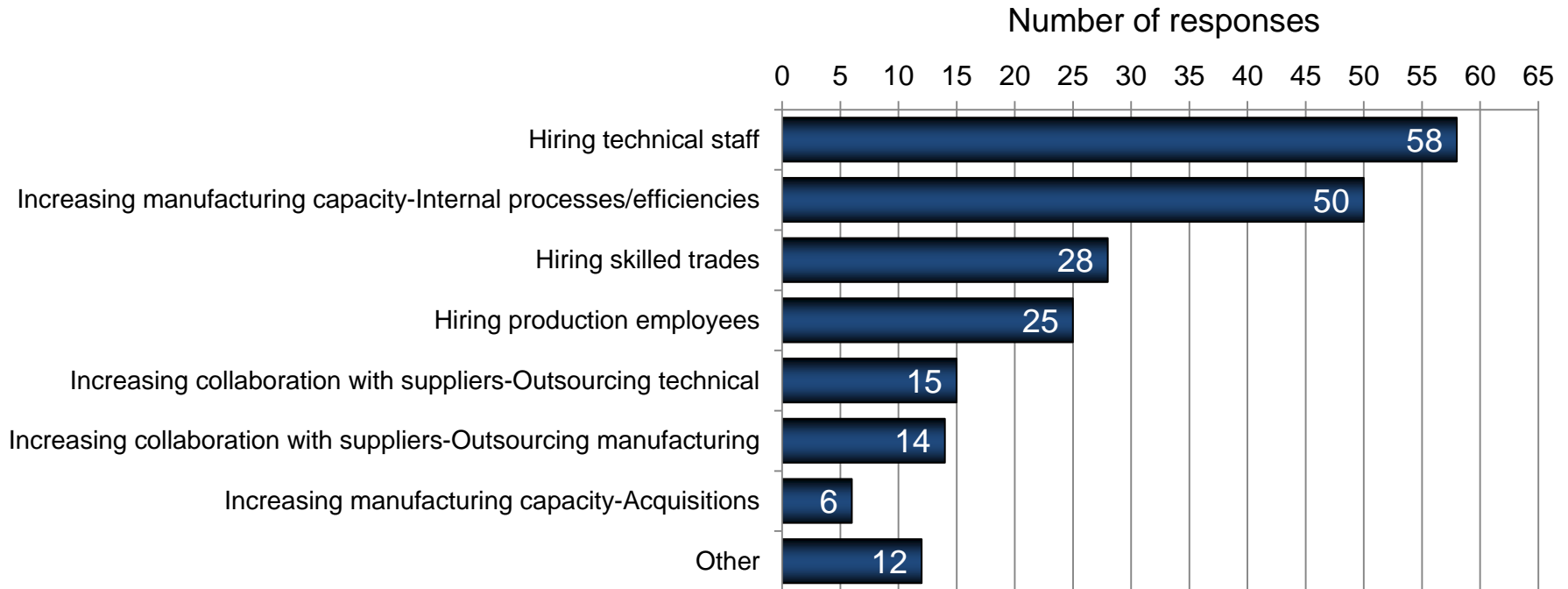


**‘Other’ Responses:**

- Timeline and lead-times.
- Program management.
- Global program management.
- Customer validation is incomplete or late.
- Quality and timing.
- Manpower to launch awarded business.
- Finding the right people in general.
- Hiring capable people to support the new business.
- Supplier quality.



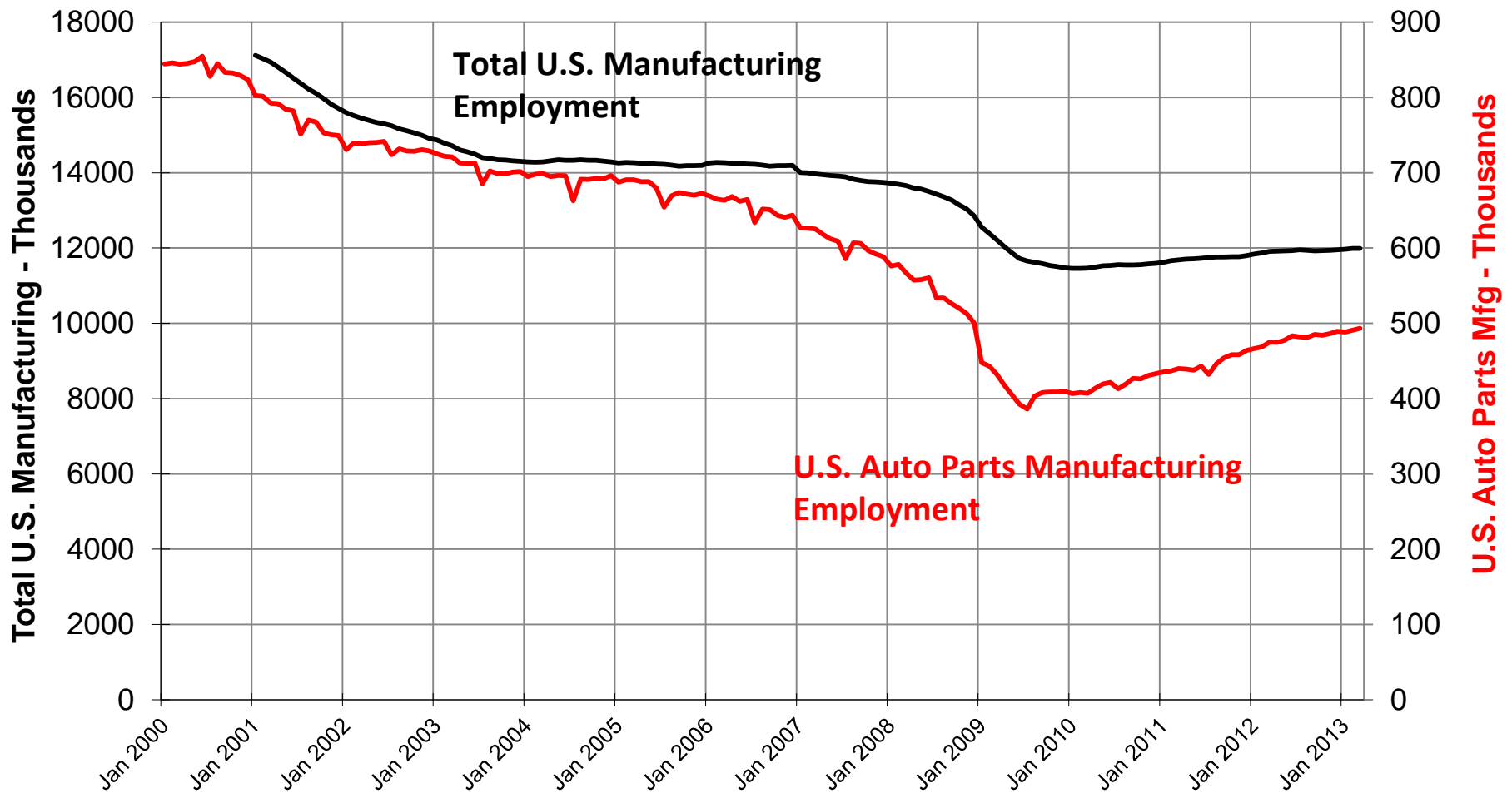
# What actions are you taking to address your biggest concern?



## 'Other' Responses:

- Training.
- Training and education.
- Supplier development.
- Stronger role in supplier launch.
- Allocate more resources to inspection during launch.
- We can handle our current and future design and engineering work. We need to continue staying out in front of program launches to eliminate last minute design work.
- Increasing process know-how.
- Looking at potential expansion options.

# U.S. Employment: Total and Auto Parts Manufacturing



Updated to include March preliminary employment (not seasonally adjusted values)

Source: US Bureau of Labor Statistics  
Includes only NAICS code 3363 for Auto Parts

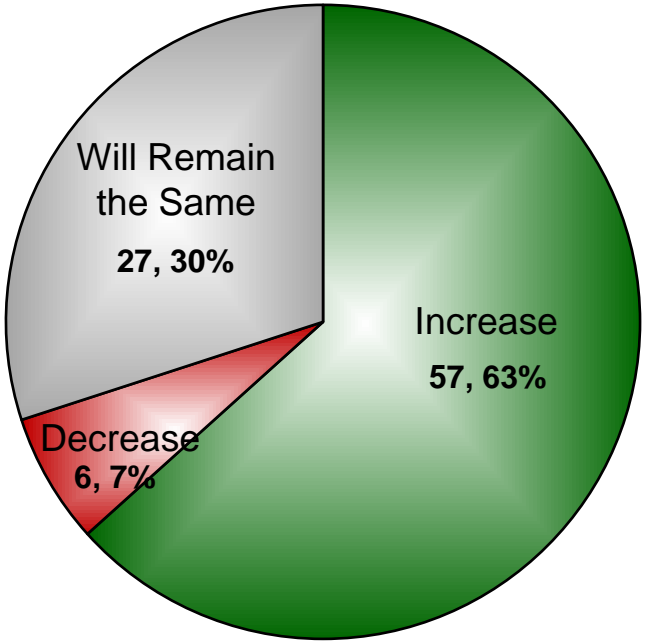


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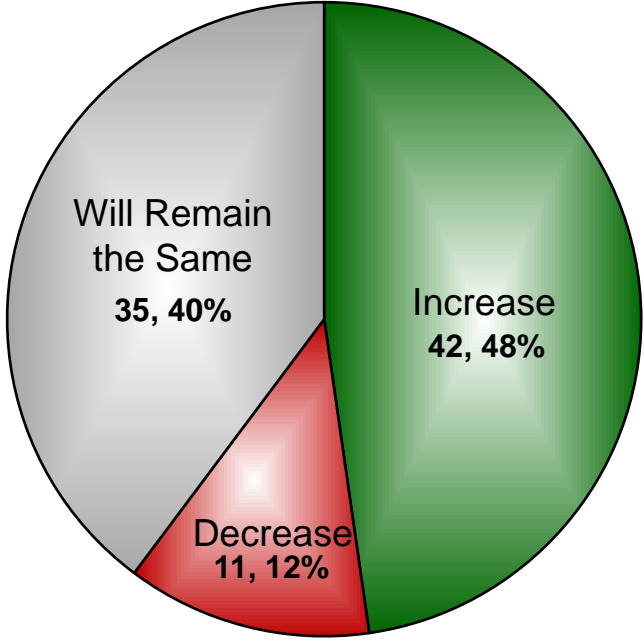
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# Over the Next Five Years, Suppliers Will Deepen the North American Supply Chain –Through Their Own Value Add and Sourcing

**The percent of your total value add  
(vertical integration)**



**Your sourcing  
(as a percent of your total COGS)**

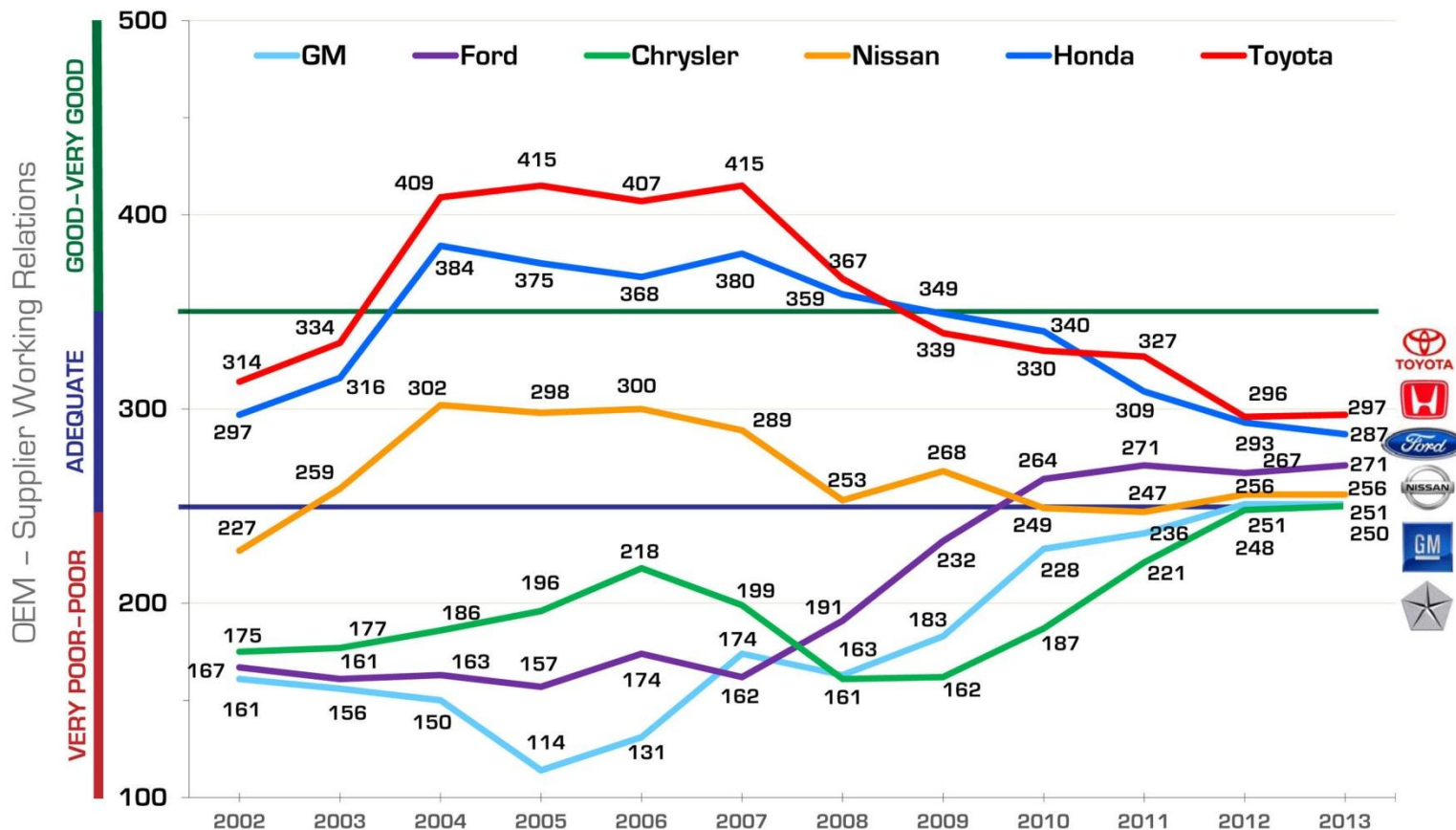




# 2013 Planning Perspectives WRI – How Will the Industry Move Customer-Relationships Forward?

Working Relations Index®

OEM - Supplier Working Relations Index®



Source: Planning Perspectives, April 2013



# Suppliers Will Support NA's 16 Million Unit Production Demand in 2013 And, With Investment and People, 17 Million in 2015

**The Short-Term Question is:** How Do Suppliers Get There Without Destroying Margins? *By remaining as flexible as possible while hiring, adding flexible work schedules, putting in place production and supply chain workarounds, . . . .*

**The Long-Term Question is:** Can Suppliers Remain Disciplined to Full Capacity Utilization, Cash Flow Optimization and Program ROI Without Closing Assembly Plants? *YES – suppliers are not relying on the industry's production bounce to cover past sins; suppliers will increase capacity in line with the increase in demand and negotiating leverage will remain in greater balance, . . . . .*

# Thank You

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