2015 Auto Contracts Wrap-Up

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23rd Annual Automotive Outlook Symposium
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Outline

• Summary of the agreements
• Financial impacts
• Outlook for attrition and hiring
• Competitive position
• What increased use of temporary workers will mean
• Implications for suppliers
• North American production shifts
• Q&A
Process & Strategy

- UAW chose to negotiate with FCA first
  - First tentative agreement was rejected 2-to-1
  - Second tentative agreement had about 15% new pages
  - Second agreement was ratified with 77% in favor
  - Contract costing the same, but shifted cash to current workers

- GM went next
  - Economics of core tentative agreement ratified with 55% in favor
  - Skilled trades rejected the agreement
  - UAW leadership investigated reason for “no” votes, and declared the agreement ratified

- Ford went last
  - Tentative agreement initially appeared to be headed for defeat, with large locals voting it down by 2-to-1 margins
  - Ratification was just over 51% in favor
## New 2015 UAW Contract Summary

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Signing Bonus</strong></td>
<td>$3,000 for “in progression” workers&lt;br&gt;$4,000 for legacy workers&lt;br&gt;$8,500, with $1,500 “pull-ahead” profit sharing&lt;br&gt;$2,000 for temporary workers&lt;br&gt;$8,000 for permanent workers&lt;br&gt;$2,000 for temps &gt;90 days at signing</td>
</tr>
<tr>
<td><strong>Wages</strong></td>
<td>&lt;2007: 3%, 4% lump, 3%, 4% lump&lt;br&gt;2007-2015: 8-year grow-in to $29&lt;br&gt;2015: 4-to-8 year grow-ins to $25&lt;br&gt;2007: 3%, 4% lump, 3%, 4% lump&lt;br&gt;2007-2015: 8-year grow-in to $29&lt;br&gt;2015: 4-to-8 year grow-ins to $25&lt;br&gt;2007: 3%, 4% lump, 3%, 4% lump&lt;br&gt;2007-2015: 7-year grow-in to $29&lt;br&gt;2015 4-to-8 year grow-ins to $25</td>
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<td><strong>Jobs</strong></td>
<td>+103; $3.4B potential total investment&lt;br&gt;+8,500 new &amp;/or secured; $9B investment&lt;br&gt;+3,300 created &amp; retained; $1.9B new+$6.4B announced=$8.3B</td>
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<tr>
<td><strong>Retirement Incentives</strong></td>
<td>$25K targeted&lt;br&gt;$70K, tilted toward production&lt;br&gt;$60K for 4,000 retirement eligible production workers</td>
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<tr>
<td><strong>Profit-Sharing</strong></td>
<td>$800 for each margin point &gt; 2%; $1/$1 Million once margin &gt;2%&lt;br&gt;$12K cap removed&lt;br&gt;$1,000/$1 Billion once margin &gt;2%</td>
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<tr>
<td><strong>Retirees</strong></td>
<td>$1,000 vehicle voucher (one-time)&lt;br&gt;$250/year for retirees; $125/year for surviving spouses&lt;br&gt;$500 gift card (one-time)</td>
</tr>
<tr>
<td><strong>Other Bonuses</strong></td>
<td>$0-1,500 annual quality bonus&lt;br&gt;$1K-5K one-time for World Class Mfg&lt;br&gt;4 $1,500 annual inflation protection&lt;br&gt;4 $250 annual competitiveness bonus&lt;br&gt;4 $1K annual performance bonuses&lt;br&gt;4 $500 annual quality bonuses</td>
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<tr>
<td><strong>Health Care</strong></td>
<td>No change to worker contribution; maintained distinction between traditional and in-progression plans&lt;br&gt;No changes to worker contribution; same plan for traditional &amp; in-progression&lt;br&gt;Health care plan for temp workers&lt;br&gt;No changes to worker contribution; same plan for traditional &amp; in-progression&lt;br&gt;Health care plan for temp workers</td>
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# Wage Rates Under 2015 UAW-FCA Contract V2.0

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<tr>
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<tbody>
<tr>
<td>Skilled Trades</td>
<td></td>
<td>2015: $33.69</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2017: $34.70</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>2015: $29.36</td>
<td>$17-29.94* over 8 years</td>
<td>$17-22.50 over 4 years</td>
</tr>
<tr>
<td></td>
<td>2017: $30.24</td>
<td></td>
<td></td>
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<tr>
<td>Mopar</td>
<td></td>
<td>$17-29.76 over 8 years</td>
<td>$17-25 over 8 years</td>
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<tr>
<td>Axle</td>
<td></td>
<td>$16.25-19.86 over 4 years</td>
<td>$16.25-19.86 over 4 years</td>
</tr>
<tr>
<td>Temporary workers</td>
<td>Team member maximum rate</td>
<td>$17-22 over 4 years</td>
<td>$15.78-19.28 over 4 years</td>
</tr>
</tbody>
</table>
# Wage Rates Under 2015 UAW-GM Contract

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<tbody>
<tr>
<td>Skilled Trades</td>
<td></td>
<td>2015: $33.99&lt;br&gt;2017: $35.01</td>
<td></td>
</tr>
<tr>
<td>Production Group B</td>
<td>2015: $29.98&lt;br&gt;2017: $30.88</td>
<td>$17-29.94* over 7 years</td>
<td>$17-28 over 7 years</td>
</tr>
<tr>
<td>Production Group C (CCA, etc.)</td>
<td>2015: $28.89&lt;br&gt;2017: $29.76</td>
<td>$17-29.76 over 4 years</td>
<td>$17-25 over 8 years</td>
</tr>
<tr>
<td>GMCH</td>
<td></td>
<td>$16.85-19.26 over 4 years plus 3% in 2016, 2017, 2018 and 3.7% in 2019 for those at top rate</td>
<td>$16.25-19.86 over 4 years</td>
</tr>
<tr>
<td>Temporary workers</td>
<td></td>
<td>$17-22 over 4 years</td>
<td>$15.78-19.28 over 4 years</td>
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## Wage Rates Under 2015 UAW-Ford Contract

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<tbody>
<tr>
<td>Skilled Trades</td>
<td></td>
<td>2015: $33.79</td>
<td>$17-28 over 8 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2017: $34.81</td>
<td>$17-28 over 8 years</td>
</tr>
<tr>
<td>Production</td>
<td>2015: $29.78</td>
<td>$17-29.75* over 8 years</td>
<td>$17-28 over 8 years</td>
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<tr>
<td></td>
<td>2017: $30.67</td>
<td></td>
<td>$17-28 over 8 years</td>
</tr>
<tr>
<td>Rawsonville, Sterling,</td>
<td>$16.25-19.86</td>
<td>$16.25-19.86 over 4 years</td>
<td>$16.25-19.86 over 4 years</td>
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<tr>
<td>Woodhaven</td>
<td></td>
<td>plus three 3% annual raises</td>
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<tr>
<td></td>
<td></td>
<td>and one 3.7% raise (2019)</td>
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<tr>
<td></td>
<td></td>
<td>for those who reach $19.86</td>
<td></td>
</tr>
<tr>
<td>Temporary workers</td>
<td>$17-22 over 4 years</td>
<td>$15.78-19.28 over 4 years</td>
<td></td>
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</table>
Average Hourly Labor Cost Changes, 2015-2019

Source: Center for Automotive Research preliminary estimates;
Projected Cost Competitiveness in 2019: UAW Average Hourly Labor Costs vs. Internationals

Estimated Weighted Average of U.S. International Producers in 2019=$50

Source: UAW-Chrysler, UAW-Ford, and UAW-GM 2015 agreements and company reports; Company data and Center for Automotive Research estimates.
Per Vehicle Labor Cost Changes, 1999-2019

Average Per Vehicle Labor Cost

1999 2007 2014 2019*

FCA
$3,606 $4,167 $1,771 $2,500

Ford
$2,466 $4,204 $2,401 $2,600

GM
$4,091 $4,498 $2,374 $2,350

Source: Center for Automotive Research preliminary estimates;
The Tale of the Tape:

**Achieved:**
- Pay increases AND profit sharing/lump sums (largely cash)
- Begin to phase out tier 2...but with many more wage scales
- Did not change health care benefits/lower cost
- Got back Easter Monday & Legal Aid
- Won same health care for everyone at GM & Ford

**Didn’t Win Back**
- COLA
- JOBS Bank/GEN pool
- Overtime after 8 hours/day
- 3-year grow-in to top wages
- Pension increases
For the Automakers:

- Most of the cost of the contract is cash
  - *Therefore up for grabs in 2019 depending on the market*
- Still have lower wage scales for new hires
- Companies can adjust production in a downturn and can layoff excess employees at lower cost than last major downturn
- Overall contract cost does not rise as much as it has in pre-2009 contracts
Hiring will outpace overall employment growth due to technology/skill needs and demographic factors.
One-third of U.S. Motor Vehicle & Parts Employees Currently Are or Will Soon Be Eligible to Retire.

Attrition & Hiring

• **FCA**
  - Targeted retirement incentives will yield not much more than normal attrition
  - Product movement/retooling will mean shuffling existing workers more than hiring new ones (net employment change=+103)

• **Ford**
  - Retirement incentive tilted toward production; possible to clear out roughly 6,500 legacy workers over four year contract
  - Largely replacement hiring, with some growth (8,500 jobs “created/retained”)

• **GM**
  - Retirement incentive aimed at clearing 4,000 retirement-eligible in early 2016; hitting a demographic bubble, and retirement attrition could be as high as 5 to 6%/year
  - Largely replacement hiring (3,300 jobs “created/retained”)

Increased Use of Temporary Workers

- FCA and GM currently use temps for 5-10% of annual hours worked; Ford for <1%
- Temps can be used for:
  - Generally long-term, but no more than 3 days/week
    - Absentee replacement
    - Monday/Friday
  - Short-term supplemental employees
    - Vacation/Leave replacements
    - Launch/Increased Production (3rd shifts)
    - Attrition program transition
    - Other similar supplemental manpower needs
- New temps will be paid the former entry-level scale ($15.78-19.28/hour), and will be used to balance higher wages/bonuses paid to current workers
UAW Skilled Trades Classifications Were Consolidated Over The Past 3-4 Contracts

Source: UAW-FCA 2015 Agreement
The UAW and D3 Automakers Are Adding Apprentices and Changing Their Processes

- New apprentice eligibility process targeted to be in place Q1 2016
- Promised investments “could result in” +1200 apprenticeships
- Implementing a new online apprenticeship application
- Plans to add +1300 trades; +400 new apprentices (first 200 in 2016)
- Plans to add 150 apprentices during 2016 (with a pledge of continued growth through length of the agreement)
IMPLICATIONS IN SUPPLIER SECTOR
At the Bargaining Convention...

We are confident that our bargaining philosophy will support us at the bargaining table as we join together to “bridge the gap” in our pay and working conditions and secure the American Dream for all.

From UAW 2015 Special Bargaining Convention Proposed Resolutions
Another Reason Expectations Ran High...

THE WALL STREET JOURNAL.

BUSINESS

UAW Ends Two-Tier Wages at Lear in Tentative Pact
Now That Auto Makers Are Healthier, Workers Are Demanding an End to Two-Tier Wages
Negotiations Timeline: Is This the New Normal?
Supplier Negotiations Have Hit Some Rough Spots

GM, Fiat Chrysler plants impacted by Nexteer strike
Melissa Burden, and Michael Wayland, DetroitNews 1:47 p.m. EST December 9, 2015

Kohler union workers ratify contract, end strike
Updated 7:49 AM CST Dec 17, 2015

UPDATE: Honeywell lockout continues amid UAW contract dispute
SHIFTING PRODUCTION IN NORTH AMERICA
U.S. Share of North American Production is Shrinking.

Source: Ward’s Automotive, CAR 2015
Product Movement & Investments in N.A.

**FCA**
- Getting out of U.S. car production altogether by ending the Chrysler 200 and Dodge Dart
- Dodge Journey moves from Mexico to the U.S.

**Ford**
- Ford Focus and C-Max move to Mexico
- Lincoln MKC moves to Mexico
- Lincoln MKZ moves from Mexico to Flat Rock
- Ford Fusion production to double in Mexico
- New $1.6B plant announced in Mexico

**GM**
- Cadillac SRX renamed the XT5 and moves from Mexico to Spring Hill, TN
- Chevrolet Captiva Sport discontinued (was built in Mexico)
- Adding Chevrolet Cruze, Equinox, and Onix production in Mexico

Source: LMC Automotive
Mexican Automotive Wages are One-Eighth to One-Fifth the Wages Paid to U.S. Hourly Auto & Parts Workers

Average Hourly Wages for Production and Non-Supervisory Workers in Motor Vehicle and Parts, 2007-2014

Some Vehicles Made in Mexico
Mexico Has Become a Global Export Base for Autos and Parts

13 FTAs, 44 Countries
- North American Free Trade Agreement (NAFTA)
- Colombia - Mexico
- Costa Rica - Mexico
- European Union - Mexico
- Nicaragua - Mexico
- Chile - Mexico
- EFTA - Mexico
- Israel - Mexico
- Northern Triangle - Mexico
- Uruguay - Mexico
- Japan - Mexico
- Peru - Mexico
- Central America – Mexico

Legend
- Assembly Plant
- Automaker Parts Plant
- Chrysler
- Ford
- GM
- Honda
- Toyota
- Others
- Automotive Supplier

Note: Parts plants include engine, transmission, stamping and other parts production facilities. Assembly plants opening in the future have open dates indicated in parenthesis.
Mexican Production and Exports

- In 2013, Mexico produced more than 1.7 million light vehicles and 1.1 million heavy-duty vehicles.
- In 2016, Mexico will become the 7th largest vehicle producer in the world.
- Mexico now produces roughly 20 percent of the light vehicles in North America.
- Mexico has captured 8 of the last 9 announced new assembly plants on the continent since 2011.
- Manufactured goods constitute 80 percent of Mexico’s exports.
- 2014 was a record year for Mexican automotive exports, and 2015 looks like it will again set a record.

Source: LMC and U.S. ITA
Engine Production and Forecast: 2012-2022

Engine configurations are changing...

...but U.S. production changes will be incremental

...and Mexico is poised to increase its share.

Source: LMC Automotive, 3Q Production Forecast
Automaker Investment Announcements, Jan - Dec 2015

Canada
$1.5 billion

United States
$29.3 billion

Mexico
$4.5 billion

Total North America:
$35.3 billion

Note: U.S. and North American totals include 2015 UAW contract commitments

Source: CAR “Book of Deals”
A Big Question?
Center for Automotive Research

kdz@cargroup.org