The 2019 Automotive Outlook: Trade & Labor Relations Issues

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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...

- Section 232 Steel & Aluminum Tariffs
- Section 301 China Tariffs
- U.S.-China Talks
- China Auto Sales Slowdown
- USMCA Ratification?
- Section 232 Auto & Parts Tariffs
- U.S.-Japan Talks
- Japan Economic Slowdown
- U.S.-EU Talks
- BREXIT
- U.S.-U.K. Talks
- Recession?
- Geopolitical Risks
- Consumer Confidence
- Interest Rates
- UAW Negotiations/Strike?
CAR’s U.S. Light Vehicle Sales Forecast 2019-2025

U.S. LV Sales in Millions

Source: CAR Research, January 2019
Are Sales Back?
1995 – 2019 YTD (March)

Both spending and vehicle sales exceed 2006 level

Source: BEA, Table 7.2.6B. Real Motor Vehicle Output, Chained Dollars
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

Source: EIA, BEA
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.

Source: BLS, U.S. DOL, Statistics Canada
Assembly & supplier overtime hours are steady.

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

Source: Employment, Hours, and Earnings from the Current Employment Statistics survey (National), BLS
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.

Source: CAR Research based on Data from U.S. Department of Labor, Bureau of Labor Statistics and Wards Auto
CAR’s U.S. Light Vehicle Production Forecast 2019-2025

U.S. Production

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (millions)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>11.7</td>
<td>+4.7%</td>
</tr>
<tr>
<td>2016</td>
<td>12.1</td>
<td>+4.5%</td>
</tr>
<tr>
<td>2017</td>
<td>11.2</td>
<td>+0.9%</td>
</tr>
<tr>
<td>2018</td>
<td>11.2</td>
<td>0.0%</td>
</tr>
<tr>
<td>2019</td>
<td>11.3</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>10.9</td>
<td>-1.9%</td>
</tr>
<tr>
<td>2021</td>
<td>10.6</td>
<td>-0.8%</td>
</tr>
<tr>
<td>2022</td>
<td>11.1</td>
<td>+0.9%</td>
</tr>
<tr>
<td>2023</td>
<td>11.6</td>
<td>+4.5%</td>
</tr>
<tr>
<td>2024</td>
<td>11.7</td>
<td>+0.9%</td>
</tr>
<tr>
<td>2025</td>
<td>11.7</td>
<td></td>
</tr>
</tbody>
</table>

Source: CAR Research, January 2019
CAR’s N.A. Light Vehicle Production Forecast 2019-2025

N.A. Production

<table>
<thead>
<tr>
<th>Year</th>
<th>N.A. Vehicle Production (millions)</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>18.0</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>18.1</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>17.5</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>17.2</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>17.1</td>
<td>+3.6%</td>
</tr>
<tr>
<td>2020</td>
<td>16.8</td>
<td>+3.5%</td>
</tr>
<tr>
<td>2021</td>
<td>16.6</td>
<td>+1.9%</td>
</tr>
<tr>
<td>2022</td>
<td>17.2</td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td>17.8</td>
<td></td>
</tr>
<tr>
<td>2024</td>
<td>18.1</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>18.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: CAR Research, January 2019
## N.A. Announced Automaker Investment by Region
### 2009 to Q1 2019

<table>
<thead>
<tr>
<th>Region</th>
<th>Investment Amount ($USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>$8.2B</td>
</tr>
<tr>
<td>United States</td>
<td>$98.2B</td>
</tr>
<tr>
<td><strong>U.S. Great Lakes</strong></td>
<td><strong>$63.1B</strong></td>
</tr>
<tr>
<td>Michigan</td>
<td>$32.8B</td>
</tr>
<tr>
<td><strong>South</strong></td>
<td><strong>$22.3B</strong></td>
</tr>
<tr>
<td>Mexico</td>
<td>$24.8B</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$131.2B</strong></td>
</tr>
</tbody>
</table>

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

Source: CAR Book of Deals, Q1 2019
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

\[
\bar{x} = \$3.4B/Quarter \quad \bar{x} = \$3.4B/Quarter \quad \bar{x} = \$1.5B/Quarter
\]

Source: CAR Book of Deals, 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

<table>
<thead>
<tr>
<th>Plant</th>
<th>Products</th>
<th>End of Production</th>
<th>Employment</th>
<th>Union Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detroit/Hamtramck</td>
<td>LaCrosse, Volt, CT6, Impala</td>
<td>June 1, 2019</td>
<td>1,542</td>
<td>UAW Local 22</td>
</tr>
<tr>
<td></td>
<td></td>
<td>January 2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lordstown</td>
<td>Cruze</td>
<td>March 1, 2019</td>
<td>1,618</td>
<td>UAW Local 1112</td>
</tr>
<tr>
<td>Oshawa</td>
<td>Impala, XTS, Silverado, Sierra</td>
<td>Q4 2019</td>
<td>2,900</td>
<td>Unifor Local 222</td>
</tr>
<tr>
<td>Warren Trans.</td>
<td>6 Speed Trans</td>
<td>August 1, 2019</td>
<td>335</td>
<td>UAW Local 909</td>
</tr>
<tr>
<td>Baltimore Ops.</td>
<td>Pickup transmissions</td>
<td>April 1, 2019</td>
<td>310</td>
<td>UAW Local 239</td>
</tr>
</tbody>
</table>
YOY Change in U.S. Passenger Car Market Shares
2013 – 2018

Source: IHS Markit

Production Capacity

- United States
- Canada
- Mexico

Capacity Utilization

- United States
- Canada
- Mexico

Source: CAR analysis of LMC Automotive data

Source: CAR analysis of LMC Automotive data
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.

Very truly yours,

Catherine L. Clegg  
Vice President  
North American Manufacturing and Labor Relations
Since 2009, GM & Ford have lost share & FCA has gained.


Since 2009
GM -16%
Ford -11%
FCA +40%

Since 1985
GM -59%
Ford -33%
FCA +4%

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

<table>
<thead>
<tr>
<th></th>
<th>U.S. Production</th>
<th>less U.S. Exports</th>
<th>plus U.S. Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10.8 million</td>
<td>- 1.8 million</td>
<td>+ 8.2 million</td>
</tr>
</tbody>
</table>

= 17.2 million

Source: IHS|Markit data

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

Source: CAR; U.S. International Trade Administration
2018 U.S. production is 55% U.S.-based firms, 33% Japanese firms, 7% German firms, & 5% Korean firms.

Source: IHS|Markit data

*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

Source: U.S. Department of Commerce, International Trade Administration
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

Source: U.S. Department of Commerce, International Trade Administration
In addition to Canada & Mexico – EU, Japan, South Korea, & China are the U.S.’s major motor vehicle & parts trade partners.

Source: U.S. Department of Commerce, International Trade Administration
Tariffs are piling up on light vehicles

- Steel Tariffs @ 25%
- Aluminum Tariffs @ 10%
- China Tariffs @ 25%
- Potential Parts Tariffs @ 25%
- No Tariffs

Source: Center for Automotive Research
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

-$30.4B GDP

-366,900 jobs

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

Source: Center for Automotive Research
NAFTA Timeline Under Trade Promotion Authority

Figure 1. Congressional Timeline

- **Negotiation**
  - Negotiations begin
  - Negotiations conclude (no deadline)
  - 90 day notification of intention to sign agreement
  - 180 day notification prior to signing agreement of potential changes to U.S. trade remedy laws
  - 30 days after notification of intention to sign, submission of Advisory Committee Reports
  - 60 days after agreement is signed, list of required changes in law due
  - Ongoing Executive Branch consultation with Congress

- **Reporting and Mock Markup**
  - Agreement signed
  - 60 days prior to signing, release of agreement text
  - 105 days after agreement is signed, USITC report due
  - Mock markups (optional, no time schedule)
  - 30 days prior to implementing legislation final agreement text, and draft SMA submitted
  - Calendar Days (minimum periods)

- **Congressional Consideration and Implementation**
  - Implementing bill introduced in House and Senate (no deadline)
  - House must vote on bill
  - Senate Finance Committee must report bill
  - Senate must vote on bill
  - President implements agreement by proclamation (no deadline)
  - President introduces bill into public law (no deadline)
  - * or bill is automatically discharged
  - Maximum of 90 days in session (House and Senate may act concurrently, expediting the process)

- **Aiming for**
  - 1/1/2020

Source: CRS
USMCA Passage is not certain.
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
Thank You