What the D3-UAW contracts mean for U.S. auto manufacturing

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16 January 2020
Topics

• Summary of the 2019 agreements
• Competitive labor cost positions
• Implications for U.S. auto manufacturing
• Supplier considerations
Summary of the 2019 UAW agreements
# 2019 Ratification Timeline

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<tr>
<th>September</th>
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- **Red** boxes indicate expiration dates.
- **Blue** boxes indicate tentative agreement dates.
- **Green** boxes indicate ratification dates.
- **Orange** boxes indicate strike dates.

**Expire**

**Strike**

**Tentative Agreement**

**Ratification**
• Job security =
• Income security =
• Benefit security =
• Investments in US +*
• Temps made permanent +**

Guarantees & Certainty

• Contingent pay =
• Contingent work (some)
• Lump sums =
• Plant closures +***
• Footprint decisions =
• Health cost sharing X

Flexibility

* DHAM closure reversed; $22.7B total D3 US investments
** Temp-to-permanent pathway @ Ford & GM only
*** GM: Lordstown Assembly, Baltimore & Warren Transmission; Ford: Romeo Engine
## 2019 UAW Contract Summary

<table>
<thead>
<tr>
<th>Category</th>
<th>FCA</th>
<th>Ford</th>
<th>GM</th>
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</thead>
<tbody>
<tr>
<td><strong>Signing Bonus</strong></td>
<td>$9,000 for permanent workers</td>
<td>$9,000 for permanent workers</td>
<td>$11,000 for permanent workers</td>
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<tr>
<td></td>
<td>$3,500 for temporary workers</td>
<td>$3,500 for temporary workers</td>
<td>$4,500 for temps</td>
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<tr>
<td><strong>Wages</strong></td>
<td>&lt;2007: 4% lump, 3%, 4% lump, 3%</td>
<td>&lt;2007: 4% lump, 3%, 4% lump, 3%</td>
<td>&lt;2007: 4% lump, 3%, 4% lump, 3%</td>
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<tr>
<td><strong>Jobs</strong></td>
<td>+7,900;</td>
<td>+8,500 new &amp;/or secured;</td>
<td>$7.7B investment</td>
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<td>$4.5B new investment</td>
<td>$6B investment</td>
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<tr>
<td><strong>Retirement Incentives</strong></td>
<td>$60K targeted for production at Belvidere, Marysville Axle, Mt. Elliott, and Milwaukee PDC &lt;2007 employees</td>
<td>$60K for retirement-eligible production workers &amp; $75K for 200 skilled trades Pre-retirement &amp; buyout programs</td>
<td>$60K for 2,000 retirement eligible production workers &amp; 60 skilled trades $75/85K for unallocated/eligible</td>
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<tr>
<td><strong>Profit-Sharing</strong></td>
<td>$900 for each margin point &gt; 2%</td>
<td>$1/$1 Million once margin &gt;2%</td>
<td>$1,000/$1 Billion once margin &gt;2%</td>
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<td>$12K cap removed</td>
<td>$12K cap removed</td>
<td>$12K cap removed</td>
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<tr>
<td><strong>Retirement Benefits</strong></td>
<td>$1,000 to FCAUS LLC UAW Savings Plan accounts for legacy workers</td>
<td>$1,000 to TESPHE for legacy workers</td>
<td>$1,000 to PSP for legacy workers</td>
</tr>
<tr>
<td><strong>Other Bonuses</strong></td>
<td>$500 annual performance bonus</td>
<td>4 $1,500 annual inflation protection</td>
<td>4 $1K annual performance bonuses</td>
</tr>
<tr>
<td></td>
<td>$1000 annual quality bonus</td>
<td>4 $500 annual quality bonuses</td>
<td>4 $500 annual quality bonuses</td>
</tr>
<tr>
<td><strong>Health Care</strong></td>
<td>No change to worker contribution; Removed distinction between traditional and in-progression plans</td>
<td>No changes to worker contribution</td>
<td>No changes to worker contribution</td>
</tr>
</tbody>
</table>

*BOLD indicates a change from 2015 contract*
In-Progression Wage Increases for 2019 On-Roll Employees

Source: CAR analysis of 2019 UAW-D3 Contracts
Did they get rid of the tiers?
For on-roll production workers—yes.

Example: UAW-GM Wage Scales

<table>
<thead>
<tr>
<th></th>
<th>Skilled Trades</th>
<th>Skilled Trades Apprentices</th>
<th>Production</th>
<th>Temporary</th>
<th>GMCH</th>
<th>CCA</th>
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<tr>
<td></td>
<td>$32.45-43.66</td>
<td>$29.39-41.66</td>
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<tr>
<td>Production</td>
<td>&lt;2007: $30.46-32.32</td>
<td>&gt;2007 “In Progression” $17.00-32.32</td>
<td>&gt;2007 “In Progression” $17.00-32.32</td>
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<td>&gt;2019 “In Progression” $17.00-23.00 (*4 years)</td>
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<td>$16.25-23.87</td>
<td>$16.25-22.50</td>
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<tr>
<td></td>
<td>&lt; 2015</td>
<td>&gt; 2015</td>
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<td></td>
<td>$17.00-$31.57</td>
<td>$17.00-25.00</td>
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</tbody>
</table>

Source: CAR analysis of 2019 UAW-D3 Contracts
Temporary-to-Permanent Pathway

**Ford & GM**

- 1/6/2020
  - Temporary FULL TIME (TFT) only
  - 3+ years continuous service as TFT (breaks < 30 days, strike doesn’t count)
  - Time as TFT counts toward seniority
  - Enter wage progression at seniority step

- 1/1/2021 & thereafter
  - GM
    - Temporary FULL TIME (TFT) with 2+ years continuous service as TFT (breaks < 30 days, strike doesn’t count)
    - Time as TFT counts toward seniority
    - Enter wage progression at seniority step
  - Ford
    - Temporary PARTTIME (TPT) with 2+ years continuous service—at least last 12 months as a TFT (breaks < 30 days, strike doesn’t count)
    - Time as TFT counts toward seniority (not sure about TPT status)
    - Enter wage progression at seniority step

**FCA**

Did not agree to a set timeframe, but will give “supplemental” workers hiring preference over off-the-street for the 7,900 new jobs promised in the 2019 agreement.

Source: CAR analysis of 2019 UAW-D3 Contracts
Competitive labor cost positions
What is in average hourly labor costs?

- Wages
- Shift premiums
- Overtime
- PTO/Holiday
- Income Security
- Profit-sharing
- Bonuses
- Health insurance
- Life & disability insurance
- Pension / 401(k) contributions
- Statutory (payroll taxes, workers’ comp insurance, UI)
- Other benefits (legal services, etc.)

Weighted average by workforce composition (legacy production, in-progression production, skilled trades, apprentices, temporary/supplemental workers)
Estimated Average Hourly Labor Cost Changes, 2015-2023

Source: Center for Automotive Research, preliminary estimates for 2023
Per Vehicle Labor Cost Changes
Selected years: 1999-2018, 2023e

Source: Center for Automotive Research, preliminary estimates for 2023
Projected Cost Competitiveness in 2019: UAW Average Hourly Labor Costs vs. Non-Union Automakers

<table>
<thead>
<tr>
<th>Average Hourly Labor Cost</th>
<th>FCA</th>
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<tbody>
<tr>
<td>$55</td>
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<td>$61</td>
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<td>$63</td>
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Estimated Weighted Average of U.S. Non-Union Producers in 2019=$50

Source: UAW-Chrysler, UAW-Ford, and UAW-GM 2019 agreements and company reports; Company data and Center for Automotive Research estimates.
Projected Cost Competitiveness in 2023: UAW Average Hourly Labor Costs vs. Non-Union Automakers

Estimated Weighted Average of U.S. Non-Union Producers in 2023=$52*

Source: UAW-Chrysler, UAW-Ford, and UAW-GM 2019 agreements and company reports; Company data and Center for Automotive Research estimates.
While nominal average hourly labor costs have increased, costs are still $16-27 below 2007 levels in real terms.
Implications for U.S. auto manufacturing
Automotive investment announcements peak every four years, & have been slower between Q4 2015-Q3 2019.

Quarterly Automaker Announced U.S. Investment; 2010 to Q4 2019

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

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

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

Source: Center for Automotive Research Book of Deals
The Detroit Three are expected to increase their U.S. share of North American production of light vehicles, engines, & transmissions between 2019-2023.

Source: CAR analysis of IHS|Markit and LMC Automotive Compass data
All automakers will increase U.S. share of North American production, & decrease shares in Canada and Mexico over the next four years.

Change in Share of North American Production, 2019-2023

**United States**

- **2019**: 66%
- **2020**: 71%
- **2023**: 64%

**Canada**

- **2019**: US: +7.4%
- **2020**: D3: +5.0%
- **2023**: INT: +9.0%

**Mexico**

- **2019**: MEX: -3.8%
- **2020**: D3: -11.0%
- **2023**: INT: +2.0%

**Source**: CAR analysis of IHS|Markit data
However, the Detroit Three automakers’ share of total U.S. light vehicle production is projected to fall, even as volumes increase between 2019-2023.

Source: CAR analysis of IHS Markit and LMC Automotive Compass data
The Detroit Three automakers are expected to hold U.S. hourly employment steady or increase it slightly over the next 4 years.

Source: CAR estimates & forecast based on proprietary data sources
Supplier considerations
What should suppliers look for as a result of 2019 UAW-Detroit Three contract talks?

- More U.S.-based D3 investment & production
- Upward wage pressures for suppliers
- No “brave new healthcare” initiatives to use as a pattern to lower costs or improve health care outcomes
- Higher D3 labor costs may mean increased supplier price pressure