Some Mild Commentary and Observations Regarding D3-UAW Bargaining for a New Labor Agreement

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CAR Industry Briefing

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Bottomed Out – But Needs to Turn it Up!
UAW Active Membership
1987-2014

Source: UAW
Detroit Three U.S. Hourly Employment
1984 – 2014

Source: Companies’ proprietary data
The Great Restructuring
GM/Delphi U.S. Hourly Population
1985 – 2009

They were all retired . . .
Detroit 3 U.S. Market Share
1985 – 2015 YTD (May)

Percent of U.S. Market Sales

Year

Source: Automotive News; CAR Research
Sales Trend Looks Good?
CAR U.S. Light Vehicle Sales Forecast: 2015-2018

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S. LV Sales in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>16.1</td>
</tr>
<tr>
<td>2008</td>
<td>13.2</td>
</tr>
<tr>
<td>2009</td>
<td>10.4</td>
</tr>
<tr>
<td>2010</td>
<td>11.6</td>
</tr>
<tr>
<td>2011</td>
<td>12.7</td>
</tr>
<tr>
<td>2012</td>
<td>14.4</td>
</tr>
<tr>
<td>2013</td>
<td>15.5</td>
</tr>
<tr>
<td>2014</td>
<td>16.4</td>
</tr>
<tr>
<td>2015</td>
<td>17.1</td>
</tr>
<tr>
<td>2016</td>
<td>17.5</td>
</tr>
<tr>
<td>2017</td>
<td>17.6</td>
</tr>
<tr>
<td>2018</td>
<td>17.7</td>
</tr>
</tbody>
</table>

Source: BEA; CAR Research, May 2015
North American Automotive Revenue Per Vehicle
2007 – 1Q 2015

Revenue per Vehicle ($USD)

GM  Ford  FCA US*

*Former Chrysler Group LLC.

**EBIT or automotive operating income per vehicle sold.

Source: CAR Research based on companies’ financial reports.
North American Operating Profit Per Vehicle
2007 – Q1 2015

<table>
<thead>
<tr>
<th>Year</th>
<th>GM</th>
<th>Ford</th>
<th>FCA US*</th>
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</thead>
<tbody>
<tr>
<td>2007</td>
<td>$(5,297)</td>
<td>$(1,432)</td>
<td>$(3,423)</td>
</tr>
<tr>
<td>2008</td>
<td>$(3,423)</td>
<td>$(1,483)</td>
<td>$(679)</td>
</tr>
<tr>
<td>2009</td>
<td>$(2,526)</td>
<td>$(1,483)</td>
<td>$(332)</td>
</tr>
<tr>
<td>2010</td>
<td>$(503)</td>
<td>$(2,167)</td>
<td>$(2,303)</td>
</tr>
<tr>
<td>2011</td>
<td>$(2,303)</td>
<td>$(2,307)</td>
<td>$(2,307)</td>
</tr>
<tr>
<td>2012</td>
<td>$(2,459)</td>
<td>$(2,427)</td>
<td>$(2,844)</td>
</tr>
<tr>
<td>2013</td>
<td>$(2,303)</td>
<td>$(1,976)</td>
<td>$(2,427)</td>
</tr>
<tr>
<td>2014</td>
<td>$(2,307)</td>
<td>$(1,976)</td>
<td>$(1,988.9)</td>
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<tr>
<td>Q1 2015</td>
<td>$(1,432)</td>
<td>$(2,632)</td>
<td>$(1,976)</td>
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</tbody>
</table>

Source: CAR Research based on companies' financial reports.

*Former Chrysler Group LLC.
**EBIT or automotive operating income per vehicle sold.
Per Vehicle Profits*, North America
2007 – Q1 2015

*EBIT or automotive operating income per vehicle sold. Global average for Chrysler figure.
Honda excludes motorcycle, finance, and power products.
So Give Em a Raise . . .?

- GM/Ford N.A. trends on profits, sales are good – market share steady.
- Productivity in U.S. the same everywhere . . .
- Hourly workers are now gatekeepers and final inspectors of quality before product shipped to dealers.
- Labor costs may be lower at D3 than raw material costs, freight costs, and advertising.
- Risk of layoff costs from downturn is very, very low – soon only pension is legacy cost.
- Why not in-source sequencing and some component assembly at 2nd tier wages?
Does UAW Labor Cost Still Matter? (No)
UAW Labor Bill
(total, in billion Current USD)

Source: CAR Research
UAW Labor Bill
(as a % of North American Revenue)

Source: CAR Research
UAW Labor Bill
(per US vehicle produced)

- **GM**
  - 1999: $4,091
  - 2007: $4,498
  - 2014: $2,374

- **Ford**
  - 1999: $2,466
  - 2007: $4,204
  - 2014: $2,401

- **FCA**
  - 1999: $3,606
  - 2007: $4,167
  - 2014: $1,771

- **D3**
  - 1999: $3,391
  - 2007: $4,322
  - 2014: $2,215

- **Transplants**
  - 1999: $1,042
  - 2007: $1,000
  - 2014: $1,042
UAW Labor Bill
(as a % of 2014 (N.A. Rev. – N.A. Op. Income))

GM  5.2%
Ford  7.3%
2014  3.8%
FCA  5.4%
D3
D3 UAW Cost per Vehicle as a % of NADA New Vehicle Selling Price
1996 – 2014

Source: NADA DATA; BLS
Pattern? What Pattern? Who Needs It?
What Pattern?

• 46% of Light Vehicles are now built in the U.S. by international automakers (not including FCA)
• 32% of U.S. hourly workers employed by automakers now work for international OEMs
• Average hourly labor costs vary by US OEM from $38/hour to $65/hour and are determined by earnings per vehicle levels and regional labor markets . . . not unions
• Less that 15% of auto parts production workers belong to a union?
• FCA UAW workers cost $10 less per hour than GM/Ford UAW workers
• UAW D3 profit-sharing checks are $1,000s of dollar apart . . . every year
• 2nd tier labor, 20% at GM, 28% at Ford, 45% at FCA . . .
• Over Half the workers at L.O GM Assembly are 2nd or 3rd tier . . .
• Workers in body and paint at Toledo Assembly are supplier workers?
• Every Local has a different deal on . . . almost everything? Shifts, Skilled Trades?
Solidarity Forever? Is There a Pattern?

• Not in U.S. Auto Manufacturing, or in North America
• Not at the automakers
• Not at the suppliers
• Not across the Detroit Three
• Not across a Detroit Three company’s plants and locals
• Not in the individual plant or department
• And not on the line . . .
Dump the Pattern?

• It’s gone everywhere else in the private sector – globalization etc.
• Except at monopolies like the Longshoremen, but they will “get” what is coming.
• Should negotiate one company at a time based on profits-labor costs.
• UAW-Ford/GM workers should ignore FCA . . .
• UAW-FCA workers should negotiate best deal at FCA to solidify employment
• GM should hire some more people for pity sakes . . .
• Pattern is now used by companies to whipsaw workers against the weakest . . .
• Plant versus plant, worker versus worker, company versus company, community versus community – Solidarity has failed.
• Companies are too far apart to level competitiveness thru labor cost equivalence – and alternatives exist!
• Like selling FCA to Mitt Romney . . .
• Or Heading South . . . Really Far South . . .
Mexico Calls the Tune for Everyone in N.A. Automotive Labor

Source: CAR, Conference Board, Wards, OECD

**INDIA**
- Wage: $2.10 (2012)
- Employment: 556,000 (2010)
- Wage Growth*: 30.3%

**BRAZIL**
- Wage: $17.03 (2013)
- Wage Growth*: 17.4%

**UNITED KINGDOM**
- Wage: $37.00 (2013)
- Employment: 140,000 (2013)
- Wage Growth*: 0.0%

**GERMANY**
- Employment: 756,000 (2013)
- Wage Growth*: 6.0%

**POLAND**
- Wage: $10.70 (2012)
- Employment: 94,000 (2010)
- Wage Growth*: -1.3%

**CANADA**
- Wage Growth*: 3.7%

**UNITED STATES**
- Wage: $37.62 (2013)
- Employment: 876,800 (2014)
- Wage Growth*: 0.7%

**MEXICO**
- Wage: $8.24 (2013)
- Employment: 579,000 (2012)
- Wage Growth*: -5.4%

**FRANCE**
- Wage: $46.23 (2013)
- Wage Growth*: 3.0%

**ITALY**
- Wage: $41.04 (2013)
- Wage Growth*: 8.8%

**CHINA**
- Wage: $4.10 (2012)
- Employment: 2,203,000 (2010)
- Wage Growth*: 41.2%

**JAPAN**
- Wage: $41.24 (2013)
- Employment: 787,000 (2013)
- Wage Growth*: 10.9%

**TAIWAN**
- Wage: $9.95 (2013)
- Employment: 84,000 (2012)
- Wage Growth*: 4.4%

**KOREA**
- Employment: 250,000 (2009)
- Wage Growth*: 29.8%

*Wage growth defined as % change between 2008 and 2012/2013*
Automaker Investment Announcements, Jan 2010-May 2015

Total North America $83.0 billion

- Canada $5.4 billion
- United States $53.4 billion
- U.S. Great Lakes $28.2 billion
- Mexico $24.2 billion
- South $12.0 billion

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

Source: CAR Research, Book of Deals

- Toyota Mexico Assembly Plant
  - Announced in 2015
  - Guanajuato

- Hyundai-Kia (Kia) Pesquería Plant
  - Announced in 2014
  - $1,000 million investment

- BMW San Luis Potosí Plant
  - Announced in 2014
  - 1,500 jobs, $1,000 million investment

- Honda Celaya Plant
  - Announced in 2011
  - 3,200 jobs, $800 million investment

- VW (Audi) San Jose Chiapa Plant
  - Announced in 2012
  - $1,300 million investment

- Nissan Aguascalientes Plant
  - Announced in 2011
  - 3,000 jobs, $2,000 million investment

- Daimler/Nissan Aguascalientes Plant
  - Announced in 2014
  - 5,700 jobs, $1,400 million investment

- Mazda Salamanca Plant
  - Announced in 2013
  - 3,000 jobs, $500 million investment

This will double!
The Peso Unbound!!!

Exchange Rate

MX/USD

May 2000 – May 2015

24% depreciation since 2011
41% since 2000
Mexican Automotive Wages are One-Eighth to One-Fifth the Wages Paid to U.S. Hourly Auto & Parts Workers
No Growth in Wages Anywhere Despite Higher Productivity

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

### Some Mexican Advantages

<table>
<thead>
<tr>
<th>Hourly Labor Cost on a Subcompact Car</th>
<th>$674 a car</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTA advantage on a Q5 Export to Europe</td>
<td>$4,500+ per vehicle</td>
</tr>
</tbody>
</table>
2.3 Million Luxury Vehicles by 2020?

N.A. Luxury Vehicle Production Capacity: 2012-2020

Source: LMC and CAR Estimates
Bigger than Germany?
Mexican Capacity, Production, and 2015-2018 Production Forecast

Mexican Production and Forecast

Mexican Production Capacity

Sources: LMC, AMIA, INEGI, Ward's Automotive, U.S. Federal Reserve Board, Statistics Canada, and CAR Estimates
Let’s Rattle this Down. . .

- Profitability and Sales Trends are Good for D3 . . . Contract should be rich.
- Manufacturing labor costs are far less important to the D3 than in the past.
- Give UAW-Ford and UAW-GM a big raise . . . Make up for no COLA . . .
- But Pattern Bargaining could cheat GM/Ford workers – push FCA bargaining elsewhere
- FCA has cost problems unrelated to labor . . . Volume and scale. Yes, Don Sergio is correct but a Romney style merger would trash Chrysler car operations . . .
- Mexican total capacity will exceed 5 million by 2018, meaning:
  - Some N.A. overcapacity will reappear and prices will fall – wages throughout N.A. depressed
  - This depends on share of Mexican assembly exported from N.A.
  - No direct “giant sucking sound” since Japanese/German OEMS are moving capacity from home locations to N.A. not from U.S./Canada – they don’t trust their exchange rates and want Mexican FTA advantages
  - D3 Mexican investment is a different mater.