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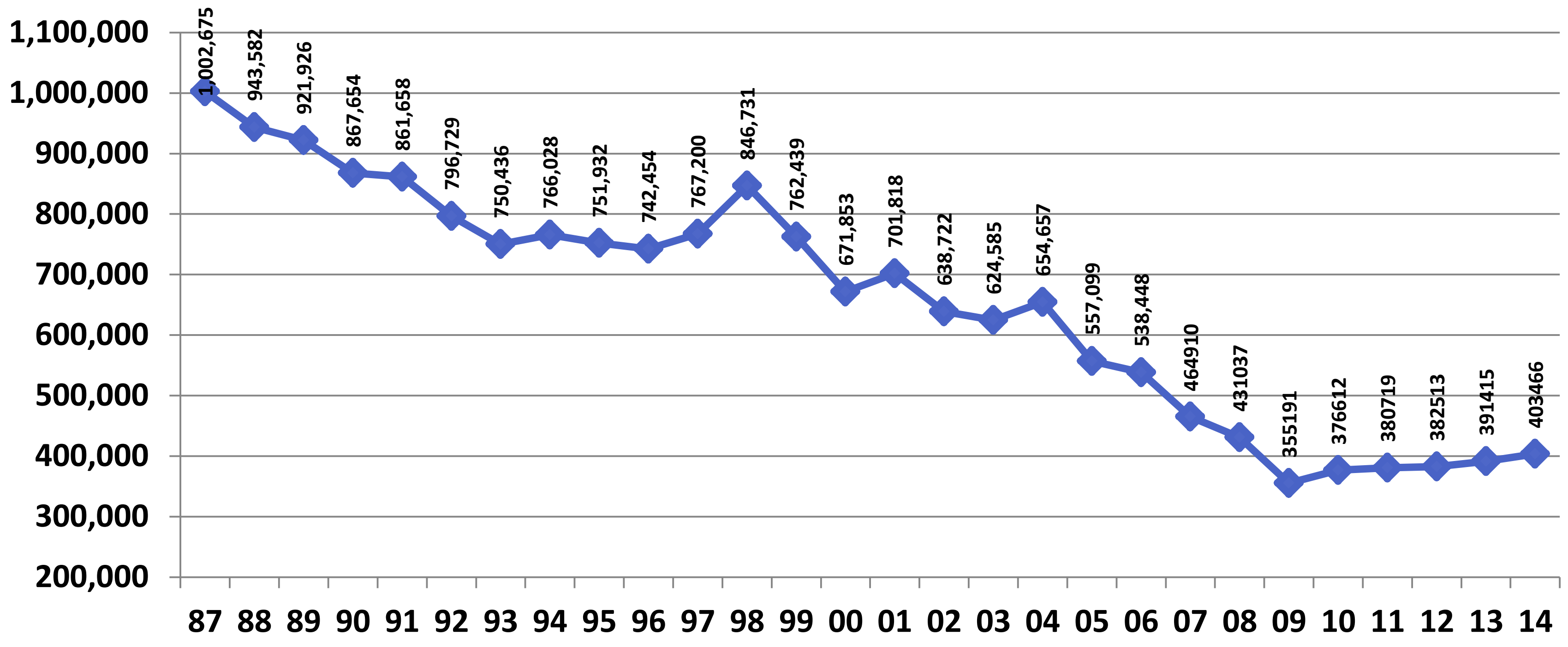
Bottomed Out – But Needs to Turn it Up!
UAW Active Membership
1987-2014



Source: UAW

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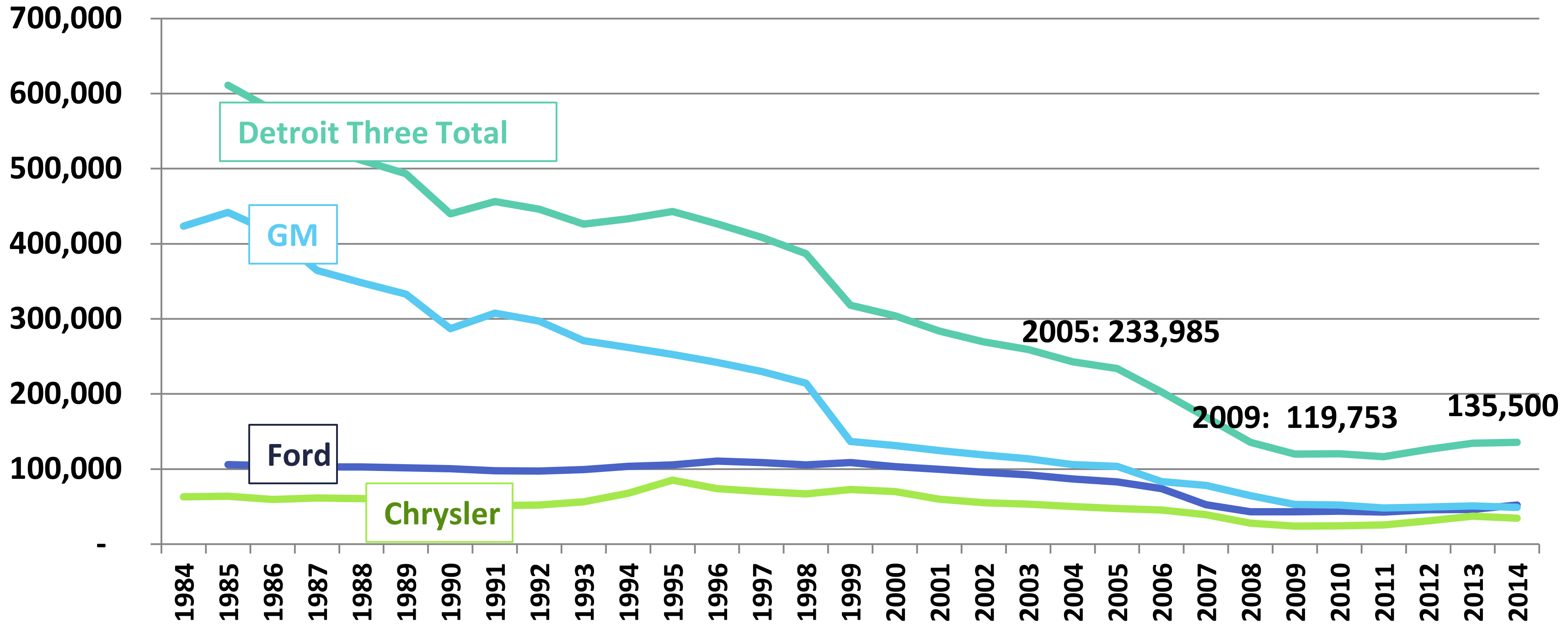
Detroit Three U.S. Hourly Employment 1984 – 2014



Source: Companies' proprietary data

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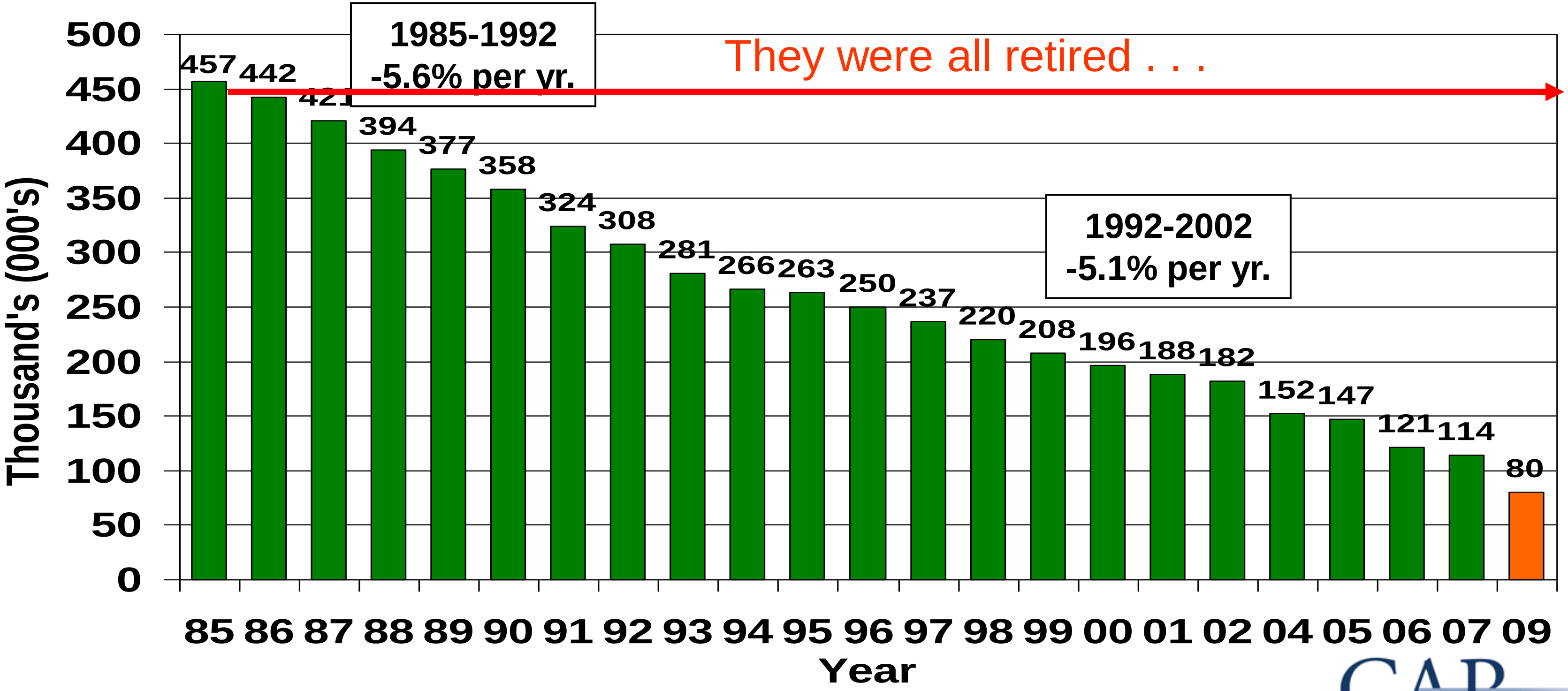
The Great Restructuring
GM/Delphi U.S. Hourly Population
1985 – 2009



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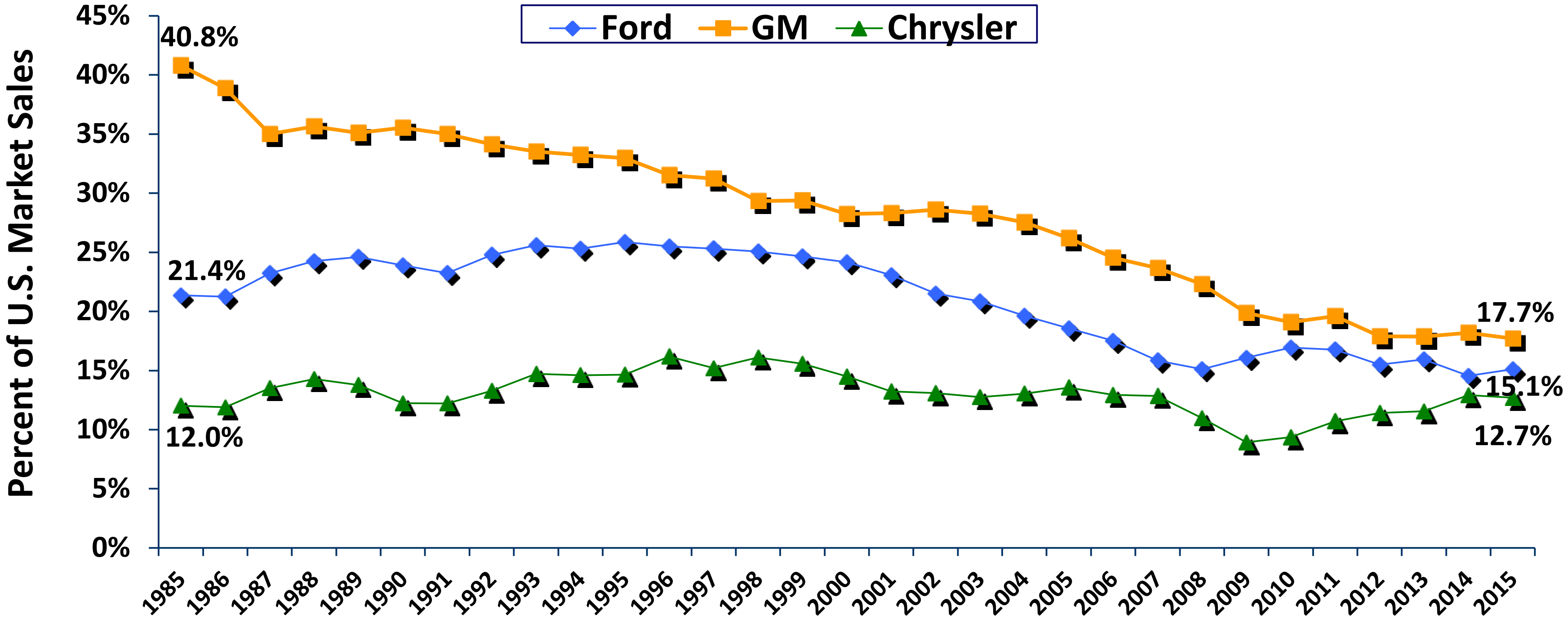
Detroit 3 U.S. Market Share
1985 – 2015 YTD (May)



Source: Automotive News; CAR Research

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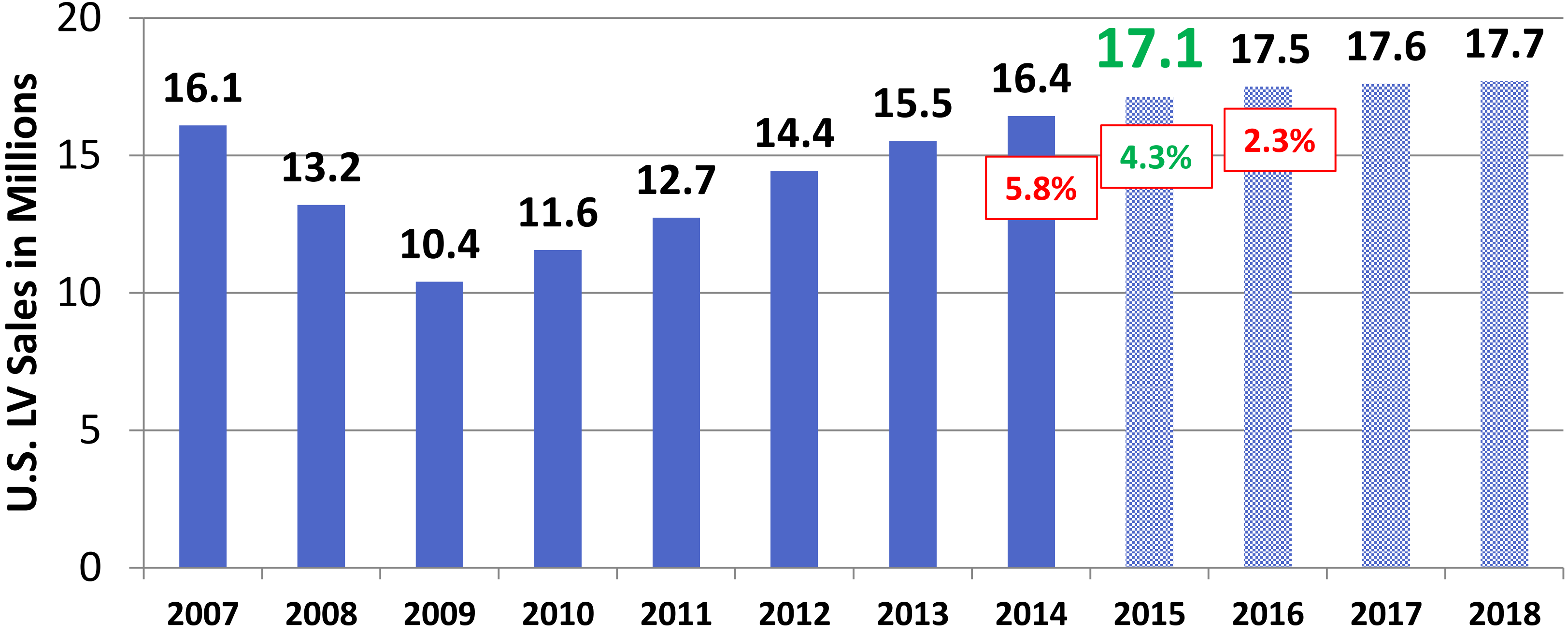
Sales Trend Looks Good?
CAR U.S. Light Vehicle Sales Forecast: 2015-2018



Source: BEA; CAR Research, May 2015

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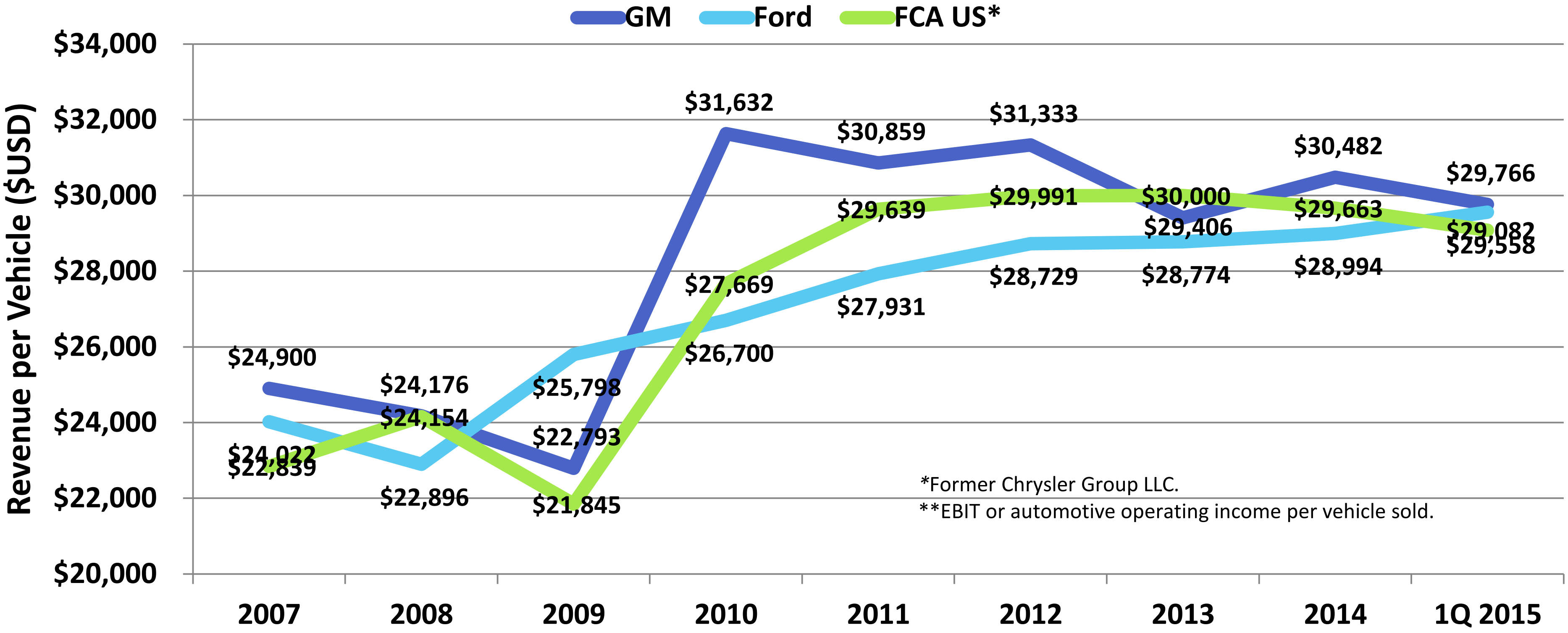
North American Automotive Revenue Per Vehicle 2007 – 1Q 2015



Source: CAR Research based on companies' financial reports.

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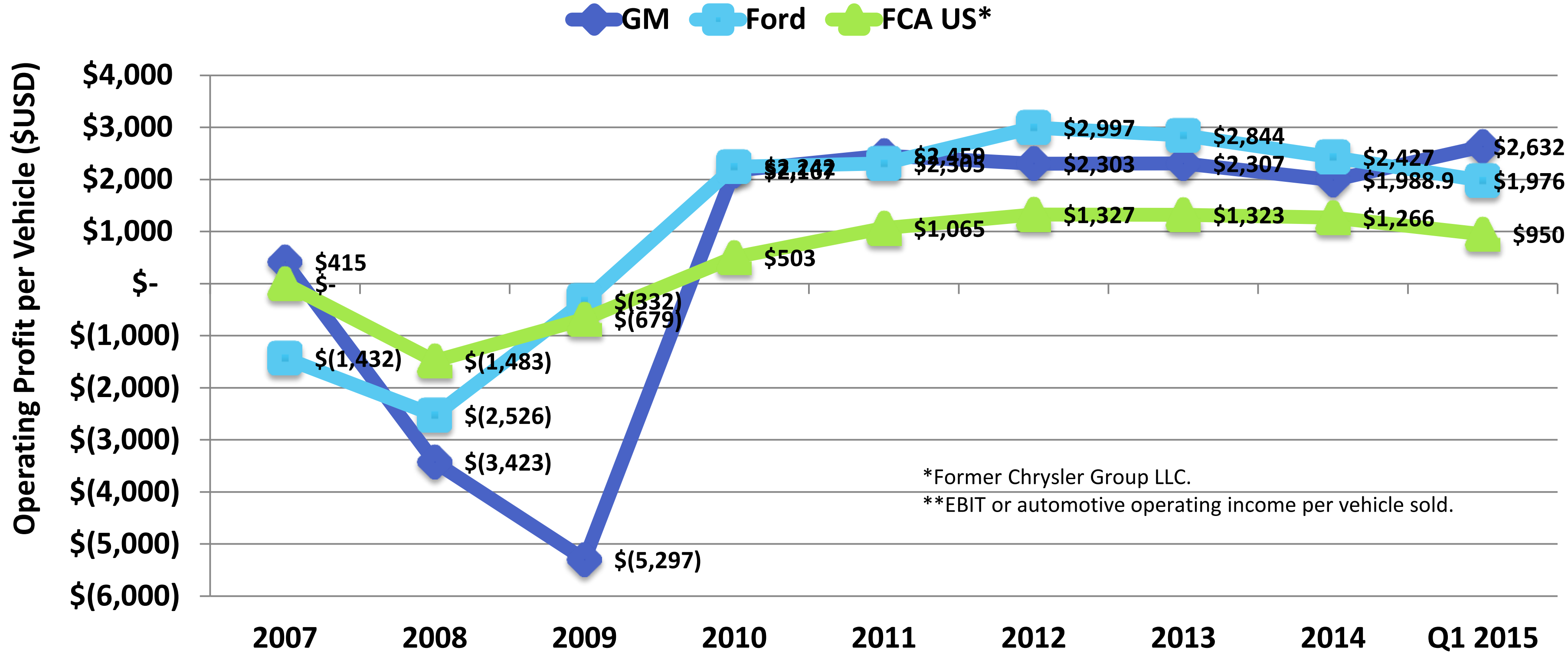
North American Operating Profit Per Vehicle 2007 – Q1 2015



Source: CAR Research based on companies' financial reports.

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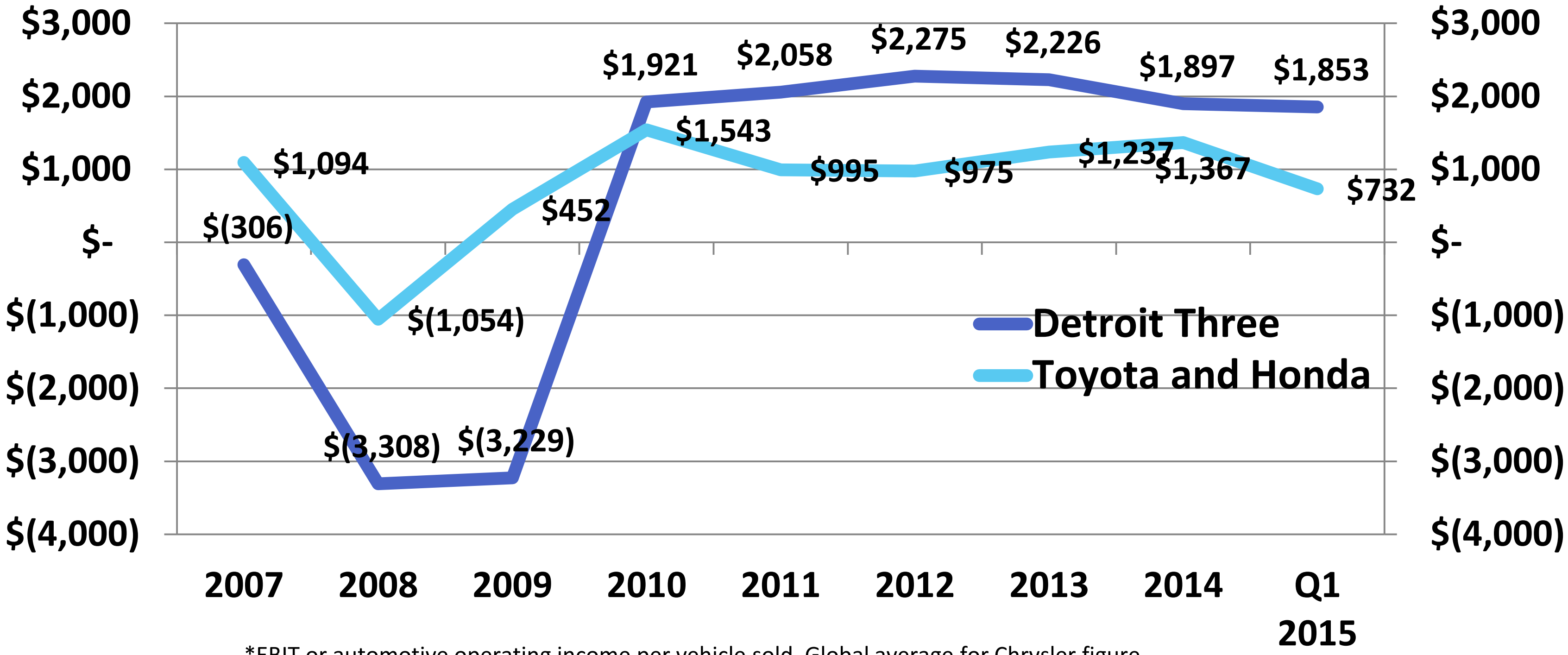
Per Vehicle Profits*, North America
2007 – Q1 2015



*EBIT or automotive operating income per vehicle sold. Global average for Chrysler figure.
Honda excludes motorcycle, finance, and power products.

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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)

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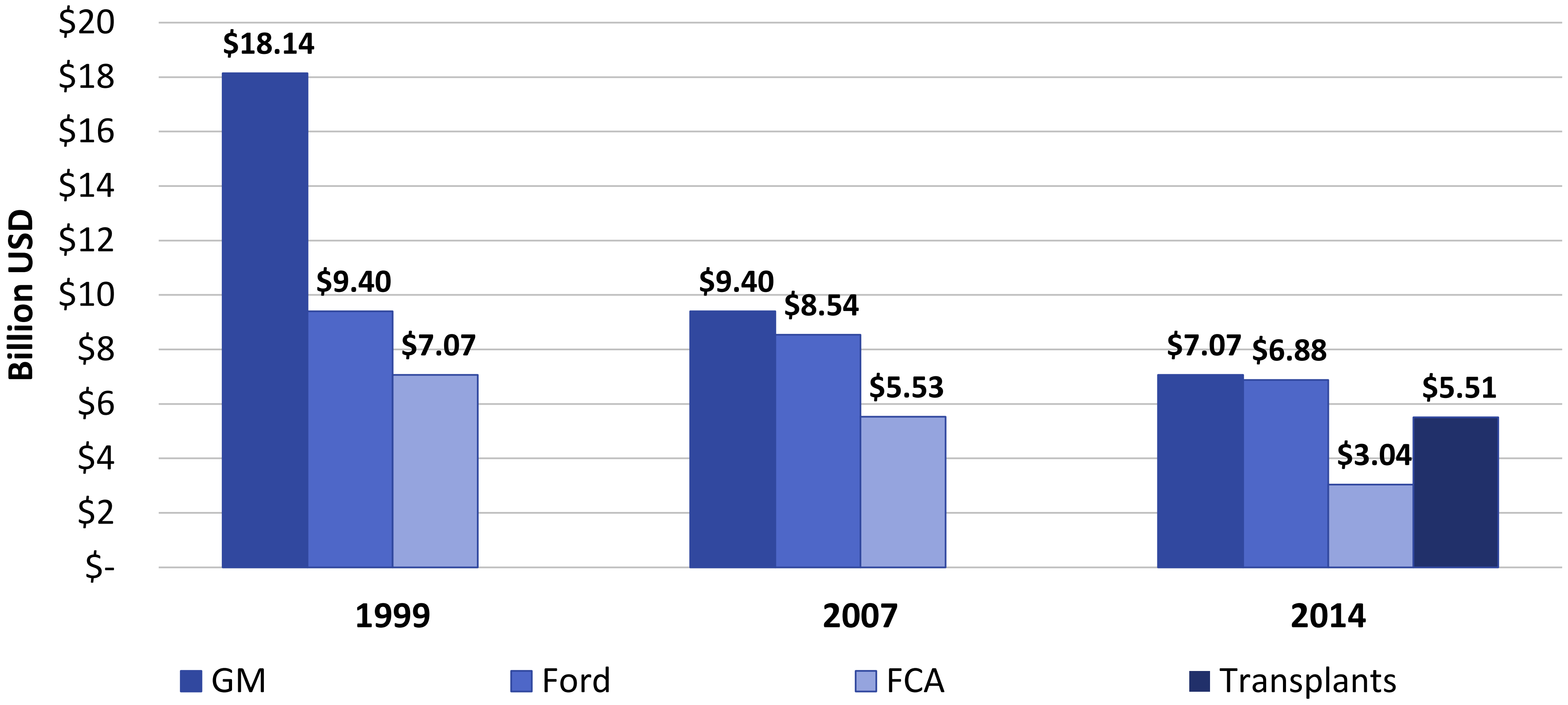
UAW Labor Bill



Source: CAR Research

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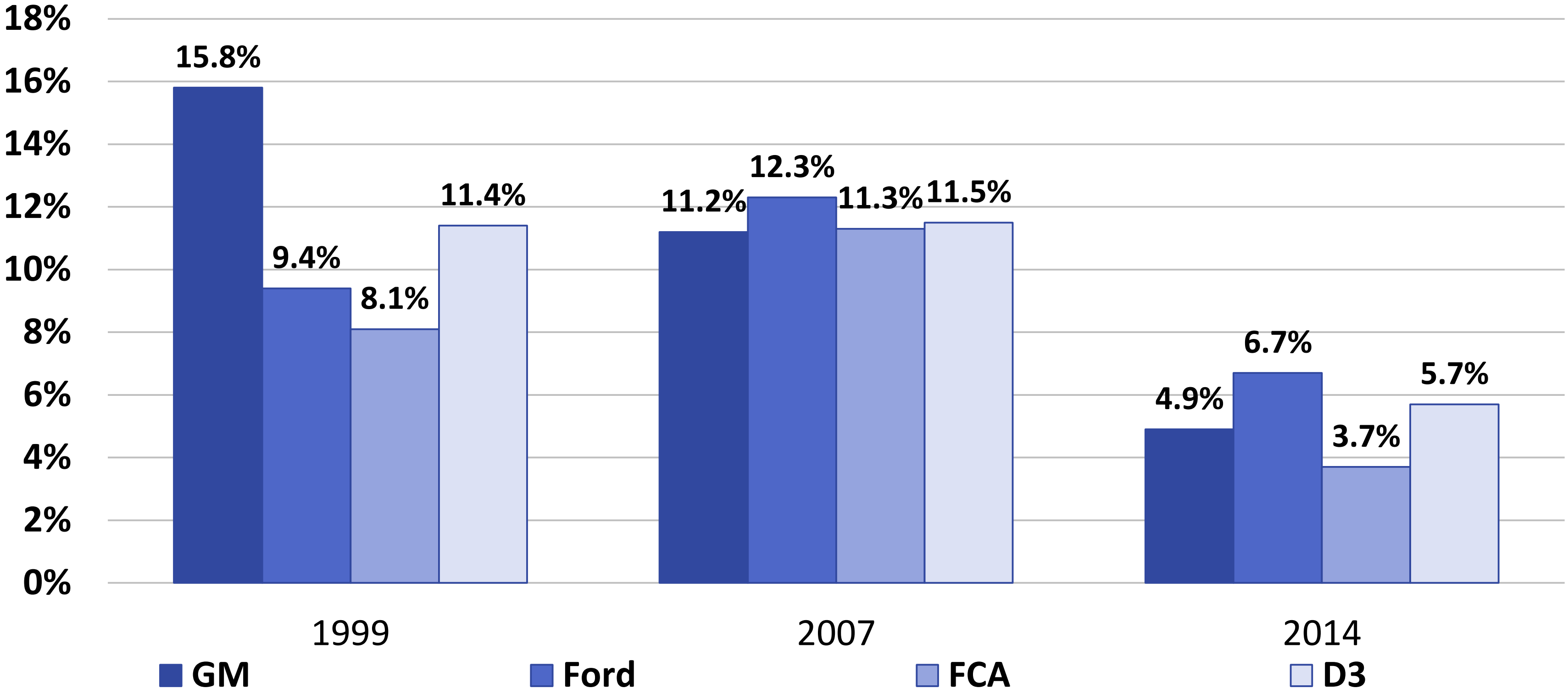
UAW Labor Bill

(as a % of North American Revenue)



Source: CAR Research

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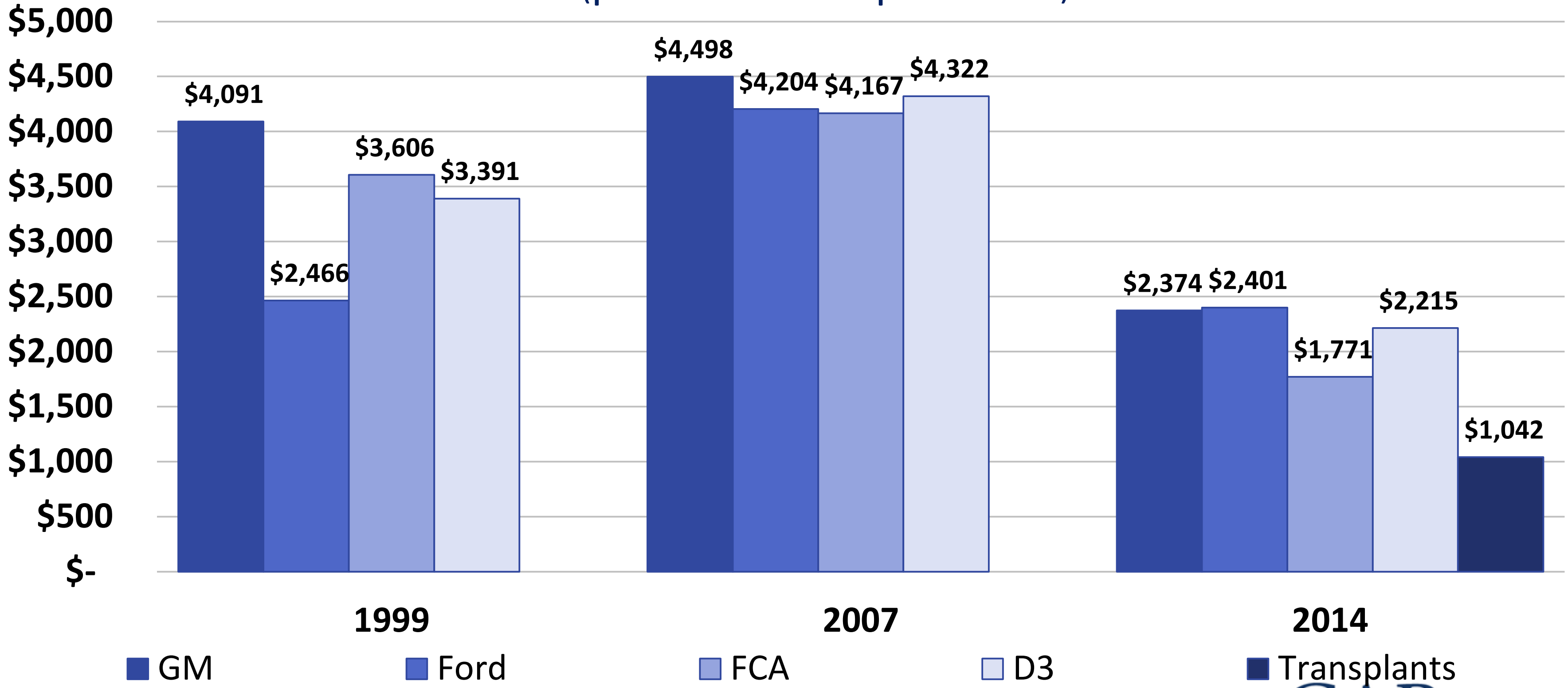
UAW Labor Bill

(per US vehicle produced)



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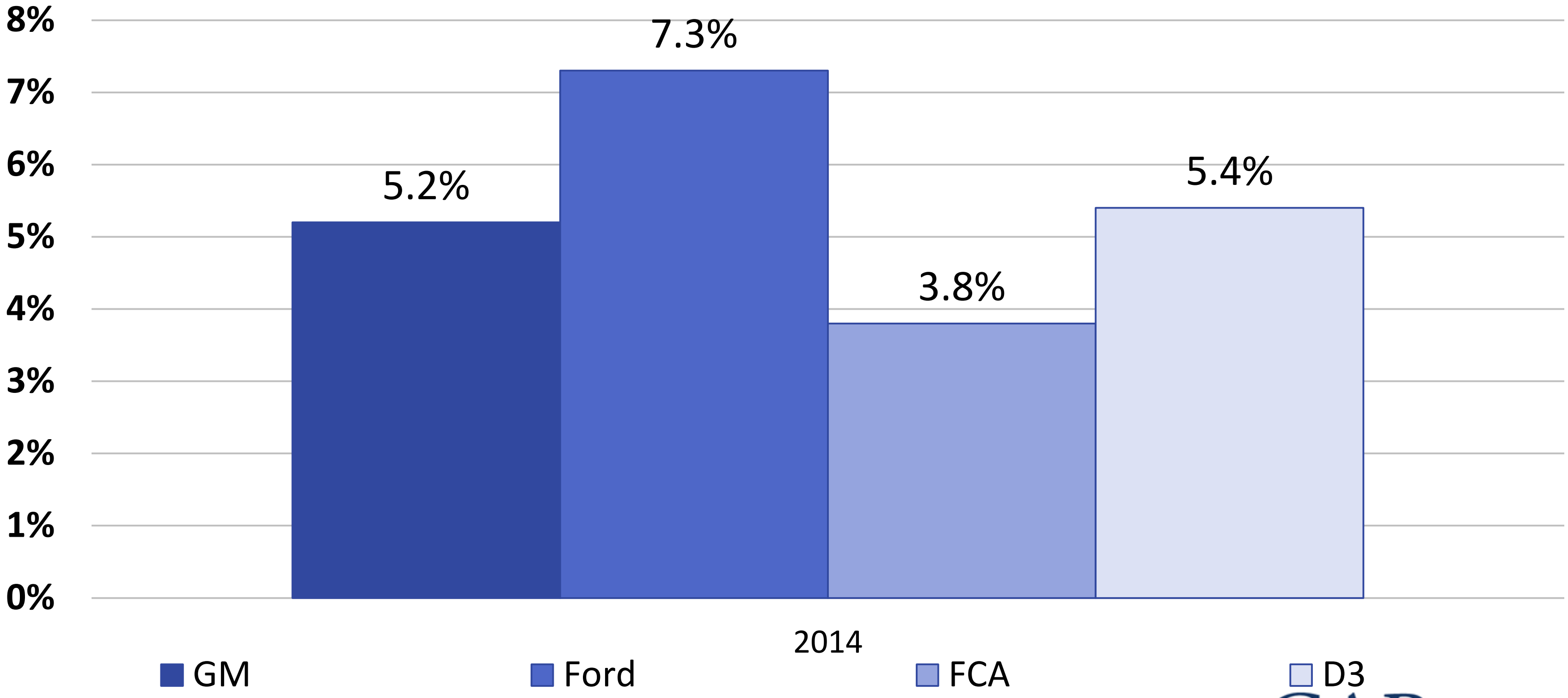
UAW Labor Bill

(as a % of 2014 (N.A. Rev. – N.A. Op. Income))



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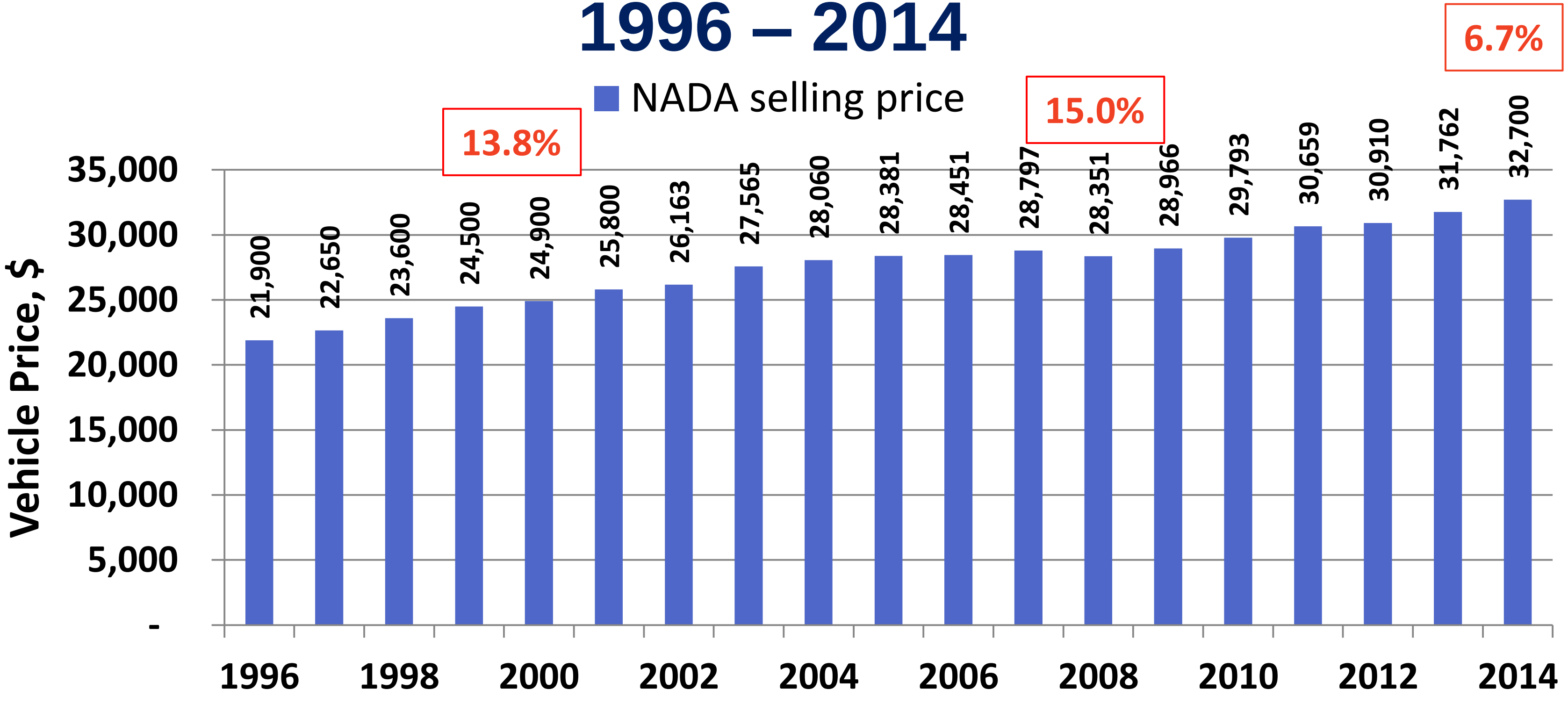
D3 UAW Cost per Vehicle as a % of NADA New Vehicle Selling Price 1996 – 2014



Source: NADA DATA; BLS

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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?

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Solidarity Forever? Is There a Pattern?

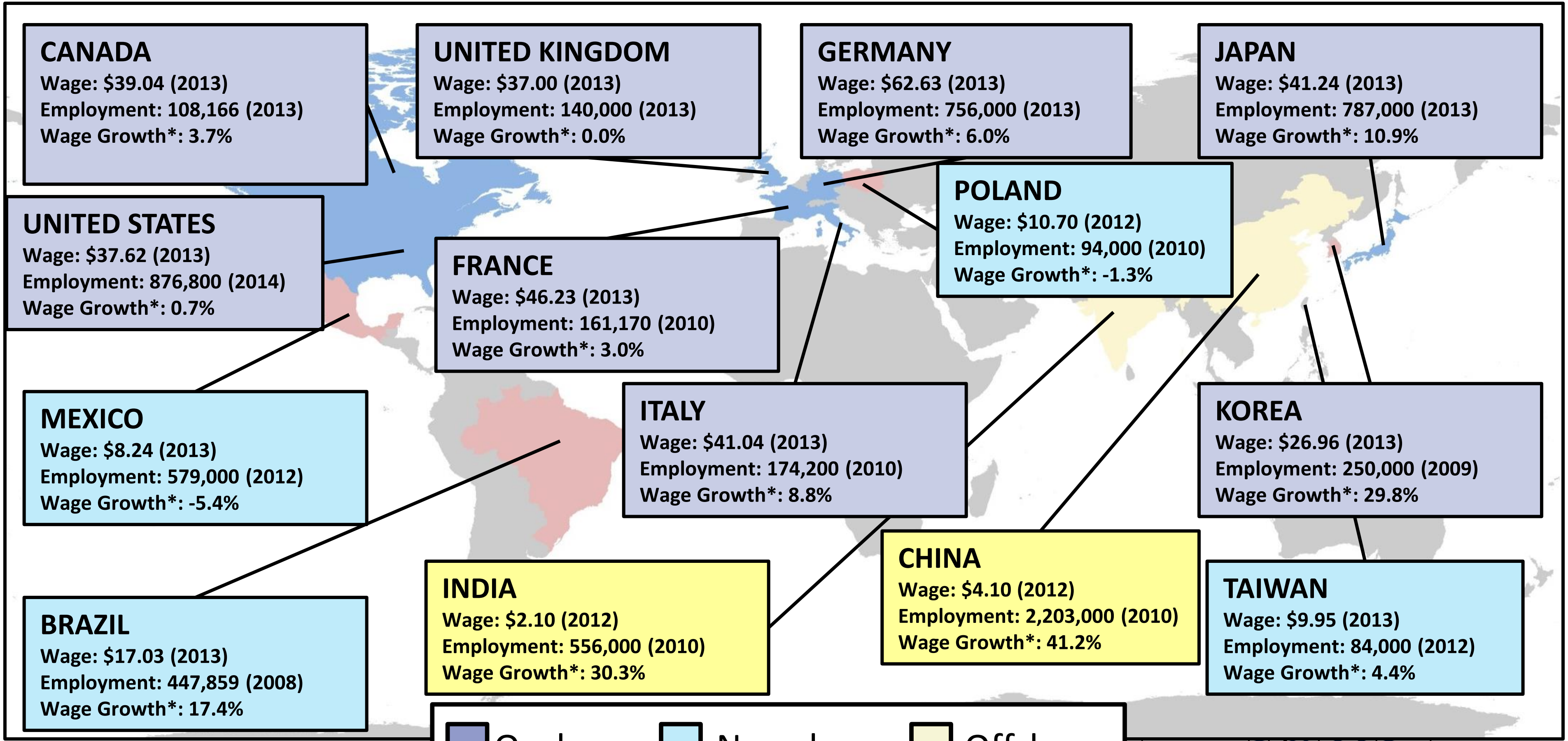
- Not in U.S. Auto Manufacturing, or in North America
- Not at the automakers
- Not at the suppliers
- Not across the Detroit Three
- Not across a Detroit Three company's plants and locals
- Not in the individual plant or department
- And not on the line . . .

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

Automotive Manufacturing Labor Compensation, Employment, and Compensation Growth by Country: 2012, 2013

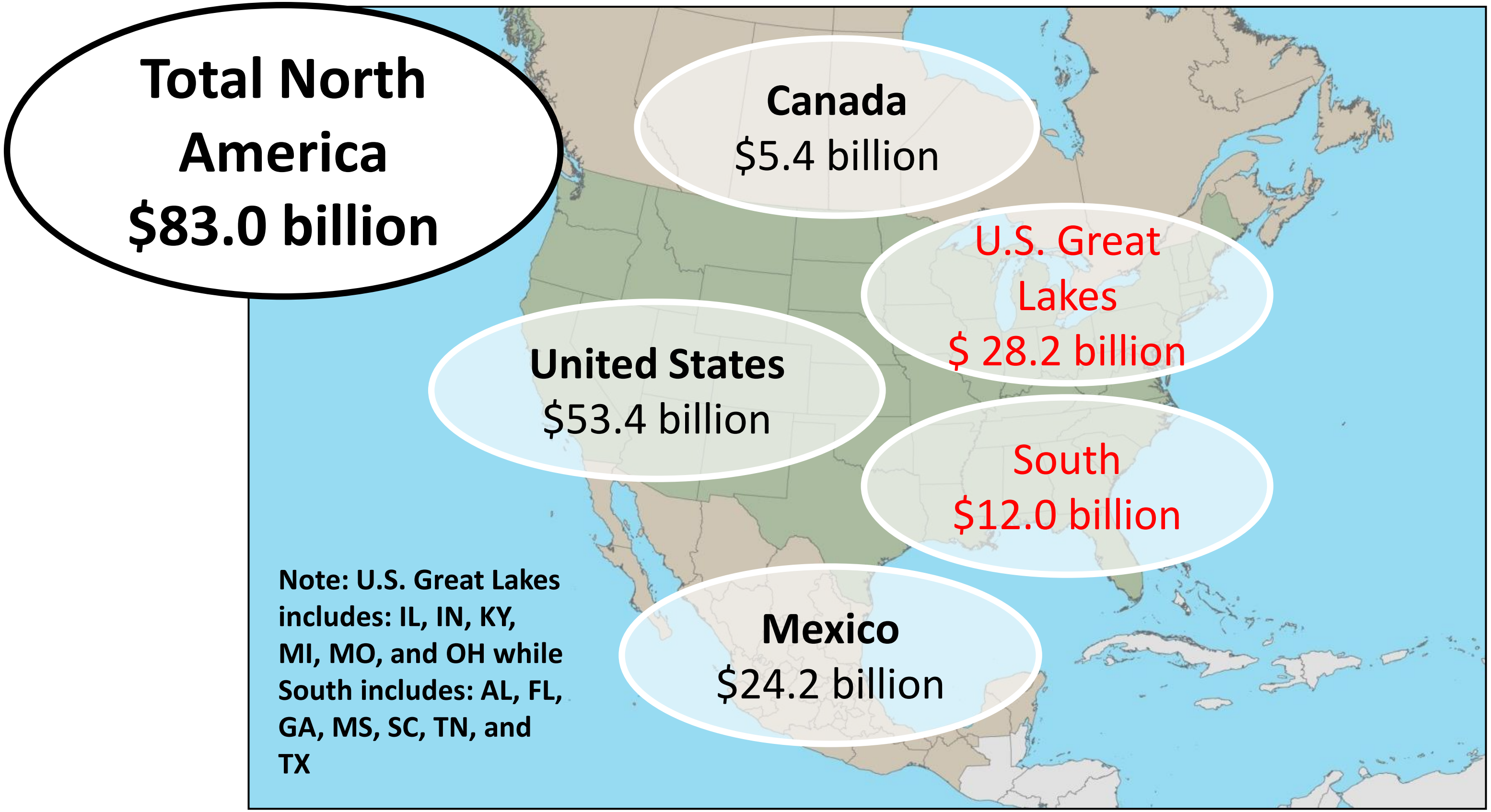


Onshore Nearshore Offshore

Source: CAR, Conference Board, Wards, OECD

*Wage growth defined as % change between 2008 and 2012/2013

Automaker Investment Announcements, Jan 2010-May 2015



Source: CAR Research, Book of Deals

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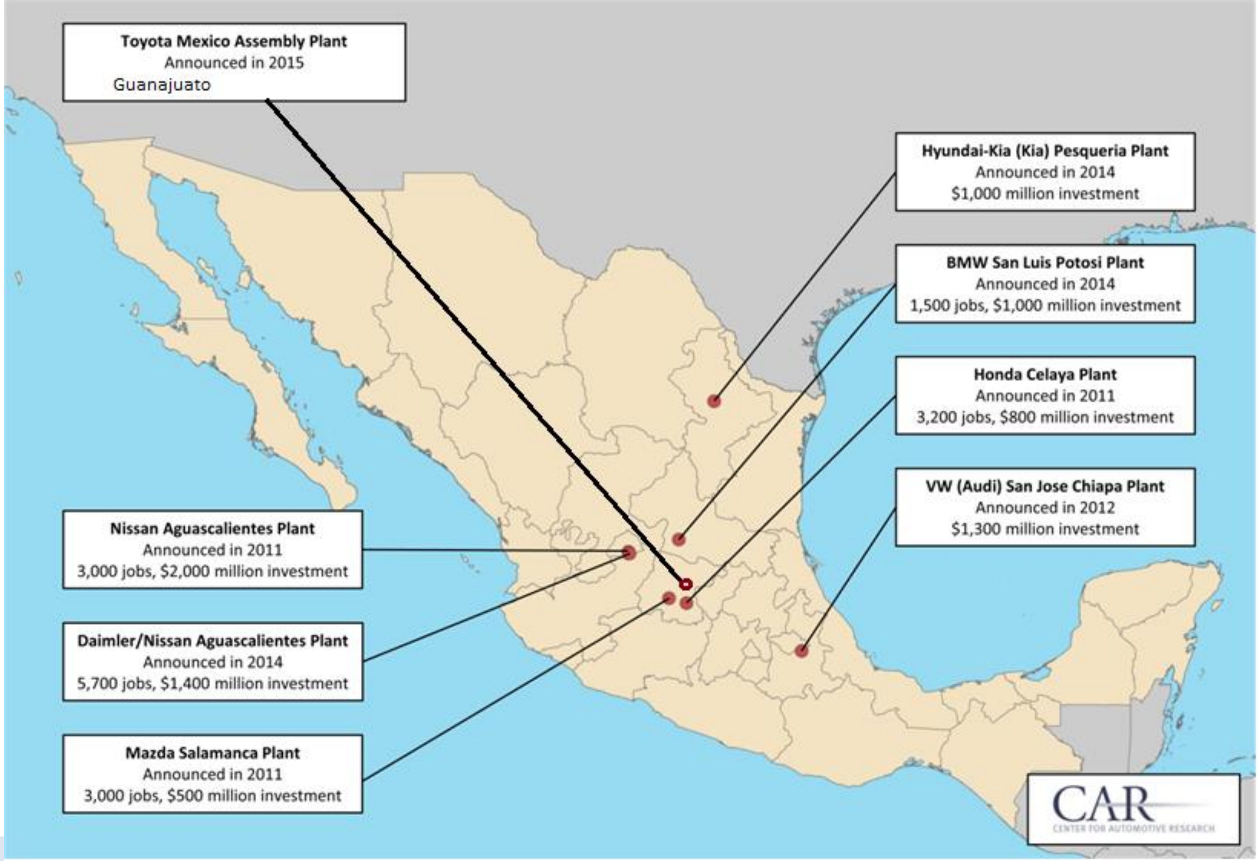
International Automaker Mexican Automotive Assembly Investment: Announced 2009-2015



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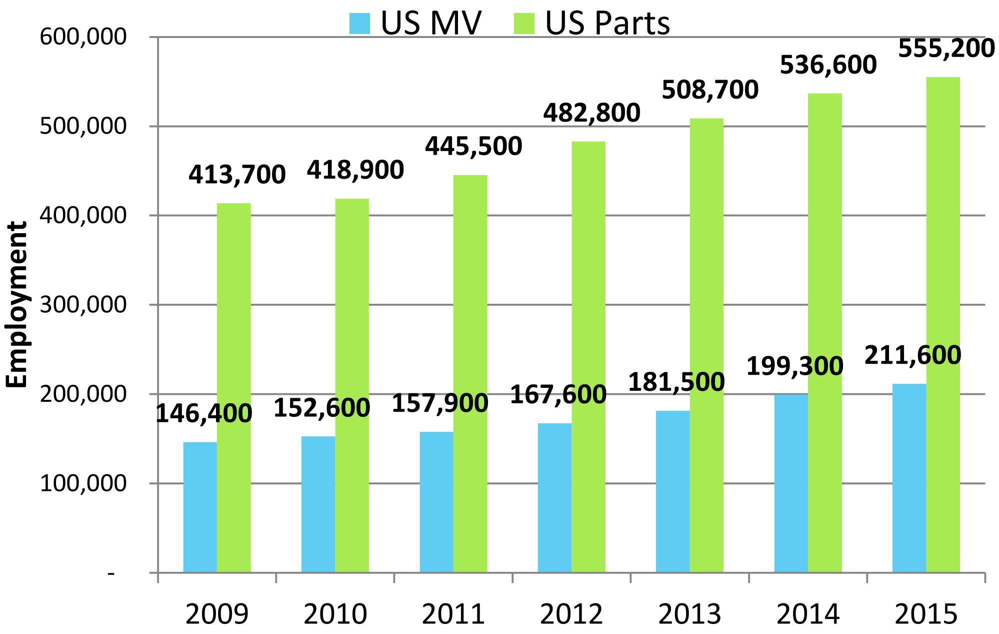
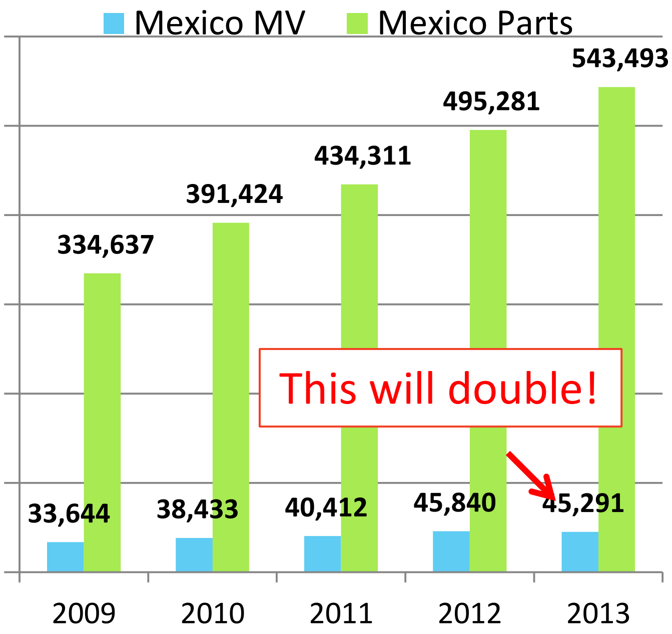
Motor Vehicle and Parts Manufacturing Employment 2009 – 2015(April)





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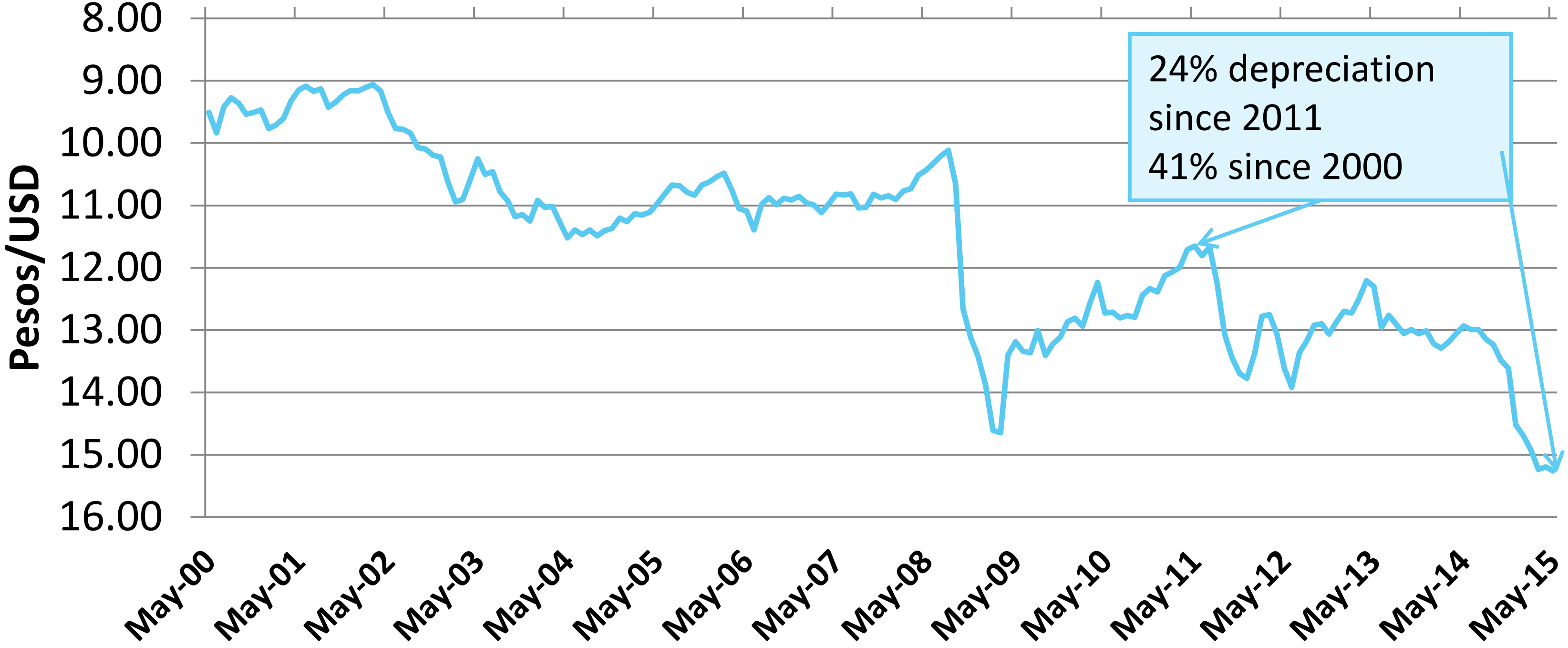
The Peso Unbound!!!
Exchange Rate
MX/USD
May 2000 – May 2015



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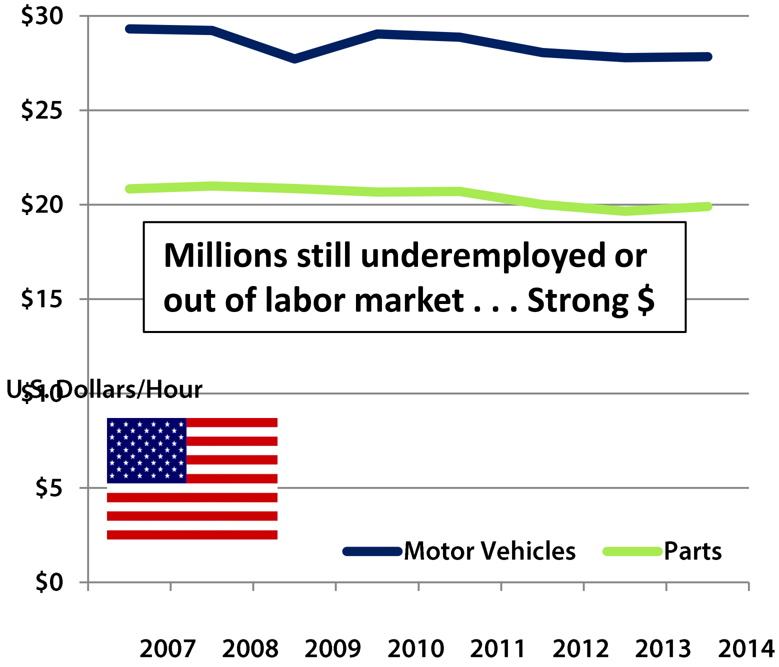
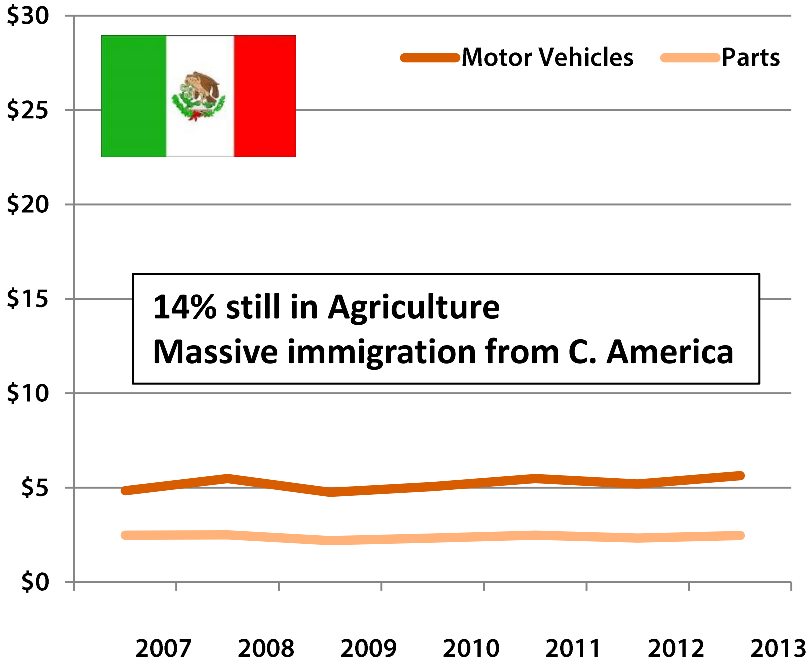
Mexican Automotive Wages are One-Eighth to One-Fifth the Wages Paid to U.S. Hourly Auto & Parts Workers
No Growth in Wages Anywhere Despite Higher Productivity

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





Sources: U.S. Department of Labor, Bureau of Labor Statistics;
Mexico National Institute of Statistics and Geography (INEGI: Instituto Nacional de Estadística y Geografía)

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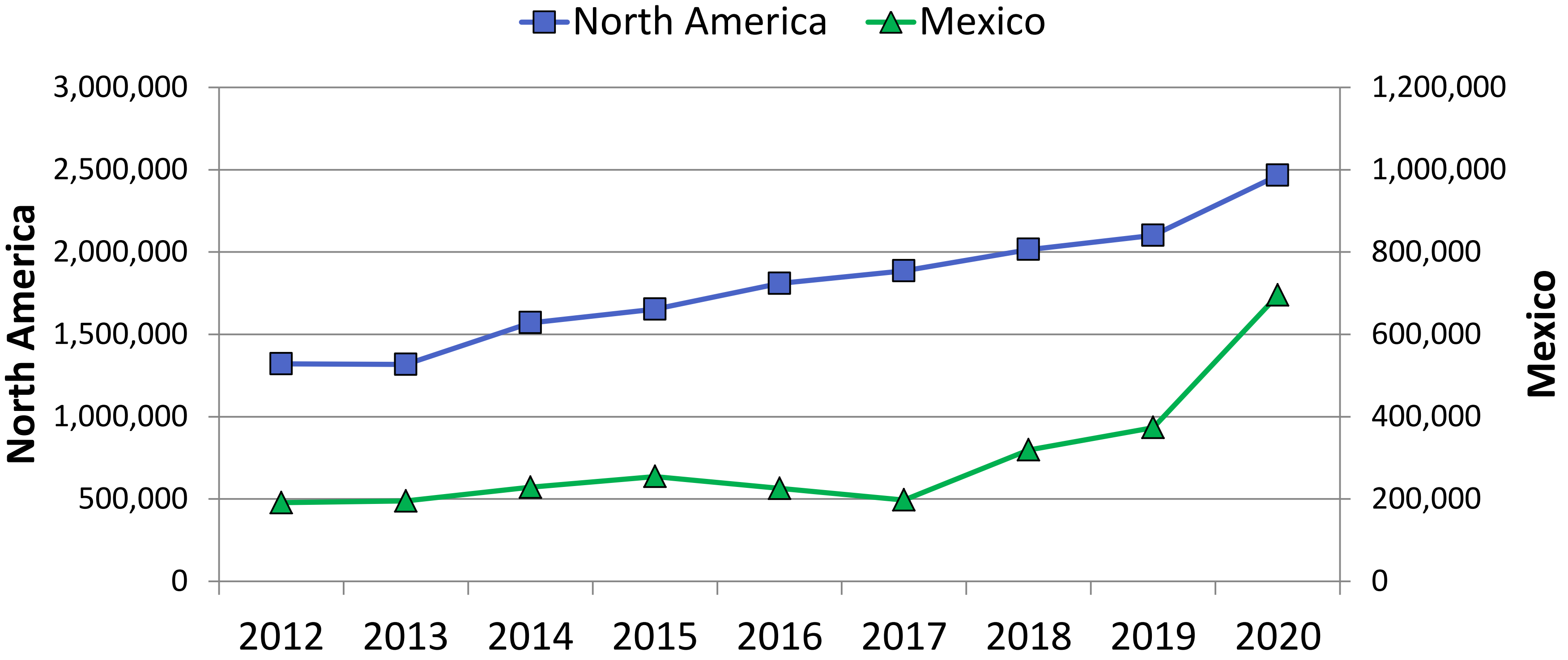
Some Mexican Advantages

Hourly Labor Cost on a Subcompact Car	$674 a car
FTA advantage on a Q5 Export to Europe	$4,500+ per vehicle

2.3 Million Luxury Vehicles by 2020?
N.A. Luxury Vehicle Production Capacity: 2012-2020



Source: LMC and CAR Estimates

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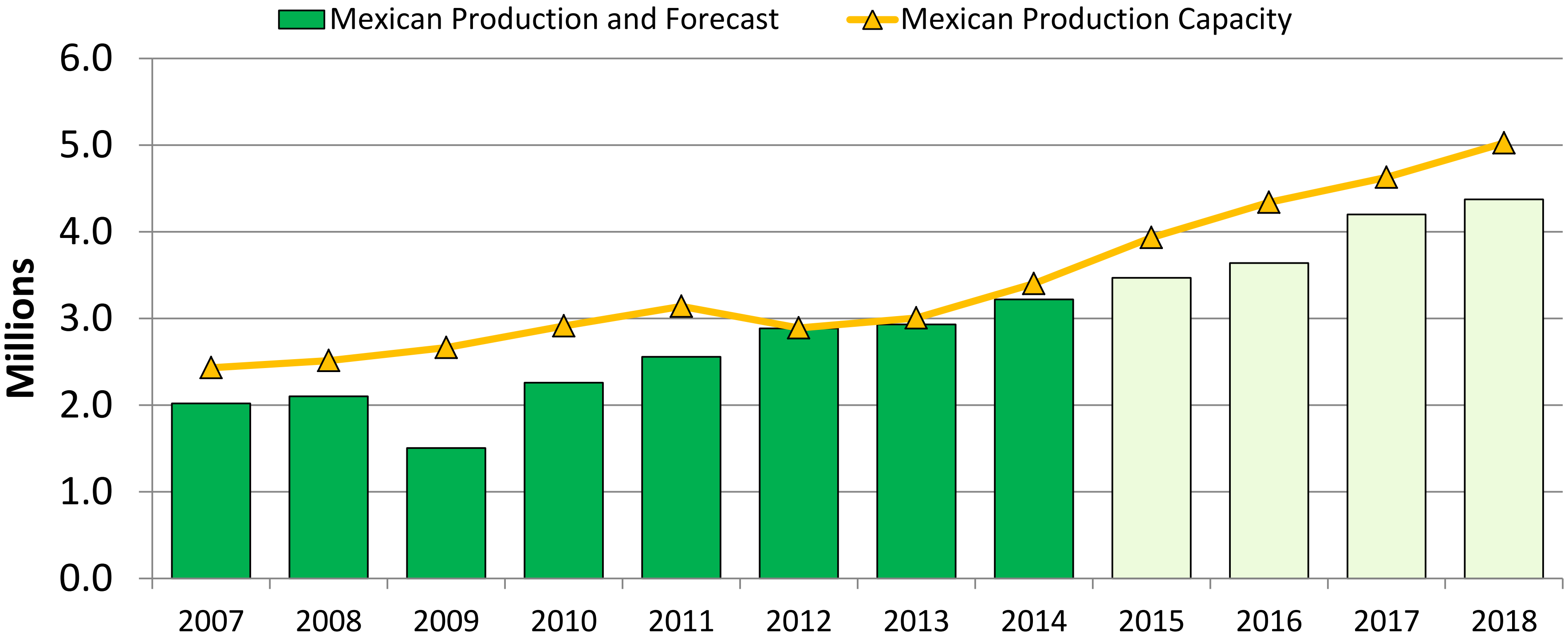
Bigger than Germany?

Mexican Capacity, Production, and 2015-2018 Production Forecast



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

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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 – <u>push FCA bargaining elsewhere</u>
- <u>FCA has cost problems unrelated to labor . . . Volume and scale</u>. 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 investmentis a different mater.

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