Automotive Outlook

2015 FTA Revenue Estimation & Tax Research Conference

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U.S. Sales growing slowly

Source: CAR, Automotive News, Words Automotive
U.S. Vehicle Production remains steady

Source: Wards, Auto News
Employment tied to production

Source: Automotive News, Center for Automotive Research, BLS
Detroit 3—losing hourly jobs

![Graph showing trends in hourly and salaried employment from 2001 to 2018.](chart.png)

- Hourly employees (Thousands): 304, 287, 279, 261, 250, 213, 176, 140, 114, 115, 114, 120, 135, 142, 147, 147, 145, 145
- Salaried employees (Thousands): 105, 100, 98, 95, 90, 85, 74, 62, 56, 59, 62, 67, 77, 81, 85, 85, 83, 84
- Salaried share of employment: 25.8%, 26.7%, 26.7%, 28.6%, 30.6%, 33.8%, 35.8%, 36.5%, 36.5%, 36.5%
North American production grows—in Mexico
2 million unit increase between 2012-2018

Source: Auto News, Wards
What is Auto Manufacturing?
Automotive Employment and Establishments in Michigan

Contributions

• Nationally, 6-8 multiplier—entire company/industry
• Assembly plant—10 or higher
• In-state, between 3-5 multiplier (automotive states—14)
• $500 billion compensation, $70 billion tax revenue, nationally
• Jobs supported throughout entire economy—direct, indirect and induced
Effects of investment

- Suppliers—1st and lower tiers add jobs, build facilities
- Sequencing facilities
- Supply chain and logistics configurations
- Many service provider jobs—legal, finance, education, healthcare
And, major contributions across many sectors

- Manufacturing
- Professional and Technical Services
- Administration and Services
- Wholesale Trade
- Retail Trade
- Transportation and Warehousing
- Finance and Insurance
- Management of Companies
- Other Non-Manufacturing
South Carolina woos Volvo

- $500 million plant investment by Volvo
- No unions—actively prohibit (legal staff involvement)
- Port of Charleston—overseas exports
- Labor force and training
- Experience in High-tech manufacturing
- Attractive investment environment (business-friendly)
- Has $50—$120 million bond-borrowing power (no legislative approval needed)
- Incentive package estimated to be upwards of $200 million
Missouri dances with Ford

- Ford Motor Company has major plant in KC
- Company needed to upgrade plant for new product (Transit) and revamp current (F-150)
- Major investment needed, not much public support
- Ford began looking at other options
- Gov. called legislature into special session
- Package of bills approved, creating large fund to support investment by “major transportation manufacturing companies” ($200 million)
- Ford immediately announced new product, later upgrade and new investment for F-150
One assembly plant spends a lot of $$

Source: CAR report
The North American automotive industry:
Its all about the labor pool availability and capability

Almost 500 automaker facilities, and over 7500 supplier facilities in the United States
Shift in manufacturing

• No new plants in U.S. since 2009
  – S.C. plant undersized—likely a CKD
• Major MX investments-9 new announced
• Ontario and Canada, mixed bag—currency exchange, higher wages, tough union, distance
• Retention of existing facilities becomes main priority in states across the country and in Canada
• Near-border states will see impact
  – (southern +, northern -)
What’s affecting sales mix

- Gas prices—not going up for a while
  - Pickups, SUVs are hot sellers
    - Ford sells 71,000+ F-series in August
  - Small cars, electrics—not

- VW
  - Are you kidding me???
  - Diesel stock just went down
  - No comparable in the industry
What affects production

• Supplier capacity
  – Carmakers went through major restructuring and the supply base went through massive restructuring, as well
  – “It just takes one supplier not having the capacity and you can’t build a vehicle or a powertrain,” Joe Hinrichs (Ford) says

• Supply chain interrupts
  – West coast ports impacted auto for six months
  – Especially Asian assemblers in U.S.

• New materials
  – Availability
  – Processing
A short look forward

• Mexico is a big play
  – Major investment in vehicle production facilities
  – FCA moving small, less profitable vehicles there, large trucks etc., into U.S.
  – Ford moving Focus out of MI, GM Sonic next?
• Alternative fuel vehicles are tough sell
  – Without stiff regulations, mandates
  – $2.50 gas
• China slowdown having positive effect on U.S. industry
  – Commodities prices have fallen as China demand wanes—copper, steel, oil, etc.
What’s the future of the car?

• A Kodak moment—the least important players are the manufacturers
• Electronics becoming soul of the vehicle
• Entry of IT in a big way
  – Apple—cat’s out of the bag
  – Google—hires Krafcik
  – Uber—Tech center in Pittsburgh
• New Jeep pickup?
• Who wants a new car anyway? Average income of new car buyer= $80,000
• Average age new car buyer=51.7 years, average age of U.S. population=36.8 years
• An average vehicle contains around 60 microprocessors to run electric content—more than 300 million lines of software code
• CISCO estimates 90% of new value will be software-related
That darned consumer

- NADA predicts GDP through 2019 less than 3%
- Gas below $2.50/gallon long term
- Lights trucks at 56.8% in August 2015, up 8.6% from same period a year ago
- Top 3 vehicles- F-series, Silverado, Ram (all trucks)
- 4th vehicle, Accord sold 41,000 in August, F-series sold 71,000
Factors that affect sales—a mixed bag

- Labor force participation—historic low
- However, full-time employment drives up auto sales
- Household wealth effect
- Low interest rates
- Increasing household financial burdens—Apple wants a piece of monthly payments (phone lease plan)
- Household budget outlays are shifting
- Student debt burden—graduate with negative equity
- Motor vehicle price is rising—average price above $31,000
- Youth movement to cities—demand alternative transportation
Thank you

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