U.S. Automotive Industry Employment Trends

Office of Aerospace and Automotive Industries
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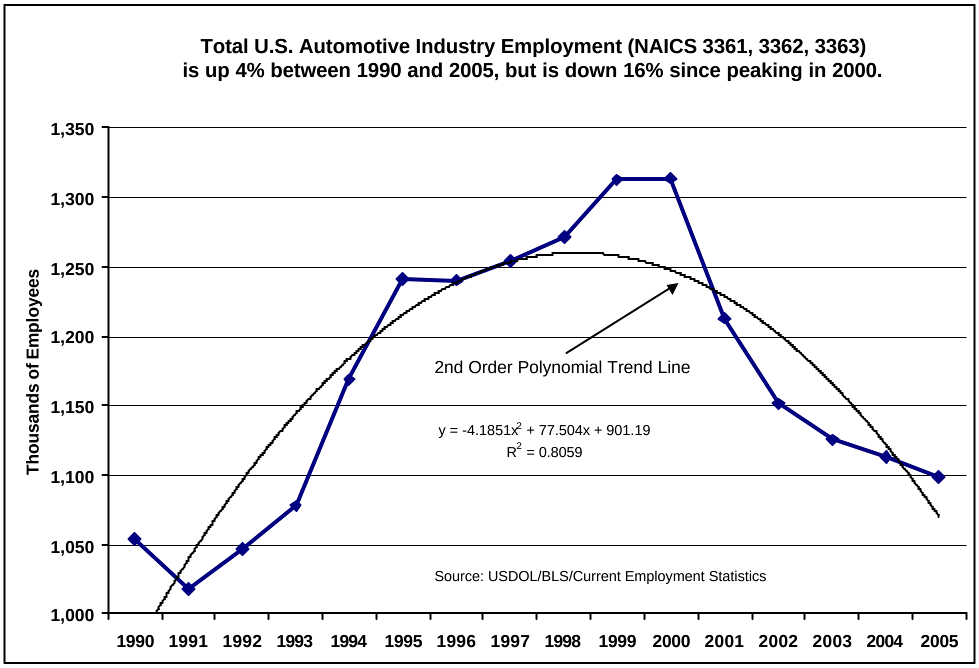
Overview

The decline of domestic auto producers, GM and Ford, has been well documented in the national media. General Motors lost more than $5.6 billion on its North American automotive operations in 2005, while Ford dropped $5.5 billion on its North American automotive operations. Their market shares have been declining for years. GM's share, 36% in 1990, now stands at 26%. Ford's 1990 share, 24%, is now 17%. This situation forced their plants to run below optimal utilization levels, resulting in decisions by both firms in 2000 to shed several thousand production line workers. (However, those laid-off before September 2007 receive 95% of their wages, in accordance with the current and previous UAW union contracts, for up to three years.) With no immediate end in sight for their shrinking market share, the companies now have announced plans to close a dozen North American plants and to eliminate an additional 60,000 jobs through layoffs and early retirement buyout offers.

Falling vehicle assembly by these automakers has resulted in declining sales for the thousands of domestic auto parts companies that derive the majority of their business from them. GM's and Ford's production in the United States has dropped 26 % from its 1999 peak. (Total light vehicle production is down just 8%.) This, coupled with Detroit's simultaneous demands for lower prices from their suppliers – many of whom also are facing higher input costs – has resulted in more than a dozen bankruptcies by key American auto parts producers, plus the loss of 174,000 jobs in the parts industry.

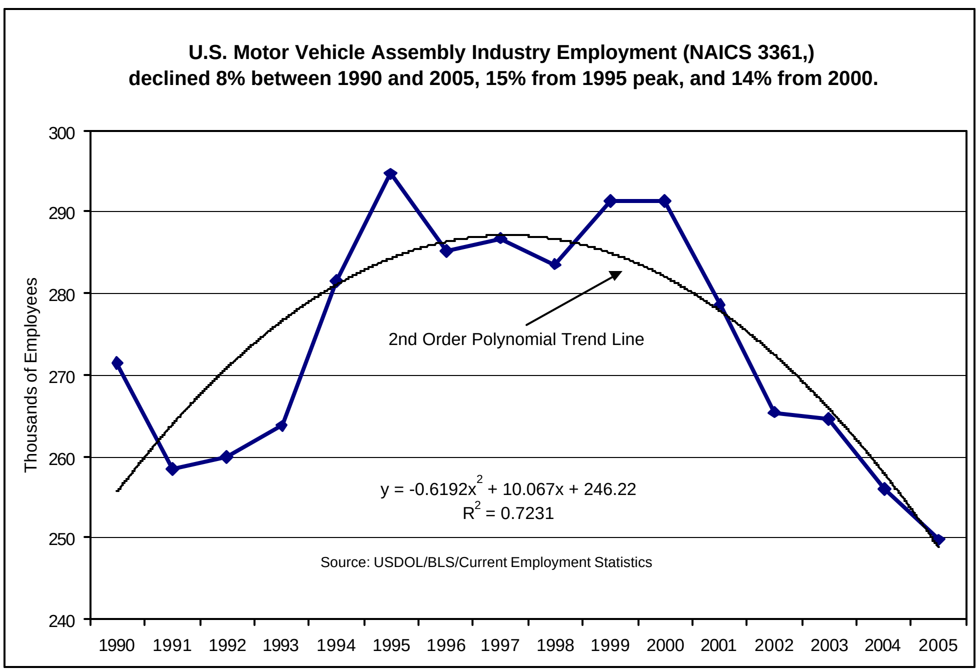
Total Automotive Industry

According to data from the U.S. Labor Department's Bureau of Labor and Statistics (BLS), total automotive employment in the United States increased by 8% from 1991 to 2005 (but by just 4% since 1990), rising from 1,054,000 workers to 1,098,000. (See chart on following page.) However, looking only at these end points hides a significant and dramatic downturn that has decimated the industry since the year 2000. In that year, employment reached a peak of 1,313,600 workers, but the drop from that peak over the ensuing five years to 2005's level represents a <u>decline of 16%</u>, with <u>a total loss of 215,500 jobs</u>. The two major halves of the automotive industry – the parts producing companies and the motor vehicle assembly companies – show different trends over the long-term, but similar declines in recent years.



Motor Vehicle Industry

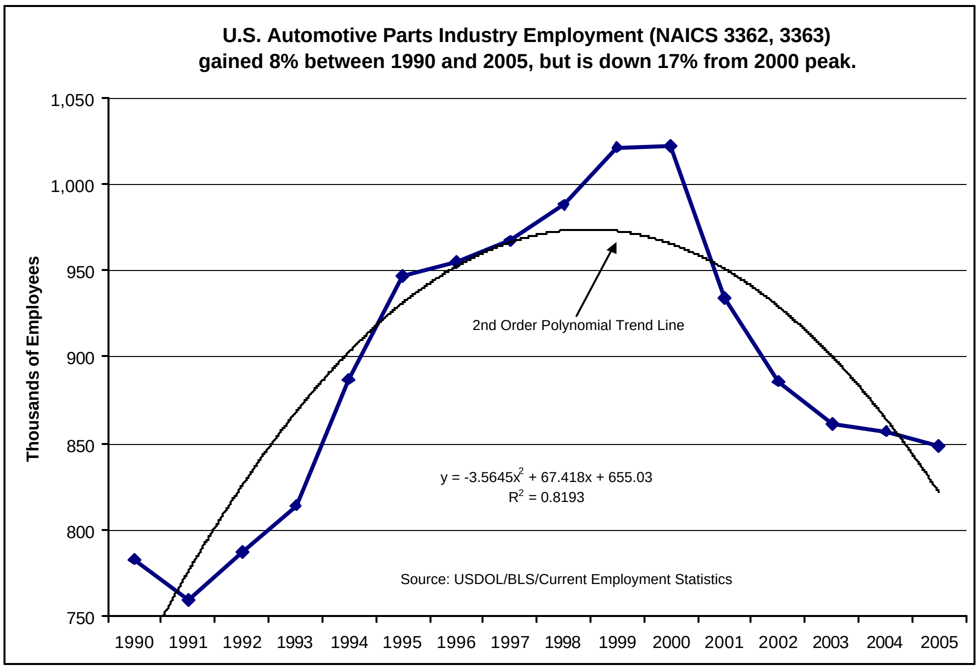
The motor vehicle producing companies, including Ford and General Motors, have seen employment move in a somewhat cyclical fashion during the period from 1990 to 2005, but with an overall declining trend. In part this is due to productivity gains, sales of vehicle companies' parts divisions, and declining production (Big 2 production is down 24 % since 2000). In 1990, total motor vehicle employment stood at 271,400 workers. By 2005, there were only 249,700 workers employed by the industry – a loss of 8% (3% since 1991). However, this hides an even more dramatic decline from 1995's peak employment of 294,700.



The decline from 1995 to 2005 was a drop of 15 %, with a total job loss of 45,000 workers (despite some hiring by the new foreign-affiliated producers, see below). Looking to the future, collectively GM and Ford have announced job cuts of almost 60,000 (30,000 each) North American workers over the next six years, most of which likely will be in the United States.

Automotive Parts Industry

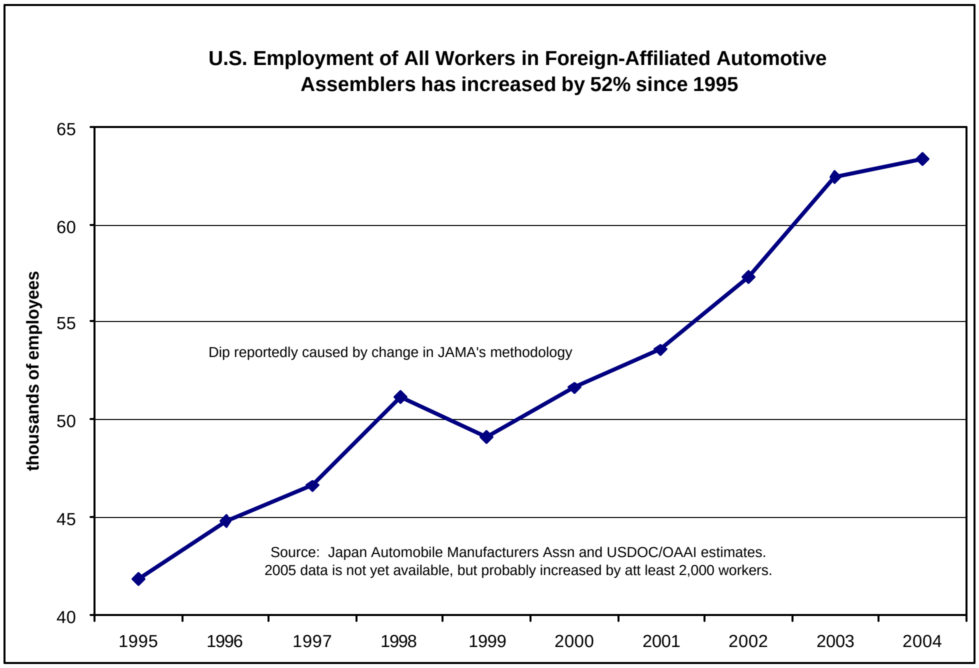
The automotive parts companies experienced an 8% increase in employment from 1990 to 2005 (12% from 1991), growing from 782,800 to 848,400 workers, at least partly as a result of the many workers reclassified as parts industry employees when GM, in 1999, and Ford, in 2000, spun off their in-house auto parts divisions (Delphi and Visteon, respectively). Employment growth has been tempered both by increasing worker productivity and by decreasing motor vehicle production by Detroit. There also is evidence that workers in other countries effectively are replacing U.S. auto parts workers. U.S. auto parts imports increased dramatically between 1991 and 2005, rising 309% in current dollars to $92.2 billion. Like the motor vehicle industry, the recent employment trend is not good. Since the year 2000, when employment for the sector peaked at 1,022,200 workers, the parts industry has seen a 17 % decline, a loss of 173,800 jobs.



Foreign-Affiliated Auto Companies

There are now ten foreign-affiliated motor vehicle companies producing vehicles in the United States. To varying degrees these companies encouraged their traditional supplier firms to co-locate new facilities in the United States to supply their new operations. There are also new firms on the horizon, including Kia, with plans to open U.S. plants in the future. However, the jobs created by these investments have not kept pace with the overall industry decline.

According to industry data and our estimates, the foreign-affiliated assemblers and their associated parts companies now employ 63,000 U.S. workers. This number has shown a steady increase (up 52 % since 1995), <u>but is far below the number of jobs already lost by the industry</u>.



Conclusion

Employment in the U.S. automotive industry is only slightly healthier than that of most other domestic industries. BLS data show that total manufacturing employment, less the auto sector, declined by 21% between 1990 and 2005, and by 18% since 2000. The auto industry gained 4% between 1990 and 2005, but fell 16% after 2000. Industry employment is headed downward and is not likely to recover for several years, if ever. Some declines are undoubtedly the result of improved worker efficiency and productivity, but most losses are the product of the declining fortunes of America's two largest motor vehicle producers and the supplier base that relies on them for business. Foreign-affiliated automotive companies have invested billions of dollars in new production facilities in the United States and have announced plans for more factories to come. However, the new jobs they create have, and will provide only partial relief for the severe impact that the entire U.S. automotive workforce is absorbing. In fact, in the next 6 years, GM and Ford will lay off nearly as many workers as all the foreign affiliates have hired so far.

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