



CENTER FOR
AUTOMOTIVE
RESEARCH

Michigan Automotive Industry Update

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Joint Revenue Estimating Conference

15 May 2020

THE CENTER FOR AUTOMOTIVE RESEARCH (CAR)

Automotive industry contract research and service organization (non-profit) with more than 30 years experience forecasting industry trends, advising on public policy, and sponsoring multi-stakeholder communication forums.



RESEARCH

Independent research and analysis on critical issues facing the industry.



EVENTS

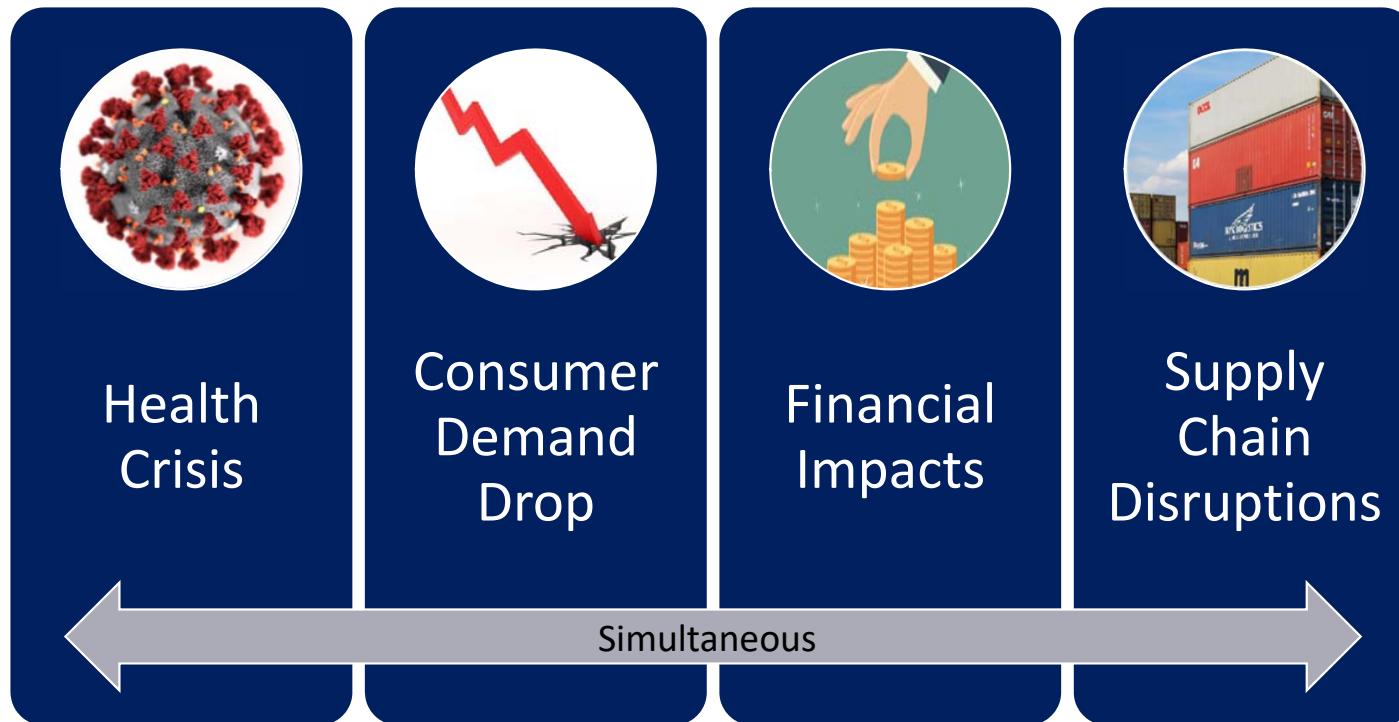
Industry-driven events and conferences that deliver content, context, and connections.



CONNECT

Consortia that bring together industry stakeholders to participate in working groups, networking opportunities, and access to CAR staff.

Coronavirus (COVID-19) Impact on U.S. Production

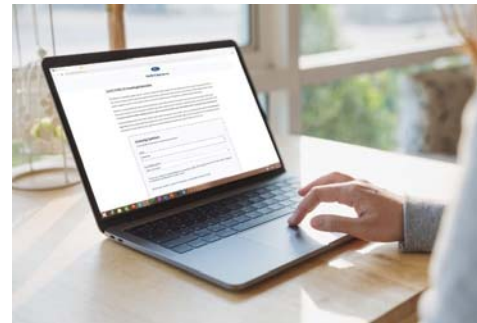




Health Crisis

Nearly All Automakers & Suppliers Have Detailed “Restart Playbooks”

- Redesigning worker flow & jobs for social distancing
- Implementing health checks
- Use of PPE
- Increased cleaning
- Plans for how to handle illness
- Planning for higher levels of absenteeism

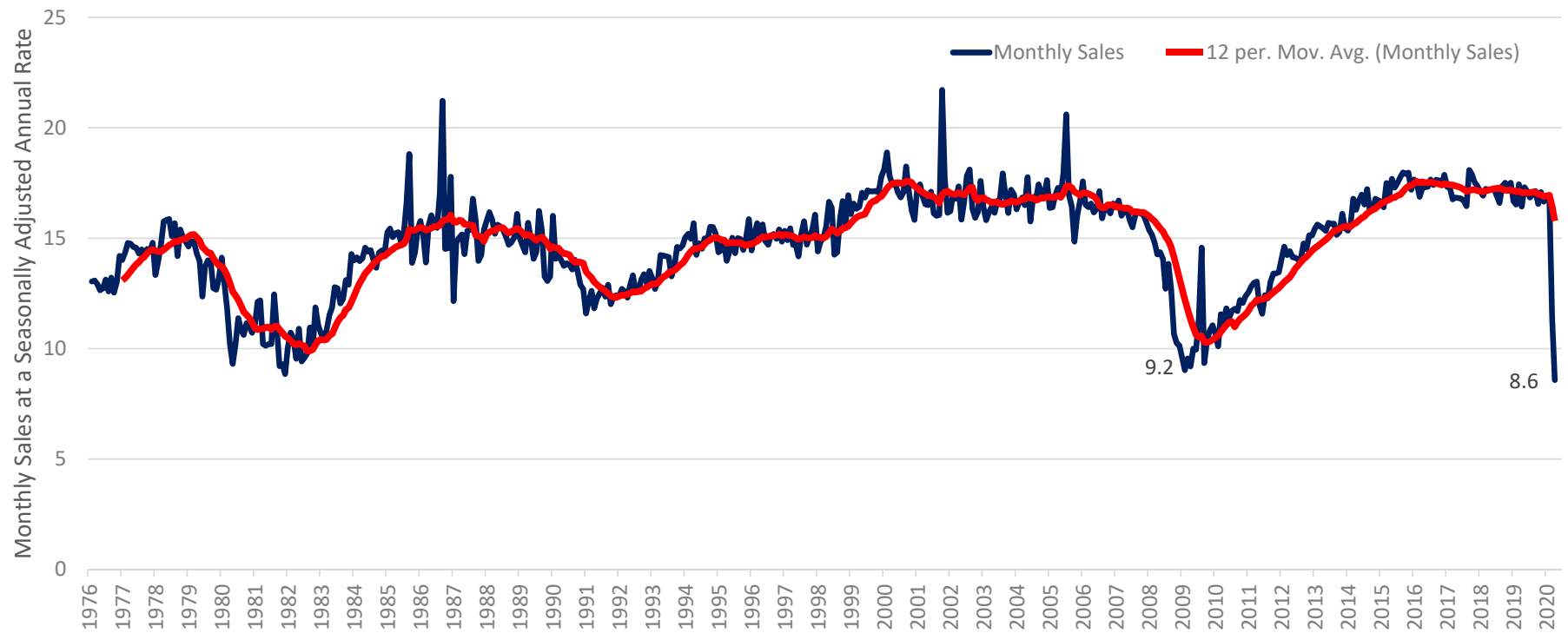




Demand & Production

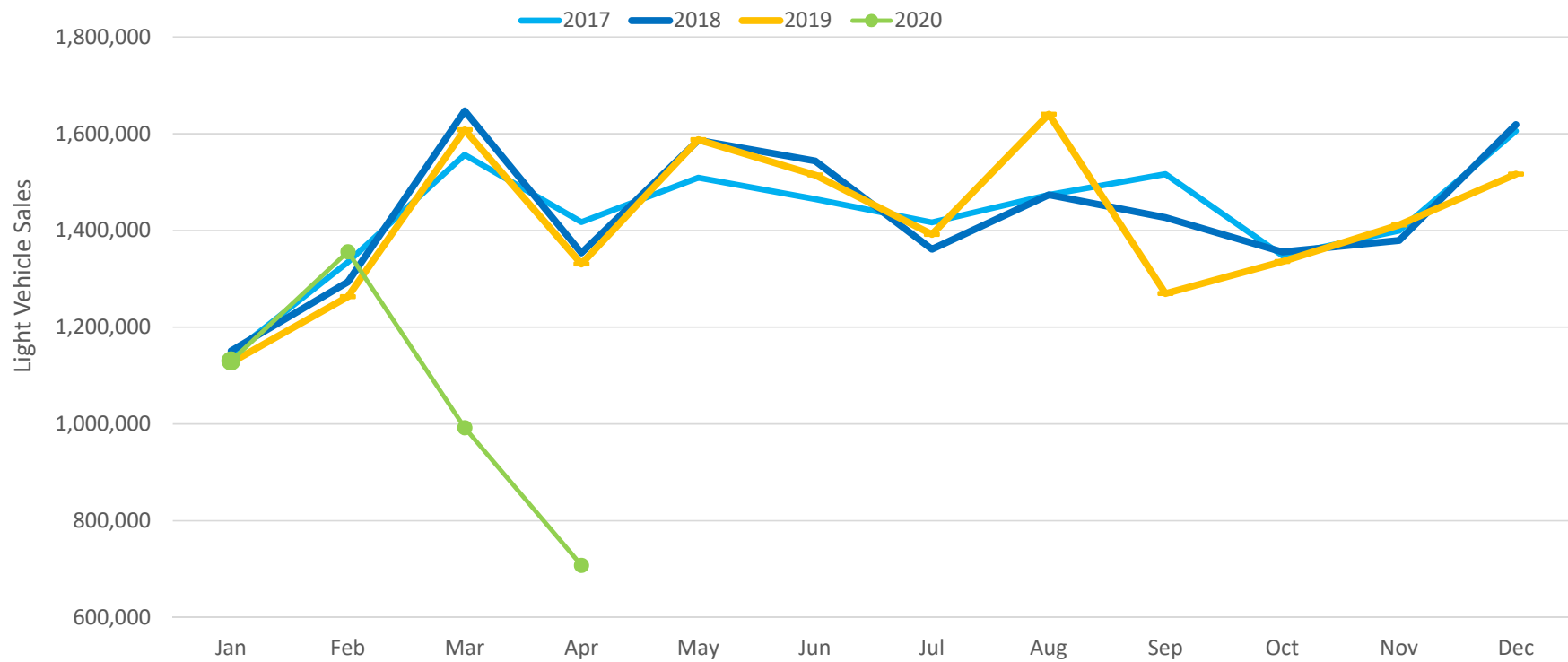
U.S. Light Vehicle Monthly Sales (SAAR)

1976 – April 2020



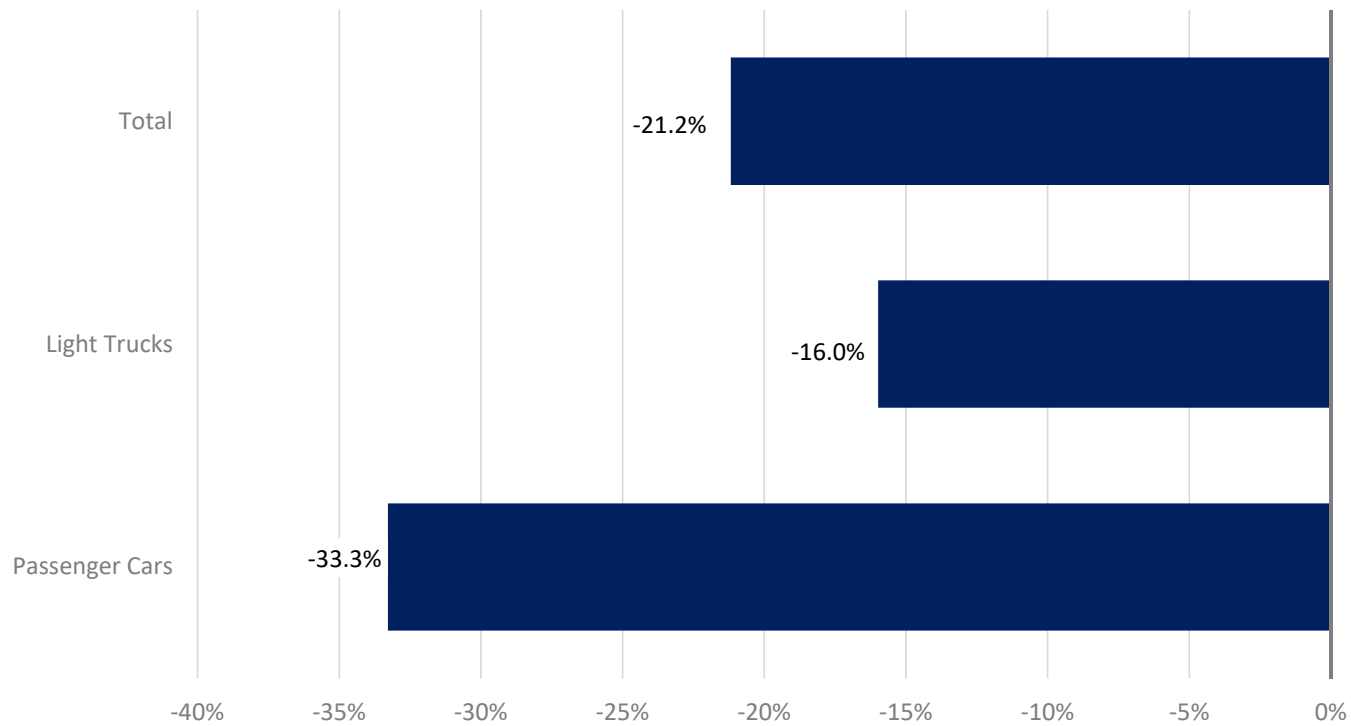
U.S. Light Vehicle Monthly Sales

January 2017 – April 2020



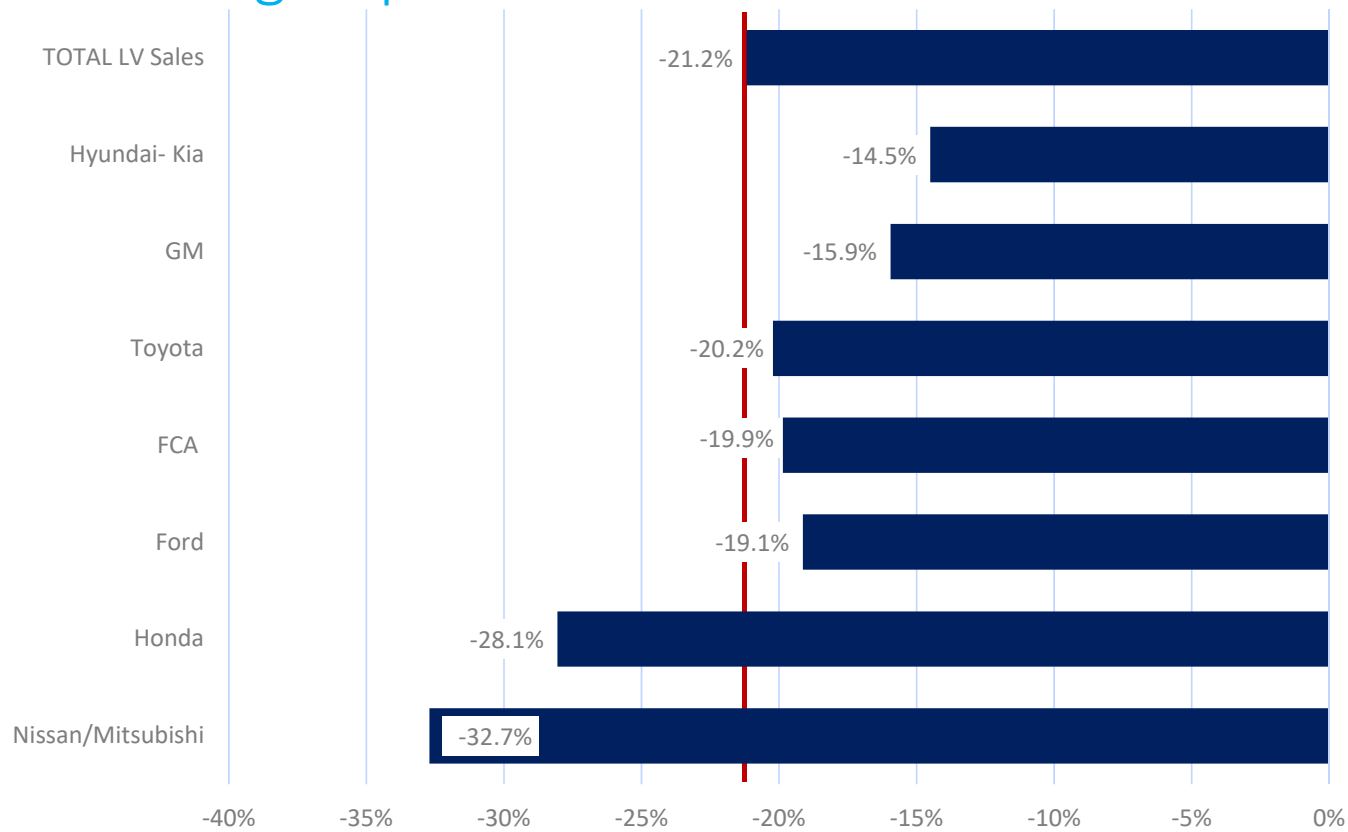
U.S. Light Vehicle Sales

Percent Change (YTD) Through April: 2020 vs. 2019



4,184,523	Total
-1,124,599	
100%	
3,119,546	Truck
+ -593,294	
74.5%	
1,064,977	Cars
-531,305	
25.5%	

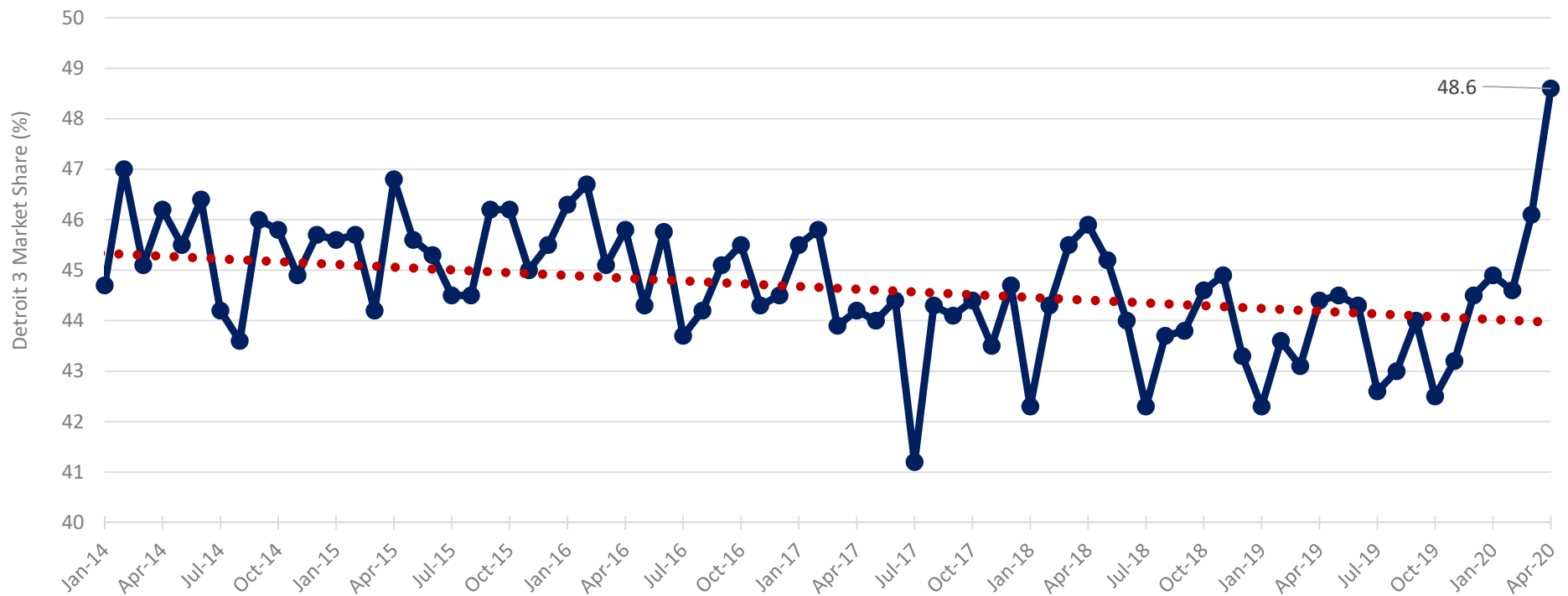
Percent Change in Sales of Light Vehicles Per OEM: YTD Through April: 2020 vs. 2019



4,184,523	-1,124,599	100%	TOTAL LV Sales
339,254	-57,539	8.1%	Hyundai- Kia
753,152	-142,861	18.0%	GM
580,441	-147,139	13.9%	Toyota
534,683	-132,515	12.8%	FCA
615,506	-145,628	14.7%	Ford
356,536	-139,026	8.5%	Honda
343,556	-167,023	8.2%	Nissan/Mitsubishi

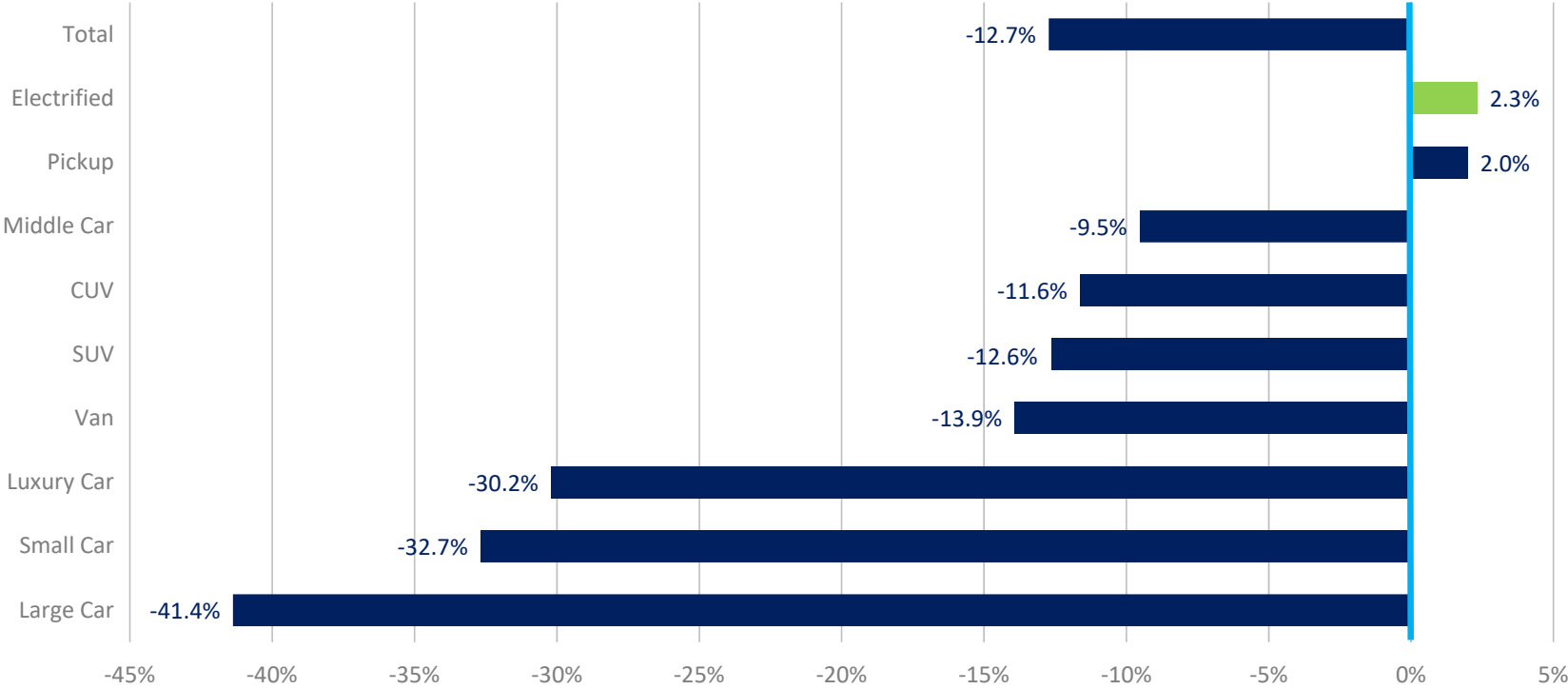
Detroit 3 Monthly U.S. Market Share Rose to 48.6% in April

January 2014 – April 2020



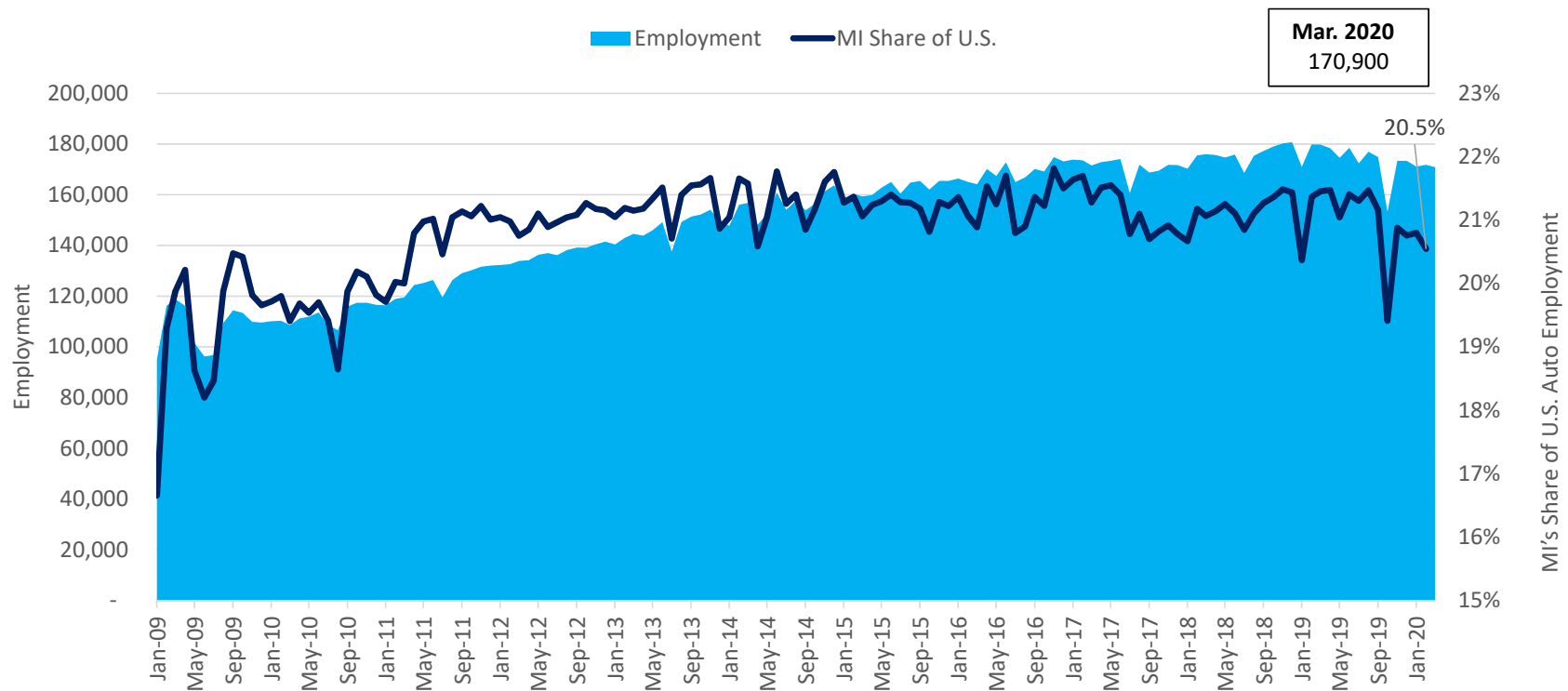
Segment Breakdown: U.S. Light Vehicles Sales Percent Change

2020 YTD vs. 2019 YTD Through March



Note: Electrified Segment consists of BEVs, HEVs and PHEVs; all other segments are sales exclusive of Hybrid models

MI Motor Vehicle & Parts Manufacturing Employment, 2009 – Q1 2020



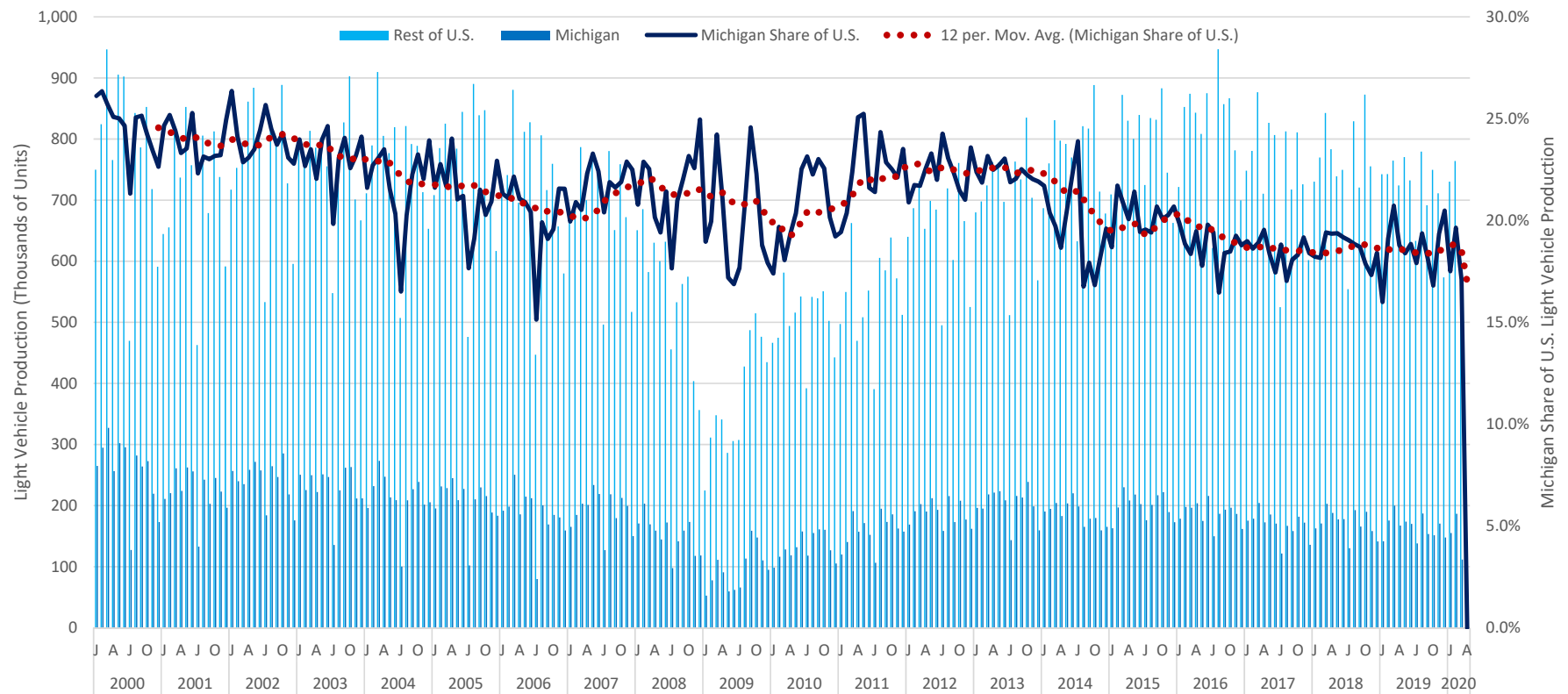
*U.S. data is one month behind state data

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Source: Current Employment Statistics, Bureau of Labor Statistics; NAICS 3361 & 3363

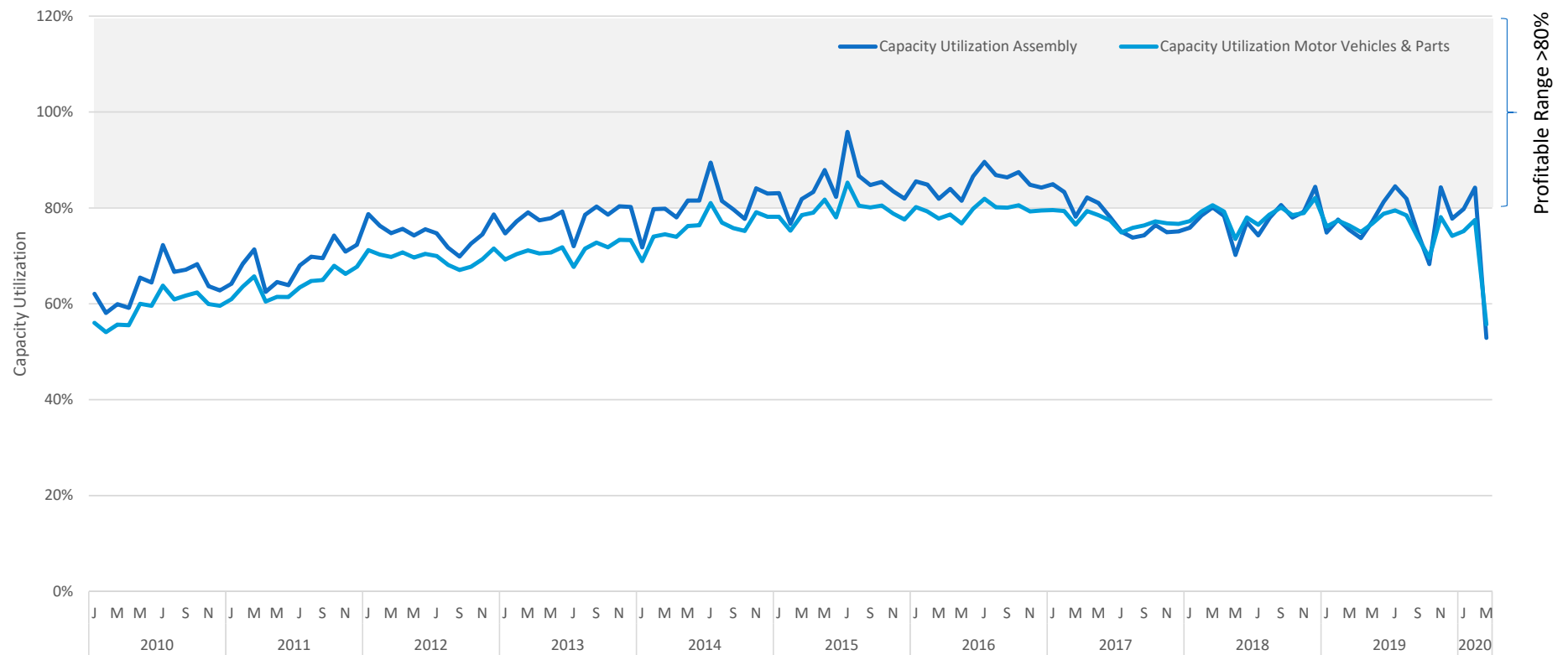
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Michigan is the top state for U.S. light vehicle production (18.5%), but share has been trending downward since 2012



U.S. Automotive & Parts Capacity Utilization Fell Sharply

Assembly & Parts Capacity Utilization, 2010-March 2020

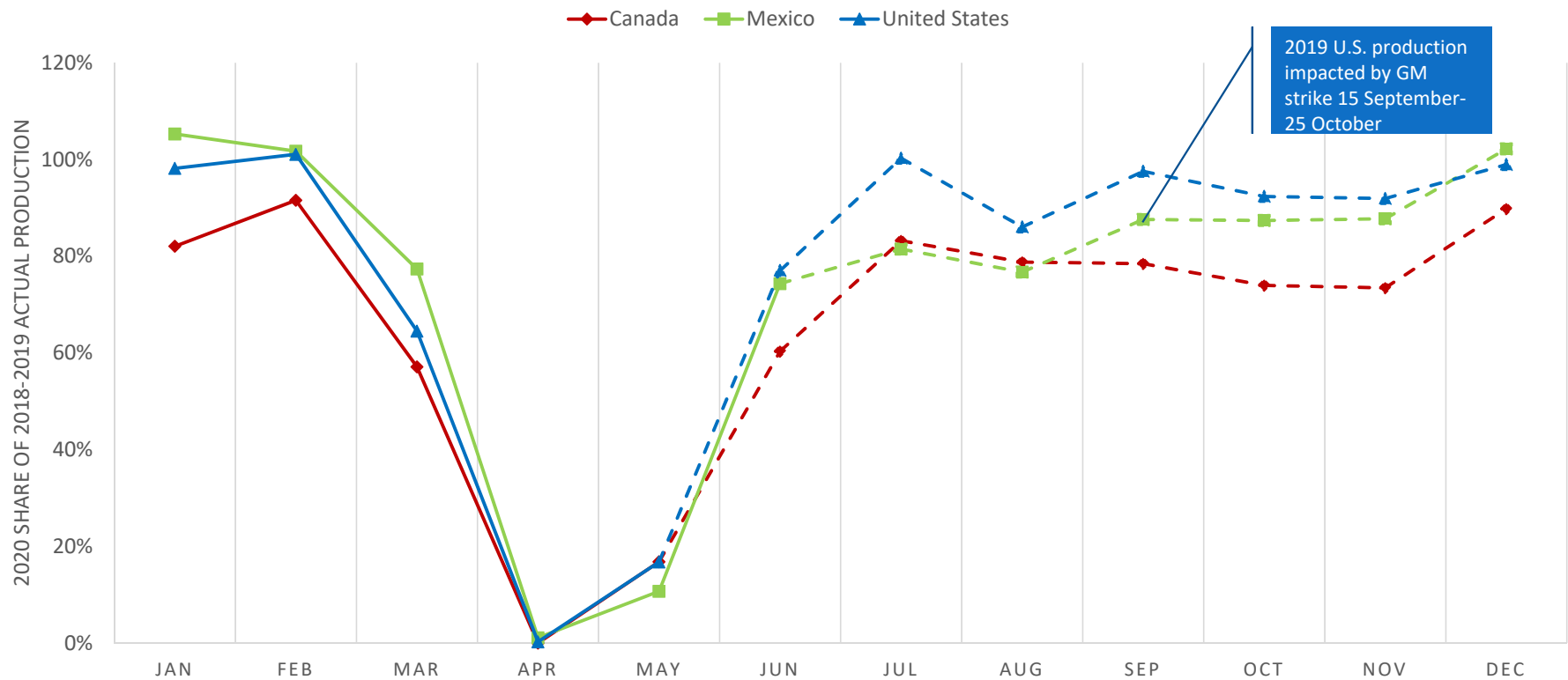


Production Ramp-Up Summary

	2020 Projected / 2018-2019 Average Production	2020 Units Lost Production vis-à- vis 2018-2019 Average Production
North America—All Automakers	75%	-4.1M
North America—D3 Automakers	73%	-2.3M
U.S.—All Automakers	77%	-2.5M
U.S.—D3 Automakers	76%	-1.3M
Michigan—D3 Automakers	76%	-485K

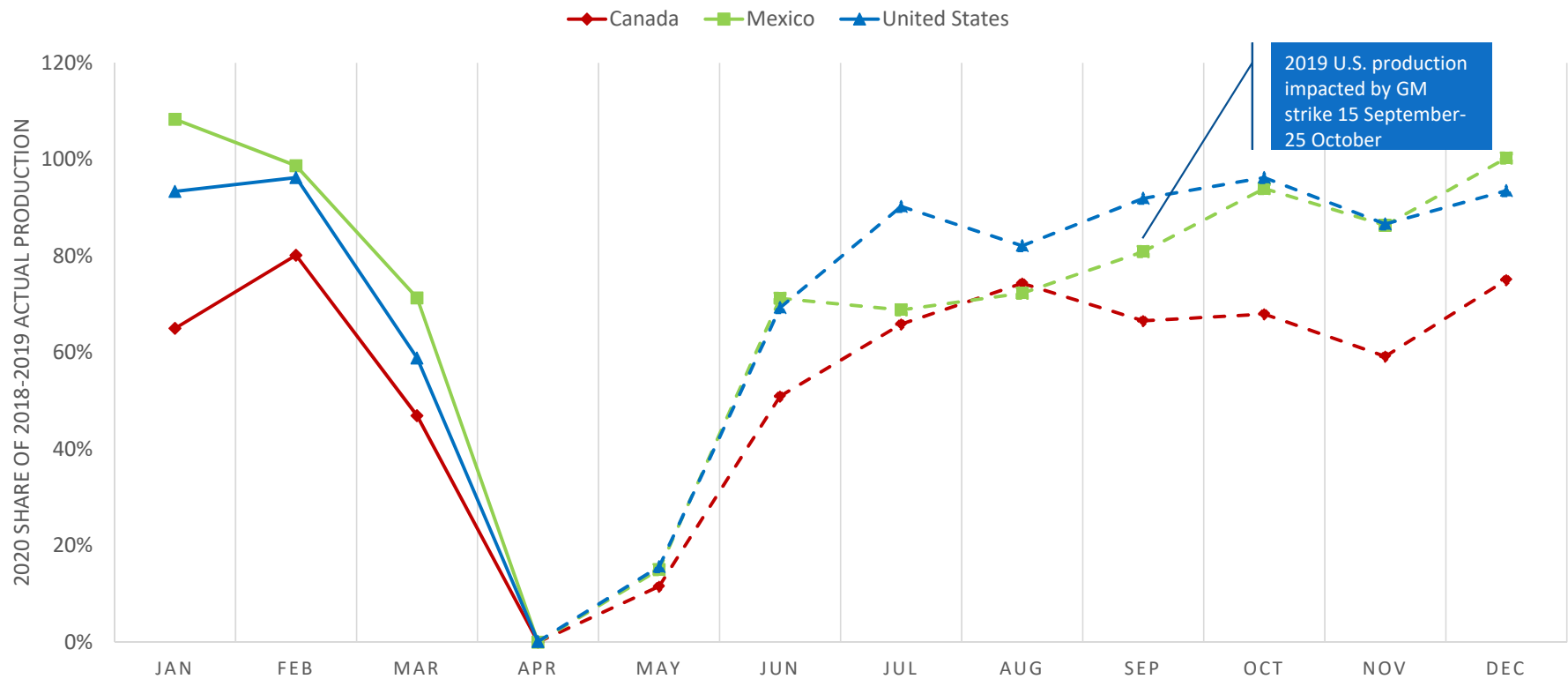
North American Production Ramp-Up

2020 Forecast as a Share of 2018-2019 Actual



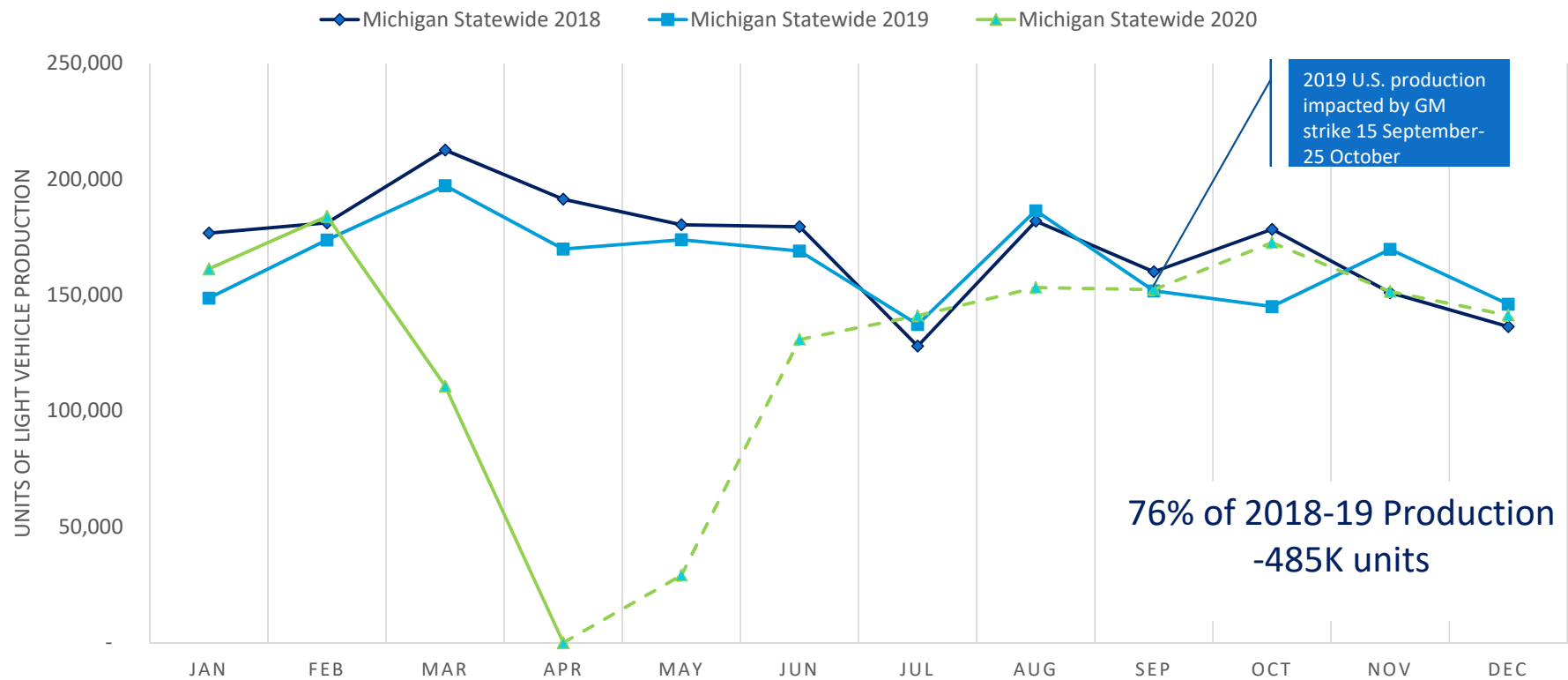
Source: CAR analysis of IHS|Markit & LMC Automotive forecasts

North American Detroit 3 Production Ramp-Up 2020 Forecast as a Share of 2018-2019 Actual



Source: CAR analysis of IHS|Markit & LMC Automotive forecasts

Michigan Production Ramp-Up: Statewide 2020 Forecast as a Share of 2018-2019 Actual





Financial Impacts

Auto Industry Current Financial Situation

- Limited sales and earnings visibility, when “stay-at-home” and “essential business” government mandates enacted on state-by-state basis
 - Earnings guidance withdrawn by nearly all publicly traded auto companies
 - Companies rushed to boost liquidity, i.e., cash on hand
- 1Q: 20 earnings results
 - Focus by investors on liquidity and cash burn
 - ‘Earnings’ largely not as bad as initially feared
- Some ‘bright spots’ for automakers and suppliers
 - Light vehicle sales held up better, pre-“stay-at-home” mandates
 - Product mix, i.e., light trucks
 - Restructuring and cost-containment efforts

Liquidity Situation – Automakers & Auto Suppliers

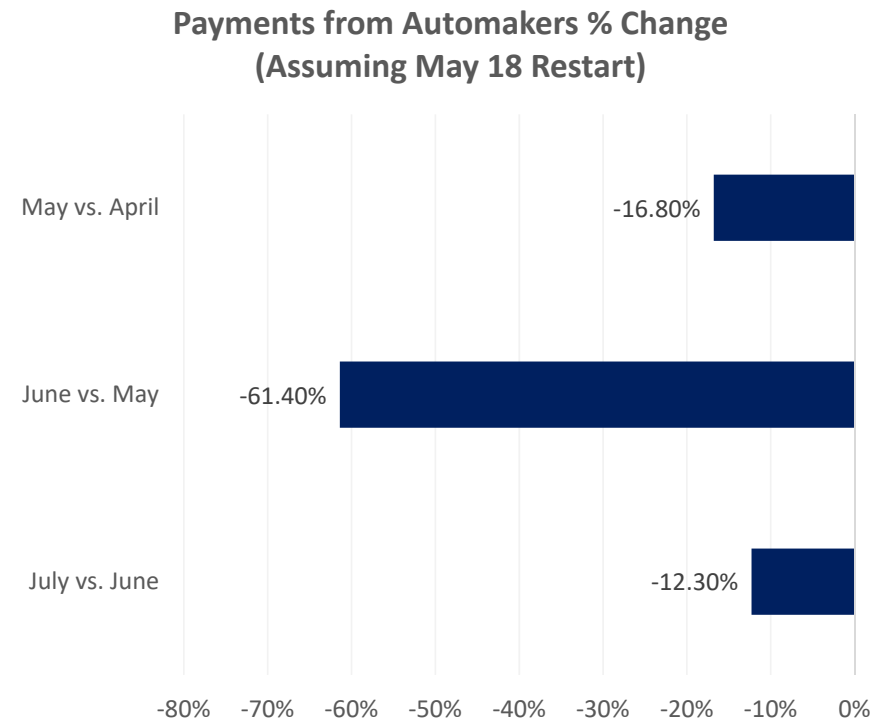
- Automakers:
 - Detroit 3 – drastic measures to boost liquidity, e.g., drawing down credit lines and issuing debt
 - Japanese Automakers – unprecedented actions for cash preservation, e.g., salaried employee furloughs
 - Detroit 3 @ ~ 12 months liquidity buffer*; < 6 months for Japanese (except Subaru @ 10 months)
- Auto Suppliers:
 - Financially better-positioned by and large coming into COVID-19 pandemic vis-à-vis automakers
 - Most publicly traded suppliers @ > 6 months liquidity buffer*
 - The full impact of idled production not experienced in 1Q due to 40-60 day' payment terms

What's Next?

- 2Q: 20 Outlook
 - A moving target
 - Much worse impact to be felt by auto suppliers
- Restart outlook (so far)
 - Japanese automakers – this week
 - Detroit 3 – next week

Outlook: Auto Suppliers Cash Flow Issues

- Payments from Automakers at 45-day Payment Terms, FY2020
- Full impact of 'Zero Revenue' not yet experienced for supply base
 - Cash flow squeeze expected during June-July
 - Implications for suppliers not yet fully understood, but include financial distress, insolvency, & consolidation



Liquidity crisis could turn into an insolvency crisis...



Fed Chair Warns the Economy May Need More as Congress Hesitates
Jerome H. Powell pointed to potentially dire consequences if a lasting economic downturn is not averted with forceful policies.
nytimes.com

<https://www.nytimes.com/2020/05/13/business/economy/fed-chair-powell-economy-virus-support.html>

“The passage of time can turn liquidity problems into solvency problems... additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage.”

—Fed Chair Jerome H. Powell
13 May 2020

Financial Summary / Outlook

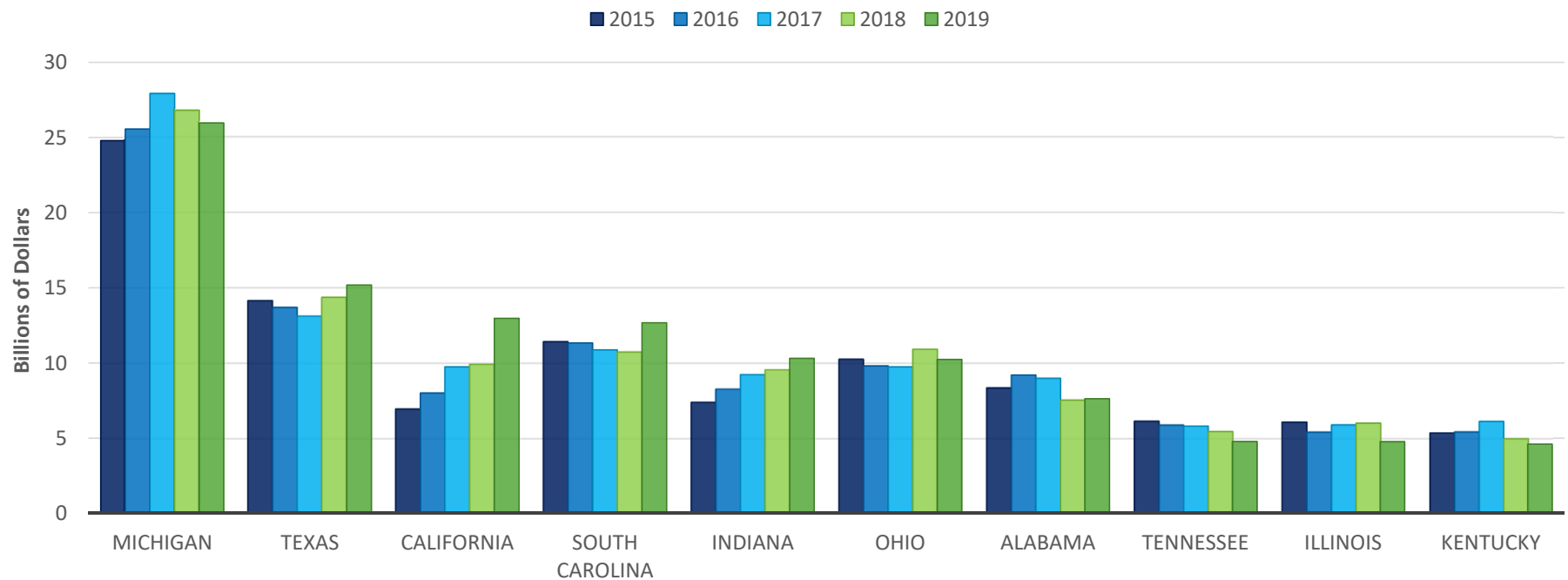
- Focus shifting from liquidity / cash burn (1Q) to production restart and supply-chain risk (2Q)
- Financial distress likely during 2Q; Tier 2- and 3 particularly at risk
- ‘W-shaped’ recovery a major concern...
- Restructuring & consolidation to return



Supply Chain Disruptions

Michigan is the Top State for Automotive Trade

Top 10 Automotive Exporting States: 2015 to 2019

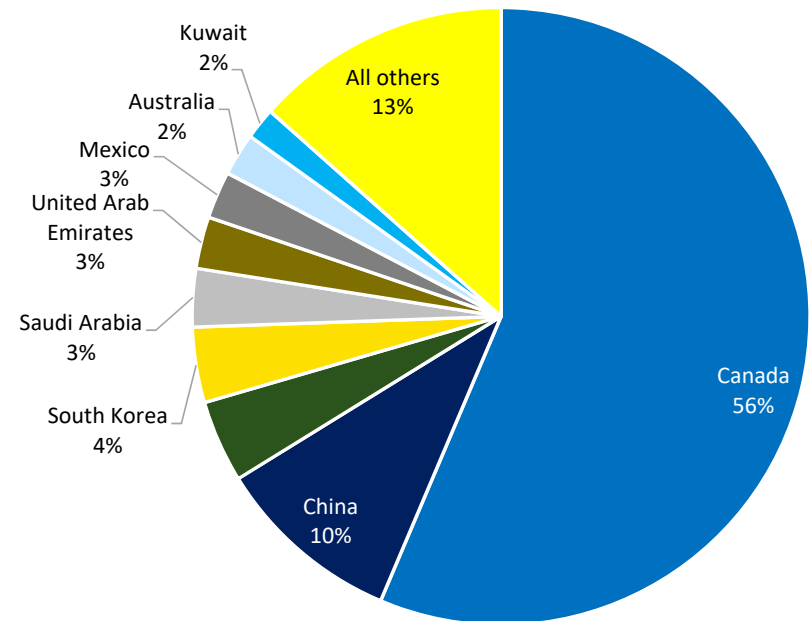
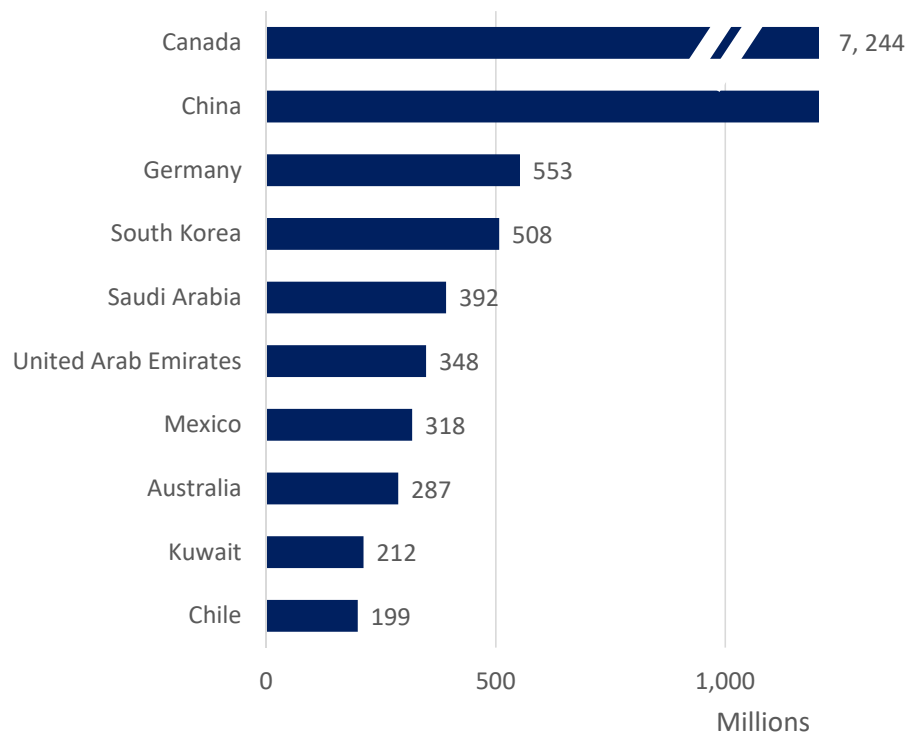


*NAICS 3361-3

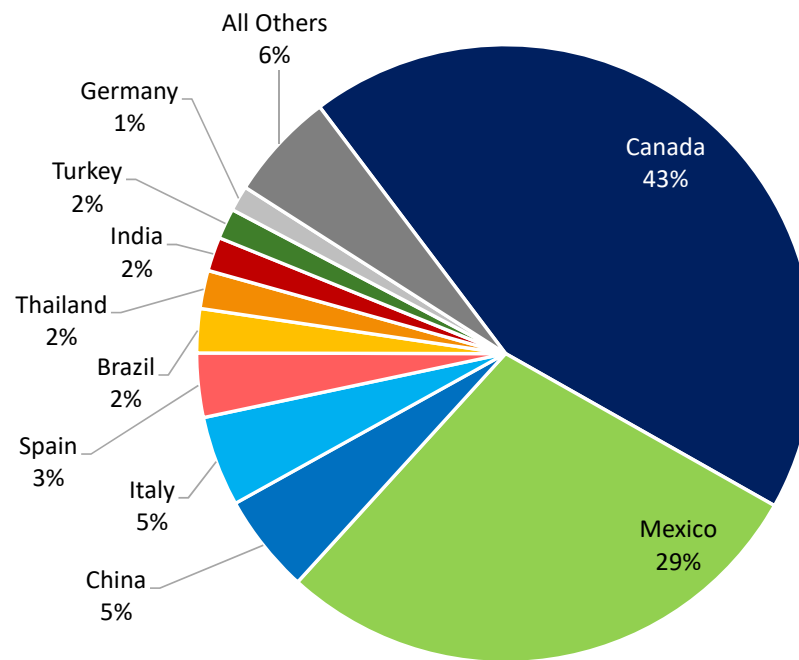
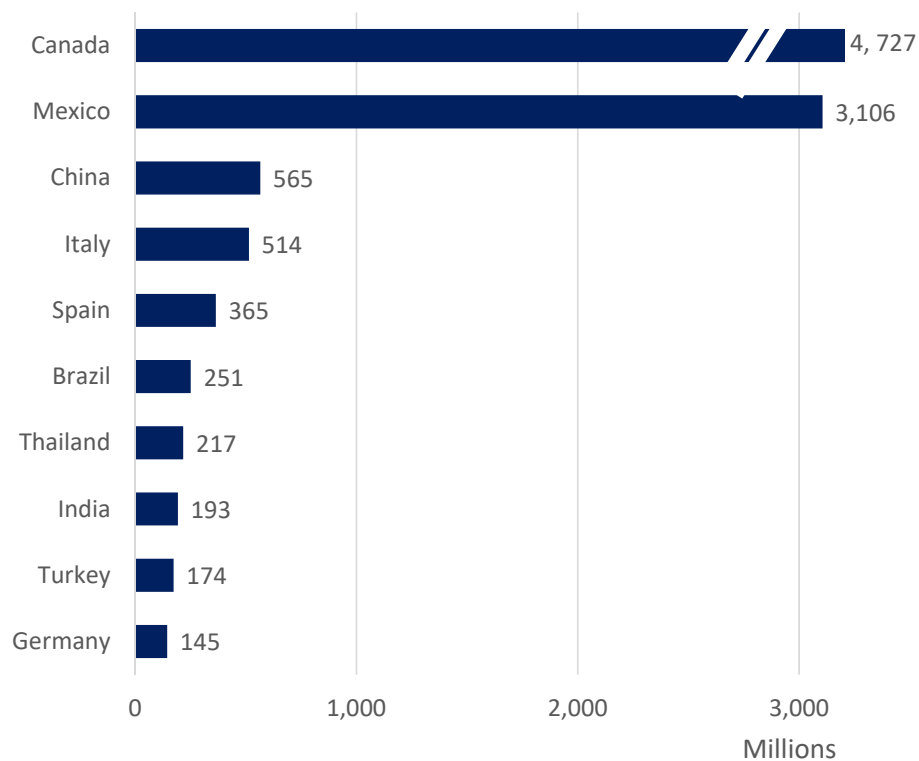
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Source: International Trade Administration TradeStat Express

Top Ten Destinations of MI Vehicle Exports (3361) In Dollar Terms (USD), 2019



Top Ten Destinations of MI Vehicle Parts Exports (3363) In Dollar Terms (USD), 2019



Many Michigan-built vehicles rely heavily on Mexican parts & components content

2020 American Automobile Labeling Act (AALA) Report Content

Automaker	Assembly Plant	Model	2020 AALA Parts Content Share		
			US/CAN	MEX	Other
General Motors	Flint Truck	Sierra HD	41%	46%	13%
General Motors	Flint Truck	Silverado HD	41%	46%	13%
Ford	Michigan Assembly	Ranger	50%	31%	19%
FCA	Sterling Heights	1500	57%	28%	15%
FCA	Warren Truck	1500	59%	27%	14%
FCA	Jefferson North	Grand Cherokee	61%	27%	12%
FCA	Jefferson North	Durango	60%	26%	14%
Ford	Flat Rock	Continental	60%	24%	16%
General Motors	Lansing Delta Township	Enclave	54%	22%	24%
General Motors	Lansing Delta Township	Traverse	54%	22%	24%
General Motors	Orion	Sonic	49%	21%	30%
Ford	Flat Rock	Mustang	51%	20%	29%
General Motors	Lansing Grand River	Camaro	59%	19%	22%
General Motors	Lansing Grand River	CT4	59%	19%	22%
General Motors	Lansing Grand River	CT5	59%	19%	22%
Ford	Dearborn Truck	F-150	56%	16%	28%
Ford	Dearborn Truck	F-150 SuperCrew	56%	16%	28%
General Motors	Orion	Bolt EV	18%	0%	82%

USMCA Enters Into Force 1 July 2020

NAFTA has a single threshold: 62.5 percent originating content

USMCA has five thresholds, each applying to a different set of parts or finished vehicles, ranging from 65 to 75 percent originating content

NAFTA was explicitly designed to prevent roll-ups

USMCA rules explicitly allow, even encourage roll-ups

NAFTA incorporates a tracing list as one of the measures against roll-up

USMCA abolishes the tracing list but requires more items to be originating

NAFTA has no requirements for steel and aluminum sourcing

USMCA introduces a requirement for North American steel and aluminum purchases

NAFTA does not have any labor value requirements

USMCA requires a minimum of 40 (45) percent of the value of manufacturing labor incorporated in a car (truck) to have been paid a wage rate above \$16 per hour. Up to 10 points of the requirement can be earned via R&D or IT salaries.

NAFTA does not address trade measures other than conditions for tariff-free access to each country's market

Provisions within the USMCA and its side letters provide limited protection for Canada and Mexico from a potential \$232 tariff placed on imported vehicles and vehicle parts

The USMCA provides limited protection for Mexico in the event that the U.S. raises its MFN tariff rates applied to vehicles and vehicle parts

Core Parts Rule + Labor Value Content Rule Combine to Incentivize U.S. & Canadian Production

Vehicle Rule of Origin + Core Parts Rule of Origin + Labor Value Content @\$16/hour = More U.S. & Canadian Content

75%

75%

40% C

45% T



(engine, transmission, body, chassis, axle, suspension, steering, advanced batteries)

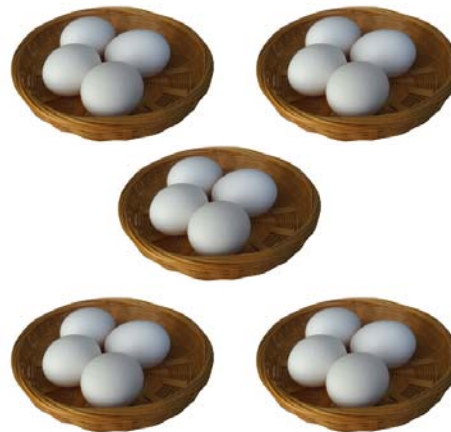
Cars=25% from materials & manufacturing
Trucks=30% from materials & manufacturing

Three Options to Mitigate Supply Chain Disruption

Reshoring



Diversification



Status Quo



Changes in Automotive Manufacturing

Automation



“Plump” Lean



Consolidation





Thank you

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